Assessing Prospective Trade Policy

Methods applied to EU-ACP economic partnership agreements

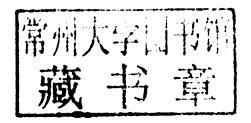
Edited by Oliver Morrissey



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Assessing Prospective Trade Policy

The European Union (EU) has provided trade preferences to the African, Caribbean and Pacific (ACP) countries since 1975. To maintain these preferences, a series of economic partnership agreements (EPAs) between the EU and regional groupings of ACP countries are being agreed, (negotiations started around 2003 and many framework agreements have been signed). As multilateral negotiations within the World Trade Organisation have stalled, EPAs are currently the single most important policy issue for ACP trade. This volume assesses EPAs and the potential impact on ACP countries, provides guidance for ACP negotiators in future negotiations and introduces methods to analyse the impact of future trade reforms.

The essential features are that ACP countries commit to remove tariffs on substantially all imports from the EU and the EU offers improved market access to ACP exporters. For ACP countries the major impacts will be increased imports from the EU, hence a loss of tariff revenue and increased competition from imports in domestic and regional markets, implying significant adjustment costs, which may be offset by some increases in exports to the EU. This collection excellently outlines a variety of analytical methods that can be used to assess the potential economic effects of trade policy reforms, shows how these can be applied to EPAs and derives implications for the issues that should be addressed in negotiating the details of agreements.

This valuable contribution offers a balanced assessment of the issues and should be essential reading for postgraduates and researchers focusing on Development Economics. Furthermore, the book is written in an accessible style and should be an excellent resource for trade negotiators and government officials concerned with trade relations, as well as officials in the European Commission, individual countries (ACP, Commonwealth, EU) and in multilateral organizations (WTO, UNECA, World Bank, UNCTAD).

Oliver Morrissey is Professor in Development Economics and Director of CREDIT, School of Economics, University of Nottingham, UK.

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Acronyms

ACP Africa, Caribbean and Pacific

AFT Aid for Trade

AGOA African Growth and Opportunity Act
AoA WTO Agreement on Agriculture

BLNS Botswana, Lesotho, Namibia and Swaziland

CAP EU Common Agricultural Policy

CARICOM Caribbean Common Market
CARIFORUM Caribbean Forum

CE consumption effects

CEMAC Communauté Économique des États d'Afrique Centrale

CET common external tariff

CGE computable general equilibrium

COMESA Common Market for Eastern and Southern Africa

DFQF Duty Free Quota Free

DiD difference-in-difference estimation

EAC East African Community
EBA Everything but Arms
EC European Commission

ECDPM European Centre for Development Policy and Management

ECOWAS Economic Community of West African States

EDF European Development Fund EPA Economic Partnership Agreement

EPZ Export Processing Zone ESA Eastern and Southern Africa

EU European Union

FDI foreign direct investment FTA free trade agreement

GATT General Agreement on Tariffs and Trade

GDP Gross Domestic Product GNI Gross National Income

GSP Generalised System of Preferences

GSP+ the special incentive arrangement for sustainable development

and good governance (under the EU's GSP)

xvi Acronyms

HS Harmonised System

IEPA Interim Economic Partnership Agreement

IMF International Monetary Fund
KIPPRA Kenya Institute for Public Policy

Kshs Kenyan shillings

LDC Least Developed Country
MFN Most Favoured Nation

NBER National Bureau of Economic Research

NTBs Non-Tariff Barriers

ODI Overseas Development Institute

OECD Organization for Economic Cooperation and Development

OLS Ordinary Least Squares

PACP Pacific ACP

PICTA Pacific Islands Countries Trade Agreement

PNG Papua New Guinea
QRs Quantitative Restrictions
REER real effective exchange rate

RIAs regional integration arrangements

RoO Rules of Origin
ROW rest of the world
Rps Rupees (Mauritius)

SADC Southern African Development Community

SAM social accounting matrix

SDT Special and Differential Treatment

SP sensitive products

SPS Sanitary and Phytosanitary Standards

SSA Sub-Saharan Africa

TBT Technical Barriers to Trade

TC trade creation

TC&CE trade creation with consumption effects

TD trade diversion

TD&CE trade diversion with consumption effects

TDCA [EU–South Africa] Trade, Development and Cooperation

Agreement

UGS Ugandan shillings UN United Nations

UNCTAD UN Commission on Trade and Development

UNECA UN Economic Commission for Africa
UNIDO UN Industrial Development Organization
UNHS Uganda National Household Survey

WDI World Development Indicators WTO World Trade Organization

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1 Introduction

EPAs and prospective trade policy analysis

Oliver Morrissey

Trade is important to all economies. Increasing trade volumes and increased openness to trade has been an integral part of the globalization phenomenon over the past few decades, and most countries have a stated commitment to trade liberalization, if only in the terms of their commitments in the World Trade Organization (WTO). There may be disagreement about how much emphasis governments should place on liberalizing trade policies, and all countries have concerns about the impact of increased imports (at least for certain products). Nevertheless, exports, and export promotion policies, make a significant contribution to economic growth. Export growth is easier and more likely if other countries provide greater access to their markets, i.e. countries have to liberalize imports to facilitate global growth in exports. Trade relations are an integral part of international relations between countries. This volume is about one set of trade relations, between the European Union (EU) and the African, Caribbean and Pacific (ACP) countries. Specifically, the focus is on how the relationship is changing and what trade policy analysis can contribute to improving the design and features of the future trade relations. The EU has had preferential trade agreements with the ACP since the 1970s but these were not consistent with WTO rules, so, since 2002, the parties have been negotiating WTO-compatible Economic Partnership Agreements (EPAs). These negotiations have been protracted and the final details have yet to be agreed. As the negotiations are continuing, concern in the analysis is with the effects of future reforms.

Essentially this volume is concerned with prospective trade policy analysis, i.e. assessing the effects of what is going to happen rather than evaluating the impact of what has happened. When changes to trade policy are proposed, within a country or for relations between countries, how can analysis be helpful? The direct relevance is for policy-makers as agreements have to be negotiated, so those with more analysis underpinning their position will have more influence. To paraphrase Piermartini and Teh (2005), those with better analysis (and hence the best numbers) will rule in the negotiations. The inherent difficulty in analysing proposed policy reforms is that one does not know what the actual effects are. Indeed, one may not even know with any certainty what the precise reforms will be (and the information provided by analysis informs the negotiations that determine the detail of final agreements). In practice, the analyst engages in