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*EU-ACP Economic Partnership Agreements and Development:
The Crucial Role of Institutional Capacity Building*

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1. Introduction: From Lomé to Cotonou

The European Union (EU) is the most important trading partner of the African, Caribbean and Pacific (ACP) countries, absorbing more than one third of their total exports in 2002. Between 1975 and 2000 trade relations between the two groups of countries have been governed by the Lomé Conventions non-reciprocal trade preferential regime. The EU granted almost free access to the vast majority of products originating from the ACP countries. This preferential regime was meant to enhance export growth and foster economic diversification among ACP economies. However, after more than 25 years, results have not lived up to expectations. Globally speaking, the Lomé regime has neither stopped the marginalization of the ACP countries in international trade, nor led to significant export diversification. The share of ACP exports in total EU imports has decreased from 6,7 per cent in 1976 to less than 3 per cent in 2003. Besides, ACP exports have remained concentrated in a few numbers of commodities, with only five products (oil, diamonds, cacao, fisheries and wood) accounting for around 60 per cent of total ACP exports to the EU in 2003. In addition, the Lomé system has been the subject of several legal actions at the World Trade Organization (WTO).

Against this background, the EU and the 76 ACP countries started in September 2002 with the negotiation of Economic Partnership Agreements (EPAs). These EPAs are comprehensive free trade agreements that will replace three decades of non-reciprocal trade preferences by the 1st of January 2008. Beyond market access issues, EPAs will also address other areas relevant to trade including competition policy, intellectual property rights, investment, standards, sanitary and phyto-sanitary measures (SPS), consumer protection, public procurement, trade and environment, trade and labour standards, etc.

The EPAs will be progressively implemented over a period of 10 to 12 years. A key feature of the EPA negotiations is that they will be concluded with six ACP

sub-regions and regional groupings¹ rather than with single countries. Success or failure of EPAs, will, therefore, depend of the state of, and the progress made with regional integration processes in the ACP regions. This short paper will address some important issues related to the EPA negotiating process including:

- (i) the effects of the EPAs on regional integration and
- (ii) the effects of the EPAs on development and poverty reduction and
- (iii) the critical role of institutional capacities to enable ACP countries to take full advantage of the EPAs.

2. Will EPAs promote regional integration?

In theory trade liberalisation and regional integration should have overall positive effects on economic growth: fewer barriers to cross border economic activities will lead to increased competition, greater efficiency, lower prices , transfer of knowledge etc. In practice, the European Union has probably been the most remarkable success story of regional integration worldwide with a gradual process of regional integration leading to sustained economic growth and political and social stability.

However, the European example of economic integration has been and still is a very costly and time-consuming process, requiring sophisticated institutional capacities to distribute the benefits of regional integration on an equal basis. What has worked in the European context cannot be transferred to a fundamentally different ACP context. At best a number of interesting process elements such as sequencing, timing, variable geometry, redistribution and compensation mechanisms, can be learned from the European integration process.

¹ ECOWAS (+ Mauritania), CEMAC (+ Sao Tome and Principe), ESA, SADC, CARIFORUM, Pacific.

The negotiations on EPAs provide both opportunities and risks for enhanced regional integration. In terms of potential benefits EPAs could provide an incentive to increased regional trade and investment and stimulate diversification of highly dependent and small ACP economies. Beyond the traditional market access concerns such as tariffs, EPAs also provide the possibility to address, issues such as rules of origin (ROO), or SPS measures. Increasingly these trade related issues constitute a major impediment for ACP agricultural exports to the EU.

In conclusion, EPAs could increase the competitiveness of ACP economies, stimulate domestic and foreign investments and foster economic diversification through the building and consolidation of ACP regional markets and common policies. This could substantially reduce their vulnerability and dependency on Northern markets. So far, not only the EC but also large numbers of stakeholders in ACP countries and regions seem to be fully aware of these *potential* benefits.

However, there is also growing scepticism that EPAs may carry major risks for the ACP. The opening of ACP markets to EU imports may lead to increased competition between local and EU (subsidized) products on ACP local markets. This could have serious implications for many ACP producers, given the range of supply constraints they face.

In most ACP regions, integration processes are still in a rather embryonic stage. EPA reciprocity, implying an opening up to EU imports, *before* regional markets have been consolidated could undermine rather than support regional integration. Additional problems relate to multiple and overlapping membership of regional groupings, membership of regional groupings that is composed of both middle-income countries and least developed countries (LDC's), who are eligible for participation in the Everything But Arms regime, lack of complementarity among states within the same regional grouping,

major capacity problems for effective trade policy formulation and implementation etc.

Serious doubts have been expressed in ACP circles, also supported by Northern and Southern development NGOs, about the feasibility, timing and pace of EPAs. This has resulted, amongst others, in the *Stop EPA Campaign*. But also at the level of European member states (e.g. United Kingdom) critical voices have been raised about the lack of ‘right conditions’ to really benefit from EPAs. Without ACP countries and regions making their own decisions on timing, sequencing and product coverage of market opening in line with national development plans, it seems unlikely that the ACP will really benefit from trade liberalisation.

3. Will EPAs promote development and poverty reduction?

The key objectives of the ACP-EU Cotonou Agreement include poverty reduction, sustainable development and smooth and gradual integration of ACP countries in the world economy. In the context of strong focus on achieving the Millennium Development Goals (MDGs) and the WTO Doha Development Round, it also seems important to carefully monitor the development impact of EPAs.

The EC seems to be strongly convinced that EPAs can generate major development effects in terms of substantial reduction of poverty. Particularly DG Trade emphasizes that EPAs will stimulate ACP economic growth and ACP integration in the world economy which will also benefit the poor. If markets function well, increased competition will provide the poor with access to cheaper consumption goods which will increase their overall purchasing power. Liberalisation will also stimulate more and cheaper access to new technologies, knowledge and investment. However, in the view of the critics of EPAs, the above mentioned pro-EPA arguments are overly optimistic.

While it may be true that certain ACP countries have the potential to benefit from EPAs, the majority of ACP countries simply do not have the basic conditions in place to bear the fruits of liberalisation. Most ACP countries are LDCs and the 27 lowest ranking countries on the UNDP human development index, are all ACP countries. For these countries rapid trade liberalisation might not be the answer to poverty reduction and development.

Again the issue of timing, pace and sequencing needs to be looked at very carefully. This implies that ACP countries first need to have the basic conditions in place to benefit from open trade including healthy economic sectors, competitive producers, well-developed market institutions, and effective state capacity. Most ACP countries suffer from major supply side and capacity constraints. They are asked to open up to EU goods before they are in a position to trade competitively. In such a context trade liberalisation can be harmful, particularly in the area of agriculture which is crucial to most ACP countries.

Moreover, the fiscal losses resulting from the move towards free trade could have significant impact on ACP government spending in areas such as health and education. This is particularly the case in those countries where there are hardly any alternative systems of taxation to replace fiscal revenue from import taxes. Obviously, ACP countries and regions should have the necessary flexibility over their own pace of market opening in line with national development plans and poverty reduction strategies.

4. Institutional capacity building: the missing link in EPA negotiations?

From the initial phases of the EPA negotiations it appears that ACP countries and regions are confronted with major capacity problems. They lack human

and financial resources and institutions to participate effectively in the global trading system and to fully take advantage of EPA negotiations. The proliferation of trade negotiations at bilateral, regional and multilateral levels further compounds the capacity problems, particularly of the poorest countries. Strengthening ACP institutions and capacities is a '*conditio sine qua non*' to ensure a positive outcome of EPA negotiations. ECDPM has tried to complement existing knowledge on TCB with lessons of experience from three case studies: one country case study (South Africa) and two regional case studies (Mercosur and the Caribbean). Some of the following lessons, if applied in a coherent way, could be of use to ACP countries in the EPA negotiating and implementation process:

- ***Build common strategic interests through high level government commitment***

The starting point for any effective trade policy making and negotiating process is the strong sense of strategic direction provided by the leadership of the country (e.g. President, Ministry of Trade,...). This may help to promote coherent and clear objectives and expected outcomes, commonly shared strategic interests among key stakeholders and sound analysis of potential impacts of new trade regimes. So far few ACP countries have been able to make this type of strategic analysis of substantive issues of concern and interest to their country and region.

- ***Strong governmental coordination mechanisms with clear lead responsibilities***

To manage effective negotiations ACP countries need strong and effective intra-governmental coordination mechanisms with a clear division of roles and competences and a certain degree of stability and independence from political

interference. Other types of coordination mechanisms are equally important including the interface with the regional groupings involved in the negotiations on EPA's, coordination with the Embassies or High Commissions in Brussels or Geneva etc.

- ***Develop appropriate analytical skills and technical expertise***

There is no substitute during tough negotiations for good arguments and proper preparation. Each country should be able to generate the necessary information on cost and benefits of trade negotiations, essential for trade policy making and strategy development. Trade negotiators who sometimes have to deal with a wide variety of negotiating issues and complex negotiating processes at various levels, for example bilateral with EU, and multilateral with the WTO, need concise, practical and policy oriented analysis with concrete and solid arguments and comprehensive overviews of different stakeholders perspectives. More attention should also be paid to the form in which analysis can be accessed and digested, for example, short Briefs.

- ***Ensure a participatory process through broad based consultation***

While there are no standard models for effective dialogue between government and non-governmental actors in trade, several country experiences point to the importance of well structured organisations of non-state actors (NSAs) and effective platforms for structured dialogue between state and non-state actors. Lessons from the experience of South Africa, Mauritius, Barbados, Botswana, etc. point to a number of key elements that constitute the success of multi-stakeholder dialogue mechanisms: (i) continuity in public policy despite changes in government (ii) representative and politically independent NSA institutions, (iii) a longstanding culture of dialogue and collective decision-making on all major strategic issues built on the principle of partnerships, (iv) 'value-added' of NSA inputs in the process, (iv) issue led approaches and (v)

adequate implementation capacity on the part of both the organisations of NSAs and the government to follow up on actions.

- ***Create effective regional organisations with clear mandates***

The regional dimension of EPA negotiations poses major challenges in terms of regional institutional set-up, pooling of resources, delegation of authority and preparatory work at the political, strategic and technical levels of the negotiations. Simply establishing or re-vitalising existing regional organisations is unlikely to deliver the desired results. Several issues need to be given careful attention, including a clear commitment to delegate authority with control and accountability from the national level to the regions, effective coordination mechanisms between national and regional levels, and major investments in institutional strengthening and capacity building of regional policy making structures so as to effectively play the lead role in EPA negotiations with the EC.

- ***Build a strong lobbying and advocacy strategy***

Anticipating and influencing the position and decision making processes of the negotiating partner - in this case the EU, represents a key component element to a successful negotiation. A sound lobbying and advocacy strategy should therefore primarily target those key strategic players that are crucial in the negotiating process. So far ACP countries tend to target their lobbying efforts on the European Commission and the European Parliament. More could possibly be done to also target EU member states.

- ***Implementation capacity at national level***

Capacity building at the national level is the essential and sometimes forgotten dimension in trade policy making and negotiations. Not only the trade policy formulation capacity but also the implementation capacity should be strengthened. At the end of the day final provisions of a trade agreement need to be executed by national ministries. Capacity building efforts should therefore target a variety of areas including a careful selection and allocation of tasks of the best capacities to be found, development of strong incentive systems to retain and motivate these capacities, the pooling of technical and analytical capacities, the development of learning capacity, institutional memory and practical training, etc. Most ACP countries have now set up national negotiating platforms, with both official representatives and non-state actors to carefully monitor the state of the EPA negotiating process.

- ***Make effective use of double edged sword of donor support***

International funding for trade capacity building (TCB) support has increased markedly over the last years. Both multilateral and bilateral donors have launched a variety of TCB programmes. Experience suggests that it is very difficult to design donor programmes in such a way that they directly assist trade negotiation preparation. The role of donors in trade support can be quite ambiguous, particularly if the same donors are sitting at the other side of the negotiating table. This can lead to a dominance of donor driven approaches instead of country driven negotiating processes, based on developing countries ownership.

Conclusion

EPAs will fundamentally change the relationship between the EU as the world's largest single market and some of the poorest regions in the world. At

this stage it is very difficult to predict the impact of these arrangements on the large and very diverse group of ACP countries and regions. It can be expected that there will be both 'winners' and 'losers'. Whether a country or region will be in the first or the second category will depend to a large extent on the institutional capacities and institutional reforms that are in place so as to fully benefit from free trade opportunities.

Annex 1: Regional Groupings in Africa

Countries of East- Southern Africa (ESA)

Burundi
Mauritius
Rwanda
Seychelles
Zimbabwe
Sudan
Uganda
Zambia
Malawi
DRC
Ethiopia
Eritrea
Djibouti
Kenya
Madagascar

Members of ECOWAS

Ghana
Burkina Faso
Benin
Cote d'ivoire
Guinee Bissau
Senegal
Niger
Nigeria
Mauritanie
Mali
Togo

Members of CEMAC

Cameroon
Congo Republic
Gabon
Equatorial Guinea
Central African Republic
Chad

Members of SADC

Angola
Botswana
Lesotho
Mozambique
Namibia
Swaziland
Tanzania