VOICES OF THE SOUTH ON GLOBALIZATION

No. 11 | December 2006

# A CRUCIAL YEAR AHEAD FOR ACP

## In this issue



Voices of the South on Globalization is a monthly newsletter intended to inspire a meaningful North-South Dialogue by raising awareness for global interdependences and by offering a forum for voices from the South in the globalization debate. Each edition will present short analyses or commentaries from a Southern perspective on one particular issue of the globalization process.
Voices of the South on Globalization is published by IPS Europe with financial support from the Friedrich-Ebert-Stiftung.

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## WILL THEY ACHIEVE THEIR OBJECTIVE?

The June 2000 ACP-EU Partnership Agreement signed in Cotonou provides for the conclusion between the African, Caribbean and Pacific countries and the European Union of "new World Trade Organisation (WTO) compatible trading arrangements, removing progressively barriers to trade between them and enhancing cooperation in all areas relevant to trade". With this in view, economic partnership agreements (EPAs) are being negotiated since September 2002. These will be concluded by the end of 2007.

The Cotonou Agreement establishes a comprehensive framework for ACP-EU relations. At the centre of the partnership are economic development, the reduction and eventual eradication of poverty, and the smooth and gradual integration of ACP countries into the world economy.

At the start of the negotiations of EPAs both sides agreed to take account of and be coherent with the objectives and principles of the Cotonou Agreement because all the different pillars of the Cotonou Agreement should be mutually reinforcing and supportive.

The strategic objectives the ACP group has ordained itself are:

(a) achieve sustainable development and eradication of poverty in ACP States and to foster their smooth and gradual integration into the world economy. In this regard, development-oriented EPAs should be concluded;

(b) achieve sustained economic growth, develop the private sector, increase employment, and improve access to factors of production as well as secure improved and beneficial market access;

(c) enhance the production, supply and trading capacity of ACP countries and their capacity to attract investment as well as strengthen the ACP countries' trade and investment policies;

(d) reduce the dependence of ACP States on the production of primary products and natural resource-based sectors through diversification and increased value-added;

(e) bring about the structural transformation of ACP States into knowledge-based competitive economies capable of facing the challenges of globalization, exploiting new market access opportunities in the EU, the ACP regions and in the world at large, and attracting substantial investment;

(f) address obstacles to the exports of ACP goods and services to the EU market and as regards their domestic production, and in particular problems related to physical infrastructure of ports, internal waterways, rail, roads, air and communication links and the various legal and administrative regimes for trade administration;
***(Continued on page 6)***

## EXPECTATIONS DIFFER

**Jaya Ramachandran**

*The EU-ACP negotiations have been structured around two main phases. The first phase, extending until September 2003, took place between the European Commission (EC) and the ACP group as a whole. The objective of the all ACP phase was to define the format, structure and principles of the negotiations. Phase II of the EPA negotiations opened in October 2003 at the regional level, between each of the self-determined ACP regional groupings and the EU.*

Pointing this out in a background paper for the ECDPM Seminar on 'The Cotonou Partnership Agreement: What role in a changing world?' held in Maastricht Dec. 18-19 Sanoussi Bilal said: "Since the start of the negotiations, EPAs have created a great amount of tension among the two negotiating parties."

Even on the objectives of Phase I of the negotiations, the ACP and the EU had a different opinion. More remarkably, three years into the substantive phase of the negotiations, and although some progress has been achieved, the prospect of EPAs has raised serious concerns and led to further divergences between the EU and the ACP on a wide range of issues, most importantly the approach to development.

According to Bilal, for the EU, EPAs will foster development mainly through trade liberalisation and the creation of the right policy framework to attract investment. By creating free-trade areas among themselves and with the EU, the ACP countries will benefit from trade, fostering economic growth and hence development.

"In addition, by building on the ACP regional integration processes, EPAs should contribute to the establishment of effective regional market in the ACP, thus attracting and stimulating (both domestic and foreign) investment, a necessary condition for sustainable development," said Bilal.

From an ACP perspective, however, EPAs only make sense if they foster development. While most of the ACP states would agree with the EU on the development opportunities entailed in an EPA, they tend to consider trade liberalisation and regional integration as necessary, yet far from sufficient conditions to foster development and alleviate poverty.

"In other words, creating large open regional markets and increasing export opportunities for the ACP require adequate institutions, policies and resources to adjust and foster the necessary economic transformation and to produce and market their goods competitively. It is at the interface between trade and development that the EPAs have yet to emerge as coherent development instruments," Bilal pointed out.

Many stakeholders from ACP countries, some EU member states and a large coalition of southern and northern non-governmental organisations (NGOs) under the umbrella of the 'Stop EPA campaign' maintain that the current EPA negotiations do not include those elements required for economic development and export growth to actually occur, and have increasingly been voicing these concerns.

According to the 'Stop EPA Campaign', the creation of a free-trade area between countries with such different development levels would disrupt local production and government revenues, create unemployment and impose liberalisation of services and investment regimes, ultimately increasing poverty rather than reducing it.

In fact, although the Cotonou Partnership Agreement (CPA) explicitly refers to EPAs as the option for new trade agreements, such arrangements are not the only possibility envisaged in the agreement text, Bilal said. Neither the EU nor the ACP are bound to conclude EPAs, as Article 37 of the CPA explicitly offers the possibility for alternative arrangements, distinguishing between the two cases of LDCs and non-LDC ACP countries.

Earlier this year the range of alternative options to an EPA was presented by European Centre for Development Policy Management (ECDPM). These include *alternative EPAs*, which comply with GATT Article XXIV (in its current or revised from) and *alternative to EPAs*, should the new trade regime deviate from the reciprocity principle, and thus fall outside of the scope of GATT Article XXIV.

The EU considers that the EU GSP is the only alternative to EPAs. This would imply that the enhanced version of the EU GSP, named GSP+ would apply to non-LDC ACP countries and LDC ACP countries would benefit from the 'Everything but Arms' initiative, granting LDCs duty-free access to the EU market for all products. The EC stresses that this would be a second-best option, dealing only with duty and quota restrictions, and that the ACP would then miss on the opportunity to build effective regional markets and fail to address real market access issues.

Bilal said: "Whereas each scenario differs in scope and in terms of their political feasibility and acceptability each ACP country and region should through a consultative process identify the ´relevance of various alternative trade regimes in relation to its overall national or regional development strategy. The current formal and comprehensive review of EPAs could provide a good opportunity to consider the options available." ☑

## ENSURING DEVELOPMENT FRIENDLY EPAs

**Richard Joshua**

*Despite wide divergences on the approach, both the EC and the ACP agree that EPAs are above all about development. It could be argued that for the positive development effects of EPAs to be brought about, the EPAs must exhaustively address the various linkages between trade and development.*

Three categories of measures are important in this context, according to experts:

Trade (-related) regulations: The trade and trade-related provisions of the agreement will need to take account of the specific needs and vulnerabilities of the ACP countries and regions. If the rules and measures in the EPAs do not reflect these specificities, the ACP will probably not benefit from the free trade agreements, despite the merits associated with trade liberalisation. Examples of necessary measures are asymmetric trade liberalisation, allowing ACP countries to postpone and/or exclude sensitive products from trade liberalisation in the EPAs, while the EU liberalises all imports from ACP from the date of entry into force of EPAs.

Accompanying measures and policies: Accompanying and adjustment measures and policies will facilitate the preparation, negotiation and implementation of trade and trade-related measures and are necessary for ACP countries to reap the benefits and meet the challenges of trade liberalisation with the EU.

"Indeed, trade rules alone cannot deliver on the development promise," a background paper presented at the ECDPM seminar noted. The rules need to be framed within a set of policies and accompanying measures to be able to stimulate economic growth. Since trade rules generate winners and losers, they also need to be complemented by parallel economic and social policies to ensure a fair and equitable distribution of the benefits from an EPA.

Effective processes for support delivery: Effective and efficient delivery of assistance is required to finance the adjustment and accompanying measures. If promised support is delayed by heavy procedures for example or does not actually reach the intended beneficiaries, the ACP will not be in a position to benefit from the opportunities offered by an EPA.

The human and institutional capacity to negotiate and implement the trade agreements are two major cross cutting issues that affect the possibility of EPAs to be real development instruments.

ACP countries are currently engaged in several negotiations; namely at regional integration level, with the EU in the EPA negotiations and at a multilateral level in the WTO negotiations.

Many of the issues are actually discussed at all three levels and outcomes at one level may have a profound impact on the negotiations at other levels. It is therefore crucial to build and strengthen the ACP capacities to prepare and negotiate these various trade agreements. Once concluded capacity is also needed to implement these agreements.

Besides the capacity constraints, another factor that will influence the extent to which the ACP countries will benefit from EPAs is the quality of institutions. Institutions, which were long neglected as a factor of importance, have recently received a lot of attention and are now considered one of the most important determinants of economic growth. In a similar fashion, the relationship between institutional quality, trade openness and economic growth has been researched as well and concluded that for many (not all) ACP countries the level of institutional quality is that low that they are unlikely to reap benefits from trade liberalisation12. Institutional development is therefore a prerequisite for the EPAs to succeed in their objectives.

For EPAs to become instruments of development, the ACP countries need to engage in complementary reforms and adopt appropriate accompanying measures, address their supply side constraints and the competitiveness of their products. The Aid for Trade (A4T) debate that has been ongoing at multilateral level is an attempt to address some of these challenges13. The A4T initiative recognizes the developing countries' needs for (financial) assistance to be able to take advantage of the potential benefits from liberalized trade and increased market access and to facilitate their integration into the multilateral trading system.

The EU acknowledges the constraints but argues that the EPA negotiations, as foreseen in the Cotonou Agreement, were about trade and trade-related issues only. Secondly the development assistance for the ACP is already covered through the European Development Fund (EDF). The 10th EDF amounts to € 22.7 billion for the 2008-2013 period. It should also be noted that the EC does not have the mandate from EU member states to enter negotiations on development assistance.

At the General Affairs and External Relations Council (GAERC) on October 17, however, the EU member states agreed to provide bilateral funds for Aid for Trade on top of the EDF administered by the EC. These conclusions establish an explicit link between Aid for Trade and the development support for EPAs. ☑

# REGIONAL CONFIGURATIONS IN AFRICA

**Richard Joshua**

Eastern and Southern Africa (ESA) constitutes one of the continent's largest economic groupings, facing common development challenges but also displaying a significant degree of heterogeneity.

Eleven of the region's sixteen members are least developed countries, and the majority are also highly indebted poor countries (HIPC), spending more than half of their export earnings to service their external debt. The region has a market size of nearly 300 million people, generating a GDP of 80 billion dollar per annum. Growth has been stagnant in recent years, with ESA economies still dominated by agriculture and increasing poverty associated with economic weaknesses.

This, together with the lack of basic infrastructure and social services, the political instability in several member countries as well as the high incidence of diseases like HIV/AIDS, malaria and tuberculosis, explains the extremely low life expectancy and economic welfare of the region's people.

Despite these common features, the ESA countries represent a wide range of economic performances and development levels. In 2004, for instance, Ethiopia ranked fourth as top performers in Africa (with 11.6 percent real GDP growth); while the Seychelles and Zimbabwe were the bottom two (with –2.0 percent and –6.8 percent, respectively).

Recent reports show Mauritius, and to a lesser extent Uganda, and Rwanda, as on track to meet several of the Millennium Development Goals, although most of the other members will likely miss them all.

The region's main exports are coffee, tobacco, flowers, minerals, fish, tea and sugar (with some countries being mono-exporters of commodities). ESA members are net importers of raw materials, intermediary products, foodstuffs, finished goods, capital equipment, tools and machinery. The European Union is the region's main trading partner, accounting, respectively, for 34 percent and 23 percent of total ESA exports and imports in 2003.

Trade with the European Union underlines ESA specialisation patterns, with agriculture and machinery representing, respectively, 52 percent of EU imports from the region and 42 percent of EU exports to it. Intra-regional trade among ESA members has been steadily increasing in recent years due to regional integration initiatives.

ESA countries are currently pursuing a series of external trade negotiations, including those at the multilateral level in the context of the WTO. They are also negotiating an EPA with the EU. The EPA, by end 2008, is to replace the 30-year-old Lomé non-reciprocal trade regime.

The 16 West African countries, inhabited by 242 million people, with almost 130 million in Nigeria alone, form a politically and economically diverse group. Politically, situations vary from open conflict and instability verging on civil war to consolidated democracies.

Economically, alarming socio-economic indicators reflect the region's acute poverty. West Africa's gross domestic product (GDP) per capita amounted to just 326 dollars in 2004. Basic social indicators are below the average for sub-Saharan Africa, and the United Nations Development Program (UNDP) classifies all 16 countries, except for Ghana, as "low human development". Indeed, all of the countries, with the exception of Nigeria, Ghana and Ivory Coast, are categorised as least developed.

Most West African economies are scarcely diversified. Manufacturing's share is weak, and commerce centres on primary products: agriculture and animal husbandry in all countries, fisheries in the coastal countries (especially Mauritania and Senegal), mining (Mali, Mauritania) and petrol (Nigeria).

These features make the region highly dependent on exogenous factors, such as price fluctuations, climatic hazards and changes in importing countries' policies. Average economic growth has amounted to about 3 percent in the period since 1994. In 2004, regional GDP totalled 78,893 million dollars, with Nigeria accounting for more than half that amount (41,373 million dollars in 2001).

Regarding intra-regional trade, official flows remain low, despite regional integration initiatives. In 2001, trade within the region accounted for a mere 13 percent of total trade, compared to 11 percent in 1996.

These weak figures are explained by the lack of complementarities among West African economies as well as by the existence of tariff and non-tariff barriers. Official trade data, however, do not reflect the informal cross-border trade which is prominent in the region.

Looking at external trade, available global statistics show a positive evolution since 1996. In 2003, West African exports amounted to 32,056 million euro, corresponding to a growth of 7.5 percent over 2002. The European Union is still West Africa's main trade partner, accounting for 32 percent of the region's exports and 37 percent of its imports in 2003. ➩

## REGIONAL CONFIGURATIONS IN THE CARIBBEAN & PACIFIC

**Jang Bahadur**

***(Continued from page 4)***
The United States is rising in importance in trade, accounting for 27 percent of the region's exports and 8 percent of its imports in 2003. Other countries, such as India and Brazil, are becoming key importers of West African products; while China and South Korea are growing in significance as exporters to the region.

Agricultural products accounted for 31 percent of West African exports to the European Union in 2004, although this sector's importance is masked by the value of Nigerian petrol. The region's two main export products to Europe are fuels and cocoa, accounting respectively for 45 percent and 21 percent of total EU-bound exports in 2004.

Despite efforts to integrate into the world economy, West Africa has thus far been unable to benefit from the global trade liberalisation trend. Its share in world trade remains insignificant. To illustrate, EU-West Africa trade flows accounted for just 1.25 percent of EU exports and 1.03 percent of EU imports in 2004.

The Southern African Development Community (SADC) is composed of a diverse group of countries facing various development challenges. Among the region's fourteen countries, with a total of more than 200 million inhabitants, there are large differences in size, economic development, trade patterns and factor endowments.

SADC comprises eight least developed countries, some land-locked and small and vulnerable economies, as well as one prominent country, South Africa, which accounts for over two-thirds of the region's economy. SADC is pursuing intra-regional trade integration, forming a free trade area (FTA), with the ambition of moving towards a customs union.

In parallel, several SADC members are involved in negotiations with other regional organisations. Moreover, SADC is engaged in negotiation of an EPA with the EU, which is to replace the thirty-year-old Lomé non-reciprocal trade regime by January 1, 2008.

While South Africa's trade has surged since 1994 under the post-Apartheid regime, the SADC region has remained a marginal player in the international market. With a relatively stable 0.80 percent share of total world exports over the decade 1992-2002, SADC has not yet been able to fully benefit from the global trade liberalisation trend. Nonetheless, SADC countries are highly dependent on trade, with exports generally concentrated in a few commodities (mainly agricultural products) and services/tourism. SADC's main trading partners are the European Union, the United States and increasingly China. ☑

The Caribbean region is composed of many small islands that are greatly dependent on trade for their economic development. In 1999, the share of trade in the region's gross domestic product (GDP) amounted to 80 percent, compared to 49 percent for sub-Saharan Africa and 46 percent for the world on average.

Despite the importance of its external trade relations, particularly with the United States and the European Union, the Caribbean has experienced a sharp decline in its share of world trade, falling from 1.7 percent in 1950 to 0.2 percent in 2000 with regard to world merchandise exports.

The region has therefore been unable to benefit from global trade liberalisation. Furthermore, the Caribbean economies are scarcely diversified, with services, especially travel and tourism, and agriculture currently playing the major role.

At the regional level, the Caribbean is pursuing its own economic integration process through the implementation of the CARICOM Single Market and Economy (CSME), whose first component, the single market, was launched in January 2006.

**The Pacific**

The Pacific ACP (PACP) region is composed of small island states spread across a large portion of the southern Pacific Ocean. The development challenges facing the region are largely a function of the peculiar characteristics of its island states.

They are diminutive in size, geographically dispersed, isolated, vulnerable to natural forces (including climate change and sea-level rise) and have scarce energy resources. Their geographical features, diversity of cultures and languages and the breadth of the ocean contribute to the beauty of the Pacific Islands, but also constitute a serious obstacle to their economic development, and especially to the expansion of markets (both domestic and regional) and foreign trade.

Indeed, the region suffers from significant competitive disadvantages and stagnant economic growth, particularly due to high transport costs (affecting both imports and exports) and low and declining investment flows (both domestic and foreign).

The main trading partners of PACP countries are Australia and New Zealand (as well as the United States for some). The PACP countries have little trade with the European Union, except for Fiji, Papua New Guinea and Vanuatu. ☑

## WILL THEY ACHIEVE THEIR OBJECTIVE?

*(Continued from page 1)*

(g) foster inter-linkage and complementarity between development strategies supported by the EU, and economic and trade cooperation to make them mutually reinforcing, particularly as regards economic and trade reforms, factors that favour investment, regional cooperation and integration processes, sectoral policies and the development of capacities in the field of trade. EPAs should be consistent with and contribute to the strengthening of regional integration initiatives;

(h) secure the underwriting by the EU of the costs of adjustment associated with the implementation of EPAs through the creation of a financial facility additional to and distinct from the EDF;

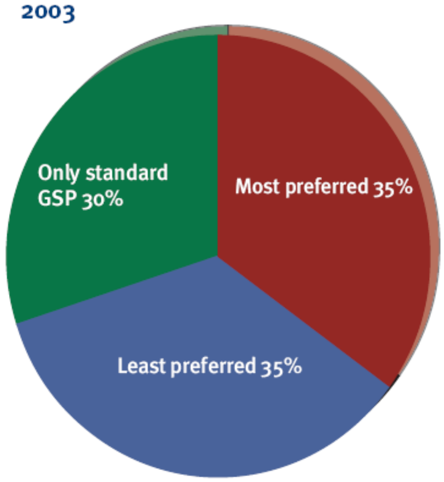
(i) establish a mechanism that will contribute to a durable solution for the problem of external indebtedness of ACP countries.

The two sides agreed at the very outset that a special and differential treatment be accorded all-ACP states, especially the vulnerable LDCs and the small landlocked and island countries. 40 out of the 78 ACP countries are least-developed countries (LDCs). The majority of the remaining 38 are on the fringes of the LDCs when viewed in terms of the proportion of the population living under the poverty line and the vulnerability of some of the economies, particularly those of the small, island and landlocked countries. Development must therefore be at the core of the EPA negotiations.

ACP countries have over the years established regional cooperation and integration arrangements as a process to aid their development initiatives and position the regional groupings in the competitive global economy. Internal to these various regional integration arrangements are "special and differential" facilities accorded to countries within the regions that are characterised as less developed. These arrangements have provided a factor of sustainability for the regional integration processes.

EPA negotiations are taking place between the European Commission (EC) and the ACP in six regional groups. On the European side, the EC is negotiating on the basis of a mandate approved by the EU member states in 2002. If it can reach agreement on these terms, it must submit the EPAs to the European Council for approval by majority vote; failure to obtain such approval would require renewed negotiations with the ACP. Experience suggests that obtaining Council approval will be time consuming. Realistically, this means that there must be a deal with the ACP at latest by September 2007 for the end of the year deadline to be met.

**Figure 1: Share in total EU import value, 2003**




Source: derived from UNCTAD's TRAINS database

As the London-based Overseas Development Institute (ODI) points out in a brief, there is no doubt that EPAs will create winners and losers in the ACP countries and they must be integrated into development and regional strategies if they are to have a positive effect. This means that draft details must be widely discussed within governments and with stakeholders. Hence the need to have full first drafts by end 2006 to allow time for ACP debate and revision before 'final' texts are submitted to the EU Council.

When (or if) concluded, EPAs will have a profound impact on the ACP countries and regions. The ambition is to develop open, regionally integrated markets, conducive to economic activities and that effectively contribute to sustainable development and poverty alleviation.

However, to be meaningful, EPAs cannot be an end in themselves. They must be embodied in and stimulate a broader development agenda that would entail major domestic reforms and adjustments, including at the institutional, productive and infrastructure levels, as well as in terms of governance and social policies. Under these conditions only can the grand design of an EPA deliver on its development promises.

Will the objectives the ACP group has set itself be realised when negotiations conclude end of next year? Haven't these already been watered down during the last five years?
**– Ramesh Jaura** ☑