

## **Central African Economic and Monetary Community: Selected Issues**

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CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

**Selected Issues**

Prepared by Anne-Marie Gulde-Wolf, Charalambos Tsangarides, (both AFR); and  
Jan Kees Martijn (PDR)

Approved by the African Department

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Contents	Page
I. Trade Reform in the CEMAC: Developments and Opportunities .....	2
A. Introduction .....	2
B. The Current Regime: Deficiencies and Proposed Reforms .....	3
C. Prospects for Enhancing Intra-community Trade .....	6
D. Recent Trade Initiatives .....	10
E. Concluding Remarks and Policy Recommendations .....	15
 Tables	
1. CEMAC: Sources of Imports and Tariff Revenue by Region of Origin .....	7
2. CEMAC: Sources of Imports and Tariff Revenue by Product Type .....	8
3. Trade Complementarity Index in the CEMAC .....	9
4. CEMAC: Sources of Imports and Tariff Revenue by Import Tariff Band .....	10
5. Simple Average MFN Tariffs, 2005 .....	10
6. CEMAC: Tariff Receipts in percent of GDP .....	11
7. CEMAC: Scenarios for Tariff Receipts in percent of GDP .....	12
8. CEMAC: Indicators of the Scope for Trade Diversion .....	13
 Figures	
1. Intraregional Exports for Selected Regional Groups .....	6
2. Intraregional Imports for Selected Regional Groups .....	6
3. Composition of CEMAC Imports from Main Partners .....	7
 Boxes	
1. Problems in Implementing the Agreed Trade Regime in Chad .....	5
2. Transportation Delays and Costs .....	8
3. The Doha Round and Africa's Preference Erosion .....	15
References .....	17

## I. TRADE REFORM IN THE CEMAC: DEVELOPMENTS AND OPPORTUNITIES<sup>1</sup>

### A. Introduction

1. **The creation, in 1994, of the CEMAC customs union, was a major step in the regional integration process in central Africa.** The reform was part of a wider initiative to boost regional integration and policy effectiveness in conjunction with the devaluation of the common exchange rate relative to the French franc. The CEMAC replaced the UDEAC (*Union Douanière des Etats d'Afrique Centrale*), which was created in 1964 but had remained largely ineffective. The 1994 reforms introduced: (i) a common external tariff; (ii) the gradual removal of tariffs on intra-regional trade (completed in 1998); (iii) the harmonization of indirect taxation (with the introduction of a VAT in 1999); and (iv) the replacement of quantitative import barriers by temporary import surcharges (to be phased out by 2000—see below).

2. **The implementation of the agreed regime by the member countries, however, has remained unsatisfactory.** Trade is hampered and distorted by cumbersome and costly border procedures, as well as national restrictions and exemptions in defiance of the common rules. Further problems stem from the lack of transportation infrastructure, security problems and, for trade with the rest of the world, high common external tariffs.

3. **A 2002/03 initiative to improve policy implementation has largely stalled.** In 2002, French experts prepared a report on customs procedures (the “Steenlandt” report), and an October 2003 workshop in Brazzaville resulted in a proposed roadmap for further reform. These efforts were supported by the EU, France, and the World Bank. However, since then the initiative has lost momentum, even though some of the actions identified in the roadmap have still moved forward. The June 2005 summit of the CEMAC Heads of State in Malabo confirmed the need for improved implementation of the CEMAC trade regime.

4. **Several recent initiatives concerning external trade provide new challenges and opportunities for welfare-enhancing reforms.** First, the 2003 workshop had also suggested reducing the number of CET rates from four to three, while lowering the top rate from 30 percent to 20 percent, in line with the WAEMU regime. The importance of external liberalization was reaffirmed by the IMF’s Managing Director in a March 2006 speech.<sup>2</sup> CEMAC representatives have indicated that changes to the CET should be based on both a review of experience with the changes introduced in 1994 and a forward-looking assessment of proposed new rates. Second, an Economic Partnership Agreement (EPA) with the EU could result in far-reaching reciprocal trade liberalization between the two regions. And,

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<sup>1</sup> Prepared by Jan Kees Martijn and Charalambos Tsangarides. Research assistance was provided by Dustin Smith and Gustavo Ramirez. Helpful comments were provided by Stephane Cosse. Catherine Pattillo and Hans Weisfeld reviewed the paper on behalf of the AFR networks.

<sup>2</sup> “Making a Blessing of Oil: Sources of Growth in the CEMAC Region,” Bata, March 15, 2006 (<http://www.imf.org/external/np/speeches/2006/031506.htm>).

finally, trade liberalization in the context of the Doha Round would affect market access and world market prices, in particular for agricultural products.

5. This paper provides an update on the main elements of the reform agenda concerning the CEMAC trade regime as well as a quantitative assessment of selected potential effects on tariff revenues and trade patterns. Unfortunately, the latter analysis is hampered by severe data limitations: sufficiently detailed recent balance of payments data for most exercises in this paper were available for Cameroon, Gabon, and the Central African Republic only.<sup>3</sup> The next section gives an overview of the main deficiencies of the current regime as well the proposed remedies. Section III discusses the scope for boosting intra-community trade, and Section IV the implications of tariff reductions or an EPA. Finally, Section V concludes with some key recommendations.

## **B. The Current Regime: Deficiencies and Proposed Reforms**

6. **While the 1994 reforms that created the CEMAC customs union were a major step forward, the trade regime remains plagued by poor implementation.** The customs union suffers from a range of specific implementation problems—listed below—as well as red tape, weak and inefficient customs administration, involving the misclassification of imports, and corruption problems, including theft.

7. **The Executive Secretariat, located in Bangui (CAR), lacks both the authority and the resources that would be needed for effective oversight of the arrangement.** Data reporting to the secretariat by the member countries has been incomplete and, as a result, the secretariat has only a very partial picture of regional trade flows and of country-specific procedures and regulations.

8. **National trade regulations are not always in compliance with community rules.**<sup>4</sup>

- Discrepancies between the CET and actual tariffs rates applied by member countries have been introduced to provide additional protection to national industries.<sup>5</sup> The 2003 roadmap proposed a detailed review of both the nomenclature and the tariff rates in order to restore compliance with the CET. However, even in the absence of such comprehensive exercise, the planned gradual move to the Automated System for

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<sup>3</sup> Chad, Equatorial Guinea, and the Republic of Congo reported their latest external trade statistics for 1995. More recent data are available in the UN-COMTRADE database, derived from mirror flows (i.e., flows declared by partner countries), but these are partial data, which do not add up to total imports as estimated by the monetary authorities.

<sup>4</sup> The CEMAC secretariat—which has provided much of the information underlying this overview—does not have up-to-date information on the incidence of the various concerns listed below across countries. As a result, this assessment should be seen as tentative and subject to further confirmation.

<sup>5</sup> For example, the CAR provides temporary preferential tariff treatment on imports of heavy machinery and some vehicles for investment purposes of 8 percent.

Customs Data (ASYCUDA) by five member countries (excluding Equatorial Guinea) should still be beneficial to proper CET implementation.

- Temporary tariff surcharges of up to 30 percent were introduced in 1994 for a period of six years or less, to help cushion the impact of abolishing quantitative restrictions. However, not all surcharges have been abolished as scheduled. Reportedly, the surcharges have been removed in the CAR, Cameroon, the Republic of Congo, and Gabon. However, Equatorial Guinea and Chad still maintain surcharges on selected products (see Box 1).
- Several, but not all, CEMAC members have phased out the granting of firm-level tariff exemptions in the oil, mining, and tourism sectors, through bilateral *Conventions d'Établissement*. In addition to renegotiating remaining existing exemptions, a lasting solution should involve aligning the national investment codes with the CEMAC Investment Charter, which strictly limits tariff exceptions.

9. **A new study commissioned by the CEMAC secretariat in 2006 seeks to address problems concerning the application of the 1993 rules of origin.**<sup>6</sup> The existing regime distinguishes among raw products, goods manufactured in the CEMAC—with a local context of at least 40 percent—and outside manufactured goods.<sup>7</sup> Certificates of origin are to be issued by the customs office closest to a producer. However, problems have arisen as not all customs offices have the required expertise, resulting in improper certification which, in turn, is frequently rejected by other member countries (recent examples concern powdered milk and wine). Also, a pre-certification procedure for frequent exporters is hardly used. In order to address these problems, in 2006 the CEMAC secretariat has initiated a study by a consultant on simplifying the rules and improving compliance.<sup>8</sup>

10. **Three of the six CEMAC member countries (Cameroon, Republic of Congo, and the CAR) apply transaction-based import valuation**—as was the case already in 2003. This valuation basis has been mandatory since 2000, under the WTO agreement on customs valuation. In Chad, the move from using minimum prices to transaction-based valuation has been hampered by training problems. Gabon, which has finished the training and has updated its regulations, has pointed to revenue concerns as a reason for delaying the adjustment.

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<sup>6</sup> These are rules within a preferential trade arrangement (PTA) specifying when a good is considered as produced within the PTA, and therefore eligible for preferential tariff treatment. Typical rules of origin are based on percentage of value added or changes in tariff heading.

<sup>7</sup> Current plans envisage raising the local content requirement to 50 percent beginning in 2008. Under the present rules, goods also qualify as originating in the CEMAC if at least 50 percent of the raw materials (in value terms) used in the production stem from the CEMAC.

<sup>8</sup> Including consideration of a suggestion in the Steenlandt report for moving to a criterion of “sufficient transformation” as evidenced by a change of product classification based on the SH nomenclature. In addition, proposals should be compatible with the requirements of an EPA (see below).

**11. Problems concerning overly costly and cumbersome transit procedures and double taxation are, reportedly, being resolved.** The existing transit regime includes a costly guarantee system. The system requires importers of goods to acquire a bond at the point of entry into the union, which aims to guarantee the—generally, coastal—transit country that the required duties are paid and that the goods are indeed re-exported to the—generally, landlocked—country of destination. However, the bonds can be very costly and reimbursement subject to long delays. In order to resolve these problems, a CAR customs official was recently stationed in Douala to collect import duties at the point of entry into the region—in line with a suggestion in the 2003 Roadmap. A similar procedure is under consideration for clearing imports through the Douala port destined for Chad. A more efficient transit regime would help reduce the incidence of double taxation of customs duties (as well as excises and VAT) on goods imported from a third country and then reexported within the CEMAC.

**Box 1. Problems in Implementing the Agreed Trade Regime in Chad**

Experience in Chad, as revealed in the preparation of a Diagnostic Trade Integration Study illustrates the myriad of implementation problems concerning the CEMAC customs union (Integrated Framework, 2005). (However, Chad should not be seen as a representative example.)

- While the ASYCUDA customs database has been introduced in the main customs offices, it remains to be extended to those in the provinces. Introduction is hampered by severe planning problems, lack of training, and lack of network wiring. At present, the information provided in the statements issued by the customs offices varies—except concerning oil and cattle, which are handled by separate posts—with many smaller offices not reporting the tariff line and/or the country of origin.
- A large range of exemptions from import tariffs are granted, including for imports under the Doba oil project, for the French military base, and for specific firms through *Conventions d’Etablissement*. In 2002-03 the actual import tax base was only 23 percent of total imports.
- Imports of sugar, cigarettes, and drinks from non-member countries are still subject to a “temporary” 25 percent surcharge, which was scheduled to be removed by 2000. In addition, imports from all countries—including other CEMAC members—are subject to a range of charges, including a statistical fee (2 percent) and a storage fee (depending of number of days in customs storage).
- Chad agreed in 2002 to apply transaction values as the basis for import valuation, but minimum values are still used for imports from non-CEMAC bordering countries.
- There are no taxes on export products, except for cattle (FCFA 1,500 per head) and other livestock, and some plants. However, the 2 percent statistical fee also applies to exports. Exports are free from quantitative restrictions, apart from some restrictions for reproductive cows.

**12. Generally, quantitative restrictions do not appear to provide a main barrier to trade.** Most qualitative restrictions were converted into tariffs in 1994. Imports of sugar are

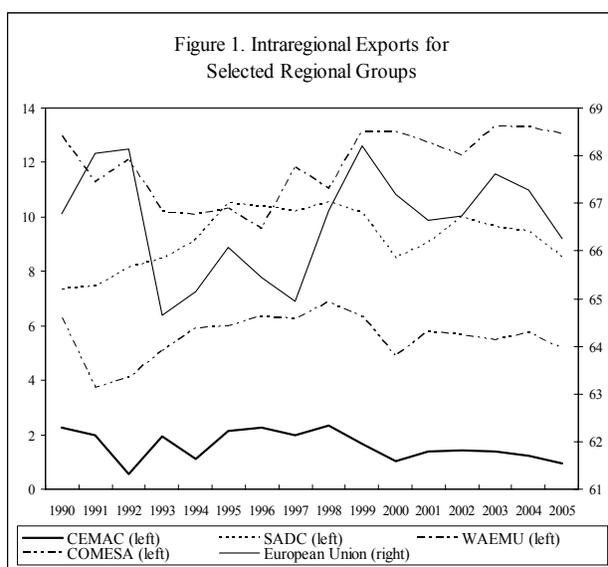
restricted in Gabon and the CAR. Exports of timber and logs are subject to prohibitions and quota restrictions in several member countries, for environmental reasons.

13. **Most, but not all, export taxes have been phased out.** In contrast to the joint tariffs on imports, export taxes are set at the national level. They are applied on exports to all countries, including other members. Reportedly, the taxes concerned are generally low and relate to only few products (especially logs and timber products).<sup>9</sup>

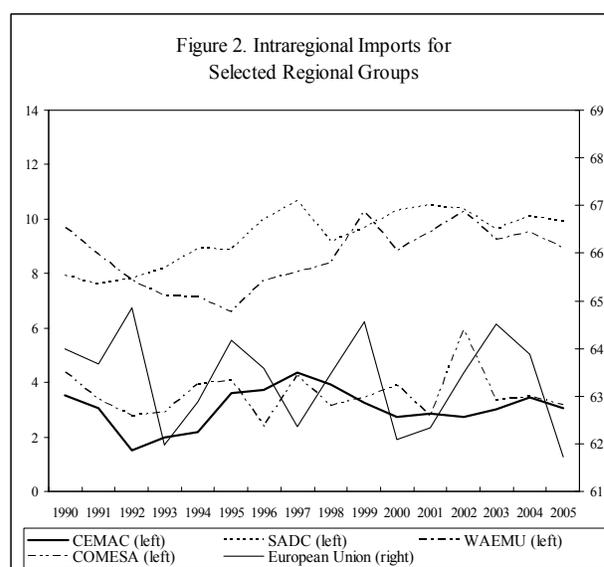
14. **The CEMAC countries benefit from several arrangements providing preferential access to developed countries.** These include the Cotonou and Everything But Arms (EBA) agreements with the European Union, preferences under the African Growth and Opportunity Act (AGOA) for exports to the United States market, under the Generalized System of Preference (GSP) for exports to several other countries.

### C. Prospects for Enhancing Intra-community Trade

15. **Intra-community trade in the CEMAC is low, at less than 2 percent of GDP and about 1.5 percent of total trade.** The share of intra-regional in total trade of the CEMAC countries has remained stagnant over the past five years, and even trended down somewhat since 1997—despite the 1994 initiative for creating an effective customs union (Figures 1 and 2). Internal trade is much lower than in other country groupings with free internal trade



Sources: IMF, Direction of Trade Statistics; and staff estimates and projections.



Sources: IMF, Direction of Trade Statistics; and staff estimates and projections.

<sup>9</sup> The CAR maintains export taxes of 2.25 percent, 4.25 percent, 4.05 percent, and 10.5 percent on gold, diamond, processed wood, and timber respectively. Equatorial Guinea currently has export taxes that range between 1 percent for (coffee and cocoa) to 15.8 percent (logs), with intermediate rates for other goods (re-exports, plywood and sawn wood). Cameroon and the Republic of Congo maintain export taxes on timber and logs only. Chad imposes export taxes on cattle and some plants.

in Africa: intra-regional trade in WAEMU, SADC, and COMESA is between 5 and more than 10 percent of total trade. Official data may underestimate the magnitude of intra-regional trade due to large unrecorded trade flows—especially between neighboring countries. However, even with an adjustment for underreporting, the magnitude of intra-regional trade would still remain very low.<sup>10</sup> As illustrated in Table 1 and Figure 3, CEMAC imports mainly stem from the EU, while import shares from Asia have been increasing in the last three years.

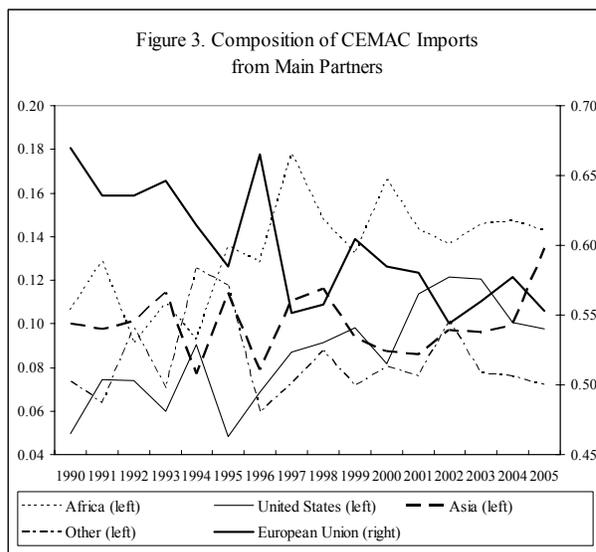
Table 1. CEMAC: Sources of Imports and Tariff Revenue by Region of Origin<sup>1</sup>  
(in percent of total)

	Imports	Tariff revenue
CEMAC	2.1	n/a
Rest of sub-Saharan Africa	16.0	13.2
Asian countries	12.8	18.7
EU	52.9	52.7
United States	4.9	4.2
Other countries	11.3	11.3

Source: Data provided by the authorities.

<sup>1</sup> Based on total imports by Cameroon (2004), Gabon (2004) and the CAR (2003).

16. **The lack of functional transportation corridors across the CEMAC countries is likely the main impediment to intra-regional trade—although several helpful initiatives are under way.** Several of the weaknesses of the trade regime discussed in Section II hamper trade within the CEMAC—in particular, the problems concerning the rules of origin and double taxation. However, these concerns are probably overshadowed by the severe deficiencies of transportation infrastructure in the region. The resulting high costs and long delays in the transportation of goods are discussed in Box 2. In line with an action plan adopted at a June 2004 workshop in Douala, several projects for improving cross-country road infrastructure are currently being implemented—supported by the European Union, the African Development Fund, and the World Bank—connecting, in particular, Douala (Cameroon) with Bangui (CAR) and with N’djamen (Chad). A still unpaved section in the CAR of the Douala-Bangui corridor poses a serious bottleneck during the rainy



Sources: IMF, Direction of Trade Statistics; and staff estimates and projections.

<sup>10</sup> Anecdotal evidence suggests that the amount of unrecorded informal trade within the region could be about 50 to 60 percent of recorded trade.

season. However, part of the project has been delayed as a result of the CAR’s suspension from EU funding. The projects also include a trade facilitation component, with the construction of border posts and checkpoints (on both sides of the border) for administrative services (including customs, police, and forestry services). Transportation is also hampered by serious security problems, involving highway robbers, armed cross-border rebels, and internal rebel groups.

**Box 2. Transportation Delays and Costs**

Administrative delays due to transit and customs procedures, roadblocks, and poor transportation services result in delays and excessive transportation costs and thereby hinder intra-regional trade. For example, a cargo journey from the port of Douala (Cameroon) to Bangui (CAR) and N’ djamena (Chad) takes 2 and 5 weeks, respectively, on average. In principle, in the absence of any administrative or organizational hurdles, transportation from Douala to N’ djamena could be completed in one week (Integrated Framework, 2005). In addition, the average clearing and transportation costs for a 20 foot container from Douala to Bangui or N’ djamena are about €4,000—about four times the cost of maritime transport from Europe to Douala (World Bank, 2004). Port expenses account for about 25 percent of that amount (which is almost equivalent to the cost of maritime transport from Europe to Douala), and the remaining 75 percent is spend on road transportation.

The 2005 Diagnostic Trade Integration Study for Chad suggests that, although high, these costs and delays are comparable to those in West African countries. For example, average clearance time for imported containers in the ports of Douala is about 19 days, which was second only to Senegal (30 days), in a review of 8 countries along the west coast of Africa (SAATP 2004). However, costs and delays are about 30 percent lower for landlocked countries in East Africa; for example for Kigali (Rwanda) which is within the same distance from its parts as N’ djamena. In addition, for Uganda and Tanzania, 72 percent and 85 percent of roads (respectively, are classified as in good or fair condition compared to 30 percent in Cameroon (World Bank SAATP indicators).

17. **A structural determinant of the low level of intra-community trade may be the lack of complementarities in the production structures of the member countries.** There is substantial similarity in the natural comparative advantages of the CEMAC countries, and, as a result, in their production and trade patterns, which limits the scope for internal trade. In particular, oil is the main source of exports for all countries except the CAR. Other exports relate to wood products and cotton. But there is very little diversification, especially in manufacturing. Of the six members only Cameroon has a significant industrial base.

Table 2. CEMAC: Sources of Imports and Tariff Revenue by Product Type<sup>1</sup>  
(in percent of total)

	Imports	Tariff revenue
Agricultural Products	20	25
Industrial Products	80	75
Oil products	14	9

Source: Data provided by the authorities.

<sup>1</sup> Based on total imports by Cameroon (2004), Gabon (2004) and the CAR (2003).

18. **The existence of only limited product complementarities is confirmed by a more formal analysis.** Trade complementarity between a pair of countries is traditionally measured by the Trade Complementarity Index (TCI). The index is a measure of similarities between the export basket of one country and the import basket of another, therefore, it can provide useful information on prospects for both intraregional and external trade. We define the bilateral product complementarity index between country *i* exports and country *j* imports based on Michaely (1996), as follows:

$$TCI_{ij} = 100 - \sum_k \frac{|M_{jk} - X_{ik}|}{2}$$

where  $X_{ik}$  is country *i*'s total exports of product *k*, and  $M_{jk}$  is country *j*'s total imports of product *k*. The higher the index between two countries, the greater the product complementarity. The index is zero when no product exported by one country is imported by the other; the index is 100 when the export-import shares match exactly. We calculate and compare bilateral product complementarity indices for CEMAC member countries using UN-COMTRADE data at the one-digit classification level (Table 3). It appears that complementarities are low, especially for exports by the CAR and Equatorial Guinea.<sup>11</sup> The TCI's within CEMAC can also be compared with TCI's from other studies of African countries in a regional trade agreement or similar arrangements.

Table 3. Trade Complementarity Index in the CEMAC

		Exporter			
		Cameroon	CAR	Eq. Guinea	Gabon
Importer	Cameroon	...	25.9	25.6	31.5
	CAR	49.5	...	18.9	30.8
	Eq. Guinea	...	...	...	...
	Gabon	30.5	21.9	8.9	...

Source: United Nations COMTRADE database.

19. **Nonetheless, a closer look at the product composition of internal and external trade suggests significant potential for an expansion of trade within the union.** The above exercise gives an impression of the (limited) scope for diverting existing trade flows towards the regional partners. However, this assumes unchanged production patterns. The key question may be whether intra-regional trade could be boosted, also, by stimulating the production in the CEMAC of those goods—especially in the manufacturing sector—for which an effective market in other member countries could be opened up as a result of a substantial reduction in transport-related and administrative barriers within the region. To help answer this question, we calculated for three CEMAC members, for what part of imports (at the 6 digit level) from non-CEMAC countries, any other CEMAC country already had significant exports to any country—indicating that there is, at least, a potential for

<sup>11</sup> In Tsikata (1999) and Khandelwal (2004), TCI's are calculate at the two-digit level, and those above 25 are considered strong. However, TCI's at the one-digit level, as presented here, are higher by construction.

production within the union that could satisfy the demand for imports.<sup>12</sup> This exercise indicates that for 21 percent of total CEMAC imports, there may be a potential for the development of internal sources.

#### D. Recent Trade Initiatives

##### Reducing the CET

20. **With tariff rates between 5 percent and 30 percent, and an unweighted average of about 19 percent, the CEMAC CET rates are relatively high.** The CET comprises four rates—5 percent for basic necessities, 10 percent for raw materials and capital goods, 20 percent for intermediate and other goods, and 30 percent for general consumer goods. As shown in Table 4, most imports enter under the 10 percent rate. In addition to the CET, imports from non-member countries are also subject to the community integration tax (1 percent). CEMAC tariff levels are high in comparison with other countries and country groups, including in Africa (Table 5).

Table 4. CEMAC: Sources of Imports and Tariff Revenue by Import Tariff Band<sup>1</sup>  
(in percent of total)

Tariff band	Imports	Tariff revenue
5%	6.8	2.2
10%	54.9	35.5
20%	17.9	22.8
30%	20.5	39.4

Source: Data provided by the authorities.

<sup>1</sup> Based on total imports by Cameroon (2004), Gabon (2004) and the CAR (2003).

21. **Revenues from external tariffs have provided a significant source of fiscal revenues—although declining in relative terms** (Table 6). From 2000 to 2005, import duty receipts have remained stagnant in nominal terms, declining in proportion to total fiscal revenues and GDP. Tariff revenue amounted to 1.5 percent of GDP in 2004, and 1.3 percent in 2005, while declining from 9 percent of total revenues to 7 percent, as higher oil prices have boosted GDP and fiscal receipts. Actual tariff revenues have remained well below the

Table 5. Simple Average MFN Tariffs, 2005  
(in percent)

Africa	15.0
CEMAC	20.4
COMESA	14.7
ECOWAS	14.2
WAEMU	14.5
SADC	11.9
Other developing countries in:	
Asia pacific	10.5
Europe	7.4
Middle East and Central Asia	11.2
Western Hemisphere	11.5
Industrial Countries	6.2

Source: IMF Staff calculations.

<sup>12</sup> While the (2003 or 2004) import data relate to Cameroon, Gabon and the CAR, the export data include all six member countries, using older (1995) data for Equatorial Guinea, the Republic of Congo and Chad. After all, the existence of exports a decade ago still provides evidence of a potential for production. Exports were included only if they exceeded US\$ 1 million.

level that would result from combining the schedule-based rates to imports, reflecting the eroding effect on exemptions on the import tax base.<sup>13</sup>

Table 6. CEMAC: Tariff Receipts in percent of GDP<sup>1</sup>

	Actual, in percent of		Based on tariff schedule
	Revenue excl. grants	GDP	
Cameroon	10.1	1.4	2.2
Gabon	8.4	2.3	2.1
Central African Republic	16.9	1.1	1.8
Chad	25.7	1.3	...
Rep. of Congo	6.6	2.1	...
Equatorial Guinea	12.8	0.3	...
CEMAC	9.4	1.5	2.2

Source: WEO and staff estimates, and data provided by the authorities.

<sup>1</sup> Based on data for 2004, except for the CAR (2003 data).

22. **Nonetheless, there are strong arguments for tariff reduction.** Extensive empirical evidence supports the positive impact of trade liberalization on economic growth and, thereby, on poverty alleviation (Berg and Krueger, 2003). For the CEMAC countries, trade liberalization could, in particular, help boost the development of a more diversified non-oil export base, which is of vital importance for long-term growth and external sustainability, as oil-resources are expected to be largely depleted over the coming decade and a half. For the CEMAC, trade liberalization could result both from lower rates and from reducing the high degree of tariff dispersion (which would result in more uniform price incentives across products and curb tariff escalation). Accordingly, a move from the current tariff schedule to WAEMU rates—which are capped at 20 percent rather than 30 percent—could serve as a useful first step.

23. **Trade liberalization should be accompanied by measures to compensate for its impact on fiscal revenues, as needed.** Table 7 suggests that the revenue impact of adopting WAEMU tariff rates could be as large as 40 percent—reducing the calculated receipts (disregarding exemptions) from 2.2 percent of GDP to 1.3 percent. This simulation, however, does not incorporate any positive volume response of imports to the lower domestic prices of imported goods, and therefore overestimates the actual revenue effect.<sup>14</sup> Reducing the many tariff exemptions that have narrowed the current tariff base provides a first option for offsetting such losses. Further revenue measures should aim to strengthen income and indirect tax policies and administration. In principle, shifting from trade taxes to taxes on domestic consumption would help offset the revenue loss, while preserving the efficiency gains from the tariff cuts, as domestic producers would now face world market prices.

<sup>13</sup> The higher level of actual tariff receipts compared with the computed level for Gabon likely reflects misclassification in the fiscal data.

<sup>14</sup> However, a positive volume response is unlikely to be large enough to maintain the original revenue level, given that CEMAC tariff rates are already below levels considered revenue maximizing (IMF, 2005).

Table 7. CEMAC: Scenarios for Tariff Receipts in percent of GDP<sup>1</sup>

	Based on tariff schedule	WAEMU tariff rates	EPA	EPA and WAEMU tariff rates
Cameroon	2.2	1.3	1.2	0.6
Gabon	2.1	1.5	0.7	0.5
Central African Republic	1.8	0.9	1.0	0.5
Chad	...	...	...	...
Rep. of Congo	...	...	...	...
Equatorial Guinea	...	...	...	...
CEMAC	2.2	1.3	1.0	0.6

Source: WEO and staff estimates, and data provided by the authorities.

<sup>1</sup> Based on data for 2004, except for the CAR (2003 data).

## Economic Partnership Agreement

24. **Discussions with the EU on an EPA started in 2003 and an agreement could be enacted as of January 1, 2008.** São Tomé and Príncipe and the DRC have joined the CEMAC in the preparations of an EPA (which would not involve membership of the CEMAC as such). The first phase of the negotiations was completed in December 2005.<sup>15</sup> The second phase involves drafting the specific agreements, and is scheduled to be completed within one year. Specific issues at this stage concern product exemptions, rules of origin, and the pace of liberalization. On rules of origin, discussions have focused on a 50 percent local content requirement, in the context of wider talks of all ACP countries with the EU.<sup>16</sup>

25. **An EPA could be instrumental in addressing the serious institutional weaknesses of the CEMAC trade regime.** The proper functioning of an EPA would require the uniform application of trade rules by all CEMAC countries, in particular concerning rules of origin. More generally, an EPA could provide both the area-wide political momentum and the technical assistance needed for empowering the regional authorities, harmonizing the rules and procedures, and strengthening their implementation, and reforming the investment climate.

26. **The effect of an EPA on the manufacturing sector in the CEMAC will likely hinge on liberal rules of origin.** Available evidence refutes earlier notions that restrictive rules of origin could support industrialization by promoting the development of local supply chains that would provide inputs for domestic industries serving the European markets (so-called backward integration). Instead, a simple and low value added criterion is more likely

<sup>15</sup> The Schedule and principles for these discussions are presented in a joint 2004 document (*Feuille de route des négociations des Accords de Partenariat Economique Entre l'Afrique Centrale et l'Union Européenne*).

<sup>16</sup> As discussed above, the current local content requirement within the CEMAC is 40 percent. CEMAC representatives noted that this internal requirement would need to be harmonized with the one under an EPA.

to be beneficial, by attracting foreign investors into new export industries that would use third-country inputs—befitting from inexpensive local labor and tariff preferences.

**27. An overall evaluation of the costs and benefits of an EPA should also incorporate the likely incidence of trade diversion and revenue losses.**

- **An EPA would entail serious risks of large-scale trade diversion.** The relatively high CET would entail a clear incentive in case of selective trade liberalization for, only, trade creation, but also trade diversion. A second indicator for the risks of trade diversion is provided in Table 8, which shows the degree to which goods (at the six-digit classification level) currently imported from non-European sources are also, already, imported from the EU. It appears that this is the case for almost all such imports—while imports from non-European sources accounted for 47 percent of total imports, those concerning goods that were **not** imported from the EU amounted to only 1 percent of total imports.<sup>17</sup> This finding is suggestive of a large scope for CEMAC countries to turn to the EU for products that are now, at least in part, sourced from other, cheaper suppliers.

Table 8. CEMAC: Indications of the Scope for Trade Diversion<sup>1</sup>  
(in percent of total imports)

	imports from non-EU countries	
	Total	not "overlapping" with imports from EU
CEMAC	47	1
Cameroon	53	3
Gabon	32	1
CAR	58	12

Source: data provided by the authorities and IMF staff calculations.

<sup>1</sup> Based on total imports by Cameroon (2004), Gabon (2004) and the CAR (2003) and exports by Cameroon (2004), Gabon (2004) and the CAR (2003), Chad (1995), Equatorial Guinea (1995), and Republic of Congo (1995).

- **The eventual revenue impact of an EPA would be substantial, as more than 50 percent of CEMAC imports originate in the EU.** An EPA would involve an implementation period that may well extend to 2020, at the end of which EU goods could enter the CEMAC free of import tariffs or quota—albeit with exemptions for a limited range of products. As a benchmark, the EPA column in Table 7 provides a tentative approximation of the possible revenue impact in case of full import liberalization for imports from the EU. The lower revenue levels in comparison with those in the first column indicate that revenue could decline by more than half, which reflects the current tariff revenue relating to imports from the EU. The actual eventual

<sup>17</sup> The part of imports from non-EU countries concerning goods not also imported from EU sources is smaller for the CEMAC as a whole than for individual countries because the calculation for the CEMAC as a whole considers EU exports to any CEMAC country.

tariff loss may be overestimated in this simple exercise by ignoring product exemptions, or underestimated by ignoring the further tariff loss that would result with trade diversion. A noteworthy result is also that the tariff loss would be largest by far for Gabon, reflecting the high EU share in its imports, which amounts to about [65] percent of the total. This is well above the average for the CEMAC as a whole, at 53 percent.

28. **The risks of trade diversion calls for parallel tariff cuts on an MFN basis—to be accompanied by a timely further strengthening of domestic revenue mobilization.** The revenue loss would be compounded in case an EPA were combined with tariff reductions on an MFN basis, thereby limiting trade diversion. A scenario for the tariff loss in case with parallel tariff cuts to the WAEMU tariff rates is shown in the final column of Table 7, which suggests that revenues from import tariffs could drop by about three-quarters.

### **The Doha Round**

29. **A successful conclusion of the Doha Round would affect the CEMAC member countries in several ways.** Several studies found that that under a possible Doha round scenario, increased market access for—agricultural and nonagricultural—merchandise exports to industrial countries alone would not bring substantial benefits to many countries in Africa.<sup>18</sup> This is, in part, because existing preferences for Africa (such as those under the Everything But Arms Initiative in the European Union (EU)) would be eroded (see Box 3). This argument, however, has little immediate relevance for the CEMAC, as its members have, so far, largely failed to take advantage of the existing preferences for developing a significant non-oil export sector. In addition, rising world agricultural prices would lead to worsening terms of trade for Africa's net food importers—including the CEMAC. However, over time, higher world prices may turn some net food importers in Africa into net exporters.

30. **A beneficial result from the Doha round for the CEMAC countries may crucially depend on the extent to which these countries themselves would also liberalize their own imports.**<sup>19</sup> Anderson, Martin, and Mensbrugghe (2005) find that Sub-Saharan Africa would gain provided that the countries engage fully in the Doha reform process. This result mirrors the earlier discussion of the gains from trade liberalization, with relatively high initial tariff levels. This would imply reconsidering the opportunity for developing countries to liberalize less than middle and high income countries. These results are largely confirmed by a simulation of the poverty impact of the Doha Round for Cameroon (Emeni, Cockburg, and Decaluwe, 2005), which finds a small adverse welfare impact of a Doha Round scenario. However, positive results emerge in case of full liberalization by Cameroon, although the

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<sup>18</sup> See Anderson, Martin, and Mensbrugghe (2005) and Bouet, Bureau, Decreux, and Jean (2005).

<sup>19</sup> The study finds that for Sub-Saharan Africa (excluding Southern Africa), the net effect could be a net decline in real income by 0.1 percent. However, the net result would switch to a 0.3 percentage point improvement in case developing countries undertook the same reductions in bound (but not necessarily applied) tariffs as the high income countries.

size of these gains crucially depend on a possible reduction in Cameroon's export prices, with increased export volumes of cash crops, wood processing, and forestry.

**Box 3. The Doha Round and Africa's Preference Erosion<sup>1</sup>**

African countries have emphasized the potential losses from preference erosion. The estimated impact of preference erosion is, however, often overstated, because of the failure to take account of the underutilization of preferences and export increases in sectors not affected by preference erosion. Moreover, preference erosion usually represents a permanent shock occurring over a long period of time which can be anticipated.

Yang (2005) notes that what is overlooked is that, over the past two and a half decades, African countries have become increasingly dependent on other developing countries for trade, despite ever-expanding trade preferences they have received in industrial countries. Further, if recent trends continue, it is likely that by the time any Doha round liberalization is implemented (say, 2015), developing countries may account for an even larger share of Africa's exports. Liberalization in developing countries will lead to little preference erosion because no major preferences for Africa are in place in these countries. Moreover, trade barriers against African exports (especially those against manufactures) remain significantly higher in developing countries than in industrial countries, and, hence, the potential market access gains are larger.

<sup>1</sup> Based on Box 2.4 *Regional Economic Outlook: Sub-Saharan Africa* (September 2005), and Yang (2005).

**E. Concluding Remarks and Policy Recommendations**

31. **The manifold weaknesses in the implementation by the member countries of the agreed customs union regime highlight a need for a renewed political commitment to regional integration.** While recent political declarations on strengthening integration policies are welcome, policy measures at the national level have progressed only slowly. The incipient momentum in 2003 for coordinated action appears to have lost steam.

32. **Progress also requires effective central oversight.** The CEMAC secretariat, which is responsible for overseeing compliance with the agreed trade regime, lacks the means and the authority for carrying out this role in an effective manner. In this context, recent proposals for converting the secretariat into a commission, with adequate means and authority, should be an important step. A first requirement for an effective central organization concerns data collection—both on trade flows and on country-specific regulations and practices.

33. **Key measures for improving compliance with the requirements for a customs union should be adopted without delay, at both the regional and—most importantly—the national level.** The deficiencies of existing regulations and of implementation by member countries have already been identified in the context of the 2003 roadmap for reform. Key actions include limiting tariff exemptions, phasing out remaining surcharges,

strengthening (and, maybe, simplifying) the determination of products' origin, and enhancing customs administration more generally, including through ASYCUDA. A further key requirement is the need to improve transportation infrastructure and organization.

34. **The ongoing preparations for an EPA should be buttressed by comprehensive analyses of its likely effects.** An EPA would reduce fiscal revenues from international trade—possibly by about half—and even more in the case of Gabon. It would also entail serious risks for trade diversion, given the wide range of goods imported from the EU at present. Preparations for an EPA should also include poverty and social impact analyses, taking into account the differential impact on import and export prices of goods produced and consumed by urban and rural households. The main benefits from an EPA may well be those that stem from the opportunities for improving the consistent application of trade regulations and possible EU assistance in upgrading and marketing CEMAC exports.

35. **There is a strong case for tariff reduction, with or without an EPA.** CEMAC tariffs are relatively high, especially the top rate of 30 percent rate for consumer goods. Trade liberalization would help boost economic growth and poverty alleviation and limits risks of trade diversion with an EPA. The returns to trade liberalization will be larger if they take place in tandem with other structural reforms (e.g., labor market reform) to enhance market functioning.

36. **Finally, tariff reform should be complemented by improvements in domestic revenue mobilization.** Both the introduction of an EPA and tariff reductions on an MFN basis would likely result in a significant loss of fiscal revenues that could amount to 1 percent of GDP or even more. Moreover, the gradual loss of fiscal revenues during the implementation period of an EPA would broadly coincide with the loss of oil-based revenues, as most oil resources are expected to be depleted over the coming decade, or so. The introduction of VAT systems in the 1990s has provided a helpful foundation for shifting from trade-based to domestic taxation. The Fund's Fiscal Affairs Department can provide technical assistance to member countries to help strengthen tax polices and tax administration.

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