POST-CONFLICT ECONOMIES IN THE EU-ACP ECONOMIC PARTNERSHIP AGREEMENTS: A CASE OF SIERRA LEONE[1]

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Abstract

The paper reviews possible implications, opportunities and challenges of the Economic Partnership Agreements (EPA) currently being negotiated for post-conflict economies, such as Sierra Leone. A number of trade, growth and development indicators were compared between Sierra Leone and its major partners in Europe. The analysis shows that while the EU is one of the most important continents to trade and development in Sierra Leone, the latter is largely inconsequential in the profile of trade of the relevant partners. Comparison of domestic condition in Sierra Leone with relevant EU partners shows that rather than the European Commission calling for reciprocity and extensive liberalization the former needs substantial helps to boost its trade capacity and development in general. The paper concludes that the on-going negotiation is very sensitive to the development of Sierra Leone. Specifically, Sierra Leone and other post-conflict economies should be treated as weak, largely vulnerable and uncompetitive in negotiating a mutually beneficial EPA

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I Introduction

The importance of international trade as a proven engine of growth for national economies can not be over-emphasized. Trade (either in form of importing or exporting of goods or/and services) provides income, guarantees food security and growth for all countries and their inhabitants. However, international trade could be harmful despite the proven benefits, depending on the status of individual participating countries. Like many of the existing and on-going bilateral, regional and multilateral trade negotiations, the aim of Economics Partnership Agreements (EPAs) negotiation between the European Unions as group and the African Caribbean and Pacific (ACP) countries as the other block is to fashion out mechanisms of unrestrained access to each other markets. The main purpose of the negotiations in this regard is to ensure mutual understanding of partner-countries' economy/peculiarities and therefore evolve, a two-sided, beneficial access to each others markets.

Market access in the case of Sierra Leone needs to be carefully examined and considered in a way that ensures prospect for growth and not for doom. The main concern in this respect is how Sierra Leone could negotiate, comply and benefit maximally from resulting opportunities offered by the EPA. The EPA will, no doubt, lead to expansion of trade between the ACP countries, Sierra Leone inclusive, and the European Union (EU). However, only those countries whose domestic condition and policies encourage increase in participation in the expanded market access opportunities will reap the potential benefits. This suggests that only those countries with the willingness, ability and capacity to respond to the market access opportunities, if it is mainly based on the competitive strength of the economies involved, will benefit from the arrangement.

Given that the on-going negotiations envisaged extensive liberalization of economies with limited degrees of protections (subject to negotiations), there are enormous challenges to be confronted by the Sierra Leone. One of the challenges of absolute reciprocity is the ability and capacity to respond to possible opportunities associated with the EPA; the second is the capacity to compete with other low/efficient cost producers that may have greater freedom to enter the market due to liberalization and; third and highly important, for a post-conflict economy like Sierra Leone, is the fiscal implications of the EPA.

The purpose of this paper is to analyse the position of Sierra Leone's economy vis-à-vis its major trading partners in the EU. The paper seeks to investigate issues relating macroeconomy, competitiveness, capacity to produce, and infrastructure; plus the analysis of poverty in Sierra Leone. These are meant to give clear understanding of the status of Sierra Leone's economy against that of its EU partners in international trading system. The result of this analysis could be generalised to other post-conflict economies currently negotiating the EPA along with other ACP group. This may provide a useful insight into how post-conflict economies should be treated in the on-going EPA negotiations.

II Sierra Leone Economy: A Brief Background

Sierra Leone has a total area of about 71,740 square kilometres (sq km), of which 71,620 sq km is land and 120 sq km is water. About 7.95% of the land area is arable, while 1.05% is used to cultivate permanent crops. Only 300 sq km of the land area is irrigated. The country possesses substantial mineral resources including diamonds, rutile, titanium ore, bauxite, iron ore, gold, and chromite. Out of the above resources, only diamonds and rutile are visible on the Sierra Leone's foreign trade list (The World Fact Book, 2007). In the past, Sierra Leone used to be active in the world commodity market offering a number of agricultural commodities, including cocoa, coffee, palm kernel, rubber and ginger to the market. However, only cocoa is merely significant on the Sierra Leone's foreign trade list at the moment (Sierra Leone Government, 2006).

Agricultural sector remains the main employer of labour in the country. The sector employs more than two-third of the country's working population, with most of this proportion engaged in subsistence agriculture (The World Fact Book, 2007). Manufacturing sector is largely underdeveloped, consisting mainly, of raw materials processing and light manufacturing for the domestic market. Mining, mainly, of alluvial diamond remains the major source of foreign exchange earnings, accounting for nearly half of the country's exports.

The status of productive infrastructure and social amenities constitute a major weakness to the economy. Infrastructure suffered badly during the war. The road network in the country deteriorated significantly during this period, contributing significantly to high cost of exporting agricultural products, and discouraging exploitation of tourism trade potential. Electric power services remain very deficient, expensive and largely unreliable. Also, telecommunication services are poor, with the country having one of the lowest teledensity, and one of the most expensive in the world. All these pose major challenges to the competitiveness of Sierra Leone's production and trade.

The result of these deficiencies manifests in widespread poverty and low productivity. The country is one the poorest with one of the highest level of inequality in the continent (World fact Book, 2007). The fall out nearly a decade of is poverty incidence as high as 70% in 2004, with highest proportion of poor located in Port Loko and lowest in the Western district. Income gap ratio is 41%, suggesting high inequality in the country. In 2006, Sierra Leone was ranked among the poorest country in the world ranking second to the last on Human Development Index in 2003; and 157 of 163 economies assessed by poverty indices in 2004. (Sierra Leone Government, 2006; and World Bank, 2005).

III Sierra Leone-EU Trade Relationship

Trade flows data show that EU is the most important to Sierra Leone than any other regions of the world (WTO, 2006). Ironically, despite the importance of the EU to Sierra Leone, the latter is very insignificant to trade profile of the relevant EU partners. The country's major trading partners in the EU are; Belgium, Germany, United Kingdom and Netherlands. Sierra Leone's major destination of exports is Belgium (accounting for 65.8% of total exports in 2005), followed by Germany (accounting for 13.4% of total exports in 2005) in a relatively less significant manner. Its imports come mainly from Germany (given as 18.7% of total exports in 2005). The United Kingdom also ranks high as a source of imports for Sierra, accounting for 8.4% percent and coming after Cote d'Ivoire (a non- EU country contributing 11% of Sierra Leonean imports); while Netherlands contributed about 5.3% of Sierra Leone's imports in 2005 (World Fact Book, 2007).

Table 1.
Trade-Flow Matrix between Sierra Leone and Its Major EU Partners in 2005

COUNTRY/ TRADE	SIERRA LEONE		BELGIUM		GERMANY		NETHERLANDS		UNITED KINGDOM	
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
Total Exports ($bn)	0.185	0.531	335.3	333.5	1090.0	956.0	413.5	373.8	468.0	603.0
Sierra Leone Tot. Trade as % of Ctries' Flows	387.0	134.8	0.21	0.22	0.07	0.075	0.17	0.19	0.15	0.12
Sierra Leone	--	--	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Belgium	65.8	--	--	--	5.6	5.0	13.0	9.3	5.0	4.6
Germany	13.4	18.7	19.4	17.8	--	--	24.9	16.6	10.5	12.8
Netherlands	--	5.3	11.7	17.2	6.1	8.5	--	--	5.5	6.6
United Kingdom	--	8.4	8.2	6.8	7.9	6.3	9.2	5.8	--	--

Sources: Author's Calculations (from IMF, 2006, 2007 and World Facts Book, 2007).
Note: figures are in percentage except the row showing Total Exports)

Table 1 shows that Sierra Leonean economy is extremely insignificant to trade and economies of its EU-partners. The flow of trade matrix shows that import and export flows to, and from, Sierra Leone is near zero percent of that of its major partners' trade. Even when Sierra Leone's total trade was consider against the components of flows relating to major partners, the magnitude of the country's trade remains very low compared to its relevant partners countries (Table 1).

The above suggests that EU can afford to sustain preferential treatment to Sierra Leone without any noticeable effects on the concerned partners' economies and trade. Indeed, Sierra Leone is in serious need of such help at this crucial time of post-conflict reconstruction. Although the economy has made remarkable improvement in the last five years, it remains fragile, productive sector weak and largely uncompetitive with infrastructure extensively ruined and poverty widespread in the country.

IV Sierra Leone in ECOWAS Community

Macroeconomic Trend

Significant progress has been made in the last half a decade following the devastating civil war. It has recorded significant success in consolidating peace, which provides grounds for expectation for sustenance of a significant and positive growth in the years ahead. Sierra Leone has the highest positive growth rate within the ECOWAS community in the last half a decade (Table 2).

Table 2.
ECOWAS STATES: Average Annual Growth Rate of Gross Domestic Product (GDP)

ECOWAS STATE	**1980-85**	**1985-90**	**1990-95**	**1996-2000**	**2001-2005**
Benin	3.6	1.5	4.1	4.6	4.6
Burkina Faso	4.0	4.4	3.5	7.6	6.1
Cape Verde	6.4	4.5	4.5	7.6	4.2
The Gambia	3.6	3.3	2.4	4.9	4.7
Guinea	0.9	4.7	3.8	4.4	2.9
Guinea Bissau	4.5	3.1	3.6	-0.7	0.4
Liberia	-1.6	-	-	38.5	4.1
Mali	1.2	0.8	2.2	4.4	6.6
Niger	-4.3	4.2	0.6	3.4	4.7
Senegal	3.2	3.5	2.0	4.1	4.6
Sierra Leone	**0.4**	**-0.3**	**-5.1**	**-2.3**	**10.4**
Togo	-1.0	3.4	0.5	2.2	2.5
Avg. for Least Devp. Nations (LDCs)	**1.6**	**3.0**	**2.1**	**6.5**	**4.6**
Nigeria	-3.0	5.0	3.4	3.7	5.9
Ghana	-0.5	5.2	1.3	4.3	5.3
Cote D'Ivoire	1.0	2.0	4.0	3.4	-0.3
Avg. for Developing Countries	**-0.8**	**4.1**	**2.9**	**3.8**	**3.7**
Avg. for ECOWAS	**1.2**	**3.2**	**2.2**	**3.9**	**4.8**

Source: Oyejide et al. 2005; and ECOWAS, 2006.

The growth profile revealed in table 2 should only be pictured against the prolonged negative growth in the war period in positioning the country in the on-going negotiations. Therefore, the economy should not be seen as strong as the robustness of growth picture on table 2 suggests.

The country continues to face serious challenges in quite a number of key areas. The economy is confronted with significant financial needs, as sustainability of post-conflict fiscal responsibility requires raising domestic revenue-to-GDP ratio, which is the lowest among the sub-Saharan Africa post conflict economies (IMF, 2007). Assessment of the economy by the International Monetary Fund during 2006 suggests that raising domestic revenue to required target to meet fiscal responsibilities raises a formidable challenge for the government, at least, in the short run. The National Revenue Authority is still at its early development stage and tax compliance remains low. In reality, government domestic revenues witnessed a decline from 12.4% of GDP in 2003 to 11.9% in 2005 (Sierra Leone Government, 2006). A positive development life-line for the economy is the provision of generous debt relief for Sierra Leone under the enhanced HIPC (Heavily Indebted Poor Countries) initiative and MDRI (Multilateral Debt Relief Initiative).

Intra-community Trade

Official record of ECOWAS intra-community trade shows that Sierra Leone has been inactive on the intra-community exporting profile. Table 3 shows that the country made no contribution to the export component of the intra-regional trade since the second half of 1990s.

Table 3

Intra Community Exports of ECOWAS member states, 1996-2004 (% of Total Quantity in Tonnes)

Country	**1996**	**1998**	**2000**	**2002**	**2004**
Benin	0.4	0.3	NA	1.6	2.0
Burkina Faso	1.0	1.4	1.2	1.3	1.1
Cape Verde	0.0	0.0	0.0	0.1	0.0
Cote d'Ivoire	22.1	31.0	32.9	39.3	33.9
Gambia	0.0	0.1	0.3	0.0	0.0
Ghana	2.4	2.8	4.7	5.4	3.6
Guinea	1.9	0.4	0.2	0.4	1.3
Guinea Bissau	0.0	0.0	0.0	0.0	0.0
Liberia	0.0	0.0	0.0	0.0	0.0
Mali	5.8	2.4	2.5	2.4	2.8
Niger	2.0	2.1	3.5	2.4	2.7
Nigeria	60.6	54.6	49.8	38.0	39.9
Senegal	3.1	4.1	3.7	6.2	8.1
Sierra Leone	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Togo	0.5	0.8	1.3	3.0	4.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: ECOWAS, 2006.

The above may not be a true picture of the country’s position in terms of intra-ECOWAS export trade; it may, in reality, be a reflection of the general weakness in tracking flow of activities and trade in Sierra Leone.

Virtually all the recent studies on Sierra Leone (including the diagnostic study on Sierra Leone, the impact assessment study and IMF country-specific analysis) confirm the difficulties confronting Sierra Leone in terms of ability to track its trade and general weakness in the country’s trade data. The diagnostic study was specific about problems relating to cross-border trade to neighbouring countries, with particular emphasis on persistence of smuggling across the neighbouring boundaries. However, unlike the export data Sierra Leone had a record of its import from other ECOWAS countries.

Table 4.

Intra Community Imports of ECOWAS member states, 1996-2004 (as % of total Intra-import)

Country	**1996**	**1998**	**2000**	**2002**	**2004**
Benin	4.3	2.7	NA	7.2	7.2
Burkina Faso	8.9	5.5	5.7	6.4	5.0
Cape Verde	0.4	0.2	0.1	0.4	1.0
Cote d'Ivoire	35.3	13.8	31.2	17.4	18.4
Gambia	1.2	0.7	1.2	0.5	0.5
Ghana	7.3	8.0	18.5	19.9	13.0
Guinea	5.0	1.6	3.2	4.4	3.2
Guinea Bissau	0.0	0.0	0.0	0.0	0.2
Liberia	0.0	0.0	0.0	0.0	0.0
Mali	14.6	10.4	12.8	14.3	14.9
Niger	4.5	3.6	4.5	5.2	5.4
Nigeria	8.3	5.3	3.5	3.5	8.4
Senegal	6.6	5.1	15.2	16.8	18.4
Sierra Leone	**0.0**	**40.6**	**1.6**	**1.5**	**1.8**
Togo	3.6	2.6	2.7	2.4	2.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: ECOWAS, 2006.

Table 4 shows that Sierra Leone intra-community import was largest as a proportion of the community aggregate in 1998. The country contributed over 40% of the intra-community import in 1998. The figure fell dramatically two years after, to as low as 1.6% in 2000, which may equally be a result of the deficiency of Sierra-ECOWAS community-trade-tracking. Proceeding with tables 3 and 4 as the base for this analysis, the trends on the tables confirm the extent of the weakness and non-competitiveness of the Sierra Leone's economy within the regional body. Sierra Leone is a net importer within ECOWAS, which further confirms the fact that Sierra Leone may not survive the type competition which may result from reciprocity intended under the EPA. Although the trend in import by Sierra Leone from the rest of the community members decline dramatically between 1998 and 2004, it should be note that the decline is only be relevant to recorded trade, neglecting significant unrecorded trade going on with neighbours

Sierra Leone-ECOWAS Policies on Trade

ECOWAS secretariat/institution has been charged with the responsibility to negotiate the EPA on behalf of member countries and Mauritania. However, it is the responsibility of each participating country to identify and articulate its negotiating objectives in the light of its own national priorities and to ensure that obligations accepted in the process of negotiations will assist in, and not hinder, the achievement its development objectives. The supposed role of the institution is to integrate the various interests and evolve an integrated framework on which regional position will be articulated in the negotiations. The extent to which this has been achieved remains controversial and poses a major challenge for the weak, extremely vulnerable post-conflict countries in the EPA.

Trade policy in Sierra Leone has progressed in line with the principles of integration of the ECOWAS community. The country has made considerable improvements in its trade policy process since the end of the civil conflict. It is also proceeding steadily in the context aligning its trade policy to the community agreed rate. ECOWAS countries re-stated their agreement to adopt common external tariff (CET) rates of 0, 5, 10, and 20; a process which is currently being implemented by the UEMOA component of the community. By end of 2004 Sierra Leone had achieved a maximum rate of 30% (WTO, 2005), which is a modest move compared to some stronger economies within the community.

Table 5 shows that Sierra Leone ranks high among the few non-UEMOA economies with lowest average tariff rates in West Africa between 2000 and 2004. The country's simple average tariff is 13.1%, with a little lower average rate for non-agricultural products than agricultural products.

Table 5.

MFN Applied Tariffs for West Africa (2000-2004)

	Simple Average			**Maximum**		
Country	All	Agric	Non-Agric	All	Agric	Non-Agric
Benin	12.0	14.3	11.6	20	20	20
Burkina Faso	12.0	14.0	11.7	20	20	20
Cote d' Ivoire	12.0	14.3	11.6	20	20	20
Gambia	12.8	14.9	12.5	18	18	18
Ghana	13.1	17.3	12.5	233	20	233
Guinea	6.5	6.6	6.4	7	7	7
Guinea-Bissau	12.0	14.3	11.6	20	20	20
Mali	12.0	14.3	11.6	20	20	20
Niger	12.0	14.3	11.6	20	20	20
Nigeria	29.1	50.4	25.6	150	150	100
Senegal	12.0	14.3	11.6	20	20	20
Sierra Leone	**13.7**	**16.4**	**13.3**	**30**	**30**	**30**
Togo	12.0	14.3	11.6	20	20	20

Source: WTO, World Trade Report, 2005.

Table 5 further shows that Sierra Leone has achieved far lower maximum rates for agricultural and non-agricultural products than other non-UEMOA ECOWAS members, such as Ghana and Nigeria. The IMF (2007) indicated that the country commenced implementation of CET in 2005, reducing seven duty rates and 30% maximum rates to the four UEMOA rates, and by the end 2007 all rates would have been aligned to ECOWAS CET proposal.

Analysis of the tariff binding coverage by the WTO in 2005 shows that Sierra Leone is a high-conforming country in terms of the expected trend in the trade liberalization scheme in the ECOWAS region. Table 6 shows that binding coverage in Sierra Leone is 100%, indicating that all the tariff lines are subject to liberalization. The country and Senegal are the two countries with 100% coverage out of the 15 countries in ECOWAS community. Guinea Bissau and Niger have a binding coverage of about 96%, while all other, including the UEMOA countries, had their tariff bounds below 40%. Although all the countries had 100% bounds for agricultural products most of them had generally very low bounds for non-agricultural products.

Table 6
Final mfn Bound Tariffs (%)
West African Countries

	Binding Coverage		
Country	All	Agric	Non-Agric
Benin	39.4	100	30.1
Burkina Faso	39.2	100	29.9
Cote d' Ivoire	33.1	100	22.9
Gambia	13.7	100	0.5
Ghana	14.3	100	1.2
Guinea	38.9	100	29.6
Guinea-Bissau	97.7	100	97.4
Mali	40.6	100	31.6
Niger	96.8	100	96.3
Nigeria	19.3	100	6.9
Senegal	100	100	100
Sierra Leone	**100**	**100**	**100**
Togo	14.0	100	0.9

Source: WTO, World Trade Report 2005

An important issue at this point is the extent to which Sierra Leone's conformity to convergence of trade policy and consolidation of regional integration in ECOWAS will ensure that its interest is properly addressed in a way that the EPA currently being negotiated will produce a net gain.

It is important to note that despite significant efforts put into tariff reform, non-tariff barriers (NTBs) remain high in Sierra Leone. Most of the NTBs after the war are, to a large extent, not deliberate actions by the government but comes mostly inform of administrative, human and infrastructural barriers impeding flow of trade into the country. One main obstacle to trade flows in Sierra Leone is the customs processes. Although custom's administrative mechanism has improved significantly since 2003 when the Customs and Excise department became a division under the National Revenue Authority. However, a lot is still required in terms of reform to reposition the department in such a way that instruments of trade facilitations are greatly improved and made beneficial to the operators of trade. The administrative procedures require significant re-engineering, while adoption of more modern technology is of priority importance. Many of the staff maintaining the processes are very incompetent, while staff motivation remain poor. These cumulate into operational delays, deficiency/inefficiency and high level of corruption.

At the moment customs valuation is driven by revenue mobilization, of which transparency is doubted; it is most times applied inconsistently, contravenes standard international rules, and largely unfair to genuine traders. This results in escalation of landing cost of goods, increased costs to consumers and increase in cost of trade in Sierra Leone.

V Trade and Growth Prospects in Sierra Leone

Sierra Leone is a country with high potential to participate more actively in global trade. International trade has been on the increase since the end the arm conflict. The country's exports grew from US$ 139.7 million in 2004 to US$ 152.6 million in 2005, an increase of about 9.3%. On the imports side, evidences show that merchandise imports also increased by about 18.7%, from US$286.4 million in 2004 to US$340.1. Mineral exports continue to dominate exports into the international market. However, the dependence of Sierra Leone's export trade on diamond fell slightly in 2005 compared to 2004 when it was 90.4% of the total trade. Gold is also beginning to emerge as an important item of export interest in Sierra Leone. Although gold was very insignificant proportion of national export in 2005, contributing only US$416.2 thousands to export revenue, there are indications that gold may be an important component of Sierra Leone's export in the future. Increase in import by Sierra Leone mainly resulted from increase in import of machinery and transport equipment, chemicals, manufactured goods and mineral fuels. Mineral fuel and lubricants constitute the largest share of import; about 34%, and valued at US$94.8 million, in 2004, and continued into 2005, valued at US$115.5million. However, imports of food and animal and vegetable oils fell by 8.5% and 33.6% respectively, in 2005. The trend suggests that trade deficit remains an issue of serious of concern in 2005. Trade deficit widened from US$146.7 million in 2004 to US$187.4 million in 2005, (IMF, 2007).

The increasing political stability in Sierra Leone is expected to impact positively on export trade, thus greater growth in the very near future. The diagnostic study on Sierra Leone suggests that artisanal diamond exports will continue to play a significant role in growth and poverty reduction for some time to come. Added to that, large modern sector mining is about to take off again, promising a significant prospects for increased flow of revenue to the government, and thus growth. Agricultural exports offer most important potential for major increase in income and growth. Given that Sierra Leone used to be a major exporter cocoa, the prevailing atmosphere of peace will create enabling environment for the return of the produce in the next one decade or less. Projections suggest that the international market conditions remain robust and offer prospects for Sierra Leone's agricultural exports in future (Sierra Leone Government, 2006). Other products of export prospect are palm produce, cashew and gari, while re-build of tourism could also be an avenue for increased revenue.

VI Analysis of Capacity to Produce and Trade in the International Market

This section compares specific issues relating to strength of Sierra Leone's economy, capacity to produce and to compete with its major partners in Europe. The section compares specific components of the gross domestic products (GDP), and various determinants of export supply response capacity in Sierra Leone with its major partners.

Comparing the Economy of Sierra Leone with its EU Partners

Sierra Leone GDP was estimated at US$1.23 billion and GDP per capita US$900 in 2006. Given that GDP is an important measure of national economic activities, putting the above figure against that of the EU partners shows that Sierra Leone is an extremely weak economy, thus may not be able to compete with the latter for sometime to come. Estimates of GDP for the individual partners are unimaginable multiples of the same indicator for Sierra Leone. GDP figures in Belgium, Germany, Netherlands and the United Kingdom were US$367.8 billion, US$2.89 trillion, US$612.7 billion and US$2.34 trillion respectively in 2006. In the case of per capita income which was US$900 in Sierra Leone in 2006, the same was estimated as US$31,700 in Netherlands, US$31,400 in both the United Kingdom and Germany, and US$31,800 in Belgium in the same year. This suggests that productivity in the EU is over 3000% of the same for Sierra Leone, confirming its fragility to all its partners in the EU (see the World Fact Book, 2007).

In terms of sectoral composition of the GDP, Sierra Leone's economy is largely dominated by the agricultural and related activities, while reverse is the case for the EU partners' economies. Table 7 shows that over half of Sierra Leone's GDP is contributed by agriculture and related activities, while contributions of agriculture to GDP range from only 0.9% in Germany to 2.1% in Netherlands in 2006.

Table 7.
Sectoral Composition of GDP in Sierra and its EU Trading Partners

Sectors	Sierra Leone	Belgium	Germany	United Kingdom	Netherlands
Agriculture	53.0	1.0	0.9	1.0	2.1
Industry	22.0	24.0	29.1	25.6	23.9
Services	25.0	74.9	70.0	73.4	73.9
Total	100	100	100	100	100

Source: World Fact Book, 2006, IMF, 2007 and Sierra Leone Government, 2006

Service sector activities which account for less that a quarter of GDP in Sierra Leone, contributes close to three-quarter of the EU partners' national economic activities. The contribution of industry to GDP shows a minor variation compared with other sectors considered earlier.

Despite relative insignificance of the percentage contributions of agriculture to GDP in the relevant EU countries, it is noted that the sector contribute substantially to food security in those economies. The countries experiences show that domestic agriculture produced about 60% of food needs in the United Kingdom. The sector in Netherlands provides large surpluses for the food processing industry and, in addition to this, for exports, all with less than 2% of total workforce in 2006. In the case of Sierra Leone where the close to 70% of the workforce are engaged in agriculture, poverty is more endemic in the agriculture and rural sector than any sector else in the country, suggesting that the sector is unable to provide answer to its own food need, therefore could not provide the needed food security for the economy.

Capacity to Produce and Respond to Export market Opportunities

Deductions from Table 7 indicate that Sierra Leone is clearly inconsequential when compared with the partners in the EU in the production of non-agricultural commodities and services. Given that agriculture which constitutes less than 2% of both the GDP and working population in the EU provides such high level of food security, the industrial and services sectors that account for almost the entire percentage of the GDP and labour force is expected to contribute multiple folds to output, trade and food security in EU and exports to the rest of the world.

Various indicators of production and export supply response capacity in Sierra Leone and the EU under the current preferential arrange further reveal that Sierra Leone will face serious challenges relating to survival if the economy is open to the extent envisaged in the EPA. Given that industrialization is a key ambition of all economies; all least developed and developing economies will also look forward to benefiting from expanded opportunities in the industrial sector under the EPA. The tables below give the indications of ability of a least developed country such as Sierra Leone to benefit from the expanded opportunities provided by liberalization in the EPA. The possibility of these benefits is assessed by comparing capacity to produce and export manufactured products in Sierra Leone and the EU. Strength of the economy to explore these benefits can also be assessed by comparing costs and access to financial resources for production in the EU and Sierra Leone.

Table 8 shows that capacity of Sierra Leone to produce and export industrial goods is a far cry from the same indicators in the EU in 2002[2]. Comparing the indicator for Sierra Leone and Belgium, The capacity in Sierra Leone was just 9.3% of Belgium's in 2002. Comparisons with other partners show the same trend, and estimated at about 9% during the same year (Table 8).

Table 8
Index of capacity to Produce and Export Manufactured Goods

Country	1998	1999	2000	2001	2002	2003
Sierra Leone	--	--	--	--	7.46	--
Belgium	77.8	79.1	78.2	78.9	80.4	79.8
Germany	73.2	73.3	68.7	74.1	75.5	77.2
Netherlands	76.9	76.7	74.2	74.0	74.3	72.8
United Kingdom	82.4	82.7	82.3	77.3	79.1	78.7

Source: World Development Indicator, WDI, 2005.

Given the above trend complete liberalization of the Sierra Leone manufacturing sector may affect industrialization ambition of the country negatively. It is obvious from the above that it is impossible for Sierra Leone to compete with any of its current partner, and its doubtful if they will be able to achieve this soon.

[2] only 2002 data is available for Sierra Leone

Other determinants of production and capacity respond to export opportunities considered in this paper are finance and infrastructure. Indicators of ease of access to finance are domestic credit available to the private sectors and the costs of fund. The two indicators for Sierra Leone and the EU partners were compared below.

Finance remains an important instrument of translating administrative and technical competence into desired output. Although the ongoing reforms in Sierra Leone has impacted positively on the country's financial sector, the capacity of the government and financial institutions still lack capacity to provide finance for competitive production and exports.

Table 9

Domestic Credit to Private Sector, 1998-2033 (% of GDP)

Country	1998	1999	2000	2001	2002	2003
Sierra Leone	2.7	2.1	2.1	2.3	3.5	5.0
Belgium	---	81.6	79.3	77.7	76.5	76.2
Germany	118.5	117.6	120.5	120.4	118.7	117.3
Netherlands	---	129.4	139.4	141.2	147.7	154.0
United Kingdom	119.1	121.7	132.8	138.2	142.6	148.4

Source: World Development Indicator, WDI, 2005.

Tables 9 and 10 compare the availability and cost of fund in Sierra Leone and the EU. Table 9 shows a significant disparity between Sierra Leone and the EU countries on issues relating to availability of finance. Domestic credit to the private sector as a proportion of the gross domestic products (GDP) show that access to finance constitutes a major limitation to production and trade in Sierra Leone.

The magnitude of domestic credit as proportion of GDP in the EU suggests that finance may not be a significant limitation to production for export and actual exporting by the EU firms. Trends in cost of fund presented on table 10 show the propensity to produce at low costs in the EU.

Table 10

Cost of Fund in Sierra Leone and the EU, 1998-2003 (in %)

Country	1998	1999	2000	2001	2002	2003
Sierra Leone	16.7	17.3	17.1	16.6	13.9	11.6
Belgium	4.24	4.29	4.39	5.05	5.11	5.25
Germany	6.14	6.38	6.23	6.45	7.04	---
Netherlands	3.39	0.72	1.90	1.89	1.19	0.51
United Kingdom	6.0	5.3	6.0	5.1	4	3.7

Source: World Development Indicator, WDI, 2005.

Availability of finance at low interest rates is usually taken for granted in the EU and most developed countries. Costs of fund determined by interest rates are strategically low in the EU countries making them more competitive in term of cost of production and price of goods produced. Table 10 shows that the cost of fund in Sierra Leone is between 100% and about 2000% greater than what it is in the Europe (indication from Table 10).

Production and trade-related infrastructures equally shows dismal trend in Sierra Leone when compared with the EU. The EU experience shows that there is direct relationship between quality of infrastructure and volume of trade. Good roads and telecommunication links have contributed to increase in intra-regional trade and growth in the EU (Alaba, 2006). State of infrastructure in Sierra Leone remains a source serious concern and largely responsible for inefficiency in production and high costs of doing business.

The paper used access telephone as an indicator status of infrastructure in Sierra Leone. Access to infrastructure determined by fixed telephone and mobile lines per thousand people shows clear disparity between the EU and Sierra Leone.

Table 11
Fixed Line and Mobile Phone Subscribers (per 1,000 people)

Country	1998	1999	2000	2001	2002	2003
Sierra Leone	3.9	4.4	4.6	8.0	19.2	32.5
Belgium	667.0	820.5	1065.0	1244.3	1280.0	1282.0
Germany	736.8	872.1	1196.5	1316.4	1378.3	1442.5
Netherlands	805.1	1031.2	1291.3	1388.1	1362.4	1381.9
United Kingdom	805.4	1028.7	1316.5	1364.0	1431.3	--

Source: World Development Indicator, WDI, 2005

The figure specifically shows an extremely low trend for Sierra Leone compared to the EU partner countries.

VII EPA: "Opportunity" to Mainstream Sierra Leone into Global Trade

The impacts of policy in the short run are often not the same as the long run. The short run impacts usually come inform of sudden shocks for which adjustment is naturally painful. However, during the transitions to the long run several adjustments in capital and labour work themselves through the economy to produce positive results. The above is consistent with the literature, which suggests that trade liberalization is likely to have two potential impacts. One is the short run impact on government revenue, production, consumption and income. The second relates to the long run efficiency gain argument, which suggests possible increase in output through economies of scale and long run reduction in prices and increase in consumers' welfare. However, some development theorists express reservations about the automatic long-run gains suggested by the literature. In their opinion, the initial condition of an economy is an important determinant of whether countries could benefit from liberalization or otherwise.

The EPA should be an opportunity to further mainstream Sierra Leone into the world economy. Given that Sierra Leone currently enjoys "free access" to the EU market, EPA may offer a very limited opportunity to Sierra Leone if special consideration is not given to the current status of the economy. Reciprocal access to markets (Sierra Leone-EU) may only benefit the EU and not in any significant manner for Sierra Leone. However, EPA is an opportunity for Sierra Leone to table its catalogue of constraints and post-conflict needs at the negotiating table. Supply-side constraints have prevented Sierra

Leone, like many other ACP countries, from taking advantage of the preferential market access provisions in the EU markets. Added to that are constraints relating to technical standards, sanitary requirements for exports into the EU and the rule of origin, which are currently constituting significant non-tariff barriers to ACP trade into the EU.

It has become more obvious, than ever before, that the ACP group, including Sierra Leone, may face significant economic retrogression if EPA is not put in proper perspective. It is noted, therefore, that for EPA to be mutually beneficial to both partners, increased access to the EU market will have to be accompanied by comprehensive programme assistance to the weaker partner. The assistance should focus at helping disadvantaged countries to take advantage of new export opportunities by building up their capacity to produce and trade, and assisting them to cope with preference erosion and adjustment costs which may accompany trade liberalization. It is particularly recognized that without removing supply-side constraints and improving the competitiveness of the ACPs, internal trade-related reforms and improved market access abroad will not automatically translate into economic development and poverty reduction.

Argument for assistance (financial and technical) may be more relevant in the case of least developed economies like Sierra Leone for a number of reasons. One is the wide-spread poverty in Sierra Leone, which is responsible low saving, low investment and low productivity. Unless there is greater increase in the flow of development assistance through the Overseas Development Assistance (ODA), and directed toward concrete productive activities and tradables, the country may continue as poor producer of one of the world’s most valuable products. Sierra Leone’s needs tremendous help in the main productive sector of its economy; agriculture, industry and mining. Ability of the country to domestically add value to its mining products before exporting may translate into tremendous flow of income which may be re-cycle into the economy to boast industrialization and productivity in general.

Strategic inclusion of tangible programme of assistance into EPA may be an important mechanism of addressing constraints to capacity to produce and export by Sierra Leone. Specific assistance relating to infrastructure, capacity building and technology transfer will go along way to relieving constraints to export supply response capacity in the country. It is also recognized that mechanism of providing ODAs need to be consultative in order to effectively identify priorities in terms of relevant needs. Like other West African countries, other issues that require urgent attention are energy, telecommunication, access roads all of which adds significantly to the cost of output and competitiveness of the Sierra Leone’s economy.

The new direction of thinking in the EPA, similar to the WTO, is the opportunities for countries to identify products that are sensitive to the country based on criteria jointly determined by all partners and are consistent with the theory. Developing and least developed countries should use this opportunity address concrete development issues relating to food security, rural livelihood, income security, industrial and general economic growth in their various economies. This is a window of opportunity which could also be effectively utilized by Sierra Leone.

VIII Challenges for Sierra Leone in the EPA

Besides the obvious challenges relating loss of revenue, market share and other trade related resources (Impact Assessment Study, 2007 and Sierra Leone Government, 2006), it is clear that Sierra Leone economy will not be able to confront the EU economies in any meaningful competition for some time to come. The trend above shows extreme weakness of Sierra Leone economy compared to its major trading partners in the EU. One basic issue to consider in the EPA is the extent to which it could address deepening poverty in Sierra Leone. The EU has obvious advantages in all areas compared with Sierra Leone, and without consideration for strategic differential treatment for the country large proportion of its population may continue in deepening poverty.

Given that Sierra Leone is still battling with challenges of post conflict reconstruction, stabilization and the need to ensure sustained growth, an EPA which generalizes commitment required from countries may reverse post-conflict investments and progress achieved so far in Sierra Leone. This may translate into a significant resources loss and waste of huge resources invested so far on Sierra Leone by various development partners. Added to that, the country like many least developed and post-conflict economies is equally faced with challenges relating to institutional, human and technical capacity to negotiate and implement agreements relating to specific contents of EPA negotiations. Sierra Leone is currently combining EPA negotiations with various other on-going trade negotiations on different fronts. The above suggests that negotiations and consequent agreements reached with such lack capacity may relegate Sierra Leone to a spectator in the international market.

IX Options for Sierra Leone

The fundamentals of economic reforms adopted worldwide have been motivated by recognition of the role of the market and of the private sector in the efficient functioning of economies. It is also recognized that the full benefits of economic reforms can only be realized under conditions of fair competition. Liberalization is important in rewarding those enterprises that are more efficient and sanction those that perform poorly by using more resources than necessary. In theory, policies that enhance competition in national and international markets, such as liberalized trade policy, transparency in governance, relaxed foreign investment and ownership requirements, and economic de-regulation are capable of promoting economic fortune of countries that practices them. However, graduating drive towards liberalization has to consider socio-economic conditions, and developmental needs of weak and vulnerable economies. Given the peculiarity of the Post-conflict Sierra Leone, growth and development must be the primary consideration in negotiating and evolving beneficial trading arrangement with the EU. The country must therefore be very strategic in pushing workable and development oriented requests in the EPA.

A number of options are open to Sierra Leone in this regard. One is for the country to request the continuation of its relationship with the EU under the Lome agreements, while it continues its post-conflict reforms, if the latter will agree to such request. Two, is to request for an EPA with a greater consideration for the current position of Sierra Leone in the world economy; very poor, weak and largely vulnerable. The request should be specific on programme of assistance relating to investment on infrastructure, reconstruction, removal of constraints to production for export, and human and institutional capacity building. The third is to negotiate EPA, but request for much longer implementation period, which may be determined by putting together all the indicators of strength/weakness of the economy against its EU partners to estimate the transition period required by Sierra Leone.

Other option is to latch with ECOWAS to negotiate a generally applicable EPA. And the last is too request for EPA to be on a hold until the conclusion of WTO agenda, since the essence of the EPA is to achieve an arrangement between the ACPs and the EU which is consistent with the WTO principles.

X Conclusions

Negotiations on EPA are indeed very sensitive to the overall development of Sierra Leone. Sierra Leone like most ACP economies is still unable or yet to determine the full costs associated with the EPA. Increase in the knowledge of the likely total loss to EPA is still very important for the ACP group. For a mutually beneficial EPA, significant effort is still required to must fashion out a mechanism of identifying and addressing specific needs of individual economies. Specifically, an EPA of potential gains to Sierra Leone needs consider current status and local situation such in the country such that political, social and development concerns given attention in order to sustain prevailing atmosphere of peace.

Sierra Leone economy needs to be considered and classified among the weak and most vulnerable and treated as such within and beyond ECOWAS. It is equally important to consider the current and potential capacity of the country to produce, to compete in the international market and to adjust to liberalization as a realistic way of achieving a “win-win” EPA.

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