

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 focussing 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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Contributors

Dr Ole Boysen, Institute for International Integration Studies and Department of Economics, Trinity College, Dublin, Ireland.

Dr Chris Jones, Research Fellow, Economics and Strategy Group, Aston Business School, Aston University, UK.

Dr Jane Kiringai, Economist, World Bank Office, Nairobi.

Professor Alan Matthews, Institute for International Integration Studies and Department of Economics, Trinity College, Dublin, Ireland.

Dr Mareike Meyn, Maghreb and Middle East Department, GFA Consulting Group GmbH, Hamburg, Germany.

Professor Chris Milner, School of Economics, University of Nottingham, UK.

Dr Andrew Mold, Senior Economist, Finance for Development Unit, OECD Development Centre, France.

Professor Oliver Morrissey, School of Economics, University of Nottingham, UK.

Dr Annalisa Prizzon, Finance for Development Unit, OECD Development Centre, France.

Dr Evious Zgovu, Visiting Research Fellow in 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)

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