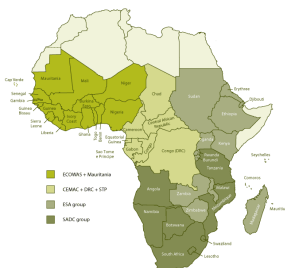# A Study of the Expected Impacts of the European Union's Economic Partnership Agreements on Economic Development in African, Caribbean and Pacific Countries

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List of abbreviations

ACP	Africa, Caribbean, Pacific
AIDS	Acquired Immune Deficiency Syndrome
CAP	Common Agricultural Policy
COMESA	Common Market of Eastern and Southern Africa
CPA	Cotonou Partnership Agreement
EBA	Everything But Arms
EC	European Commission
ECOWAS	Economic Community of West African States
ECU	European Currency Unit
EDF	European Development Fund
EPAs	Economic Partnership Agreements
ESA	Eastern and Southern Africa
EU	European Union
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	General System of Preferences
HDI	Human Development Index
HIV	Human Immunodeficiency Virus
ICT	Information and Communication Technology
IPP	Intellectual Property Protection
IPR	Intellectual Property Rights
LDC	Least Developed Country
MDGs	Millennium Development Goals
MFN	Most Favoured Nation
NAFTA	North American Free Trade Agreement
NGOs	Non-Governmental Organisations
NTB	Non-Tariff Barrier
OCTs	Overseas Countries and Territories
OECD	Organisation for Economic Cooperation and Development
PAC	Pacific
R&D	Research and Development
ROO	Rules of Origin
SADC	Southern African Development Community
SDT	Special and Differential Treatment
SPS	Sanitary and Phytosanitary Standards
TBTs	Technical barriers to trade
TRIPS	Trade Related Aspects of Intellectual Property Rights
VAT	Value Added Tax
WDI Online	World Development Index Online
WTO	World Trade Organization

Abstract

Disappointing results of the unilateral trade preferences of the Cotonou Agreements and compatibility problems with World Trade Organisation regulations, led to the proposal that by 2008 the European Union (EU) would have renegotiated the trade relations with the African, Caribbean and Pacific (ACP) countries. For the first time in history, the new Economic Partnership Agreements (EPAs) between the EU and ACP regions would include reciprocal trade liberalisation, leading to the creation of free trade areas. This parting with the traditional non-reciprocal nature of the trade relations led to fierce reactions from proponents and opponents to the new policy, who both envisioned very different possible scenarios.

The research in this paper is geared towards determining the expected impacts of the Economic Partnership Agreements on the levels of economic development in African, Caribbean and Pacific countries. The focus on economic development is distilled from the objectives of the EPAs and is understood as economic growth, growth in trade and trade diversification. Using two available draft versions of the EPAs, this research project first investigates the precise policy changes proposed in the EPAs. Next, relevant theoretical and empirical literature sources are used to discuss the likely effects of the Economic Partnership Agreements on economic development in ACP countries.

The trade liberalisation proposals harbour potential benefits for the economic development of ACP countries, yet the outcome of the EPAs is dependent on a variety of concomitant factors. For instance, it is beneficial if the ACP countries start off with a solid industrial sector before liberalisation. Also, it is important that the EU removes all the trade barriers, including those applicable to 'sensitive products'. This thorough removal, however, should not be reciprocal. The ACP countries should be allowed to protect certain sectors, for example, agricultural workers in ACP countries should be protected from subsidised EU agricultural imports. In conclusion, the unique characteristics of each ACP state will determine whether or not the country can benefit from the EPAs. It is therefore important to heed that the contents of the EPAs are geared towards the objective of developing the ACP countries and improving their welfare.

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Acknowledgements

1. Introduction

"On 27 September 2002, the European Union and the ACP countries officially opened negotiations on Economic Partnership Agreements (EPAs). These negotiations, which are to to take place over 5 years, are aimed at redefining the trade regime between the two groups of countries" (Bond, www.bond.org.uk).

Until the end of 2007, African, Caribbean and Pacific (ACP) countries will enjoy unilateral trade preferences with the EU. These arrangements were aimed at improving the standards of living in the developing countries. Unfortunately, most of the poor ACP countries have failed to develop their capacity to export products beyond a few primary commodities. Indeed, "Despite preferential access to EU markets in as much as 99% of all products, the ACP share in European imports had dwindled, from nearly 8% in 1975 to 2.8% in 2000" (Bilal, 2006:2).

Due to the disappointing results of the unilateral trade preferences, the EU decided that by 2008 EPAs would have to be set up. According to the EU, these agreements will "foster development mainly through trade liberalisation and the creation of the right policy framework to attract investment" (Bilal, 2006:5). For ACP countries, however, EPA's are only attractive if they improve development. Opponents to the new arrangements proclaim that EPAs will "expose ACP producers to unfair European competition in domestic and regional markets. The result will be deeper unemployment, loss of livelihoods, food insecurity and social inequality" (StopEPA, www.stopepa.org). Proponents of the EPAs, however, proclaim that the creation of a large open market among the ACP nations will lead to increased foreign investment and will boost the local economy as exports from the EU have freer access (Bilal, 2006:4).

The EPAs have been a contested subject since they were first proposed as a follow up to the Cotonou Agreement in June 2000. Not only the EPAs, but the entire subject of trade liberalisation has had enthusiastic proponents and fierce opponents discussing the effects of trade liberalisation on the development of less developed nations. Various experiences of countries seem to point to contradictory evidence of whether trade liberalisation can benefit or harm the economies of poorer nations. International development constitutes a challenging and interesting subject for me. The importance and ambivalence of using trade liberalisation as a means of development fascinates me. The stories and research originating on both sides of the discussion seem plausible. Several countries (for instance, South Korea), seem to have thrived on the liberalisation of their trade regimes, however, these same effects are not guaranteed for other less developed countries (LDCs). Even as southern and northern non-governmental organisations (NGOs), stakeholders from ACP countries, and some EU member states raise their voices against the EPAs, the negotiations continue. The outcomes of the EPAs on the development of poorer nations seem uncertain and I would like to try to shed some light on this subject.

1.1 Background information

Since 1957 development cooperation has been an integral part of the European Community. Originally, the promotion of mutual trade liberalisation was kept separate from development cooperation. It was considered beneficial to the development of poor nations if they were allowed to protect their domestic markets from European exports, but at the same time were granted more access to the European markets. Recent developments, however, and the contents of the EPAs seem to jeopardise this traditional non-reciprocal relationship.

Development cooperation first began with the Association with the Community of Overseas Countries and Territories in the Treaty of Rome. The goal of this association was to "promote the economic and social development of the countries and territories and to establish close economic relations between them and the Community as a whole" (Treaty Establishing the European Community, Article 131). In the following decades this limited regional approach was extended to include almost all LDCs.

The first of the Lomé Conventions concentrated on constructing new infrastructures or reconstructing infrastructures which had been destroyed during independence wars in former colonies (Santos, 1997:15). By 1986, however, it had become clear that the most immediate problem in the LDCs was not a lack of infrastructure, but a lack of food. Hence, the focus of the Lomé development policies altered from concentrating on developing the infrastructure of countries to prioritising rural development, food self-sufficiency and food security. In 1995 a new political dimension was added to the Lomé Convention, discussing for example respect for human rights and fundamental freedoms (Santos, 1997:16). The political aspects of development continued to be discussed in the Cotonou Agreement of 2000, alongside the tools of

trade and economies to improve development. This combination of simultaneous economic, social and political development can also be found in the EPAs.

1.2 Problem analysis

Unilateral, non-reciprocal trade arrangements have always formed the backbone of the development programmes of the European Community with African, Caribbean and Pacific countries. Starting off with purely economic measures, the programmes expanded to include social and political dimensions to improve the standards of living in LDCs. The results, however, have been disappointing (please see section 2.4 for more details). The ACP countries have failed to diversify and expand their export products. Also, the human development aspects have not improved sufficiently. These disappointing results combined with problems concerning the compatibility of the EU development programmes with regulations of the World Trade Organisation, have led to negotiations regarding a new arrangement. The new EPAs will come into force on January 1, 2008.

1.3 Research purpose

The purpose of this research project is to determine if the expected impacts of the EPAs are beneficial to economic development in African, Caribbean and Pacific countries. The EPAs are currently being negotiated between the EU and the ACP countries. By using theoretical knowledge and research conducted by others, the expected impacts for the ACP countries will be investigated. Various theories grant insights into possible outcomes of development measures on developing countries. The empirical evidence on which these theories are based, however, is often ambiguous and sometimes even controversial.

1.4 Research questions

Stemming from the purpose of this research, a central research question can be formulated. As the negotiations concerning the Economic Partnership Agreements are still under way, it is not possible to examine the impacts of the development measures on the ACP countries directly. Instead, the expected impacts must be researched. The central research question is therefore:

> *Are the expected impacts of the European Union's Economic Partnership Agreements beneficial to economic development in African, Caribbean and Pacific countries?*

This question constitutes an explanatory purpose of inquiry, whereby possible development effects of measures as presented in the Economic Partnership Agreements will be investigated. The research will have an international, normative and comparative element. Using available research and the experiences of other countries, the expected impacts of EPA measures on the development of ACP countries will be determined.

The central research question can be split up into sub-questions to aid the research. These are:

1. Why are new Economic Partnership Agreements between the European Union member states and the African, Caribbean and Pacific countries being negotiated, instead of a continuation of the Cotonou Agreement?
2. What measures do the Economic Partnership Agreements contain?
3. What are the expected impacts on economic development in African, Caribbean and Pacific countries where the Economic Partnership Agreements will be implemented?

The first sub-question is meant to explain why new EPAs are being negotiated to replace the current Cotonou Agreement. Currently the EU maintains non-reciprocal trade relations with all the ACP countries individually. Under the EPAs, the ACP countries will be split up into six regions which will develop free trade areas with the EU.

The second sub-question is aimed at distinguishing the precise contents of the measures as proposed in the EPAs. As the negotiations concerning the EU-ACP agreements are not yet completed in June 2007, only a few draft versions of the EPAs exist (from the Pacific and ESA groups). These will be used to answer the first research question.

The third sub-question focusses on the expected impacts of the development measures in ACP countries. These effects will be investigated by combining knowledge from theoretical and empirical studies.

Several key concepts are embedded in the research questions:

The *expected impacts* concern the anticipated effects which the EPAs might have on the ACP countries. These effects can influence the economic (e.g. the income per capita, the level of exports), social (e.g. the level of education) and political (e.g. the political stability) levels of development in the target countries. This study will focus on the economic impact of the EPAs.

The measures of the *Economic Partnership Agreements* are the plans for improving the levels of development in the ACP countries, as proposed in the draft versions of the EPAs.

Economic development is defined in this study as economic growth, export diversification and the growth of exports from ACP countries into the EU region. Export diversification has been a primary goal of development programmes of the EU since 1957 and entails a differentiation in the types of export products of ACP countries (see Chapter 2 for details). Economic growth is a good measure for determining if the economic position of countries strengthens as a result of the EPAs. This indicator will be measured by using the income per capita of ACP countries. The growth of exports is an important goal of the EPAs. This is made clear in the objectives of the EU-ESA EPA: "The immediate objective of the EPA shall be to ensure effective market access for ESA countries' exports to the EU by addressing all forms of tariffs and NTBs that constrain ESA exports" (Draft EU-ESA EPA, 24-08-2006, p. 7).

The *African, Caribbean and Pacific (ACP) countries* are a group of nations consisting of 79 member states, of which 48 are situated in Sub-Saharan Africa, 16 in the Caribbean and 15 in the Pacific region.

The *Cotonou Agreement* is the current development cooperation treaty between the EU and the ACP states.

1.5 Scientific and policy relevance

Improving the standards of living in developing countries has been a global policy issue for many decades. The EU already started with a comprehensive development coordination plan in 1957. Before that, individual member countries were already involved in development aid and assistance. The newly proposed EPAs can build on a large body of theoretical and empirical evidence, yet still the EPAs and the knowledge on which they depend are controversial. The effects of the EPAs can be drastic and far-reaching. They are aimed at and may have the potential to reduce poverty and contribute to reaching the millennium goals. Yet they may also do just the opposite and destroy livelihoods of people in developing countries. Either way, the impact on people's lives can be substantial. Research into these effects is therefore relevant to policy and societies.

The topic of the EPAs is also scientifically or academically relevant. As countries develop, the international order and international relations alter. The positions of nations in the global market can change as a result of the EPAs. Hopefully the LDCs will improve their economic, social and political situations. Depending on the effects of the EPAs, the equity, liberty, security and democratic values of countries and the legitimacy of their governments can improve or decline.

1.6 Research Design

The deductive or theory driven character of this study leads to a fixed research design (Robson, 2002:45). Before the collection and analysis of data takes place, the required information must be ascertained. This allows for a specified search for the necessary data. As a research approach or strategy, existing written documents will be investigated. Using written existing documents has the advantage that it is an efficient and cost-effective method of investigation. Also, a plethora of information is available and can be used to contribute qualitative and quantitative data.

1.6.1 Methods of inquiry

The first research question is geared towards determining if the newly proposed EPAs are necessary. Several ACP countries have objected to this new follow-up to the Cotonou development programme and feel the EPAs impose too many rules and restrictions on the ACP countries. Most of these criticisms focus on the proposed creation of free trade areas. In order to determine if the EPAs are necessary the success of the current development programmes and problems associated with these programmes will be discussed.

The second research question focuses on determining the precise development measures which are discussed in the EPAs. In order to distil these, a content analysis will be used. The researched documents are the draft versions of the EU's EPAs with the Pacific group and the East South Africa group (ESA,

possibly with the Democratic Republic of Congo joining this agreement). In June 2007 these are the only EPA draft documents which have been released, for the remaining four economic groups of West Africa, Central Africa, Southern Africa and the Caribbean, EPA drafts have not yet been published. However, the ESA agreement is not yet complete, missing chapters regarding the trade in services and the institutional framework and final provisions. In order to investigate the precise changes which the EPAs encompass, the contents of the draft versions for the Pacific and ESA groups will be researched. It is important to note, however, that these draft versions might be subject to change in their finalised format.

Content analysis is an indirect analysis of the message in a document, in order to find out what precisely is meant in and by the document. This method of research is indirect as the documents investigated are produced for a purpose different from the research purpose of this study. Robson (2002:349), describes content analysis as an unobtrusive measure which is non-reactive. By this he means that the document is not affected by the fact that the researcher is using it. Content analysis is a form of data reduction in that a lot of information is disregarded in order to see the core of the message.

This content analysis method has several advantages and disadvantages. For instance, an advantage of this research method is the unobtrusiveness of the inquiry. Another advantage is that the data are in a 'permanent' form and can therefore be analysed again by other researchers. This allows for reliability checks and replication studies (Robson, 2002:349). However, as this study is forced to use draft versions of the EPAs, given that the final versions are not yet completed, the available documents are limited and partial. This constitutes a disadvantage, as the content of the final EPAs might be different and there might also be differences between the EPAs of the various negotiation groups. It is not possible for this study to anticipate alterations in the EPAs. A further disadvantage Robson (2002:349) mentions is that documents in content analysis are usually written for a purpose other than the researcher's purpose. It is difficult or impossible to allow for the biases and distortions which are introduced.

The third research question is aimed at determining the expected economic impacts of the EPAs in ACP countries, based on evidence from theoretical and empirical studies. Insights from various well-known authors (such as Stiglitz, Charlton, Szirmai, Dijkstra, Todaro and Smith) will be included in the discussion. These authors will be supplemented by specific studies conducted regarding the development measures when necessary. This study has chosen not to use similar case studies of different countries to directly investigate the expected impacts of the EPAs (e.g. Mexico and NAFTA). The reasons for this are two-fold. Firstly, limitations in time and scope of the research project affect the feasibility. Secondly, it is felt that each ACP country is unique in its experiences and characteristics. The ACP countries differ considerably among themselves and in comparison to the rest of the world. This research project will therefore mainly use empirical studies which were conducted specifically regarding the EPAs in relation to ACP countries. Empirical case studies from other countries will only be used when the EPA data is insufficient, as it is felt that these general case studies cannot fully be translated to the specific characteristics of the ACP countries.

1.6.2 Methods of data analysis

The theoretical and empirical expected effects of development measures and the content analysis of the EPAs will result in qualitative data. These will be interpreted. It is not necessary to use a specialised computer program, as the information is not that plentiful. Only two draft versions of the EPAs are available to study. In investigating whether the impacts as seen in other studies can be expected in ACP countries, quantitative and qualitative data will be used, gathered from various sources. Investigating the necessity of the new EPAs will result in qualitative and quantitative data. Again, it will not be necessary to use a specialised computer program to interpret the data, as the information is not that plentiful.

Regarding the EPAs, a selection will be made as to which policy changes will be further investigated in this paper. The EPAs harbour an extensive list of potential alterations to the economic, social and political systems in the ACP countries. Some changes, however, are more relevant and likely to have farther reaching effects than other changes. Also, it is not feasible to investigate all the policy suggestions of the EPAs. This paper will concentrate on the effects of trade liberalisation (in goods and services), intellectual property protection (IPP) and agricultural subsidies. These subjects have been investigated by other researchers, therefore empirical data is available. Also, these subjects constitute the most controversial elements of the EPAs with enthusiastic proponents and opponents defending their arguments.

1.6.3 Trustworthiness of the research

Generalisability or external validity is concerned with "the extent to which the findings of the enquiry are more generally applicable outside the specifics of the situation studied" (Robson, 2002:93). Given that this study is deductive, the analysis will move from general to specific conclusions. Internal generalisability is important in the study at hand, however, as it is concerned with the extent to which the findings of the enquiry are more generally applicable within the setting studied. Findings from the third research question may not be applicable to the ACP countries if information regarding impacts observed in other case studies is used (when studies regarding the ACP countries are not available). External generalisability is concerned with the generalisability of conclusions beyond the setting studied. Given that the combination of measures in the EPAs is unique, findings cannot be extended to apply to other (bilateral or multilateral) treaties, negotiations or agreements. If, however, in the future agreements are negotiated with comparable content to the EPAs, the results may be generalised, taking into account differences between the countries involved in the agreement. This research project is not meant to contribute to theory (theoretical generalisability) as such, but it could promote the formulation of development theory and emphasise the particular development aspects which have not yet been adequately investigated.

1.6.4 Feasibility

With an infinite amount of resources and possibilities, the best way to investigate the expected impacts of the EPAs on development in ACP countries would be to use econometrics or a combination of modelling and simulation. Unfortunately, these methods are time consuming and as a public administration student I am not sufficiently trained in these quantitative methods. This study will draw heavily on previous theoretical and empirical insights regarding the EPAs. Where possible specific studies tailored to the EPAs will be used, but if this data is insufficient, broader case studies will be discussed. It is important to note, however, that the EPAs are unique and the specific combination of measures has not yet been attempted. Given the fact that the ACP countries differ considerably in their levels of development and the characteristics of their countries, care should be exercised in using results from case studies of non-ACP countries.

1.7 Build-up of paper

In this first chapter the subject of the EPAs between the ACP countries and the European member states has been introduced and a short summary of the developments leading up to the negotiations for the EPAs has been given. Also, the research purpose, research questions, key concepts and relevance of the topic were discussed. In the discussion of the research design the methods of inquiry and data analysis have been covered, as well as the feasibility of the research project. The problem analysis has been summarised in this introductory chapter, and will be expanded upon in the second chapter, where the background of the cooperation arrangements will also be further investigated, as well as their results. The second chapter will answer the first research sub-question.

Next, the measures of the EPAs will be researched in chapter three, leading to the answering of the second sub-question. Following this, important theoretical and empirical evidence will be discussed to determine the expected impacts of the measures of the EPAs on economic development in the ACP countries. The theoretical insights will be presented in chapter 4, followed by the empirical evidence in chapter 5. These results will be analysed in chapter 6 to answer the third research sub-question. Finally, the paper will end with a presentation of the conclusions, including a reflection and some recommendations.

2. Background of the EPAs

The EU has maintained special relations with the ACP countries since 1957. At first the ACP countries were limited to the Community of Overseas Countries and Territories, but over the years the group of developing nations grew in correlation with the expansion of the EU. The relationship between these two regions has officially always been geared towards improving the development of the ACP nations. The three most important goals were diversifying the export products of the ACP countries to the EU, expanding the amount of exports from the ACP countries into the EU and improving the quality of people's lives in ACP nations. The most important tool in reaching these development objectives was granting the ACP countries preferential access to the EU market, by lowering or abolishing tariff and quota restrictions. The aim was to make it cheaper for ACP countries to export to the EU. Current regulations of the WTO, however, prohibit these non-reciprocal trade relations and therefore, the current Cotonou Agreement must be replaced with newly negotiated EPAs.

In addition to the agreements the EU has signed with the ACP countries the EU also maintains trade relations with other developing nations which are not part of the ACP group. All developing nations, ACP or otherwise, can trade with the EU under the arrangement of the Generalised System of Preferences. The GSP system harbours special treatment for the least developed countries (the Everything But Arms initiative) and countries which promote sustainable development and good governance (GSP+).

This chapter will start off with a short introduction to the ACP countries and some of their characteristics. Next, the previous and current agreements between the EU and ACP regions will be presented. Following this, the agreements between the EU countries and other developing nations will be discussed. After having explained the current system of agreements between the EU and developing nations (ACP or otherwise), the effects on the development of ACP countries will be investigated. Special attention will be paid to the attainment of the set economic and social objectives. The problems regarding WTO compatibility will also be discussed. Finally, this chapter will answer the first research sub-question: *Why are new Economic Partnership Agreements between the European Union member states and the African, Caribbean and Pacific countries being negotiated, instead of a continuation of the Cotonou Agreement?*

2.1 ACP countries and their characteristics

The *African, Caribbean and Pacific (ACP) countries* consist of 79 member states, 48 situated in Sub-Saharan Africa, 16 in the Caribbean and 15 in the Pacific (Secretariat of the ACP Group of States, www.acpsec.org). This ACP group is an organisation created by the Georgetown Agreement in 1975, whereby the members signed a partnership agreement with the EU, usually referred to as the "ACP-EC Partnership Agreement" or the "Cotonou Agreement". In Appendix 1 a table of the preliminary list of ACP countries classified according to the current negotiating groups is presented.

The ACP countries show a wide diversity in characteristics such as their size, levels of per capita income, demographic characteristics, natural resource endowment, ethnic and religious composition, structures of production, institutional arrangements, economic regimes and dynamism, differences in historical background and regional characteristics. The population sizes in 2005 range from 131,5 million in Nigeria to 20,1 thousand in Palau (data taken from the World Development Index Online). With thirty-five years Botswana shows the lowest life expectancy at birth, whilst Saint Lucia shows a life expectancy of seventy-four years. Infant mortality rate is highest in Sierra Leone (165 per 1000 live births) and lowest in Palau (10 per 1000 live births). Some countries have a high level of HIV infection, such as Swaziland where 33% of the population ages 15-49 is infected. Others don't have a problem with HIV infection and show 0% of the population as infected, for instance in Comoros and Fiji. In several countries most of the population has completed their primary education, whilst in the Central African Republic only one-fifth of the population has a basic education. In Barbados, Mauritius and Tonga the entire population has access to an improved water source. In Ethiopia, however, only 22% of the population has access to safe water.

The size of the economies also varies significantly. South Africa has the highest GNI level in 2005 with 234,6 billion US dollars (WDI Online, 2005). Sao Tome and Principe, on the other hand, have a GNI of 68 thousand US dollars in 2005. Antigua and Barbuda have the highest GNI per capita with 10,500 US dollars. The lowest GNI per capita can be found in Burundi with 100 US dollars. In some countries the agricultural sector is the most important, for instance in Liberia and Guinea-Bissau. In other countries the industrial sector is most important, for example in Angola where it accounts for 74% value added to GDP. The importance of the service sector varies greatly among the ACP countries, being the largest in Barbados with 80% of the GDP

value and the smallest in Nigeria with 20%. With 110% of GDP, Seychelles has the largest service sector (mostly tourism). Burundi and Burkina Faso lag behind on their export levels, showing 8% of GDP in 2005. The largest importer of goods and services is Guyana with 124% of GDP, whilst Burkina Faso only imports 22 % of GDP in goods and services.

2.2 Agreements between the EU and ACP countries

Development cooperation has been an integral part of the European Community since it was first set up in 1957 by the six founding member states of Belgium, Germany, France, Italy, Luxembourg and the Netherlands. Articles 130u to 130y of the Treaty of Rome of 1957 discuss this cooperation. Article 130u of the Treaty Establishing the European Community states:

"1. Community policy in the sphere of development cooperation, which shall be complementary to the policies pursued by the Member States, shall foster:
- the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- the smooth and gradual integration of the developing countries into the world economy;
- the campaign against poverty in the developing countries."

Since 1957, the development programmes of the European Community have evolved and expanded. These changes were often a result of new challenges in the development field. The aims, however, have not always been sufficiently realised. For many years the promotion of mutual trade liberalisation has been kept separate from development cooperation. It was considered beneficial to the development of poor nations if they were allowed to protect their domestic markets from European exports, but at the same time were granted more access to the European markets. The current objectives of the EPAs seem to jeopardise this traditional non-reciprocal relationship. Indeed, the draft version of the EPA between the EU and Eastern and Southern African Countries states: "The Parties shall gradually establish a free trade area over a transitional period of 25 years from date of entry of this agreement" (Title II Free Movement of Goods, Article 8 Free Trade Area 1).

2.2.1 The Yaoundé Conventions

The relationship between the European Community and the overseas countries and territories, which had historical ties with the European member states, dates back to 1957 (Santos, 1997). The fourth part of the Treaty of Rome discusses the Association with the Community of Overseas Countries and Territories. The goal of this association was to "promote the economic and social development of the countries and territories and to establish close economic relations between them and the Community as a whole" (Treaty Establishing the European Community, Article 131). In the following decades this limited regional approach was extended to include almost all LDCs.

As decolonisation continued throughout the 1960s, the European member states wanted to "safeguard their economic and geo-political interests in the newly independent countries" (Santos, 1997:13). Also, the member states felt a sense of responsibility to improve the social and economic development of former colonies. Hence, new institutional links were established with 18 former colonies, through the signing of the Yaoundé I Convention AASM (Associated African States and Madagascar). The main instrument of this convention of 1963 was the preferential trade system, aimed at improving the integration of LDCs into the world economy. The Yaoundé II Convention of 1969 revised the initial text, but did not alter the instruments or goals.

2.2.2 The Lomé Conventions

When the United Kingdom joined the European Community in 1973, the list of countries receiving preferential trading conditions was extended to include the African, Caribbean and Pacific countries of the Commonwealth. The first Lomé Convention was signed on the 28th of February, 1975, in the capital city of Togo, Lomé. A total of 46 ACP countries and 9 European member states now took part in the agreement. One important reason for setting up the Lomé Convention was to construct new infrastructures or reconstruct infrastructures which had been destroyed during (colonial) wars (Santos, 1997:15). By the time the second Lomé Convention entered into force in 1981, the number of ACP countries had increased to 58. The number of European member states remained the same, but had increased to 10 by 1986 when the Lomé III Convention was implemented together with 65 ACP countries. During the negotiations for the third convention, it had become clear that the most immediate problem in the LDCs was not a lack of infrastructure, but a lack of food. Hence, the focus of the Lomé development policies altered from concentrating on developing the infrastructure of countries to prioritising rural development, food self-

sufficiency and food security.

The popularity of the conventions remained high and by the signing of the fourth Lomé Convention in 1989 the number of ACP countries had grown to 68, with 12 European Community member states. The implementation period of Lomé IV was set at 10 years, as opposed to the usual 5-year term. The 1995 mid-term review of the final Lomé Convention was signed between 70 ACP countries and 15 EC member states. Here the political dimension of development programmes received more attention and values such as the respect for human rights and fundamental freedoms were included in the convention (Santos, 1997:16). Three main methods were used to assist the development of ACP countries (University of East London, homepages.uel.ac.uk):

1. Privileged commercial access, especially free access for exports to the 15 nation EU markets with guaranteed quotas for some major ACP products;
2. Commodity export compensation, a unique form of aid through which the EU compensates ACP countries for falls in prices with the STABEX fund guaranteeing agricultural earnings and the SYSMIN fund underwriting earnings from mineral exports (these were already introduced in the 1970s);
3. Financial aid, provided in various forms by the EU as an entity as well as by the EU states individually and supplemented as required by emergency assistance.

2.2.3 The Cotonou Agreement

As the last Lomé Convention expired on the 29th of February 2000, the Cotonou Agreement was signed on the 23rd of June 2000 in Cotonou, Benin. The aim of this agreement was to "promote and expedite the economic, cultural and social development of the ACP States, with a view to contributing to peace and security and to promoting a stable and democratic political environment" (The Cotonou Agreement, 2000). The Cotonou Agreement builds up on previous development cooperation agreements, such as the Lomé Convention. However, "given the limited success of the main approach of non-reciprocal trade preferences in the previous conventions and the need to adapt to international developments such as globalisation and technological advances, plus the far-reaching social changes in ACP States, the Agreement establishes a new approach to cooperation in this field" (Europa, europa.eu).

This new approach to cooperation focuses on strengthening the political dimension, rather than merely focussing on trade and economies. The goal is to provide greater flexibility in the cooperation and give the ACP states more responsibilities (Europa, europa.eu). The three main objectives of the Cotonou Agreement are to strengthen politics, trade and development. Also, the programmes should focus on a specific sector of the economy and should ensure an integrated approach (for instance combining economic, environmental, political and social aspects of cooperation) in order to guarantee that aid is targeted more efficiently and effectively.

The partnership between the ACP state and the EU is based on five interdependent pillars (Europa, europa.eu):

- a political dimension, which concentrates on conflict prevention and resolution, good governance and respect for human rights and democracy.
- promotion of participatory approaches, which aims to strengthen non-state actors (e.g. private sector, NGOs and social partnerships).
- development strategies and priority for the objective of poverty reduction, which concentrates on social and human development, regional cooperation and integration and economic development.
- the establishment of a new framework for economic and trade cooperation, which aims to adapt existing trade agreements to comply with current WTO rules and strengthen the ACP states positions in international trade.
- reform of financial cooperation, whereby the aim is to make financing more flexible and to simplify the process of applying for and receiving financing.

Chapter 2, Article 36.1 of the Cotonou Agreement stated that "the Parties agree to conclude new World Trade Organisation (WTO) compatible trading arrangements, removing progressively barriers to trade between them and enhancing cooperation in all areas relevant to trade" (The Cotonou Agreement, 2000, Article 36.1). The negotiations would start in September 2002, be concluded by 31 December 2007, so that they could enter into force by 1 January 2008. It was agreed that the differing levels of development of the ACP countries would be taken into consideration during the negotiations. Therefore, the negotiations would be as flexible as possible in establishing the duration of a sufficient transitional period for the ACP countries to adapt to new trade arrangements.

2.3 Agreements between the EU and other developing nations

According to the European Commission trade has positive effects on LDCs as "increased trade with developing countries will enhance their export earnings, promote their industrialisation and encourage the diversification of their economies" (EC, ec.europa.eu). The main instrument in increasing trade used by the EU is tariff preferences, whereby imported goods originating in LDCs can enter into the European market without being submitted to the normal customs duties. Preferential trade regimes which the EU applies to developing countries are aimed at helping developing nations expand sales of their products on industrialised markets and promoting the industrialisation of developing countries. This development of the industrial sectors is accomplished using customs duty restrictions or exemptions for finished or semi-finished industrial products and certain agricultural products when entering the EU (EP, www.europarl.europa.eu). LDCs are therefore given greater access to the European market, but this benefit is not reciprocal.

In 1968 the United Nations Conference on Trade and Development (Unctad) recommended that a Generalised System of Preferences (GSP) be set up and authorised developed countries to establish individual GSP systems. On the 1st of July 1971, the European Community was the first to apply the GSP to developing countries, after receiving a waiver from GATT allowing them to temporarily disregard the Most Favoured Nation (MFN) principle. The affected developing nations belonged to the Group of 77 within Unctad and/or belonged to the overseas countries and territories of European member states. The Group of 77 was created by developing countries and membership of this group is considered to be a criterion for eligibility for GSP treatment. If a country's income per capita and/or value of its manufactured exports is too high it may be excluded from the arrangement, as is currently the situation with, for instance, Singapore and South Korea. From 1971 to 1980 preferential trade advantages were granted either via duty-free access or a tariff reduction, depending on which GSP arrangement the developing country enjoyed (EC, ec.europa.eu). These advantages were granted unilaterally and on a non-reciprocal basis for (EP, www.europarl.europa.eu):
- processed agricultural products, whereby tariff reductions were allowed on a given number of scheduled products;
- finished and semi-finished industrial products, whereby the recipient countries were able to export these products to the Community free of customs duty up to a ceiling fixed annually for each country and product.

In 1979, the GATT established a permanent exemption to the MFN obligation through the Enabling Clause. The MFN principle demands that a trade concession granted by a member state to another should be automatically extended to all other WTO members. The Enabling Clause allows preferential and more favourable treatment to developing countries, thereby bypassing the MFN principle. As the EU has expanded the system, for instance with the inclusion of a special arrangement in the fight against drugs (see below under special arrangements), the system has been challenged. For example, in 2002 India challenged the EU's GSP "Drug Arrangements" claiming that they are inconsistent with Article I of the GATT 1994 (MFN principle) and are not justified under the Enabling Clause (WTO, 2004). At first the WTO panel agreed with India's objections, but in 2004 the WTO Appellate Body reversed the original ruling. The EU was criticised, however, for a lack of objective and transparent criteria for the selection of beneficiary countries, but the underlying principle of the special arrangement was justified by the Enabling Clause.

The GSP of the EU is negotiated in cycles of ten years, but in practice the GSP is implemented by Council regulations during the ten-year period. The current GSP regulation was adopted on 27th June, 2005 and is applicable from 1st of January 2006 till 31st December 2008 (OJ, (EC) No 980/2005). During this regulatory period three types of arrangement are offered to beneficiary countries (EC, ec.europa.eu):
- all 178 current beneficiary countries enjoy the benefit of the *general arrangement*, in which the normal customs duty for sensitive products will be reduced by 3.5%, duties for non-sensitive products will be reduced to zero and the reduction for textile products will be 20%.
- the *special incentive arrangement for sustainable development and good governance* (the "GSP+") which provides additional benefits for countries implementing certain international standards in human and labour rights, environmental protection, the fight against drugs, and good governance. This applies to 14 nations.
- the special arrangement for the 50 least-developed countries (LDCs), also known as the "*Everything But Arms*" (EBA) initiative, provides for the most favourable treatment of all, in the aim of granting the LDCs "duty-free and quota-free" access to the EU's market.

"The GSP is a trade policy instrument aimed at fulfilling development objectives" (EP, www.europarl.europa.eu). Within the GSP, all the developing countries are granted freer access to the European market. Still, developing ACP countries are given more benefits regarding certain products than other developing countries. For instance, whereas ACP countries can export tuna to the EU free from quotas and tariffs, countries falling under the GSP system pay 20.5% of the value of the tuna on tariffs and quotas. For other products the developing countries share the same benefits, but for example for bananas, shrimps, roses and frozen fillets of Cape hake the ACP countries receive preferential access (see Appendix 2). There is a large difference between the developing countries of, for instance, South Africa and Benin. The least developed countries do not only have a problem competing with developed nations, but they often fail to be able to compete with other developing countries. The EU felt it was necessary to target the preferences available under the GSP to the least developed countries, which need the beneficial trade agreements the most. Promoting development is accomplished via two mechanisms: the graduation mechanism and the special arrangements.

2.3.1 The Graduation Mechanism

In 1995 it was decided that the same trade preferences would no longer be granted universally to all developing countries. Instead, a system of graduation was implemented, according to which preferences were set for each country and commodity, dependent on their level of development. If, however, a certain product from a certain country threatens or causes 'serious difficulties' for a Community producer, the GSP benefits may be suspended for that product.

The current GSP regulation distinguishes between sensitive and non-sensitive products. The precise products which fall under each new category are extensively listed in Annex II of the EC Regulation No 980/2005. In 2005 it was decided that "tariff duties on non-sensitive products should continue to be suspended, while duties on sensitive products should enjoy a tariff reduction to ensure a satisfactory utilisation rate while at the same time taking into account the situation of the respective Community industries" (OJ, (EC) No 980/2005).

In order to ensure that only the least developed countries benefit and that countries with stronger economies do not receive the preferences and harm weaker economies, a development and specialisation index are applied. These indexes must determine whether a specific sector in a country is sufficiently developed to compete on the international market without receiving the benefits of the GSP. The development index is based on a country's income per capita and its level of exports of manufactured products. The specialisation index is based on a country's share of EU imports in a specific sector (EP, www.europarl.europa.eu).

Apart from the level of development of a sector in a country, there are two other exceptions to receiving the GSP benefits. If a sector in a country is responsible for more than 25% of all imports from that sector into the EU, the country's sector will not benefit from GSP treatment regardless of the level of development. This exception is called the 'lion's share clause'. Another exception applies "to countries whose exports to the EU in a given sector do not exceed 2% of all beneficiary countries' annual exports to the EU in that sector" (EP, www.europarl.europa.eu). This provision is called the 'minimal share clause'.

2.3.2 Special Arrangements

The special arrangements are aimed at specifically improving the development of the LDCs. The UN has distinguished 50 nations which belong to the LDCs (see Appendix 3 for a list of LDCs). Over the years the additional advantages which LDCs can receive have been improved. One important special arrangement is the EBA Regulation, already mentioned above. This Regulation was agreed upon by the European Council in February 2001 and took effect on the 5th of March 2001 (Official Journal, (EC) No 416/2001). Apart from arms and munitions, this initiative gave the least developed countries duty-free access to imports of all products without quantitative restrictions. Imports of bananas, rice and sugar were not fully liberalised immediately, but their duties have been or continue to be gradually reduced (EC, "EBA" - Everything But Arms initiative). For instance, free access has been granted for bananas in January 2006, in July 2009 sugar will be fully liberalised and rice will follow in September 2009. In the meantime, duty free quotas for rice and sugar have been implemented.

Another special arrangement is connected to the fight against drugs (EP, www.europarl.europa.eu). The EU believed that the development of the Andean Community (Bolivia, Colombia, Ecuador, Peru and Venezuela) was seriously hampered by drug production in the area. Since 1990, special arrangements have been

granted to these countries to allow them to improve their economic and social development by creating export opportunities for substitution crops and strengthening industrialisation. This more favourable GSP, is comparable, for some products, to the preferences granted to ACP countries under the Lomé Convention. More recently, these arrangements have been applicable to other countries as well, such as Panama, Pakistan, Nicaragua and El Salvador.

The final special arrangement aimed at improving development options for less developed nations is concerned with rewarding sustainable development and good governance. This GSP+ arrangement provides additional benefits for countries implementing certain international standards in human and labour rights, environmental protection, the fight against drugs and good governance. More specifically, to "qualify under the social policy incentive clause, countries must be able to provide proof of compliance with International Labour Organisation (ILO) Convention No 87 on the freedom of association, No 98 on the right to organise and to bargain collectively and No 138 on child labour" (EP, www.europarl.europa.eu). Qualification for the environmental clause concerns effective application of International Tropical Timber Organisation standards for the sustainable management of tropical forests.

Benefits of the GSP preferences may be (temporarily) withdrawn for a specific national sector or for an entire country, if a nation is found guilty of (EP, www.europarl.europa.eu):
- the practice of any form of slavery or forced labour;
- the export of goods made by prison labour;
- manifest shortcomings in customs controls on export, transit of drugs, or failure to comply with international conventions on money laundering;
- fraud or failure to provide administrative cooperation as required for the verification of certificates of origin forms;
- manifest cases of unfair trading practices;
- infringements of the objectives of international conventions such as NAFO (Northwest Atlantic Fisheries Organisation) concerning the conservation of fish resources.

2.4 Development effects of the EU-ACP agreements

Already in 1963 the Yaoundé Convention instituted a preferential trade system. This was aimed at improving the integration of LDCs into the world economy. More specifically, the objectives of the development programme were to improve the diversity of the export products being produced in ACP countries and allow these exports to grow. These aims have been the most important economic goals since the beginning of the development programmes and have been included in all the successive conventions and agreements. With the inclusion of rural development, food self-sufficiency and food security as development objectives in the third Lomé Convention (1986), the first signs of the importance of human development can be distinguished. In the following conventions human development would continue to be an important goal of the programmes. A political dimension was included in the 1995 mid-term review of the final Lomé Convention. The analysis of the development effects of the EU-ACP agreements will concentrate on the attainment of the economic and social objectives, namely export diversification, export growth and the quality of people's lives. The success of the political objectives will not be discussed, as these policy goals are relatively new, but more importantly, because it is nigh impossible to measure an improvement in these objectives, especially given the limited data available for most ACP nations.

2.4.1 The diversification and growth of export products

One aim of the development cooperation programmes was to support the efforts of ACP countries in their actions to diversify their export products. This would increase the ACP countries' share in the European and world markets (Santos, 1997:36). The main instrument for this goal constituted preferential trade agreements, whereby almost all of the products originating from the ACP countries were given duty-free access and freedom from quantitative restrictions to the European market. An important exception to this agreement are 'sensitive' agricultural products. As can be seen from table 2.1 below the percentage of imports coming from ACP countries as compared to worldwide imports into the European member states has decreased since 1958. Starting at eight percent, this was maintained until 1973, yet, in 1981 (the time of the second Lomé Convention) this percentage had decreased to six. The data for 2001 show 5 percent of the imports into the EU come from ACP countries. Looking purely at the values of the imports from ACP countries, it can be seen that the value has increased significantly, from 1,481 million ECU/€ in 1958 to 47,629 million ECU/€ in 2001. It should be noted, however, that these values have not been corrected for inflation.

Table 2.1: EC/EU imports from ACP countries (million ECU/€)

	1958 EC-6		1973 EC-9		1981 EC-10		1986 EC-12		1995 EU-15		2001 EU-15	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Total	19,298	100	84,531	100	304,306	100	336,298	100	545,253	100	1,028,013	100
ACP	1,481	8	6,473	8	17,170	6	19,762	6	19,893	4	47,629	5

(EC, 2003)

Table 2.2 below shows the percentage of exports leaving the European member states and entering the ACP countries as compared to worldwide exports of the EU. The percentage of exports from the EU to the ACP has decreased instead of increased. This shows relative trade between the regions has not increased. Again, however, the value of exports to ACP countries has increased from 1,112 million ECU/€ in 1958 to 40,197 million ECU/€ in 2001 (values not corrected for inflation). Trade between the regions has increased in nominal terms, but not percentage wise, as a share of total trade. A hopeful sign, however, is the slight percentage increase seen in both imports from and exports to ACP countries from 1995 to 2001. Whether or not this increase will continue with the new 27 nation EU is unknown and lies beyond the scope of this discussion.

Table 2.2: EC/EU exports to ACP countries (million ECU/€)

	1958 EC-6		1973 EC-9		1981 EC-10		1986 EC-12		1995 EU-15		2001 EU-15	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Total	15,872	100	80,691	100	270,499	100	345,616	100	573,277	100	985,331	100
ACP	1,112	7	4,877	6	19,661	7	16,320	5	17,573	3	40,197	4

(EC, 2003)

Regarding the intended increased diversification of imports into the European market from the ACP countries, table 2.3 shows the percentages of the different types of product groups which were imported from the ACP into the EU for selected years starting from 1985 and ending in 2005.

Table 2.3: Imports from the ACP countries into the EU per product group (in percentages)

	1985	1991	2000	2001	2002	2003	2004	2005
Chemical	2	2	3	3	3	3	3	2
Machinery, transport	1	3	8	9	10	10	9	9
Food, beverages	26	26	28	27	28	31	30	24
Fuel products	47	35	33	33	30	30	30	40
Raw materials	13	14	20	20	17	19	22	20
Primary products (food, beverages, fuel products and raw materials)	86	75	81	80	75	80	82	84
Other manufactures	9	17	8	8	12	7	6	5
Total	100	100	100	100	100	100	100	100

(Figures for 1985 and 1991 come from Santos, 1997, 2000-2005 figures come from the EC)

In 1985 primary products (food, beverages, fuel products and raw materials) consisted of 86% of the imports coming from ACP countries. In 1991 this amount had decreased to 75% and in 2000 the amount was 81%. The most recent year for which data is readily available, namely 2005, shows primary products constitute 84% of imports from ACP countries into the EU. Based on these figures, it can be said that the ACP countries have not diversified their exports into the EU and therefore this aim of the development cooperation has not been reached. ,

2.4.2 Human Development

Human development refers to the quality of people's lives. In 1986 the development programmes of the European Community were first expanded to include social dimensions of rural development and food security, rather than solely focussing on infrastructural development. The aim of development as specified in article 130u of the Treaty Establishing the European Community was to foster "sustainable economic and

social development of the developing countries, and more particularly the most disadvantaged among them ... campaign against poverty in the developing countries".

The United Nations Development Program (UNDP) has composed an indicator for the overall level of well-being in a country. This is called the Human Development Index (HDI). It focusses on three indicators, namely longevity, education and standard of living. Longevity is measured by life expectancy at birth. Educational attainment is a combination of adult literacy and combined primary, secondary and tertiary enrolment ratios. The standard of living is measured by real GDP per capita (Santos, 1997:43).

Scanning the HDI list for 2004 (the most recent year for which the data is published) it is easy to see that most of the ACP countries have a relatively low index (UNDP, *Human Development Report 2006*). Appendix 4 includes a list of the ACP countries and their rankings. Barbados has the highest ranking as number 31 on the list. Niger brings up the rear at number 177. Eight ACP countries can be found among the countries with the highest human development (top sixty countries), thirteen rank amongst the middle group and forty-eight exhibit an extremely poor social and economic performance.

Considering the human development index over time, it becomes clear that most countries for which data is available show an improvement in their situation since 1975 (see Appendix 5). It must be emphasised here, however, that many ACP countries are missing from the list due to lack of data whilst others show incomplete information. Several countries were unable or unwilling to provide the necessary data, or were not recognised as states by the United Nations at the time of publication. Regarding the countries which are included in the list, eighteen out of forty-five show a positive trend over time in their levels of human development. Fifteen show a general positive trend, with some glitches where the HDI decreases but then increases again. Twelve countries, however, show a negative trend in recent years, usually starting from around 1990. Most of these countries show increasing HDI values from 1975 till 1985, but decrease after this initial improvement.

Even though the African, Caribbean and Pacific countries have received preferential trading benefits for several decades (in addition to vast amounts of aid from the EU), most of them still linger at the bottom of the Human Development Index. Forty-eight of these ACP countries fall into the least developed category (lowest sixty countries), ranking from 0.670 to 0.311. Twelve countries even show decreasing levels in their HDI values from 1990 onwards. It can therefore be stated that regarding the human development elements of the EC development cooperation programmes, the aims have not been adequately reached.

2.5 WTO compatibility

A final major problem concerning the developmental cooperation programmes is the incompatibility of the arrangements with regulations of the World Trade Organisation. Article XXIV 5c of the General Agreement on Tariffs and Trade (GATT) states that interim agreements leading to the formation of a customs union or a free trade area are allowed if they "include a plan and schedule for the formation of such a customs union or of such a free-trade area within a reasonable length of time" (WTO, GATT Article XXIV, para. 5(c)). In 1994 an Understanding was added to the text to explain the time aspect: "The "reasonable length of time" referred to in paragraph 5(c) of Article XXIV should exceed 10 years only in exceptional cases. In cases where Members parties to an interim agreement believe that 10 years would be insufficient they shall provide a full explanation to the Council for Trade in Goods of the need for a longer period" (WTO, www.wto.org).

The need for a WTO compatible trade agreement was already acknowledged in the Cotonou Agreement of 2000 (The Cotonou Agreement, 2000, Article 36.1). In 1994 the EU applied to the WTO for a six year waiver lasting until the expiration of the fourth Lomé Convention. A second waiver was granted in 2000 for a period of eight years to provide a transition period for any new arrangement (Milner, 2006:77). Also, the proposed WTO-compliant trade agreement would allow more gradual liberalisation by ACP countries. The EU proposed a 10-15 year transition period before the EU could export duty free to ACP countries.

At present the EU can still be challenged on the grounds of discrimination under the most favoured nation (MFN) clause of the WTO (Karingi et al., 2005). The MFN stipulates that a trade concession granted by a member state to another should be automatically extended to all other WTO members (Article I of GATT). Two exceptions to the MFN principle are allowed, namely preferential treatment is allowed when based on development concerns and with regard to free trade areas. The WTO justify this by stating that "under certain conditions, free trade agreements benefit not only their members, but also the global economy as a whole, through trade creation which results in increased overall welfare" (Karingi et al., 2005:12). Under preferential treatment, a particular privilege is extended to one group of countries (ACP) unilaterally. The ACP group

does not need to reciprocate the trade preference. Under a free trade area, there is reciprocity of the preferences. Until now, the EU has given unilateral preferences to ACP countries, yet this is no longer allowed, at least not for a group of countries that is not defined on the basis of their level of development. If the ACP countries grant EU imports duty free access into their markets, the arrangement falls under GATT article XXIV and a customs union or free trade area is established between the EU and ACP regions. This free trade area and the accompanying benefits of the EPAs to ACP countries do not have to be extended to non-ACP developing countries. The free trade agreement proposed in the EPAs conflicts with the MFN principle but no longer with reciprocity and the deviation from the MFN principle is a lawful exception. GATT Article XXIV states certain conditions for allowing preferential treatment of member countries in the context of a free trade area or customs union. The most important of these is that the free trade area should "eliminate duties and other restrictive regulations of commerce ... on substantially all the trade between constituent territories in products originating in such territories" (WTO, GATT Article XXIV, para. 8(b)). The term 'substantially all trade', however, is not further specified.

2.6 Why negotiate new EPAs

After fifty years of development cooperation between the ACP and EU states the initial development goals have still not been adequately reached. The exports from the ACP states to the EU countries have not sufficiently diversified. In 2005 primary products still constituted 84% of the exports from ACP countries to the EU. Trade between the regions has also not increased. Even though the ACP countries were given preferential access to the EU market, the percentage of imports coming from ACP countries, as compared to worldwide imports, has decreased since 1958. The percentage of exports from the EU to the ACP has also decreased since 1958. Regarding the human development elements of the EC development cooperation programmes, the goals have not been sufficiently reached. Eighteen ACP countries show an improvement in their HDI indexes over time, yet twelve countries show a negative trend in recent years. Fifteen countries show a general positive trend, with some glitches where the HDI decreases but then increases again.

The current arrangements of the Cotonou Agreement are also not compatible with regulations of the WTO. The preferential treatment given to the ACP states (and not extended to other developing nations) by the EU can be challenged on the grounds of discrimination under the most favoured nation clause of the WTO. However, if the ACP countries grant EU imports duty free access into their markets, the arrangement falls under GATT article XXIV and a customs union or free trade area is established between the EU and ACP regions. This free trade area and the accompanying benefits of the EPAs to ACP countries do not have to be extended to non-ACP developing countries.

The ACP group originally started as the Community of Overseas Countries and Territories. Following decolonisation, the EU countries felt a responsibility to improve the social and economic development of former colonies. The ACP group grew as more countries were included as former colonies or protectorates of new EU member states. The benefits granted to these ACP countries are greater than those given to other developing countries under the GSP. If the Cotonou Agreement is not followed by the EPAs, an option is for the ACP countries to trade with the EU under the GSP. This will, however, decrease their access to the EU market regarding some important products (e.g. bananas, tuna). Most ACP nations do not look forward to this prospect. Thirty-nine least developed ACP countries fall under the Everything But Arms initiative, meaning they enjoy duty free and quota free access to the EU market (see Appendix 6 for the least developed ACP countries). For these countries especially the choice arises whether or not to participate in the new EPAs. Currently they can export freely without having the obligation of reciprocity. This will change if they implement the follow up to the Cotonou Agreements, the EPAs. However, the EBA initiative is a non-contractual arrangement and can be withdrawn at any time. Also, the EBA has more stringent rules of origin (ROO) than the Cotonou Agreement. For these least developed countries the benefits and disadvantages of the EPAs must carefully be weighed as well as the likely alterations which may be made in the future to the EBA initiative.

In conclusion it can be stated that the new Economic Partnership Agreements between the EU member states and the African, Caribbean and Pacific countries are being negotiated, instead of a continuation of the Cotonou Agreement, because after fifty years of development programmes the long standing economic and human objectives have still not been reached, the Cotonou Agreement is incompatible with WTO regulations and colonial ties allow the ACP countries to enjoy benefits greater than those granted by the GSP.

3. Measures of the EPAs

By the end of 2007 negotiations surrounding the EPAs are meant to be finalised so that the new agreements can be implemented before 2008. During the negotiations the ACP countries have been split up into separate economic groups which communicate with the EU. Three ACP countries (Cuba, East Timor and Somalia) have chosen not to take part in the negotiations. Up until May 2007, two draft agreements have been negotiated for the Pacific group and the East South Africa group (ESA, possibly with the Democratic Republic of Congo joining this agreement). The ESA agreement, however, is not yet complete, missing chapters regarding the trade in services and the institutional framework and final provisions. For the remaining four economic groups of West Africa, Central Africa, Southern Africa and the Caribbean, EPA drafts have not yet been published (by June 2007). In order to investigate the precise changes (in relation to the Cotonou Agreement) which the EPAs encompass, the contents of the draft versions for the Pacific and ESA groups will be researched. It is important to note, however, that these draft versions might be subject to change in their finalised format.

The importance of the EPAs in improving development is emphasised throughout the draft documents. The ESA draft agreement specifies the aim of the EPA: "to promote sustained growth, increase the production, supply and trading capacity of ESA Countries, as well as the capacity to attract investment and technology and create more employment, foster the structural transformation of ESA economies and their diversification, improve competitiveness and support regional integration initiatives in the ESA region" (Draft EU-ESA EPA, 24-08-2006:7). The goals stated in the EU-PAC document remain much less concrete, failing to give specific sustainable development objectives. The various methods which will be employed to stimulate development are diversified and plentiful. Throughout all this, however, both the ESA and PAC "countries shall determine their development models and strategies for their economies and societies in all sovereignty" (Draft EU-ESA EPA, 24-08-2006:7).

The major difference between the new EPAs and the former agreements between the EU and ACP countries is the element of reciprocity. The EPAs are not only geared towards liberalisation and the removal of barriers to trade, but they demand that the ACP countries also open up their markets to products from the EU. Below is a discussion of the precise contents of the draft versions of the EPAs, which will culminate in the answering of the second research question: *What measures do the Economic Partnership Agreements contain?*

3.1 Trade liberalisation

The most important trade cooperation measure the ESA-EPA proposes is that "the Parties shall gradually establish a free trade area over a transitional period of 25 years from date of entry of this agreement" (Draft EU-ESA EPA, 24-08-2006:12). Before the trade barriers are removed, however, the ESA market and ESA exports will be strengthened, by maintaining the current level of preferential market access to the EU and by stimulating intra-regional trade in the ESA area. Next, trade barriers will progressively be removed. The removal of the barriers will occur for each country individually, "taking into account their level of development as well as the ESA regional integration process and agenda" (Draft EU-ESA EPA, 24-08-2006:9). A free trade area between the EU and the Pacific region is also striven for, however the time line for the liberalisation process is not yet available. As of 1 January 2008 the European Community will "eliminate all customs duties on imports of all products originating in any of the Pacific Parties" (Draft EU-PAC EPA, 15-06-2006:55). The liberalisation in the Pacific region will be more gradual.

A *customs duty* is defined as a charge imposed in connection with the importation of goods. This includes surtax or surcharge connected with imports, which must be removed during liberalisation, but the ESA region is given a few exemptions, namely non-discriminatory internal taxes levied on both imported and locally produced goods and anti-dumping or countervailing duties. As of 1 January 2008, "the Community including the OCTs [Overseas Countries and Territories] shall provide full duty free and quota free market access for all products originating in the ESA region" (Draft EU-ESA EPA, 24-08-2006:13). Regarding the EU imports into the ESA region the agreement contains three time lines for eliminating customs duties for different types of products. Sensitive products will be excluded from liberalisation, but a list of these products is not yet available. For capital goods and raw materials the duties shall be abolished ten years after the entry into force of the agreement (i.e. 1 January 2018). For intermediate goods the elimination will be more gradual, starting in year eleven and finishing in year twenty according to the schedule in table 3.1.

Table 3.1: Elimination of ESA customs duties for intermediate goods

Category	Year XI	Year XIV	Year XVII	Year XX
Percentage reduction of duty	25%	50%	75%	100%

(Draft EU-ESA EPA, 24-08-2006)

For finished goods, the elimination of customs duties in the ESA region will start in year sixteen and finish in year twenty-five according to the schedule in table 3.2.

Table 3.2: Elimination of ESA customs duties for finished goods

Category	Year XVI	Year XVII	Year XVIII	Year XIX	Year XX	Year XXI	Year XXII	Year XXIII	Year XXIV	Year XXV
Percentage reduction of duty	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%

(Draft EU-ESA EPA, 24-08-2006)

In the draft EU-ESA agreement exceptions clause, a bracketed possible exception is included which reads: "[Taking into consideration the special status of the LDCs under the EBA initiative and the WTO arrangements, ESA LDC States are exempted from any reduction of tariffs.]" LDCs constitute 41 of the 79 ACP countries (see Appendix 3 and 6). Currently under the Everything But Arms (EBA) agreement they already have free access into the EU for their exports. They face the choice to join the EPAs or to remain in the EBA agreement. Joining the EPAs might mean they must open their own borders to EU goods (unless this clause remains in the final treaty), but opting out of the EPAs means they won't receive other aid the EPAs grant. This mention of LDCs is not made in the EU-Pacific EPA where five out of fourteen countries are LDCs, compared to thirteen LDCs out of sixteen countries in the ESA group.

Another special arrangement regards the products sugar, beef and bananas. For these, the benefits and guarantees of the Cotonou Agreement shall be maintained. For the ESA region sugar, beef and bananas are all included in the agreement, for the Pacific region only sugar is mentioned. The sugar protocol ensures that the EU buys a fixed quantity of raw sugar each year from the ACP countries "at attractively high guaranteed prices aligned to EU's own internal sugar price and establishes annual quotas for sugar producers" (ACPSEC, www.acpsec.org). These guaranteed prices are three times higher than world prices, but the sugar protocol hinders the import of processed sugar into the EU by placing high tariffs on processed sugar. The sugar protocol has no expiry date, it is of indefinite duration and it would continue without the conventions or agreements to which it may be attached. Furthermore, the sugar protocol is compatible with WTO regulations, yet is still subject to legal complaints from non-beneficiary countries (ACP Sugar Group, www.acpsugar.org). The beef and veal protocol grants several ACP states a 90% tax refund which is usually paid on beef imports. Finally, the banana protocol ensures duty-free entry of exports into the EU market for specific quotas. The beef and veal and banana protocols are not compatible with WTO regulations and may have to be reformed if the final processes of appeal fail in the WTO.

Given that the economies of some ACP countries are weak, especially when compared to the EU market, they have the right to introduce pre-emptive safeguards to protect their industrial and agricultural sectors and to limit the trade distortive effects of the *Common Agricultural Policy* of the EU. The problems CAP might cause are thus acknowledged by the Community, however there are no plans to adjust the CAP effects. The agreement also allows ESA and Pacific states to protect their economies if they experience balance of payments and external finance difficulties. ACP countries often rely heavily on tariffs as a form of government revenue. Therefore, the EU will "provide budgetary assistance to ESA countries to enable them cope with revenue losses arising from liberalisation due to this agreement" (Draft EU-ESA EPA, 24-08-2006:19). Budgetary assistance will not be granted to Pacific countries but they will be given aid in strengthening their tax administration and revenue collection.

This promised budgetary assistance will be paid out of a Financial Facility, still to be established. However, the amount of funding which can be expected from the Financing Facility is not specified. The EU will provide financial and technical resources in other areas also, for example to support reforms in social safety nets and improve infrastructure. "Development finance co-operation shall seek to facilitate the ESA countries to attain the Millennium Development Goals (MDGs) and shall include the cancellation of all debts owed by ESA countries to the EU and its Member States and financial institutions" (Draft EU-ESA EPA, 24-08-2006:92). Also, the EU will "make resources available to liquidate the external and domestic debts of the ESA countries" (Draft EU-ESA EPA, 24-08-2006:96). No mention of helping Pacific countries manage their debts

is made in the EU-PAC agreement.

Anti-dumping measures will not be imposed on Pacific parties by the European Community. Anti-dumping measures can "unduly hamper the development of small developing countries and their ability to become more integrated into the global economy" (Draft EU-PAC EPA, 15-06-2006:56). Also, given that the Pacific countries are composed of small economies and are geographically isolated, exports from these nations are unlikely to cause injury to Community industries. For the ESA region, dumping of products on the EU market will not be allowed and measures will be taken if dumping should occur.

3.2 Trade in services

Information on *Trade in services* is not yet published for the Eastern and Southern Africa countries. For the Pacific EPA, the parties involved agree that they will not limit the number of service suppliers, they will not limit the total value of service transactions or assets, they will not limit the total quantity of services, nor will they limit the "participation of foreign capital in terms of maximum percentage limit on foreign shareholding or the total value of individual or aggregate foreign investment" (Draft EU-PAC EPA, 15-06-2006:22). However, this strict clause looses its strength when all the exceptions and additions to it are summed up. For instance, commitments may be negotiated regarding qualifications, standards, licensing matters or the entry and temporary residence of natural persons. Also, the parties may limit the total amount of natural persons entering the region to provide a service. The Partnership Committee will be involved in the mutual recognition of acceptable standards and criteria for licensing and certification of service providers. Funding will be provided by the Financial Facility in order to encourage trade in services and improve the quality of services.

To protect fragile service sectors in Pacific countries, these nations may restrict the trade in services. Also, if an appropriate regulatory regime is not yet in place when the EPA comes into effect, the Pacific country may delay its commitments. The country should, however, "take all reasonable steps given its economic, social and environmental characteristics and development strategy to establish and implement an appropriate regulatory regime" (Draft EU-PAC EPA, 15-06-2006:27). The EU will provide financial and technical assistance to develop regulatory regimes. If balance of payments problems arise the Pacific countries may also delay their commitments. Granting subsidies to develop the service sector will not be prohibited, however, consultation between the PAC and EU regions should take place if a country feels subsidies in another country nullify or impair expected benefits. Though liberalisation of services is not demanded in the EPA, the agreement specifies that liberalisation will likely be beneficial to Pacific countries. Therefore, the parties will work together to overcome obstacles to liberalisation.

3.3 Trade related issues

The aim of cooperating in trade related issues is to improve the market accessibility of goods from the ESA and Pacific regions into the EU by "simplification of rules of origin, strengthening of ESA's capacity to meet standards, technical regulations and conformity assessment procedures, sanitary and phytosanitary measures on trade, environmental issues, measures for protection of consumer health and improved customs administration" (Draft EU-ESA EPA, 24-08-2006:20).

Sanitary and phytosanitary measures are enforced to protect national health and safety. However, they can form a barrier to trade if the exporting country cannot fulfil the expectations. Even though the agreement specifies that each party shall have the sovereign right to implement sanitary and phytosanitary measures, these measures must be compatible with the WTO SPS Agreement in the ESA, Pacific and EU regions. Also, technical and financial assistance should be granted to the ESA region to promote technology transfer, to develop the necessary infrastructure and the capacities for standardisation, assessment, quality assurance and certification. More specifically, SPS training programmes should be implemented in animal health, plant protection and food safety for public sector personnel and private sector producers. Also, accreditation agencies and laboratories in the ESA should be set-up and/or strengthened. This should make it possible for ESA countries to comply with regional, European and international standards. Specific measures to enable Pacific countries to comply with higher standards are not mentioned.

In the area of *trade facilitation*, the EU will support ESA countries with establishing (ICT) infrastructures and developing human resources. Support will come in a technical and financial variant. For instance, the Community shall support the ESA region by providing "financial and technical resources for the implementation of joint controls at border posts along the transport corridors of the region" (Draft EU-ESA EPA, 24-08-2006:39). Support of this type will not be given to the Pacific countries.

Competition policy is also included in the ESA agreement, this is to improve the efficiency of the markets in ESA countries. For the Pacific region, the emphasis is placed on strengthening the participation of the private sector in trade via financial, logistical and/or technical support.

Intellectual property rights (IPR) are defined as "copyright and related rights; industrial property rights; plant breeders rights; rights to traditional knowledge, folklore and genetic resources; and other rights recognised under the TRIPS Agreement ... and the International Agreement on Plant Genetic Resources" (Draft EU-ESA EPA, 24-08-2006:45). The idea conveyed in the EU-ESA agreement is one of mutual respect. On the one hand, the EU will respect and protect ESA countries genetic resources, folklore and traditional knowledge and fight against bio piracy. This means that if patents are granted which use resources from ESA countries, the EU will demand knowledge of the resource origins, proof that the indigenous community has consented to the use of the resources and equitable sharing of benefits. On the other hand, the ESA will respect IPR and compensate intellectual property holders fairly. One major problem ESA countries have with IPR is the high prices they demand for medication which is necessary for their population (most importantly medication to combat HIV and AIDS). Therefore the agreement stipulates that the in-built flexibilities of the WTO Agreement on TRIPs, especially with regard to public health, will be employed to ensure ESA countries have access to pharmaceutical products at a reasonable price. IPR are not discussed in the EU-PAC agreement.

Investment and private sector development support is also included in the EPAs. The EU will support the ESA region "through investment, including FDI, technology transfer, capacity building and institutional support" (Draft EU-ESA EPA, 24-08-2006:48). In the Pacific EPA, *investment protection and promotion* is even more important and highly specified rules are included to protect foreign investors seeking entry into the Pacific region. For instance, nations may not require investors to appoint senior management positions to individuals of a particular nationality and investors must respect human rights in the workplace, state and community. An anti-corruption article is included in the agreement so that "investors and their investments shall not ... offer, promise or give any undue pecuniary or other advantage ... to a public official of the host state or a member of an official's family or business associate or other person in close proximity to an official" (Draft Investment Chapter EU-PAC EPA, 10-10-2006, p. 14). Other relatively fundamental rights included in the Pacific agreement refer to fairness in administrative, legislative and judicial processes, the right of administrative appeal of decisions and the publication of all laws and regulations for the public. Finally, countries must improve the "transparency, efficiency, independence and accountability of their legislative, regulatory, administrative and judicial processes" (Draft Investment Chapter EU-PAC EPA, 10-10-2006:18).

Under the most-favoured nation treatment article in the EU-Pacific agreement, "each Party shall accord to investors of another Party treatment no less favourable than that it accords, in like circumstances, to investors of any other Party or of a non-Party with respect to the management, conduct, operation, expansion, sale or other disposition of investments" (Draft Investment Chapter EU-PAC EPA, 10-10-2006:7). Also, under the national treatment article, foreign investors will be given the same treatment as a country's own investors. It is possible though, to demand performance requirements to promote domestic development benefits from investments. Examples of these requirements are the purchasing of local goods and services or requiring specific export quantities.

Several articles in the Pacific-EU EPA refer to the safety of investing in the Pacific area. For instance, if investors suffer losses due to armed conflict or civil strife, foreign investors will be given the same treatment as native investors. Also, if investors suffer from requisitioning of their investment by authorities or from destruction of their investment by authorities, the country must provide the investor restitution or compensation. Parties will not directly nor indirectly nationalise or expropriate investments in its territory "except i) for a public purpose; ii) on a nondiscriminatory basis; iii) in accordance with due process of law; and iv) on payment of compensation" (Draft Investment Chapter EU-PAC EPA, 10-10-2006:10). The safety of investing is not included in the EU-ESA agreement.

3.4 Economic and development cooperation

In order "to allow ESA countries to maximize the benefits deriving from EPAs", the EU will provide appropriate development and support measures (Draft EU-ESA EPA, 24-08-2006:64). For instance, the EU will finance EPA related adjustment costs. These costs will not be financed using the European Development Fund, but will be provided additionally to this fund. Similar funding is also available for the Pacific region. However, the total amount of resources which will be devoted to fund these costs is not specified in the agreements.

Agriculture is a very important sector in many ACP countries. A large proportion of the population is dependent on agriculture for livelihood and food security. Many farmers produce "solely for household food security purposes and have a minor role in commercial agricultural markets" (Draft EU-ESA EPA, 24-08-2006:68). The EU will provide technical and financial assistance to the ESA region in order to, for example, develop irrigation, reduce vulnerability to natural disasters, develop agro-enterprises, control animal and plant diseases, ensure the availability of food, develop research, improve export and import commodities, develop infrastructure, coordinate food aid to use regionally produced food, harmonise agricultural policies in the ESA, improve the manufacturing capacity of agricultural inputs (e.g. fertilisers) and stabilise agricultural prices.

Agriculture is seen as even more important for the Pacific countries, but such specific measures (e.g. irrigation, natural disasters, etc) to develop agriculture are not given in the Pacific agreement. Poverty can be decreased by increasing productivity, developing the agricultural processing industry and promoting trade in agricultural produce. Where the production of agriculture changes, adversely affected farmers will be given short term income support and if necessary longer term adjustment assistance so they can change their production. This financial assistance to the Pacific countries will be paid out of the Financial Facility, a fund set up especially for costs associated with the EPA.

Even though the agricultural sectors form an important part of the economies of ESA countries, several states are still net importers of food. The agreement states that the EU will establish a financing facility to provide aid to net importers facing the increased cost of importation of food. Preferably the food will be imported from regional markets. Additionally, current food aid policies will be reviewed to ensure they do not harm the local markets. Food aid and support to net importers of food is not mentioned in the EU-PAC agreement.

The *mining* capacities of the ESA region will be developed whereby information on mineral resources and geo-science will be made accessible for exploration and mining investments. The local mining capabilities will be strengthened, but joint ESA and EU firms investment will also be encouraged. Furthermore, the processing capacities of the ESA region will be strengthened to improve the value addition and attention must be paid to environmentally friendly mining techniques. Mining is not mentioned in the Pacific agreement.

Cooperation in *fisheries* trade and development constitutes an important part of the EPA between the EU and ESA regions, but it is not mentioned in such depth in the Pacific agreement. Fisheries is split up into two sections in the EU-ESA EPA: marine fisheries, and inland fisheries and aquaculture development. Regarding *marine fisheries*, the main message of the agreement is that the EU will help ESA regions develop competitive fishing sectors. For *inland fisheries and aquaculture development* the measures are more specific and includes EU support to improve infrastructure, technology, product development and branding, certification schemes, vessels, equipment and research and development centres. Environmental measures will also be taken to ensure safeguards against a depletion of fish stocks. Furthermore, to improve the socioeconomic situation in ESA countries and alleviate poverty, the capacity for small and medium scale fishers, processors, and fish traders will be improved, as well as gender equity in fisheries and the position of disadvantaged groups.

Regarding *industry*, the agreement aims to strengthen the competitiveness of the ESA region and to improve cooperation between the private sectors of the EU and ESA. Newly developing industries in the Pacific region can be protected by raising tariffs. The tariffs can be raised for a maximum of 13 years (18 years for Small Island States or Least Developed Countries).

The development of a competitive *tourism* industry must also be encouraged in the Pacific and ESA regions. Tourism will become a "generator of economic growth and empowerment, employment and foreign exchange" (Draft EU-ESA EPA, 24-08-2006:79). Important aspects of tourism are the protection of the environment and protecting the cultural heritage of developing nations. Liberalisation is emphasised in the Pacific EPA, so that both parties gain improved access to each other's tourism markets and share information.

Cooperation in *infrastructure* is also included in the agreements. Infrastructure is taken to entail transport, energy and information technology and communication. The EU-ESA agreement states the objectives and emphasises cooperation between the regions, but specific measures to improve infrastructure are not discussed. These measures are left to the ESA region to develop. In the Pacific agreement, infrastructure is only mentioned as a possible candidate for financing, objectives or measures are not specified.

The *Natural resources and environment* title of the EU-ESA EPA concentrates on sustainability. By preserving natural resources and enhancing ecotourism, poverty could be alleviated and environmental degradation could be stopped. This would "improve the livelihood of the people" (Draft EU-ESA EPA, 24-08-2006:87). Natural resources and the environment are not mentioned in the Pacific EPA.

3.5 The measures of the EPAs

The most important measure of the EPAs with potentially the most far reaching impacts is the proposal for the establishment of a free trade area between the EU and ACP countries. The emphasis is placed on trade in goods and clear time lines are discussed for liberalising this trade. Trade in services is also mentioned yet these plans are less binding, expressing a general will to allow more trade in services yet not making any specific demands on the parties. IPP is included in the EPA with the ESA region, yet is not enclosed in the Pacific EPA. IPP has been violently opposed to, not only in relation to the EPAs, but also previously during the WTO Ministerial Conference of 1996 in Singapore. Nevertheless, it has been included in the ESA EPA, making even stronger demands than the TRIPS agreement to which all WTO members are bound. The potential effects of IPP can be far reaching, as they can influence the prices of lifesaving medication which many ACP nations require, especially concerning HIV/AIDS.

Connected to the economic impacts of trade liberalisation is the practice of granting large amounts of subsidies to agricultural workers in the EU region. These subsidies affect fair competition and global agricultural prices and can potentially eliminate the businesses of small farmers in developing ACP nations. The EPAs will allow the ACP countries to protect their economies from non competitively priced products and acknowledge the negative effects of the CAP on developing nations, yet the CAP will not be reformed. The EPAs contain other complementary economic, social and political policy measures to these three important changes. For instance, they discuss sanitary and phytosanitary measures, technical and financial aid, competition policy and mining, fishing and industrial capacities of the ACP countries. These complementary policy proposals are important, yet in order to limit the scope of this research paper, the analysis in this paper will focus on the economic impacts of trade liberalisation, IPP and agricultural subsidies, as these have the most far reaching consequences in developing nations and these policy changes have been discussed by other authors in relation to ACP countries.

4. Expected impacts in theory

The European Union's EPAs with the ACP countries encompass a broad range of development instruments. This paper will focus on the effects of trade liberalisation, intellectual property protection and agricultural subsidies on the economic development in ACP countries as these three important elements of the EPAs potentially harbour the greatest effects. Various literature sources will be extracted from to develop a theoretical framework. In the next chapter, the results from empirical studies will be discussed. These two chapters combined will lead to the answering of the third research sub-question: *What are the expected impacts on economic development in African, Caribbean and Pacific countries where the Economic Partnership Agreements will be implemented?*

4.1 Trade liberalisation

Trade liberalisation is commonly defined as "policies that diminish restrictions to the free international movement of goods and services" (Dijkstra, 2000:1568). Stiglitz and Charlton (2005) discuss a difference between trade openness and trade liberalisation. Trade openness refers to the state of having low barriers to imports. Trade liberalisation entails the process of reducing those barriers. Specific trade liberalisation policies are, for example, the diminishing of import quota, the lowering of import tariffs, the diminishing of restrictions to exports and the lowering of export tariffs. This leads to a decrease in the price of imported products and an increase in the price of exported goods and services. In combination with a well-functioning market and strong enough supply elasticities (i.e. the percentage change in supply resulting from a percentage change in price), trade liberalisation can result in increased quantities of imports and exports. This is the general argument in favour of trade liberalisation. As the size of the global market expands with the opening up of foreign markets, the demand for domestic firms' goods and services expands which enables these companies to enter a larger market and experience gains from economies of scale. This enhances the global efficiency in production and exchange.

Dijkstra (2000) explains the different types of efficiency which trade liberalisation can cause. A distinction is made between static and dynamic effects. Static effects are "one-time improvements as a result of the change in relative prices which follows from trade liberalization" (Dijkstra, 2000:1568). These effects can be further split up into X-efficiency (or micro-economic efficiency) and allocative efficiency. Dynamic effects occur when an economy achieves a permanently higher growth rate.

4.1.1 Static effects

X-efficiency improves "if the same output is produced with fewer resources, or more output is produced with the same amount of resources" (Dijkstra, 2000:1568). Trade liberalisation can improve X-efficiency by lowering the prices of imported goods. Thereby firms and households which use imported goods in their production process can attain higher production and output levels with lower costs. However, in some countries trade restrictions and tariffs on imported processing goods (such as inputs, raw materials and machinery) were already lower than import restrictions on final goods. Here, "the impact of liberalization and lower tariffs on X-efficiency in industrial firms will be limited" (Dijkstra, 2000:1569).

Allocative efficiency improves "if resources are better allocated over the whole economy" (Dijkstra, 2000:1568). Allocative efficiency therefore leads to a structural change in society which may increase manufactured production. This potential increase in manufactured production, however, is dependent on the comparative advantages of manufacturing at the start of the liberalisation process. The nineteenth century economist David Ricardo first introduced the principle of comparative advantage. Today, it forms the "core of trade theory and is the foundation of its normative implication in favour of free trade" (Stiglitz and Charlton, 2005:25). According to Ricardo, trade among countries is welfare-enhancing because it allows each participating country to specialise in the goods and services that they produce relatively efficiently. Thus, the resource costs of production decrease and welfare increases. As resources move from sectors with low to high comparative advantage short-term adjustment costs are made. Welfare gains from improvements in allocative efficiency are expected to be larger for small countries than larger countries, because price changes will be smaller in large economies (Dijkstra, 2000:1568). The greater levels of reallocation of resources in small countries, though, will cause higher adjustment costs for small countries.

Static welfare effects (and in particular allocative efficiency effects) depend on the existence of perfect markets. This means there must be a well-functioning goods market, the labour market must be absent of unemployment and there must be a perfect risk market.

Static welfare effects are negatively affected if an *imperfect market* (i.e. a lack of competition) exists in the goods trading sector of a developing country. Trade liberalisation will generate lower import prices at the border, but these will not be translated into lower domestic prices of goods. Monopoly power in the trading sector can be caused by an inelastic supply curve (for instance for high-technology or high-price import goods), by a reduced number of trading firms (possibly due to barriers to entry in importing activities because of sunk costs in the form of market-specific information requirements or in the form of physical / financial investments) and by collusion (i.e. collaboration among rival companies for mutual benefit). "If the lower border prices of industrial inputs are not passed on to domestic users of these goods (producers), X-efficiency increases will not come about" (Dijkstra, 2000:1570). Imperfect markets are more common "in economies characterized by an unequal distribution of income and wealth" (Dijkstra, 2000:1570). As markets in small countries are smaller, this increases the probability of monopoly situations. Therefore possible losses in allocative improvement are greater in small countries.

Competitive markets are necessary to reap the benefits of allocative efficiency effects from trade liberalisation. As foreign goods enter the domestic market at a lower price, this enhances competition which lowers the prices of products and increases welfare. The expected gains from trade liberalisation arise when "resources are transferred from protected sectors, in which a country does not have comparative advantage, to those sectors where it is more efficient and where it can export more successfully" (Stiglitz and Charlton, 2005:6). Some inefficient local producers may be destroyed by the new competition, "but competitive local industries are supposed to be able to absorb the slack as they expand their exports to foreign markets" (Stiglitz and Charlton, 2005:25). Resources will be moved from low-productivity protected sectors to high-productivity export sectors. However, this argument assumes that resources are already fully employed when a country first opens up its markets. This is often not the case in developing nations where the *unemployment* is high. Therefore, trade liberalisation is not needed to free these resources for new industries. In ACP countries, it is not a question of redeploying resources to the export sector, but of employing hitherto unused resources. Experience shows that competing local import industries are often harmed by trade liberalisation, "while local exporters may not automatically have the necessary supply capacity to expand" (Stiglitz and Charlton, 2005:26). The result is an increase in unemployment and a decrease in productivity. Furthermore, even if the equilibrium level of unemployment eventually remains unchanged "it may take the economy considerable time to adjust, and the costs of adjustments – lost income and increased poverty – may be considerable" (Stiglitz and Charlton, 2005:70). Problems with the labour market will enhance the adjustment costs, but these costs will always occur as a reallocation between sectors of production leads to (temporary) unemployment.

Another assumption in the expectation that competition will increase X-efficiency is that "at higher output prices prior to trade liberalization, the substitution effect (more leisure/slack) dominated the income effect for the firm (manager). In other words, managers did not use the (protection-induced) higher output prices to increase their incomes and profits, for example, in order to invest in the firm, but rather increased slack and had higher costs" (Dijkstra, 2000:1569). This cannot be assumed for all firms. In addition to this, if substitution effects are more important than income effects, companies which were already exporting before trade liberalisation can be expected to reduce X-efficiency, because the higher output prices will lead to more slack/leisure and not an increase in income for them. However, before trade liberalisation in import-substituting regimes there are probably more import competing firms than export competing firms. The net overall positive effect of trade liberalisation on X-efficiency in manufacturing will therefore probably be smaller than orthodox theory assumes as the trade regime before liberalisation already allowed cheap imports of processing goods and not all import competing firms used the extra income from protection to cover inefficiency (Dijkstra, 2000:1569).

Over the last few decades service liberalisation has concentrated on high-skill services and not on unskilled-labour-intensive services which are of interest to developing countries (Stiglitz and Charlton, 2005:117). As protection levels are high in the service sector and services make up a large (and growing) share of world trade, the potential welfare gains to developing countries from service liberalisation are significant. Stiglitz and Charlton stress, however, in relation to trade in services, that "reciprocity should *not* be the central feature of these negotiations, as they have been in the past" (2005:109). The consequences in developing countries of opening up markets to services from developed countries are far greater than the effects in developed countries of opening up to developing nations. Service liberalisation is easy to implement in developed countries, while developing nations will need assistance and should be given a longer adjustment period.

The most pressing *adjustment costs* are a result of a decrease in tariff revenues. Income from tariffs often form a large part of government revenues in developing countries. This drastic loss in governmental

revenues can act as a barrier to trade as countries cannot access alternative revenue sources: "As alternative sources of revenue are limited the costs of the revenue loss is high" (Stiglitz and Charlton, 2005:172). As a result public expenditures must be reduced or other taxes must be increased, and both of these may negatively influence growth. International organisations encourage developing countries to reduce their dependence on trade taxes and develop indirect commodity taxation, for example value-added tax (VAT) (Stiglitz and Charlton, 2005:28). However, the collection costs associated with trade taxes are likely to be smaller than those of income or commodity taxes in developing countries. Also, many developing countries have large informal sectors in which indirect taxation is not possible and "administration of income taxes and consumption taxes such as the VAT are more human capital demanding than the administration of import duties" (Karingi et al., 2005:68). Under these circumstances, a switch from trade to indirect taxes may be welfare-reducing.

The traditional model which proclaims that trade liberalisation is welfare-enhancing harbours the assumption of the existence of perfect *risk markets*, in which individuals informed about risks bargain until a Pareto efficient level of risk bearing is achieved. However, "there is high volatility in international markets, risk markets are highly imperfect, and trade policy can reduce exposure to risk" (Stiglitz and Charlton, 2005:26). If trade is restricted producers are protected from the full force of market fluctuations, if their production capacity drops they can simply charge a higher price for their products. Trade liberalisation will decrease this protection and the incomes of producers will become more variable. This will cause risk-averse firms to "invest less in some sectors with high returns but high variability; and as the economy moves into lower-return, less variable activities, total output will decline" (Stiglitz and Charlton, 2005:26). A decrease in the welfare of a country can be the result.

4.1.2 Dynamic effects

Dynamic efficiency occurs when an economy achieves a permanently higher rate of growth. As trade is liberalised, the exchange of ideas, technology and knowledge may be increased. However, "trade liberalization may be neither necessary (if capital goods could already be imported at low rates, and foreign investment was also already allowed) nor sufficient (a domestic skill base must be available)" (Dijkstra, 2000:1570).

The increased competition which is expected to follow trade liberalisation can contribute to several dynamic effects. For instance, increasing returns to scale can occur whereby firms benefit from the larger market created by trade liberalisation. However, this benefit is mainly expected in the manufacturing industry and less important in primary goods production. A country will therefore benefit from a certain level of industrialisation before liberalisation.

Another expected dynamic effect of trade liberalisation "is that more competition and a larger market enhance the international cooperation and specialization in R&D activities and reduce redundancy" (Dijkstra, 2000:1570). A certain level of industrialisation is beneficial here as well, otherwise the reallocation of resources (due to static comparative advantage) which results from trade liberalisation will lower the long-term growth prospects as resources are moved to primary produce sectors instead of industries. Primary sectors are characterised by "lower income elasticity of demand for these goods, and a lower potential for internal and external economies of scale, learning effects, and R&D investment" (Dijkstra, 2000:1980).

A final dynamic effect of trade liberalisation is more ambiguous and entails the impact of competition on investment and innovation. According to the Schumpeterian argument some type of imperfect competition is required to stimulate investment and innovation, which contributes to economic development. Competition reduces profit margins and therefore limits the scope for investment in knowledge and innovation. On the other hand, larger firms with a solid position in a market tend to be less innovative according to the product cycle theory (Dijkstra, 2000:1570). Innovation therefore comes from new entrants into the market who face strong competition from the established companies.

The infant industry argument often forms a justification for protection of a country's economy (Szirmai, 2005:317). The idea is that freshly set-up industries in developing nations are unable to compete with experienced, powerful rivals. This inadequacy to compete is an issue in both the international and domestic market. The solution is to protect these infant industries by closing the border to competing imports. Under this protection the industries will grow more productive and efficient and will eventually be able to compete on the international market, at which point the protective measures can be removed. Protecting infant industries is seen as an important method for countries to build up an industrial sector. This industrial sector is important in attaining the further benefits of dynamic efficiency, such as returns to scale and reallocation of

resources to the manufacturing industry (instead of to the primary sectors).

"There is an important element of validity in the *infant industry* argument" (Szirmai, 2005:318). Several problems, however, are associated with import substitution (Szirmai, 2005:323). If the protection is kept too long a country is left with deeply inefficient, wasteful and non-competitive industries. Protection results in higher prices for consumers and the systems are often tainted by corruption. The goal of reduced dependence on imports is seldom realised as one type of dependence (e.g. consumer goods) is simply exchanged for another (e.g. raw materials). Also, the domestic markets may be too small to realise economies of scale and domestic monopolies may be created. Furthermore, countries often resort to overvaluing their exchange rate to lower the domestic currency price of their imports. This encourages capital-intensive production methods (as the price of imported capital goods is artificially lowered), but the overvaluation causes local farmers to be less competitive in world markets (Todaro and Smith, 2006:630). The income distribution effects are discriminatory as the small farmers and self-employed citizens are penalised while the profits of the (foreign and domestic) owners of capital are improved.

A certain level of industrialisation is important for two reasons. Firstly, it prohibits resources from flowing mainly to the primary sector (in which many developing countries have a static comparative advantage), which is often characterised by deteriorating terms of trade. A study by Keck and Piermartini (2005), showed that after trade liberalisation countries from the Southern African Development Community (SADC) will tend to specialise in agriculture, in particular animal production as well as processed food, and away from manufacturing. Secondly, industrialisation is also important in relation to the benefits from entering a larger market as these benefits are mainly expected in the manufacturing industry and less important in primary goods production. In the ACP countries the value added by industry as a percentage of GDP ranges from 11% (in Comoros) to 74% (in Angola, this mostly in the secondary industry from mining). The average percentage is approximately 27% (data taken from the World Development Index Online, 2005). Some countries are still highly dependent on agriculture, for instance Liberia receives 64% of GDP value added from agriculture. Trinidad and Tobago, on the other hand, have a value added of zero percent. The average value from the agricultural sector is 23%. The service sector is the largest on average with 50% of GDP value added. Regarding the protection of services, however, some organisations are concerned that developing countries won't "be allowed to protect their health and education services and the provision of vital basic services such as water from liberalisation" (CAFOD, 2004:7).

The 'Asian Miracle' is often cited as an example of economic liberalism whereby the newly industrialising countries of Asia managed to reach incredible growth levels after liberalising their economies. However, most of these successful developing countries started out with import substitution. Several contemporary authors proclaim that "in reality Taiwan and South Korea both tightly controlled their inward foreign direct investment to allow in only those companies which would create maximum up- and downstream benefits" (CAFOD, 2004:7). At first consumers are disadvantaged as they pay higher prices for domestically produced inefficient products, but in the long run everyone will benefit as domestic and other manufacturers reap the benefits from the economies of scale and learning by doing, so that ultimately the domestic price falls below the world price (Todaro and Smith, 2006:629). Korea and Japan actively also restricted flows of foreign direct investment. FDI made up less then 5% of GDP in these countries from 1987 to 1992 (Stiglitz and Charlton, 2005:15). Singapore and Malaysia, on the other hand, actively stimulated FDI, allowing it to reach more than 30% of GDP by 1992. Stiglitz and Charlton go on to conclude that the Asian countries "clearly did not believe in free and unfettered markets" (2005:15). Indeed, most of these nations actively protected those industries which were not developed enough to compete with international firms, while at the same time the governments promoted industries which were ready to export. The present rules of the World Trade Organisation, however, prohibit industrial protection. Perhaps this is just as well, as some authors are convinced the import-substituting strategy of industrialisation has been largely unsuccessful (Todaro and Smith, 2006:629). Under the EPAs, developing ACP countries will not be able to implement this strategy to strengthen their own economies. On the other hand, the Zedillo Commission concludes: "However misguided the old model of blanket protection intended to nurture import substitute industries, it would be a mistake to go to the other extreme and deny developing countries the opportunity of actively nurturing the development of an industrial sector" (Zedillo, 2001:9).

4.2 Trade related issues

Linked closely to the most important element of the EPAs, namely the liberalisation of trade, are two trade related issues. IPP is a highly controversial aspect of the EPAs which can influence access to lifesaving medication. Agricultural subsidies in the EU and other OECD countries can influence the economic development in ACP countries which is expected to result from the EPAs.

4.2.1 Intellectual property protection

Intellectual property rights grant innovators temporary monopoly. Companies have invested in research and development and can reap the benefits from their investment under the security of IPR. This allows them to recover their initial costs of research and increases the motivation for inventive activity. However, this temporary monopoly position results in economic inefficiency. A patent provides a company the right to exclude others from making, using, selling or importing the patented invention. The firm usually enjoys protection for twenty years. Inefficiency results if competition is stifled, leading to higher prices, lower quality and possibly even shortages.

Unfortunately Stiglitz and Charlton conclude "there is little evidence that stronger intellectual property protection would generate a greater flow of basic ideas" (2005:142). According to them, basic research and discoveries form the basis on which innovators work. This basic research is usually conducted by government sponsored research laboratories or universities and is not protected by IPR. Intellectual property protection constitutes only a part of the open knowledge and research system in a country. Providing greater protection to this private section of the entire research and development system may harm the research system as a whole and impede development. Furthermore, "in some areas weaker patent laws are actually necessary to safeguard public health and promote development" (Stiglitz and Charlton, 2005:143). Many governments in developed countries already have strong national laws for public use of patents, but this is often not the case in developing nations.

Szirmai (2005) disagrees with Stiglitz and Charlton. According to him, "throughout economic history, protection of intellectual property rights has proved to be one of the engines of technological change and economic growth" (Szirmai, 2005:134). The author does, however, acknowledge the potential negative effects of restricting access to knowledge and technology. Developing countries are particularly vulnerable to exclusion from technology. Another potential negative effect Szirmai mentions is underinvestment in areas where the private returns are less than the social returns, for example in research on AIDS, malaria and semi-arid agriculture. To combat underinvestment in socially important areas, governments and international organisations must support the search for new knowledge. At the same time, there are potential positive effects of IPR. Increased protection "can result in increased foreign direct investment and accompanying inflows of technology" as firms dare to work with developing nations when their knowledge base is protected (Szirmai, 2005:135). Other positive effects are the increased protection of domestic knowledge, such as traditional medicines, and the provision of incentives for more research and development efforts in developing nations.

Lesser (2001) gives a short recap of studies conducted regarding the effects of IPR on foreign direct investment and imports. In general, stronger IPP does seem to enhance FDI and imports. However, several factors are important in this relationship. For instance, the degree of industrialisation is important as "more industrialized nations show a more pronounced response to the strength of IPR" (Lesser, 2001:16). However, as Lesser (2001) points out, it remains unclear whether this relationship is due to either a statistical reality whereby more industrialized countries are more dependent on foreign technologies and capital or a causal relationship. Furthermore, in the case of a causal relationship it remains unclear whether strong protection leads to modernization or 'modern' nations adopt stronger IPR as the economy reaches a critical level. The sectoral development is also important in determining the effects of IPR as more technologically advanced sectors (e.g. electronics) are more dependent on IPR than less technical ones (e.g. food processing). Finally, the stock of existing FDI is important as countries with significant prior FDI tend to attract more investment.

In his own analysis, Lesser (2001) assumes a positive relationship between the levels of FDI and imports and their effects on welfare. He finds that improving IPP does increase FDI and import levels in countries, leading him to conclude that "stronger IPR do indeed provide some domestic benefits for developing nations" (Lesser, 2001:21). Following his assumption that FDI and imports enhance welfare, the increased FDI and imports following stronger IPR will cause an improvement in welfare. He does acknowledge that it remains unclear what specifically about IPR leads to greater welfare. The protection of intellectual property is important, but IPR might also be taken as a proxy for other legal and governmental factors. Stronger IPR may mean greater transparency in a country or a better functioning property rights system which would attract FDI and improve imports.

Theoretical insights remain ambiguous regarding the effects on welfare of IPRs as there is no clear presumption stronger rights will always be welfare-enhancing (Lesser, 2001:2). The effects become even more complex when country size is taken into consideration. Lesser writes that "for small countries (those

whose R&D expenditures do not affect world levels) stronger IPR increase welfare when enhancing access to products not otherwise available" (2001:2). However, if countries have a limited R&D capacity and their protection is too strong, the local production of 'pirate' products would be reduced. This would cause higher prices and job losses and thus reduce welfare. On the other hand, if the small nation has both production and innovation capacity, welfare results are indeterminate. Most ACP countries have an insignificant contribution to global R&D and thus stronger IPR would help these nations access new technologies and products. If IPR becomes too strong, however, the local production of 'pirate' products can be threatened. The country would become completely dependent on global prices, which can cause problems, for example in relation to HIV/AIDS medication.

4.2.2 Agricultural subsidies

Stiglitz and Charlton (2005) write that the elimination of agricultural subsidies in developed nations is likely to raise the global price of agricultural products. Under the EPA, the ESA nations will be allowed to protect their industrial and agricultural sectors to limit the trade distortive effects of CAP. It was chosen to include the effects of agricultural subsidies in this research paper as these subsidies are a highly controversial issue and potentially harbour far reaching effects. An increase in global prices of agricultural products will benefit countries that export these products but disadvantage net importing nations. Within countries the producers will benefit, but the consumers will be hurt. "Thus the elimination of subsidies presents a welfare trade-off for developing countries (Stiglitz and Charlton, 2005:69). They do conclude, however, that the net effect of the elimination of agricultural subsidies in developed nations will likely benefit development in LDCs. The reforms have potentially positive distributional consequences within poor nations as the agricultural producers are often the poorest groups. Therefore, even if net-importing countries experience losses, the net effect will be an improvement in development. Nonetheless, the effects of wide-ranging agricultural reforms differ across developing countries, depending on the composition of their exports and imports of different commodities. Developing countries are usually net importers of temperate products (such as crops and livestock) and net exporters of tropical products. Most developing countries are net importers of staple food crops, which are the commodities that are expected to experience the highest price increases. Therefore, "the potential for losses highlights the need for a more fine-grained approach which would differentiate among crops and countries, and emphasizes the importance of adjustment assistance, which would need to vary among developing countries, depending on the magnitude of the adverse impact" (Stiglitz and Charlton, 2005:121). Tariffs and quotas on tropical products, processed foods and other commodities which developing countries export should be removed.

Three key aspects should be addressed in improving the global agricultural market (Stiglitz and Charlton, 2005:123). Firstly, the border protection in developed countries should be reduced. This includes tariff cuts and the elimination of export subsidies. Goods produced and/or consumed primarily by developing countries should have priority, such as sugar, tropical products and cotton. Eliminating quotas and tariffs on sugar and tropical products "would increase the price received by developing world producers but only have a small effect on consumer prices in developing countries" (Stiglitz and Charlton, 2005:123). Regarding the elimination of cotton subsidies this would also have a small effect on consumer prices in developing countries but greater benefits for the producers.

A second key aspect refers to the gradual reduction in domestic production support for price-sensitive necessities that are widely consumed in developing countries. According to Stiglitz and Charlton (2005), as the developed countries decrease their domestic production subsidies, the world prices of products such as grain and oilseeds will increase. This has negative consequences for developing country net importers of these products. Therefore, the authors proclaim that some of the savings in developed country subsidy budgets should be "directed at ameliorating the adjustment costs of those in the developing world" (Stiglitz and Charlton, 2005:123). However, this plan seems unrealistic, as convincing developed nations to decrease their agricultural subsidies is difficult enough without attempting to have these developed countries spend the saved subsidy money not on their own unemployed farmers but on adjustment costs in developing nations.

The final key aspect in improving the global agricultural market as discussed by Stiglitz and Charlton (2005) entails the shifting of domestic support from market price support to alternative payment systems. These alternative payment systems should be least trade-distorting, for instance as land-based payments. This would compensate farmers in developed nations while minimising the impact on developing world consumers.

4.3 Expected impacts in theory

Overall it can be stated that the effects of trade liberalisation on economic development are ambiguous. Trade-offs between static allocative efficiency improvements and dynamic gains from trade are probable. "Many developing countries have a static comparative advantage in primary goods production in which little R&D takes place and in which returns to scale are relatively unimportant. If developing countries have a comparative advantage in manufacturing, this tends to be manufacturing that uses cheap labor intensively, or consists of the processing of primary resources" (Dijkstra, 2000:1570). These most important sectors in developing nations are less likely to enhance dynamic efficiency effects. Another problem is the lower elasticity of demand for primary products, raw material processing and cheap labour intensive produce. Also, the static effects will be lower than expected and the adjustment costs high.

The temporary monopoly granted by IPP can motivate innovation, but can also result in economic inefficiency. Furthermore, IPP may not be acceptable in practice, if the costs of essential medication are too high (e.g. HIV/AIDS medication). Agricultural subsidies in the EU also affect the prices of agricultural products in ACP countries. High subsidies and the maintenance of the CAP keep the global prices low, which hurts farmers in ACP nations yet benefits consumers. Nonetheless, the net effect of the elimination of agricultural subsidies in developed nations will likely benefit development in LDCs.

5. Expected impacts in empirical studies

This section will focus on the results of empirical studies which have been conducted regarding the EU-ACP Economic Partnership Agreements. Up until now, most studies involving the effects of the EPAs have been more analytical than empirical in nature. COMESA (2002) attributes this lack of empirical analysis to three limitations in the research, namely lack of good quality data, lack of clear insight into the contents of the finalised EPAs, and inability to predict the future multilateral trading system and production systems in ACP countries in the next two decades or so. Nearing the completion of the EPAs (they should be implemented by January 1 2008), the contents of the finalised EPAs becomes more clear as draft versions are published. Still, however, by June 2007 only two draft versions have been published from a total of six negotiating groups. The lack of good quality data concerning the ACP countries and the inability to predict the future multilateral trading system and production systems in ACP countries still remain important limitations to an empirical analysis of the effects of the EPAs, in this study as well as other studies.

5.1 Trade liberalisation

Regarding trade liberalisation, most studies have concentrated on the expected effects in African countries. Attention has also been paid to the effects of service liberalisation and to the importance of industry in economic development.

5.1.1 Static and dynamic effects

As the EU and ACP countries give each other preferential trade treatment as compared to the rest of the world, the volume of trade between the regions is expected to increase. However, as seen previously (see chapter 2), when the EU granted the ACP countries preferential access to its markets, the share of imports from ACP countries into the EU actually declined. This agreement, though, was non-reciprocal. Karingi et al. (2005) studied the effects of free trade measures on African ACP countries. They discovered that full reciprocity of the African countries in meeting the *current preferential access* granted by the EU will cause a decrease in the welfare of these countries: "imports grow faster than ... exports and combined with the deterioration in the terms of trade, its balance of trade worsens by US$1,868 million" (Karingi et al., 2005:51). On the other hand, if a free trade area is established between the African and EU regions, the African region stands to benefit. Crucial to this scenario, however, is a removal of *all* the trade barriers, including those protecting the 'sensitive sectors' in the EU (e.g. sugar, cereals, livestock, agro-processed foods and fishing). For example, in the agro-processed foods industry, the EU still maintains high tariff escalation rates for tropical fruits and their juices. Importing tropical fruits themselves into the EU encounters tariffs ranging from €2.6/100kg to €5.3/100kg. Processing the tropical fruits increases the tariffs dramatically, with tariffs on juices ranging from €12.9/100kg to €20.6/100kg (see Appendix 7). Without the full removal of these barriers the African region will not benefit from liberalisation. The figure in Appendix 8 shows the income and trade effects of different EPA scenarios. The greatest benefits are accrued from a free trade area, which will cause an increase in imports into the ACP region, an increase in exports, GDP growth and a positive balance of trade (Karingi et al., 2005:53). Reciprocity in meeting the current preferential access granted by the EU, however, will not improve GDP and will result in a negative balance of trade (see figure in Appendix 8). A study by PricewaterhouseCoopers (2007) confirmed that it is important to remove EU tariffs on 'sensitive products', but this removal should not be mutual. This study showed that the potential economic and fiscal damage (loss of government revenue) caused by removing tariffs on certain agricultural products in the short term was severe where there was competition between domestic production and goods coming from the EU (PricewaterhouseCoopers, 2007:17). More specifically, the study showed that the following products should be protected from EU competition: wheat flour, beef, poultry, onions, potatoes and prepared tomatoes. Protecting these sensitive products from liberalisation would represent less than 5 per cent of the total imports into the ECOWAS region from the EU. Protecting these products would also have a substantial impact on maintaining government revenues.

Karingi et al. find that the EPAs reciprocity principal will lead to expansion of trade for the EU and African regions. "In no country does the trade diversion exceed trade creation, meaning that there will be positive trade effect in each of the countries as a result of the EPAs" (Karingi et al., 2005:64). The authors chose to use partial equilibrium methodology, in spite of its weakness of ignoring sectoral and regional feedbacks when trade policy instruments are changed either in a given sector or all sectors in a given country. Karingi et al. explain that trade creation effects have a general tendency to exceed trade diversion effects in most models used (including their own). These models fail to capture declines in producer surplus and the effects of government revenue decreases and therefore point to the inevitable conclusion that an EPA will be welfare enhancing (Karingi et al., 2005:20). Karingi et al. criticise Busse et al. (2004), who indeed did find

that trade creation exceeds trade diversion in ECOWAS countries. Meyn on the other hand, warns that "due to the different factor endowment of the EU and ACP countries, the trading partners do not stand in direct competition to each other and show a complementary trade structure ... This different industrial development level implies the risk for ACP countries that trade diversion is dominating" (2004:12).

An interesting finding of Karingi et al., however, is that the EU stands to gain significantly in terms of expanded trade into the African markets. Part of this trade expansion will result from trade creation, but a significant part of the import growth from the EU will be due to trade diversion from the rest of the world and from within the African continent itself. Trade creation is considered to be welfare improving since it leads to an expansion in consumer surplus as consumers can benefit from the cheaper EU imports. The consumers in African countries benefit as more efficient EU producers and exporters supplant the inefficient domestic producers. Needless to say, this will not be beneficial to the domestic producers who cannot compete with the EU region. A trade creation gain may also be at the expense of another ACP country. Trade diversion, on the other hand, is the substitution of low-cost imports from the rest of the world with less efficient imports from a specific region (in this case the EU). African exporters who currently trade with other African nations will see their exports declining as their neighbours switch to cheaper imports from the EU. Trade diversion will not only disadvantage ACP countries who currently export to other ACP states, but also other global exporting countries who trade with ACP nations (e.g. Japan). Morrissey et al. found that "allowing for differences in product quality, imports from the EU could displace Kenyan exports to other EAC members (and indeed displace Kenyan local production)" (2007:210). Karingi et al. emphasise the need for "differentiation with respect to sectors that can be opened up for competition with the EU" (2005:72). Furthermore, Karingi et al. (2005) conclude that the 10 year adjustment period from GATT article XXIV is necessary to deepen intra-African trade. Opening up the African market to the EU should not be attempted in the following 12 years, this time is needed for "supply capacities and exports diversity to be built on the continent" (Karingi, et al., 2005:X).

Busse et al. (2004) acknowledge that trade liberalisation will probably result in more *competition* in ECOWAS countries from European imports. Domestic producers can survive this increased competition if they have a comparative advantage and can raise their productivity level. If they cannot compete their business will disappear. On a national level resources will be reallocated from uncompetitive sectors to sectors where comparative advantages exist (structural adjustment). It is possible that for the national economy "increased productivity and structural adjustment could increase production and employment and raise overall welfare (Busse et al., 2004:38). This positive development requires trade creation to be large enough to compensate for welfare reducing trade diversion. In the ECOWAS countries Busse et al. studied, this was the case and they therefore conclude "for the EPA case, trade liberalisation would not appear to be a major problem for ECOWAS countries" (2004:38). They do point out, however, that their model is based on several assumptions. For instance it assumes perfect competition, but if a monopoly power exists in a country, the effects of trade liberalisation may be negative. Also, the movement of resources from one sector to another is assumed to be without cost and factor returns adjust to ensure full employment. "This means that there are no adjustment costs for reallocating resources from producers displaced by imports to other domestic industries" (Busse et al., 2004:39). It should be noted, however, that several of the ACP countries are not characterised by full employment. For example, Djibouti suffers from 43.5% unemployment and Lesotho from 39.3% (% of total labour force) (World Bank, humandevelopment.bu.edu). Data from the ACP countries is often unavailable, especially for recent years, therefore an average unemployment figure will not be discussed here (see Appendix 9 for available data).

Hinkle and Schiff (2004) emphasise that the benefits from trade liberalisation are dependent on a reduction in the price of imports from the EU into the ACP countries. These prices may, however, not change for homogeneous or heterogeneous goods. In the case of homogeneous goods, import prices may stay the same if the ACP countries continue to import from other countries which still have to pay tariffs and these marginal imports set the price in the ACP countries. In the case of heterogeneous goods, competition among European suppliers in the ACP markets may be insufficient. If the prices do not decrease, "exporters in the EU are likely to capture the full benefit, or at least the bulk, of the tariff reductions through higher prices for their sales" (Hinkle and Schiff, 2004:39). This will be at the expense of ACP countries. Hinkle and Schiff researched the current trade relations between Sub-Saharan Africa (SSA) and the EU. They found that "the EU is a very important source of SSA imports, though its share has declined some, from 49.5% of SSA imports in 1990 to 42.7% in 2001" (Hinkle and Schiff, 2004:40). As a result of this, the authors conclude that the prices of some EU imports may decline, but other prices may remain largely unchanged, decreasing the benefits of trade liberalisation for SSA countries.

Several authors have expressed their concerns regarding losses in *tariff revenues* due to the preferential tariff elimination. Busse et al. (2004) studied the impact of loosing import duties for 14 ECOWAS countries. The study showed that the estimated losses in customs revenue for both Cape Verde and Gambia amount to approximately 20 per cent of total government revenues. Most of the other African countries are expected to experience losses in revenue of about 5 to 10 %. "These are relatively large numbers that may affect the ability of West African ACP countries to provide much needed public goods, such as education or infrastructure" (Borrmann, et al., 2005:171). Studies by Borrmann et al. (2006) and EUROSTEP (2004) confirmed the results of Busse et al. (2004) and showed that African ACP countries would be subject to a significant increase in EU imports. In many countries this would be accompanied by a substantial reduction in customs revenues, usually because the EU is already the most important trading partner for these countries. The study by Borrmann et al. (2005) also found that most Pacific and Caribbean ACP countries would fare better and experience a smaller loss of customs revenues. Karingi et al. also found tariff loss results for the African ACP countries and concluded that "The EPAs, if no appropriate measures are put in place to forestall the macroeconomic imbalances that are likely to result from falling revenues, could possibly undermine developmental objectives of African countries" (2005:XI). According to them a reliance on income taxes tends to have a more defined negative relationship with economic growth.

A problem linked to trade liberalisation are the *rules of origin* which the EU dictates. The EU defines origin as "the "economic" nationality of goods in international trade" and states that there are two kinds of origin: preferential and non-preferential (EC, ec.europa.eu). Non-preferential origin implies various types of commercial policy measures and tariff quotas will be applied to the goods. Preferential origin is conferred on goods from particular countries, which have fulfilled certain criteria allowing preferential rates of duty to be claimed. Binding Origin Information (a decision by the competent authorities) is required in order to receive preferential origin status for specific goods. A list of the information which must be provided in the application for Binding Origin Information is given in Appendix 10.

Rules of origin (ROO) are designed to prevent trade deflection, whereby products from non-beneficiary countries are routed through less developed nations to exploit the preferential trade schemes. In practice, however, they can work to limit the exports from ACP countries into the EU. Stiglitz and Charlton show that "in the case of the EU, over 50 per cent of eligible exports are not getting preferential access" (2005:181). According to them this is partly due to stringent rules of origin. ROO are often costly to fulfil and it is difficult to provide the necessary documents to satisfy the rules. They often entail developing and implementing a new accounting system. The administrative costs may outweigh the benefits granted by tariff preferences. The EU-ESA EPA mentions the aim of simplifying the ROO, but first a Sub Committee on Customs Cooperation and Rules of Origin will be set up to investigate any problems related to the rules of origin.

The rules of origin of the Everything But Arms initiative are more restrictive than the rules of the Cotonou agreement, but both are complex and restrict exports to the EU (Hinkle and Schiff, 2004:3). Most ACP LDCs therefore export to the EU under the Cotonou agreement rather than the EBA initiative. Using information from a study by Brenton (2003), Hinkle and Schiff even write that "the exports of ACP LDCs under the EBA Initiative, as a share of their total exports to the EU, actually declined between 2001 and 2002" (2004:33).

5.1.2 Trade liberalisation in services

The most important candidate sectors for liberalisation which are expected to enhance productivity and growth are transportation, telecommunications and finance. "For many services, the welfare gains from greater efficiency and more rapid growth will be magnified because they play such a major role in all types of production" (Hinkle and Schiff, 2004:51). For instance, transportation systems stimulate trade in goods and services and can strengthen the competitiveness of ACP countries, telecommunications aid the diffusion of knowledge and financial services help in transforming savings into investment. Services are seen as a prerequisite for economic performance and development as they contribute to a more efficient business climate for other economic sectors (PricewaterhouseCoopers, 2007). Trade in services is more important for some ACP countries than for others. For instance, Seychelles shows 90% of GDP as coming from trade in services, whilst Madagascar and Sudan only receive 7% of GDP from service trade (WDI Online, 2005). The average trade in services for ACP countries for which data is available is 33% of GDP. Tourism is a type of service which can bring large economic benefits to a country. For example, most of the income from trade in services in Seychelles comes from tourism. The development of the tourism sector can create high levels of employment and these benefits can spill over to the rest of the economy. Unfortunately, tourism may also be plagued by uncontrolled development (i.e. lack of responsibility and standards) and pollution (PricewaterhouseCoopers, 2007).

ACP countries stand to gain from service liberalisation in several ways. Barriers to imports of services have resulted in inefficiency in the provision of services such as finance, telecommunications and transportation. Hinkle and Schiff (2004) write that transport costs in Sub-Saharan Africa are the highest of any region and are on average 70% higher than in developing Asian countries. Furthermore, trade is very sensitive to transport costs, a 10% decrease in the costs can lead to an increase in trade of 25%. It must be noted, however, that the efficiency of transportation is also greatly hampered by the lack of adequate infrastructure in many ACP countries. In the Democratic Republic of Congo, for instance, only two percent of the roads are paved (WDI Online, 2004). Another example of inefficiency in service provision is the commercial banks average lending rate. In 2003 it was 32% in Mozambique, 45% and Zambia and even 49% in Malawi. Compare this to Europe where in October 2004 the base rate in the United Kingdom was 4.75%, while the European Central Bank kept its main refinancing rate at 2% (CAFOD, 2004:14). Regarding telecommunications, approximately 30% of people living in ACP countries have a telephone subscription (fixed line and/or mobile phone, data from WDI Online 2004-5). For internet users, this is lower with about 7.6% of the population in ACP countries using internet.

Liberalisation in the service sector is expected to increase private investment, generate competition and reduce costs. At present, inadequate service provision negatively affects production in several ACP countries. Producers suffer from a chronic lack of economic infrastructure, from roads to railways through to telecommunications. Also, "the provision of services vital to businesses can be patchy at best – due to anything from water and electricity disruptions, through to high utility prices" (CAFOD, 2004:14). Hinkle and Schiff state: "there is a strong correlation between liberalization, increased access, and lower costs" (2004:52). According to them it would be beneficial for efficiency if governments allow competition and work to eliminate monopolies.

5.2 Trade related issues

Several trade related issues as discussed in the EPAs have been investigated by different authors. The most important of these are intellectual property rights and the effects of agricultural subsidies.

5.2.1 Intellectual property protection

Intellectual property protection is meant to stimulate innovation as companies are assured of a return on their initial investment in research and development. IPP is discussed in the EPA between the EU and ESA regions, whereby the EU will protect ESA countries' "genetic resources, folklore and traditional knowledge and bio piracy" (Draft EU-ESA EPA, 24-08-2006, p. 46). In exchange for this protection, the ESA will respect IPR and compensate intellectual property holders fairly. IPP is a problem, however, for many ACP countries as they tend to drive up prices, for example in medication. In practice the most pressing problems regarding IPP arise from the HIV/AIDS epidemic. Some ACP countries have a low prevalence of HIV, for instance in Comoros and Fiji less than 0% of the population is infected. Other countries suffer from a high prevalence of HIV, for example Swaziland with 33%, Botswana with 24%, Lesotho with 23%, Namibia, Zimbabwe and South Africa with 20% (data taken from the WDI Online, 2005).

IPR give developers of HIV/AIDS medicine up to 20 years of protection. During this time they hold a monopoly position and can determine supply and prices of their product. According to Petersen, the entry of foreign drug manufacturers into the market makes it clear how low the manufacturing price of HIV/AIDS medication is: "They produce either the active ingredients in AIDS drugs or package the ingredients into finished drugs themselves and sell lifesaving medicines like Combivir and Zerit for a fraction of the brand-name price" (2001:1). For example, the world's largest manufacturer of AIDS medicines, GlaxoSmithKline, sells Combivir for about $7,000 a year per patient in the United States. A manufacturer in India, Cipla Ltd., offers a generic version of Combivir for $275 per patient. As a response to the drastically lower prices of generic drugs, brand names have also begun to lower their prices but they are still more expensive than the generic drugs.

Petersen writes: "The big drug companies are reluctant to discuss their prices or the costs of their drugs. But in interviews they said they must charge more than the foreign generic makers because they have many costs the copycat manufacturers do not have, including the cost of finding and developing new medicines" (2001:1). GlaxoSmithKline, for example, spent $4 billion on research in 2000, which amounted to 13.9% of revenues. On the other hand, they spent 37.2% of revenue on marketing and administrative costs. After manufacturing, raw materials and other costs, the company still had 27.8% of its sales revenues left as profit. Chien (2007) studied the roles of brand and generic suppliers in providing access to HIV/AIDS medication in Sub-Saharan Africa. According to her, brand name prices were on average three times more expensive than

generic drug prices. However, the supply and prices of drugs varied widely across countries.

In order to ensure ESA countries have access to pharmaceutical products at a reasonable price, the EPA stipulates that the in-built flexibilities of the WTO Agreement on TRIPs, especially with regard to public health, will be employed. In 2001 the WTO issued a declaration that the TRIPS agreement "can and should be interpreted and implemented in a manner supportive of WTO Members' right to protect public health and, in particular, to promote access to medicines for all" (WTO, www.globaltreatmentaccess.org). In a compulsory license, a government forces the holder of a patent to grant use of the technology or knowledge to the state or others. Usually, the holder does receive some royalties, either set by law or determined through some form of arbitration. Compulsory licensing enables a government to manufacture a patented product without the patent holder's consent and encourages the production of drugs for their citizens at prices lower than the patent-holding pharmaceutical company charges (Shantharam, 2005:50). Article 31 of the TRIPS agreement stipulates several possible reasons for granting compulsory licenses (Southcentre, www.southcentre.org):

- refusal to deal: when the patent holder refuses to grant a voluntary license which was requested on reasonable commercial terms and, for instance, the availability of a product is negatively affected or the development of a commercial activity jeopardized;
- emergency: such as when urgent public health needs exist as a result of a natural catastrophe, war or epidemics;
- anticompetitive practices: for instance, to correct excessive prices and other abusive practices;
- governmental use: such as to provide health care to the poor;
- lack or insufficiency of working of an invention needed for health care or nutrition;
- public interest: broadly defined to cover other situations where the public interest is involved

However, only countries which can manufacture the medication in their own pharmaceutical industry benefit from this declaration as the TRIPS agreement stipulates that "the use of a compulsory license shall be predominantly for the supply of the domestic market" (Southcentre, www.southcentre.org). At present, there are only a few developing countries who are capable of local manufacturing, for example, Argentina, Brazil, China Thailand, South Africa and India (Shantharam, 2005:50).

In 2003 the 'paragraph 6' waiver was added to the TRIPS agreement. This waiver invited "members that were unable to produce pharmaceuticals at home and were suffering a serious health crisis to import generics from other nations under compulsory licenses" (Avert, www.avert.org). In December 2007 the waiver will be made a permanent part of the TRIPS agreement. As of then, countries should be able to import generic drugs. However, the issueing of a compulsory license is not without problems: "They can be difficult and complicated to impose and require a great deal of government time and departmental cooperation to draw up... Compulsory licences also have political implications, as companies and countries that hold the original patents to drugs are unlikely to want to invest in a nation that is forcibly copying their products" (Avert, www.avert.org). Until now, Thailand is the only country which has issued a compulsory licence for an anti-retroviral drug, namely the Merck & Co. drug Sustiva® (efavirenz). Thailand tried to break the patent for another drug (Kaletra®), but the manufacturer of this drug threatened to boycott the sale of its newest medication in Thailand. One of these new types of medication is a heat resistant formulation of Kaletra® which only has to be taken once a day and is highly convenient in the hot climate of Thailand. Thailand was also placed on a US Trade Representative 'priority watch list' of countries which seem to be committing intellectual property piracy, damaging trade relations between Thailand and the USA (Avert, www.avert.org). As a result, Thailand decided not to expand its compulsory licensing practices.

5.2.2 Agricultural subsidies

Several organisations point to the problem that the EPAs demand poor countries to open their agricultural sectors, causing the poorest African countries, their farmers, producers, and companies to compete openly with the richest European countries, their producers, companies and their heavily subsidised farmers (CAFOD, 2004). A clause has been added to the ESA-EU EPA to alleviate this problem, whereby ESA countries with weak economies have the right to introduce pre-emptive safeguards to protect their industrial and agricultural sectors and to limit the trade distortive effects of the Common Agricultural Policy of the EU. Whether or not proof of a 'weak economy' must be delivered and which time limit will be placed on these safeguards remains unclear.

The EU will spend an average of 53.05 billion euro each year on agriculture during the years 2007 to 2013 (Rudloff, 2006). In comparison, the average GNI of the ACP countries was 13,02 billion euro in 2005 (data

from the World Development Index Online). Besides the subsidies, however, European farmers also have more efficient and capital-intensive agriculture. CAFOD (2004:13) gives some examples: in Ethiopia the average landholding is less than 1.5 hectares, in the United Kingdom the average agricultural holding is 69.3 hectares; the average cereal yield in sub-Saharan Africa is 962 kg per hectare, in the UK the average cereal yield is 7,122 kg per hectare; in sub-Saharan Africa there is one tractor for every 769 hectares, in the UK there is one tractor for every 12 hectares.

Producers in ACP countries, most noticeably in Africa, already experience a lack of access to local and domestic markets. They are not in a position to export to Europe (CAFOD, 2004:14). European farmers enjoy an extensive infrastructural system with relatively cheap transportation costs. In addition to this, they receive export subsidies. As table 5.1 shows these subsidies have decreased over time, but for example, for dairy products they still remain high at 1,495 million in 2003.

Table 5.1: Development in export subsidies over time (euro m)

	1985	1990	2003
Cereal	1,034	2,961	72
Dairy products	2,375	2,401	1,495
Beef	1,148	977	251

(Source: Rudloff, 2006:9)

5.3 Expected impacts in empirical studies

Evidence from empirical studies shows that the effects of trade liberalisation can be beneficial to economic development in ACP countries, but that certain conditions are linked to success. For instance, it is important that *all* the trade barriers, including those protecting the 'sensitive sectors' in the EU are removed to allow ACP countries true free access to EU markets. On the other hand, this full removal should not be mutual. More specifically, the following products should be protected from EU competition: wheat flour, beef, poultry, onions, potatoes and prepared tomatoes. Global prices of these products are currently affected by the agricultural subsidies in the EU. Protecting these sensitive products from liberalisation would represent less than 5 percent of the total imports into the ECOWAS region from the EU and would therefore fall well into the 20 percent allowed in the EPAs. Also, protecting these products would have a substantial impact on maintaining government revenues.

Some studies showed that trade creation effects will exceed trade diversion effects and therefore trade liberalisation will be beneficial to economic development. However, the models used in these studies have a tendency to point to the inevitable conclusion that an EPA will be welfare enhancing. Special attention must be paid to determining which sectors can cope with the EU competition and can be liberalised. Several studies have looked into the effects of service liberalisation. They find that service liberalisation has the potential to greatly enhance economic development as service provision contributes to the performance of the rest of the economic production process. Regarding IPP, greater protection may enhance FDI, imports and lead to greater welfare. However, it may also raise the price of lifesaving medication to levels which patients cannot afford.

6. Analysis of the results

Having reviewed the theoretical and empirical literature regarding the effects of trade liberalisation, intellectual property protection and agricultural subsidies on the ACP countries, it is now possible to answer the second research sub-question: *What are the expected impacts on economic development in African, Caribbean and Pacific countries where the Economic Partnership Agreements will be implemented?*

6.1 Trade liberalisation

Trade liberalisation in the EU and ACP regions and the accompanying reduction in quotas and tariffs, is theoretically expected to lead to an increase in trade between these areas, with both regions exporting more to and importing more from each other. Theory dictates that as markets become more open, they 'expand' and the benefits of economies of scale become possible. The foreign demand for products of domestic firms increases and they can export to foreign markets. The increased global trade and the benefits of economies of scale enhances the global efficiency in production and exchange. X-efficiency is improved as the prices of imported goods are lowered due to the reduced trade restrictions. This means domestic producers can produce more goods with lower costs.

Unfortunately, these theoretical expectations harbour several assumptions which cannot always be met in practice. For instance, the theory assumes there are well-functioning markets and strong enough supply elasticities. This means that prices actually change as a result of a change in demand and that the supply of the products can be adjusted to the new situation. The presence of a monopoly power in the trading sector can prohibit X-efficiency benefits from occurring. As ACP countries are generally small with a small economy, the occurrence of monopolies is more likely. Also, in some countries trade restrictions and tariffs on imported processing goods were already lower than import restrictions on final goods. Therefore, X-efficiency for these firms will be limited. Hinkle and Schiff (2004) investigated the likelihood of price reductions and concluded that the prices of some EU imports may decline but other prices may remain largely unchanged. A further assumption is the existence of perfect labour markets. This is unrealistic in many ACP countries, however, as they exhibit high levels of unemployment. A final assumption is the existence of perfect risk markets. This is empirically unrealistic, especially in ACP countries, resulting in less investment in sectors with high returns but high variability. A decrease in the economic development of a country can be the result. The unrealistic assumptions of perfect markets in goods, labour and risks lessen the practical application of the general theoretical argument in favour of trade liberalisation.

According to Karingi et al. (2005) and PricewaterhouseCoopers (2007), it is essential that the EU removes all their tariffs and quotas, including those related to 'sensitive products', in order for the ACP countries to experience economic growth, export growth and export diversification. In the EPAs it is specified that the EU will eliminate all customs duties on imports of all products originating in any of the Pacific and ESA countries. However, later on the documents read that a list of sensitive products will be excluded from liberalisation. The wording in the documents remains unclear, however, on whether the sensitive products will only be applicable to ACP countries' imports from the EU, or if the EU will also restrict certain imports from ACP countries. PricewaterhouseCoopers (2007) state that the removal of trade restrictions on 'sensitive products' should not be mutual as the loss of protection for ACP producers could cause economic (i.e. bankruptcy) and fiscal damage. The study specifies which products should be protected from liberalisation in ACP countries, namely wheat flour, beef, poultry, onions, potatoes and prepared tomatoes. The study also showed that protecting these six products represent less than 5 per cent of the total imports into the ECOWAS region from the EU. Protecting these products would also have a substantial impact on maintaining government revenues.

Whether the effects of trade creation or trade diversion will dominate remains ambiguous. Different studies lead to different conclusions. It is likely, however, that as imports from the EU become cheaper, intra-ACP trade between different ACP groups will decrease, especially in Africa. The effects of increased competition on economic development also remain ambiguous. Domestic producers can only survive the increased competition from EU producers if they have a comparative advantage and can raise their productivity level. Otherwise these producers will go bankrupt. Stiglitz and Charlton (2005) found that competing local import industries are often harmed by trade liberalisation, leading to an increase in unemployment and a decrease in productivity. Also, competition stimulates investment in innovation, but reduces profit margins at the same time, thereby limiting the scope for investment in innovation (Schumpeterian argument). Furthermore, it is more beneficial if the ACP countries develop a comparative advantage in an industrial sector as opposed to an agricultural sector, as primary sectors are characterised by "lower income elasticity of demand for these

goods, and a lower potential for internal and external economies of scale, learning effects, and R&D investment" (Dijkstra, 2000:1980). Comparative advantage in industry allows for allocative efficiency whereby resources are prohibited from flowing mainly to the primary sector. A certain level of industrialisation is also important for dynamic efficiency. For instance, increasing returns to scale are mainly expected in the manufacturing industry and less in agriculture. Karingi et al. (2005) emphasise that it is necessary to differentiate between sectors in the African countries and protect certain sectors from competition with the EU. The research of Karingi et al. (2005) was focussed on African nations, whereby they concluded that opening up the African market to the EU should not be attempted in the following twelve years (the EPA grants the ESA ten years). The study by Busse et al. (2004) showed that trade creation effects are likely to be large enough to compensate the welfare reducing trade diversion. However, this study worked with several assumptions which are unrealistic in practice. For instance, they assumed perfect competition, but this is not always the case in ACP countries. Also, they ignored adjustment costs and assumed full employment. Adjustment costs (e.g. of lost employment) may, however, be considerable and several ACP countries experience high rates of unemployment.

The EU-ESA agreement specifies that the EU will "provide budgetary assistance to ESA countries to enable them to cope with revenue losses arising from liberalisation due to this agreement" (Draft EU-ESA EPA, 24-08-2006:19). The Pacific countries will not receive budgetary assistance, and Busse, et al. (2004) found the Pacific countries would indeed be less affected than the African countries. The amount of money to be made available to the ESA countries is not specified, however. The agreement states that the EU will establish a financing facility to provide aid to net importers facing the increased cost of importation of food. The loss of tariff revenue is severe in several ACP countries and can be expected to influence the countries' ability to provide public goods, hampering economic development. For example, estimated losses in customs revenue for both Cape Verde and Gambia amount to approximately 20 per cent of total government revenues. Whether the budgetary assistance provided by the EU will be sufficient to cover the revenue losses remains unclear.

The benefits of having a solid industrial base before liberalisation provide a justification for the protection of infant industries. A certain level of industrialisation is important for two reasons. Firstly, it prohibits resources from flowing mainly to the primary sector after trade liberalisation (in which many developing countries have a static comparative advantage). Secondly, the benefits from entering a larger market are mainly expected in the manufacturing industry and less important in the primary sector. Szirmai discusses the impacts of protecting an infant industry and declares that protection for a short period of time can increase economic development, but that there are many problems associated with the protection (e.g. inefficiency, higher prices, corruption, exchange of dependency, domestic markets too small, overvaluing of exchange rates). Nonetheless, most successful developing countries started out with import substitution, a practice which is no longer allowed by the WTO.

Service liberalisation will not be demanded in the EPA, but the agreement specifies that liberalisation will likely be beneficial to ACP countries. Stiglitz and Charlton (2005) emphasised that reciprocity in service liberalisation should *not* be the central feature as the consequences for ACP countries will be greater than for EU countries (e.g. in the form of adjustment costs). However, the authors fail to adequately explain the exact consequences and their presumed negative nature. Liberalising services can increase efficiency in the transport, telecommunications and financial sectors (providing the necessary infrastructure is present). This will benefit the economy as a whole as these services play a major role in all types of production. For example, research has shown that a 10% decrease in transportation costs can lead to an increase in trade of 25%. The development of the tourism industry can reduce unemployment and stimulate the economy, but attention must be paid to problems of pollution and a lack of standards in the industry.

Both the draft EPAs mention rules of origin. In the Pacific agreement, the current ROO are repeated. The ROO are not thoroughly discussed in the ESA agreement, but mention is made of the establishment of a Sub Committee on Customs Cooperation and Rules of Origin which will work to simplify the current rules. Stiglitz and Charlton have shown that the current ROO are complex and costly to implement, leading to a situation where "in the case of the EU, over 50 per cent of eligible exports are not getting preferential access" (2005:181). Simplification of the rules of origin is expected to be beneficial for the economic development of ACP countries.

Table 6.1: The expected effects of trade liberalisation

Expected effects	Effects on economic growth, growth in exports and export diversification	Potential problems and suggestions for solutions
X-efficiency due to: Tariff reductions (cheaper imports)	Welfare (or GDP) increases	*Problem*: X-efficiency less if importing processing goods was already cheaper; *Conditions*: it is essential for prices to decrease in ACP countries
Allocative efficiency due to: a) Creation of free trade area (more trade between EU and ACP regions)	a) Welfare (or GDP) increases, exports grow, trade diversifies	a) *Problem*: loss of tariff revenues, adjustment costs; *Conditions*: remove EU 'sensitive products' limitations, but allow ACP to limit imports on 'sensitive products', assumes well-functioning markets, strong enough supply elasticities, perfect risk markets and limited trade diversion
b) Trade creation greater than trade diversion	b) Ambiguous, depends on domination of trade creation or diversion	b) *Problem*: intra-ACP trade is likely to decrease *Solution*: differentiate between sectors to liberalise in African countries (allow for sensitive products), do not open African markets within 12 years
d) Service liberalisation (efficiency in service sectors)	d) Economic growth increases, exports grow	d) *Problem*: adjustment costs
Dynamic efficiency due to: a) Larger markets, economies of scale, increased global trade	a) Economic growth increases, exports grow, trade diversifies	a) *Problem*: only applicable if developed manufacturing sector already exists, so unlikely to occur
b) Greater exchange in ideas, technology and knowledge	b) Economic growth increases	b) *Problem*: only applicable if developed manufacturing sector already exists, so unlikely to occur

6.2 Intellectual property protection

As one of the 'Singapore issues', IPP has been fought by the ACP countries before. Oddly enough, however, intellectual property rights are discussed in the EU-ESA EPA, but are not mentioned in the EPA for the Pacific countries. IPR are thought to provide a motivation for inventive activity, but at the same time they cause inefficiency by creating a temporary monopoly. This has led Stiglitz and Charlton to conclude "there is little evidence that stronger intellectual property protection would generate a greater flow of basic ideas" (2005:142). Indeed, greater IPP may even harm the research system as a whole as protecting the private R&D element may hamper public basic research. Szirmai (2005), on the other hand, feels that the protection of IPR has proven to be one of the engines of technological change and economic growth, but he also acknowledges the negative impacts of IPP in restricting access to knowledge and technology. Developing countries are particularly vulnerable to exclusion from new technology. Also, in areas where the private returns are less than the social returns (e.g. AIDS research), underinvestment may occur. Positive effects Szirmai mentions are potential increased FDI and inflows of technology. Also, the protection of domestic may be improved. Nonetheless, the impacts deduced from theory remain ambiguous.

Lesser concludes his research regarding IPP with the statement that "stronger IPR do indeed provide some domestic benefits for developing nations" (2001:21). His research is geared to developing countries in general, and he finds that improving IPP does increase FDI and import levels. Unfortunately, recent experiences of developing nations have made it clear that there are several practical problems associated with IPRs. Intellectual property protection has a significant effect on the price of HIV/AIDS medication in ACP countries. The TRIPS agreement has been adjusted to allow countries to implement compulsory licensing

and purchase medication cheaply from other developing countries. The experiences of Thailand, however, make it clear that the guarantees presented on paper do not protect countries in practice. As a result, IPP still has disastrous effects in developing nations where patients are unable to pay the high medication prices demanded by brand names.

6.3 Agricultural subsidies

The EU, along with other OECD countries, spends an incredible amount on agricultural subsidies each year, amounting to approximately four times the average GNI of the ACP countries. The EPAs acknowledge the potential problems these subsidies may cause in ACP countries, so ESA and Pacific states are allowed to protect their economies if they experience balance of payments and external finance difficulties. Also, in the Pacific region, adversely affected farmers will be given short term income support and if necessary longer term adjustment assistance so they can change their production. This will be paid out of the Financial Facility a fund set up especially for costs associated with the EPA.

As agricultural subsidies are decreased, the global price of agricultural produce will increase. Net exporting countries of agricultural products will benefit, while net importers will experience higher costs and possible balance of payment issues. Within countries, the producers will benefit from the higher prices, while the consumers will suffer. However, as farmers are generally the poorest societal group in developing countries, the overall welfare of developing nations is expected to increase.

Currently, trade liberalisation will cause the poorest ACP farmers to compete openly with rich subsidised EU farmers. A clause has been added to the ESA-EU EPA to alleviate this problem, whereby ESA countries with weak economies have the right to introduce pre-emptive safeguards to protect their industrial and agricultural sectors and to limit the trade distortive effects of the Common Agricultural Policy of the EU. Whether or not proof of a 'weak economy' must be delivered and if a time limit will be placed on these safeguards remains unclear. A similar protective clause is not included within the Pacific agreement.

7. Conclusions

After having discussed the contents of the EPAs and the expected impacts from theoretical and empirical data, it is now possible to answer the research question of this study. In this final chapter a reflection on the content and methodology of this paper will also be given. This is followed by a discussion of recommendations for science and practice.

7.1 The research questions

The research question as presented at the beginning of this project was: *Are the expected impacts of the European Union's Economic Partnership Agreements beneficial to economic development in African, Caribbean and Pacific countries?*

This question was split up into three sub-questions:
1. Why are new Economic Partnership Agreements between the European Union member states and the African, Caribbean and Pacific countries being negotiated, instead of a continuation of the Cotonou Agreement?
2. What measures do the Economic Partnership Agreements contain?
3. What are the expected impacts on economic development in African, Caribbean and Pacific countries where the Economic Partnership Agreements will be implemented?

7.1.1 Negotiating the EPAs

The analysis of the development effects of previous EU-ACP agreements showed that there are several reasons for renegotiating the contents of the Cotonou Agreement and creating a new arrangement, the Economic Partnership Agreements. For one, the economic aims of the development cooperation programmes have not been reached. Export products from the ACP states to the EU region have not sufficiently diversified. Also, The percentage of imports coming from ACP nations into the EU market has decreased since 1958. The human development aspects have not improved sufficiently and twelve ACP nations even show a negative trend in their HDI values in recent years. Finally, the current arrangements are not compatible with regulations of the WTO.

If the negotiations surrounding the EPAs are unsuccessful, the ACP group can fall back on the GSP and trade with the EU under this arrangement. However, the ACP countries currently enjoy benefits greater than those granted in the GSP. The least developed ACP countries currently can export freely to the EU without having the obligation of reciprocity. However, the EBA initiative is a non-contractual arrangement and can be withdrawn at any time. Also, the EBA has more stringent rules of origin than the Cotonou Agreement. For these least developed countries the benefits and disadvantages of the EPAs must carefully be weighed as well as the likely alterations which may be made in the future to the EBA initiative.

7.1.2 The measures of the EPAs

A content analysis was applied to the available draft versions of the Economic Partnership Agreements to determine the precise proposed policy measures. A major alteration to existing trade relations is the proposal for the establishment of a reciprocal free trade area between the EU and ACP regions. The trade liberalisation plans are mainly applicable to trade in goods, but trade in services is also included, albeit these plans are less binding. Another important element of the EPAs is the inclusion of intellectual property protection. Remarkably, however, IPR is only discussed in the EPA with the ESA region and not the Pacific region. Nonetheless, this study chose to include this measure in the analysis of the impacts as IPP has significant effects on prices of lifesaving medication in developing countries. Connected to the economic impacts of trade liberalisation is the practice of granting large amounts of subsidies to agricultural workers in the EU region. These subsidies affect fair competition and global agricultural prices and can potentially eliminate the businesses of small farmers in developing ACP nations. The EPAs contain other complementary economic, social and political policy measures to these three important changes. Nevertheless, the analysis focussed on the economic impacts of trade liberalisation, intellectual property protection and agricultural subsidies, as these can have far reaching consequences in developing nations and these policy changes have been discussed by other authors in relation to ACP countries.

7.1.3 The expected economic impacts of the EPAs

The analysis of the results available from theoretical discussions and empirical studies regarding the ACP countries showed that the expected effects of trade liberalisation are ambiguous. The impacts may be beneficial to economic development yet there are many factors at play and a trade-off between static allocative efficiency improvements and dynamic gains from trade is probable. Trade liberalisation is expected to lead to more trade between the EU and ACP regions, larger markets, cheaper imports, X-efficiency, allocative efficiency and dynamic efficiency. These would have positive effects on the economic development of ACP countries. Some authors, however, warn that trade diversion effects may dominate over trade creation effects and that trade between ACP countries is likely to decrease. This would not be beneficial to economic development. The effects of increased competition on economic development remain ambiguous. As the economies of ACP nations open up to imports from the EU, local producers will experience heightened competition. Hopefully these producers will have a comparative advantage and be able to increase their productivity, but this will not always be the case and several businesses in ACP countries will go bankrupt. The increased competition from trade liberalisation is linked to the discussion regarding the billions of euro of agricultural subsidies the EU grants its agricultural producers each year. The EPA specifies that the ACP countries can implement safeguards to protect their farmers from this unfair subsidised competition, but safeguards are temporary by nature and it remains unclear how long these safeguards will be allowed and whether or not the ACP countries must prove they have a 'weak economy' in order to implement these protective measures.

In order for the expected positive economic developments to take place, several problems must be overcome. For instance, the EU must remove trade barriers to 'sensitive products', yet this removal should not be reciprocal. A well-functioning market with strong enough supply elasticities and perfect risk markets is assumed in the forecast that trade liberalisation will result in larger markets, economies of scale and increased global trade (dynamic efficiency). These assumptions, unfortunately, are not applicable to all ACP nations. Hinkle and Schiff (2004) also warn that the benefits of trade liberalisation can only come about in ACP countries if the prices of imports actually decrease. Furthermore, the benefits of allocative and dynamic efficiency are increased if the ACP countries have a certain level of industrialisation before the start of the liberalisation process. How much industrialisation is necessary is not specified, but data from the WDI Online has made it clear that several ACP countries lag behind in their industrial sectors (e.g. Comoros' trade sector accounts for 11% of GDP). Trade liberalisation might cause a movement of resources in these countries to the less productive agricultural sector and these nations might experience less benefits from entering a larger market.

The proposed simplification of the rules of origin of products in the EPAs will cause economic growth, growth in trade and trade diversification. However, the simplification is dependent on the set up and functioning of a Sub Committee on Customs Cooperation and Rules of Origin. Service liberalisation is a free commitment of the EPAs, but it is expected to lead to positive developments such efficiency increases in transportation, telecommunications and finance. Furthermore, a major problem connected to trade liberalisation is the loss of government revenue. Several authors agree that many of the ACP nations will experience great losses in their government revenues as a result of falling incomes from trade taxes. This will negatively influence economic growth, but the EU has declared it will provide budgetary assistance to these affected countries. Whether or not the budgetary assistance will be sufficient remains unclear.

A final controversial element of the EPAs is the implementation of intellectual property protection in the ESA region. Oddly enough, this highly contested subject is not mentioned in the Pacific EPA. The IPP is meant to protect ACP countries from bio piracy and protect the rights of intellectual property holders in the EU region. The agreement does stipulate that the in-built flexibilities of the WTO Agreement on TRIPs, especially with regard to public health, will be employed to ensure ESA countries have access to pharmaceutical products at a reasonable price. This constitutes the heart of the IPP problem, as the populations of developing nations are unable to purchase the expensive HIV/AIDS medication they require to survive. The flexibilities of the WTO Agreement on TRIPS are admirable, but the experiences of Thailand have shown that they do not work to satisfaction in practice.

7.1.4 Are the EPAs beneficial to economic development

In conclusion it can be said that the economic development in ACP countries is expected to benefit from the EU's Economic Partnership Agreements, but that there are many concomitant factors which must be taken into account. These accompanying problems will change the experiences of each country in relation to the EPAs. A country with a solid industrial base and a comparative advantage may experience positive economic development as a result of implementing the EPAs (if the country does not suffer from trade

diversion), but a country with a large agricultural sector may suffer from the increased competition and loss of government revenue, leading to a decrease in economic development. As Borrmann, et al. sum it up: "a country that enters an EPA may experience a welfare gain or loss, depending on the country's unique situation" (2005:171).

7.2 Reflection

The EPAs propose a wide range of complementary economic, political and social policy changes. Working together, these alterations are meant to spur the development of ACP countries and improve their welfare. Most of these proposed changes, however, are relatively free of commitment (e.g. service liberalisation). It was chosen in this research project to focus on the more committing aspects of the EPAs. One reason for this was that these policy changes are expected to have the greatest impacts on ACP countries. Another reason, was that time limited the scope of the research. It was simply not possible to investigate the possible effects of all the different policy proposals.

This research project has also focussed on the EPAs in an economic light. Here, again, it was not feasible to investigate the effects of the EPAs on the social, political and economic climates of the ACP countries. Also, however, the economic aspects of the trade relations between the EU and ACP countries are the most important and cooperation in economic relations and trade is the most far reaching. Indeed, the objectives of the EPAs are first and foremost tailored to improving the economic situations of ACP countries. Nonetheless, the effects of the EPAs on the social and political development in ACP countries is also important. Furthermore, this research project has had to limit the definition of 'economic development' to include only economic growth, growth in trade and trade diversification. These economic aspects were derived from the objectives of the EPAs and previous trade agreements between the regions.

During the analysis of the expected economic impacts of the EPAs it became clear that the available empirical literature was geared towards the African continent. Apart from a study by PricewaterhouseCoopers (2007) which looked at tourism services in the Caribbean and fisheries in the Pacific ACP countries, the other studies all focussed on the African continent. The effects of the EPAs on African farmers and on government revenue were discussed by several authors and institutions. The effects on government revenue were empirically researched and similar conclusions were supported by several authors. Discussions regarding the expected effects on African farmers, however, were mostly analytical. Many NGOs have written papers about the EPAs, yet these often lack empirical evidence and rely heavily on experiences from people working in the field. The experience of aid workers can give valuable insights into the situation in ACP countries, yet it would be more academically sound to complement their insights with scientific information.

This lack of empirical evidence in studies, however, is not surprising. During the course of this research project it became clear on several occasions that data regarding the ACP countries is simply not available. For example, the Cook Islands, Nauru, Niue and Tuvalu are not included in global databases of statistical information. For countries which are included in these databases, data is often unavailable for many indicators and years, for example regarding the levels of unemployment.

Apart from these reflections on the content of this research project, several notes can be made regarding the methodology of this paper. This research project has used only written documents as a source of information. It has been attempted to use empirically strong research from a variety of authors, yet a plethora of research was not always available, especially for the Caribbean and Pacific countries. Where possible, insights from both sides of the discussion have been used, for instance authors in favour of the EPAs and those opposed to the EPAs. Perhaps the inclusion of interviews with people working in or researching the field of trade liberalisation would have added to the discussion. Time constraints, unfortunately made this impossible.

This research paper has also limited the empirical discussion to research geared specifically to the ACP countries and the effects of implementing the EPAs. The characteristics of the ACP countries are undoubtedly unique and the effects of the EPAs will differ per country, yet perhaps the empirical evidence should have been expanded to include more experiences of other countries which implemented similar policy changes to those proposed in the EPAs. Here, again though, time limitations played a role.

7.3 Recommendations

A limitation in this research project, and others, was the lack of empirical evidence regarding the ACP countries and the effects of the EPAs. As the end of the negotiations draws nearer, the proposed policy changes of the EPAs become more clear. Where other authors dealt with many assumptions regarding the contents of the EPAs, this research paper was able to distil the policy changes from two draft versions. Soon more draft versions should be available, allowing for more precise research into the effects of the EPAs. The research conducted should also be broadened to include the Pacific and Caribbean regions and should not focus only on the African continent. A recommendation for science is therefore to conduct more research regarding the expected impacts of the EU's EPAs in ACP countries and to broaden the scope of the research to include the wide variety of policy changes which the EPAs propose.

Derived from the discussion in this paper regarding the expected impacts of the EPAs, several recommendations for practice can be formulated. For instance, research has shown that the benefits from trade liberalisation will only come about in ACP countries if the EU fully opens up its markets to ACP products. The EU should therefore not maintain a list of 'sensitive products' which are excluded from free importation. Also, great care should be taken in enforcing trade liberalisation in ACP countries as their unique characteristics will cause each nation to experience the policy changes differently. The EU should stick to its promise that the specific characteristics of each nation state will be taken into account and that the EPAs are primarily a tool of development. This is one criticism of the current format of the EPAs: they appear to be too general. The ACP countries have been grouped into six economic zones, yet large countries are combined with small countries and relatively wealthy nations are combined with the poorest least developed countries. The EPAs will be applicable to the entire economic zone, but may have very different effects in the different nation states.

Regarding the liberalisation of agricultural products, this should be left to the ACP countries to decide, when, if and how they wish to open up their markets to products coming from the EU. The EU is not willing to discuss their agricultural subsidies and the ACP countries have a right to protect their economies from these uncompetitive practices. The safeguards clause allows ACP countries with 'weak economies' to protect their markets from subsidised EU products, yet these safeguards must be allowed for the full duration of the subsidies. If the EU does not stop its agricultural subsidies, the ACP countries must not be forced to open their markets to subsidised agricultural products.

It is interesting to find that the ESA region will be confronted with IPP, but that this subject is not mentioned in the Pacific EPA. According to Avert, in December 2006, only 2.015 million people living with HIV in resource poor countries were receiving antiretroviral treatment, out of a total 7.1 million in need (www.avert.org). The TRIPS agreement is supposed to make it easier for poor countries to access drugs at reasonable prices, yet developing countries still encounter many problems (e.g. see the experiences of Thailand). The EPAs should not focus mainly on protecting intellectual property holders, but should focus on providing medication to millions of poor HIV patients and thus contributing to the development of the ACP countries.

The ACP countries themselves should concentrate on the benefits which the EPAs can grant them. Tax or fiscal reforms have been implemented in several ACP states, yet these need to be further developed to moderate the expected loss of government revenue. Also, the ACP states should use the following decade to strengthen their regional trade relations and improve their trade-related infrastructure to strengthen their competitive position towards the EU when the imports start coming in ten years time.

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Appendixes

Appendix 1: Preliminary list of EPA country groups

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Appendix 1: Preliminary list of EPA country groups

(Source: European Comission, *Africa, Caribbean, Pacific*
[http://ec.europa.eu/trade/issues/bilateral/regions/acp/plcg_en.htm], last accessed on the 10th July, 2007)

	West Africa CEDEAO + Mauritania	Central Africa CEMAC + STP	East South Africa ESA	Southern Africa "SADC group"	Caribbean	Pacific
1	Benin	Cameroon	Burundi	Angola	Antigua and Barbuda	Cook Islands
2	Burkina Faso	Central African Republic	Comoros	Botswana	Bahamas	Micronesia
3	Cape Verde	Chad	Djibouti	Lesotho	Barbados	Fiji
4	Gambia	Congo (Brazzaville)	Eritrea	Mozambique	Belize	Kiribati
5	Ghana	Congo (Democratic Republic - Kinshasa)	Ethiopia	Namibia	Dominica	Marshall Islands
6	Republic of Guinea	Equatorial Guinea	Kenya	Swaziland	Dominican Republic	Nauru
7	Guinea-Bissau	Gabon	Madagascar	Republic of Tanzania	Grenada	Niue
8	Ivory Coast	Sao Tome and Principe	Malawi	South Africa	Guyana	Palau
9	Liberia		Mauritius		Haiti	Papua New Guinea
10	Mali		Rwanda		Jamaica	Samoa
11	Mauritania		Seychelles		St. Lucia	Solomon Islands
12	Niger		Sudan		St. Vincent and the Grenadines	Tonga
13	Nigeria		Uganda		St. Kitts & Nevis	Tuvalu
14	Senegal		Zambia		Suriname	Vanuatu
15	Sierra Leone		Zimbabwe		Trinidad & Tobago	
16	Togo					

N.B. Three countries are classified as African, Caribbean and Pacific countries, but they are currently not participating in the EPA negotiations. These three are Cuba, East Timor and Somalia.

Appendix 2: Differences between the Cotonou preferences, the GSP, and tariffs governing the EU's trading relations with selected third countries

(Source: PricewaterhouseCoopers, "Sustainability Impact Assessment of the ACP-EU Economic Partnership Agreements–key findings, recommendations and lessons learned", Paris, PricewaterhouseCoopers, March 2007, page 14.)

EU tariffs and quotas for the top 12 exports from the ACP to the EU

	Total ACP exports from EU-25, 2003 (1000 €)	ACP	GSP	GSP+	Bilateral agreement	Third country
Cocoa beans, whole or broken, raw or roasted	2 254 992	0%	0%	0%		0%
Cane sugar for refining	767 886	0%			0% (quota)	€ 98.00/1000 kg (quota) € 339/1000kg (beyond)
Unwrought aluminium, not alloyed	620 905	0%			0%	6%
Banana	490 257	0% (protocol)	€ 176/1000 kg			€ 176/1000 kg
Coffee, not roasted, not decaffeinated	489 425	0%	0%	0%		0%
Tuna, preserved	358 444	0%	20.5%	0%		24%
Wood sawn or chipped lengthwise of tropical woods	287 222	0%	0%			2%
Shrimps of the genus Penaeus	274 417	0%	4.20%			12%
Rum	273 960	0%				0%
Roses	238 188	0%	5%	0%	8.5%-0%	8.5%
Frozen fillets of Cape hake	179 602	0%	4%			7.5%
Tobacco, not stemmed/stripped flue-cured Virginia type	161 394	0%	0%			18.4% min € 22/100 kg max € 24/100 kg

Appendix 3: List of Least Developed Countries (LDCs).

(Source: UN, *List of Least Developed Countries* [http://www.un.org/special-rep/ohrlls/ldc/list.htm], last accessed on 5th April, 2007)

List of Least Developed Countries (in alphabetical order)

1. Afghanistan*
2. Angola
3. Bangladesh*
4. Benin
5. Bhutan*
6. Burkina Faso
7. Burundi
8. Cambodia*
9. Cape Verde
10. Central African Republic
11. Chad
12. Comoros
13. Democratic Republic of the Congo (Kinshasa)
14. Djibouti
15. Equatorial Guinea
16. Eritrea
17. Ethiopia
18. Gambia
19. Republic of Guinea
20. Guinea-Bissau
21. Haiti
22. Kiribati
23. Lao People's Democratic Republic*
24. Lesotho
25. Liberia

26. Madagascar
27. Malawi
28. Maldives*
29. Mali
30. Mauritania
31. Mozambique
32. Myanmar*
33. Nepal*
34. Niger
35. Rwanda
36. Samoa
37. São Tomé and Principe
38. Senegal
39. Sierra Leone
40. Solomon Islands
41. Somalia
42. Sudan
43. Timor-Lesté
44. Togo
45. Tuvalu
46. Uganda
47. United Republic of Tanzania
48. Vanuatu
49. Yemen*
50. Zambia

Countries marked with an * are not part of the ACP group.

Appendix 4: Human development index (HDI) value for the ACP countries in 2004

(Source: UNDP, *Human Development Report 2006. Beyond scarcity: Power, poverty and the global water crisis* [http://hdr.undp.org/hdr2006/statistics/indicators/1.html], last accessed on 12th June, 2007)

Human development index (HDI) value for the ACP countries

31. Barbados	0.879	143. Madagascar	0.509
47. Seychelles	0.842	144. Cameroon	0.506
50. Cuba	0.826	145. Uganda	0.502
51. St. Kitts and Nevis	0.825	146. Swaziland	0.500
52. Bahamas	0.825	147. Togo	0.495
55. Tonga	0.815	148. Djibouti	0.494
57. Trinidad and Tobago	0.809	149. Lesotho	0.494
59. Antigua and Barbuda	0.808	151. Zimbabwe	0.491
63. Mauritius	0.800	152. Kenya	0.491
68. Dominica	0.793	153. Mauritania	0.486
71. St. Lucia	0.790	154. Haiti	0.482
75. Samoa	0.778	155. Gambia	0.479
85. Grenada	0.762	156. Senegal	0.460
88. St. Vincent and the Grenadines	0.759	157. Eritrea	0.454
89. Suriname	0.759	158. Rwanda	0.450
90. Fiji	0.758	159. Nigeria	0.448
94. Dominican Republic	0.751	160. Republic of Guinea	0.445
95. Belize	0.751	161. Angola	0.439
103. Guyana	0.725	162. United Republic of Tanzania	0.430
104. Jamaica	0.724	163. Benin	0.428
106. Cape Verde	0.722	164. Ivory Coast	0.421
119. Vanuatu	0.670	165. Zambia	0.407
120. Equatorial Guinea	0.653	166. Malawi	0.400
121. South Africa	0.653	167. Congo, Democratic Republic (Kinshasa)	0.391
124. Gabon	0.633	168. Mozambique	0.390
125. Namibia	0.626	169. Burundi	0.384
127. Sao Tome and Principe	0.607	170. Ethiopia	0.371
128. Solomon Islands	0.592	171. Chad	0.368
131. Botswana	0.570	172. Central African Republic	0.353
132. Comoros	0.556	173. Guinea-Bissau	0.349
136. Ghana	0.532	174. Burkina Faso	0.342
139. Papua New Guinea	0.523	175. Mali	0.338
140. Congo (Brazzaville)	0.520	176. Sierra Leone	0.335
141. Sudan	0.516	177. Niger	0.311
142. Timor-Lesté	0.512		

NB: Cook Islands, Kiribati, Liberia, Marshall Islands, Micronesia, Nauru, Niue, Palau, Somalia and Tuvalu are not on the HDI list as these countries are unable or unwilling to provide the necessary data, or are not recognised as states by the United Nations at the time of publication.

Appendix 5: Human development index (HDI) value for the ACP countries 1975 to 2003

(Source: UNDP, *Human Development Index Trends* [http://hdr.undp.org/statistics/data/indic/indic_12_1_1.html], last accessed on 12th June 2007)

Human development index (HDI) value for the ACP countries 1975 to 2003

HDI Rank	Country	1975	1980	1985	1990	1995	2000	2003
30	Barbados	0.805	0.828	0.839	0.850	0.852	0.877	0.878
50	Bahamas	..	0.809	0.819	0.821	0.810	..	0.832
57	Trinidad & Tobago	0.749	0.781	0.788	0.792	0.789	0.800	0.801
65	Mauritius	..	0.659	0.690	0.724	0.747	0.776	0.791
74	Samoa	..	..	0.723	0.732	0.742	0.763	0.776
91	Belize	..	0.707	0.717	0.747	0.768	0.779	0.753
92	Fiji	0.663	0.686	0.702	0.724	0.741	..	0.752
95	Dominican Republic	0.619	0.650	0.672	0.679	0.700	0.732	0.749
98	Jamaica	0.688	0.696	0.699	0.719	0.723	0.730	0.738
107	Guyana	0.678	0.684	0.677	0.683	0.685	0.714	0.720
120	South Africa	0.655	0.674	0.702	0.735	0.742	0.692	0.658
125	Namibia	..	..	..	..	0.693	0.649	0.627
131	Botswana	0.503	0.577	0.638	0.681	0.659	0.596	0.565
132	Comoros	..	0.480	0.498	0.504	0.517	0.533	0.547
137	Papua New Guinea	0.425	0.445	0.467	0.481	0.515	0.529	0.523
138	Ghana	0.439	0.468	0.482	0.511	0.531	0.556	0.520
141	Sudan	0.349	0.376	0.396	0.428	0.465	0.500	0.512
142	Congo	0.452	0.499	0.540	0.526	0.531	..	0.512
143	Togo	0.423	0.475	0.474	0.500	0.510	0.519	0.512
144	Uganda	..	..	0.412	0.409	0.412	0.474	0.508
145	Zimbabwe	0.546	0.574	0.640	0.637	0.589	0.527	0.505
146	Madagascar	0.400	0.437	0.436	0.446	0.458	..	0.499
149	Lesotho	0.461	0.510	0.534	0.571	0.573	0.520	0.497
152	Mauritania	0.340	0.363	0.384	0.388	0.424	0.444	0.477
153	Haiti	..	0.449	0.458	0.446	0.450	..	0.475
154	Kenya	0.461	0.509	0.530	0.546	0.524	0.499	0.474
155	Gambia	0.284	..	..	..	0.424	0.457	0.470
157	Senegal	0.311	0.339	0.375	0.403	0.421	0.444	0.458
158	Nigeria	0.318	0.376	0.386	0.406	0.418	..	0.453
159	Rwanda	0.342	0.388	0.401	0.340	0.335	0.435	0.450
162	Benin	0.304	0.336	0.362	0.368	0.395	0.422	0.431
163	Ivory Coast	0.409	0.441	0.448	0.442	0.427	0.428	0.420

164	Tanzania, U. Rep. of	..	..	..	0.435	0.422	0.416	0.418
165	Malawi	0.320	0.351	0.362	0.371	0.412	0.402	0.404
166	Zambia	0.468	0.475	0.484	0.462	0.424	0.409	0.394
167	Congo, Dem. Rep.	0.414	0.423	0.431	0.422	0.393	..	0.385
168	Mozambique	..	0.299	0.287	0.311	0.328	0.360	0.379
169	Burundi	0.285	0.311	0.345	0.353	0.324	..	0.378
170	Ethiopia	..	..	0.291	0.311	0.323	0.352	0.367
171	Central African Republic	0.343	0.364	0.386	0.383	0.367	..	0.355
172	Guinea-Bissau	0.255	0.262	0.283	0.313	0.341	0.353	0.348
173	Chad	0.269	0.271	0.311	0.335	0.344	0.359	0.341
174	Mali	0.230	0.256	0.263	0..283	0.307	0.330	0.333
175	Burkino Faso	0.253	0.273	0.297	0.305	0.311	0.328	0.317
177	Niger	0.236	0.252	0.242	0.249	0.256	0.271	0.281

Appendix 6: List of African, Caribbean and Pacific Countries

(Source: The Secretariat of the African, Caribbean and Pacific Group of States, *The ACP Group* [http://www.acpsec.org/en/about_us.htm], last accessed on 5th April, 2007)

Alphabetical list of ACP States:

- Angola *
- Antigua and Barbuda
- Bahamas
- Barbados
- Belize
- Benin *
- Botswana
- Burkina Faso *
- Burundi *
- Cameroon
- Cape Verde *
- Central African Republic *
- Chad *
- Comoros *
- Congo (Brazzaville)
- Congo, Democratic Republic (Kinshasa) *
- Cook Islands
- Cuba
- Djibouti *
- Dominica
- Dominican Republic
- Equatorial Guinea *
- Eritrea *
- Ethiopia *
- Fiji
- Gabon
- Gambia *
- Ghana
- Grenada
- Guinea-Bissau *
- Guyana
- Haiti *
- Ivory Coast
- Jamaica
- Kenya
- Kiribati *
- Lesotho *
- Liberia *
- Madagascar *
- Malawi *

- Mali *
- Marshall Islands
- Mauritania *
- Mauritius
- Micronesia
- Mozambique *
- Namibia
- Nauru
- Niger *
- Nigeria
- Niue
- Palau
- Papua New Guinea
- Republic of Guinea *
- Rwanda *
- St. Kitts and Nevis
- St. Lucia
- St. Vincent and the Grenadines
- Samoa *
- Sao Tome and Principe *
- Senegal *
- Seychelles
- Sierra Leone *
- Solomon Islands *
- Somalia *
- South Africa
- Sudan *
- Suriname
- Swaziland
- Timor-Lesté *
- Togo *
- Tonga
- Trinidad and Tobago
- Tuvalu *
- Uganda *
- United Republic of Tanzania *
- Vanuatu *
- Zambia *
- Zimbabwe

Countries marked with an * are least developed nations.

Appendix 7: Selected products not fully liberalized under the Cotonou Agreement

(Source: PricewaterhouseCoopers, "Sustainability Impact Assessment of the ACP-EU Economic Partnership Agreements–key findings, recommendations and lessons learned", Paris, PricewaterhouseCoopers, March 2007, page 16.)

Product Category	Tariffs
Tropical fruits and nuts, frozen, containing sugar exceeding 13% by weight	0% + €5.3/100 kg
Tropical fruit (except passion fruit and guavas) otherwise prepared or preserved, not elsewhere specified or included, containing added spirit, with a sugar content exceeding 9% by weight	0% + €2.6/100 kg
Juices of mangoes, mangosteens, papaws (papayas), tamarinds, cashews apples, lychees, jackfruit, sapodillo plums, carambola and pitahaya	0% + €12.9/100 kg
Mixtures of juices of pineapples, papaws and passion fruit	0% + €20.6/100 kg
Mixtures of citrus fruit juices and pineapple juice, with an added sugar content exceeding 30% by weight	0% + €20.6/100 kg
Mixtures of juices of pineapples, papaws and passion fruit or other tropical fruits, with an added sugar content exceeding 30% by weight	1% + €20.6/100 kg

Appendix 8: Income and Trade Effects of EPAs Scenarios

(Source: Karingi, S., Lang, R., Oulmane, N., Perez, R., Sadni Jallab, M. and Ben Hammouda, H. (March 2005). *Economic and Welfare Impacts of the EU-Africa Economic Partnership Agreements* (ATCP, United Nations Economic Commission for Africa, pp. 53).

(GDP: Gross Domestic Product, ToT: Terms of Trade)

Appendix 9: Unemployment rates in ACP countries

(Source: World Bank (2002). *Unemployment, total (% of total labor force)*
[http://humandevelopment.bu.edu/dev_indicators/show_info.cfm?index_id=692&data_type=1], last accessed on 25th July 2007).

Country	Unemployment, total (% of total labour force)	Most recent year
Antigua and Barbuda	6.0	1991
Bahamas	7.0	1999
Barbados	9.3	2000
Belize	12.8	1999
Botswana	21.5	1995
Djibouti	43.5	1991
Dominica	23.1	1997
Dominican Republic	15.9	1997
Fiji	5.4	1995
Grenada	15.2	1998
Guyana	11.7	1992
Jamaica	15.7	1999
Kenya	21.3	1994
Lesotho	39.3	1997
Mauritius	9.8	1995
Namibia	19.5	1997
Nigeria	3.2	1997
South Africa	23.3	1999
St. Lucia	18.1	1999
St. Vincent and the Grenadines	19.8	1991
Suriname	10.6	1998
Tanzania	3.2	1992
Trinidad and Tobago	13.1	1999
Uganda	7.4	1997
Zambia	15.0	1996
Zimbabwe	6.0	1999

Appendix 10: Information to be provided in an application for Binding Origin Information

(Source: European Commission. *Rules of Origin*
[http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/index_en.htm], last accessed on 18th July, 2007.)

Information to be provided in an application for Binding Origin Information:

a. the holder's name and address;
b. the name and address of the applicant where that person is not the holder;
c. the applicable legal basis, for the purposes of Articles 22 and 27 CC;
d. a detailed description of the goods and their tariff classification;
e. the composition of the goods and any methods of examination used to determine this and their ex-works price, as necessary;
f. the conditions enabling origin to be determined, the materials used and their origin, tariff classification, corresponding values and a description of the circumstances (rules on change of tariff heading, value added, description of the operation or process, any other specific rule) enabling the conditions in question to be met; in particular the exact rule of origin applied and the origin envisaged for the goods shall be mentioned;
g. any samples, photographs, plans, catalogues or other documents available on the composition of the goods and their component materials and which may assist in describing the manufacturing process or the processing undergone by the materials;
h. agreement to supply a translation of any attached document into the official language (or one of the official languages) of Member State concerned if requested by the customs authorities;
i. any particulars to be treated as confidential, whether in relation to the public or the administrations;
j. indication by the applicant whether, to his knowledge, binding tariff information or binding origin information for goods or materials identical or similar to those referred to under points (d) or (f) have already been applied for or issued in the Community;
k. acceptance that the information supplied may be stored on a public-access database of the Commission; however, apart Article 15 CC, the provisions governing the protection of information in force in the Member States shall apply.