

The World Economy

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Global Trade Policy 2004

Edited by

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Foreword

Each year *The World Economy* publishes an issue dedicated to developments in global trade policy. That issue always includes a number of ingredients: evaluations of a range of WTO Trade Policy Reviews; a regional feature; and a 'special feature' devoted to a current issue. Because of the interest in this particular issue of the journal, it is always published also as a stand alone book.

Global Trade Policy 2004 includes Trade Policy Reviews of Burundi, Canada and The Maldives; the regional focus is on Economic Partnership Arrangements; and the special feature on trade reform in the Southern Mediterranean. I am grateful to contributors for the timely delivery of manuscripts and to Blackwell for the expeditious publication of this volume.

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Economic Partnership Agreements Between Sub-Saharan Africa and the EU: A Development Perspective

Lawrence E. Hinkle and Maurice Schiff

1. INTRODUCTION

THE EU is Sub-Saharan Africa's (SSA) largest single trading partner, buying on average 31 per cent of its merchandise exports and providing 40 per cent of its merchandise imports. The trade relationship between SSA and the EU is important for the region's development, and proposed free trade agreements (FTAs) between the EU and SSA could have a significant impact on most of SSA. The Cotonou Agreement, signed in June 2000 between the EU and SSA (and other ACP¹) countries, provides for negotiation of Economic Partnership Agreements (EPAs) between them. The negotiations are to be completed by December 2007, and the EPAs are to go into effect in January 2008.

The Cotonou Agreement provides for replacing the unilateral trade preferences that the EU accords to the ACP countries under the Lomé convention with EPAs involving reciprocal obligations. Not only will the EU provide free access to its markets for ACP exports, but ACP countries will also have to provide free access to their own markets for EU exports. In addition to reciprocity, a second principle of the Cotonou Agreement is that of differentiation, whereby ACP LDCs are to be treated differently from ACP non-LDCs. This means that LDCs are unlikely

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¹ For a list of abbreviations see the Appendix.

to have to reciprocate and open their markets to EU exports as much as the non-LDCs in order to maintain their preferential access to EU markets. As is shown in Section 2, differentiation creates some complications with respect to regional integration within SSA.

The planned EPAs are intended to restructure trading arrangements between the EU and the SSA countries to make them more effective in promoting EU-SSA trade, more supportive of broader development goals, and more compatible with World Trade Organisation (WTO) rules. They also provide for possible coordination between the EU aid programme and the EPAs. The EU has stated its desire to use the EPAs as instruments of development, and this paper analyses them from a development perspective.

The main element of the EPAs is to be the establishment of FTAs between the EU and each of the regional EPA negotiating blocs. The latter are self-determined groupings of the 77 ACP countries, which are encouraged to form regional blocs for pursuing regional integration and negotiating EPAs with the EU.

The EPAs offer considerable potential benefits to SSA countries. It is argued that these potential benefits might be realised if the EPAs are amended as recommended in this paper. However, EPAs also pose a number of policy, administrative and institutional challenges for SSA countries, including: replacing forgone tariff revenues, avoiding serious trade diversion, appropriately regulating liberalised service industries, and liberalising internal trade within SSA's regional trade blocs. To achieve pro-development outcomes through the EPAs, it is essential both that the SSA countries and organisations concerned be well prepared for these negotiations and that the EU adopt a benevolent, development-oriented approach to them, subordinating its commercial interests to the development needs of the SSA countries when necessary.

Two points need to be made here. First, there are doubts whether, unless they are modified, the trade EPAs will actually prove beneficial to SSA. This paper does not take a position on whether or not SSA should enter into EPAs with the EU. Rather, it starts from the notion that the process of forming EPAs is unlikely to be reversed and examines the conditions that will maximise SSA's benefits from the EPAs. Second, the EPAs also apply to non-SSA ACP countries. This paper focuses on SSA, though many of the recommendations may also apply to non-SSA ACP countries.

Note that Pascal Lamy, the EU Trade Commissioner, made a proposal at the May 2004 G-90 summit in Dakar that might lead to a change in the EPA process. He proposed that the G-90, a group consisting of ACP and non-ACP LDC countries, should not have to make concessions at the WTO Doha Round of multilateral trade negotiations, i.e., he proposed a 'free round' for the G-90. This proposal opens the door to the possibility that the same might apply to the ACP countries in the EU-ACP negotiations and that the EPA process might be reversed.

This paper, which draws on Hinkle and Schiff (2003), (available from the authors upon request), is organised as follows. Section 2 deals with the

Everything-but-Arms (EBA) initiative. Section 3 examines the relationship between EPAs and SSA regional trade blocs. Section 4 analyses the necessary accompanying reforms in SSA and Section 5 looks at the relationship between EPAs and the WTO's Doha Round. Section 6 deals with liberalisation of trade in services, and Section 7 concludes by examining the conditions for the EPAs to benefit SSA and accelerate its integration in the global economy.

2. THE EU'S EVERYTHING-BUT-ARMS (EBA) INITIATIVE

In addition to providing trade preferences to ACP countries under the Cotonou Agreement, the EU now provides full quota-free, tariff-free access to its market to LDCs, including those in SSA, under the Everything-but-Arms (EBA) Initiative, which it adopted in 2001. When full market access is phased in for bananas, rice and sugar by 2009, the EBA Initiative will grant full, unrestricted market access to LDCs including the commodities currently subject to the EU's commodity protocols with the ACP countries. Although the EBA Initiative is definitely beneficial for the LDCs, it has somewhat complicated the EPA process by creating different trading environments and negotiating incentives for the LDCs and non-LDCs in SSA, some of which are members of the same customs union or FTA.

One of the stated objectives of the EPA process is to promote regional integration among SSA countries. However, as mentioned in Section 1, the principle of differentiation, whereby LDCs may not have to open their markets to EU exports in order to maintain preferential access for their own exports to the EU, has complicated the process of regional integration within SSA. Customs Unions (CUs) such as UEMOA and CEMAC have both LDC and non-LDC member countries. If the former do not liberalise their trade policy with respect to imports from the EU while the latter do, it will mean the end of the common external tariff (CET) and of the CUs. Provision of EBA access to LDCs has exacerbated the problem because it has been provided unconditionally, without the EU asking for any concession in return. Thus, with EBA access in their pocket, it is unlikely that LDCs will provide improved access to imports from the EU unless they receive other benefits for doing so.

The best way to reduce these complications and facilitate regional integration in SSA would be for the EU to provide EBA market access to all SSA (and other ACP) countries signing EPAs. Provision of EBA access to the non-LDCs in SSA under the EPAs would also give them unrestricted access to the markets now governed by the EU's commodity protocols once any transitional arrangements have expired and would effectively resolve the question of the future of the protocols.

All developing countries and LDCs are recognised as legitimate groups for special and differential treatment (Part 4 of the GATT and the Enabling Clause) while entities such as SSA and the ACP are not. Thus, providing unilateral EBA

access to all SSA is not WTO compatible. On the other hand, providing EBA access would be WTO compatible if EBA access were an integral part of FTAs between the EU and SSA regional trade blocs.

The principle of reciprocity in the Cotonou Agreement does imply the establishment of FTAs between the EU and each of SSA's regional EPA negotiating blocs. Non-LDC countries that choose not to enter into these EPAs will lose their Cotonou preferences in EU markets and are thus likely to enter into EPAs. As for LDCs, the EU is likely to have to provide them with additional incentives to convince them to enter into EPAs. Thus, providing EBA access to all SSA countries will only be WTO compatible if SSA countries enter into EPAs (as part of regional EPA negotiating blocs) with the EU. The same applies to the other ACP countries. However, as noted above, with the proposal made by Pascal Lamy at the G-90 Ministerial at Dakar in May 2004, the above might not hold, especially if the G-90 becomes a legitimate group under the Enabling Clause.

The rules of origin (RoO) under both the Cotonou Agreement and the EBA Initiative are complex and restrict SSA exports. Those under the EBA Initiative are the same as under the EU GSP and are the more restrictive. Unless RoO are liberalised and simplified, the benefits of even full tariff-free, quota-free market access under EPAs will be limited. In fact, Brenton (2003) shows that SSA LDCs make little use of EBA preferences and prefer to export to the EU under Cotonou preferences. The reason is that, even though Cotonou preferences are clearly less generous than EBA preferences, the RoO that apply under Cotonou are sufficiently less restrictive to make exporting under the latter more attractive to most SSA exporters.

A simpler, less restrictive rule of origin for the EPAs would be to give SSA exporters the choice between meeting a 'change of tariff heading' rule or a uniform 25 per cent value-added rule, together with liberalisation of the general tolerance rule to permit 25 per cent imported inputs and full cumulation among all ACP countries, other LDCs, South Africa and the EU.² Independent reviews of the EU's import safeguard measures (such as anti-dumping) and sanitary and phyto-sanitary (SPS) regulations (such as those on ground nuts) should also be undertaken to see if more development-friendly provisions concerning these can be included in the EPAs.

3. EPAS AND REGIONAL INTEGRATION IN SSA

An important objective of the EPA process is to promote outward-oriented regional integration among the SSA countries and to limit the 'hub and spoke'

² Liberalisation of EBA RoO might provide an incentive for LDCs to join EPAs with the EU.

effect that bilateral free trade just between the EU and individual SSA countries could have. Hence, the SSA countries are expected to form themselves into self-determined regional groups for negotiating the EPAs. Determining the nature of the EPA groupings in SSA while also supporting existing regional trade agreements (RTAs) has been no simple matter. A major reason is the high degree of heterogeneity in SSA's RTAs, which include a number of overlapping PTAs, FTAs and customs unions (CUs) with different structures, operational rules and implementation levels.

As mentioned in Section 2, one problem is that of CUs with both LDC and non-LDC members. This is the case for UEMOA and CEMAC, and is also true for SACU (with Lesotho being an LDC). Another problem is that a number of Eastern and Southern African countries are members of both COMESA and SADC. However, the interaction of the EPA process and the political support for regional integration in SSA has provided a dynamic impetus for rationalising this situation, and the composition of the four regional EPA negotiating groups in SSA has now largely been resolved.

In Eastern and Southern Africa, the regional trade group ESA encompasses most of COMESA as well as the SADC countries that decided to join the ESA negotiating group with the COMESA countries. The non-SACU three SADC countries that decided not to join in the ESA are Angola, Mozambique and Tanzania. The first two may join SACU. Tanzania is a member of the EAC, together with Kenya and Uganda. These two have joined the ESA.

There are at present four negotiating groups in SSA: ECOWAS + Mauritania in West Africa; CEMAC + São Tomé in Central Africa; ESA in Eastern and Southern Africa; and the SADC group in Southern Africa. The latter consists of Botswana, Lesotho, Namibia and Swaziland (known as BLNS, or SACU minus South Africa) + Angola, Mozambique and Tanzania.

Two issues are left to be resolved, related to the EAC and SACU. The EAC is expected to become a CU and it therefore seems to make little sense for Tanzania not to join Kenya and Uganda in the ESA. In SACU, the question is what to do about South Africa. This is examined at the end of this section.

Significant barriers to intra-regional trade still remain within 'free' trade areas, and even within customs unions, in SSA. The ECOWAS FTA has not yet really been implemented (the main problem being Nigeria³), and some countries in COMESA still maintain barriers to free intra-regional trade. Even though CEMAC and UEMOA are 'customs unions', substantial obstacles to internal free trade and country deviations from the common external tariff remain in both. The EAC customs union is not yet operational but is likely to face similar problems. Only SACU is a fully functioning customs union with full internal free trade, a

³ Nigeria's economy is larger than that of all of the other ECOWAS countries put together, and its trade policy is much more restrictive than that of the UEMOA.

common external tariff observed by all of its members, and common administration of the external tariff and pooling of the revenues from it.

Barriers to intra-SSA trade within CUs and FTAs may not, in themselves, be a problem in terms of negotiating EPAs as long as the CUs have a common external tariff in place. However, further intra-CU and intra-FTA liberalisation of trade in both goods and services are likely to benefit their members. There are several steps which should be taken in the context of the EPAs to strengthen regional integration in SSA. First, those member countries of customs unions that have not fully implemented their CU's common external tariff (CET) need to do so as soon as possible. As long as the CET is not fully implemented by all member countries, RoO are going to be needed. Note that the RoO within SSA regional trade blocs are complex and restrictive (particularly in SADC) and there are protectionist pressures to increase their restrictiveness.⁴ Second, full intra-CU and intra-FTA free trade in goods and services, as well as free movement of labour, needs to be implemented in most CUs and FTAs. And, third, SSA countries should take advantage of the good practice precedent that would be set with regards to liberalised RoO in the EPAs to adopt similar standardised, liberal RoO for the various regional trade areas in Africa.

Intra-CU and intra-FTA trade liberalisation in SSA should preferably be accompanied by a reduction in MFN tariffs. The reason is that without the latter, the former is likely to result in costly trade diversion, with increased intra-bloc trade resulting in a reduction in non-member exports to the bloc that liberalised its intra-bloc trade. MFN trade liberalisation will help to minimise this problem. The issue of MFN liberalisation is further discussed in Section 4.

The situation with the EPAs for the SACU countries is particularly complex. Four of the five SACU countries (Botswana, Lesotho, Namibia and Swaziland, or BLNS) are ACP countries and are participating in the EPA process. However, the fifth and by far the largest SACU member, South Africa, is eligible neither for the trade benefits of the Cotonou Agreement nor for an EPA. Instead, it has a separate FTA with the EU, and given that South Africa sets SACU's trade policy, many aspects of the FTA with the EU apply *de facto* to the other SACU countries. To rationalise this situation, SACU may eventually need to be included as one of the customs unions which signs an EPA outside the framework of the Cotonou Agreement (given that South Africa is not eligible). The four SACU member countries eligible for EPAs should ask the EU to give them EBA market access with improved, less restrictive rules of origin. In addition, if South Africa

⁴ RoO are prevalent not only in SSA FTAs but in CUs as well (except for SACU), and not only because the CET has not been fully implemented. In the UEMOA and CEMAC, tariff revenues are not pooled. Thus, RoO are needed to ascertain whether imports by a landlocked member country originated in a non-member country and therefore should pay the CET, or whether they originated in a member country and should be imported free of tariffs.

takes the lead in gradually lowering SACU's peak tariffs on an MFN basis to a maximum of 20 per cent as recommended for other CUs and SSA countries (for reference to this, see last part of Section 4 below), a step which would probably be very beneficial for the less developed BLNS countries, South Africa should also receive improved EBA access to the EU market, even if this access might require a longer transition period for the EU than in the case of the other SACU countries.

4. PREFERENTIAL REDUCTIONS IN TARIFFS ON MERCHANDISE IMPORTS FROM THE EU AND ACCOMPANYING REFORMS IN SSA

a. Restructuring Indirect Tax Systems

An important fiscal issue raised by the EPAs is the impact on government revenues of preferential reductions in SSA tariffs on merchandise imports from the EU. Revenues from tariffs still amount to 2 per cent of GDP in the median SSA country, and some countries depend even more heavily on tariff revenues, with these amounting to 4 to 6 per cent of GDP. Since the EU is the largest source of imports for most SSA countries, supplying 40 per cent of total imports on average, some countries are likely to lose significant tariff revenue from reducing tariffs on imports from the EU. For example, even assuming no trade diversion, an average country, in which tariff revenues are 2 per cent of GDP and where 40 per cent of imports come from the EU, would lose tariff revenues equivalent to close to 1 per cent of GDP (equivalent to 7 to 10 per cent of government revenues) from eliminating tariffs on all imports from the EU. The revenue losses would be significantly greater in countries that are highly dependent on tariff revenues.

To protect their fiscal positions and maintain macroeconomic stability, the SSA countries will need to reform their indirect 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 curtailing low priority or inefficient expenditures.

b. Problematic Partial Liberalisation

Many SSA countries still have high and distorted MFN tariff structures, and preferential reduction of tariffs on merchandise imports from the EU under EPAs will need to be accompanied by MFN tariff reductions if the preferential reduction in tariffs is to be beneficial for SSA. Preferential tariff reductions under

EPAs can, in the presence of high MFN tariffs, lead to costly diversion of trade from low cost (non-EU) to high cost (EU) foreign suppliers, as well as transfers of tariff revenues from SSA governments to EU exporters.⁵ Note that the non-EU suppliers also include the SSA countries that are not members of a specific SSA regional bloc. Thus, preferential tariff reductions under EPAs in the presence of high MFN tariffs is likely to divert trade away from these countries by favouring imports from the EU.

In addition, as a result of the lobbying of protected domestic SSA producers, the EPA negotiation process can also lead to a number of exceptions, with a tariff regime that maintains protective tariffs for all import-competing domestic industries while eliminating the revenues from tariffs on imports from the EU that do not compete with domestic production. Subsequent negotiation of similar such partial free trade agreements with additional OECD countries (as, for example, South Africa is currently doing with the US) would aggravate these problems.

c. Simultaneous MFN Tariff Reductions

The World Bank advocates a pro-development outcome of the Doha Round that would include developing countries' achieving average tariffs of 5 per cent for manufacturing, with a maximum tariff of 10 per cent, and average tariffs of 10 per cent for agriculture, with a maximum of 15 per cent. In view of the uncertainty about the outcome of the Doha Round at this point, we suggest a maximum MFN tariff rate of no more than 20 per cent, the maximum rate currently in effect in UEMOA. The lower rates suggested by the World Bank as objectives for the Doha Round would be even better for those countries that can achieve them. Because of the likely losses of revenue from eliminating tariffs on imports from the EU, the required MFN tariff reductions would need to be carried out in a revenue-neutral fashion, for which there is ample scope in most SSA countries due to the prevalence of extensive tariff exemptions and of prohibitive (minimal revenue generating) peak tariffs. The MFN liberalisation should be completed before, or at the same time as, the preferential tariff reduction with the EU takes place so that trade diversion is minimised and EU suppliers do not have a chance to sell into highly protected domestic SSA markets and thus obtain large implicit transfers of tariff revenues until the MFN tariff is reduced.

⁵ In the case of homogeneous goods, as long as SSA countries continue to import some units from non-EU sources after liberalising their trade policy with respect to EU imports, domestic prices remain unchanged. Then, EU exporters can capture the tariff revenue previously collected on imports from the EU by raising their prices in SSA markets (which amounts to a worsening of SSA's terms of trade), and SSA countries lose these tariff revenues to the EU exporters. In the case of heterogeneous goods, SSA domestic prices of imports from the EU will fall, resulting in greater imports from the EU. This will be accompanied by a reduction in imports from other sources and a loss of tariff revenues previously collected on these imports.

5. RELATIONSHIP OF EPAS TO THE WTO'S DOHA DEVELOPMENT ROUND

The EPA negotiations between the EU and the SSA countries overlap with the multilateral negotiations of WTO's Doha Development Agenda, and there are several important interrelations between the two sets of negotiations. A pro-development outcome in WTO's Doha Round would amplify the benefits from the EPA process. Many of the most difficult trade liberalisation issues, particularly agricultural ones, need to be addressed in the Doha Round. Hence, it would be desirable if the Doha Round could be successfully completed before key decisions have to be taken concerning the EPAs.⁶

Any reductions in the EU's MFN tariff rates in the Doha Round will reduce the preference margin that SSA (and other ACP) countries will have under the trade EPAs, and some of these countries are worried about potential preference erosion. Long-term competitiveness and sustainable development cannot be built solely upon special preferences allowing SSA countries to benefit from transient distortions in world trade policies, and adjustment to preference erosion is going to be necessary sooner or later in any case. The EPA process may provide an opportunity to commence this adjustment in favourable circumstances as the financial cooperation with the EU could be used for providing adjustment assistance for countries facing significant transitional costs from preference erosion. The World Bank and IMF have also offered to help with financing any transitional costs of adjusting to preference erosion.

6. LIBERALISATION OF TRADE IN SERVICES AND RELATED REFORMS

Because of the underdeveloped nature of the export service sector in SSA and the constraints on expanding the employment of temporary workers in the EU, SSA's major gains from liberalisation of trade in services are likely to come on the import side. Liberalisation of imports of services should be included as an integral part of the EPAs as these could have an important impact on productivity and growth in SSA. The priority sectors for liberalisation appear *prima facie* to be transportation, telecommunications and finance; and sub-sectoral studies of these need to be carried out for each sub-region in order to formulate plans for doing so. Imports of services should be liberalised on both an MFN and an intra-SSA regional bloc basis (including intra-bloc labour flows) at the same time as they are liberalised *vis-à-vis* the EU in order to attract investment by the most efficient service

⁶ Pascal Lamy has also recently proposed that the EU eliminate export subsidies on the condition that others, such as the US, follow suit. It is likely that what will happen in the Doha Round with this proposal will not be decided before the July 2004 deadline. If export subsidies are not eliminated in general in the Doha Round, they might still be eliminated later on for SSA.

providers and benefit from economies of scale. Accompanying reforms in the regulatory environment will also be needed, and the timing of the liberalisation in various service sectors should be determined by the capacity of the SSA countries to implement the required accompanying regulatory reforms in these sectors.

The EU is not only interested in investment in the service sector but is likely to be interested in the FDI question in general as a component of the EPAs. Thus, even though the G-90 is against inclusion of investment as a topic of negotiation in the Doha Round, the EU claim is envisaged in the Cotonou Agreement, and SSA countries should be aware that the investment issue may come back in the EPA negotiations.

On the export-side, the EU will need to take a more generous approach towards services in EPAs than in previous trade agreements with developing countries for the SSA countries to benefit significantly from improved access to the EU market. Even then, the gains in the near term from increased SSA exports of services are likely to be smaller than those from liberalising imports of services; but SSA should, nevertheless, explore what scope there is for increasing the numbers of temporary workers (Mode IV of the GATS) in the EU and for assisting the tourism sector through EPAs.

7. CONCLUSION: EPAS AS AN OPPORTUNITY TO ACCELERATE TRADE INTEGRATION IN SSA

Assuming the recommended policy changes are implemented, the EPA process can offer a favourable opportunity for SSA countries to integrate into the global economy, to strengthen regional integration in Africa, and to accelerate their reform programmes. The EPAs' negotiating schedules and deadlines create a useful dynamic impetus for global and regional integration in a situation where progress would otherwise be halting, at best. Partial preferential liberalisation of trade between SSA and the EU under EPAs would, by itself, be problematic, possibly even disadvantageous on balance, for most SSA countries because of the transfer of tariff revenues to EU exporters and the probability of significant costly trade diversion. However, the necessity for the SSA countries to liberalise their imports from the EU in order to preserve and improve upon their preferential access to the EU market also provides an opportunity for them to accelerate the overall trade liberalisation process and the opening up of their economies.

The fundamental condition for realising the potential benefits of the EPAs is to actually utilise the EPAs as instruments for development. Doing so will pose challenges for both the EU and SSA. For the EU, the challenges will be to subordinate its commercial interests in the EPAs to the development needs of the SSA countries and to effectively coordinate trade and development assistance. In particular, since much greater tariff reductions will have to be made under the

EPAs by SSA countries than by the EU, the EU will need to include generous treatment of SSA exports in the trade components of EPAs in non-tariff areas such as liberalising its rules of origin, extending market access for everything but arms to the non-LDCs in SSA, eliminating agricultural export subsidies and decoupling agricultural production support in products of particular interest to SSA, and admitting larger numbers of temporary workers from SSA under EPAs.

Adequate technical and financial support for the implementation of the EPAs also needs to be provided. In particular, financial assistance should, in principle, increase in real terms from the Cotonou level by at least the amount needed to finance the transitional costs associated with the EPAs and related reforms in the Doha Round.

In addition, a pro-development outcome in WTO's Doha Round would amplify the benefits from the EPA process, and it would be desirable if the Doha Round could be successfully completed before key decisions have to be taken concerning the EPAs. Because of its central role in the whole EPA process, if the EU cannot rise to these challenges, the EPAs may end up doing more harm than good for SSA, at least in the medium term until the SSA countries are able to implement the necessary reforms on their own.

The reality is that very few SSA countries seem to want to reform. However, for those who do, the key requirement is a commitment to utilise the EPAs to accelerate reforms that are necessary in the long term for integrating with the global and regional economies; that is: the restructuring of indirect tax systems, MFN tariff reductions, liberalisation of services imports on an MFN basis and related regulatory reforms in the services sector, and liberalisation of trade in both goods and services (including labour flows) within the regional trade blocs in SSA. Moreover, there are many obstacles to expanding production of tradable goods in Africa besides those that will be addressed under the EPAs and accompanying reforms. The supply response to the EPAs reforms will be much greater if these trade reforms are followed by actions in other areas. Particularly important are (a) a competitive exchange rate policy that encourages the expansion and diversification of exports; (b) other trade facilitation measures such as reforms in customs administration; (c) improvements in the investment climate to encourage a positive response from the private sector; (d) implementation of an effective domestic competition policy; and (e) infrastructure investment.

Finally, it should be noted that Pascal Lamy, the EU Trade Commissioner, made a proposal at the May 2004 G-90 summit in Dakar that might lead to a change in the EPA process. He proposed that the G-90, a group consisting of ACP and non-ACP LDC countries, should not have to make concessions at the WTO Doha Round of multilateral trade negotiations, i.e., he proposed a 'free round' for the G-90. This proposal opens the door to the possibility that the same might apply to the ACP countries in the EU-ACP negotiations and that the EPA process might be reversed.