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Regional Integration and EPAs Timing and Safeguards

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The EU conducts its external trade relations along two parallel tracks: the multilateral track in the World Trade Organisation (WTO) and the bilateral track through free trade agreements (FTAs) with individual countries and groups of countries. Since the 1990s the bilateral track has accelerated as ‘the new regionalism’ has gathered momentum. Structural changes in the global economy, notably the fall of communism in Eastern Europe, the end of apartheid in South Africa, and the rapid advance of economic globalisation, have triggered the new regional integration trends. Table 1 gives an overview of developments in EU trade relations since the 1990s.

Table 1: Recent Developments in EU Trade Relations

1993	<ul style="list-style-type: none"> • Association Agreements with countries from Central and Eastern Europe (CEE)
1995	<ul style="list-style-type: none"> • Framework Agreement on Inter-Regional Cooperation with Mercosur • Euro-Mediterranean Partnership launched
1999	<ul style="list-style-type: none"> • Free Trade Agreement (FTA) signed with Mexico • Partnership and Cooperation Agreements (PCAs) with Russia, Ukraine and Moldova.
2000	<ul style="list-style-type: none"> • FTA negotiations start with Mercosur • FTA signed with South Africa
2001	<ul style="list-style-type: none"> • ‘Everything but Arms’ initiative agreed • Doha Development Round launched
2002	<ul style="list-style-type: none"> • Decision to accept 10 new countries into the EU in 2004 • Decision to accept 2 new countries into the EU in 2007 • Decision for possible launch of accession negotiations with Turkey in 2004.
2002	<ul style="list-style-type: none"> • FTA signed with Chile • ACP-EU negotiations begin with aim of setting up Economic Partnership Agreements
<i>Source:</i> Overseas Development Institute, London	

Following full integration of ten new countries into the Union in 2004, the EU is now set to accelerate integration with other neighbouring countries in the Balkans, Russia,

Ukraine and Moldova, as well as the Mediterranean countries. Against this background of rapidly changing trade relations, where does the ACP stand?

The ACP countries have always been at the apex of the EU's network of preferential relationships. The ACP model has been considered a leader in the development community. Partnership has been the theme of relations between the EU and the ACP countries since the Yaounde Convention. Partnerships are broader in scope than economic FTAs. They create institutional frameworks such as joint parliamentary assemblies and structures for dialogue to develop reciprocal political accountability. The EU now wishes to expand the framework of cooperation with ACP countries.

The objective of this paper is to provide a basis for discussion in the ACP Orientation Session with trade negotiators on the major issues relating to the forthcoming EU-ACP negotiations. As such, it is intended to provide an introduction to the key issues, and to provide examples from existing Agreements that could be relevant for the ACP. Questions and more detailed discussion of the issues are expected to follow in the Orientation session.

Setting the Context

The ACP countries now face new challenging questions at the regional and global level:

- Whether the bilateral preferences granted by the EU will be eroded by the Doha Round of multilateral negotiations?
- whether the results of the multilateral negotiations will significantly improve trading conditions for the poorer countries?
- what should be the core economic substance of the Economic Partnership Agreements (EPAs) which they are now going to enter into with the EU?

The answers to these questions are extremely important because trade is the most important channel for the reduction of poverty, which is so widespread in ACP countries.

The multilateral negotiations in the WTO will indeed gradually erode the preferences given to developing countries. Gradual liberalisation of trade on a world scale, leading to greater integration into the world economy will end the special and differential treatment of the developing countries. The current WTO waiver for ACP preferences will end in 2008. Table 2 gives the key trade decisions that will affect ACP countries for the coming years.

It is impossible at this point in time to answer whether the Doha round will improve the trading conditions of poorer countries, as the Round has not yet ended. So far progress has been slow. The Cancun Meeting may break the logjam on a whole host of issues which to date have made little headway. However, developing countries are not passive participants in the negotiations during this round. They are increasingly well organised and successful in the participation. Nevertheless, the least developed countries (LDCs) still suffer from capacity constraints, which may reduce their chances of getting a positive outcome.

Table 2: Future Timetable of Key Trade Decisions relevant to ACP

2003	<ul style="list-style-type: none"> • EU launches new policy for integration of Eastern Europe and Southern Mediterranean Countries • EU Farm Ministers decide on CAP reform • WTO Cancun Ministerial meeting
2004	<ul style="list-style-type: none"> • Generalised System of Preferences (GSP) expires
2005	<ul style="list-style-type: none"> • Completion of Doha Round (?) •
2007	<ul style="list-style-type: none"> • Negotiations on Economic Partnership Agreements to be completed
2008	<ul style="list-style-type: none"> • WTO Waiver for ACP countries trade preferences expires • Economic Partnership Agreements set to begin
<p><i>Source:</i> Overseas Development Institute, London.</p>	

One of the most important tests of the Doha Round will be the extent to which agricultural trade is liberalised. Opening up of this sector would help developing

countries to increase their exports, reduce their imports and improve their overall trading situation. This sector is believed to have the greatest potential for poverty reduction. However, the potential importance of agricultural liberalisation is perhaps exaggerated, as poorer countries may not be adequately equipped to face international competition in food production and processing which is a very capital-intensive sector in industrial countries. The symbolic importance, however, is very important.

The ACP countries are also facing political challenges concerning the continuation of their special relations with the EU. Despite the fact that the Cotonou agreement, which has just been ratified, is destined to last for twenty years, there are threats from new regional groupings, especially NEPAD, which has been formed in collaboration with the African Union. This could provide a wider platform for dialogue between the EU and African countries from both North and South cutting across traditional ACP boundaries. Since the end of apartheid, South Africa has rejoined Africa and this has led to such far-reaching changes that there is now the possibility that the EU may prefer to deal increasingly with NEPAD.

But one could also imagine the scenario where the AU strengthens the African position within the ACP and thereby strengthens the position of the ACP as a whole. The larger size of the ACP, with 77 members, compared to the 53 members of the AU could well strengthen its position in international fora, notably the WTO. However, political coordination between such a large number of countries is very difficult. The EU with only 15 members already finds it very hard to do this.

Furthermore, the EU is increasingly concerned with non-economic issues such as human rights, democracy, good governance, the rule of law and the link between economic aid and policy reform. There will be an increasing demand from the part of the EU that the 'dialogue' within the EPA include these political issues.

It is against this uncertain background that the EU has proposed to build on the Cotonou agreement by negotiating EPAs. Many development groups have criticised this coercive strategy by the EU of putting maximum pressure on ACP countries on two fronts simultaneously – through the multilateral channel in Geneva and through the bilateral channel in the EPAs. What is important to understand is that the EU is

now adopting this approach across the board with all its major groups of trading partners. It is a general and non-discriminatory approach. Therefore, it is crucially important for the ACP to devise an appropriate strategy for achieving development friendly agreements.

The New EU Approach: Expanding Markets through regional integration

When we look at the various Association or Partnership agreements which the EU has recently negotiated with countries, whether in Central and Eastern Europe or in the Mediterranean region, we see they go beyond standard trade liberalisation to achieve market access. The new approach is based on ‘expanding markets’ by linking up trade liberalisation to regional economic integration. By ‘regionalising’ their markets, countries can expand their market and thereby attract foreign direct investment (FDI), which is a major locomotive of trade today. Empirical evidence shows that expanding markets leads to higher export growth for developing countries than by traditional trade liberalisation. In return for adopting the appropriate policies for expanding markets, the EU offers access to its own large internal market. In addition, it is prepared to offer considerable amounts of financial aid and trade-related technical assistance to support the adjustment costs of countries in order to reform their policies.

The EU now comes to the EPAs with a comprehensive agenda for liberalisation similar to its standard approach. The Commission’s negotiation mandate shows that the trade liberalisation envisaged is wide in scope: it will include liberalisation of goods and services. In addition, it includes liberalisation of capital movements, trade related areas of competition and protection of intellectual property rights, as well as investment, government procurement, and technical barriers to trade such as standards and technical regulations.

The EPAs expect to bring benefits of attracting more foreign direct investment (FDI) and thereby foster trade and economic growth. But they also run the risk of exposing very vulnerable economies to such strong competition with industrial countries that they are not able to withstand the pressure. In this context a number of problematic questions need to be addressed at the outset.

- How will the EU deal with heterogeneity within the ACP group with respect to levels of economic development and their needs?
- How will the EU deal with the significant adjustments that will be required in the ACP countries?
- Will the EU accept differentiated levels of trade liberalisation?
- Will countries be pressured in the negotiations to sign up under threat of diminishing aid levels?
- Should ACP countries rethink the compatibility of the EPAs with their multilateral agenda? Some Caribbean countries now seem more interested in gaining access to the US market than to the EU, and countries in the Pacific are considering closer links with Australia and New Zealand.

These questions have already been debated at some length in the development community. Development NGOs, who have analysed the negotiation mandate of the EU for the EPAs have advocated the following general guidelines to assist ACP countries to get a fair outcome and a development friendly agreement.

- Transparency: the negotiations should take place in conditions of maximum openness and transparency.
- Inclusiveness: the negotiations should be open to all interested stakeholders, including civil society. The development non-governmental organisations (NGOs) play a critical watchdog role in monitoring EU development policy so that it is based on poverty reduction.
- The EPAs should not result in market access conditions for any country which are worse than those in the Cotonou agreement
- The EU must respect the principle of non-reciprocal preferences for the least developed countries.
- There is no 'one size fits all' for the negotiations and the trade negotiations should be tailored to meet the specific needs of individual countries.
- The capacity constraints of ACP countries must be taken into consideration
- The socio-economic impact of communicable diseases such as AIDs must be taken into consideration.

- The EU should not segment ACP into sub groups

In approaching the forthcoming EPA negotiations it may be helpful to look at some of the recent experiences of EU preferential agreements. While the fundamentals of the EU approach is basically similar, there are variations according to different regions. For example, the Association agreements with the countries of Central and Eastern Europe (CEE) contained fast track liberalisation as these countries prepared for full integration into the EU over the ten years 1993-2003. The Euro-Med Agreements have less intensive liberalisation and a slower path towards regional integration between the countries of North Africa and the Middle East (MENA). In the next section we present a brief overview of the Euro-Med partnership agreements which can be elaborated on in the course of the Orientation Session if the participants so wish.

The EU Partnership Agreements with Mediterranean countries

There are many similarities between the Mediterranean and ACP countries. They have relatively small markets and therefore exports will be the key factor in achieving economic growth and development. Key features of trade for both Mediterranean and ACP countries show high dependency on the EU market and little integration to foster intra-regional trade flows.

The Euro-Mediterranean partnership, which was launched in 1995, consists of bilateral agreements with individual countries, and, in addition, a clear regional dimension that envisages a free trade zone in the MENA region by 2010. The bilateral dimension includes a framework for trade liberalisation, supported by EU financial assistance. The explicit regional dimension encourages the development of intra-regional initiatives and cooperation in a broad range of sectors. The policy of encouraging intra-regional cooperation consists of three Chapters supplementing the bilateral framework: the Political and Security chapter, Economic and Financial chapter, Social, Cultural and Human chapter. Since 1995 seven meetings of the Foreign Ministers have taken place together with 16 meetings of sectoral ministers. These meetings have launched a number of joint cooperation initiatives financed

through the EU regional programme. Table 3 shows the current status of the EU's partnerships with Mediterranean countries.

Table 3: Euro – Mediterranean Partnership Agreements

Country	Signed	Entry into Force	WTO status
Israel	1995	2000	Member
Tunisia	1995	1997	Member
Morocco	1996	2000	Member
Palestinian Territories	1997	1997	Non-member
Jordan	1997	2002	Non-member
Egypt	2001		Member
Algeria	2002		Non-member
Lebanon	2002		Non-member
Syria*			Non-member

*An association agreement with Syria is under negotiation.

Source: E. Philippart (2003), and T. Beart (2002).

What has been achieved in the Euro-Mediterranean partnership agreement? Table 4 gives a snapshot of the liberalisation programme undertaken. On trade in goods the objective was to achieve zero tariff levels over a twelve-year period and elimination of most quantitative restrictions. The target for liberalisation of agricultural products was much less ambitious and left open to be negotiated. Therefore, liberalisation of agricultural trade was very limited. Concerning liberalisation of trade in services, the target set was that of the WTO/GATs level. This implies a level of liberalisation which is much lower than in the EU. In the area of financial services, there was no provision calling for the liberalisation of capital movements. Neither is there any requirement to liberalise foreign direct investment (FDI) In the other areas of trade such as facilitation of trade and competition there is cooperation but no strong commitments are required.

Elimination of tariffs and quotas is not sufficient to achieve market access. There is also need to address the problem of standards. Where national standards differ they will segment markets and prevent integration. The EU did not address this issue in a

satisfactory way in the Euro-Med agreements. The countries were encouraged to approximate their standards but no clear target or timetable was set, they just adopted an open-ended approach. The same was true for mutual recognition agreements.

In contrast, the EU required the countries from CEE to adopt EU rules and gave considerable technical assistance to those countries.

Table 4: Liberalisation in Euro-Med Partnership Agreements

Trade Barrier	Liberalisation
Tariffs on industrial goods	To go to zero
Removal of quotas, industrial	Mostly
Tariffs on agricultural products	Reduction to be negotiated
Removal of quotas, agricultural	Reduction to be negotiated
Transition period for tariff removal	Up to 12 years
Customs cooperation	Yes
Harmonisation of technical standards and mutual recognition	Open-ended approximation objective
Rules of origin	Adoption of EU rules
Safeguards and anti-dumping	Yes
Services	GATS /WTO level
Right of establishment and national treatment	Objective only
Intellectual property rights	TRIPs/WTO level
Competition rules	To respect EU policy guidelines, cooperation and coordination
Free movement of capital	No
Financial aid	Yes
Economic cooperation	Yes
Political/cultural cooperation	Yes
Institutions	Intergovernmental
<i>Source:</i> Centre for European Policy Studies, Brussels	

Lessons for the EU-ACP countries?

The experience of the Euro-Med partnership may offer some lessons for the ACP countries. Clearly a more detailed analysis of the agreements and the structure of the economies of MENA and ACP countries would be required before drawing definitive

conclusions. From our brief survey here we suggest the following issues for consideration in the Orientation Session.

- Liberalisation of agriculture

The liberalisation of agriculture should be given high priority in any future EPA.

Agriculture is of special importance to the ACP countries. Agricultural exports make up 36% of agricultural exports from the ACP countries. So the reform of the CAP and its effects upon the ACP structural reforms must be discussed. The ACP will lose revenue by decreasing tariffs therefore this needs to be made up for by increased exports. The reform of the CAP is beyond the remit of the negotiating mandate but the distortionary effects of the CAP on EU ACP trade must be discussed if the EU is serious about its commitment to comprehensive trade and economic cooperation. So the EU should be open to discussing the negative effects of the CAP on trade with a view to minimising the negative impact thereof. The EU farm ministers decide this summer on the reform of the CAP. If the EU fails to make the necessary reforms, this will not only jeopardise the success of the Doha Round, but also impact negatively on the EPAs.

Also important in the area of agricultural trade is the issue of sanitary and phytosanitary standards and the difficulties which exporters will face in satisfying EU standards. Liberalisation will not lead to increased market access if these standards can not be met.

Liberalisation of agricultural trade will have to be supported by a programme of technical assistance to ensure that the standards will be met. Without this technical and financial assistance the ACP exporters will be confronted with heavy costs that could outweigh the benefits of liberalisation.

- Liberalisation of services

Liberalisation in services is as important as liberalisation in goods. Developing countries have comparative advantage in service sectors such as tourism and construction. So the ACP countries could accept liberalisation along the lines of the

WTO/GATS model. The EU puts special emphasis on certain sectors, notably financial services. While it is true that greater availability of credit in developing countries is essential, the liberalisation of the financial sector is more risky in those countries than in industrial countries – as the empirical evidence has shown. Therefore, liberalisation of capital movements should be very gradual with sufficient safeguards in place to prevent a financial crisis. The ACP should emphasise liberalisation in the sectors where they have comparative advantage. Where these services are labour-intensive, the EU should not restrict access to its market on the grounds of its immigration regulations.

- Technical Barriers to trade

The EU must address the problem of technical barriers to trade in a comprehensive way. The problem of technical standards should be addressed by a clear strategy of harmonisation or mutual recognition and it must be supported by financial and technical assistance to help ACP countries meet the costs involved and ensure the needed capacity building. Technical assistance could include the exchange of experts, the exchange of information on legislation, organisation of seminars, training activities, and aid for the translation of EU legislation in the relevant sectors. In addition, there is need for financing of regional cooperation initiatives to adopt regional standards between ACP countries.

- Financial and Technical Assistance

The EU must provide considerable amounts of financial and technical assistance to cover the adjustment costs incurred by liberalisation and to overcome the capacity constraints faced by ACP countries.