

Impact of the Economic Partnership Agreement (EPA) on Local Wages in Cameroon



Dr. Tii Nchofoung
Research Fellow, CEPI

&

Henri Kouam
Founder & Executive Director, CEPI

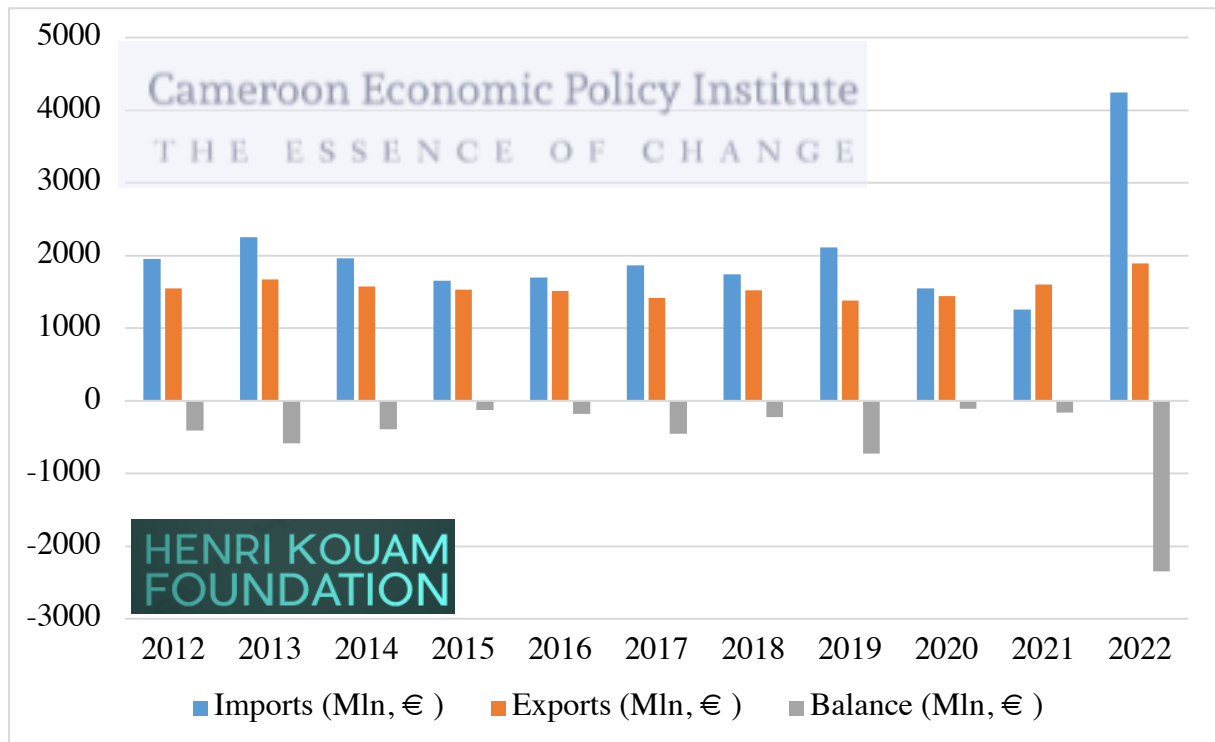
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Introduction

The European Union (EU) is an important trading partner for Cameroon and they both concluded negotiations on an [interim Economic Partnership Agreement](#) in December 2007, approved by the European Parliament in June 2013 and ratified by Cameroon in July 2014. The EPA allows duty and quota-free trade, gradually removing duties and quotas over [15 years on 80% of EU exports to Cameroon over a 15-year period](#). Although free trade with the EU promotes economic growth and sustainable economic development, locals fear that competitive European products could disrupt local products and negatively impact wages in sensitive sector such as agro-processing.

As a result, this policy brief outlines the impact of the EU-Cameroon trade agreement on local wages. This policy brief is divided into four parts, analyzing the EPA in section i, wage determinants in section ii, implications of the EPA on informal and formal sector wages in section iv and v, followed by policy recommendations.

Figure 1: Cameroon – EU Trade Statistics (Million, €)



Source: European Commission (2024), Authors

i. Overview of the Economic Partnerships Agreement (EPA)

The EPA covers the trade regime for goods and issues such as custom duties and non-tariff measures, trade facilitation, technical barriers to trade and forestry governance in timber and forest products. The agreement expects to reduce tariffs for EU products destined for Cameroon by [80% in 2021 and 100% in 2023](#). Furthermore, the agreement provides avenues for the EU to support Cameroon's fiscal adjustment to reduce reliance on import duties as it phases out tariffs by 80% (Kouam & Sundjo, 2022).

Over the last decade, Cameroon imports from the EU averaged €2 billion and exports averaged €1.5 billion, with a persistent deficit that averaged €520 million ([European Commission, 2023](#)). Looking at total trade between the EU and Cameroon, we find that two-way trade is dominated by agricultural products (21.1% of total trade), fishery (0.7%) and industrial products (78%) ([European Commission, 2023](#)).

Although trade with the EU has positively impacted the Cameroonian economy and standards of living, it is less certain how the EPA will impact local wage formation. Additionally, the informal sector employs 86% of workers, while the private and public sector employ 5.1% and 8.2% of workers respectively ([INS, 2022](#)). The impact of the EPA on Cameroon's fragmented labor market remains uncertain and the upcoming paragraphs seek to change that.

ii. How are Wages Determined in Cameroon's Formal and Informal sector?

In Cameroon, wages in the formal sector are typically structured and regulated by several legal frameworks, including collective bargaining agreements, government policies (as within the labor code and minimum wage rate within the economy), and industry standards. Factors such as the industry type, job position, level of experience, education, skills and social network play a significant role in determining salary levels ([Yogo, 2011](#)). Larger companies in urban areas tend to offer higher wages compared to smaller enterprises in rural regions. Negotiations between employers and employees, as well as adherence to labor laws and regulations, also play a crucial role in determining wages in the formal sector. The case in the Cameroonian public sector differs from the practice within the private sector. Wages in the public sector are determined on the category, the index and the corps of activity of the worker.

On the other hand, in the informal sector, earnings are more variable and sensitive to market factors. Workers in the informal sector often face obstacles such as a lack of job security, limited

access to social benefits, and inferior bargaining strength. The supply and demand for certain skills, one-on-one wage talks between employees and employers, and general economic conditions all have an impact on wages in that sector ([Ondoa, 2019](#)). In general, the informal sector in Cameroon offers flexibility but frequently lacks stability and social protections for workers, whereas the formal sector offers more structured wage structures with the possibility of benefits and job security.

iii. Impact of the EPA on Informal Sector Wages

There have been a number of effects on Cameroonian informal earnings from the EU-Cameroon EPA. The EPA can lead to the reduction of the size of the informal sector, given the agreement might encourage some informal traders to formalize their business in order to benefit from the advantages offered by the agreement. These include advantages such as easy access to European markets and tariff reduction on imports from the EU. With the reduction of informal trade, informal workers may experience decrease in income-generating opportunities, or seek alternative sources of income within the informal sector ([Tchoffo et Ngouhouo, 2020](#)). These can result to lower wages, as the workers compete for a limited number of jobs.

Furthermore, the EPA may have an indirect impact on informal wages through its influence on the economy as a whole. The agreement may cause changes in market dynamics and trade patterns, which may have an impact on variables like inflation, exchange rates, and overall economic growth. These macroeconomic variables may therefore have an impact on enterprises' and consumers' purchasing power, which could have an effect on Cameroonian informal wages.

iv. Impact of the EPA on Formal Sector Wages (public + Private)

In the private sector, the EPA can lead to increased competition from European companies, as reduced tariffs make it easier for European products to enter the Cameroonian market. This competition can affect local industries and businesses, potentially leading to challenges such as pressure to reduce costs, improve efficiency, and enhance competitiveness. In some cases, this could result in wage stagnation or even wage cuts in the private sector as companies adjust to the changing market dynamics brought about by the EPA. On the contrary, the EPA facilitates market access, supports both foreign direct investments and domestic investments, which consequently would enhance economic growth, leading to subsequent increase in the wage of workers by enterprises ([Ngouhouo et Nchofoung, 2021](#) ; [Kouam, 2021](#)).

Besides, the installation of EU companies within the economy because of the agreement, comes with the demand of skilled labor in the different industries, imposing a rise in the wages of skilled workers.

On the other hand, in the public sector, the impact of the EPA on formal wages may be more indirect. Changes in trade patterns and market dynamics resulting from the agreement can influence overall economic growth and government revenue. This, in turn, can affect the government's ability to finance public sector salaries and benefits.

The actual effect depends on whether the gain in custom revenue and taxes by the State resulting from burst of imports from the EU due to a reduction in custom revenue exceed the initial gains when there is no preferential treatment in place. Increase government revenue would lead to possible increase in the public wages by the State and vice versa. In the case where the loss in custom revenue cannot be compensated from other sources resulting from the agreement, the government may face budget constraints and may need to implement austerity measures, which could impact formal wages in the public sector through measures such as wage freezes, reductions in benefits, or even layoffs.

v. Recommendations

For the EPA to be beneficial for Cameroon, all the parties involved and affected should be able to reap the benefits. The following recommendations can be considered by the Cameroonian authorities. There is need for transparency in the implementation of the agreement, which helps to build trust among economic operators and the State. Also, there is a need to organize training seminars, especially within the exporters and importers union to understand the EPA and how they can benefit from it.

Besides, labor standards should be reviewed and ensure that they meet the International standards, ensuring the protection of workers rights. This can easily be achieved if policies, geared towards reducing the informal sector are multiplied within the context of the EPA. Also, the State and the economic operators should invest more in research and development to innovate products and processes, which can increase their productivity and competitiveness that can translate into higher wages.

Conclusion

The Economic Partnership Agreement (EPA) will increase demand for skilled labor, putting upward pressure on wages. Even as private sector wages are centrally bargained by social partners and employers, the EPA can impact inflation, exchange rates, and overall economic growth – influencing wage developments positively. For wages to positively benefit from the EPA, greater transparency is warranted, training and capacity building for local producers and a review of labor laws to enable local producers pre-empt changes to labor market dynamics.

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