

## **Economic Partnership Agreements and their Potential Impacts on Intra-African Trade<sup>1</sup>**

### **Key Messages**

- While EPAs will present some opportunities, they also pose challenges to RECs' ability to raise intra- and inter-REC trade.
- With proper policy sequencing and harmonisation, EPAs and regional integration could be compatible. Such harmonisation will foster trade between African countries within the same EPA while minimizing trade diversion in the RECs.
- Beyond promoting trade in goods, EPAs could also present an opportunity for greater trade in services, as well as the development of regional frameworks in trade-related areas such as investment and competition.
- However, EPAs may present obstacles if the initial conditions of African countries are ignored and a big-bang approach is adopted in liberalizing trade in services and other trade-related issues.

### **Background on EU-Africa Trade Relations and EPAs Negotiations Context**

The formalization of the trade relationship between Africa and the European Union (EU) dates back to 1976, with the adoption of the Lome Conventions, a series of trade agreements between the EU and the African, Caribbean and Pacific (ACP) countries. The special character of the Lome Conventions was the unilateral and non-reciprocal treatment afforded by the EU to ACP countries, initially qualified under the Enabling Clause of GATT. However, the trade component of the Lome Conventions could not continue to be justified under the Enabling Clause because it prohibits developed countries (and hence the EU members) to discriminate against other developing countries that are not members of the ACP grouping. Thus, developing countries in Asia and Latin America must be afforded the same treatment as ACP countries under the Lome Conventions.

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<sup>1</sup> This Briefing Note was prepared by Stephen N. Karingi and Laura Paez based on Chapter 11 of *Assessing Regional Integration in Africa IV on Enhancing Intra-African Trade*, a joint report of ECA, AU and AfDB.

Against this background, a WTO waiver was granted in 2001 to allow time for this trade arrangement between the EU and ACP countries to be made compatible with the WTO by 31 December 2007.

As a result, the EU-ACP countries initiated negotiations on a new trade regime under Economic Partnership Agreements (EPAs), in order to replace former Lome Convention with WTO-compatible provisions. EPAs negotiations are guided by principles contained in the Cotonou Agreement of 2000, the successor of the last of the Lome Conventions. Unlike the Lome Conventions, the EPAs will be reciprocal and are expected to be consistent with Article XXIV of GATT, which governs regional trade agreements (RTAs).

Another key principle guiding EPAs negotiations beyond that of WTO compatibility requires EPAs to be vehicles for deepening Africa's integration, as a means to strengthening the region's inclusion into the global economy, with a particular focus on trade performance. The briefing note discusses how the EPAs process and its results, is likely to affect Africa's regional integration agenda, and by extension intra-African trade.

### **EPAs Challenges on Intra-African Trade could be a Boon to RECs Integration Agenda**

ARIA IV argues that the RECs and EPAs are two different forms of RTAs. From a trade perspective, the RECs are South-South RTAs while EPAs are North-South RTAs. Why is this distinction between the RECs and EPAs important? While trade is the key element in the EPAs, the RECs have a broader agenda that encompasses social, economic and political dimensions. Trade integration is only one component of the RECs broad scope. Consequently, unless this difference underlying the two frameworks is recognized, there is likely to be a mismatch in the incentives for harmonising trade policies and facilitating intra-regional trade.

If the EPAs fail to recognize the fundamental differences they hold with the RECs and their regional integration agenda, ARIA IV argues that this will pose challenges on the objective of raising intra-African trade. The first challenge in terms of trade policy tools, the EPAs' focus relies too heavily on trade liberalisation. While this focus can be justified within the context of seeking WTO compatibility, it ignores the reality of low intra-African trade being more a result of supply side constraints rather than of sub-optimal trade policy choice. This leads to the second challenge, which refers to the reciprocity principle of the

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EPAs. This principle has empirically been shown to have the potential of displacing intra- and inter-RECs trade already taking place. In particular, the inter-RECs trade displacements will be accelerated by the failure of current EPAs provisions to harmonise the common external tariffs, sensitive lists and tariff-liberalisation schedules of the different EPAs groupings. The third challenge relates to the introduction of EPAs rules of origin, which are generous to the EU, and much better than the current RECs rules of origin. This will also likely lead to inter-RECs trade displacements. ARIA IV cites a study by the ECA which shows that intra-African trade of up to 16 per cent will be displaced if EPAs focus on an ambitious reciprocal trade liberalisation without accompanying measures for African productive capacity building and supply-side strengthening.

But there are compelling arguments favoring EPAs as means to help raise intra-African trade. Firstly, as ARIA IV notes, EPAs could foster a speedy resolution of the issue of overlapping memberships to RECs, which has been a persistent barrier to intraregional trade. This could be realised if the EPAs negotiating groups adopt common external tariffs. The enlarged markets arising from such harmonised EPAs would stimulate investments, increase domestic competition, and promote technology diffusion. Second, the role of the EU in establishing a binding partnership through EPAs will have the positive effect of enhancing the integration credibility and increasing the relative attractiveness of Africa as an investment region. Third, if EPAs implementation is supported with sufficient financial resources for diversification and supply-side strengthening, the political support for regional integration is likely to be enhanced. This support could in turn accelerate the consolidation of regional markets before these open up to the EU. Only such acceleration could minimize some of the expected trade displacement of current regional suppliers by EU competitors.

### **It Is Not Only Goods Trade: EPAs Intra-African Trade Implications to Come from Other Trade-Related Areas**

The initialed Interim EPAs (IEPAs) give indication on how the final comprehensive EPAs may look like. The provisions in the IEPAs go beyond trade in goods to include services, investment and competition rules. Therefore, depending on the final provisions, the EPAs promise to dramatically alter the policy and institutional landscape for intra-African trade.

ARIA IV notes that services trade is the new frontier for the expansion of trade, productivity and competitiveness. It goes further to note that intra-regional trade

in services is much higher compared to intra-regional trade in goods. Therefore, if EPAs foster the development of rules governing services liberalisation in the different sub-regions, the landscape for intra-regional trade may change for good. Further, sectors such as banking, insurance, transport and communications, which are backbone services of international trade and thus critical determinants of trade performance, may experience significant changes through a conducive EPAs setup. The productivity and the competitiveness of all economic sectors are likely to be enhanced with such an EPAs outcome. This may be particularly the case if RECs are driven to accelerate the development of regional frameworks in these trade-related areas that EPAs are pointing to.

There is a strong bias for intra-African trade in services based on UNCTAD figures highlighted in ARIA IV. For 2007 this share stood at more than half of all African services trade. Furthermore, African services exports have been growing at double-digit figures for the last decade. However, ARIA IV does highlight that the gains from trade-related areas and services trade will not be automatic. A fine balance between the development of regional frameworks, the pace of services liberalisation and the scope of the investment and competition rules will have to be struck. The probability of realising these EPAs promises of services trade and the catalyzing power of investment and competition rules will be greater, if the EU is ready to support the RECs in creating and strengthening regional instruments and institutions.

### **Conclusions and Recommendations**

- (1) Comprehensive EPAs should focus on rationalizing and harmonising the sensitive lists among the sub-regions; adopt one set of rules of origin that not only allow cumulation across the EPA groupings, but also bring coherence to the rules of origin in different RECs.
- (2) Sequencing is important to EPAs results on intra-African trade; therefore the full implementation of existing trade-related protocols in the various RECs should precede the phased implementation of EPAs commitments.
- (3) Coherence among the RECs regional integration agenda, EPAs and Doha Round commitments will be crucial to achieving best results from intra-African trade. There is therefore need for more coordination between the negotiators in the three tracks to ensure consistency in final African commitments.