
Beyond Cotonou: Economic Partnership Agreements in Africa

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Lawrence Hinkle, Mombert Hoppe, and Richard Newfarmer

In 2000, the Cotonou Agreement between the European Union and the former colonies that make up the Africa, Caribbean, and Pacific (ACP) countries laid out the framework for a new trade and development relationship, called Economic Partnership Agreements (EPAs). The trade component of the 1975 Lomé convention, which offered ACP countries preferential access to EU markets, discriminated against other developing countries and thus was not WTO-compatible. (Lomé had been sustained only because other WTO members granted two waivers on the understanding that its preferences would be phased out.) Cotonou laid the basis for new, reciprocal, and WTO-consistent trading agreements between the European Union and six groupings of ACP states by 2008, the date of expiration of the waiver. The EPAs would replace the Lomé system of unilateral trade preferences with more comprehensive, modern, free trade agreements that would be legal under Article XXIV of the General Agreement on Tariffs and Trade (GATT).

The negotiations, proceeding fitfully but with increasing intensity for three years, have propelled to the surface serious concerns about the design of EPAs—among them loss of tariff revenues and diversion of trade and development resources, the latter because of commitments on the so-called Singapore issues.¹ Indeed, a poorly structured EPA could undermine development for all countries in the ACP group. At the same time, they also represent an opportunity for the ACP countries to harness the power of the trade negotiations to promote their internal regional development and gain additional access to European markets. To capitalize on that opportunity, however, both the ACP countries and the European Union will need to take steps to create a pro-development EPA. The ACP countries must develop negotiating strategies to harness the EPAs to their domestic reform program; the European Union must be willing to provide greater market access through nonrestrictive rules of origin, to expand “aid for trade,” and to defer its own preferences in ACP markets until important MFN liberalization has occurred in the regions.

Recasting the EU-ACP trade and development relationship

The ACP countries have enjoyed a special relationship with the European Union for half a century. Since 1963, two Yaoundé and four Lomé conventions (I–IV) granted preferential access to the European market. The Yaoundé conventions dealt with development assistance through the European Development Fund (EDF), whereas the Lomé conventions introduced preferential trade access for ACP

countries to the (expanding) European Union. The Cotonou Agreement broadened the relationship between the two groups of countries by strengthening the political and development dimensions.

The EPAs are intended to replace the European Union's present unilateral preferences with the ACP group with six reciprocal free trade agreements. Taken together those agreements will constitute a comprehensive approach to development (including aid for trade), covering trade in goods and services, investment, competition, trade facilitation (the four Singapore issues), and some aspects of intellectual property rights. They will allow for some differentiation between LDCs and non-LDCs, primarily during the phasing-in of reforms of external tariffs and other regulatory measures. To be consistent with WTO Article XXIV, the preferential free trade agreements are to be based on the principle of reciprocity in "substantially all trade," which, although nowhere defined, is widely understood to mean about 90 percent of the current bilateral EU-ACP trade flows.

The division of the 79 ACP countries into six negotiating groupings² was not based solely on negotiating convenience. The creators of the Cotonou Agreement saw the potential of forming larger regional units from states too small to produce many goods and services competitively. Larger units would also be able to provide the government regulatory services necessary to support growth. (The average population of the nations in the ACP group was about 9.4 million in 2002, with a GDP of about \$5.6 billion.) The concept was to create "North-South-South" agreements linking the European Union, the world's largest customs union, with aspiring customs unions in the South. At the moment, all six groupings consist of partially overlapping free trade areas, customs unions, and nonaffiliated countries (table 1).³

Negotiating issues and obstacles

The negotiations will have to deal soon with five related sets of problems, the resolution of which will determine the effectiveness of any EPA:

- Poorly integrated regional markets for products.
- Regional groupings with varying levels of MFN protection, and tariff peaks.
- Losses in tariff revenues associated with EPA agreements.
- Unintegrated—and in some cases unliberalized—services markets, and the Singapore issues.
- Infrastructure and aid for trade.

Regional integration of product markets

Within Sub-Saharan Africa, intraregional trade is limited. Only 15 percent of merchandise exports go to other countries in the region, and only 10 percent of merchandise imports originate in the region.⁴ Even though regional agreements have proliferated, significant barriers to trade remain, mostly because of imperfect implementation of agreements, high border costs, restrictive rules of origin even

within customs unions, and poor infrastructure. None of the four free trade agreements involved in the EPA negotiations has unimpeded commerce among its members.⁵ The existing customs unions are far from perfect; all, save the South African Customs Union (SACU), still collect tariffs on internal trade and maintain other barriers to intraregional trade. Moreover, agreements on the reduction of intraregional barriers—as well as on implementation of common external tariffs (CETs)—are rife with product exceptions and long “transition” periods.

Other internal barriers stem from the absence of common standards and systems of certification and from inconsistent (and inconsistently applied) tax policies. An important internal agenda includes reaching agreement on product standards, mechanisms to ensure compliance and resolve disputes, mutual recognition of trade policies, and adopting internally consistent rules of origin. All are prerequisites for effective regional integration.

Crucial role of MFN tariffs

The average tariffs of some countries of Sub-Saharan Africa are still two to three times higher than tariffs in the most competitive developing countries. Furthermore, because of (often prohibitive) peak tariff rates in many countries and the proclivity to apply these rates to *all* imports that compete with domestically produced goods, the protective effects of tariffs in the region are substantially greater than average tariff rates suggest. High levels of protection mean that the European Union retains market share despite higher costs—because of preferences.

Moving toward a CET is difficult in any political context—especially where large differences in applied tariffs exist among members of the group. In the Eastern and Southern African Region (ESA) group, average tariffs range from Madagascar’s 4.6 percent to more than 20 percent for Burundi, the Seychelles, and Sudan (table 1). While tariffs are relatively similar for most of the ECOWAS countries, Nigeria’s are nearly three times those of (Union Économique et Monétaire Ouest Africaine) UEMOA. Moreover, Nigeria applies several bans on imports.

Differences emerge even more starkly when one looks at the structure of the tariffs that protect different categories of goods. Nigeria’s and Ghana’s unweighted tariff averages in several categories are compared to those of the UEMOA countries in figure 1. On average Ghana’s tariffs exceed UEMOA’s by 1 percent, whereas Nigeria’s tariffs exceed UEMOA’s by 17.8 percent. Figure 1 also shows that relative protection (protection on a particular category relative to average protection) differs significantly between UEMOA, Nigeria, and Ghana, the three largest economies in ECOWAS. In the Caribbean, tariff rates in the Bahamas are usually much higher than in other countries (figure 2).

These patterns will complicate the introduction of a CET, for not only must average tariff levels converge, but the *structure* of tariffs must converge as well. Defining a common list of sensitive products to be excluded from the negotiations

Table 1. Tariffs in ACP countries by EPA constellations

	Simple average		Simple average
Central African Group		CARIFORUM Group	
CEMAC		OECS	
<i>Cameroon</i> , Central African Republic, Chad, Congo (Rep.), Gabon, Equ. Guinea	18.0	<i>Antigua and Barbuda</i>	9.6
		<i>Dominica</i>	9.9
		<i>Grenada</i>	10.5
Sao Tome and Principe ^{a)}	n.a.	<i>St. Kitts and Nevis</i>	9.4
		<i>St. Lucia</i>	8.9
		<i>St. Vincent and the Gren.</i>	9.8
ECOWAS Group		<i>Bahamas, The</i>	30.6
UEMOA		<i>Barbados</i>	13.1
<i>Benin, Burkina Faos, Côte d'Ivoire</i> , Guinea-Bissau, Mali, Niger, Senegal, Togo	12.0	<i>Belize</i>	10.5
		<i>Guyana</i>	11.0
Cape Verde	n.a.	<i>Haiti</i>	n.a.
The Gambia	12.7	<i>Jamaica</i>	7.2
Ghana	13.1	<i>Suriname</i>	17.5
Guinea	6.5	<i>Trinidad and Tobago</i>	7.9
Liberia	n.a.	<i>Dominican Republic</i>	8.5
<i>Nigeria</i>	30.0	Pacific Group	
Sierra Leone	14.9	<i>Cook Islands</i>	n.a.
Mauritania ^{b)}	10.9	East Timor	n.a.
		<i>Fiji</i>	7.3
		Kiribati	n.a.
		<i>Marshall Islands</i>	n.a.
		<i>Micronisia</i>	n.a.
ESA Group		<i>Nauru</i>	n.a.
EAC		<i>Niue</i>	n.a.
<i>Kenya, Uganda</i>	12.3	<i>Palau</i>	n.a.
Burundi	23.4	<i>Papua New Guinea</i>	6.0
Comoros	n.a.	Samoa	n.a.
Djibouti ^{a)}	30.8	Solomon Islands	22.2
Congo, Dem. Rep.	12.0	<i>Tonga</i>	n.a.
Eritrea	7.9	Tuvalu	n.a.
Ethiopia	18.8	Vanuatu	13.8
Madagascar	4.6	SADC Group	
Malawi	13.1	SACU	
<i>Mauritius</i>	18.4	<i>Botswana, Lesotho,</i>	11.4
Rwanda	17.4	<i>Namibia, Swaziland, South</i>	
<i>Seychelles</i>	28.3	Angola	8.8
Sudan	24.5	Mozambique	12.1
Zambia	14.0	Tanzania (also EAC)	12.3
<i>Zimbabwe</i>	16.4		

Note: Names of least developed countries are printed in roman type; non-LDCs are in italics.

a. Sao Tome is not a member of CEMAC.

b. Mauritania is not a member of ECOWAS.

Source: UNSD COMTRADE and UNCTAD TRAINS data for most recent years available, except as follows. Data for Djibouti, Fiji, Guinea, Rwanda, and the Solomon Islands are from WTO IDB. Data for The Gambia, Sierra Leone, and South Africa are from WTO Trade Policy Review. Data for Kenya, Tanzania, and Uganda are from EAC Secretariat.

with the European Union will involve complex negotiations because protection differs from country to country.⁶

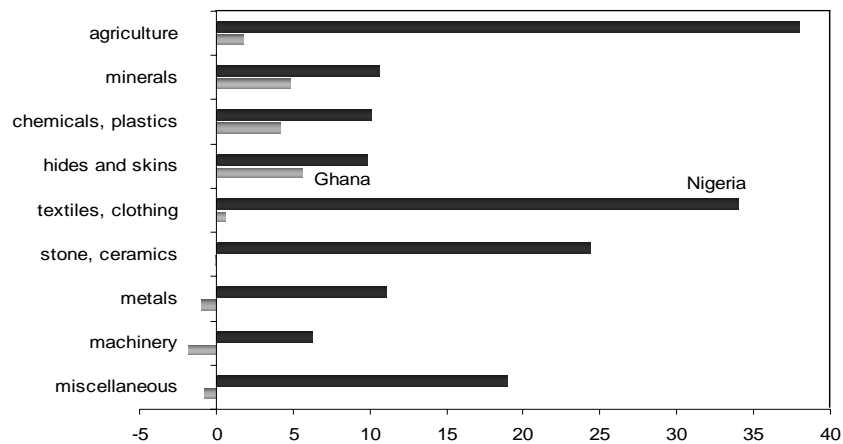
Falling tariff revenue

Tariff revenues average 1 percent of GDP and 7–10 percent of government revenue in Sub-Saharan Africa, a heavy level of dependence. A few governments (including those of The Gambia and Cape Verde) count on tariffs for up to 20 percent of their revenue.

With EU products representing 40 percent of total imports in the region, eliminating all tariffs on EU imports would considerably lower tariff revenues—in some cases by as much as 15–20 percent of government revenue. The net effect on budgets depends on the change in import structure and some additional factors. Trade diversion from external to EU suppliers would further increase the loss of tariff revenues, as the share of EU imports is expected to rise by 9 percent in the median West African country (Busse and others 2004).⁷ Revenue losses as a share of total government revenue in West Africa would be 5 percent or less in five countries, 5–10 percent in another five, and 10 percent or greater in four (Busse and others 2004). Expected revenue losses differ by region. In SADC they would be less than 2.5 percent of total government revenue; in East Africa, between 0.7 and 11.8 percent (table 2).

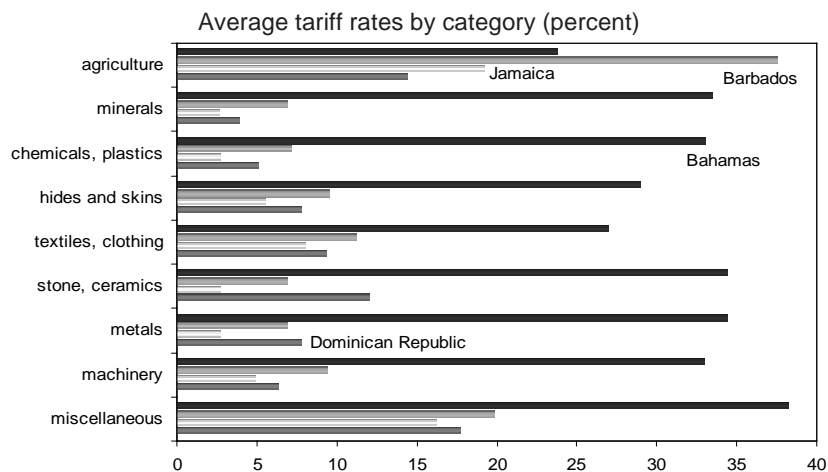
Figure 1. Nigeria's tariffs are higher than Ghana's or UEMOA's

Percentage point difference in average tariff rates compared to UEMOA



Source: UNCTAD TRAINS data base accessed through WITS; World Bank staff calculations.

Figure 2. Tariff peaks differ in CARIFORUM



Source: UNCTAD TRAINS data base accessed through WITS; World Bank staff calculations.

Although significant for a few countries, the revenue loss problem is easily overstated. First, the granting of tariff exemptions is widespread in Sub-Saharan Africa. Eliminating those exemptions would limit revenues losses. Busse, Borrmann, and Grossmann (2004) find that on average tariff collections are 70 percent or less of potential tariff revenues for ECOWAS countries; collection efficiency was below 30 percent in Ghana and below 40 percent in Guinea-Bissau. These figures suggest that improvements in tariff administration could dampen the effect of reduced tariff rates. Second, the revenue effect of eliminating tariffs on imports from the European Union could be limited by excluding from preferential liberalization those imports for which the tariffs yield the most revenue. Third, to the extent that countries do not currently levy value-added tax (VAT) and excises on imports, they could impose them (or improve the administration of existing taxes or raise them). Fourth, the implementation period of the EPAs is likely to be 12 years or longer; with assistance in the form of aid for trade, there should be a reasonable amount of time for strengthening other components of the public revenue system to offset reductions in tariff revenues. Finally, the transition from a revenue system heavily dependent upon tariffs to one that is more broadly based and diversified is a necessary step for all countries integrating into the global economy. The aid for trade component of the EPAs could provide the opportunity to make the necessary transition with greater technical and financial assistance than is normally available.

Botswana are 300 percent higher than in South Africa. Access to telephone services remains low, with the number of mobile phone subscribers averaging 58 per 1,000 inhabitants in 2002 (and ranging from 0.2 in Niger to 447 on the Seychelles).

Regional integration can help overcome these problems. In some regions, markets are too small to realize full economies of scale in network services and their regulations. Already the ECOWAS countries, for example, are exploring a power pooling arrangement. Second, regions can establish a regulatory framework that allows for greater potential competition, with positive effects on prices and efficiency. But implementation of regional programs has been fitful. EPAs, properly designed, might help bring them to fruition.

Related to services, the Cotonou Agreement envisages that investment, competition, transparency in government procurement, and trade facilitation—the so-called Singapore issues—will be included in EPAs. Trade facilitation is broadly accepted, but there is little agreement yet between the European Union and the ACP countries on how to approach the other three in the EPA negotiations. Several governments in Africa have taken the position that because they have been dropped from the global agenda, they should also be left off the EPA agenda.

Infrastructure and institutions: aid for trade

A significant constraint to export expansion evident in all diagnostic studies of the ACP countries is the inadequacy of roads, railroads, ports, and trade-related institutions. These inadequacies saddle exporters with high costs of inputs, high transport costs, and costly delays in reaching global markets. Increased donor development assistance can alleviate these supply-side constraints.

The European Union has pledged an additional €300 million annually in aid for trade, bringing its annual giving to €1 billion. However, it has steadfastly insisted that additional assistance should not be discussed in the EPA negotiations for fear of turning a discussion of policies into a negotiation over money. While this concern is understandable, the tactic has left negotiators from the EPA groups with diminished incentives to engage in the process and without the certainty that an EPA agreement will contain provisions to address supply-side constraints.

Risks of a poorly structured EPA—and alternatives to an agreement

Because tariffs are relatively high and internal barriers within groupings still prevalent, enacting EPAs without prior action on these issues could result in a hub and spoke pattern of trade integration, trade diversion, and, in a worst-case scenario, net losses of income. Karingi and others (2005) estimate that the amount of trade diversion would be significant if undertaken without modifications to existing MFN tariff structures even though, on balance, more trade would be created. (The authors point out that their estimations are partial and exclude services, so the results must

be treated with caution). Without action on external and internal barriers, giving EU firms preferential access to ACP markets could well divert trade to EU producers from more efficient producers based, say, in Asia, nearby African countries, and even the United States. If there is insufficient competition among EU suppliers, liberalizing trade with the European Union might not lead to lower consumer prices but rather to a transfer of tariff revenue to EU producers. This risk is aggravated by the fact that many national markets in Africa are small and costly to reach. Competition for such markets, which are often dominated by a single external supplier, is not likely to increase after the implementation of the EPAs. Therefore, in cases where external tariffs are still high, ACP countries will need to reduce those tariffs on an MFN basis before implementing preferential reductions in tariffs on imports from the European Union.

Out of 46 African countries, 33 are least developed countries (LDCs) that qualify for preferences under the European Union's Everything But Arms (EBA) program. This initiative grants duty-free, quota-free access to the EU market, leaving the LDCs with little incentive to join the EPAs. For the non-LDCs, signing EPAs would *maintain* access to EU markets or increase it to include those products not covered by the Cotonou Agreement (a total of 919 tariff lines in sensitive sectors). Without an EPA, non-LDC countries would revert to GSP preferences, which generally have narrower product coverage and lower preference levels. The effect on economic growth when switching from Cotonou-type to the General System of Preferences (GSP), however, is not likely to be large for most non-LDCs. Hinkle and Newfarmer (2005) find that the value of the tariff savings under Cotonou as compared to GSP was substantial for only three non-LDC countries in 2002. Those values were 16 percent for the Seychelles (fish), 20 percent for Mauritius (sugar and knit garments), and 39 percent for Swaziland (meat). Moreover, because senior EU officials have indicated that no ACP country would see its market access reduced if the Cotonou preferences were to expire without an EPA being signed, the European Union may look for other ways to maintain open markets rather than revert to the GSP. Nonetheless, reversion to the GSP could inhibit diversification to the extent that new product exports did not automatically qualify for the GSP. If the alternative to concluding an EPA were simply a (temporary) return to GSP or EBA preferences, the ACP countries would lose relatively little in terms of market access.

However, if governments were to opt out of the EPA negotiation process, they would miss a potentially valuable opportunity to spur regional integration and to gain greater access to the EU.

A spur to regional integration—and integration with the world

An important contribution that EPAs could make to ACP development would be to spur adoption of policies that speed both regional integration and integration with the global economy. To achieve this objective, policy-makers in the various regional

groupings have to adopt a comprehensive strategy that harnesses the EPA process to domestic reforms needed to promote integration, improve competitiveness, and accelerate growth. This requires that the regional groupings work together in formulating programs of outward-oriented regional integration, and then forging this into a strategy that links these to the EPA timetable. This strategy would allow governments to lever domestic reforms to the cause of greater market access to the EU.

EPAs and market access

EPAs can offer ACP countries two important improvements in market access over the EBA-plus-GSP alternative: *more favorable rules of origin* and *certainty of access*. The European Union has long posited that the goal of the demanding rules of origin under both the Cotonou Agreement and the European Union's GSP (and hence EBA) is industrial development and integration in beneficiary countries. But two decades of restrictive rules of origin have not induced integrated industrial developments in ACP countries or contributed to more dynamic export performance. They have not led to the emergence of an efficient ACP-wide textile industry, despite the presence of cotton producers in the ACP group. Generally the penalty for using eligible inputs (lower quality, higher prices) often exceeds the benefits of EU preferences, while the small size of most ACP markets makes vertical integration uneconomic. Even when it is economically feasible to comply with the production requirements of the European Union's rules of origin, problems in proving origin due to weak customs controls and costly documentation requirements have stopped exporters from taking advantage of preferential access. As a result of this and other factors, exports of ACP countries have remained concentrated in few, mainly unprocessed products.

If EPA groups could obtain *more favorable rules of origin* under EPAs, they could markedly improve their access to the EU market. Moreover, even the prospect of change would encourage both LDCs and non-LDCs to pursue EPA negotiations, since less restrictive rules could, among other things, facilitate the export of clothing, as the U.S. African Growth and Opportunity Act (AGOA) has done. A uniform criterion of 10 percent value added—as proposed by the Blair Commission for Africa—or a simple change-of-tariff-heading rule could significantly increase export opportunities for ACP countries. Allowing global cumulation from all other developing countries, including ACP neighbors outside the EPA, would further spur exports.⁸

EPAs can also provide greater *certainty of market access* than can voluntary preferences. Enrollment of a product in the positive lists under the GSP is subject to periodic review and withdrawal, creating uncertainty that deters the private investment needed to diversify export production in the ACP countries. Although EBA preferences last for as long as a country remains an LDC, successful exporting

countries can, as experience has shown, quickly graduate from LDC status and thus to the less favorable GSP.

Eight elements of a pro-development EPA strategy

To realize these twin objectives of accelerated integration and greater market access to the EU, a pro-development EPA could be structured around the following eight elements, all fundamental to the development strategies of the countries involved:

- *A 10 percent value-added rule as a nonrestrictive rule of origin.* If the value-added requirement is higher, cumulation rules should be global to allow ACP producers maximum access to the world's lowest-cost inputs and to avoid putting regional suppliers outside the EPA group at a disadvantage.
- *Additional aid for trade.* This should take the form of a program of technical and financial assistance for trade facilitation, sanitary and phytosanitary standards, and other supply-side measures (such as infrastructure). Putting additional aid for trade on the table as part of an EPA negotiation could increase the incentive of all countries to enter into an arrangement.
- *MFN reductions in external tariffs.* MFN reductions in external tariffs should be phased in, consistent with regional development programs.
 - Phases 1 and 2: Promote internal trade by progressively eliminating all internal barriers within customs unions and, for free trade agreements, adopt common nonrestrictive rules of origin.
 - Phases 1 and 2: Reduce MFN peak tariffs to the average levels to promote intra-African and other efficient trade with third parties.
 - Phases 2 and 3: Reduce to East Asian levels average levels of MFN tariffs within the EPA grouping.
 - Phase 3: Enact EU preferences. Making this the final step lessens the risks of trade diversion and hub-and-spokes development.
- *Reform of tax administration and intraregional tax policy.* A program to harmonize tax structures through gradual but purposeful reform of tax administration and intraregional tax policy would promote regional integration and replace lost tariff revenues. Such a program could complement tariff and customs reforms at the regional level, with support through new aid for trade.
- *Liberalized trade in services.* A phased, region-specific program of services liberalization could expand access to efficient trade-related services, such as telecommunications, electricity, and transport. To avoid entrenching monopolies, liberalization should be done on an MFN basis.
- *Trade facilitation.* A program of trade facilitation measures—for example, improvements in customs, ports, border posts—should be linked to intraregional programs to lower the costs of trading, with special attention to lowering the transit costs of landlocked countries. The program, a high priority for all regions,

should include specific benchmarks for implementation.

- *Temporary movement of persons.* The temporary movement of persons to supply services (mode 4 of the General Agreement on Trade in Services), although not part of the current EPA negotiations, may be easier to deal with in regional arrangements than in multilateral talks.
- *Rules on investment and intellectual property rights (IPR).* EPAs could include new IPR rules and rules on investment, but these should be calibrated in accordance with a region's capacity to implement them—and to benefit from them. Agreements could include competition policies consistent with national development strategies and in accordance with a region's implementation capacity.

Conclusion

The European Union and the ACP countries will have to work hard to achieve pro-development EPAs. Time is short, and much remains to be done. To succeed, the European Union must subordinate narrow commercial interests to its broader interests in supporting economic growth and regional integration in the ACP countries. It must be willing to provide greater market access through nonrestrictive rules of origin, to expand aid for trade, and defer its own preferences in ACP markets until important MFN liberalization has occurred there. Strong cooperation between trade negotiators and development experts of the EU would help to put development at the center of the EPAs and increase coherence of EU development policies. For their part, each EPA grouping must use the negotiating process to put forward internal reforms to promote their own competitiveness, regional integration, and growth, and to be willing to lock-in a program of implementation consistent with its own development priorities and pace of reform.

Notes

1. Investment, competition, transparency in government procurement, and trade facilitation have become known as the "Singapore issues."

2. Four of the ACP countries, Cuba, East Timor, Somalia, and South Africa, will not sign any EPA agreement.

3. There are some still unresolved issues concerning the EPA country groupings, especially among the two groupings in southern and eastern Africa. Several countries are members of both the Common Market of Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC). Tanzania withdrew from COMESA in 2000 and elected to join the SADC EPA group. However, it also entered into the East African Community (EAC), a customs union with Kenya and Uganda, both of which elected to join the ESA EPA group. Unless the key provisions of the SADC and ESA EPAs turn out to be identical, Tanzania will either have to withdraw from EAC or switch to the ESA EPA grouping. The latter step is apparently under consideration and is strongly encouraged by the European Commission and the EAC secretariat.

In addition, South Africa's existing free trade agreement with the European Union complicates EPA arrangements in southern Africa. Four (Botswana, Lesotho, Namibia, and Swaziland) of the seven member of the SADC EPA group also belong to the South African Customs Union (SACU) along with South Africa. South Africa is not eligible for an EPA under the Cotonou Agreement because its economy is larger and more advanced than those of the other countries of Sub-Saharan Africa. However, the EU–South Africa free trade agreement applies de facto to the four other members of SACU, which share the SACU common external tariff with South Africa. That agreement cannot be amended without the consent of South Africa. It appears that special, ad hoc EPA arrangements will need to be made for the SACU countries.

4. Aggregated COMTRADE data, available through WITS.

5. The four are COMESA, SADC, the Economic Community of West African States (ECOWAS), and Central African Economic and Monetary Union (CEMAC).

6. An analysis of MFN tariff rates for Nigeria and the UEMOA at the six-digit level indicates that while the correlation of tariff rates is high (0.61), correlation of tariffs for those tariff lines where either of the two countries has an above-average tariff is very close to zero (–0.01)—and only 0.10 for those tariff lines where UEMOA exceeds its average tariff rate. This indicates that the two schedules protect different goods. Correlation coefficients for the protected tariff lines in the ESA grouping are very low, ranging from 0.14 to 0.7, with most around 0.5. The Seychelles have a particularly low correlation coefficient with all other countries, at about 0.25. Analysis of the SADC region leads to similar results. Tariff data for all countries is available for 4,618 six-digit tariff lines; correlation coefficients are 0.47 (Angola/SADC), 0.59 (Mozambique/SADC), and 0.52 (Tanzania/SADC). For the Caribbean, they are generally higher, with the exception of the Bahamas, which shows negative coefficients with all other countries. There are only 46 tariff lines where all countries have tariff peaks, while in 90 percent of all tariff lines at least one country has a tariff peak. In the four African EPA groupings, there is little overlap in high-tariff products that member countries wish to exclude from liberalization (Stevens and Kennan 2005). These divergences indicate that negotiations for the common list of products to be excluded for each EPA grouping will be tough.

7. However, lower tariffs will translate into lower consumer prices only if EU suppliers operate in reasonably competitive markets, an assumption that cannot be taken for granted. If consumer prices of imports from the European Union do not fall, the demand for nonpreferential imports will remain unchanged. In that case, trade diversion will not occur, and there will be no additional loss of tariff revenues.

8. For more on rules of origin, see “Enhancing Trade Preferences for LDCs: Reducing the Restrictiveness of Rules of Origin” in this volume.

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