

Interim Economic Partnership Agreements point to the classic Regional Trade Agreements after all: Should African countries really be worried?***

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Abstract

Were African countries caught off-guard when they agreed to sign interim Economic Partnership Agreements (EPAs) towards the end of 2007? Are African countries hiding their head in the sand like the proverbial ostrich as they negotiate comprehensive EPAs? These are some of the crucial questions that need to be answered in order to understand the dynamics of the EPAs negotiations and the direction they are likely to take as pressure builds for countries and regions that initialed interim agreements to sign and ratify them and for those countries and regions that did not initial to expeditiously conclude comprehensive agreements.

In a departure from some previous studies on the EPAs negotiations that have focused on economic analysis; this paper starts from the premise that for the EU, the EPAs are international trade policy tools in the same line as its previous regional trade agreements (RTAs). In order to support the premise that the EPAs are classical RTAs after all, the paper provides results of a legal audit of the interim EPA agreements that were signed in the different African regions, despite there being in existence a common African position on the minimum elements of the agreements. In particular, the paper zeroes in on the African common position with respect to some of the issues such as the regional integration agenda, and argues that in a globalizing world, EU national interests could have overridden the African Union integration agenda leading to the fragmentation of the previously defined EPA groupings. By looking at the legal provisions of the interim agreements, the paper shows that the balance is tipped in favour of the trade elements with weak development provisions, as one would expect from a framework that from a strategic point of view is framed to eventually create free trade areas.

But should Africa be worried if EPAs are classic RTAs and should the African negotiators change tact as they expend energy towards conclusion of

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comprehensive EPAs? This is the other major contribution of the paper as it looks at previous agreements of a North-South nature that the EU has entered into as part of its international trade policy and analyses the kind of outcomes that have been achieved especially by the developing countries partners. By drawing lessons from EU-South FTA agreements with selected African and Latin American countries, especially those that have completed the transition periods of the agreements, the paper shows who should worry and who should not and why with regards to EPAs. The paper also points at those areas where the African negotiators should focus on, based on the analysis of economic and social outcomes of already existing FTAs between the EU and its other trading partners in the South.

Introduction: What Africa expected from the EPAs

The expectations of the African countries on the EPAs are informed by their guiding principles. These principles are well understood and as noted in Karingi et al. (2004) and also in Levantis et al. (2005), should be:

- ❑ *Development*: EPAs should be oriented towards facilitating sustainable development and reducing poverty.
- ❑ *Reciprocity*: all trade restrictions between the parties are to be progressively removed, leading to a free trade area.
- ❑ *Regionalism*: increased regional integration within groups of ACP countries is seen as a step toward greater integration in the world economy and this principle guided the idea of having groupings of ACP countries to negotiate with the EU.
- ❑ *Differentiation*: the EPAs are to include a strong component of special and differential treatment, taking into account differing circumstances and stages of development for ACP countries.

Consequently, the objectives of the EPAs as understood by the negotiating parties is to have a focus on development, market access, regional integration, and establish a legal framework for promoting trade and investment, and solidarity and mutual interest. The weight ascribed to these objectives have varied with some of the ACP countries putting more emphasis on the development and regional integration question, while the EU has weighed more towards market access and the legal framework for promoting trade and investments. Nonetheless, as shown by the various studies on possible economic impacts of the EPAs, the overarching principles hold some promises for ACP countries, but also some risks. And the outcome will depend on what the final agreements put most emphasis on. In particular, the reciprocity of preferential access has been shown to lead to trade diversion. This trade diversion has been of two forms (see Perez and Karingi 2005 and Karingi et al. 2004). On the one hand, trade between ACP countries in the same EPA grouping is likely to be displaced. At the same time, without coordination of the common external tariffs and list of sensitive sectors, intra-ACP groupings trade is also diverted. On the other hand, some of the trade between non-EU and ACP countries will also be diverted to the EU.

In the African countries case, since 2003, the Conference of Trade Ministers of the African Union have adopted Declarations on Negotiations for EPAs at their meetings in Mauritius (2003), Cairo (2005), Nairobi (2006) and Addis Ababa

(2007, 2008). Moreover, the African Union Executive Council of Foreign Ministers and the Assembly of Heads of State and Government also adopted some decisions on EPAs, known as the common African positions on EPA negotiations. These declarations and decisions are specific on what the African countries want from the EPAs. But as ECA 2008 legal audit of the interim EPAs has shown, the negotiations did not always adhere to all the common African Positions, with the result that there are differences in key areas of the agreements that may not necessarily reflect regional specificities. Nevertheless, there some areas of negotiations that was substantially the same priorities for all groups, especially with respect to concerns with development issues and market access.

ECA 2008 shows that some attempts to have interim agreements reflecting the common African positions have been made in the area of market access by providing market access to EU market, regional integration by references to the process and development cooperation by provision for regional EPA funds. But a common problem of all African groups is that of different trade regimes within a negotiating group. For example, in the SADC EPA, South Africa has been treated differently in many cases, because the EU considers it to be relatively advanced in development over the other countries and already has trade relations with the EU under the TDCA.

What have the Interim EPAs offered?

As of June 2008, 35 ACP countries out of 79 had initialled the new trade arrangements with the European Union, with the scope to put in place a market access regime to replace the preferential trade regime under the Cotonou Agreement, which expired on 31 December 2007.

ECA (2008) provides a comprehensive analysis of the existing interim EPAs initialled by the EU with SADC, ESA, Ghana, Cote d'Ivoire, Cameroon and EAC countries. They are full international agreements, legally binding, under WTO rules and cannot be challenged by WTO Members. Each interim EPA is unique because it was negotiated with specific ACP region with its own unique mix of LDCs and non-LDCs, particular interests and integration plans. The extent of regional coverage also varies as well as the degree of comprehensiveness (EC 2008). Nevertheless, all the interim EPAs have provisions on objectives and

principles, trade in goods and development cooperation. They all address also the mandate for continuation of the negotiations, institutions and dispute settlements³.

As underlined in ECA (2008), the present interim EPAs all share the same *objectives*, which focus on:

- development aspects, such as poverty eradication, gradual integration into the world economy, economic adjustment and diversification, building trade policy and trade related capacity, establishment of legal frameworks consistently with WTO rules
- maintaining and promoting market access for ACP products into the EU markets
- promoting regional integration in ACP regions
- a legal framework for promoting trade and investment
- promoting solidarity and mutual interest between ACP countries/regions and EU

The fundamental *principle* shared by all the Interim EPAs is that they should build on the achievements of the Cotonou and previous ACP-EU agreements, especially for what concerns the areas of regional cooperation and integration and trade and economic cooperation.

In addition, the EAC EPA includes also the principle of contributing to addressing the production, supply and trading capacity of the EAC, without referring to special and differential treatments for LDCs, as contained in ESA EPA. The SADC EPA additionally contains the principle that for South Africa the TDCA shall apply.

As to development issues, there are four clear different approaches identified in the ECA 2008 study as evidenced by the EAC interim EPA the CARIFORUM and Pacific interim agreements and the SADC interim agreement. The ESA interim EPA comes out as the most detailed in provisions on economic and development cooperation.

³ ESA and EAC have substantive chapters also on fisheries, with the aim of promoting investment, capacity building and improved market access into the EU for the fishery sectors of East African and Southern African countries.

Besides the development issue, the market access provisions on trade in goods are fundamental in all the interim EPAs. They are aimed at ensuring the continuation of importation into the EU markets of ACP products on terms that were better than those that would have applied in the absence of the agreement. As ECA 2008 argues, the market access provisions directly affect the regional integration processes, especially for the establishment of free trade areas and customs unions at the regional level. In particular, the scheduling of tariff elimination for EU imports varies from EPA to EPA.

All interim EPAs provide for some general, security and taxation exceptions as detailed in the legal audit of these agreements (see ECA 2008). Regarding the dispute settlement, the EPAs take two main approaches: a brief one as in the case ESA and EAC and a more detailed one in the case of the interim agreements. But as noted in ECA 2008, none of these approaches is as detailed as the WTO dispute settlement system.

A major critique on the interim EPAs initialled by African countries has been that they don't satisfactorily reflect the common African positions in some of the important aspects. The question of regional integration is well noted in the interim EPAs. Various provisions make explicit reference to regional integration in Africa, such as those that provide for harmonisation of customs legislation and standards at the regional level. But the main shortcoming levelled on the interim agreements is the differences from one EPA to another, especially where countries in different groupings are also engaged in a common integration agenda under the regional economic communities. The EU perspective in this respect is that the agreements could expedite the process of formation of regional and African customs unions and common markets given the need for the groups to adopt single starting lines or common external tariffs on the basis of which to make their market access offers to the EU. As EC 2008 argues, the new trade arrangements ensure that there's a new duty-free trade regime covering the vast majority of ACP countries. Because this removes a situation whereby some LDCs in each region pay no duties on their exports to the EU and other non-LDCs do pay such duties, this helps towards regional integration and larger regional markets.

A valid perception and fear though is the lack of coherence between the EPA agenda and the regional integration processes in Africa. This is exacerbated by difference in membership in the EPA groups to that of the regional economic communities. In addition, apart from the EAC, countries in the same REC might liberalize different tariff lines which might create impediments to intra-regional trade. In some of the sub-regions such as West and Central Africa, not all the countries in the respective EPA grouping initialled the respective EPAs. In which

case, those that initialled might be obliged to meet their preferential offer commitments to the EU. The EAC is an exception in that the five members have agreed to the same liberalization schedules, something that has the potential to strengthen integration of its economies.

In the area of trade-related issues, in particular competition policy, South Centre (2008) observes that the provisions of the interim EPAs are too narrow and detrimental for developing countries. South Centre (2008) goes ahead to argue that competition policy is without doubt a fundamental instrument in the promotion of more transparent, more efficient and more open markets and it helps also to encourage innovation and productive transformation as well as to promote consumer protection and welfare. But, it is not a good strategy to have strict provisions in early stages of development given that developing countries are far from the assumptions at the basis of classical competition law. Developing countries, especially the LDCs lack mature markets. These economies also lack well developed independent private actors. The presence of information asymmetries and lack of a State capable to enforce contracts with adequate institutional, human and financial resources to conduct investigations, monitor markets and impose sanctions reinforce these disadvantages.

Why EPAs are classic RTAs

The resilience of RTAs

Despite major multilateral liberalization being considered as superior, powerful actors like the EU and the US are also engaged in regionalism which tends to be controversial in economic and policy circles, especially for reasons linked to the fact that preferential trade arrangements are by their very nature discriminatory. Plummer (2007) provides a good picture of the existing debate on regionalism versus multilateralism especially why countries adopt FTAs, which are second-best policies, when the first best policy can be achieved through multilateral negotiations.

Yet, regionalism and multilateralism could be consistent and even reinforcing, as is the case in Africa. As some of the studies have shown, some regional agreements can create more trade than they divert, and this might have supported the expansion of regional trading blocks. Furthermore, most of the regional trading agreements have been negotiated in the recent past, when international trade and investment have boomed, suggesting that they are not incompatible with multilateralism.

One need not forget that argument as elaborated in Lee and Park (2005) that an RTA can act as a building block to multilateral free trade if they involve a net trade creation effect, which is highly dependant on the choice of the right partner. Including the largest possible grouping of countries that have a higher share of pre-RTA trade and a non-uniform pre-trade tariff structure could lead to net trade creation effect, an argument that supports the idea of the EPAs. Other preconditions are the non-discriminated tariff reductions among members, following a definite time schedule and without raising barriers against non-barriers, and a deeper integration that mitigates potential causes of conflict between RTAs and multilateral trade arrangements.

Pomfret (2007) downplays the concern with the proliferation of RTAs by observing that the dramatic increase in regionalism are based on faulty measures, such as, the increase in number of RTAs notified to the WTO or the share of world trade conducted under the RTAs. However, Pomfret (2007) avers that the new form of regionalism, which the study refers to as deep integration, has the potential to be welfare-improving by reducing non tariffs barriers to trade and by cutting behind-the-border trade costs. Moreover, the study also notes the added advantage in establishment of regional agreements as they allow controversial areas to be agreed compared to in global agreements. Bradford et al. (2006) also argue that bilateral and regional free trade agreements increase the trade among members both through trade creation (increased trade as a result of relative efficiency) and through trade diversion (increased trade as a result of privileged access) (Bradford et al. 2006). And so, as underlined by Bergstrand et al. (2008), while most free-traders would argue that multilateral free trade in goods and services and barrier-free foreign direct investment is optimal for the world, the reality is that regionalism has developed hand-in-hand alongside multilateral liberalisations promulgated under the GATT.

An important point worth noting is that RTAs have important disadvantages, such as the involvement of interest groups in the design of the agreement. Interest groups can shape the RTA to their own benefit, which is not necessarily the national benefit. Moreover, as Pomfret (2007) observes, trade diversion is often more politically acceptable than trade creation, as the losers from trade diversion (domestic tax payers and non-preferred foreign suppliers) have little impact on the policy making process. On the other hand, the costs from trade creation are borne by domestic producer interest.

But one of the main disadvantage of RTAs is the concern with the 'spaghetti bowl' character of regionalism especially in Africa because of the attendant problems in terms of geographical space coverage, diversity, overlap and contradictions associated with a country's having many different preferential

trading agreements (see ECA 2005). However, through observance of Article XXIV of GATT, some of these problems can be minimized. But, it is worth noting that diversity of WTO membership ranging from LDCs to advanced developed economies has meant that harmonization of rules and policies under the WTO as in the case of those rules governing RTAs has proven to be extremely difficult. Furthermore the regional agreements are supported because of their ability to drive integration and cooperation in areas that have been neglected by the WTO, in terms of tariff, non-tariff and non-border measures. Yet it is these WTO-plus issues that are major areas of contention in regional trade agreements such as those involving developed and developing countries together.

Plummer (2007) also highlights the arguments that non-discriminatory unilateral liberalisation could lead to trade creation and no trade diversion. But quickly adds the contrarian argument that the fact that foreign markets are left untouched would suggest that the welfare gains would be limited. Thus, the FTA could be superior to unilateral liberalisation if the gains in terms of increased national welfare due to foreign reductions in tariff barriers were greater than the losses due to trade diversion. This argument is well captured in Wonnacott et al. (2005) who underline the reasons why a single country engages in RTAs rather than simply cutting trade barriers unilaterally. Essentially, an FTA provides economic benefits that the unilateral move cannot, namely the economic gains on the export side from reciprocity because of the removal of foreign barriers between partners. It is true that in theory unilateral initiatives can lead to a reduction in barriers against imports also from non-partner countries and insure against the FTA trade diversion. In an RTA however, a small country with no unilateral terms of trade influence can more, that is, improve its terms of trade, by persuading its large partner, whose barriers do affect the terms of trade, to reduce its tariff. In addition, a FTA can be preferred because of the stronger support from exporters eager for improved market access and the lower adjustment costs deriving from the less competitive pressure.

The EU EPA template informed by global RTA “best-practices”

Review of the arguments as to why FTAs exist besides them being second-best lead Plummer (2007) to conclude that the FTAs are appealing because they are able to generate significant gains in terms of economic efficiency, beyond what any realistic multilateral approach could possibly hope to generate, if “best-practice” is adopted in their design. And what are those best practices? These include the comprehensive coverage of goods and services. The believers of regionalism would then urge that the priority be given to telecommunications, financial and education services, which are traditionally very difficult to liberalise multilaterally. The exemptions should be as few as possible.

By having a closer look at these best-practices and what the provisions of the interim EPAs currently portend, one is left with no doubt that they are classic RTAs. In deed, the experience of the EU from negotiating FTAs whence it could have been able to build institutional capacity on an FTA “best-practice template” may be seen as likely influencing its negotiating stances in most of its regional trading agreements, including in the EPAs and its desire to include WTO-plus issues, such as government procurement, competition policy, and investments.

A quick review of the best-practices as captured in the literature for efficient and optimal FTAs vis-à-vis common African positions on EPAs clearly show some areas where best practice run counter to some of the positions. Suffice to note that in some aspects they are compatible, such as the requirement that the rules of origin should be as low as possible and symmetrical. But this has remained an issue of contention in the EPAs negotiations. This despite the empirical results suggesting that stringent rules of origin could have important trade diversion and investment diversion effects, with potentially high costs to non-partners. They would also be distortionary in terms of technology choices and may result in investment decisions being based on locations rather than efficiency.

A reflection based on the legal audit of the interim EPAs point clearly to attempts to have the agreements aligned to these best practices. For instance, customs procedures should follow global best practices and GATT/WTO consistent protocols. The intellectual property right protection guidelines should be non discriminatory and consistent with TRIPS and related international conventions. In this respect, regional trading agreements are seen as opportunities to lock-in policy reforms or as instruments to modernize customs laws, regulations, administrative guidelines and procedures as the US-Vietnam Bilateral Trade Agreement attests. The EU could also be seeing the EPAs as instrument to achieve similar outcomes in the African countries.

Another perceived global best practice is in the issues of investments whereby provisions related to FDI should embrace national treatment and non-discrimination. This is evident in the interim EPAs. Similarly, the interim EPAs also point to the desire to have transparent and fair anti-dumping procedures, and hope that the comprehensive agreements could achieve well-specified and effective process e.g. in Government procurement.

Similarly, in classic RTAs driven by the perceived global best practice, competition policies should aim at creating a ‘level playing field’ for both locals and partners and they should not put non-partner competition at a disadvantage. This is clear in the direction that the EPAs negotiations have taken. The technical barriers to trade should be kept to a minimum, with clear and transparent

mechanism for determination of standards. This way, RTAs in as far as they involve few countries, are seen to possess the potential to achieve far deeper means of integration and progress in this area.

Interestingly, once the EPAs are concluded in the philosophy of classic RTAs, it will not be difficult to have them institutionalized. In deed, there is political economy analysis derived evidence that point to the fact that the interim EPAs and subsequently the comprehensive EPAs could be quickly institutionalized to avoid reversal and this may explain the urgency to initial, ratify and sign agreements. Lusztig and James (2006) use an expected utility model to explain why controversial free trade agreements so often become institutionalized. Essentially, Lusztig and James (2006) show that reversing to a less free trade policy in this case would lead to political benefits obtained from the general public's perception of consistency and honesty in policy articulation. Moreover, other benefits would be safety against left-wing outbidding, support from the inflexible rent seekers and macroeconomic benefits from re-employment in once protected industries. However, such benefits are more than counterbalanced by the associated costs. First of all the macroeconomic losses from distorting trade, reduce standing with the business community, potential right wing outbidding and retaliation by former partners to trade liberalisation. One would then expect that to avoid policy reversal, EPAs would become quickly institutionalized, even as classic RTAs.

There is also a political economy motivation why the EPAs, even as classic RTAs are likely to be quickly institutionalized. This motivation is well captured by Estevadeordal and Suominen (2008) arguments on how interstate cooperation can enhance further cooperation. Using a new dataset of trade and cooperation agreements, involving especially EU and US, they find that all states today belong to a cooperation agreement of some kind, even though states cooperate disproportionately more in the domain of trade than in other domains. The data also show that countries that cooperate in the area of trade and each other's most favoured partners in other areas of cooperation as well. Alluding to political economy arguments, at least three reasons are advanced why trade agreements can be a vehicle of future cooperation in other domains, pointing to a motive for agreeing and even implementing EPAs even as classic RTAs.

First, the EPAs as contemporary trade agreements are also likely to be multifaceted than are many other types of international agreements, so that they could open ample opportunities for states to engage in issue-linkages and log-rolling. Secondly, the positive externalities of trade agreements, such as expanded markets, can augment the policy salience of regional rules and regulations, awakening latent interests in the member states to demand further cooperative

agreements. Moreover, if and when trade agreements spur institutional efficiency in the member states they can render the members increasingly attractive as future cooperation partners. Thirdly, trade agreements can produce negative externalities, such as border congestion and air pollution, which can give rise to demands for cooperation in other domains, such as for regional transportation networks or environmental protection. Lastly, trade agreements can then spur demand for a host of regional public goods which, given their public goods characteristics, require formal frameworks for regional cooperation.

Egger et al. (2007) explain the rationale behind the attested preference for bilateral trade and investment agreements. In this model, multilateral liberalisation is preferable for both developed and less developed economies only if the latter are endowed well enough with capital. This is not the case for the African countries. Otherwise Egger et al. (2007) argue that the developed countries will prefer bilateral liberalisation with developed economies, which can let them to attract FDI and reduce the risk that foreign firms relocate their plants to a third economy. Similarly, the developing countries oppose further promotion of multilateral trade, as it inevitably leads to a redirection of trade and investment to the capital abundant countries. As an alternative, the developing countries engage in bilateral agreements as they could help them to exploit their comparative advantage at the largest possible extent, through a consistent trade redirection effect. Moreover, developing countries expect to gain from bilateral liberalisation with other developing countries only if capital and skilled labour are not too scarce in either of them, so to stimulate bilateral FDIs. But the EPAs are bilateral agreements between developed and developing, which make the results in Egger et al. (2007) uncertain.

Interim EPAs mirror characteristics of previous RTAs involving the EU

As of November 2005, 40 out of the worldwide-notified RTA notified to the WTO directly involve the EU. Maur (2005) gives an exhaustive overview of the main characteristics shared by all the RTAs signed by the EU. An evaluation of the EU RTAs provides some basis upon which to conclude whether the EPAs are basically classic RTAs. As classic RTAs, then the negotiations would have to be concluded with the expectations of such agreements in mind, rather than the current view that they will be development tools, as interpreted by the ACP countries, including the African region. Maur (2005) provides a useful starting point in assessing the interim EPAs by looking at the characteristics of some of the RTAs that EU has entered in the past. This evaluation vis-à-vis the audit of the interim EPAs (see ECA 2008) suggests that the EPAs could be pointing towards classic EU negotiated RTAs. So, what are some of the characteristics of the RTAs that the EU has negotiated in the past?

As Maur (2005) notes, all the European RTAs set as fundamental objective regional trade cooperation among partners. This is seen in the Euro-Mediterranean Association Agreements (EMAAs), where the signing of South-South RTAs was set as the pre-condition for further concessions in the EMAAs. The Cotonou agreement of June 2000 also sets 'the regional trade integration process within ACP countries' as one of the conditions for negotiating Economic Partnership Agreement (EPAs) with Europe.

In addition, the EU imposes its classification of products and the same set of preferential rules of origin in all its trade agreements. This can be understood as an effort to minimize the costs of implementation. The EU is also trying to make partner countries to use similar rules of origin within regional agreements. An interesting result of this trade policy aspect has been the creation of tariff quotas where they did not exist (e.g. Algeria, Egypt, and Chile). In the area of trade facilitation, the EU offers access to its standards and procedures but the provisions are limited to the simplification of customs procedure.

The EU FTAs also hope to achieve a harmonization with the EU technical barriers to trade (TBT) regulation and procedures. In the aspects of sanitary and phytosanitary measures (SPS), such harmonization is not specific in EU legislation. And in the contentious area of competition policy, most European agreements envisage more extensive coordination of competition standards, with reference to EU model and law enforcement mechanisms. And with regards to the trade-intellectual property rights, the provisions contained in the EU agreements go beyond what is required by the TRIPS agreement and call for the adherence to the highest international standards.

The observation that one makes from the foregoing is that the influence of EU is limited to what can be seen as its classical trade issues, i.e. issues contained in its existing trade agreements and which seem to be informing the EPAs negotiations. Furthermore, given the uncertain outcome of negotiations at the multilateral negotiations under the Doha Development Agenda, the EU could find the EPAs as an appropriate framework in its participation in the regionalism movement which happens to currently constitute the most significant trend in international commercial policy.

Antkiewicz and Whally (2005) capture the likely direction that the EU might steer the EPAs. The study notes that the present international negotiations are a two-tier trading system. On the top tier is the common multilateral disciplines involving all countries and largely reflecting the interests of large powers in their arrangements with each other. In the second tier are the regional disciplines going beyond multilateral arrangements and reflecting the dominant interest of large

power in any given smaller market. And in recent times, besides the EU and US typology, a third set of agreements seem to characterize the early Chinese regional negotiations, which are considerably more focused on the conventional WTO spheres of trade in goods and services, without paying attention to special sectoral arrangements, possible tax harmonization, innovative dispute settlement, coverage of environment and financial integration.

It is not surprising therefore to conclude that the interim EPAs, based on the foregoing are classic FTAs as suggested in ECA (2008). Similarly, Stevenson et al. (2008) draws the conclusion that the present interim EPAs are simple FTAs lacking efficient provisions in term of broader development. From the perspective of the EU, and in line to the global best practices in FTAs, EPAs will foster development mainly through trade liberalisation and the creation of the right policy framework to attract investment. In addition, by building on the ACP regional integration processes, EPAs should contribute to the establishment of effective regional markets in the ACP, thus attracting and stimulating both domestic and foreign investment, a necessary condition for sustainable development.

Yet, the African countries, in line with the ACP perspective, do not see how classic RTAs as interim EPAs point towards could foster development. While most of the ACP states would agree with the EU on the development opportunities offered by an EPA, they tend to consider trade liberalization and regional integration as necessary, yet far from sufficient, conditions to foster development and alleviate poverty. As Stephenson et al. (2008) notes, if an EPA is to promote development, this objective must permeate all aspects of the EPA agreement. The EPA must also be accompanied by appropriately arranged financial support to address supply-side constraints as well as measures to mitigate the related adjustment costs. These are conditions that are not part of the global best practice on RTAs. It is therefore not surprising that while the EC recognises the structural and institutional constraints impeding ACP countries' productive and trading capacities, the interim EPAs were not categorical on development financing issues especially with binding commitments in the legal text of each EPA for the existing or additional resources covering EPA-related costs. All this said, Stevenson et al. (2008) conclude that although the interim agreements offered ACP countries an opportunity to temporarily safeguard market access, they are *de facto* simply FTAs.

What then if EPAs are classic RTAs?

This is an important question which African countries in particular might need to reflect deeply on. On the one hand, the on-going negotiations could be put back on the track of moving towards EPAs as development rather than trade policy tools. Otherwise, African countries could look at the historical record of the EU in the use of RTAs as part of its international trade policy instruments. In which case, the African countries would have to focus on having comprehensive EPAs that are clear that the ultimate objective is to have FTAs in the classic sense. With such a view, then the natural thing to do is to look at how the EU RTAs have progressed. The ground on the first alternative is well covered and documented, including most of the efforts to define EPAs as development rather than mercantilist-instincts instruments. For instance, ECA (2008) reckons that there is scope for the ACP groups to learn from each other and harmonize provisions in key areas drawing on the evidence from existing interim agreements. The study gives some indications on how African countries could reap some benefits from the EPAs based on the common African positions on EPA negotiations.

Other authors provide an argument for designing the EPAs as a development tool and not only a mere free trade agreement (see Wilson et al. 2005 and proposals in Stephenson et al. 2008). Wilson et al. (2005) shows that tariffs are not the major impediment to South-to-North trade and even if they are more relevant for South-to-South trade, they are not the key factor to increase trade, especially in manufacturing good. There are other measures of trade facilitation, which seems to have a greater impact, as port efficiency, custom environment (import barriers and irregular extra payments), regulatory environment (control of corruption and transparency) and e-service sector infrastructure. They provide evidence that different performances between countries are explained by country's own trade facilitation reform efforts. So, guaranteeing market access and decreasing the barriers to trade is not sufficient to help African countries to build their manufacturing system and to integrate into the global trading system. They would have small export gains compared to the import gains, with probably negative consequence for their development.

But there has been a limited discussion on the second possibility where EPAs end up being classic RTAs, an eventuality that so far appears to be more realistic going by the interim EPAs. With EPAs as classic RTAs, the African countries should expect the following:

Deep trade liberalization front-loading

In deed, looking back, it is evident that European RTAs have transformed from simply autonomous preferential agreements or agreements concentrating mostly on eliminating tariffs on industrial goods into deep bilateral agreements, which

include not only economic, but political and social dimensions. From the economic side, the EU uses initially the RTAs to obtain quick wins by exploiting the well known theoretical benefits deriving from trade liberalisation summarized as in Dornbush (1992): static gains from improved resource allocation; access to greater variety of goods, which raises productivity by providing less expensive or higher quality intermediate goods; availability of imported intermediate goods and technology, whether licensed or embodied in imported capital goods; a more economically rational market structure and related gains can also result from economies of scale that arise in wider markets; and finally transfer of know-how.

By having the EPAs as classic RTAs, the EU believes that as pointed in Greenaway et al. (2007), when implemented, they will likely promote efficiency in more ways than one. Allocative efficiency will be promoted by factors of production being reoriented towards those sectors in which the economy possesses a comparative advantage in trade. Technological efficiency is also likely to be an outcome through increased variety of choice of techniques of production. In any case, despite the uncertainty of trade liberalisation that the African countries will face, the expectation on EPAs as classic RTAs could be founded on Krueger (2005) who argues that there is plenty of evidence across countries and over time to support the view that opening up economies to trade is beneficial. The competition that the EPAs will bring will be the powerful force for increased economic efficiency via elimination of African monopolies and driving down prices.

Economic outcomes will be uncertain hence policy sequencing critical

Unfortunately, EPAs as classic RTAs and in which the partners have different economic power are actually walking on well trodden path where uncertainty is more the norm than exception. Santos-Paulino (2005), while underlining the methodological difficulties and hence the diverse interpretations encountered by all the studies on trade liberalisation and economic performance of developing countries, points to the uncertainty of possible outcomes, especially given the unclear estimates of the impact on the balance of trade and of payments. One set of uncertainty stems from the possible excessive import growth in contrast with the more modest export growth which has fundamental policy implications, especially for the balance of trade and balance of payments. In deed, in a successive study (see Santos-Paulino 2007), trade liberalisation is shown to have greatest effects in terms of import growth than of export growth. In which case, if the African countries are to benefit from EPAs as classic RTAs, the issue of the sequencing of the liberalisation of exports and imports must be taken seriously. As Santos-Paulino (2007) urges, import liberalisation should be combined with the effective measures designed to improve competitiveness and to promote

exports. If there will be no appropriate combination of domestic policies and liberalisation – both trade and financial- then balance of payment difficulties could leave the African countries worse-off.

Feenstra and Kee (2007) does however maintain that while the static gains from trade liberalisation have been widely studied and documented to be relatively small, the dynamic gains due to the expansion of export variety may well be more important. By comparing the average variety within each industry in Mexico before and after 1994, the year when the country joined the NAFTA which substantially lowered its tariffs to the US and Canadian markets, the authors found out a rise of 5.2 % in the agriculture industry up to 21.4 % in the electronics industry. This might therefore imply that there is potential for export variety to evolve in the African economies even in EPAs that look as classic RTAs in a similar fashion to NAFTA.

Brown et al. (2005), provides some evidence on what the African countries could possibly expect with EPAs that are classic RTAs. Brown et al. (2005) analyses the effects of the bilateral agreements the US signed with Central America, Australia and Morocco, using the Michigan model of World Production and Trade covering 18 economic sectors. Given that the US applies the same framework to negotiate all its FTAs, and also noting that this negotiating template has much similarity to the EU framework as seen in the interim EPAs, the study shows that in all the three cases the effects in terms of global welfare are negligible. The results indicate that the bilateral removal of protection has led to welfare gains both for US and Central American countries (CAC) and Morocco. In particular, in the Central American Countries there were sizeable percentage increases in output in textiles, wearing apparel and leather products and footwear, sectors in which the CAC countries are said to have a comparative advantage. In Morocco however, there is evidence of a small reduction in exports of agricultural products and leather products while there are increases of three percent in the export of manufactures and of 4.7-21 percent in services. This reflects a similar trend in domestic production. On the other hand, Morocco's imports have increased in all sectors except metal products, with the largest increases in services. By contrast, there are negligible percentage changes in US import and exports, as well as in sectoral employment. The study notes that such effects of the bilateral elimination of barriers on agricultural products, manufactures and services are seen to be fairly small, given also the small size of the existing trade between US and Morocco.

Deep regulatory frameworks reforms will possibly be based on EU template

Maur (2005) provides a good overview about both the pros and cons of signing an EPA as classic RTA for a developing country. On one side, developing countries face obvious advantages in upgrading their existing regulatory framework along a European template. This is a proposition that the EU has underpinned in most of its discussions on the possible results from the EPAs. This is because the EPAs can help the African countries cope at a lower cost with market failures (competition, technical regulations, intellectual property rights and trade facilitation). A regulatory policy framework agreed in an EPA can also reduce the transaction costs duplication, by having one set of identical rule. Similarly, EPAs are seen to have a capacity to enhance prospects of market access by conforming in the domestic market to rules the EU requires on imports. Finally, EPAs can facilitate negotiations by adopting identical instruments to Europe.

On the other hand, Maur (2005) argues that there is pervasive evidence that entering into such agreements with Europe comes with, sometimes significant, limitations on the choice of trade policies. Firstly, the EU is exporting its model of regional integration to all RTAs' partners by using conditionality and imposing prescriptions to ensure that the objective of South-South integration is respected. And as already argued above, regional integration should help to stabilize individually fragile neighbours by associating them more closely, promote regional stability and reduce trade diversion. The problem is that EU is not only promoting South-South RTAs but also seeking to shape them, by dictating the form of regional integration, indicating the members, offering prescriptions regarding the content of the sub-regional initiatives, just like the interim EPAs have shown. In retrospect, the Cotonou agreement five 'building blocks' for the negotiation of the South-South regional agreements⁴ would lead to an outcome similar to other EU RTAs.

Secondly, all the RTAs signed by the EU provide for a consultation mechanism which entitles EU (through the contentious MFN clause) with the possibility influencing the trade policy developments taken by the partners, in particular relating to the signing of RTAs or customs unions with other countries. Moreover, most of the standards and of the border measures imposed by classic RTAs are so complex to be unbearable by developing partner countries. Those which face severe institutional constraints are so prevented from engaging in different RTAs simultaneously, with the consequent fragmentation of liberalisation efforts and the decrease of marginal returns from bilateral liberalisation. And as ECA (2008) implies, the EU is making use of its bargaining power to influence the

⁴ The 5 building-blocks are: liberalisation of trade in goods; services; trade rules; competition policy and state aid; regional policies on intellectual property, investment, procurement, labour, consumer rights and environment.

membership of RTAs among the African countries. Indeed, the EPAs are biased by a strong power asymmetry, fed also by the complex and non-transparent regulatory measures. For example, the unification of rules of origin will reduce transaction costs but will also generate significant information asymmetries that favour the European private productive sector, which has a better knowledge of production and supply processes in each industry.

Regional integration might help assure some of the limited benefits

Even with EPAs as classic RTAs, the African countries may still have some chance to reap some benefits, albeit minimal, compared to a situation where the EPAs were development tools. As Maur (2005) argues, the extent to which European influence applies is dependent upon the status of development, economic strength and dependence on European market access. This was the case in countries like Mexico, Israel, Egypt or South Africa that have retained more flexibility than others. Therefore, to take Stevenson et al. (2008) discussions, if interests among countries within a region differ, an EPA might for instance include varying degrees of commitment on trade in services and trade-related issues.

Perez and Karingi (2007) give an exhaustive pictures of all concerns raised for African economies by the creation of FTAs between EU and the ACP countries, as the present EPAs are. In theory, the EPAs should benefit the ACP countries, which can maintain the preferential access of Lome (with the commitment to reciprocate) and benefit further from the cuts in domestic tariffs as well as from the underlying economic reforms. As a result, the ACP consumers would enjoy price cuts and the most efficient ACP firms may improve their integration in the global supply chain.

Nevertheless, the general equilibrium model developed by the two authors show that EPAs might not foster economic reforms, nor reinforce economic certainties and governmental credibility, as they are usually associated with major negative economic and social effects. First, EPAs will potentially create highly asymmetrical gains between African and European producers. Secondly, local and regional producers may lose significant market share to the benefit of their European counterparts, resulting in a decline in output and shrinkage in intra-African trade. Thirdly, as already indicated the adjustment costs would be even more unbearable given the inevitable loss of customs revenues currently derived from European imports. Fourthly, tariff reductions may not induce a decrease in prices in the ACP countries, due to their narrowness and the high transaction costs, which limit the substitutability among import sources and may induce the European exporters to increase their margins rather than cut their prices.

Taking all this into account, and if the EPAs remain as classic RTAs, then Perez and Karingi (2007) conclusion that it is important to reshape the EPA initiatives, allowing a large level of asymmetry between European and African commitments, the duty-free access to all African imports to the European market, and putting the integration of the intra-African markets as a prerequisite for the implementation of the EPAs will not be feasible. Kirk and Stern (2005) show the limits and the risks involved in engaging in external bilateral agreements without having consolidated regional integration, first. They focus especially on the new Southern African Customs Agreement signed on October 2002. Such agreement has opened new possibilities for a range of new SACU bilateral agreement, involving both EU and US. According to the authors, this can contribute towards but also require much closer integration within the SACU. Notably, the Trade and Development Cooperation Agreement between South Africa and the EU, provides for the establishment of a free trade areas between the two signatories. Other members of SACU members have the interim EPAs. While these developments might help to cement SACU as a unified trading bloc, Kirk and Stern (2005) notes that they might impede the efforts to integrate the members of SACU with other regional trade agreements.

And there are lessons from the European integration which is the world's most successful regional integration experience by far. Its experience could inform the EPAs future results. There is caution however according to Baldwin (2008) who posits that the world has little to learn from the EU in terms of deepening economic integration, as the EU started its life in circumstances unimaginable in today's world and the adoption of a similar degree of supranationality is impossible to apply in African or America's countries. This notwithstanding, the lessons from the European experience are first of all that it is more important to get the regional integration started than it is to agree in advance all the integration steps that will follow. The integration itself will change the political economy forces in each nation, in a way that will make deeper integration easier.

Moreover, as far as the widening of the integration is concerned, the European experience show that the key element of success is designing not a matrix of bilateral deals, but a coherent system according to which when one joins a FTA, one automatically grants and gains free trade access to all existing members. Such all-or-nothing proposition reinforces the domino effect and makes enlargement easier. In this regard, EFTA foresaw a common set of rules of origin and accumulation, reducing the difficulty of negotiating the entry of new members.

Exploiting comparative advantages will be crucial to being competitive

The case of the ASEAN-China FTA provides some general insight on how African countries can maximize benefit in a classic RTA with a more developed country, which presents enormous economic opportunities as well as serious challenges (see Tengzon 2005). In the specific case, the same structure of exports (apparel and textiles, vegetable products, base metal and metal products and mineral products) means greater competition in both domestic and third-country markets. Whether ASEAN countries can win such competition and benefit from China's largest market depends on their competitiveness relative to China and their ability to gain entry or improve their share in the Chinese market. Surely, there would be readjustment costs in those industries where the ASEAN countries have no competitive advantage against China. However, China has a competitive disadvantage in all its major imports, particularly raw materials and industrial components as well as food and agricultural products. ASEAN countries can tap into this potential, even though they have to face the competition of the more advanced countries, which have already established trade link with China. ASEAN can also benefit from service sector in China (tourism, banking, insurance, accounting, professional services, medical and educational, transport).

The general conclusion is that to fare better in competition with a more developed country partner in a trade agreement, developing countries should focus most of all on the specific product areas where they have significant advantages. The main goal should be to improve product and service quality, efficiency and reliability. This implies moving to higher-value products, developing own specialties and niches and the skills of own human resources and level of technology. Secondly, they can improve their cost competitiveness by compensating the wage cost disadvantage with other aspects of the production and distribution process, such as improvements in transport, delivery and bureaucracy.

Adjustment costs should determine policy sequencing

Bond (2008) analyses the role played by adjustment costs in determining the best way to structure an agreement between two countries when there are multiple sectors to be liberalized also provides useful insights in a situation where the EPAs are classic RTAs. His conclusion is that a sequential liberalisation of trade must be preferred in the case of high adjustment costs. Indeed, sequential agreements are more likely to be self-enforcing, as once resources are moved, countries will rarely deviate from the agreement in sectors that have already been liberalized. This approach to sequencing of trade agreements also yields predictions about which types of sectors are more likely to be liberalized first. Those where deviation incentives are low will be liberalized before the others. The existence of spill over effects between sectors creates two additional motivations for sequential liberalisation. One is the existence of congestion in the

adjustment process, which would lead to greater adjustment costs when the two sectors are liberalized simultaneously. The other is the existence of complementarity in the deviation gains across sectors, so that liberalisation in one sector raises the return to deviation in the other sector, then sequential liberalisation will be more attractive because it reduces the payoff from deviation.

Being North-South FTAs deepening South-South Cooperation will help

Fugazza and Vanzetti (2008) provide important results on what one could expect in terms of potential gains from liberalisation of South-South trade when compared with the impacts of developed countries opening their markets. Despite previous studies, according to which the production patterns in Southern countries induced by the trade agreement are unlikely to correspond to their true underlying comparative advantage, the results of authors' simulation suggest that there are significant potential gains from South-South trade liberalisation. In terms of exports, the gains in export revenues from South-South liberalisation far exceed the benefits of further access to Northern markets, as well the benefits from regional integration. But most importantly, the main differences between North-South and South-South liberalisation are however in terms of production structure. Looking at the developing countries as a group, production in agricultural goods increased in the scenarios under study, but it is more than 10 times higher when access to Northern markets is liberalized. Moreover, production in manufacturing goods falls for all developing country groups including Asian countries in the North-South liberalisation scenario, while it increases or decreases in the case of SSA countries in the South-South scenario.

Nevertheless, Fugazza and Vanzetti (2008) recognize that regional agreements among developing countries should face the great limitation deriving from the fact that the economies are not so different and that the potential gains from differing relative factor endowments and costs are not forthcoming. For individual developing countries, obtaining further access to developed countries' markets is particularly beneficial if preferential access is obtained, but this at the expense of other countries that are shut out

Another problem arising from the establishment of North-South cooperation agreement is underlined by Adam and Moutos (2008). The paper evaluates the trade effects of the EU-Turkey customs union agreement of 1995. They found that the salient features of the EU-15 countries and Turkey are conducive to making the effects of the EU-Turkey custom union, signed in 1995, asymmetric. In particular, the more contiguous an incumbent country is to the joining country in terms of technological sophistication, the larger will be the crowding out of this country's exports to the other incumbent countries as a result of the custom union

expansion. After the signing of the agreement there was a reduction in exports of the southern group (EU countries with the lower level of technological sophistication) to the rest of the EU-15. By contrast, the effect on the exports of the northern group to the rest of the EU-15 has been economically negligible and statistically insignificant. The increase in the Northern group's exports to Turkey was equal to the corresponding variable for the southern group.

But job displacements amid declining wages should be expected

In all RTAs, a greater attention should be paid to the short-term consequences of trade reform for employment structures across industries and industry wages. In this regard, Goldberg and Pavcnik (2005) analyses for the case of Colombia, which in 1985 started a gradual, trade reform involving all the sectors of the economy, especially the manufacturing sector is interesting. The removal of trade barriers was reflected in trade volumes, so that between 1984 and 1994 all industries experienced an increase in import penetration, with the largest absolute increase in transport equipment, professional and scientific equipment, electric machinery, industrial chemicals and textiles. The reduction by 40 percentage points of the manufactured tariffs from 1984 and 1994 led to bigger declines in relative industry wages in sectors that experienced bigger tariff cuts. Nevertheless, such trade shocks to large industries were not accompanied by a labour reallocation from the industries with the largest declines in tariffs to the industries with the smaller tariff reductions. Apart from the rigidities of the labour market in Colombia, this fact can be explained by the non captured labour movement across firms within an industry. It is however plausible that when developing countries open up to trade, they change their product mix within industries in response to new exporting opportunities and/or increased foreign competition.

Consumption benefits will be unevenly distributed in society

Beaulieu et al. (2005) underline the fact that, while free trade may result in aggregate consumption gains, these gains are not necessarily distributed among the members of the society. Indeed, it is possible that certain groups will be worse off in a situation of free trade than in an autarky or restricted trade situation. This calls for proper analysis and redistribution policies. The authors in particular take into account 17 countries in Latin America, finding that skilled workers are more likely than unskilled workers to support trade and this difference is statistically significant if all the 17 countries are taken into account together. While considering country by country, such difference is statistically significant only in 8 countries. Indeed, empirical results show that unskilled workers are not more supportive of trade even in the most unskilled-abundant Latin American countries, apparently in contrast with the Stolper-Samuelson theorem.

Conclusion

This paper has looked at what the interim EPAs offered the African countries vis-à-vis the expectation of the African countries based on their understanding of the principles of the Cotonou Agreement. The analysis of the interim EPAs suggest that the template used by the EU, contained a built-in agenda that is informed by the global best-practices in establishing classic RTAs. In which case, the comprehensive EPAs are likely to contain provisions more in line with the EU international trade policy. The paper has then looked at the evidence of existing RTAs and indicated what the African countries should expect. With these expectations, the African countries awake to the reality that in order to benefit from EPAs that are essentially RTAs, more is expected from them in terms of assuring the benefits that developmental EPAs could provide.

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