



The African Economic Partnership Agreements with the EU: Reflections inspired by the case of the East African Community

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Abstract

This paper appraises the likely effects of the Economic Partnership Agreement (EPA) between the East African Community (EAC) and the European Union (EU). Customs data are used to estimate the revenue and welfare effects of an EPA with and without an exception list. Revenue and welfare effects are rather small. The paper then discusses the benefits that would have occurred had the EAC-EU protocol on rules of origin been simplified and made more compatible with the multilateral trading system. An inclusion of services would have also helped achieve the objective of increased competitiveness in goods trade, while the time table for tariff reduction in the EAC should have been shorter. The paper suggests in closing that the present appraisal is applicable also to the other African EPAs.

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1. Introduction

At the concluding days of the Doha negotiations in November 2001, WTO members signed a waiver extending the Cotonou Partnership Agreement (CPA) which allowed the Cotonou trade regime to be extended provided that it became WTO-compatible, that is a reciprocal Free Trade Area (FTA). Negotiations were to be concluded by December 2007. Successful negotiations between the EU and 15 CARIFORUM countries of the Caribbean resulted in an agreement (the CA-EU EPA) that included reduction on barriers to trade in services as well as trade in goods. This “deep” agreement reflected a favorable balance in the trade-off between the benefits (internalizing the spillovers) and the costs (moving away from

members’ preferred national policies) of a deep regional agreement as it resulted in the delegation of national sovereignty to negotiation teams at the regional level. Yet, after five years into the agreement, only six members had ratified it and only two had started tariff reductions. Difficulties in satisfying the necessary regulatory and policy changes, a lack of funding and a lack of technical support have been mentioned as reasons for the delays (South Centre, 2013). Further delays resulted from the EU’s request that the Mutual Recognition Agreements necessary for integrating services markets be carried out first at the CARIFORUM level.

This positive balance during the negotiation phase was absent for the other negotiating groups, especially in Africa where disparities among members in each negotiation group (large and small countries, landlocked and coastal, resource-rich and resource-poor, ethno-linguistic fractionalization) were greater than for the CA-EU negotiations, disparities that effectively blocked negotiations that could have led to a “deep” EPA as in the case of CARIFORUM. In the end, these negotiations settled in December 2007 for a series of Interim Agreements (IEPAs) that still preserved Duty-Free Quota-Free (DFQF) access to the EU for 35 ACP countries. For non-LDC ACP countries, this amounted to

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€100 million per year relative to GSP even though these countries have negative preferential margins at the product level because of EU preferences granted to competitors. Probably the most significant market access obtained from the negotiations was the relaxation of some rules of origin (RoO) requirements.¹

Five years later, with the October 1, 2014 deadline for concluding “full” EPAs, non-LDC partners in those groupings that would not have reached an agreement would return to GSP status. This paper draws on the experience of the EAC, the African negotiation group that has gone furthest in integrating along the lines outlined in the CPA (see below) since it is a now a common market, a level beyond the common market envisaged by the EU when the CPA was launched. It gives evidence that the EAC-EU EPA will only result in a very marginal reduction in trade barriers by African partners and no extra access in the EU market since negotiations are only for goods trade and most members already have DFQF access.

Section 2 provides the background on the CPA and on the interim EPAs. The remainder of the paper turns to the EAC-EU EPA. Section 3 reports ‘traditional’ estimates of revenue losses based on statutory revenues and Section 4 gives more accurate estimates based on customs data for Rwanda and Uganda. These results suggest very small benefits from the final EPA even though the EAC is the only negotiation group that satisfied the ‘two-layer objective’ of the EU at the launch of the negotiations under the aegis of the CPA. Section 5 discusses some of the omitted elements in the agenda which would have led to larger gains for the EAC. Section 6 concludes.

2. The CPA rationale

The CPA sets out the following four core elements around which to build the EPAs:

1. *Differentiation*: Keep differential and special treatment (SDT) taking into account the level of development using asymmetry to benefit especially vulnerable, landlocked and small island economies;
2. *Reciprocity*: ensuring WTO-compatibility represents a radical departure from previous EU-ACP relations whose rationale is to liberalize ACP markets, foster competition, better resource allocation and enhanced investment, both foreign and domestic;
3. *Regionalism* (two-layer objective): only in exceptional circumstances would negotiations be envisaged with individual countries, the conviction being that regional integration for ACP countries is the stepping stone towards a successful integration in the World Trading System;

¹ WTO (2011, p. 128) estimates that adjusted preferential margins for African countries are about 1 percentage point. Rules of origin were relaxed for fisheries and for textiles and apparel as the EU followed suit on AGOA and adopted the single transformation rule (see de Melo and Portugal-Perez, 2014). Arguably, this was the most significant market access achievements for LDCs resulting from the IEPAs.

4. *Development*: EPAs are to be “economically meaningful, politically sustainable, and socially acceptable”.

The CPA objectives are laudable. It is likely that the absence of reciprocity in past EU-ACP relations contributed to their lack of integration into world markets. Even though difficult to implement, pushing for regional integration within heterogeneous groupings would lead to larger gains than if the groupings were more homogenous (de Melo and Tsikata, 2014). The development component deserves no comment. Finally, keeping SDT would have required that the EU does not extend preferences to other countries.

Apart from South Africa, which continues to export under its own free trade agreement (FTA) with the EU (the Trade, Development and Cooperation Agreement (TDCA)), the remaining African, Caribbean and Pacific (ACP) countries in the final stages of negotiating a ‘full’ EPA now export to the European market under one of the following regimes (listed in terms of increasing preferential access):

- the EU Generalized System of Preferences (GSP);
- the GSP⁺ sub-regime²;
- Everything But Arms (EBA) sub-regime in the case of LDCs which gives duty-free quota-free (DFQF) access to the EU;

Except for CA-EU EPA initiated in 2007, all other IEPAs negotiations concentrated on Trade-in-Goods issues with much negotiating energy going to draw the exclusion list so as to reach the 80% tariff-free imports from the EU along with the corresponding timetable to reach that objective. In the end, the IEPAs did not result in the negotiation of a “full” reciprocal FTA since only 80% of imports from the EU were to have tariffs eventually set to zero. It is therefore interesting to have an idea of what has been negotiated as opposed to a full reciprocal FTA with all tariffs on EU imports set to zero and what might have happened under a deep agreement including barriers to trade in services.

As expected, a large number of LDCs (26 out of 50) that had duty-free-quota-free (DFQF) market access under the EBA initiative since 2002, have opted not to enter into an EPA agreement reflecting their desire to keep the status quo and therefore not to take up this possibility to liberalize domestic trade bilaterally even though it is politically more appealing than integrating on a unilateral or multilateral basis. In the end, it is the countries that were relatively advanced in their own regional integration with a non-LDC partner (i.e. the EAC and SACU) that opted to enter IEPAs, an indication that these countries value their regional integration efforts and potentially, are more reform-minded.

Table 1 summarizes what was negotiated under the IEPAs in 2007, and the phasing in of tariff reductions among ACP signatories. An inspection of columns 1–3 reveals a great

² The GSP arrangement and its sub-regimes exclude those among the non-LDCs who are negotiating the follow-up to the current interim European Partnership Agreements. The GSP⁺ is a specific incentive arrangement which offers deep tariff cuts for vulnerable countries that ratified and implemented international conventions relating to human and labor rights, the environment and good governance. It concerns additional tariff reductions for essentially the same 66% tariff lines as for the standard GSP arrangement.

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