

Policy Challenges for Europe and the
World:

A Conference in Honor André Sapir

**REFLECTIONS ON THE POLITICAL
ECONOMY OF THE EPAS**

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FERDI

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Reflections on the Economic Partnership Agreements (EPAs)

In light of excerpts from André Sapir

“The Political Economy of EC Regionalism” European Economic Review, 1998

Did André’s analysis of the then EC’s political economy of Regionalism carry over to the EU’s just-concluded EPAs in October 2014?

Excerpt #1

Trade policy has always been the principal instrument of foreign policy for the EC, particularly in the form of trade preferences.

Remarks: ACP preferences were part the EC’s foreign policy. A succession to the Lomé convention expiring in 2000 was necessary but the EPA’s came in response to the EU’s desire to preserve ACP preferences (superior to GSP) for ACP countries not benefitting from EBA as required by the Doha Round of negotiations in 2001 where reciprocity became required in FTAs

Excerpt #2

Whereas economists tend to agree that instances of deep integration, like the EC and its successive enlargements, have been welfare-enhancing, the jury is still out on whether the same can be said for cases of shallow integration like Free-Trade Areas (FTAs). At the same time, economists disagree in their assessment of whether regionalism threatens multilateral trade liberalisation.²

Remarks: The jury is still out for RTAs among countries in SSA where external tariffs remain high and policy-imposed barriers to trade still remain.

The Cotonou Partnership Agreement (CPA) set out the following elements:

Differentiation: (not preserved). Because of the EU's proliferation of FTA, the average preferential margin for African countries is only 1 percentage point;

Reciprocity: (only partial) Ensuring WTO-compatibility was accepted with 80% of imports liberalized

Regionalism: (not achieved) Regional integration within the ACPs groups (two-layer objective) was only achieved for CARIFORUM and the EAC;

Development: EPAs are to be "economically meaningful, politically sustainable, and socially acceptable".

Excerpt #3

The extension of RTAs to non-candidate countries represents a radical departure for the EC. By doing so, it joins the United States in promoting 'hegemon-centred' trade agreements, i.e. free-trade areas centred on a major trading power.¹⁷ It is doubtful whether this new development in EC regionalism reflects a grand design. Instead, probably like in the United States, it is a sign of short-term economic, political and bureaucratic considerations.

Remarks: The same template was imposed across EPAs.

- The only full EPA with Caribbean members signed in 2007 was hailed as a deep EPA but implementation so far has been disappointing: in effect 'access without entry', an MFN clause and tariff reductions only started for 6 members.
- African EPAs did not go beyond 'shallow' integration in goods market stretching over long periods of time (often around 20 years).

Excerpt #4 (in relation to the EA agreements)

Sapir (1994) shows that, in addition to GATT obligations, Europe Agreements were successful in tying the hands of governments in favour of liberal trade policies at a crucial time, when the 'honeymoon of trade liberalisation' was coming to an end in many CEECs due to the resurgence of pressure groups. The paper argues that the main additional constraint imposed by Europe Agreements, over and above GATT obligations, lies in the process of consultation with trade partners. The GATT was notorious for its lack of enforcement discipline. Although the WTO has partly remedied the situation, the fact remains that bilateral monitoring by the EC, the main trading partner of the CEECs, is probably more effective than multilateral control.

Remarks: No additional constraints or incentives were provided to induce countries to carry out the reforms envisaged in the CPA in 2002.

- A reduction of 20% in the allocation of funds for the 11th EFF
- African EPAs did not go beyond 'shallow' integration in goods market stretching over long periods of time (often around 20 years).

Excerpt #5

Secondly, all preferential arrangements contain rules of origin setting forth the requirements for products to be considered as 'originating products' for the application of preferences. Products imported from preferential partners are denied preferential treatment at their entry into the EC if they do not qualify as originating products, or if traders fail to submit appropriate origin certificates.⁶

Remarks: This remark by André as a partial explanation for the lack of uptake of preferences in FTAs has been vindicated in QUAD-led FTAs where North-South FTAs have amounted to “giving with one hand (preferences) and taking away with the other (costly to comply Rules of Origin)”

- EAC-EU protocol 78 pages long but list of proposed RoO was 180 pages long !
- In the final stages of the EAC negotiations were still active on a list of 370 Product-Specific Rules of origin (tougher for the EU for 70 products and tougher for the EAC on 4).
- Expected loss of tariff revenue from the EAC over the 20-year adjustment period: Around 3% of tariff revenue when computed from customs data taking into account tariff exemptions (and around 10% with no exemptions)

Summary

The EPAs negotiations were a side-show in EC foreign policy with non-implemented development objectives.

- Twelve years of negotiations will have ended up preserving EU market access for non-LDC African members, preferences worth about 1 percentage point after adjusting for the preferences the EU accords to other trading partners.
- Minimal reduction in tariffs on goods trade accompanied by extremely long time tables (often exceeding twenty years), exception lists excluding goods with high protection.
- Negotiations under the 'rendez-vous clause' will have revolved around inclusion of an MFN clause and the exclusion of export taxes in bilateral trade with the EU, both narrowing the policy space for African EPA members.

⇒ The initial CPA objective of contributing to the deepening of regional integration in Africa along 'development-friendly' lines has not been met.

References

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