

Documento de Trabajo

Working Paper

**Pulling Back from the Brink? Evaluations, Options,
and Alternatives to the EPAs**

Andrew Mold

17/7/2007

Working Paper 33/2007

Pulling Back from the Brink? Evaluations, Options, and Alternatives to the EPAs

Andrew Mold¹

Summary

With respect to the negotiations for the Economic Partnership Agreements (EPAs) –the proposed replacement of the existing Cotonou agreement for 77 African, Caribbean and Pacific countries (ACP)– the European Commission could perhaps rightly be accused of digging itself into a hole.

Contents

1. Introduction
2. What is Motivating the EU?
3. Did the Non-Reciprocal Preferential Access Schemes Really Fail?
4. The Point of Departure for the African Economies
5. Results from Empirical Studies: A Rare Universal Consensus?
6. Is South-South Integration Preferable?
7. Fighting Rhetoric with Rhetoric?
8. An Alternative Way Forward?
9. Bibliographical References

1. Introduction

With respect to the negotiations for the Economic Partnership Agreements (EPAs) –the proposed replacement of the existing Cotonou agreement for 77 African, Caribbean and Pacific countries (ACP)– the European Commission could perhaps rightly be accused of digging itself into a hole. Ever since they were announced in April 2002 by the EU Trade Commissioner Pascal Lamy (now chief of the WTO), the European Commission has been on the defensive, trying to defend the policy not only from criticisms of both southern and northern NGOs, respected economists and the ACP countries themselves but also, pointedly, from several EU member states themselves (notably, the UK government and the French senate).² The following comments reflect the spirit of some of the criticisms:

‘At no point in time was an EPA as a free trade agreement the first choice for the ACP. It was not. But we had no alternative...’ (Sutiawan Gunessee, Ambassador of Mauritius in Brussels).

‘If 30 years of non reciprocal free market access into the EU did not improve the economic situation of ACP, how can a reciprocal trading arrangement achieve anything better? [...] There are fears that the liberalization of trade and investment by the gradual removal of

¹ Parts of this text are drawn from the forthcoming book *EU Development Policy in a Changing World: Challenges for the 21st Century*, published by Amsterdam University Press in April 2007. The author would like to thank Ambassador Peter Roble of the African Trade Policy Centre, UNECA, Addis Ababa, for helpful suggestions and for providing a number of texts and articles. Thanks also to Remi Lang and Romain Perez. Any errors in the text are of course the responsibility of the author. The views expressed herein are those of the author and do not necessarily reflect the views of the United Nations.

² Particularly noteworthy is the informal coalition of NGOs, including 11.11.11, Actionaid, Bread for the World, Church Development Service, Oxfam International and Enda, who have recently jointly called for the European Commission to stop pressuring African countries to agree to new trade relationships by the end of the year, and warn that the current proposals would have very damaging implications for development. See the press release available at <http://www.oxfam.org.uk>, 14/II/2007.

trade barriers between the two economic blocs would further widen the gap between the two and probably destroy the little development that some ACP countries have managed to achieve over the past years' (Aliyu Modibo Umar, Minister of Commerce, Nigeria) (cited in South Centre, 2006, p. 5).

Outside the inner circle of the Commission, few analysts seem to have much confidence that the deal on the table at present is worth the taking. Most commentators seem rather perplexed that the EU should be so adamant in pursuing such a policy. Even the former UN General Secretary Kofi Annan argued in his address to the ACP heads of state that the EPA's 'threaten to further hinder [their] ability to achieve the Millennium Development Goals' (cited by Oxfam, 2006, p. 15). Given the depth of the criticism and the likely outcome of no ACP countries signing up to a deal with the EU before the 1 January 2008 deadline, the whole process has become a potential source of great embarrassment for the Commission.

At face value, it is certainly difficult to see exactly what the EPAs offer to the ACP countries. Least-developed ACP countries already qualify for preferential access under the EU's Everything But Arms (EBA) initiative. These least developed countries would be granting tariff-free access to the EU in return for preferences to which they are already entitled.³ Developing ACP countries, however, are not entitled to the same preferences and are, to the extent that they compete in the same products, at a disadvantage relative to least-developed countries. For such countries, preferential access to the EU plus any net benefit from regional integration would have to be weighed against the cost of giving the EU preferential access to their own regional market (McKay, Morrissey & Milner, 2007).

Given this situation, the arguments mustered by Commission officials in favour of the EPAs hinge crucially on the 'dynamic' long-term effects of increased competition, economies of scale, institution-building and a general improvement of the economic policy environment. As we shall argue later, such 'secondary effects' are difficult, if not impossible, to predict, and in fact there is no guarantee that they will act in the way that Commission officials argue –indeed, such dynamic effects might actually turn out to have a negative impact on development prospects for the ACP countries as a group–.

Indeed, there are many legitimate reasons for believing that at the present time (and for the foreseeable future –ie, within the next 10-15 years–), the ACP countries as a group, and SSA countries especially, are in no condition to liberalise substantially all of their trade with the EU. It is also important to bear in mind that Africa accounts for only 1.4% of the EU's total merchandise exports and 1.7% of its merchandise imports and this means that little is at stake for the EU – whether the EPAs are successful or not, for the EU the impact of the EPAs is likely to be quite limited and any adjustments relatively easy–. Not so for African countries, as we shall document, who are still heavily dependent on European markets for their export earnings and imports. In short, for the African ACP countries, a lot is at stake in the EPA negotiations.

This paper attempts to explain the circumstances surrounding this potential debacle and also suggests some 'escape routes' for the Commission –ways of modifying its stance so that new proposals for the Cotonou agreement would be acceptable to all parties–. We will not go into a deep analysis of the different scenarios and modalities of the current agreements, because we feel that this has been done admirably elsewhere.⁴ But we will try to lay out the bare bones of the arguments on one side and the other, and make a critical assessment. Section 2 of the paper tries to explain the

³ In principle, of course, the conditions of access may be less restrictive and more assured under an EPA than under Cotonou or the EBA, which could be unilaterally revoked by the EU. But it is perhaps questionable whether this advantage, in itself, is sufficient to tilt the balance in favour of signing up to the EPAs.

⁴ See in particular the excellent study by Bilal & Rampa (2006). For a databank of existing studies and articles on the EPAs see <http://www.acp-eu-trade.org>.

motives behind this ambitious policy initiative, and argues that, beyond frustrations with the lack of tangible results from previous non-reciprocal market access and concerns over the lapsing of the WTO-waiver for the Cotonou Agreement, the primary motive is to defend the EU's strategic interests in its former colonies. Section 3 explains that the shift towards bilateral free trade agreements stems from a wrong diagnosis of the problem: the apparent failure of non-reciprocal market access is at least in part caused by measures taken by the EU itself to limit the benefits available. Despite their shortcomings, it is argued that these schemes of non-reciprocal market access were (and are) improvable (a theme we take up again in the conclusions).

Section 4 describes the major challenges confronting African economies, and suggests that the kind of accelerated trade liberalisation implied by the EPAs runs the risk of further deindustrialisation and loss of competitiveness, with all the implications that this supposes for development in the long run. Section 5 provides a brief overview of some of the empirical studies available, stressing the extent to which there is a consensus on a negative impact, at least over the short-to-medium term. Section 6 suggests that African countries would be better focusing first on deepening regional integration amongst themselves, rather than making it contingent on any agreements signed with the EU. Section 7 discusses some of the strategic and negotiating issues which need to be borne in mind by African countries. Finally, in Section 8, it is argued that the European Commission would be well advised to consider placing some alternatives on the table for the ACP countries –there is no groundswell of opinion in favour of the EPAs among ACP members, and indeed recently, as the deadlines approach, there has been a detectable rise in hostility towards the proposals–.⁵ One of the alternatives would be to ‘fine-tune’ the current Generalised System of Preferences (GSP) –the ‘umbrella’ set of preferences on offer to most developing countries– so that it becomes more inclusive and less open to litigation within the WTO. It is argued that this would serve the ACP countries as a group of countries better than any EPA deal (although again this would be contingent on the small print of the deal).

2. What is Motivating the EU?

It is perhaps a good starting point to reflect on the motivations of the EU for initiating the EPA process. Undoubtedly, to some extent, the EPA initiative reflects the frustration that the EU feels regarding the modest results from their preferential market access schemes. Despite having received privileged market access for more than three decades, the relative trading position of the ACP countries has deteriorated. It is often taken as a fairly damning indictment of EU trading preferences that the share of the SSA EPA countries' exports in the EU market has fallen steadily from 3% in 1985 to 0.9% in 2003, a reflection of competitiveness problems and supply constraints as well as declining real prices of some primary commodities and restrictive rules of origin (Hinkle and Newfarmer, 2006). There are, of course, explanations for this: most poor developing countries have been locked into patterns of exports based on primary exports whose share in world trade has been suffering a secular decline. Clearly, however, the Lomé and Cotonou concessions for the ACP countries have not been capable of offsetting this structural handicap, whereas other regions of the developing world (notably East Asia) have dramatically increased their share in the EU market by a rapid diversification towards manufactured exports.

The EPAs may also be a sign of the relative inability of the Commission to offer any alternative solutions to the development dilemmas of SSA: having entered into so many commitments (eg, the Eastern Enlargement, the Single Currency, the reform of the Common Agricultural Policy, etc), the Commission finds itself increasingly overstretched financially and without the necessary resources to commit itself to further actions. The *soft option* in such circumstances is to offer free-trade

⁵ See, for instance, the recent declaration of several NGOs against what is perceived of as the ‘pressure’ being exerted by the European Commission on the ACP states in the EPA negotiations, http://www.oxfamsol.be/fr/article.php3?id_article=918.

agreements, because the budgetary implications of tariff liberalisation only make themselves felt ex-post, not ex-ante. Despite the recent announcement in October 2006 of an extra US\$2.5 billion in aid to help the signatories adjust to trade liberalisation, reservations have been expressed about whether the EU is likely to make any additional resources available to the signatories of the EPAs (though aid may be reassigned from other objectives). As the *Financial Times* noted at the time, 'doubts remain about the EU's half of the bargain. Though Brussels talks a good game, its scorecard is unimpressive'.⁶ One illustration of this is the fact that only 28% of the aid in the European Development Fund's budget since 2000 has actually been dispensed yet.

It has been argued that that the aim of restructuring trade relations with the ACP through the EPAs is to make them more effective in promoting EU-SSA trade, more supportive of broader development goals and more compatible with World Trade Organization (WTO) rules. Yet the EPAs form an integral part of the EU policy on free trade areas. The EU's objective was clearly articulated in the European Commission's 1995 staff paper⁷ as being to enhance the competitiveness of EU exports in the context of intensifying competition with its major industrial competitors:

'FTAs are economically beneficial, especially where they help the EU to bolster its presence in the faster growing economies of the world, which is our overriding interest... More recently, this direct economic justification has also been supplemented by strategic considerations regarding the need to reinforce our presence in particular markets and to attenuate the potential threat of others establishing privileged relations with countries which are economically important to the EU... the level of tariffs in many of our partner countries particularly newly industrialized and developing countries remain high. Tariff averages of 30-40% are not uncommon... It, therefore, can seem obviously in our interest to persuade such countries to enter into FTA with the Union, enabling us to encourage both tariff elimination and deregulation'.

Declarations such as these are difficult to square with the necessity of the EU 'to put aside its narrow commercial interests' if the developmental goals of the EPAs are to be achieved. According to Holdar (2000, p. 73),

'The historical development of EC aid programs and the geography of EC member states' aid shows that the EU lacks a consistent strategy to guide its and the EU-15's relations with aid-recipient countries. The EU still acts primarily as a customs union in its relations with Third World countries (trade and aid issues are closely linked), and it is a mix of the national interests of member states that guides the distribution of EU aid, a mix related to changes in the relative power of member states within the Community'.

In its dealings with developing countries, the European Commission has tended to increasingly treat trade agreements as the principal catalyst of change in forcing countries to liberalise their economies. But it might not necessarily have been the best way of inducing developing countries to accept the need for reform. And there is certainly a whiff of mercantilism in the form of some of the more recent agreements with developing countries (eg, the EU-Mexican agreement) (Freres, 2007). Moreover, some European countries still tend to view very badly any incursions into a continent seen as *their* sphere of interest –witness the distrust and suspicion with which the growing Chinese presence is taken–.⁸ It is against this backdrop that one must understand the persistence of the

⁶ Alan Beattie & Andrew Bounds, 'EU Struggles to Improve Reputation of "Aid-for-Trade"', *Financial Times*, 20/X/2006.

⁷ Commission of the European Communities, 'Free Trade Areas: An Appraisal', 1995, p.6.

⁸ Likewise, the US's AGOA, which offers duty-free access to the US market on an (admittedly limited number) of products is frequently met with criticism from Commission officials that it represents a far less generous deal than the EU's own EBA, despite the fact that there has been a considerable increase in textile trade under AGOA –something

European Commission in pursuing the Economic Partnership Agreements with the ACP countries.

Does the EU's ultimate objective really consist in little else than firmly anchoring the economic fates of the ACP countries to that of the EU itself? Is this the demonstrable evidence of a *neo-colonialist tic* on the part of the EU? As has been argued by Schiff and Winters (2003, p. 201), the EU's interest in enforcing good economic policy in the ACP countries, let alone 'good' political practice, is very doubtful: the ACP countries are too small and distant to affect any EU interest materially, and the various EU members frequently have different views on any particular case. Moreover, as Schiff and Winters note, 'disciplining former colonies for pursuing economic or political policies that are not approved in European capitals looks like international public relations nightmare'.

For their part, EU officials claim that, with the ending of the WTO waiver, the EU had no alternative but to propose a move towards a reciprocal agreement. Yet critics point out that the ACP-Lomé-Cotonou agreements are long-standing ones, and have never suffered a challenge through the WTO. True, the EU has had to defend other elements of its trade policy from challenges via the WTO dispute mechanism. One example is its banana scheme. The other was the (politically-motivated) extension of the GSP+ to Pakistan.⁹ And there are certainly tensions among developing countries between those that receive special preferences, such as Mauritius (sugar) and Jamaica (bananas and sugar) and those that feel excluded by them, such as Brazil, Thailand, Peru and Costa Rica.

But the idea that the WTO is suddenly going to get tough on all regional arrangements or preferential schemes is not really credible –too many major players like the US, Japan, Canada and many other minor ones have a stake in regional and preferential trade deals for the WTO to adhere to a rigorous interpretation of MFN rules, or indeed Article 24 on regional agreements–. In fact, such is the complexity of its trading arrangements that the EU has only nine partners with which it trades on the increasingly misnamed 'most favoured nation' status supposed to be enjoyed equally by all WTO members.¹⁰ At a time when there is need for consensus and greater building on common ground if multilateral negotiations are to break the deadlock, it is highly unlikely that the WTO is going to be used as a forum to tackle these issues head-on.

3. Did the Non-Reciprocal Preferential Access Schemes Really Fail?

African countries tend to decry any attempt to cut back on preferential access. Many are also extremely worried about the erosion of preferences due to the generalised lowering of tariffs through multilateral and unilateral liberalisation. But if the performance of preferential agreements has apparently been so poor, why are African countries reluctant to loose their preferential access? It is a commonplace observation that Africa's aggregate export performance has been poor over the last two or three decades, with relatively slow export growth in its major commodities, and an even slower rate of progress on export diversification out of primary commodities. Since the establishment of the Lomé Agreement in 1975, for instance, the ACP countries' share of EU imports has fallen from 7.7% to 2.7% in 2000.

Underlying the whole rationale of the EU for the EPAs is the argument that the previous policies of non-reciprocal access failed. But this argument could be interpreted as being self-serving, and implicitly blames the developing countries themselves for their predicament –it does not reflect on

that has not been forthcoming under 30 years of Cotonou–.

⁹ This occurred at the time of the war in Afghanistan when the US Administration was negotiating to enlist the support of the Pakistani government for its 'war on terrorism'. The EU was pressured to do something in support of this objective and so extended its GSP-drugs (GSP+) scheme to Pakistan, despite the fact that this scheme had really only been intended for Latin American countries suffering from serious problems related to drug-trafficking and production.

¹⁰ Alan Beattie & Frances Williams, 'Who's for the WTO?', *Financial Times*, www.ft.com, 4/IV/2005.

the responsibility of the EU itself for this outcome—. As argued in Mold (2004 and 2005), there is a whole range of reasons as to why non-reciprocal market access may have failed to elicit the desired supply response; many of them are tied up with the actual design of the schemes, rather than on weak supply-side capacities of developing countries themselves (though this undoubtedly played an important role). Two particularly serious problems are the complexity of existing agreements and their discretionary nature.¹¹ The EU, for instance, currently has three major overlapping preferential schemes on offer which impact on African exports –the ACP, the EBA and the standard GSP (which has recently been supplemented by the GSP+, involving a whole new set of conditionalities on developing countries wishing to benefit from the preferential access)–.

Critics of these schemes are certainly right that preferences have not been as useful as their proponents have suggested. The bulk of African exports are still commodities, and as such are zero-MFN rated anyway (clearly, in the interests of maintaining competitiveness, it is logical for the industrialised countries to allow primary inputs into their countries duty-free). Critics are also right to stress that the subsequent loss of preferences can be extraordinarily damaging, especially on products benefiting from special import-quotas (sugar, bananas and textiles). The IMF (2004) has recently identified a group of countries where the estimated losses through preference erosion will exceed 2% of export unit values. Among sub-Saharan African countries, the most notable cases are Mauritius (-11.5%), Malawi (-6.6%) and Mauritania (-4.8%). Other countries negatively affected include the Seychelles, Swaziland, Cape Verde, São Tomé and Príncipe, Tanzania, Ivory Coast d'Ivoire and Comoros.

Critics frequently point to another negative characteristic of these schemes: their low rates of utilisation, ie, a large share of imports which should technically qualify for duty-free or preferential access do not actually do so (UNCTAD, 2004). However, new evidence is coming to light that the use of preferences has actually been rather higher than previously thought –calculations in the past have tended not to bear in mind the fact that exports can qualify for different schemes simultaneously (OECD, 2004)–. This is particularly the case in sub-Saharan Africa, where exports can qualify for preferential access to the EU under no less than three competing schemes: the EBA, the GSP and the Cotonou Agreement. Most African countries find that the vast majority of their exports to the EU either come under MFN zero-rated tariffs or the Cotonou Agreement. Overall, in value terms around three-quarters of African exports are MFN zero-rated, and another 23% receive Cotonou preferences. In other words, around 98% of sub-Saharan exports are either zero-rated or come in under the Cotonou Agreement (Mold, 2005). The European Commission tends to cite figures like these to support the argument that preferences are well used. Figures such as these also explain why the EBA is having a very limited impact on the exports of African LDCs to the EU: the majority of their exports already had duty-free access.

If this is the case, why has there been so much controversy over preferences? Why have they apparently not been having the beneficial impact on African growth prospects and poverty reduction that their proponents expected of them? A number of points are probably relevant here. First, there is a growing body of evidence that trade has been overplayed as a factor in stimulating economic growth and poverty reduction –trade is not intrinsically beneficial, and some kinds of trade growth have little or no impact on poverty reduction (see, *inter alia*, UNCTAD, 2004; Mold & Rozo, 2006)–. Secondly, the relatively small percentage of sectors where preferences have not been granted tend to be precisely the ones of strategic interest to developing countries (particularly in agriculture). Like other preference-givers, then, the EU has managed to ‘fine-tune’ the structure

¹¹ In Mold (2004), I argue that African countries would do well to call for the homogenisation of the existing preference schemes offered by the Quad countries, with the objective of achieving the gradual phasing out of the current ‘patchwork quilt’ of preferences. Firm commitments, over long time-horizons, by the Quad countries would minimise the uncertainty that has so far undermined the potential impact of these agreements. In this sense, QUAD countries should endeavour to ‘take politics out of preferences’. Rules of origin should also be simplified by granting automatic cummulation within Africa –something that would give an incentive to regional integration within Africa–.

of its preferences so as not to open its own markets in areas where it does not have a competitive advantage. Finally, the cases where preferences have had a particularly strong impact have tended to be in markets where the preference has come in the form of a quota. Mauritius, for example, has benefited enormously from the concession of quotas, allowing its sugar exporters to tap into the EU's internal price, which can be as much as three times the world price. The resulting rents to Mauritius have amounted to a hefty 5.4% of GDP on average each year, and up to 13% in some years. Most of these rents accrued to producers, who subsequently invested heavily in export-processing zones, especially in the textile sector (Surbramian & Roy, 2003, p. 223).

However, the diversification story of Mauritius has been the exception rather than the rule. Why has this been so? Research shows a number of reasons why African countries have failed to progress much in the diversification of their export structure. A popular alleged reason is the complexity and strictness of rules of origin (Brenton & Manchin, 2003). Clearly, for poor developing countries with relatively undiversified economies, the inability to source inputs from the cheapest possible source severely constrains their capacity to move into more sophisticated lines of production. Preferential access is fine, then, for any products not made from processed or manufactured goods, but as soon as the goods are further elaborated, serious problems occur.¹²

A relatively overlooked reason for the relative ineffectiveness of preferences has been the way in which, in spite of the ostensibly developmental objectives of preferences, donor countries have been prepared to play politics with preference systems. In 2002, in the aftermath of the Afghan war, the US pressured the EU to extend its special GSP scheme for Latin American countries affected negatively by the narcotics trade to the US's ally, Pakistan. India objected to the concession of preferences to its neighbour, and subsequently won a WTO panel on the matter.¹³ Such blatant *realpolitik* on the part of preference-giving countries does little to dispel critics' perceptions of preferential market agreements as a (heavy-handed) tool of foreign policy rather than development.

An associated problem is the frequency with which the preference-granting countries revise the rules for preferential agreements –for the EU's GSP, this is every three years–. This means that the whole system is effectively put on a 'short leash', increasing uncertainty about the permanence of the benefits on offer. Entrepreneurs and policy-makers in developing countries are understandably reticent to channel resources towards sectors where the competitive advantage relies on factors that could prove ephemeral. This has been the case, for example, with the EU's introduction of the system of 'graduation', whereby countries are excluded from the benefits of the preference agreement when their exports in a particular sector reach a pre-determined level, or when the beneficiary country reaches a specified level of development. Similarly, the US GSP has elapsed on five occasions without being immediately renewed (OECD, 2004, p. 78).

It is hardly surprising, under such circumstances, that the supply-side response to preference schemes of most African countries has been disappointing. Neither foreign nor national investors are willing to risk the sunk costs of large-scale investments on the basis of ephemeral preferential market access. But that does not mean that they are not improvable, as we shall argue in the final section of this paper. Regrettably, EU trade policy towards developing countries seems to be heading in the direction of greater, not less, discretionality. The European Commission announced new rules, to be applied from January 2006, opening EU markets as a reward to developing countries that adopt 'progressive' environmental and labour policies. Developing nations that wish to qualify must implement a list of 27 'key international conventions on sustainable development and good governance' by 2008. Even if done with the best of intentions, arguably measures such as

¹² For LDCs, the EBA rules are in fact even more complicated than those under Cotonou which –unlike the EBA– allows for full cummulation within the ACP countries.

¹³ Another example: when in 1991 the US Trade Representative determined unilaterally that India's intellectual property protection was 'unreasonable', President George Bush senior suspended duty-free privileges under the GSP for US\$60 million in trade from India in April 1992.

these can only increase the uncertainty and discretionality which continues to undermine the long-term impact of preferential market access agreements.

4. The Point of Departure for the African Economies

The underlying diagnosis of the problem inherent to the EPAs is that African countries are not sufficiently integrated into the global economy. But is it really the case that African countries suffer from too little trade integration with the world economy? African countries are in fact surprisingly open to international trade. Measured by the standard index of ‘openness’ of African economies (ie, exports plus imports as a percentage of GDP), African countries typically display an openness ratio in the order of 50%-60%, comparable to the average of the EU countries, and about *three times higher* than that displayed by the world’s biggest importer, the US. This implies that, by the benchmark of the well-known Sachs-Warner index of openness, all African countries could now be considered as ‘open’.

Nor should the efforts that African countries have made over recent decades towards tariff reduction should not be gainsaid. Average tariffs have been cut by over 50% since the late 1970s, at a rate which is comparable to that in East Asia and the industrial economies. In several countries, average trade weighted tariffs have been reduced to 15% or less. And as a recent World Bank study notes ‘tariffs have been falling throughout much of the region over the past decade for capital goods, intermediate goods and total imports... Furthermore, tariff rates do not appear any higher in Africa than in the more successful exporters in East and South Asia’ (Clarke, 2005, p. 7). Also, core non-tariff barriers in the 12 SSA countries included in a recent study fell from 26% in 1989-94 to 10.4% in 1995-98. Yet, despite the progress that has been made in liberalisation, the benefit to African countries from these reforms remains limited (ECA, 2004, p. 14).

Together these stylised facts suggest that, contrary to conventional wisdom, the basic problem is not that Africa trades too *little*, or that the trade regime is excessively closed –rather that it is trading the wrong kind of products: primary commodities with low value added, low prices and a very low elasticity of demand on world markets–. The question of overcoming Africa’s economic marginalisation is therefore essentially *qualitative*, rather than *quantitative*. Seen from this perspective, the low (and decreasing) share of Africa in world trade is merely the outcome of a poor relative economic performance, and is reflected equally in other indicators such as Africa’s declining share of world GDP.¹⁴ The conclusion is that, at least from an African perspective, the EPAs stem from a wrong diagnosis of the problem, and raises the question of whether it is desirable for SSA countries to accelerate still further the pace of liberalisation to the extreme of entering into free trade agreements with the EU.

Indeed, the most significant outcome of trade liberalisation in SSA over the last 20 years, from the point of view of long-term developmental perspectives, has been that the process has been accompanied by a significant de-industrialisation of the continent relative to other developing regions. Per capita manufacturing value added estimates by UNIDO suggest that Africa is less industrialised today than it was at the beginning of the 1980s. Only Latin America has suffered a more acute de-industrialisation (and from a much higher initial level) (see Table 1).

¹⁴ For instance, with over 11% of the world’s population, sub-Saharan Africa has barely 1% of the world’s GDP (UNCTAD Statistical Yearbook, 2005). This pattern is repeated in areas like FDI, where Africa’s share of the total does not reach more than around 1% of total inflows. See Mold (2004).

Table 1. Per Capita MVA in Constant (1995) US\$

Country group	1981	1986	1991	1991	1995	2000	2005
Developed market economies	4153	4444	4942	4942	5086	5699	5949
Transition economies	655	721	723	723	450	540	814
Developing regions:							
Sub-Saharan Africa	32	32	31	31	28	29	30
North Africa	128	152	156	156	159	185	197
Latin America & Caribbean	807	701	669	669	687	731	769
South and East Asia	92	113	164	164	214	260	329
China	90	125	169	169	263	380	559
West Asia and Europe	416	472	485	485	514	590	706

Source: <http://www.unido.org/data/UNIDO/Stats/Staworld2.cfm?c=GHA>.

One particularly important point which needs to be born in mind here is that for all SSA countries (with the exception of South Africa), the size of the productivity gap in most manufacturing industries vis-à-vis their European competitors is enormous. If we take PPPs per capita as an approximation for relative productivity levels, currently the gap between the average EU-15 and the average SSA is in the order of 30 to 1. In the case of poorest countries like Ethiopia, that figure is in the region 50 to 1. Even for South Africa, the richest and most competitive country in SSA, the gap is in the order of 2.5 to 1. Although there will be much variation around the norm, it is clear that on average the competitive advantage of European companies is enormous. Against such a scenario, it seems difficult to imagine how the already much debilitated African industry will be able to survive under the scenario of a level-playing field of a free-trade agreement like the EPAs. It should be a source of major concern that the EPAs will only serve to consolidate these trends towards de-industrialisation in SSA.¹⁵

5. Results from Empirical Studies: A Rare Universal Consensus?

Given the difficulties of modelling economic systems, and the complexity of measuring economic interactions, rarely in economic analysis is there much consensus on the results of a particular policy change. But impact studies of the EPAs would seem to be one of the exceptions which prove the rule. Impact studies tend to show a small but generally negative overall impact from the EPAs, regardless of the methodology used. Consumers benefit through lower import prices, an inevitable result of lowering tariffs, but losses accrue through lower government revenue and lost domestic production. Net trade creation is considered to be positive, but, as explained in the footnote below, this may be a conceptually flawed conclusion.¹⁶

It is not our intention here to provide a thorough revision of all the studies so far carried out – simply to cite the results of a couple of indicative examples–. Using partial equilibrium analysis, Morrissey *et al.* (2007) provides a straightforward and clear analysis of the economic risks that the EPAs imply for the developing countries that sign them. The authors try to estimate the net costs

¹⁵ In private, this author has in fact heard an evidently well-meaning EU official acknowledge that the African ACP countries are in no condition to compete with the EU, and that the result of the EPAs would probably be the decimation of many domestic industries and a concomitant huge increase in imports (the capital account permitting, of course). But the same official suggested that this would be a good thing –it would break down ‘rent-seeking’ activities and oblige the state to renounce its control on economic activity. This turns the conventional wisdom on the merits of export-orientation and liberalisation on its head and suggests that through ‘export failure’ and a massive surge in imports an economy can be turned around. It does also reflect what is arguably a rather naïve and one-dimensional view of the political economy of African countries.

¹⁶ In an otherwise excellent overview, Bilal & Rampa (2006, Chapter 4) argue that the studies show unambiguously that trade creation is greater than trade diversion, denoting gains for the ACP countries. But the cited studies seem to be using a mistaken measure of trade creation –trade creation is not about absolute volumes of trade increasing (an almost inevitable consequence of lowering tariffs) but rather trade being substituted from a relatively efficient (ie, cheaper) producer towards a relatively inefficient one (ie, more expensive), simply due to the differential treatment in terms of tariffs–. This cannot be gauged by simply assuming that the EU is the most efficient producer across products. Indeed, this is on many occasions highly unlikely –for many product lines developing ACP countries would be better sourcing from regions like South and East Asia–. More detailed studies would thus be required to fully measure the extent of potential trade diversion.

and gains for Tanzania and Uganda from entering jointly with Kenya into an EPA with the EU. In line with other evidence from empirical trade policy analysis, the results suggest a net welfare loss of up to 0.5%. Increased imports from the EU are predicted for both Tanzania (a 78% increase) and Uganda (189%), but this is associated with large potential tariff revenue losses (roughly 70% in both cases) (see Table 2).¹⁷

Table 2. Summary of Trade, Revenue and Welfare Effects of an EPA for Tanzania and Uganda (% change relative to 1995 values)

	Tanzania	Uganda
a) <i>Consumption effects only</i>		
Imports from EU	11.1	10.3
Tariff revenue	-41.1	-16.4
Welfare (% base imports)	0.81	0.84
b) <i>Trade diversion and consumption effects</i>		
Imports from EU	65.5	122.3
Tariff revenue	-31.7	-44.2
Welfare (% base imports)	-2.7	-8.7
c) <i>Trade creation and consumption effects</i>		
Imports from EU	1.2	55.5
Tariff revenue	-0.04	-8.5
Welfare (% base imports)	-	3.2
d) <i>Overall effect</i>		
Value of imports	77.6	188.6
Tariff revenue	-73.2	-69.1
Net welfare effect (%1995 GDP)	-0.5	-0.3

Notes: Values are given as a percentage change relative to the base (1995) value of imports from the EU or tariff revenue, as indicated, and of GDP in the case of the net welfare effect. Individual values may not add up exactly to the overall totals due to rounding.
Source: Morrissey *et al.* (2007).

Although consumer and national welfare increases as a result of trade creation and consumption effects, the potentially large costs of trade diverted from efficient non-EU sources means that net welfare in both countries is likely to fall as a result of the static trade effects of an EU-EAC EPA. One would anticipate similar welfare effects relative to GDP in Kenya, although in the case of Kenya there are export losses to the other EAC members without any consumption gains as Kenya does not import large amounts from other EAC countries.

Results such as these raise the question as to why SSA countries should prefer to deepen further their trading links with the EU, whereas standard trade theory would suggest that there is a need to diversify and deepen trade intensities with other regions. As suggested by the Africa Commission (2005, p. 279):

‘Africa needs to move away from reliance on its old trade links with Europe, and expand its trade in other markets, particularly in the south... As Europe expands its membership to include poorer nations, this relationship will change anyhow. New markets are important, for example, in recent years trade between China and Africa has grown dramatically. In 2004 it reached over US\$20 billion, an increase of more than 50% from the previous year.’

Another key conclusion emerging from the Morrissey *et al.* study is that ACP countries may differ significantly in the sectors they consider sensitive. In the case of the EAC, for instance, only Kenya is likely to have sensitive products in mining and food manufacturing (where it exports to the others), only Tanzania appears to have concerns for local producers in beverages and tobacco, whilst only Uganda appears to have concerns in sugar and forestry products. Such differences in trading patterns makes it exceedingly difficult for countries, or even regional blocks, to negotiate on a concerted front with the EU –what is likely to be acceptable to one party is unlikely to be

¹⁷ In a simulation of the economic impact of an EPA for Rwanda, Perez *et al.* (2005) predict similar large revenue losses from lost tariff revenue.

acceptable for another—. The EU, on the other hand, has at its disposal countless studies of its industrial structure and where the comparative advantage of its industries lie, and is very aware of the interests it needs to protect and promote.

A more recent partial equilibrium analysis carried out by Karingi et al. (2005) into the impact of an EU-ECOWAS EPA predicts a significant fall in government revenue for ECOWAS countries due to lost tariff revenue on imports from the EU (see Table 3). To protect their fiscal positions and maintain macroeconomic stability, the SSA countries will need to reform their tax systems so that revenues from the VAT and non-discriminatory excise taxes levied at equal rates on imports and domestic products replace the forgone tariff revenues. Countries that face particularly large revenue losses may need to consider additional measures such as strengthening other components of their tax and revenue systems or reducing existing expenditures. However, it is important to recognise the important human resources and institutional constraints on collection of revenues by other means. The capacity of the ACP countries to train up the necessary staff and establish the appropriate institutions to collect far more ‘expensive’ forms of taxation than custom duties may be limited. One also has to consider the impact of alternative sources of taxation on the poor (Morrissey, Milner & McKay, 2007).

Table 3. Revenue Shortfall due to an EU-ECOWAS EPA

Country	Revenue Shortfall (US\$ million)
Nigeria	-427
Ghana	-194
Ivory Coast	-112
Senegal	-80
Benin	-35
Togo	-35
Mali	-33
Burkina Faso	-22
Niger	-20
Mauritania	-15
Guinea-Bissau	-7
Total	-985

Source: Karingi *et al.*, 2005, p. 56.

More ambitious Computable General Equilibrium modelling tends to produce similar results to those provided by partial equilibrium modelling. An example is the ingenious use of the GTAP database by Perez (2007).¹⁸ He compares five different scenarios and asks the key question, what would happen if ACP countries were obliged to return to the standard GSP? The question is also extended to answer how the EU could adapt the GSP in such a way as to minimise the problems deriving from ACP countries switching to the GSP:

- (1) With the standard asymmetrical EPAs (the ACPs eliminating 80% of their tariffs on EU exports and the EU eliminating 100% of its tariffs on ACPs exports), the SSA ACPs would suffer a drop of 1.4% in GDP (of which a drop of agricultural output by 1.8%), a drop of fiscal revenues of 1% of GDP, an increased trade deficit of US\$1.1 billion and a welfare loss of US\$0.9 billion while the EU would get a welfare gain of US\$1.7 billion.
- (2) In the second scenario where the ACPs would only eliminate 50% of their tariffs on EU exports (the EU eliminating 100% of its tariffs on ACPs exports), the drop in GDP of SSA ACPs is reduced to 0.4% (of which a drop of industrial output by 1%), the drop in fiscal revenues is also of 0.4%, the trade deficit falls to US\$0.6 billion and the welfare loss to US\$0.3 billion.

¹⁸ Perez uses the MacMap database to apply the tariff reductions. Inevitably, this implies a certain amount of ‘guesstimates’ regarding the tariff lines to which cuts are applied under the different scenarios. But the exercise is an interesting one nonetheless.

- (3) In the third scenario, based on the full elimination of tariffs inside each EPA group (but not with the EU), regional trade is boosted by US\$1.9 billion. But when this scenario is combined with the first scenario (elimination of tariffs on 80% of EU exports), regional trade is reduced by US\$407 million, and welfare loss exceeds the benefit of full regional integration by US\$851 million. This finding would seem to refute the EU claim that EPAs are necessary to foster regional integration.
- (4) The alternative scenario where the ACPs refuse to sign the EPAs and opt for the GSP for non-LDCs and the EBA for the LDCs leads to an improvement compared to the first three scenarios. The current account of ACPs improves by US\$200 million because although their exports to the EU drop by US\$900 million, their exports to the rest of the world rise by US\$800 million and they reduce their imports, particularly in industrial goods. This option, which retains greater tariff protection for ACP-based industries, is also more favourable in terms of regional integration and the preservation of fiscal resources. Regional trade slightly increases under this option, while it undergoes a severe shrinkage under the EPA proposals. In terms of welfare and GDP changes, too the GSP option seems preferable (at least for non-SADC Sub-Saharan and Pacific ACP countries). For the world as a whole, this option is also better, as global welfare decreases by only US\$31 million versus US\$263 million in the first simulation.
- (5) The final scenario of a GSP+, where duty-free EU imports from ACP countries are extended to 250 tariff lines sensitive for the EU, is clearly the best alternative under the modelling assumptions used by Perez. This scenario gives the most satisfactory results for all ACP sub-groups in terms of welfare, GDP value, fiscal and external balances as well as regional trade. Hence this GSP+ option leads to a quasi-status quo in the trade relationship between the EU and ACP countries, and is less costly than the EPAs option (see Table 3).

Table 3. Comparing the 'Standard' EPA Proposal to GSP and GSP+ Option (% change and US\$ million)

		'Standard' EPA Proposal	GSP Option	GSP+ Option
ACP	Welfare	-851	-459	-51
	Real GDP	-183	-79	-9
	Trade balance	-1,223	234	26
	Fiscal imbalance (%GDP)	0.7	0	0
	Regional trade	-407	60	7
EU27	Welfare	1,638	376	49
	Real GDP	71	33	9
RoW	Welfare	-1,050	50	3
	Real GDP	-147	15	1
Total World Welfare		-263	-31	1

Source: Perez (2007).

From a development perspective, the clearest conclusion from all this is that it would be better in fact for the European Commission to do nothing –under all the scenarios, the ACP countries as a group lose welfare–.

6. Is South-South Integration Preferable?

While there are theoretical arguments that regional integration like the type proposed under the EPAs can contribute to growth and development (notably by increasing the size of the market and attracting foreign direct investment (FDI)), most of the evidence for beneficial effects of RTAs relate to integration among developed or middle-income countries (Schiff & Winters, 2003). The experience of low-income countries with integration is not very encouraging, with few cases of sustained deep integration, especially in Africa (Lyakurwa *et al.*, 1997). East Africa is a good example of the problems even where the political will exists: Kenya is relatively more industrialised and exports manufactures to Tanzania and Uganda, whereas the latter two export little to Kenya or each other. This reflects the general problem that most of the benefits accrue to the largest and richest member, while few economic benefits accrue to the poorest members (Morrissey, Milner & McKay, 2007). Although we will argue here that these points do not totally invalidate the arguments in favour of South-South integration, this does at least partially explain why deep integration has been difficult to achieve or sustain.

The Commission insists that it will only negotiate with countries in regional groupings (although contradictorily they have also let it be known that they will also negotiate with individual countries). Ostensibly, the EPAs are designed to strengthen regional integration schemes. The Trade Commissioner Peter Mandelson has been quite explicit on this point:

‘EPAs should no longer be conceived as trade agreements in the conventional sense where both sides are seeking mutual advantage. The EU is not pursuing an equal bargain in relation to our EPA partners. The purpose of EPAs is to promote regional integration and economic development.’ (Mandelson, 2005, cited in Bilal & Rampa, 2006, p. 39).

But is this the reality? The impact studies already cited suggest that EPAs will undermine already low levels of intra-regional trade by causing trade diversion with neighbouring countries, in favour of trade with the EU.

Regardless of these findings, there is a school of thought that suggests that greater trade with the EU would be more beneficial than trade between SSA countries, ie, North-South integration of the type proposed within the EPAs is preferable to developing countries than South-South integration (see, for instance, Schiff & Winters 2003). However, the kind of argument used to support this hypothesis is highly abstract, and does not reflect well the (admittedly limited) empirical evidence on this type of question. According to Schiff and Winters (2003, p. 73-74), both the EU and North America include a high proportion of the world’s most efficient producers of many products, operating behind relatively low tariffs for manufactures, and being capable of supplying the bulk of the needs of southern economies. For these authors, then, the logical strategy for any developing country is to engage in a FTA with either an industrialised country or group of countries like the EU, North America or Japan. If it imports only from the northern partner after the block is formed, its domestic prices fall to northern levels and it benefits from increased consumption and reduced production of high-cost domestic substitutes.

But there are serious problems with such arguments. Goods are assumed to be homogenous, where switching between alternative suppliers is an easy and costless matter. They also ignore the very real distortions and competitive advantages possessed by firms in the north. As Schiff & Winters concede, one needs to be confident that prices would actually fall to the internal levels of the northern partner. If some imports continue from third countries which still face the tariff, domestic prices will not necessarily fall and there will be no gains. The southern country will simply lose tariff revenue. Only if there is a sufficiently competitive market will northern firms be obliged to cut their prices to domestic levels. Such an observation puts competition policy at the forefront of considerations. Will ACP countries be able to act in a concerted fashion against EU firms in an

oligopolistic or monopolistic market position in their domestic economies? Nearly all poor developing countries currently lack both a legal framework for competition policy and, perhaps more importantly, the political weight to act against the interests of large firms based in the EU (bear in mind their dependence on aid flows from the EU).

A further consideration is that the evidence that South-South integration is more likely to lead to trade diversion than North-South integration is not as clear as many orthodox economists would suppose. Using an expanded gravity model, Cernat (2001) estimates for a number of regional trade arrangements among developing countries the gross trade creation and diversion effects resulting from RTA formation. He concludes that, unlike widespread opinions and standard theoretical predictions, a large number of African RTAs are not trade diverting but trade creating, both with regard to intra- and extra-RTA trade. Cernat argues that the explanation for these apparently puzzling results is to be found in the reduction of 'invisible' trade barriers that hampered trade with both RTA members and third countries. The bias against South-South integration is thus wrong.

One further point to consider is the fact that extra-regional exports of major commodities such as oil distort the relative importance of intra-regional trade. Take ECOWAS, for instance. According to official figures, intra-regional trade is not more than 4%-5% of total trade. But as a major oil exporter, Nigeria's extra-regional exports (principally to the US and Europe) distort the figures enormously. Strip out the oil exports from total exports, and suddenly intra-regional trade becomes much more important. There is also a great deal of informal trade which goes unrecorded. For instance, there is a large and mutually beneficial trade in simple manufactures in West Africa between Nigeria and neighbouring countries. To be sure, the quality of the goods is generally poor, but the fact that it exists at all is a starting point, and something which could be built upon for the industrialisation of the region. As a consequence, the relative importance of regional trade is greatly underestimated.

Summarising, then, formally the EPAs acknowledge the importance of South-South integration. But little is done to promote such regional integration, and the time-frame put in place to complete liberalisation with the EU (ostensibly no latter than 2020), would not allow sufficient time to consolidate regional integration. Arguably, a better policy would be for the EU to reflect more on how to produce policies to catalyse regional integration within Africa *before* embarking on negotiations of the EPA type (see Box 1).

Box 1. Some Strategic Considerations about Why African Countries Should Not Integrate More with the EU before Achieving Greater Intra-regional Trade

- (1) Dependence on the EU market is already extremely high. In fact, African countries have been linked, with varying measures of intensity (both forcefully and voluntarily) to the European economies for several hundred years, without producing the desired results in terms of development. The attempt by the EU to push forward their EPA agenda provides an opportunity for the ACP countries to re-think these links and consider ways of diversifying away from the EU.
- (2) The EU is a slow-growing market. Regional integration makes much greater sense with a fast, dynamic developing country region (the trade multiplier is likely to be much higher).
- (3) Unless MFA tariffs are reduced to practically irrelevant levels, trade diversion will be inevitable. African countries will end up importing relatively high-cost products from Europe instead of from the least cost suppliers. It would require a leap of faith for African governments to think that the alternative of a 'near free-trade' regime for their countries would be beneficial.
- (4) As studies reported in section 5 show, revenue losses stemming from the EPAs would be very considerable, and the ability to find alternative sources of revenue may well be limited. Cuts in government expenditure may thus be required.
- (5) From the perspective of poor developing countries, the EU has a highly distorted economy, with extremely high subsidies in areas like sugar, cotton and food crops where the ACP countries have a potential comparative advantage. Free trade would be potentially very damaging to ACP countries under current (distorted) market conditions.
- (6) As suggested in section 3, notwithstanding heavy subsidies of both agriculture and industry, differences in the level of competitiveness are excessively large.
- (7) Why should ACP African countries sign up to something which is even more onerous than commitments undertaken within the WTO? The Singapore 'package' was already rejected in the WTO forum by African and other developing country governments. Why give the EU the opportunity to re-impose it through the EPAs?
- (8) Asymmetric risks –because of the current high levels of dependence on the EU market for African countries, the risks for the African countries, practically none for the EU–.
- (9) The EPAs pose a serious risk to regional integration –a *hub and spoke* system of investment and trade with the EU may evolve which will complicate regional integration enormously–. Should African economies be making their regional integration schemes contingent on requirements from Europe?

Source: the author.

7. Fighting Rhetoric with Rhetoric?

As noted in the introduction, the EU has come under a barrage of complaints from NGOs and other research centres regarding what is seen as the unequal playing field for the EPAs.¹⁹ Cautious, if not openly critical, assessments have come from more mainstream sources, too. World Bank economists Laurence Hinkle and Richard Newfarmer claim, for example, that,

'To realize their potential development benefits, the European Union must truly treat EPAs as instruments of development, subordinating its commercial interests to Africa's development needs and effectively coordinating trade and development assistance. The African countries need to use EPAs to accelerate the trade and investment climate reforms necessary to raise growth rates and integrate their economies regionally and globally. A number of important issues will need to be addressed to limit the development risks associated with EPAs. *If these issues cannot be satisfactorily resolved, the EPA process could end up being replaced by improved preferences or even abandoned*'. (Hinkle & Newfarmer, 2006, p. 163, emphasis added).

Clearly, it makes little sense for developing countries to enter into agreements knowing that they will have a prejudicial net impact on their economies. The offer of economic compensation, in the form of *mise au niveau* programmes or in whatever other shape or form, hardly provides much reassurance to developing country governments –as pointed out by Mold (2007, Chapter 5)–, although the absolute amount of funds made available could be described as moderately generous, the record of similar agreements in terms of actual disbursements like the Euro-Mediterranean Agreements with North Africa and the Mediterranean is not exactly encouraging.

¹⁹ See, for instance, the websites of ActionAid (<http://www.actionaid.org.uk/1412/epas.html>) or Christian Aid (<http://www.christian-aid.org.uk/indepth/505epas/index.htm>).

Moreover, the European Commission has thus far resisted any attempt to link trade with aid in the EPAs with the ACP countries. Brussels has reportedly also rejected a review clause proposed by African states to allow them to freeze liberalisation after 10 years if EU promises on aid were not met, 'While we are not against well-defined review clauses, we think that they should be limited in their scope and mainly aimed at accelerating or extending liberalization', Commission negotiators have argued, adding that the market opening should not be linked to 'undefined development targets. It may void the agreement of its sense.'²⁰

Box 2. Some 'Home Truths' on the EPAs According to Marc Maes

- (1) Preference erosion continues and will accelerate. It will come from the WTO negotiations and also from the new programme of bilateral negotiations (eg, with Central America, the Andean region, India, the ASEAN region and South Korea). Preferences are being eroded to such an extent that the 'Lomé acquis' (level of market access to the EU that ACP countries enjoyed under the Lomé Agreements) no longer exists. The famous phrase of the Cotonou Agreement that EPA will preserve this acquis has little meaning as this acquis no longer exists.
- (2) The EU is not prepared to give full market access as of day one of the EPA implementation period. Instead the Commission is negotiating a transition period of up to 10 years.
- (3) The commodity protocols (for sugar, bananas and beef) will not survive EPAs. Instead, they will be integrated in the EPAs.
- (4) The EU Commission does not have additional resources for EPA-related costs. The EU member states, however, promised to increase their Official Development Assistance (ODA) to 0.7% by 2015. This would imply that additional means will be available. However the EU member states have not made solid commitments that they will help to make EPA ends meet.
- (5) The EU Commission wants EPAs to become elegant FTAs and is rejecting ACP proposals to insert development and cooperation related language into the EPAs. The Commission insists that EPAs are not mixed trade and development agreements, but only pure trade agreements. Development is not for the EPAs.
- (6) The EU Commission's own proposals are exactly the same as in other FTAs. There is no development in them. The Commission even proposes inserting in the EPAs entire chapters (on investment, services and e-commerce) from the new generation free trade agreements with the emerging countries that the Commission announced at the beginning of October.
- (7) The exception to this is that the Commission will allow for less coverage and longer time periods. But even here the Commission is resisting going much lower than 80% coverage on the ACP side, even if impact studies demonstrate that this would be better for development.
- (8) The EU Commission is resisting special and differential treatment within the EPA regions even with regard to LDCs. The Commission insists on 'single starting lines', meaning that all ACP countries within an EPA region have to apply the same tariffs for EU goods. This goes against the differentiation that ACP countries have built into their existing integration processes. The EU Commission rejects ACP proposals allowing LDCs within regions to choose the EBA.
- (9) The EU Commission is insisting on all the aforementioned trade related issues to belong to its most offensive interests: including services, investment, competition rules and government procurement. In its renewed trade strategy the Commission notes that government procurement markets represent 15% to 25% of countries GDP and simply states that it wants EU companies to have a share of that.
- (10) The Commission insists EPAs also include all these trade related issues, especially investment.
- (11) The EU will not grant additional market access for Mode 4 in services. The Commission insists that market access for the temporary movement of contractual service suppliers from ACP countries to the EU does not go beyond what has been agreed at the WTO GATS negotiations.
- (12) The EU Commission will not work out EPA alternatives or do cost-benefit analysis of all the options on the table, as long as an ACP country has not said that it does not want an EPA. The Commission will not consider the request of ACP countries to work out alternatives so that they can have an informed choice between options.

Source: South Centre, 2006, p. 71-73.

Perhaps one of the most revealing incidents on the EPA issue was the conflict that arose in 2005 between the European Commission and the UK government. The UK government's Commission for Africa (2005, p. 287-288) came up with a number of sharp criticisms of the EPAs. It was argued that poor countries should not be forced to liberalise and that the EU should adopt a 'non-mercantilist approach' in their negotiations with the ACP countries (implying of course that this is what it is now doing). It was suggested that individual African countries should be allowed to sequence their own trade reforms in line with their own poverty reduction and development plans,

²⁰ Andrew Bounds, 'Brussels Rejects Moves to Link Trade with Aid', *The Financial Times*, 28/XI/2006, <http://www.ft.com>.

and that a gradualist timeframe should be introduced for any reciprocal requirements ('over 20 years if necessary'). Furthermore, additional financial assistance should be provided to support developing countries in building the capacity they need to trade and adjust to more open markets. The sting in the tail was left until the end: 'The EC should commit itself more explicitly to this development-orientated approach, rather than a "trade negotiator" approach that seeks concessions from ACP countries'.

The response from the European Commission was no less vehement. According to a leaked internal Commission document,

'The UK statement represents a major and unwelcome shift in the UK Position as it focuses exclusively on the potential risks and how the Commission must limit these and makes no mention of the opportunities. Some recommendations move well away from agreed EU positions set out in the Cotonou agreement and negotiating directives. Others are not compatible with WTO agreements. This makes the statement counterproductive as it could well make progress with EPA negotiations more difficult by reinforcing the views of the more sceptical ACP states, and raising the prospect of alternatives that are in reality, impractical. This happened in fact already during technical meetings with Central Africa where the UK paper had been distributed.'²¹

The advocates of the EPAs in the Commission obviously feel that they are on strong technical grounds in making these charges. But the idea that the UK has been guilty of propagating views that have been uncritically taken up by ACP states might be seen as patronising –arguably, the Africa Commission report was simply trying to reflect concerns raised not only by members of the Africa Commission itself, but also the many countries and bodies that were consulted during the whole process–. It should also be noted that it is not only the British government which seems to be recalcitrant on the subject of the EPAs... the French National Assembly has also been forthright in its criticism of the EPAs:

'These negotiations are heading straight for failure... If the Commission persists, Europe will commit a political, tactical, economic and geostrategic mistake... Can we really assume the responsibility of leading Africa, which in a few years will be home to the greatest number of persons living on less than one dollar a day, to more chaos, on the grounds that WTO rules are being complied with? Do we believe this chaos will be limited to Africa, which would already be unbearable?... And if we were to persist down this path we would contribute to the splitting, if not the end, of the EU-ACP partnership... It is therefore absolutely necessary for politicians to give a new negotiating mandate to the Commission, following a Franco-British initiative' (cited by Berthelot, 2006, p. 8-9).

The issue which hangs like a *sword of Damocles* over the negotiations is the re-imposition of import duties on non-LDC exports to the EU from 1 January 2008. But this urgency needs to be considered in the light of the experience of the US AGOA initiative, which was launched in October 2000 and which is now set to run until 2015. The US AGOA initiative has never enjoyed a waiver under WTO rules and has never been challenged. Why then should a temporary rolling-over of Cotonou trade preferences while the complex process of EPA negotiations is being completed pose such a serious problem? The argument in favour of the EPAs would be more convincing if the EU had previously expanded more energy in trying to renegotiate the ACP waiver, instead of simply presupposing the impossibility of a further extension within the WTO. The fact that the US did not bother to attain a waiver from the WTO for AGOA suggests that the EU is guilty of using false pretences in order to pursue its own agenda.

²¹ Cited in EPA Watch, www.epawatch.net/documents/doc287_1.doc.

The EC has one other major point of leverage over ACP countries to get them to sign up to ‘ambitious’ EPAs, namely, the ‘engineered convergence’ of the final stages of the EPA negotiations with the programming of 10th EDF aid resources. In order to regain momentum, the European Commission is likely to pressure the countries which are most heavily dependent on both preferences and aid. Put bluntly, the Commission desperately needs to break the dam of resistance to its policy package.

Yet at the same time one gets the distinct feeling that the EU is itself of two minds about the EPAs. DG-Development, from whose remit the EPAs were transferred, is distinctly cooler about the whole project than DG-Trade. The EC’s own mid-term report on Sustainability Impact Assessments warns that EPAs ‘might accelerate the collapse of the modern West African manufacturing sector’ and could also ‘further discourage the development of processing and manufacturing capacity in the ACP countries in export-oriented and other industries’. Such institutional misalignments do little to restore confidence in what seems to be a flawed process of negotiations.

Box 3. A Proposed Negotiating Strategy from a World Bank Economist

- (1) Propose program of phased variable geometry for MFN Common External Tariffs consistent with regional development programmes, eg:
Phase 1 & 2: Eliminate all internal barriers in CU/FTA.
Phase 1-2: Bring down MFN peak tariffs to average to promote intra-African and other efficient trade.
Phase 2-3: Bring down MFN average levels to East Asian levels.
Phase 3: Enact EU preferences.
- (2) Propose less restrictive rules of origin (eg, SSA-wide).
- (3) Propose trade facilitation measures to reduce costs.
- (4) Request programme of technical and financial assistance for trade facilitation, SPSS and supply-side measures (eg, infrastructure).
- (5) Pursue better access on temporary movement of persons (mode 4).
- (6) Formulate and propose a programme of services liberalisation in own regional interest on MFN basis.
- (7) Make no concessions on IPR and investment beyond what is in EU-Chile arrangement.
- (8) Propose to adopt competition policies consistent with national development strategies in exchange for full disclosure of national export cartels.

Source: Newfarmer (2005).

Perhaps most controversially of all is the way in which the EPAs are seemingly being used to pursue the ‘Singapore Issues’ –investment, competition policy, transparency in government procurement and trade facilitation–. Despite the insistence of the European Commission on these issues in multilateral forums, in the face of firm opposition from developing countries they were considered too divisive during the Doha Round of WTO negotiations and were subsequently dropped. The fact that they have reappeared in the EPA negotiations makes many suspect that the EU is guilty of imposing its own agenda over poorer developing countries simply by dint of its economic and political power. As Jawara & Kwa (2004, p. xxii) have argued,

‘Since Cancun, many have bemoaned the possible demise of multilateralism, represented by the WTO; its replacement with bilateral negotiations has been held over the developing countries as a dire threat. This is a false choice. For the USA and EC, bilateral agreements and the WTO are not alternatives but two parts of the same strategy. What cannot be attained in one arena is pursued in the other, and ‘progress’ in one strengthens the other.’

Of course, if such interpretations of intentionality are accurate, the more powerful developing nations –India, South Africa, Brazil, China and perhaps Nigeria– may feel that they can resist the pressures from the EU or the US. These large countries have been able to choose the pace and degree of liberalisation, whereas small African countries generally had to take the medicine in one go, with Latin American countries in an intermediate position (Stewart, 2006, p. 8). In such a scenario, what we can look forward to is not the catastrophic implosion of developing country aspirations as a whole, but rather what Churchill once called ‘the agony of little nations’. This would surely constitute a step backwards for development policy.

8. An Alternative Way Forward?

In the 1980s, in her insistence that her government's policy was the only way forward, the British Prime Minister Margaret Thatcher inadvertently coined the term TINA –There is No Alternative–. In its negotiations with the ACP countries over the EPAs, the European Commission is in danger of looking like it is adopting a similar TINA stance. But it is no use criticising EU policy without providing constructive alternatives. What would those alternatives look like? Bilal & Rampa (2006, Chapter 6) do an admirable job of reviewing possible alternative scenarios for the EPAs, and it is not our intention to repeat that analysis here. It is sufficient to note that within the framework of the EPAs all the options have their inconveniences. Here we would limit ourselves to suggest that it would be better for the European Commission to put the EPA project on the shelf, at least temporarily until the outcome of multilateral negotiations become clearer.

In the meantime, a number of authors, such as Stevens (2007) and Perez (2007) make a coherent case that it would be possible for the EU to offer a GSP+ to the ACP countries. Only about one-tenth of ACP exports are not already covered by the GSP+ and their inclusion would not constitute a significant erosion of ACP preferences, either because competitors are not eligible for the GSP+ or they already benefit from duty-free access under separate trade arrangements with the EU.²² If it were politically feasible to extend the GSP+ in this way it would not only provide an alternative to EPAs for the ACP but also increase the chances of GSP+ having a positive trade-creating rather than trade-diverting effect. This is partly because the impact of the GSP+ will be determined by the number of countries that apply for, and are accepted into, the new regime.

It is true that the GSP is potentially inferior to EPAs because of considerations on rules of origin, exclusions, and speed of diversification of SSA. Nonetheless, SSA is potentially in a strong bargaining position because the alternative to an EPA is not so bad (Newfarmer, 2005). Moreover, it would provide an opportune moment for the EU to rectify some of these long-standing problems with the GSP. Simplification is a key priority. The EU's practice of categorising developing countries differently according to their levels of development and their abilities of their companies to compete in global markets, while understandable, is in some senses deeply divisive. Developing countries tend to see such attempts to separate categories for different treatment such as small islands, landlocked countries or small and vulnerable nations as a divide-and-rule tactic that weakens their collective bargaining power.

As Stevens (2007) stresses, the economic effects of an enhanced GSP+ could be superior to those likely to arise from EPAs. The EU, a large economy, would liberalise substantially and quickly. Under EPAs liberalisation by the small ACP states is likely to be partial and drawn out. This is because the ACP will have to liberalise on only 'substantially all' of their imports (which means they could entirely exclude 20% or so of their most sensitive imports) and can defer some liberalisation for at least 12 years (and up to 20 years if an Africa Commission recommendation is accepted).

Finally, a more disinterested policy stance would imply the EU adopting a policy of helping ACP to escape its often overbearing influence. The EU needs to be aware of the importance for the ACP countries of diversifying their links with the rest of the world, deepening their own nascent

²² There would still be problems with the ACP countries that benefit from the special commodity protocols: sugar, bananas and rum. Welfare losses by reform in the sugar regime would in all likelihood occur in a very non-uniform manner (Milner *et al.*, 2004). While some countries' transfers would fall, others would gain due to the impact that sugar reform has on world prices. These differences are due to the very uneven allocation of the preferential quotas across protocol countries and the highly differential dependence of the countries on EU and non-EU export markets. Nevertheless, as Bilal & Rampa (2006, p. 90) note, the ACP will face serious difficulties with these products regardless of the future ACP-EU trade regime, so one could question the extent to which such erosion should be considered a negative aspect of the 'enhanced GSP'.

processes of regional integration and also strengthening their capacity to take advantage of the world trading system. The comments of Stein (2003) on the deficiencies of structural adjustment during the 1980s and 90s in Africa are relevant here:

‘Adjustment has not worked as anticipated because the real world of manufacturing does not look anything like the imaginary one living inside the neoclassical mind... In the real world... management and labour skills are in very limited supply, finance is difficult to secure, information is costly, relations between firms are poorly developed, technology is difficult to obtain and property rights are not always clearly defined, products are not standardized and so on. *Opening up industries to the full force of international markets will hardly lead to the desired results when institutions and capacities are so weak.* If Asia is any indicator, what is needed is a nurturing environment that will permit industries to mature and prosper’ (Stein, 2003, p. 170 – emphasis ANM).

If development is really to put first, more thought is required by the European Commission (and other actors in the development community) as to how to create such a nurturing environment. Further liberalisation under the EPAs is not in itself the answer.

Andrew Mold

*United Nations Economic Commission for Latin America and the Caribbean (ECLAC).*²³

Bibliographical References

Berthelot, Jacques (2006), ‘David and Goliath: Argument Against the Economic Partnership Agreements (EPAs) Between the European Union and the African, Caribbean and Pacific Countries’, *Solidarité*, <http://solidarite.asso.fr>.

Bilal, Sanoussi, & Francesco Rampa (2006), ‘Alternative (to) EPAs – Possible Scenarios for the Future ACP Trade Relations with the EU’, Policy Management Report 11, ECDPM, Maastricht, <http://www.ecdpm.org>.

Brenton, Paul & Miriam Manchin (2003), ‘Making EU Trade Agreements Work: The Role of Rules of Origin’, *The World Economy*, vol. 26, issue 5, May, p.755-769.

Cernat, Lucian (2001), ‘Assessing Regional Trade Arrangements: Are South–South RTAS More Trade Diverting?’, UNCTAD, Geneva.

Clarke, George R.G. (2005), ‘Beyond Tariffs and Quotas: Why Don’t African Manufactures Export More?’, World Bank Policy Research Working Paper 3617, June.

Commission for Africa (2005), ‘Our Common Interest – Report of the Commission for Africa’, DFID, London.

Freres, Christian (2007), ‘Challenges of Forging a Partnership Between the European Union and Latin America’, in Andrew Mold (Ed.), *EU Development Policy in a Changing World-Challenges for the 21st Century*, Amsterdam University Press.

²³ Andrew Mold works at the United Economic Commission for Latin America and the Caribbean, Santiago, Chile, and worked previously at the United Nations Economic Commission for Africa in Addis Ababa, and the *Instituto Complutense de Estudios Internacionales*. The views expressed herein are those of the author and do not necessarily reflect the views of the United Nations.

- Hinkle, Laurence, & Richard Newfarmer (2006), 'Risks and Rewards of Regional Trading Arrangements in Africa: Economic Partnership Agreements Between the European Union and Sub-Saharan Africa', in Richard Newfarmer (Ed.), *Trade and Development*, World Bank, Washington.
- Holdar, Sven (2000), 'European Foreign Aid – South, East, Both, or Neither?', in Richard Grant and Jan Nijman (Eds), *The Global Crisis in Foreign Aid*, Syracuse University Press, Syracuse.
- International Monetary Fund (2004), 'Fund Support for Trade-Related Balance of Payments Adjustments', Washington, 27 February.
- Karingi, Stephen, Nassim Oulmane, Mustapha Sadni-Jallab, Remi Lang & Romain Perez, (2005), 'Economic and Welfare Impacts of the EU-Africa Economic Partnership Agreements', UNECA, ATPC Work in Progress, nr 10.
- Jawara, Fatoumata, & Aileen Kwa (2004), (updated edition), *Behind the Scenes at the WTO – The Real World of International Trade Negotiations: The Lessons of Cancun*, Zed Books, London.
- Lyakurwa, William, Andrew McKay, Nehemiah Ng'eno & Walter Kennes (1997), 'Regional Integration in Sub-Saharan Africa: A Review of Experiences and Issues', in Ademola Oyejide, Ibrahim Elbadawi & Paul Collier (Eds.), *Regional Integration and Trade Liberalisation in Sub-Saharan Africa*, vol. 1, Macmillan, London, p. 159-209.
- Milner, Chris, Wyn Morgan & Evious Zgovu (2004), 'Would All ACP Sugar Protocol Exporters Lose from Sugar Liberalisation?', *The European Journal of Development Research*, vol. 16, nr 4, Winter, 2004, p. 790-808 (19).
- Mold, Andrew (2004), 'Trade Preferences and Africa: The State of Play and the Issues at Stake', Work in Progress Policy Paper nr 12, African Trade Policy Centre (ATPC), UNECA, Addis Ababa.
- Mold, Andrew (2005), 'Taking Politics Out of Preferences: The Need for a New Deal for Africa', *Bridges*, Year 9, nr 1, ICTSD, January.
- Mold, Andrew (2006), 'Tackling the Commodity Price Problem –New Proposals and Revisiting Old Solutions', *Africa Yearbook 2005*, Institute for World Economics and International Management (IWIM), University of Bremen.
- Mold, Andrew, & Carlos Roza (2006), 'Liberalisation, Growth and Welfare: The 'Maquiliación' of the Mexican Economy', in Kishor Sharma & Oliver Morrissey (Eds.), *Trade, Growth and Inequality in the Era of Globalization*, Routledge, Abingdon.
- Mold, Andrew (Ed.) (2007), *EU Development Policy in a Changing World: Challenges for the 21st Century*, Amsterdam University Press.
- Morrissey, Oliver, Chris Milner & Andrew McKay (2007), 'A Critical Assessment of Proposed EU-ACP Economic Partnership Agreements', in Andrew Mold (Ed.), *EU Development Policy in a changing World: Challenges for the 21st Century*, Amsterdam University Press.
- Newfarmer, Richard (2005), 'Economic Partnership Agreements – Risks and Rewards', Presentation, High-level meeting, Mombasa, September.

- OECD (2004), 'Assessment of Utilization and Motive for Under-Utilization of Preferences in Selected Least Developed Countries', Joint Working Party on Agricultural and trade, COM/AGR/TD/WP(2004)12/REV2, 21-22 October.
- Oxfam (2006), 'Unequal Partners: How EU-ACP Economic Partnership Agreements (EPAs) Could Harm the Development Prospects of Many of the World's Poorest Countries', Oxfam Briefing Note, <http://www.oxfam.org.uk>.
- Perez, Romain (2007), 'Are the Economic Partnership Agreements a First-best Optimum for the ACP Countries?', *Journal of World Trade*, 40, p. 6.
- Perez, Romain, Stephen Karingi, & Hakim Ben Hammouda (2005), 'Assessing the Consequences of the Economic Partnership Agreement on the Rwandan Economy', African Trade Policy Centre ATPC Work in Progress paper nr 13, March.
- Schiff, Maurice, & L. Alan Winters (2003), 'Regional Integration and Development', The International Bank of Reconstruction and Development/World Bank, Washington.
- South Centre (2006), 'High-Level Conference on EU-ACP Trade Relations: The Development Challenge of Economic Partnership Agreements', South Centre, Geneva, Switzerland, www.southcentre.org.
- Stein, Howard (2003), 'Rethinking African Development', in Ha-Joon Chang (Ed.), *Rethinking Development Economics*, Anthem Press, London.
- Stevens, Chris (2007), 'Creating a Development-Friendly EU Trade Policy', in Andrew Mold (Ed.), *EU Development Policy in a Changing World: Challenges for the 21st Century*, Amsterdam University Press.
- Stewart, Frances (2006), 'Do We Need a New "Great Transformation"? Is one likely?', Queen Elizabeth Working House Working Paper QEHWPS136, February.
- Subramanian, Arvind, & Devesh Roy (2003), 'Who Can Explain the Mauritian Miracle? Meade, Romer, Sachs, or Rodrik?', in Dani Rodrik (Ed.), *In Search of Prosperity – Analytic Narratives on Economic Growth*, Princeton University Press, Princeton.
- UNCTAD (2004), 'The Least Developed Countries Report 2004 – Linking International Trade with Poverty Reduction', Geneva.
- United Nations Economic Commission for Africa (2004), 'Economic Report on Africa 2004 - Unlocking Africa's Trade Potential', www.uneca.org.