

# Economic Partnership Agreement and African Continental Free Trade Area:

## What is at stake for Togo?

February 2018

### Main findings

The main findings of the present assessment of the Economic Partnership Agreement (EPA) and the African Continental Free Trade Area (AfCFTA) for Togo are as follows:

- (a) The Economic Partnership Agreement between ECOWAS and the European Union (EU) would stimulate bilateral Togo-EU trade. The benefits would be uneven, however, with Togo essentially increasing its exports to the EU in cereals and other crops, and also to some extent metal products, the exports from the EU to Togo would increase relatively more and in a wider range of sectors. Moreover, the Agreement would tend to undermine intra-African trade;
- (b) If the AfCFTA was to be established and implemented before full application of the EPA, the perverse effect of the EPA on intra-African trade would be more than offset. Thanks to the AfCFTA, exports by Togo to African partners from outside ECOWAS would substantially expand;
- (c) Nonetheless, for the AfCFTA to play a major role in support of Togo's diversification and structural transformation processes, the country would need, in parallel, to adopt ambitious non-tariff measures aimed at easing trade within and across borders;
- (d) Reducing inefficiencies in customs and border procedures would also facilitate the development of the logistics sector in Togo. Considering its strategic geographic location, Togo has clear potential to become a leader in African logistic services;
- (e) Whereas the EPA and the AfCFTA can surely coexist, the sequencing in terms of the implementation of the two reforms does matter, to ensure that benefits from both can be maximized. In other words, getting the AfCFTA right will put African countries, including Togo, in a better position to take advantage of their trade agreements with external partners such as the EU.

## I. Introduction

Following nearly 11 years of negotiations, started in 2003 between West African countries and the European Union (EU), the 15 countries of the Economic Community of West African States (ECOWAS) plus Mauritania endorsed, in July 2014, the Economic Partnership Agreement (EPA) for signature. In December 2014, all EU countries and 13 West African countries signed the Agreement. Pending the ratification and entry into force of the regional Agreement, Ghana and Côte d'Ivoire separately signed interim EPAs with the EU in 2016, which are being provisionally applied.

The purpose of the present brief is to present key findings of a quantitative assessment looking at the expected impacts of the EPA on Togo – a member of ECOWAS – from a trade perspective. The analysis also examines how the establishment of the African Continental Free Trade Area (AfCFTA) and the adoption of trade facilitation measures are anticipated to influence trade and income for Togo. The methodology used for the analysis relies on a dynamic multi-region, multi-sector computable general equilibrium (CGE) model.<sup>1</sup> Although they do not perfectly represent the world economy, CGE models are able to capture interactions between the diverse markets of the economies, thereby offering valuable information to policymakers on expected effects from complex reforms.

Togo is a small economy – with a population of some 8 million and a gross domestic product (GDP) of US\$ 4.4 billion<sup>2</sup> – which relies heavily on natural resources. In 2016, its main exports were directed – in decreasing order – towards the United Arab Emirates, Benin, Burkina Faso, Nigeria, India, Cameroon and the EU, and consisted primarily of petroleum oils, cocoa and other agricultural products. Togo imports a wider range of products, from petroleum to manufactured goods in addition to various agricultural commodities, sourced primarily from the EU, China, India, the Republic of Korea, Ghana and the United States of America.<sup>3</sup> Togo has a negative trade balance, which has considerably widened over the last decade with imports increasing by over 70 per cent while exports have fallen by some 18 per cent over that period. It is also worth noting that Togo operates as an important through-port for other economies in West Africa. While this sets the country up well to benefit from trade and logistics services to neighbouring countries, it also means that trade statistics for Togo often include a certain amount of re-exported commodities.

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<sup>1</sup> The Modelling International Relationships in Applied General Equilibrium (MIRAGE) CGE model has been used for the analysis; for a full description of the model see: Yvan Decreux and Hugo Valin, *MIRAGE, Updated Version of the Model for Trade Policy Analysis: Focus on Agriculture and Dynamics*, CEPII, Working Paper No 2007-15. The main data for calibration of the model are from the Global Trade Analysis Project (GTAP) version 8.1 database; more details are available in: Badri G. Narayanan, Angel Aguiar and Robert McDougall, eds. *Global Trade, Assistance, and Production: The GTAP 8 Data Base* (Center for Global Trade Analysis, Purdue University, 2012).

<sup>2</sup> Current United States dollars at 2016 values; data are from the World Bank.

<sup>3</sup> Source UNCTADStat; accessed on 20 February 2018.

## II. Characteristics of Togo-European Union bilateral trade and protection structures

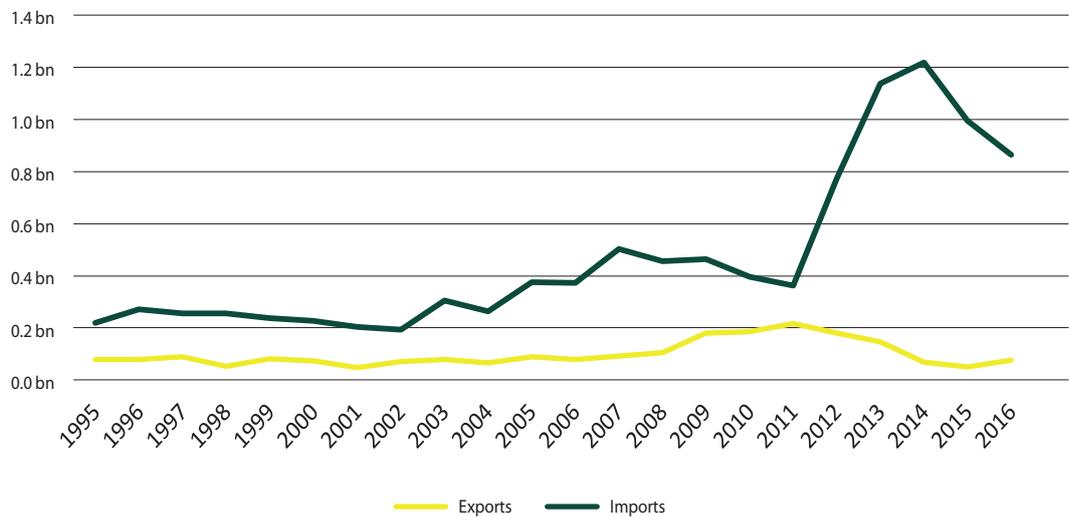
As far as strictly bilateral trade between Togo and the EU is concerned, Togo’s exports to the EU have remained relatively stable and generally below US\$ 0.2 billion between 1995 and 2016, while Togo’s imports from the EU have substantially increased over the last two decades, rising from just US\$ 0.2 billion in 1995 to over US\$ 0.8 billion in 2016, peaking in 2014 at US\$ 1.2 billion (see figure 1).

The EU has accounted for 42 per cent of imports into Togo over the last three years, while it has been the destination for only 5 per cent of the country’s exports over that period.

In terms of the composition of trade between Togo and the EU, exports by Togo to the EU in 2016 were concentrated around refined petroleum oils (22 per cent), cocoa (16 per cent), fixed vegetable fats (11 per cent) and oil seeds and oleaginous fruits (11 per cent), together with other agricultural products. In turn, the biggest imports made by Togo from the EU in 2016 were refined petroleum oils (67 per cent) and a broad range of consumer products such as medicaments, worn clothing and food products.

**Figure 1: Evolution of exports and imports by Togo to and from the European Union between 1995 and 2016**

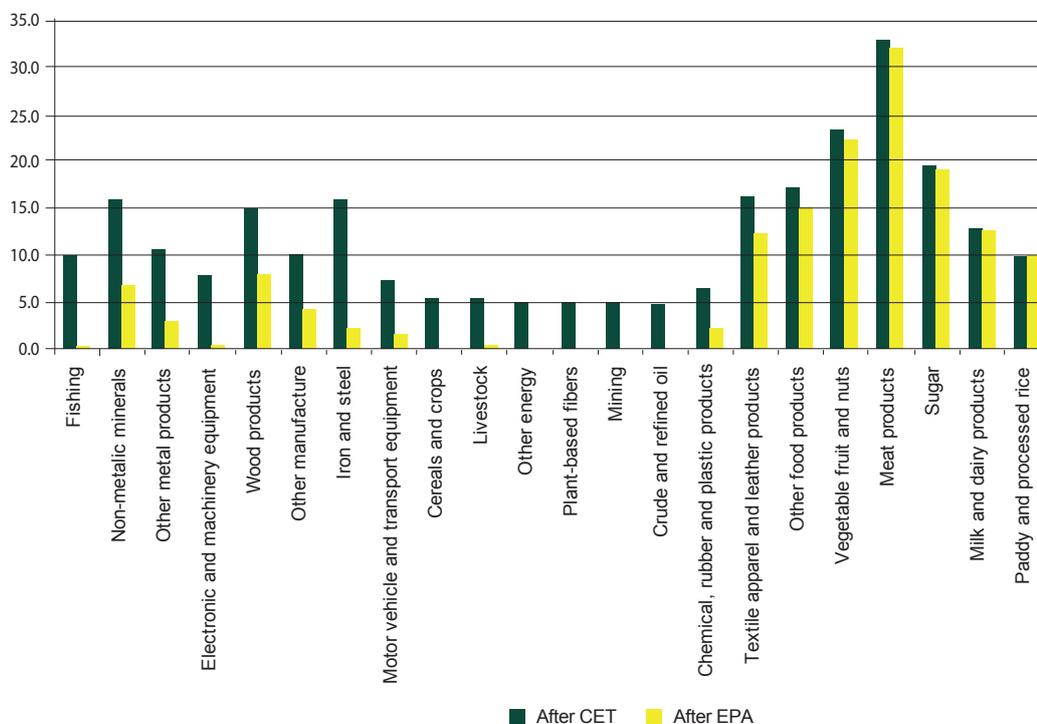
(United States dollars)



Source: Authors’ calculations based on UNCTADStat; accessed on 20 February 2018.

**Figure 2: Average tariffs imposed by Togo on imports from the European Union: comparison of those after the common external tariff with those after the Economic Partnership Agreement**

(percentages by sector, in decreasing order of preference margin obtained under the Agreement)



Source: Authors' calculations based on MACMap-HS6v2.

In addition to the large gap in Togo's trade balance with the EU, the EU and Togo are engaging in the EPA from very asymmetrical situations when it comes to the market access that they grant to each other. Whereas Togo, with its least developed country status, is already entitled to export its commodities almost entirely duty-free and quota-free under the Everything but Arms (EBA) initiative, the EU faces relatively high tariff barriers on its exports to Togo.<sup>4</sup> Even if Togo does not see any improvement in its market access to the EU, the tariffs which it imposes on imports from the EU are still expected to come down significantly<sup>5</sup> once the EPA has been fully implemented (see figure 2). This could therefore be expected to widen further the gap between exports and imports by Togo from and to the EU. At the same time, the agricultural sectors, and also textile and

<sup>4</sup> Tariffs faced by Togo on its exports and imposed on its imports have been aggregated from the Market Access Map (MACMap) Harmonized System 6-digit Version 2 database. To limit the possible endogeneity bias between trade and protection levels, protection data have been aggregated using a so-called "reference group weight", rather than bilateral imports weights. In other words, the weights used for aggregation do not strictly reflect the trade for the country considered, but rather that of a reference group of countries to which the country in question belongs to according to its income level and degree of trade openness; A full description of the database can be obtained from: Houssein Boumellassa, David Laborde and Cristina Mitaritonna, "A picture of tariff protection across the world in 2004: MACMap-HS6, Version 2", *IFPRI Discussion Paper*, No. 00903, 2009.

<sup>5</sup> It should be noted that common external tariff (CET) structures are the starting point for trade liberalization reforms envisaged under the Economic Partnership Agreement. In that sense, and to be able to capture the economic implications of the Agreement in isolation from any changes resulting from the CET reforms themselves, it is assumed that ECOWAS has its CET structures in place by the time the Economic Partnership Agreement is effectively ratified.

apparel products, will generally remain highly protected by Togo once the EPA has been fully implemented, (in accordance with the ECOWAS common external tariff structure and liberalization schedule under the EPA.

It should be stressed that the above information does not constitute sufficient ground to conclude that the Economic Partnership Agreement between ECOWAS and the European Union will have a negative impact for Togo on its trade, but it does appear to indicate that the benefits of the Agreement for Togo and the European Union may be different.

### **III. Policy reforms considered and key findings**

Below, three different policy reform scenarios are analysed, namely:

- (a) The Economic Partnership Agreement between ECOWAS and the European Union (ECOWAS-EU EPA) is fully and progressively implemented between 2015 and 2035;<sup>6</sup>
- (b) The AfCFTA<sup>7</sup> is already in place by the time the ECOWAS-EU EPA is fully implemented;
- (c) The AfCFTA along with trade facilitation measures<sup>8</sup> are already in place by the time the ECOWAS-EU EPA is fully implemented.

All the findings set out below have been obtained by comparing each of the above scenarios with a baseline scenario in which no trade reform is envisaged, in the year 2040.<sup>9</sup>

#### **A. Effects of the ECOWAS-European Union Economic Partnership Agreement alone**

Whereas ECOWAS as a whole would see its exports to the EU increase significantly following reforms under the EPA (by 12 per cent, or US\$ 9.1 billion), there are pronounced differences across countries. Essentially, ECOWAS countries may be categorized into two groups based on variations in their exports to the EU (see table 1).

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<sup>6</sup> In other words, the EU immediately grants 100 per cent duty-free quota-free access to all ECOWAS countries, while ECOWAS countries progressively reduce tariffs on their imports from the EU based on the agreed liberalization schedule and list of sensitive products (to be excluded from liberalization) between 2015 and 2035.

<sup>7</sup> The AfCFTA is implemented via an elimination of all tariff barriers currently remaining within the African continent.

<sup>8</sup> Specifically, it is assumed that customs procedures, port handling and inland transport in import and export processes are becoming 50 per cent more efficient worldwide.

<sup>9</sup> Each scenario is assumed to be fully implemented by 2035 but variables in the model need time to fully adjust to the shocks; by 2040, the effects from various policy reforms are expected to be fully captured.

**Table 1: Change in bilateral trade between ECOWAS and the European Union following implementation of the Economic Partnership Agreement, percentages and absolute value, in 2040**

		ECOWAS countries' exports to EU		EU exports to ECOWAS countries	
		%	USD bn	%	USD bn
Non-LDC	Cote d'Ivoire	7.7	0.7	18.5	1.4
	Ghana	23.2	1.9	26.1	3.4
	Nigeria	15.4	5.7	20.6	9.8
	Rest of ECOWAS	3.6	0.5	25.5	3.9
LDC	Benin	3.0	0.1	29.8	0.9
	Burkina Faso	5.3	0.1	20.8	0.3
	Guinea	4.5	0.1	22.4	0.7
	<b>Togo</b>	<b>2.3</b>	<b>0.0</b>	<b>26.4</b>	<b>0.5</b>
	Senegal	4.6	0.1	18.0	0.9
<b>ECOWAS total</b>		<b>12.5</b>	<b>9.1</b>	<b>22.2</b>	<b>21.7</b>

Source: Authors' calculations based on MIRAGE model.

The first group, comprising countries which are not in the least developed country category (namely, Côte d'Ivoire, Ghana, Nigeria and Cabo Verde)<sup>10</sup> would strongly benefit from the reform, accounting for as much as 96.4 per cent (or US\$ 8.8 billion) of the total gains to ECOWAS from exports to the EU in absolute terms. Nevertheless, it is worth noting that these gains would essentially be concentrated in just a few agricultural sectors,<sup>11</sup> primarily rice, milk, sugar and meat, which enjoyed the highest level of protection in exports to the EU prior to the EPA.

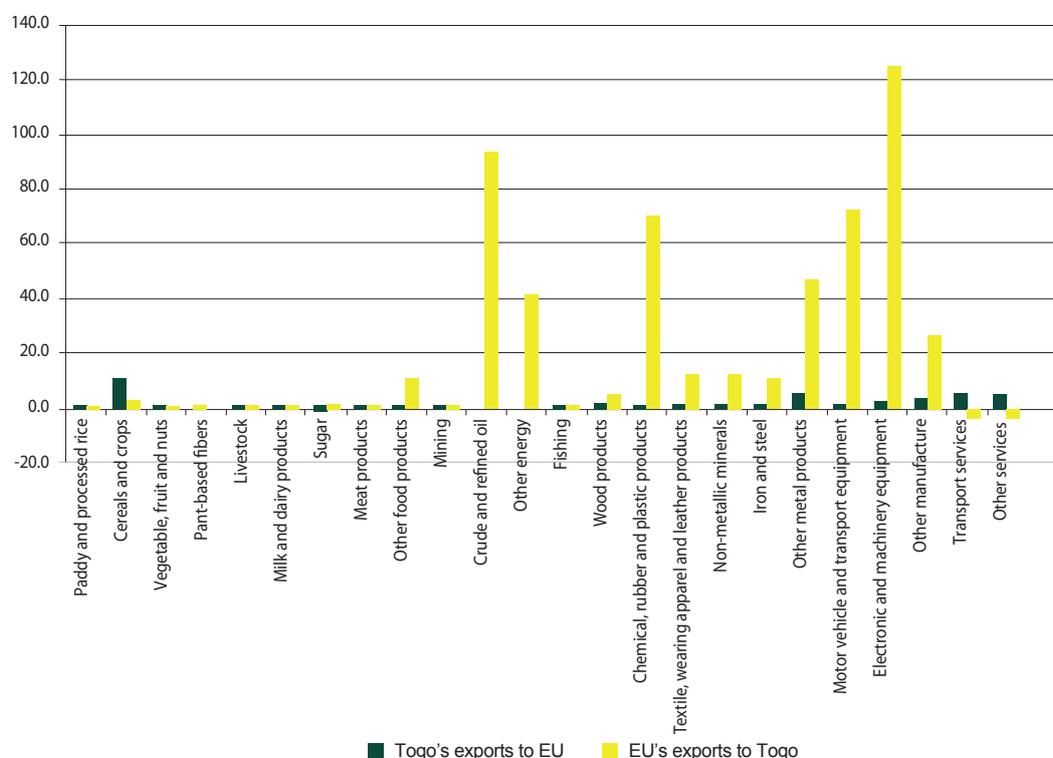
The least developed countries, on the other hand, including Togo, would register comparatively limited export gains to the EU after implementation of the EPA. This is not surprising, as their market access to the EU would not really improve, given that they are already eligible for benefits under the EBA initiative.

Where Togo itself is concerned, its total exports to the EU would increase by just US\$ 30.4 million (or 2.3 per cent; see table 1), with the largest – but still relatively insignificant – expansion found in cereals and other crops, and also to some extent metal products, thereby offering no meaningful potential for export diversification and trade-induced structural transformation (see figure 3).

<sup>10</sup> Cabo Verde is part of the "Rest of ECOWAS" group in the modelling exercise.

<sup>11</sup> Trade restrictions such as sanitary and phytosanitary measures, together with other standards and regulations, have not been considered in the model and thus export gains could be overestimated in agricultural sectors.

**Figure 3: Change in bilateral trade between Togo and the European Union following implementation of the Economic Partnership Agreement**  
(by main sectors in millions of United States dollars, in 2040)



Source: Authors' calculations based on MIRAGE model.

The EU, however, would register substantial export gains in all ECOWAS economies following reform under the EPA. The EU's gains in its exports to ECOWAS would be about twice as much as the gains by ECOWAS in its exports to the EU, in either percentage or absolute terms. The EU's exports to Togo alone would increase by US\$ 521.7 million, in absolute terms. This is more than 17 times higher than the increase in exports by Togo to the EU, leading to rather unbalanced trade benefits from the Agreement that would potentially amplify Togo's negative trade balance with the EU. It should also be noted that 72.9 per cent of the increase in the EU exports to Togo would be in industrial sectors, which would amplify the country's reliance on the EU for its industrial needs.

In addition, exports from Togo to other ECOWAS partners would be reduced – albeit only marginally – by US\$ 11.9 million (or 0.2 per cent), following the EPA. In general, ECOWAS countries would tend to replace some of their exports to ECOWAS partners with exports to the EU. Likewise, tariff revenues for the Government of Togo would be curtailed by 8.7 per cent, owing to the liberalization reforms imposed by the EPA. This would have a negative impact on the country's real income, which would decrease by US\$ 8.1 million.

Nonetheless, it is worth highlighting that all these expected trade and income effects of the EPA on Togo, whether positive or negative, remain relatively marginal. Moreover, it should be acknowledged that the EU, in its awareness of the potential costs entailed

by the EPA – in particular for least developed countries, such as Togo – is expected to provide financial support to West African economies to ensure that the Agreement promotes trade and investments in these countries. Specifically, the EU's Foreign Affairs Council made a commitment on 17 March 2014 to provide at least 6.5 billion euros to all West African countries for the period 2015–2020 under the Economic Partnership Agreement Development Programme (EPADP).<sup>12</sup>

Furthermore, EPAs are not just about trade: they cover areas from which Togo would be expected to derive benefits. A comparative analysis by the Economic Commission for Africa and the African Union Commission of the EPA texts across negotiating groups indicates that a number of flexibilities were negotiated to allow policy space for development purposes.<sup>13</sup> As far as the West African EPA is concerned, these include infant industry clauses and temporary export subsidies. The reliance of African countries on agriculture is also recognized by the EPA texts and provisions are provided for the protection of the agricultural sector.<sup>14</sup>

## B. Effects of the ECOWAS-European Union Economic Partnership Agreement in the context of the AfCFTA

In the event that the AfCFTA is in place by the time the EPA between ECOWAS and the EU is fully implemented, the trade and income outcomes would be improved for Togo. This would essentially derive from an expansion of Togolese exports towards African partners, particularly those outside ECOWAS.

Thanks to the elimination of tariffs on goods within the African continent, total exports by Togo to Africa would increase by 0.7 per cent (or US\$ 54.9 million), whereas they would decrease by 0.1 per cent (or US\$ 6 million) under the ECOWAS-EU EPA reform alone. This increase is relatively modest, however, when seen against the 1 per cent

**Table 2: Change in exports from Togo to Africa following implementation of the Economic Partnership Agreement in the context of the AfCFTA**

*(Percentages and absolute values, by sector, in 2040)*

Agriculture and food		Mining and energy		Industry		Services		TOTAL	
%	USD meos	%	USD meos	%	USD meos	%	USD meos	%	USD meos
28.7	126.3	3.7	3.7	-1	-78.3	7.8	3.2	0.7	54.9

Source: Authors' calculations based on MIRAGE model.

<sup>12</sup> See [http://europa.eu/rapid/press-release\\_IP-14-827\\_en.htm](http://europa.eu/rapid/press-release_IP-14-827_en.htm). It should be noted, however, that such support falls far short of the 15 billion euros originally requested by the West African countries.

<sup>13</sup> See Economic Commission for Africa and African Union Commission, Comparison on the provisions of the Economic Partnership Agreements (EPAs). (Addis Ababa: ECA, Forthcoming).

<sup>14</sup> Although these clauses or provisions are essentially temporary and often require technical capacities that few African countries possess.

(or US\$ 78.3 million) decrease in industrial exports. Indeed, in all other main sectors, Togolese exports to Africa would actually expand substantially: by 28.7 per cent (or US\$ 126.3 million) in agriculture and food; 3.7 per cent (or US\$ 3.7 million) in mining and energy; and 7.8 per cent (or US\$ 3.2 million) in services (see table 2).

At first, this may appear to militate somewhat against the diversification and structural transformation agenda. Nonetheless, it should be noted that expected changes in terms of destination and composition of exports should be looked at in more detail. In that context, a different picture emerges from a breakdown of the destination of exports from Togo to ECOWAS versus the rest of Africa and between industrial sectors.

On the one hand, and considering that tariffs on trade in goods within ECOWAS have already been largely removed under the ECOWAS trade liberalization scheme (ETLS), the establishment of the AfCFTA would have relatively little impact on intra-ECOWAS trade. Table 3 indicates that exports from Togo to ECOWAS partners would actually decrease by 1.9 per cent (or US\$ 153.7 million). This would be due to the replacement of some Togolese exports to ECOWAS partners by Togolese exports to African countries outside ECOWAS. Nonetheless, it should be noted that the decline would essentially be imputable to a decrease of Togolese exports of basic metal (excluding iron and steel). Excluding metal products, Togolese exports of other industrial products to ECOWAS would actually increase by 0.4 per cent (or US\$ 23.8 million). Moreover, the lion's share of this decrease in Togolese exports to ECOWAS would be accounted for by Nigeria, which would also turn towards non-ECOWAS African partners in search of cheaper sources for its imports.

On the other hand, it should be emphasized that this reduction in Togolese exports to ECOWAS would be more than offset by a boost in exports from Togo to the rest of Africa. These would rise by 102.4 per cent (or US\$ 208.6 million). As a result, the AfCFTA would open new export opportunities in Africa and beyond ECOWAS for Togo, thereby offering bright perspectives for export diversification as far as the markets of destination are concerned. Moreover, if in absolute terms, the increase of exports from Togo to Africa, outside ECOWAS, would increase slightly more in agriculture and food (by US\$

**Table 3: Change in exports from Togo to ECOWAS versus the rest of Africa following implementation of the Economic Partnership Agreement in the context of the CFTA (Percentages and absolute values, by main sectors, in 2040)**

	Agriculture and food		Mining and energy		Basic metals (excluding iron and steel)		Rest of industry		Services		TOTAL	
	%	USD meos	%	USD meos	%	USD meos	%	USD meos	%	USD meos	%	USD meos
ECOWAS	1.2	4.1	1.0	0.8	-11.9	-183.7	0.4	23.8	10.1	1.3	-1.9	-153.7
Rest of Africa	117.7	122.3	13.7	3.0	280.4	13.6	148.2	67.9	6.7	1.8	102.4	208.6

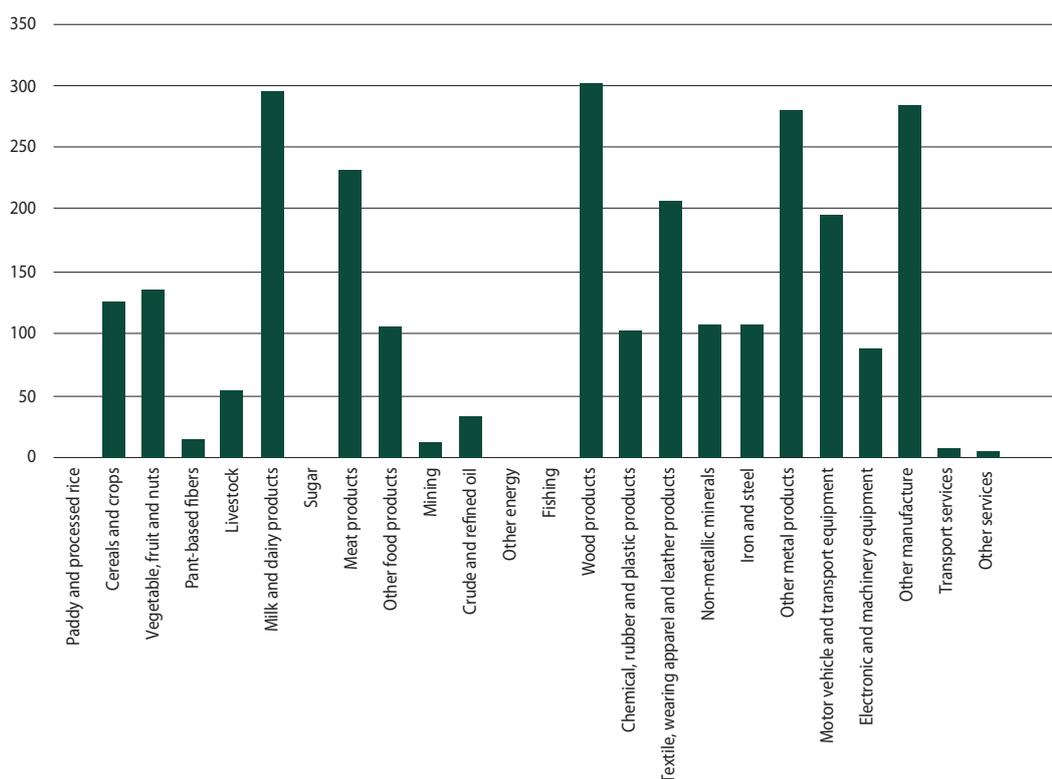
Source: Authors' calculations based on MIRAGE model.

122.3 million) than in industry (by US\$ 81.5 million), exports of industrial products would increase most in relative terms, with expansions of 160.8 per cent for industrial exports and 117.7 per cent for agricultural and food exports (see table 3). Togolese exports to Africa, outside ECOWAS, would in fact nearly double in electronic and machinery equipment and more than double in all other industrial sectors.<sup>15</sup> Accordingly, establishment of the AfCFTA would very much support the industrialization of Togo. Togolese exports to Africa, outside ECOWAS, would also double in many agricultural and food sectors, such as cereals and other crops, vegetables, fruit and nuts, milk and dairy products, meat and other food products (see figure 4).

Despite the cuts in tariff revenues (-11.7 per cent) for the Togolese Government resulting from both AfCFTA and EPA reforms being slightly larger than those from the EPA alone (-8.7 per cent), the increase in trade volumes (in particular to African partners, outside ECOWAS) would not result in any further decline in the country's real income.

**Figure 4: Change in exports from Togo to Africa (excluding ECOWAS) following implementation of the Economic Partnership Agreement in the context of the African CFTA**

*(by sector, in millions of United States dollars, in 2040)*



Source: Authors' calculations based on MIRAGE model.

<sup>15</sup> Except fishing, which is considered as an industrial sector under the World Trade Organization's classification.

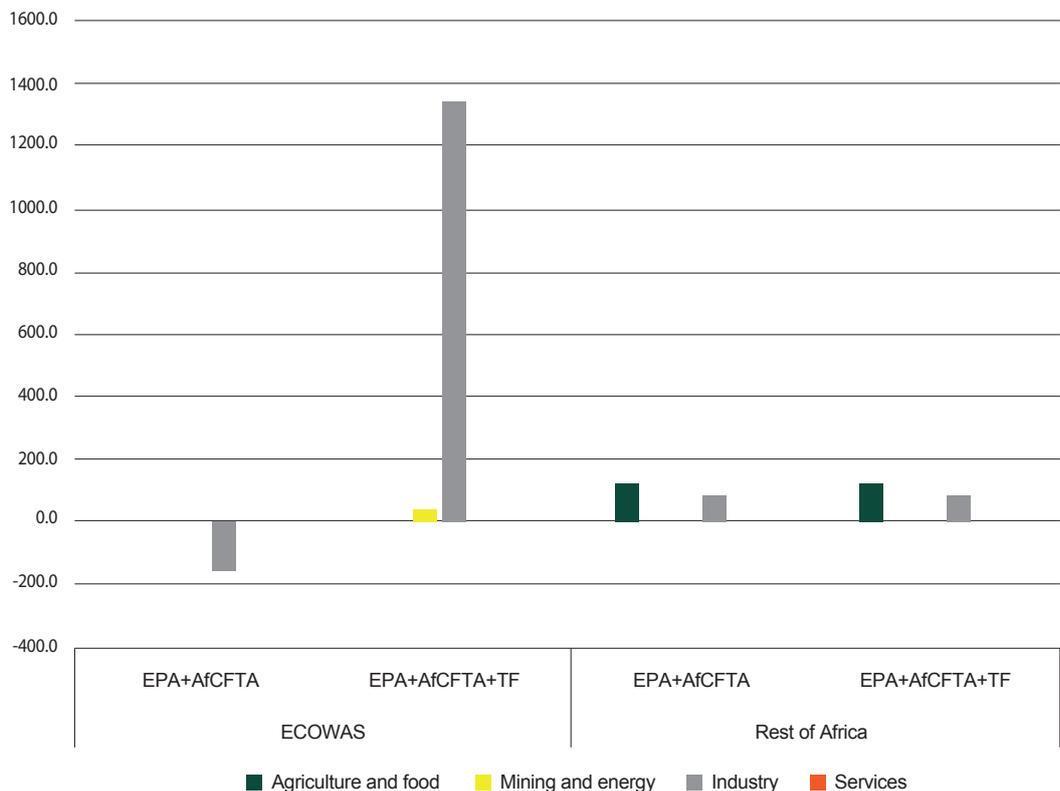
### C. Effects of the ECOWAS-European Union Economic Partnership Agreement in the context of the AfCFTA accompanied by trade facilitation reforms

In order to reverse the negative effects arising from the AfCFTA on exports from Togo to ECOWAS, but also to generate real income gains for the Togolese economy, the implementation of trade facilitation reforms in parallel to the AfCFTA process would be critical.

As tariffs have already largely been removed within ECOWAS, tackling non-tariff barriers is key to trade expansion between ECOWAS countries in the context of the AfCFTA. Halving some of the non-tariff costs of trade within and across borders (specifically those costs related to customs procedures, inland transport and port handling), in parallel to removing tariffs within Africa, would actually result in a huge increase in exports from Togo to ECOWAS partners. Whereas Togolese exports to ECOWAS would decrease by 1.9 per cent (or US\$ 153.7 million) following full implementation of the EPA in the context of the AfCFTA, these will increase by 17.0 per cent (or \$1.4 billion) if trade facilitation measures are put in place along with the AfCFTA reform. As shown in figure 5, this would essentially benefit industrial products.

**Figure 5: Exports from Togo to ECOWAS versus the rest of Africa following implementation of the Economic Partnership Agreement: changes in the context of the African CFTA alone compared to those in the context of the African CFTA along with trade facilitation reforms**

(millions of United States dollars, in 2040)



Source: Authors' calculations based on MIRAGE model.

Ambitious trade facilitation reforms implemented as a complement to the establishment of the AfCFTA would also increase exports from Togo to the rest of Africa, in particular in industrial sectors, which would experience the highest expansion in both relative and absolute terms. Thanks to reduced non-tariff costs to trade within and across borders on top of the AfCFTA reform, exports from Togo to Africa outside ECOWAS would increase by 169.4 per cent (or US\$ 345.2 million; 65.0 per cent of the total for industry alone) against an increase of 102.4 per cent (or US\$ 208.6 million; 39.1 per cent of which would be for industry) without measures to facilitate trade.

Thanks to more efficient customs procedures to collect duties on imports from outside Africa, tariff revenues for the Togolese Government would decrease less sharply (by 8.1 per cent) in the context of trade facilitation reforms. Following the important gains generated from the boost in exports from Togo, real income would no longer be reduced, but would instead increase by 9.5 per cent (or US\$ 139.7 million).

These findings clearly illustrate the necessity of reducing both tariff and non-tariff barriers for Togo to take fullest advantage of the African CFTA.

#### **D. New opportunities for the Togolese logistics sector**

At the continental level, the AfCFTA is expected to provide a significant boost to intra-African trade, with an estimated increase of 52 per cent resulting simply from the removal of tariff barriers on goods. Intra-African trade will more than double if trade facilitation measures are undertaken on top of trade liberalization reforms. In addition to trade in final products, the removal of tariff and non-tariff barriers will also foster an enabling environment for the development of regional value chains, promoting the structural transformation of African countries. For this continent-wide benefit to materialize, however, there will also be need to improve available logistics services. Based on the World Bank Logistics Performance Index, the best performing African country (South Africa) is ranked twentieth, while 24 African countries are included among the 50 worst performing countries. Transport costs and unreliable logistics undermine the competitiveness of African value chains and can act as a barrier to industrialization.

The expected increase in demand for African logistics services also represents an opportunity for the continent. The AfCFTA will go beyond a traditional free trade area and also include the liberalization of services. Given its strategic geographical position, Togo is well placed to take advantage of the integrated market and new demand for transport and logistics services within Africa. In air transport, Togo is already investing in becoming an air transport hub in the region. ASKY Airlines has its base at Lomé airport, which has recently undergone major modernization and expansion. With around 16 million tons of cargo in 2016, the port of Lomé has become one of the region's key ports.

To ensure that Togo is able to take advantage of this potential, it is crucial that supporting policies are put in place. In particular, it will be important effectively to implement trade facilitation measures to remedy inefficiencies in customs and border procedures. As demonstrated by the above results, trade facilitation will support gains across

the board from the AfCFTA. Furthermore, improvements in this area will in particular enhance the competitiveness of the logistics industry. Continuous investment will also be needed to improve infrastructure and connectivity. The planned corridor linking the port of Lomé with the landlocked neighbouring countries will support the country's potential in this sector.

While the EPA is expected to bring some gains in terms of exports to the European Union, it is unlikely that trade between the EU and Togo will provide a similar opportunity to develop logistics services in Togo. While Togo compares favourably with other African countries, its logistics performance is considerably behind that of its European partners and local operators would be unlikely to be able to compete in this market. The AfCFTA is therefore more consistent with Togo's strategic priorities. Looking ahead, the AfCFTA can also act as a continental platform and promote harmonization and innovation in the African logistics industry. There could be a role for Togo to become a continental leader in this area.

## **E. Conclusion and policy recommendations**

From a trade perspective, Togo and the European Union are not going into the Economic Partnership Agreement on equal terms. Today, imports by Togo from the EU are considerably greater than its exports to the EU. In addition, Togo – currently eligible under the EBA initiative – cannot expect its access to the EU market to be considerably improved by the EPA, whereas it will have to make concessions in granting the EU more beneficial access to its market than at present.

Findings from an empirical analysis looking at the impacts of the EPA on the future of the Togo-EU bilateral trade relationship confirm that, although Togo would see an increase in its exports to the EU (essentially in cereals and other crops, and also metal products), the EU would expand its exports to Togo to a proportionately much greater extent. In addition, Togo's increase in exports to the EU following the EPA would be secured at the expense of its trade with its African partners. Furthermore, the Togolese Government would see some of its tariff revenues curtailed by the EPA reform.

That said, the expected trade-related benefits and costs of the EPA for Togo are relatively modest. Moreover, the EU has committed itself to providing financial support to West African economies under the EPADP, which could potentially offset at least some of the costs expected with the Agreement for Togo.

Nevertheless, the AfCFTA – if in place before the EPA reform is fully implemented – would also play a critical role. It would stimulate trade between Togo and its African partners and in this way outweigh some of the negative impacts of the EPA. The more diversified nature of intra-African trade expected to be promoted by the AfCFTA would be also more consistent with structural transformation aspirations and promote the development of regional value chains.

Still, for the trade benefits from the AfCFTA to be amplified and further to facilitate the diversification and industrialization of the Togolese economy, it will be critical for Togo in parallel to adopt effective measures to reduce the costs of trade within and across borders – beyond the mere reduction of tariffs. This would also stimulate the country's real income and could offer bright prospects for its structural transformation. In addition to the overall benefit to trade, reducing inefficiencies in customs and border procedures would also support the development of the Togolese logistics industry, which could be enhanced to meet the increased demand for transport and logistics services as a regional hub.

Lastly, it should not be overlooked that the findings presented in this brief can only translate into meaningful outcomes if commitments are effectively implemented. Whereas the EPA and the AfCFTA can surely coexist, the sequencing in terms of the implementation of the two reforms does matter to ensure that benefits from both can be maximized. In other words, getting the AfCFTA right will put African countries, including Togo, in a better position to take advantage of their trade agreements with external partners such as the EU.





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