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**ECONOMIC PARTNERSHIP AGREEMENTS:  
REDESIGNING TRADE AND DEVELOPMENT  
AMONG EU AND ACP COUNTRIES**

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Nicolò TOMASELLI

Abstract

The European Union is currently engaged in redesigning its trade relations with many of its partners in the Southern hemisphere. The present study assesses the economic implications of the negotiations of Economic Partnership Agreements between the European Union and ACP's regional groupings. These new trade arrangements, natural evolution of the Cotonou Agreements, represent an outstanding opportunity to favour the insertion of ACP countries into the world trade system and a genuine attempt to promote economic development and regional integration in developing world.

Is this project bound to fail? Which are the prerequisites to make it work? Which lessons can be drawn from empirical evidences?

## 1. Introduction

With a decision taken on November 14<sup>th</sup> 2001, the Ministerial Conference of the World Trade Organization (WTO) declared the extension of the waiver on article 1 of the GATT accorded to the trade relations between the European Union (EU) and the so-called African Caribbean Pacific (ACP) countries, to expire on December 31<sup>st</sup>, 2007.

The multilateral organisation ruled out the trade pattern between the two regions as non-consistent with WTO multilateral provisions and gave a transitional period of time to rearrange it in order to obtain a non discriminatory agreement and to redesign the preference based scheme that regulates the ongoing EU-ACP trade relations.

As a consequence, negotiations of several free-trade agreements have started between the European Union and various regional groupings within the ACP region. The so-called Economic Partnership Agreements (EPA) will be designed to substitute the trade provisions of the Cotonou Agreement and, in fact, they might be regarded as one the first attempts to realize 'inter-regional' trade agreements (eg. free trade agreements between two Regional Integration Organizations (RIO))<sup>1</sup>.

Given the integrated relationships that tie the world economy, the formation of EPAs appears as a appealing change in the relations between the European Union and a region, the African Caribbean and Pacific, that comprises more than 500 million people as a whole. The implications of this process are multifaceted, cross cutting and, to certain extent, unclear even to the principal stakeholders.

What are then, the principles behind the negotiations and the nature of the conclusions of EPAs ? Does the European Union offer represent a good deal ? What are the prerequisites to make these new agreements work for the development and insertion in the international trade arena of ACP countries and especially of the Eastern and Southern Africa region ? Results obtained in the following study try to give answers to these open questions and hopefully will provide some guidelines to help the reader have a better understanding of this complex issue.

The main goal of this essay is to analyse, from an economic standpoint, the ongoing EPAs negotiations. In doing so, the case of the Eastern and Southern Africa region will be considered, and specific attention will be focussed on COMESA countries.<sup>2</sup> Throughout an empirical analysis, the main strengths and weaknesses of the regions in concluding an agreement with the European Union are examined. On the other hand, regulatory issues like Technical Barriers to Trade (TBT), Sanitary and Phytosanitary (SPS) measures and Rules of Origin (RoO's) are taken into account in assessing the benefits of 'deep integration'.

The study is organized as follow: the following two sections review the concepts of trade preferences and define the main features of the Economic Partnership Agreements. Chapter two presents the methodology of the empirical analysis, chapter three illustrates findings, results and analysis. Chapter four concludes.

## 2. Economic Partnership Agreements (EPAs): the evolution of the Cotonou Agreement into a new North-South trade pattern.

Relations between the European Union and the African, Caribbean and Pacific countries have always been particularly interesting for several historical and economical reasons. Colonisation and decolonisation processes, huge natural resources, the economic and political instability and outward dependency of many ACP countries represent only some of the features of these long-lived North-South relationships.

### 2.1. Trade preferences

As a consequence of a long period of colonization, most ACP countries have maintained 'till today a very special trade regime with the European Union. The latter is commonly defined as a regime of trade preferences.

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<sup>1</sup> In this light, the Economic Partnership Agreements are also a mean to foster and reorganize the regional integration processes within ACP countries.

<sup>2</sup> Specific case studies are elaborated for Kenya and Mauritius and, at industry level, for fishery, and textile.

At present, the European Union grants non-reciprocal tariff preferences through three different mechanisms:

- duty-free market access to ACP countries under the Cotonou Agreement and its predecessors (from 1975).
- tariff preferences accorded in the framework of the EU Generalized System of Preferences (GSP) (from 1971).<sup>3</sup>
- total duty-free access, except for arms, accorded to all LDCs under the Everything but Arms initiative (from 2001).

Among those, the most relevant to the present study is the specific EU-ACP trade pattern, that was launched in 1975 with the first 'Lomé convention' and recently reformed under the so called 'Cotonou Agreement'. The latter provides the 77 ACP countries preferential access to EU markets in terms of non reciprocal tariff liberalization.

In other words, tariff reductions have been adopted only by the EU without imposing symmetrical reduction to ACP countries. Furthermore, the agreement includes a specific system of trade regulations and a different 'rules of origins'(RoOs) scheme, supposed to be easier than the one applied by the Generalized System of Preferences (GSP) provided under WTO.

The main attribute of these special trade relations between advanced and developing countries, and especially the EU-ACP ones, consists then in a unilateral process of trade liberalization aimed at facilitating the exports of the latter to the former.<sup>4</sup>

It should be already noted that this trade pattern is **not compatible with WTO principles**. More specifically with the first and most important one: the principle of 'non discrimination'. To provide preferential treatment to a partner country is implicitly to discriminate against third parties and trade disputes like the 'banana war', are well known examples of this economic argument.

Despite that, the European Union and ACP countries have been for long very keen to defend their preference-based scheme in the WTO arena. For more than twenty five years the different Lomé conventions have granted a privileged treatment to ACP countries. This willingness seems lost and the issue of WTO 'non-compatibility' is central with respect to the present evolutions.

Even being non-consistent with the basic principles of WTO, the asymmetric trade pattern regulated by the Lomé conventions and then by the Cotonou Agreement, has been considered for long as a good model of North-South trade co-operation. The main economic objectives behind tariff preference schemes can be summarized as: -increasing industrialization of recipients countries, -accelerating their rate of economic growth, -increasing their export earnings and -their level of export diversification.<sup>5</sup> The reality, on the contrary is not so clear cut and the more profound reason behind the ongoing reform is the **economic failure of the trade preferential scheme**.

Economic analysis tells us that only a limited number of ACP countries took advantage of trade preferences granted by advanced countries and few of them were able to really diversify their exports. During the latter part of the XX century, broadly all ACP countries, and especially the African ones, have been marginalized in the world trade arena. Their export share have been generally decreasing<sup>6</sup> and with respect to the EU, ACP market share has fallen from 6,7% in 1976 to 2,8% in 2000 (EuroStat, 2002). According to figures, in 2001 basically 65% of ACP countries exports are raw material and non processed agricultural products, around 70% of their exports are concentrated in only 10 goods (Eurostat, 2002). Although it enjoyed

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<sup>3</sup> GSP allows most advanced countries to apply some WTO non consistent treatments to Developing Countries (DC) and Least Developed Countries (LDC) in order to help them in filling the economic gap and take advantage of the international trade arena. This system is broadly based on trade preferences, but despite the trade provisions of the Cotonou Agreement, it is totally accepted by the WTO.

<sup>4</sup> Preferential schemes have been adopted also by USA, Canada and Japan. The former with the AGOA initiatives and the latter with a total liberalization of industrial import from developing countries.

<sup>5</sup> This broad policy objectives can be found in the declaration of the Cotonou Agreement, the AGOA legislation and the GSP scheme.

<sup>6</sup> The share of export of all ACP countries in world trade in 2001 is lower then 3% and excluding South Africa it decrease to a 1,7%. The dynamic path is a declining one, at least in the last decade.

preferences, Sub Saharan Africa has drastically lost its share in the EU market in the last decade, whereas East Asian countries, without preferences, have gained substantial market shares.

Leaving apart the perverse concept of preferences, whose incentives are sometimes heavily protectionist (Panagariya, 2002), the real problem with unilateral liberalization so far, seems to lie in their practical effectiveness: recipient countries cannot exploit their favourable position because of some constraints that make the utilisation rate<sup>7</sup> of preferences very low (Brenton, 2003). Even if these preferential initiatives are well-founded and should be maintained and strengthened, they appear to be a second best<sup>8</sup> tool in the achievement of the intended objectives.

Constraints reducing the economic value of trade preferences can derive either from the implicit economic environment of poor developing countries (supply-side constraints) or from technical and commercial requirements that erode the preference differential.<sup>9</sup> Furthermore, the coverage<sup>10</sup> of products is, most of the times, limited and quantitative restraints, such as import quotas, are imposed on imports of 'sensitive' goods (GSP and Cotonou).

With this in mind, it is worth recalling another argument taken into consideration when approaching EPAs. The broader worldwide trade liberalization pushed by the WTO and the massively increasing number of Regional Integration Agreements (RIA), has produced a worldwide process of liberalization and consequently a **real erosion of the preference price differential**, at least in terms of tariffs. Presented the other way around, most of the commodities traded by developing countries have already duty-free access in advanced country markets under the WTO and their GSP scheme.

Along with WTO compatibility then, the failure of trade preferences in boosting industrialization and economic development and the extent of the real erosion of preferences can be regarded as others main causes for Economic Partnership Agreements to come into place.

## **2.2. Economic Partnership Agreements (EPA)**

Tariff preferences didn't enable recipient countries to foster their insertion in the international trade arena, they are incompatible with article number one of WTO Agreements and furthermore the scaling down of worldwide trade tariffs is producing a real erosion of the preferential benefit they used to provide.

The aim of the present section is to analyse the main factors pushing EU and ACP countries to sit at the negotiation table and at the same time to investigate the major features and technicalities needed to make the agreements work properly. The next two paragraph concern the political economy dimension of EPA (regional integration, reforms 'lock-in' and development co-operation), while the latter deal with key technical aspects (asymmetry, rules of origin, technical barriers to trade and deep integration).

Nevertheless, the main problem faced by this analysis is that Economic Partnership Agreements, as someone said, are a 'moving target'. The project of building up new trade relations between the European Union and ACP countries is a process that evolves within the framework of changing WTO rules, EU enlargement and regional integration processes within the ACP region. Trying to analyse it and assess the implications of EPAs on a broad scale is a very difficult task (to some extent unattainable). The present study will then, **focus on the case of Eastern and Southern Africa**, a region that is moving quickly, even if not easily, towards a good level of regional integration.<sup>11</sup>

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<sup>7</sup> 'Utilisation rate' must be intended as the share of export value that requested preferential access with respect to the export value which were eligible for preferential access (e.g. MFN not equal to 0).

<sup>8</sup> See: 'Lipsey and Lancaster (1956)' for considerations on the concept of 'second best' with respect to trade policies.

<sup>9</sup> It seems, for example, that the cut-flowers industry flourished in some African countries also because, on the contrary of other main industry, the EU does not have a strict SPS policy in this sector.

<sup>10</sup> 'Coverage' must be intended as the share of tariff lines that enjoy a preferential treatment with respect to the total number of tariff line.

<sup>11</sup> The process takes place in the framework of the three main RIOs: the Common Market of East and Southern Africa (COMESA), the East Africa Community (EAC), the Southern Africa Development Community (SADC).

### 2.2.1. Regional integration and the 'lock-in' effect

In 1998, the European Union and ACP countries signed a new co-operation treaty: the so-called 'Cotonou Agreement'. Economic Partnership Agreements are an integral part of the latter.

Article 37 (7) establishes that:

*'Negotiations of the Economic Partnership Agreements shall aim notably at establishing the timetable for the progressive removal of barriers to trade between the Parties, in accordance with the relevant WTO rules. On the Community side trade liberalisation shall build on the 'acquis' and shall aim at improving current market access for the ACP countries through inter alia, a review of the rules of origin. Negotiations shall take account of the level of development and the socio-economic impact of trade measures on ACP countries, and their capacity to adapt and adjust their economies to the liberalisation process. Negotiations will therefore be as flexible as possible in establishing the duration of a sufficient transitional period, the final product coverage, taking into account sensitive sectors, and the degree of asymmetry in terms of timetable for tariff dismantlement, while remaining in conformity with WTO rules then prevailing' and that 'Economic and trade cooperation shall build on regional integration initiatives of ACP States, bearing in mind that regional integration is a key instrument for the integration of ACP countries into the world economy'.<sup>12</sup>*

With this declaration, the parties intend to develop their commercial relationship by building 'free-trade agreements' aimed at preserving the preferences accorded under the different Lomé conventions (the 'acquis'). The project promoted by the Cotonou Agreement aim at building up regional integration schemes between the EU and Regional Integration Organizations (RIOs) already present in the ACP region.

This process could be the response to the WTO 'non-compatibility' of the present preference scheme. The decisions of the WTO ministerial conference affirmed clearly that the architecture of this pattern of trade is no more sustainable and formation of the Economic Partnership Agreement can then be viewed as a necessary response to requirements of reciprocity and non discrimination. In this respect, one could think of EPAs as 'imposed' by the WTO.

On the other hand, analysing the process from a different perspective, it can be stated that EPAs arose from the autonomous decision of the European Commission to stop spending negotiating energy within the WTO to obtain a new waiver on article 1. This view is somehow interesting taking into account the willingness of the EU to move the agenda towards a regional dimension of world trade.<sup>13</sup> In this light, the overall objective of the European Union could be thought as one of preserving the preferential treatment granted to ACP countries while promoting regionalism *vis à vis* the (somehow stuck) multilateral system.

The explicit ambition of the European Commission is in fact, to conclude these particular agreement with regional groupings and not with single countries. This is the first milestone of EPA and has very important implications.

The vigorous attempt by the European Union to promote regional integration within ACP countries and to conclude free-trade agreements with these, is a very ambitious challenge, and its economical and political consequences are not really perceived. The European Union is clearly trying to use regional integration, especially the South-South-North (SSN) dimension,<sup>14</sup> to ease the smooth and gradual integration of ACP countries into the global economy. Despite the efforts, the exercise is far from being an easy one.

The level of economic development of the regions involved is very diverse and regional integration between dissimilar countries is notoriously bad performing. Notwithstanding what

<sup>12</sup> <http://europa.eu.int/comm/development/body/cotonou/agreement/>

<sup>13</sup> Between others, for a short and comprehensive analysis of the 'conflict' between regionalism and multilateralism, see Winters (2000)

<sup>14</sup> 'South-South-North' refers to the regional integration process linking regional groupings in DC with a Northern partner.



Heckscher-Ohlin's theory teaches us, economies with very different economic endowments and dissimilar production structures are historically poorly integrated. Over the incredible number of RIAs present in the world today, only a few are south-north agreements. One of the main reasons for this, is the uncertainty the Regional Integration Agreement's stakeholders felt about future benefits and losses<sup>15</sup> arising from the agreement itself. The distributive concerns about apparent gains and losses, and especially the needed compensations from the 'winners' to the 'losers', make free trade agreements between developing and developed countries particularly difficult to negotiate.<sup>16</sup> Another point is that even if the overall benefits arising from the integration of economies could be perceived by stakeholders, the relatively higher leverage of interest groups and political lobbies make the negotiation process extremely difficult (and the agreements arising from that not always a good one) (Ray, 1998).

Furthermore, the level of development of most ACP countries, and definitely that of the ESA region, is still too weak for them to fully liberalize their market. Even if the overall benefits of a (small) open economy are widely perceived,<sup>17</sup> fragile economic structures with weak institutional framework, lack of an efficient credit market and with little or no financial market are bound to be crushed by international competitors if 'opened' too suddenly. This point seems to represent a great concern for African stakeholders but the feeling is that EPA's are going to focus more on the South-South (SS) dimension and that a strong principle of 'asymmetry' will be fully part of the agreement (see infra). In this respect, it is reasonable to believe that the European Union has a priority to foster the integration process within ACP regional groupings and that it is ready to safeguard this from international competition.<sup>18</sup>

Presented in this latter way, the EPA project is a determined economic development exercise. Unique in its form, the S-S-N EPA model would be the catalyser to foster the lock-in of economic reforms, and thus the inflow of Foreign Direct Investment (FDI), and the development of new business opportunities. This process will occur through the well known channels of economic integration in the framework of regional groupings, now backed by a northern partner, the European Union. Here lies the new feature of these agreements. The EU is supposed to play the role of 'guarantor' and, at the same time, of provider of technical assistance and investments to sustain the integration process. (In this somehow positive light, EPAs have many chances to really foster and rearrange the regionalisation process into the ACP region).

One of the most striking facts about African (regional) trade liberalization, is that in many cases, they have reversed, either partially or wholly. In this light, the effectiveness of EPA in the lock-in of trade reforms, and hence in the achievement of credibility, and increased inflow of foreign investment, could and should be high.

The issue of credibility, especially in Africa, is strictly associated to the uncertainty about government policies, including trade policy, and the general macroeconomic performance and stability. Consequently it is also a major deterrent to foreign investment. With its commitment to deepen economic and institutional relations inside the region, and between itself and the EU, EPAs are intended as a policy commitment anchor.

Between the so-called *policy commitment arrangements*, a regional trade agreement like an EPA would be defined as 'hybrid'. This follows from the fact that EPAs are neither domestic credibility anchor (eg. independent central bank), nor external or supranational agreements (eg.

<sup>15</sup> Gains and losses in the framework of regional integration can be summarized as: expansion of the export sector, enlarged market and benefit coming from the exploitation of scale economies, increased competitiveness, FDI, signalling and enforcement of internal reforms, reallocation of resources due to trade creation and trade diversion, phase out of NTB and commodity protocols, agglomeration effects, fiscal revenue loss, etc.

<sup>16</sup> Note that the ex-post benefits could be clear to everyone but the ex-ante uncertainty (and not 'risk aversions') make the agreement/reform fail. For an analysis of the perceived gains and loss of a trade reform and the problem of uncertainty: see Fernandez and Rodrik (1991).

<sup>17</sup> With respect to the detrimental effect of trade restrictions on economies in Africa: see Wang and Winters (1997).

<sup>18</sup> The joint report on the first all-ACP phase of EPA negotiations declare: "EPAs should also contribute to reinforcing regional integration, in particular by contributing to the regional harmonisation of rules. In this perspective, EPAs' first emphasis should be to consolidate ACP markets, before fostering trade integration with the EC" (10/2003) A similar approach has been already defined for the transitional period needed to implement the agreements between the EU and the ESA region (ESA-EPA Roadmap, 2004).

donor conditionality or WTO binding).<sup>19</sup> Two characteristics are fundamental to make these kind of arrangements work. First of all, such an agreement should be voluntary and the commitment of governments should be very strong. Secondly, a semi-automatic system to impose a penalty should be present in the case of deviation or policy reversal.<sup>20</sup>

In principle this could be achieved also within ACP regional groupings but it should be clear that the economic ties of African intra-trade are still too weak to impose a severe and adequate threat to the regional partners. By contrast, the loss of preferential access to the EU market represents a real damage and a real incentive not to deviate from the commitments taken.

In this respect, the EPA project seems to have the two aforementioned requisites. First and foremost, EPAs are a proposal: an offer to ACP countries. They are not imposed. Governments themselves are deciding autonomously to join and enter negotiations with the EU even if, in principle, they can decide not to collaborate.<sup>21</sup> Second, the EU is a major economic partner and donor institution in Africa. This being, it will normally be able to impose sufficient severe penalties (aid cut-off, retaliation on export market or investment) to make the agreement reliable. These two factors are surely main prerequisites to make EPAs a qualitatively high-value agreement able to foster a powerful integration process inside the ACP regional groupings and between them and the EU.

Furthermore, with respect to the threat of 'punishment', it is interesting to emphasize that EU aid funds are mostly provided as grants. This circumstance make sure that there will be no incentive for 'defensive lending' (eg. the incentive for the donor to act as a lender of last resort to avoid borrower's default). In case of deviation from commitments taken, retaliation from EU will be easy and with little or no 'pain'. This latter characteristic make the EU a credible 'agency of restraint'.

On the other side, regionally speaking, the credibility spill-over could arise from the presence of 'peers'. The incentive not to deviate from the regional agreements and the efforts to conduct a stable and prudent state budget management will be fostered by the pressure that regional partners put on one another and by the will to work on the same 'roadmap'. The setting of regional convergence criteria, like for example the fiscal and debt targets used in the European integration process, could represent not only an economical threat in the case of deviation, but could have a specifically political effect (Collier, 2000).

### 2.2.2. *Trade and development*

EPAs will not be normal trade agreements: they are designed to be *Free Trade Areas plus*. Trade will be the main part of the arrangement but other topics like sustainable development, poverty reduction, trade related technical assistance, environment and broader trade-related issues like investment and competition policies or labour standards<sup>22</sup> will probably be taken into consideration.

EPAs are meant to be a framework for supporting the mutually reinforcing effects of inter-continental trade integration and cooperation through key instruments like international aid and technical assistance. In the preparatory negotiations so far, the development dimension has been advocated as a central point from both parties. This has to be seen as an interesting attempt aimed at linking trade and development, at building up comprehensive North-South partnership agreements able to foster economic development and international co-operation.

The European Development Fund (EDF), providing grants to all ACP countries, is the aid-financing institution of the Cotonou agreement and is meant to achieve its overall development goals. Nevertheless, it's not easy to draw positive conclusions on the role and effectiveness of this tool over the last 25 years. Analysts argue that a need for the renewal of the EDF comes,

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<sup>19</sup> For a theoretical analysis of policy commitments agreement in Africa, see Collier (2000).

<sup>20</sup> It is worth to stress that in this respect the problem is slightly different from a typical principal-agent problem. What is relevant here is the time inconsistency of the reforms (eg. the incentive to reverse trade policy commitments as the future economic context change) and not the 'inducement' of the latter.

<sup>21</sup> As an alternative option, countries opting out of an EPA will continue to be granted unilateral market access via the EU-GSP scheme and EBA initiative for LDCs.

<sup>22</sup> The possible inclusion of the so-called Singapore issues have already been criticized and most ACP countries have called for the exclusion of those from any EPA.

among other reasons, from the high level of mismanagement and corruption, the inefficient allocation of resources in recipient countries and the slow and highly-bureaucratic disbursement mechanism on the side of the EU. In this respect, EPAs could represent the response to this need. A renewed framework might be built up taking into consideration the particularity of each region and/or nation state.

All in all, the linkages between regional integration, economic development, and poverty reduction aren't so clear and straightforward. What is sure is that the ongoing negotiations are an outstanding circumstance to renew and improve further the efficiency of trade technical assistance and international co-operation. As such, ACP countries' governments, private sector associations and civil society stakeholders should not for any reason fail to build up a proficient and well organized framework able to boost economic development and new business opportunities.<sup>23</sup>

### 2.2.3. *Asymmetry, deep integration*

Moving to the more technical EPAs prerequisites, let's now introduce one of the more discussed targets: the principle of asymmetry and the extent of 'deep integration'.

In order to conclude Economic Partnership Agreements between the EU and ACP countries, a high degree of flexibility and asymmetry is called for and consequently, reciprocal integration should occur only (and maybe) in a second phase. In this regard, the paragraph 37 (8) of the Cotonou Agreement is clear, declaring that:

*'The Parties shall closely cooperate and collaborate in the WTO with a view to defending the arrangements reached, in particular with regard to the degree of flexibility available'*

The issues of 'WTO compatibility' are still correlated to the concept of EPA and are linked to the trade-off between reciprocity and differentiation.

The principle of 'reciprocity' within a regional integration agreement refers to the *overall level of tariff liberalization* the parties agree to put in effect. The main obstacle, is represented by the degree of symmetry of the liberalization commitments, and in particular by the coverage level needed to make the agreement WTO consistent.

Art. XXIV states that a RIA can be defined as WTO consistent only when 'substantially all trade' between the parties is liberalized and when 'applied tariff' with respect to third countries are not increased. The implicit vagueness is clear in the former condition<sup>24</sup> while in the second the problem is related to the gap between applied and bounded tariff that many countries hold. Art XXIV, allowing the formation of customs unions and free-trade areas is probably the most misused article in the whole agreement and the heaviest cross the GATT has had to bear. Nevertheless, its reform appears to be still far.

The EU is used to apply a range of intra-liberalization in regional trade liberalization of around 90% of the tariff lines. At first sight, this level is pretty high, especially for ACP countries' commitment and cost-opportunity to liberalize their markets.<sup>25</sup> But the coverage refers to overall tariff lines, meaning that while the European Union already grants practically 100% tariff free market access to ACP countries, a partner like COMESA for example, could liberalize only 60% of its tariff lines with the EU to achieve an overall RIA's level of 80%.<sup>26</sup>

Whatever the coverage rate of EPAs will be, the negotiators agreed that 'asymmetry' will be fully part of the transitional period and that taking into account the wide economic development gap between the contracting parties, a reasonable high level of differentiation will be provided.<sup>27</sup> It is then very important that negotiators and stakeholders in ACP regional groupings have a clear strategy to follow in order to make even these concessions only when strictly required and in sectors that fear little competition from EU or that can be really

<sup>23</sup> For further analysis on this points see between others : de Willem, Page, Morrisey (draft, 2004), EC (2003).

<sup>24</sup> It is not clear how 'substantially all trade' should be calculated.

<sup>25</sup> It's worth to stress that there are examples of tariff line coverage of just 60%. For example, the USA-Australia FTA.

<sup>26</sup> For an analysis of Art. XXIV, see, between others: Nagarajan (1998) and Ollareaga (2000).

<sup>27</sup> 'Joint report on the first all-ACP phase of EPA negotiations' (2003) and 'East and Southern Africa roadmap to EPA negotiation' (2004)

benefited from cheap imports of intermediate goods. The exercise is multifaceted and needs a huge negotiating effort, especially because giving up a sector would partly mean the running out of that industry under the full exposure to EU competition. The study cases presented in section three are meant to give some insights in this respect. Clearly, even if very interesting conclusions can be derived from data analysis, basing a negotiating positions only on present state of affairs is not the wisest option. Economic contexts are changing and the ability to forecast future productive structures and their competitive advantages will be a key factor for Eastern and Southern Africa countries to conclude of worthy agreement.

The extent of trade liberalization and access to EU markets is no more strictly related to tariffs and quotas<sup>28</sup>. The real bulk of EU liberalization lies in the harmonisation of procedures, the easing of regulatory barriers and all those procedures that, in a way or another, raise an excessive burden on the shoulder of the exporters. Examples are represented by health and safety regulations, competition laws, licensing and certification regimes, prudential requirement, environmental and human rights norms, and administrative procedures as custom clearance practices.<sup>29</sup>

Asymmetry and the extent of deep integration are then two other prerequisites for EPA's success. Last but not least, it is worth stressing that, instead of attaching greater importance to trade preferences and differentiated treatments, another strategy might be for ACP countries, to target the MFN tariff peaks and tariff escalation procedures, which in the context of WTO 'grey zones', remain very harmful instruments of trade restraint.

#### 2.2.4. *Rules of origin and other obstacles to trade expansion and preferences utilisation*

Every regional integration agreement needs to include some kind of Rules of Origin (RoO) clause. They are essential to avoid trade deflection,<sup>30</sup> and to a certain extent they can also be regarded as a development tool in the framework of an overall regional strategy. Rules of Origin are a primary concern in the context of FTAs. Recent literature, following the mushrooming of RIAs all over the world, increasingly indicates that these set of laws are the primary cause for malfunctioning trade agreements and the under-utilization of trade preferences by receiving countries.<sup>31</sup>

The negative effects of RoO on the rate of preference utilization has been highlighted by the COMESA secretariat in a recent document (Comesa 2003). The secretariat declares that:

*'In general the Cotonou Rules of Origin could be said to be overly complex and place an unnecessary burden on the exporter (who has to have a detailed knowledge of Protocol 1 and its annexes of the Cotonou agreement and complete the "Application for a Movement Certificate" and the "Declaration by the Exporter" which may involve significant cost) and on the custom authorities of the exporting country (as they have to issue movement certificate EUR1)'*

The extent of this phenomenon depends mainly on the stringency of RoO. Clearly, if they are too weak, they allow an intolerable level of trade deflection (resources would be allocated in a distorted way); if too stringent, they stand to hamper regional trade and trade creation.

All in all, there is evidence that these requirements produce heavy distortions in the regional integration process. Great attention to this issue should then be paid by policy makers in ESA region, and within the EU, in the negotiations of RoO.<sup>32</sup> The conclusion of EPAs should build up a scheme avoiding 'trade deflection' while guaranteeing an 'easy to use' tool capable of

<sup>28</sup> Almost 100% of imports for ACP countries face a zero percent import tariff (exceptions are in force for sensitive products and commodity protocols like Sugar, Rice and Beef).

<sup>29</sup> The use of stringent and particular domestic regulations is not a new practice in international trade. Their effect is similar to non tariff barriers (NTB) but while the latter are specifically imposed on import products (for example import quotas), the so called technical barriers to trade (TBT) are in fact, applied to all the domestic market.

<sup>30</sup> Known also as 'tariff jumping', refers to the importation of a good in the region from a country aimed at the re-exportation duty-free towards another region's country that normally applies a higher tariff.

<sup>31</sup> See Inama (2002a,b), Brenton(2003), Kirk(2003).

<sup>32</sup> The extent of RoO requirements is a very noxious one, to the point the overall agreement might fail for these.

providing cheaper and efficiently produced intermediary goods to the production structure present into the region.

Let's now move to some of the most debated issues in the context of EPA negotiations. These are more procedural topics; and include the so-called Technical Barriers to Trade (TBT) and specifically Sanitary and Phyto Sanitary (SPS) measures, that are considered here.

Environmental requirements and the so-called sanitary and phyto-sanitary (SPS) measures are meant to protect the global environment and the consumer's health. As an example, the standards on pesticide residues (recently put at a 'zero analytical' level in terms of maximum residue level (MRL) by the EU) is a constraint on imports that is intended to protect both the consumer and the environment. As such, they are clearly needed. There is in any case, some evidence that leads to believe that some of them are too stringent and excessive.<sup>33</sup> Their final intended outcome should also be able to 'protect' the internal market from outside competition (UNCTAD, draft).

Nevertheless, the difference between normal domestic regulations and real TBT is very difficult to assess and especially to condemn. Furthermore, given recent events, it is reasonable to believe that these requirements are going to be strengthened in the future. That is why the ACP countries are bound to improve their products' standards (in terms of quality control and commercialisation packages, for example) if they wish to have total access to the EU markets. As it has been said: 'non-compliance with the standards is not a viable option'.

The EU is often accused of imposing excessive requirements to the exporters in order to protect the internal market and specifically its domestic common agricultural policy (CAP). In this light, TBT are a pure 'market access' issue and EPAs negotiations will be clearly very keen in taking them into account. ESA countries will need in these particular trade negotiations a high degree of coordination, since the countries' interests might be well different from one another.

**Cut Flower's story** - At present, cut-flowers are probably one of the most important products exported by Kenya and other neighbouring countries. Even if not generally perceived, this sector requires a high degree of processing and has become one of the most dynamic and wealthy industry developments of Kenya's recent history. The huge dynamism of this sector is also a consequence of the fact that cut-flower are normally not subject to any SPS restriction. We suggest here that if the European Union had built up (even arbitrary) standards at a previous time, the industry development might have been clogged. It is then important to have a long term view in negotiating concessions on TBT and obtaining concessions in some sectors not yet developed (but with high potential) can represent a good way to foster growth and diversification, key elements in sustainable development processes.

The reality is in any case, that many ACP countries find very difficult to cope with these kind of regulations which lead to lack of essential trade development. The first and most simple answer to this situation remains the establishment of efficient institutional arrangements and especially the strengthening of laboratory facilities, quality control institutions and general infrastructures. This process should also be accompanied by a high degree of international co-operation aimed at increasing the level of harmonization of standards (deep integration).<sup>34</sup>

All in all, it reasonable to believe that a larger portion of technical assistance and trade capacity building initiatives should be devoted to these issues. Economic analysis provides strong evidences that these 'supply side constraints' that impede ACP countries, specifically ESA ones, to take full advantage of the international trade arena lie in the context of the discussed

<sup>33</sup> In the EU case, another main concern arises from the application of the 'precautionary principle'. This implies that even when there is the belief that certain goods (or certain cargos) could be prejudicial to the environment or to humans, animals or plant health, actions to impede those imported products can be taken. Clearly, even this regulation is necessary sometimes, but its discretionary content makes it controversial and suggests that these actions should be based, at least, on a risk assessment analysis (a condition that does not hold true up to now) (COMESA Secr. 2003).

<sup>34</sup> In this respect it is interesting to stress that a good level of technical assistance is devoted to this issue by the main advanced countries. While the EU is inclined to support public/private initiatives and then to outline a list of 'good countries' and 'bad countries', the USA technical assistance and financing is concentrated mainly in the private sector. Private laboratories are financed and then checked periodically on a random base.

issues. If a strong position from the EU is necessary to ease regulations and technical constraints to trade, the development of (institutional) infrastructure in ESA countries seems to be a *sine qua non* for a genuine trade creation process.

### 3. North-South Trade Agreements: an empirical methodology in analysing the strengths and weaknesses of ACP regional groupings in concluding an EPA

#### 3.1. A trade analysis methodology

Economic Partnership Agreements won't probably include, in their first transitional period, many trade policy revolutions. This will hold true especially for what concerns the trade flows *from* EU *to* ACP countries (at least in the ESA region): as mentioned in chapter 1, the principle of asymmetry and a set of safeguard measures will be set down firmly by the parties.

The hope is anyway, that on the contrary, trade relations tying ACP countries to the EU market will soon change. Clearly, these changes will aim at fostering the insertion of the former into the world trade system and specifically into the mentioned EU markets.

To put it straight, while ACP countries will theoretically be able to protect many sectors of their economies, the European Union is committed to eliminate those non tariff and technical barriers that, up to now, have harnessed the potentialities of many ACP countries.<sup>35</sup> A renegotiation of the conditions to take advantage of granted preference seems to be on the way and ACP regions should be prepared to play an active role in this process.

The present essay analyses then, a case study with the aim of extrapolating from raw data some useful insights on the strengths and weaknesses of a regional group, COMESA, in the forthcoming conclusion of an EPA.

Given these assumptions, the trade flows taken into consideration are the ones from ACP to EU (and just to certain extent the opposite flows). This is the main purpose of this exercise: *the analysis of the flows of goods and merchandises from a given region inside the ACP to a counterpart, the European Union.*<sup>36</sup>

In this respect, given the fragility of data collected in some ACP countries, this exercise will be performed by analysing trade value of imports collected by the European Union. For the sake of coherence only these data have been used and the intra-regional dimension is always taken into consideration with respect to EU market. As already stated, the analysis of the trade pattern with respect to the EU markets is here the only objective.

International trade analysis provide a huge number of methodologies and indexes to analyse this state of affairs. The present investigation takes into account firstly, a modified calculation of the 'trade intensity index' for the region as a whole and for some countries among the latter.

The 'trade intensity index' measures the ratio between the share of a given good 'i' exports from region 'j' to the EU over the total exports of country 'j' to the EU, and the share of exports of good 'i' from the world 'w', over the total exports of the world 'w', always with respect to the EU market.

The index is then analytically defined as:

$$TII = \frac{\frac{X_{i,j}^{EU}}{X_{tot,j}^{EU}}}{\frac{X_{i,w}^{EU}}{X_{tot,w}^{EU}}}$$

where: 'i', represents the product line defined, if not elsewhere specified, at the HS 2Digit level

'j', the country or region under analysis- namely COMESA, etc.

<sup>35</sup> This vision is somehow simplistic. Further and longer considerations should be introduced with respect to the effect of the Common Agricultural Policy and its ongoing reform.

<sup>36</sup> Due to lack in data resources, the flows of services has been omitted.

'w', the set of countries 'All minus EU25'

'EU', imply that the flow is towards the EU market.

A TII value higher than one point out an intensity of trade towards the EU which is relatively higher with respect to the region used as benchmark (in this case: the World defined as 'All minus EU25').

In our 'region to region' case, this relatively simple index describes the comparative advantages of COMESA in the European market.<sup>37</sup> Furthermore, Kenya and Mauritius are considered, and the same index is calculated not only with respect to the world but also with respect to COMESA, so that a comparison in the two dimensions of trade can be performed.

The basic benchmark in this first exercise remains anyway the value of world exports to the EU and then, the results obtained describe the absolute degree of competitiveness that COMESA enjoys in the commercialisation of some products in the EU market. The value of world trade is calculated with respect to the exportations to the European Union by the group: 'all the world minus EU25'. Given the very special treatment the ten new comers are enjoying after the recent EU enlargement, it seemed rationale to leave them out of this computations. All the other countries, enjoying or not a preference, are taken into account.

The indexes are calculated for different years and a dynamic analyses is then, made.

A second exercise aims at monitoring whether the variation of exports value from the region (COMESA) to EU is due to an increase/decrease in the demand from the European markets or, on the contrary, to an increase/decrease in the competitiveness of the regional exporters. From a COMESA point of view, for example, both effects are beneficial if they are positive; clearly an increase in competitiveness, being somehow endogenous, is regarded as superior to an increase in demand from European markets.

The mentioned purpose is reached through the calculation of two different components of the variation of trade value from COMESA to EU: 1) the *share* of good 'i' imports from the region (COMESA) in total EU good 'i' imports 2) the total absorption (*demand*) of good 'i' by EU markets.

The first is defined as the ratio between exports from the region (COMESA) to EU and total exports from the world (all minus EU25) to EU - for any good 'i'. The second is defined as the absolute value of total export from the world (all minus EU25) to EU – for any good 'i'.<sup>38</sup>

A fundamental assumption has to be made at this point. This refers to the fact that the region taken into consideration (for instance, COMESA) is commercially small enough not to influence total EU demand. In other words, it has to be assumed that any variation in the regional exports does not influence significantly the value of total EU demand. Put it another way, we are assuming that the two mentioned components are not significantly correlated. This seems to be rationale in our case studies.

To clarify the method applied to the analysis, let's notice that the *total variation* of good 'i' exports from region 'j' to EU is decomposable as follow:

$$\Delta X_{i,j}^{EU} = \Delta X_{i,j}^D + \Delta X_{i,j}^C + \Delta X_{i,j}^R$$

Where  $\Delta X_{i,j}^{EU}$  represents the total absolute variation of good 'i' exports from region 'j' to EU (and conversely the total variation in EU's imports of good 'i' from the region 'j'). The factors  $\Delta X_{i,j}^D, \Delta X_{i,j}^C, \Delta X_{i,j}^R$  represent respectively the variation in exports due to a variation in EU demand, due to a variation in competitiveness of region 'j' and due to a residual component that can be thought as including, between other effects, export diversification.

<sup>37</sup> For an excellent dissertation on the concept of comparative advantages, especially in a development dimension see among others: Ray, 1998 (chapter 10).

<sup>38</sup> Note that the second component is just the denominator of the first. Their product is, then, equal to the exports from the region (COMESA) to EU. What we are doing is just a decomposition of the total trade value.

Letting  $S_{0,i}$  and  $S_{t,i}$  be the share of imports of good 'i' from the region on the total EU imports of good 'i', at time '0' and 't', and  $D_{0,i}$ ,  $D_{t,i}$  the total demand of EU markets for product 'i', at time '0' and 't': the so-called *demand*, *competitiveness* and *residual* effects are defined as (see Appendix 3):

$$\begin{aligned}\Delta E_{i,j}^D &= S_{0,i} * (D_{t,i} - D_{0,i}) \\ \Delta E_{i,j}^C &= (S_{t,i} - S_{0,i}) * D_{0,i} \\ \Delta E_{i,j}^R &= (S_{t,i} - S_{0,i}) * (D_{t,i} - D_{0,i})^{39}\end{aligned}$$

The intuition behind these indexes proceed as follow.

To calculate the demand effect, the region's share of good 'i' export with respect to the overall world exports of good 'i' to the EU ( $S_i$ ) is assumed constant at time 0. This allows to isolate the effect of a variation in the total traded value due only to a change in demand, or, in other words, due to a change in the degree of absorption of EU markets. The latter explains, then, how much of the increase (decrease) in the total exports of that kind of product is related to increase (decrease) in total demand in EU markets.

As the second one, the level of demand is assumed constant, at the base year 0. This practice allows to isolate the effects of a change in the region's share of good 'i' exports on the overall exports of good 'i' to EU markets, which in fact reflects an increase in competitiveness. Put it differently, this effect shows on a dynamic path, how much the EU markets is preferring a specific region over world markets.<sup>40</sup>

The residual effect is calculated by subtraction of the two aforementioned effects from total regional change in exports of good 'i'. Clearly, demand and competitiveness cannot alone explain all the variation. After some elaborations, the latter residual effect is defined as the product of the variation in shares and the variation in overall demands (see Appendix). The residual effect explains the implications that other variables might have on the total exports change (apart from demand and competitiveness). According to Yeats and Ng (2003) this component can describe substantial change in the degree of export diversification of the economic system.

A simplified example can further help understand the method:

- Assume region C has a share of 5% in the overall import of region E of good 'i', at time 0. At time T, the same share increases to 8%.
- Assume further that the total demand of region E for good 'i' is equal to \$ 20.000 at time 0 and \$ 30.000 at time T.
- Consequently, it is known that the variation of good 'i' exports from region C to E is positive and equal to \$ 1.400. Actually, trade value from C to E, moves from \$ 1.000 (\$ 20.000\*0,05) at time 0, to \$ 2.400 (\$ 30.000\*0,08) at time T.

Then, the different effects are calculated:

$$\begin{aligned}\Delta E_{i,j}^D &= 5\%*(30.000-20.000)= \$ 500 \\ \Delta E_{i,j}^C &= (8\%-5%)*20.000= \$ 600 \\ \Delta E_{i,j}^R &= (8\%-5%)*(30.000-20.000)= \$ 300\end{aligned}$$

The sum of the three is equal to the total increase in exports. The total variation (+ \$1400) can

<sup>39</sup> The residual effect is obtained from the subtraction of the first two mentioned effects from the variation in exports (see Appendix 3).

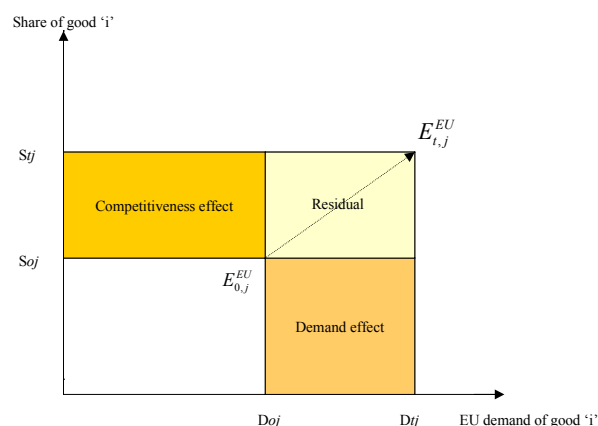
<sup>40</sup> As a proxy this effect describes the relative prices of the region with respect to world prices. In this light it represent an index of competitiveness.



be explained by an increase in E's demand equal to 500, an increase in C's competitiveness equal to 600 and a positive residual effect of 300.

A graphical representation is presented in Figure 1.

**Figure 1 Decomposition of an increase in export towards EU. (Author's elaboration)**



The different areas represent the effects in which the total export variation is decomposed. As a traditional trade analysis might suggest, the question is now: which of the latter areas is the biggest? and what are the signs of the variations (the graph, as the analytical example, describes a positive variation in exports)?<sup>41</sup>

In the next chapter the methodology will be applied to data arising from the UN Comtrade database. Given the different magnitudes of the results that are expressed in US dollar trade value, some graphs have been made up taking the *sum* of the three areas as a total percentage of 100%. This method allows to visualize how and in which sectors the region has gained or lost competitiveness and how much EU demand or residual effect influenced the change in exports. Competitiveness effect is to be taken into account as a proxy of how much the EU is dynamically preferring (or not) goods traded by the region with respect to the world. Clearly, given this kind of representation, the real magnitude of export variations get lost: what it will be described is just the relative scale of the different effects.

On the other hand, a cross analysis of Trade Intensity Indexes, gives an idea of what are the trade trends. For an insight on the absolute value of trade between the regions, some figures are provided in the first paragraph of chapter 4.

#### **4. EU North-South Trade Agreements: an empirical assessment of the strengths and weaknesses of COMESA, Kenya and Mauritius in concluding an EPA**

The method illustrated in the previous chapter is now applied to the case of COMESA and later on, to Kenya and Mauritius, with respect to fishery and textile and clothing.

The task of this study is not simple and the choice to use mainly the mentioned indexes reflects the need to keep the analysis simple but comprehensive at the same time. Many more indexes could have been calculated with the 'UN Comtrade' data availability; to avoid heavy

<sup>41</sup> It is interesting to note that, by construction, if demand and competitiveness effects are of opposite sign, then the residual effect has to be negative, and it goes to detriment to the effect with positive sign – this might also be described easily by the graph.

analysis and to produce a readable document, the focus has been narrowed to these case studies.

#### **4.1. EU North-South trade analysis: regional flows**

##### *Major message*

*Current figures on Sub Saharan Africa's (SSA) exports to the European Union reflect the worldwide economic slowdown occurred in recent times. Between the regional integration organizations in that region, the only ones that show positive trend are EAC and SACU. On the contrary COMESA lost almost one fifth of its export values in the last three years. The range of processed products SSA exports towards the EU is very narrow. The contrary apply to the reverse trade flows. EU exports to SSA's regional groupings are also more stable. Negotiations of EPAs should take into account these 'macro' dimensions of trade while attempting to foster the diversification of SSA economies and strengthening the trade relations between the regions.*

The Common Market of Eastern and Southern Africa (COMESA) is the successor of the Preferential Trade Area for Eastern and Southern Africa (PTA). The PTA treaty, adopted in 1982 started a process of trade liberalization that accelerated during the last years, reaching the formation of a FTA comprising nine countries in 2000, and then eleven in 2002. These are: Burundi, Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Sudan, Zambia, Zimbabwe. Other nine countries are part of the regional integration agreement, and are waiting to be part of the FTA. They are: Angola, Comoros, DRC, Eritrea, Ethiopia, Namibia, Seychelles, Swaziland, Uganda. Furthermore, the FTA is moving quickly, but not easily, to a custom union (CU) configuration, characterized then by a common external tariff (CET).<sup>42</sup>

The European Union has started formal regional negotiations for an Economic Partnership Agreement with the so-called Eastern and Southern Africa Group (ESA) on February, the 7<sup>th</sup> 2004. The latter group is formed by 16 countries and give us an idea of what are the nation states willing to join efforts and maybe conclude together a free-trade agreement with the EU. These are: Burundi, Comoros, DRC, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia and Zimbabwe.

First of all, it is fundamental to have a clear idea about trade volumes between East and Southern Africa, COMESA, and the EU. Table 1 provide a useful insight on the trade flows occurring between the main regional groupings in Africa and the EU.

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<sup>42</sup> For further considerations on the process of formation of the Common Market for East and Southern Africa are available on: <http://www.comesa.int>

**Table 1 Export and Import, to and from EU.**

	Export to EU in MI of €					Imports from EU in MI of €				
	1990	2002	2003	02/03	00/03	1990	2002	2003	02/03	00/03
<b>ACP</b>	21.877	30.058	28.503	-5%	0%	18.268	27.786	26.835	-3%	2%
% of Agric.	25%	29%	31%			13%	15%	15%		
<b>ACP - SSA</b>	20.107	29.093	25.061	-4%	1%	16.777	22.695	22.543	-1%	4%
% of Agric	23%	28%	30%			13%	16%	16%		
<b>ACP – LDC</b>	6.441	9.315	7.724	-17%	-6%	8.086	10.664	10.872	2%	5%
% of Agric.	23%	22%	25%			16%	19%	18%		
<b>COMESA20</b>	9.561	12.272	10.308	-16%	-8%	10.853	12.297	12.773	4%	-5%
% of Agric	23%	29%	32%			13%	12%	11%		
<b>COMESA exEG</b>	7.265	9.028	6.945	-23%	-12%	6.707	5.956	6.807	14%	20%
% of Agric.	29%	36%	44%			11%	15%	14%		
<b>COM-FTA exEG</b>	2.689	3873	3.696	-5%	-7%	2.610	2.991	3.304	10%	3%
% of Agric	47%	57%	55%			8%	9%	8%		
<b>ESA16</b>	4.308	5.896	5.125	-13%	-11%	4.175	4.369	4.728	8%	5%
% of Agric.	40%	48%	51%			10%	12%	12%		
<b>EAC</b>	828	1.550	1.639	6%	14%	1.350	1.499	1.393	-7%	-4%
% of Agric	78%	79%	71%			4%	5%	4%		
<b>SACU</b>	7.865	18.077	16.929	-6%	8%	5.874	12.792	13.756	8%	15%
% of Agric.	12%	13%	13%			3%	3%	3%		
<b>ZONE FRANC</b>	5.859	6.917	6.816	-1%	0%	4.486	7.281	7.042	-3%	4%
% of Agric	31%	38%	43%			19%	20%	20%		

Source: EU trade data - EURO Stat, 2004

**4.2. EU North-South trade analysis. 1°case study: COMESA***Major Message*

*The present case study is focussed on COMESA. The regional integration organization has been chosen as a sample among the regional groupings committed to negotiate Economic Partnership Agreements with the EU. The results obtained from elaborations of the UN Comtrade database show that the region as a whole enjoys comparative advantages towards EU markets mainly in the commercialisation of agricultural products. Between them, the most significant are Cut-flowers, Fishery, Sugar, Tobacco, Coffee and Tea. The range of processed products COMESA exports competitively is very limited. Industrial and heavy/metal sectors are losing ground as other traditional exports like Cotton and Precious stones. Good dynamics are present in Fertiliser and Chemical sectors along with Textiles & Clothing industry (T&C). The demand and competitiveness effect analysis shows similar trends for the same segments. Remarkably, Food preparations, especially the fish ones, gain considerable margins of competitiveness vis à vis the rest of the world. Huge surge in EU demand are present in the Tobacco, Oil and Fuels, and T&C sector.*

#### 4.2.1. Trade intensity index (TII) analysis

Table 2 provides the results of the calculation of Trade Intensity Indexes (TII) elaborated for the COMESA/EU trade flows. The computation has been completed over three years: 1995, 2000 and 2002. The dynamics are then provided on a graph, which include only the product lines with a TII bigger than one over at least, one of the three reference years.

A first comment owns to the concentration of high TII in the agricultural sector (defined as 1-24, HS92). According to these, COMESA enjoys, towards the EU, a comparative advantage in the exports of agricultural products with respect to the world. This is consequence of the tariff preferences applied partially to these sectors. The latter preferences allow COMESA economies to exploit their real comparative advantages. On the other hand, the intensity of trade in sector like Sugar and Rice is a signal that the so-called commodity protocols<sup>43</sup> guarantee a superior market share to some countries. (notably, Mauritius in the case of sugar).

Traditional products like Coffee, Tea and Tobacco maintain good performances and the two digit values they enjoy over the three periods is somehow a good signal. Especially Coffee, whose market has been very volatile and depressed in the latter years seems not to lose much ground. This could also be the consequence of the fact that it is grouped with Tea, which on the contrary, has performed well in some COMESA countries during the same period.

As already mentioned in chapter 1, the most striking dynamic is highlighted by code HS6-7. Cut-flowers, bulbs, plants and also Edible vegetables increase massively their trade intensity towards the EU in the last 5-7 years. Apart from the comparative advantage described in Table 2, the traded value of Live trees and Cut-flowers (HS6) towards the EU increased in absolute terms from 167 \$MI in 1995 to more than 321 \$MI in 2002. This represents a remarkable dynamic performance, even if, put into perspective, it is still equal to only one tenth of the traded value of Oil and mineral fuels (HS27) in 2002. It is also significant that product lines HS13-14 show quite high values.

An impressive path is described by the fishery sector. The latter can be observed either in product line HS3 and in product line HS16. The first refers to the 'traditional' fishery sector, while the latter is related to food preparations and frozen processed fishery. Being more concerned with industrial production system development, it is reasonable to think about the second one as the more promising signal for the future economic development of the region. In this light, the good dynamic performances highlighted in table 2 are really striking. Furthermore, socially speaking, the fishery sector is one of the most important 'job provider' for many COMESA countries and then, also the high TII value of the first product line (HS3) is to be welcomed.<sup>44</sup> Other food preparation, grouped from code HS18 to HS21, show very weak records.

Moving to the light industrial sector, good dynamics are present in sector such as Inorganic chemicals, Fertilizers, Hides and leathers, Carpets and Light manufactures (HS 28,31,41,46,57). Many reasons might lie behind these increased penetration in EU markets. In the light of the forthcoming EPA negotiations, these results can represent the base for further case studies analysis.

Cotton, Textile & Clothing and other Vegetable textiles fibres (HS 51,61-62,53) maintain a stable value over the three years, whereas values for other textiles does not signal any positive record (especially Cotton show a very low index).

The products that necessarily lost shares in EU market with respect to the worldwide suppliers are, first and foremost, Dairy products, Cereals and Wheat (HS 4,10,11). The declining dynamic path is pronounced and reaches very low level.

Unfortunately, the same considerations hold true for nearly all the heavy industry sectors. Compared with the overall supply to the EU markets, COMESA data depict the latter as very weak sectors. All the segments are almost stuck and even if they enjoyed a positive value in 1995, they lost shares in the present years. This trend seems to be the one of all the metal industries (HS 72-81).

<sup>43</sup> The commodity protocols grant some ACP countries a preferential and limited (by quotas) market share, in products like Sugar, Rice and Beef. The ACP countries that enjoys these treatment are granted a fixed and normally very high price which does not reflect the world market price.

<sup>44</sup> See also table 3 for an absolute value of the exports change from 1995 to 2002.

A striking example is given by Copper, whose TII declines from 1,41 to 0,33. Leaving for a moment apart the COMESA regional view, and thinking specifically to a country like Zambia, traditionally very reliant on copper exports,<sup>45</sup> even this relatively small change shed a different light on its real economic implications.

**Table 2 Trade Intensity Index COMESA/European Union with respect to World**

Code	Description	1995	2000	2002
Code 1	Live animals	0,75	1,04	1,07
Code 2	Meat and edible meat offal	1,75	1,88	1,26
Code 3	Fish, crustaceans, molluscs, aquatic invertebrates ne	1,65	4,94	5,48
Code 4	Dairy products, eggs, honey, edible animal product ne	0,02	0,01	0,01
code 5	Products of animal origin, nes	1,26	1,34	1,84
code 6	Live trees, plants, bulbs, roots, cut flowers etc	14,69	23,13	26,89
code 7	Edible vegetables and certain roots and tubers	9,95	10,72	12,57
code 8	Edible fruit, nuts, peel of citrus fruit, melons	1,02	1,7	1,61
code 9	Coffee, tea, mate and spices	16,48	14,64	14,75
code 10	Cereals	0,9	0,39	0,14
code 11	Milling products, malt, starches, wheat glute	0,03	0,01	0,03
code 12	Oil seed, oleagic fruits, grain, seed, fruit, etc, ne	0,92	1,42	1,36
code 13	Lac, gums, resins, vegetable saps and extracts nes	11,39	6,96	9,04
code 14	Vegetable plaiting materials, vegetable products nes	3,55	4,53	5,36
code 15	Animal, vegetable fats and oils, cleavage products, et	0,36	0,25	0,25
code 16	Meat, fish and seafood food preparations nes	2,9	7,44	9,57
code 17	Sugars and sugar confectionery	19,21	22,73	25
code 18	Cocoa and cocoa preparations	0,19	0,3	0,35
code 19	Cereal, flour, starch, milk preparations and products	0,07	0,09	0,07
code 20	Vegetable, fruit, nut, etc food preparations	2,15	2,21	2,42
code 21	Miscellaneous edible preparations	0,32	0,39	0,18
code 22	Beverages, spirits and vinegar	0,06	0,2	0,29
code 23	Residues, wastes of food industry, animal fodder	0,26	0,13	0,23
code 24	Tobacco and manufactured tobacco substitutes	9,3	11,65	10,57
code 25	Salt, sulphur, earth, stone, plaster, lime and cement	0,88	1,87	2,24
code 26	Ores, slag and ash	0,32	1,61	1,28
code 27	Mineral fuels, oils, distillation products, etc	2,81	1,95	2,78
code 28	Inorganic chemicals, precious metal compound, isotope	0,14	0,99	1,65
code 29	Organic chemicals	0,03	0,12	0,03
code 30	Pharmaceutical products	0,01	0,03	0,02
code 31	Fertilizers	1,17	2,86	6,15
code 32	Tanning, dyeing extracts, tannins, derivs, pigments et	0,12	0,05	0,11
code 33	Essential oils, perfumes, cosmetics, toileteries	0,7	0,63	0,67
code 34	Soaps, lubricants, waxes, candles, modelling pastes	0,02	0,07	0,06
code 35	Albuminoids, modified starches, glues, enzymes	0,04	0,12	0,02
code 36	Explosives, pyrotechnics, matches, pyrophorics, etc	0,05	0,12	0,07
code 37	Photographic or cinematographic goods	0,01	0	0
code 38	Miscellaneous chemical products	0,19	0,05	0,05
code 39	Plastics and articles thereof	0,06	0,17	0,25
code 40	Rubber and articles thereof	0,1	0,06	0,09
code 41	Raw hides and skins (other than furskins) and leather	2,37	3,85	4,68

Source: Author's elaboration on UN COMtrade data

<sup>45</sup> EU's copper imports from COMESA in 1995 were about 140 \$MI, while in 2002 the same declined to 17 \$MI. EU's copper imports from Zambia in 1995 accounted for 106 \$MI whereas in 2002 the same value was not even 6 \$MI worth. The share of copper's total exports in Zambia's total exports was 85% in 1995 while it is decreased to 52% in 2002. (UN Comtrade).

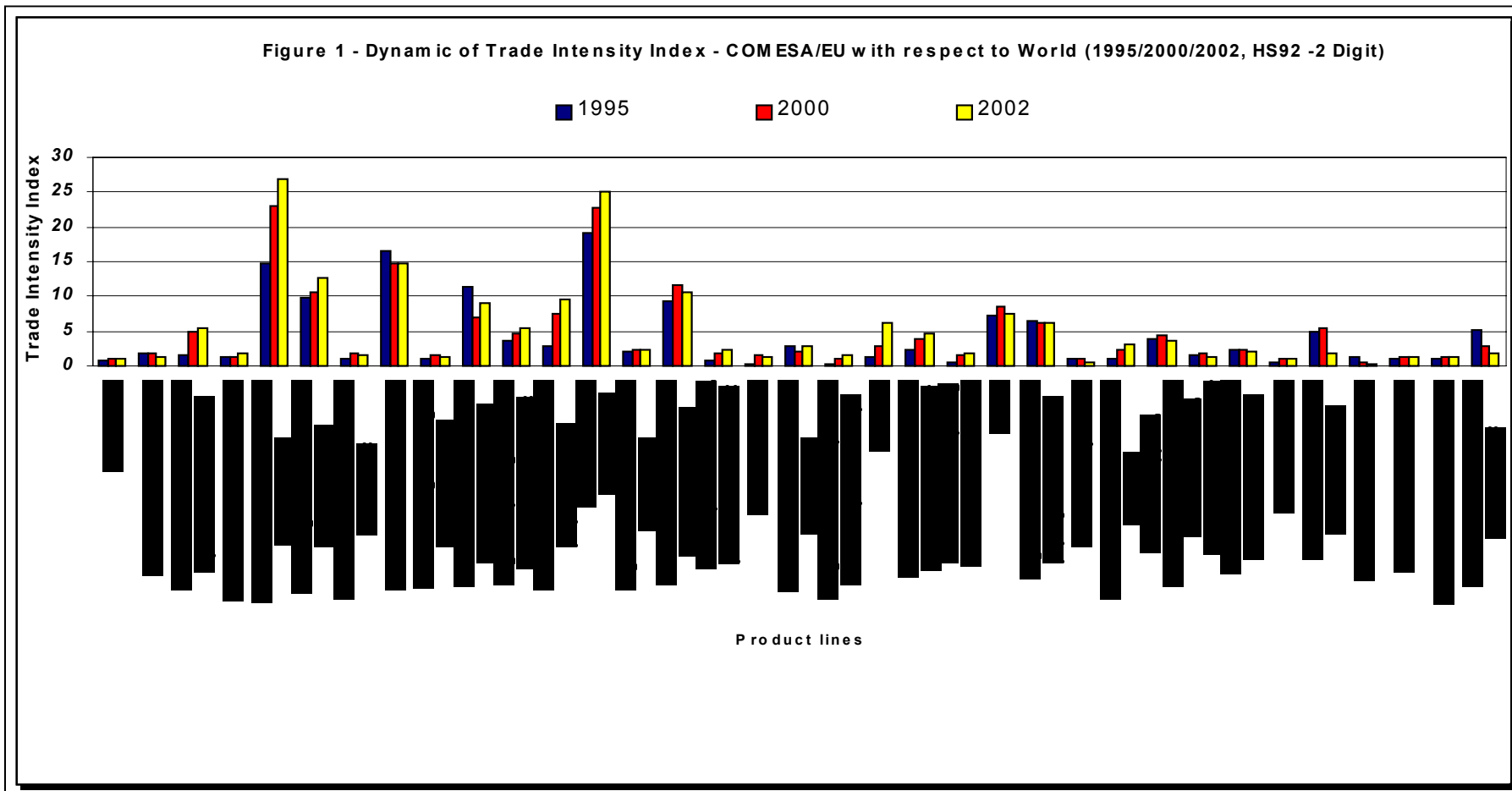
**Table 2 Trade Intensity Index COMESA/European Union with respect to World**

Code	Description	1995	2000	2002
code 42	Articles of leather, animal gut, harness, travel good	0,21	0,12	0,11
code 43	Furskins and artificial fur, manufactures thereof	0,04	0,66	0,76
code 44	Wood and articles of wood, wood charcoal	0,67	0,34	0,31
code 45	Cork and articles of cork		0,07	0,29
code 46	Manufactures of plaiting material, basketwork, etc.	0,52	1,68	1,89
code 47	Pulp of wood, fibrous cellulosic material, waste etc	0,01	0,07	0,04
code 48	Paper & paperboard, articles of pulp, paper and board	0,01	0,09	0,1
code 49	Printed books, newspapers, pictures etc	0,06	0,18	0,15
code 50	Silk	0	0	0
code 51	Wool	0,12	0,09	0,1
code 52	Cotton	7,26	8,59	7,43
code 53	Vegetable textile fibres nes, paper yarn, woven fabri	6,53	6,11	6,14
code 54	manmade filaments	0,18	0,69	0,57
code 55	manmade staple fibres	1,07	1,09	0,49
code 56	Wadding, felt, nonwovens, yarns, twine, cordage, etc	0,25	0,22	0,74
code 57	Carpets and other textile floor coverings	0,96	2,32	3,03
code 58	Special woven or tufted fabric, lace, tapestry etc	0,15	0,16	0,2
code 59	Impregnated, coated or laminated textile fabric	0	0,02	0,02
code 60	Knitted or crocheted fabric	0,05	0,19	0,23
code 61	Articles of apparel, accessories, knit or crochet	3,88	4,49	3,68
code 62	Articles of apparel, accessories, not knit or crochet	1,48	1,68	1,22
code 63	Other made textile articles, sets, worn clothing etc	2,24	2,38	2,11
code 64	Footwear, gaiters and the like, parts thereof	0,08	0,08	0,1
code 65	Headgear and parts thereof	0,14	0,31	0,28
code 66	Umbrellas, walking-sticks, seat-sticks, whips, etc	0,03	0,08	0,02
code 67	Bird skin, feathers, artificial flowers, human hair	0,01	0,01	0,01
code 68	Stone, plaster, cement, asbestos, mica, etc articles	0,1	0,22	0,28
code 69	Ceramic products	0,54	1,15	1,16
code 70	Glass and glassware	0,05	0,09	0,1
code 71	Pearls, precious stones, metals, coins, etc	4,95	5,51	1,79
code 72	Iron and steel	0,87	0,96	0,98
code 73	Articles of iron or steel	0,03	0,09	0,13
code 74	Copper and articles thereof	1,41	0,52	0,33
code 75	Nickel and articles thereof	1,08	1,2	1,25
code 76	Aluminium and articles thereof	1,06	1,33	1,42
code 78	Lead and articles thereof	0,01	0,01	0,32
code 79	Zinc and articles thereof	0,01	0,02	0
code 80	Tin and articles thereof	0	0,02	0,01
code 81	Other base metals, cermets, articles thereof	5,09	2,82	1,71
code 82	Tools, implements, cutlery, etc of base metal	0,05	0,06	0,04
code 83	Miscellaneous articles of base metal	0,03	0,08	0,13
code 84	Nuclear reactors, boilers, machinery, etc	0,07	0,11	0,08
code 85	Electrical, electronic equipment	0,02	0,05	0,08
code 86	Railway, tramway locomotives, rolling stock,	0,03	0,01	0,01
code 87	Vehicles other than railway, tramway	0	0,01	0,01
code 88	Aircraft, spacecraft, and parts thereof	0,27	0,07	0,45
code 89	Ships, boats and other floating structures	0,16	0,15	0,66
code 90	Optical, photo, technical, medical, etc apparatus	0,11	0,12	0,14
code 91	Clocks and watches and parts thereof	0,49	0,44	0,36
code 92	Musical instruments, parts and accessories	0,03	0,07	0,05

Code	Description	<b>1995</b>	<b>2000</b>	<b>2002</b>
code 93	Arms and ammunition, parts and accessories thereof	0,1	0,05	0,03
code 94	Furniture, lighting, signs, prefabricated buildings	0,19	0,23	0,21
code 95	Toys, games, sports requisites	0,17	0,13	0,14
code 96	Miscellaneous manufactured articles	0,18	0,19	0,26
Code 97	Works of art, collectors pieces and antiques			0,09
Code 98			0,19	
Code 99	Commodities not specified according to kind	0,12	0,62	0,44

Source: Author's elaboration on UN COMtrade data

**Figure 2** Dynamic of Trade Intensity Index - COMESA/EU with respect to World (1995/2000/2002, HS92 -2 Digit)



Source: Author's elaboration on UN COMtrade data



#### 4.2.2. Demand and competitiveness effects on the COMESA/EU exports change (1995/2002)

The calculation of the demand and competitiveness effects gives interesting results and allows a better understanding of the COMESA/EU exports dynamic over the period 1995/2002. Table 3 provides the results in absolute terms (USD, \$) for the product lines that show at least a positive trade intensity index over the three years taken into consideration. Figure 2 highlights the proportions of the effects on a '100% base' and therefore, allows to isolate the positive and negative effects of the different components.

Considering the agricultural sector, and analysing some of the results obtained, let's further clarify the meaning of this decomposition. Taking into account, for example, the huge increase in Cut-flowers (HS6) exports from COMESA to the EU, the results obtained suggest that this exports development is driven by a competitiveness factor rather than by an increased demand from the EU markets (which is, in any case present). In other words, what the results suggest is that the European markets are preferring COMESA products *vis à vis* the rest of world products. European markets are also more and more inclined in buying Cut-flower outside the domestic border, but this latter demand effect is smaller than the former (see figure).

Clearly, even if broadly defined, demand and competitiveness cannot alone explain all the exports change. In fact, another effect is present: the so called residual effect. Have a clear interpretation of the latter is beyond the scope of this work. It is then, assumed that the latter effect reflects all the components that cannot be explained neither in terms of gains (losses) in EU market shares, nor in terms of increase (decrease) in EU demand. According to Yeats and Ng (2003), a similar residual might be assumed to be a proxy for an 'export diversification' process. In any case, this interpretation seems too subjective and not rigorously demonstrated. It is here preferred to leave the question open.<sup>46</sup>

The most outstanding result shown by figure2 and table 3 is the performance of the fishery sector. Both the product line HS3 (referring to 'traditional' fishery) and HS16 (referring to fish and seafood preparations), are characterized by strong competitiveness improvements. The latter result supports the idea that the raise of exports towards the EU is the outcome of an increased efficiency of the fishery industry as a whole. The increased EU market share is, proportionally speaking, the main factor justifying the increase in COMESA exports.

On the contrary, an interpretation of the data on Meat and edible meat offal (which is negative for what concern competitiveness), might be related to the recent process of phase-out of the 'commodity protocol' the EU accorded for years in the context of the Lomé conventions. Being less and less protected by quotas and guaranteed prices, COMESA countries are less 'competitive'. The contrary apply for the (still) fully implemented 'commodity protocol' on Sugar. Looking at the results, it seems that while the EU is less prone to demand this product on international markets (demand effect is negative), COMESA gains competitiveness with respect to the world as a whole. In this light, preferential access is 'doing the job'.

The latter situation is reflected also in other sectors, like for example Vegetables products and Salt, but the previous conclusion is clearly not applicable. Furthermore, the magnitude of the traded values is considerably different.

Tobacco (HS24), Oils and fuels (HS27) and Article of apparels (HS 61,62) enjoyed a positive trend mainly due to an increased EU demand, while the contrary apply to other vegetable textile like Cotton (HS 52,53,55).

Aside other agricultural products, good competitiveness gains arose in the sector of Fertilizer and Inorganic chemicals (HS 28,31) and in some light manufacture sectors (HS 46,57). On the contrary, products grouped as Other base metals etc., Copper, Pearls & precious stones and Other textile sectors (HS 81,74,71,62), lost importantly in terms of competitiveness *vis à vis* the world markets.

The residual effects are generally negligible. Assuming to read this factor as a proxy of 'export diversification' would take us to the conclusion that a low degree of the latter has been present in the region, or at least, that the trade flows towards the EU did not diversify very much in the last 7 years.

<sup>46</sup> It is however, important to remember that the latter effect can be defined as the product of the change in S and D over the period taken into consideration (Appendix).

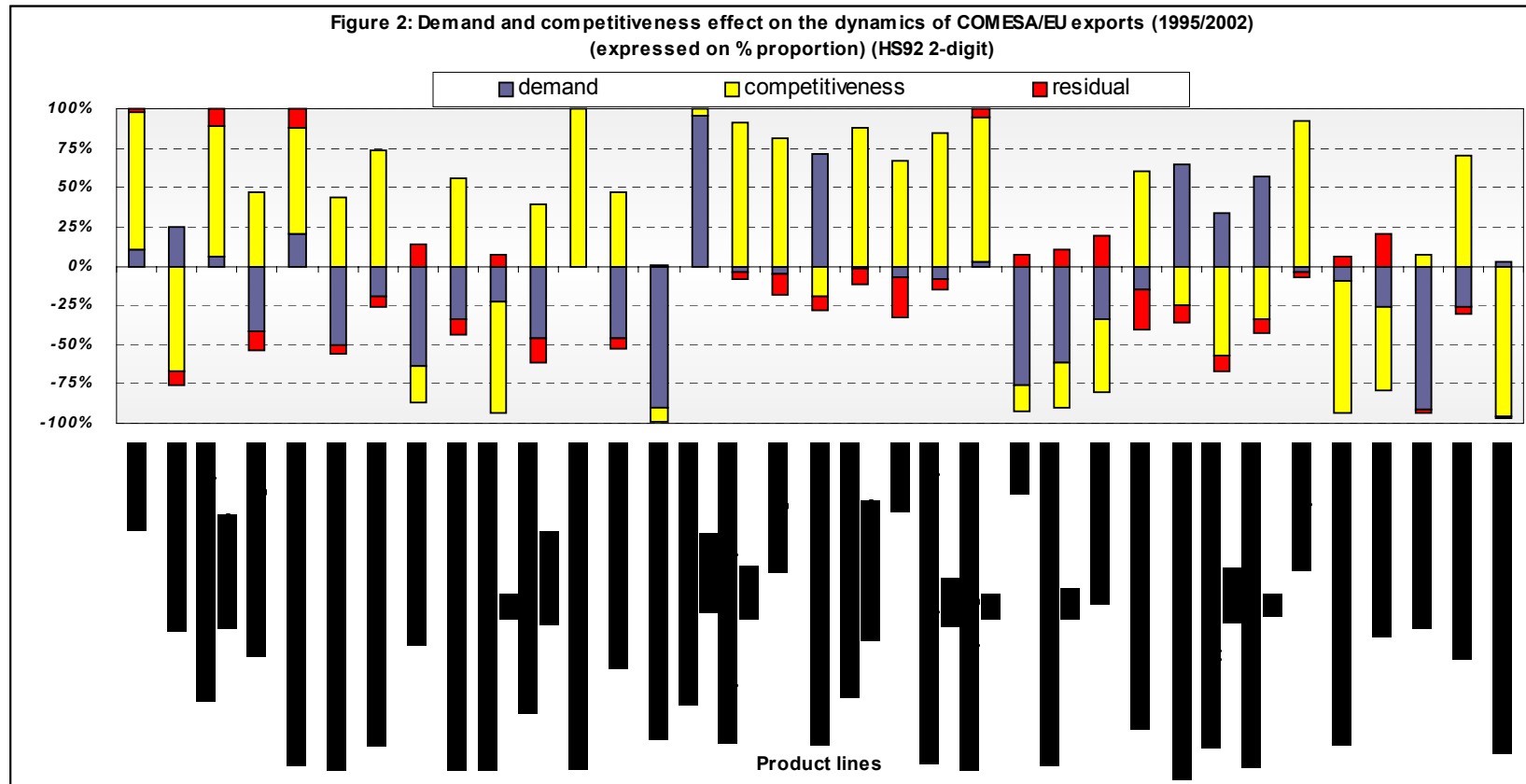
As a constructive exercise, the 'Hirschmann diversification index' has been calculated according to the three different years taken into consideration. This index gives an idea of how many different products are exported. It is obtained calculating the squared root of the summation of the power of any product share in total exports (to the EU). The extreme value, equal to 1, shows that the region exports only one product towards the EU. The results obtained do not show up any tendency to export diversification.

<b>Hirschmann diversification index:</b> $(H_j = \sqrt{\sum(x_i / X)^2})$ , where: $x_i/X$ = share of COMESA export of good 'i' over the total export of COMESA to EU)			
	1995	2000	2002
<i>COMESA</i>	<b>0,324</b>	<b>0,310</b>	<b>0,346</b>

Table 3: Decomposition of COMESA/EU exports change (1995/2002) (HS 1992- 2digit) - Thousands of US dollars

Code	Description	^E^ due to EU demand	^E^ due to competitiv	^E^ due to residual	Total change in E
code 1	Live animals	213	1.790	55	2.058
code 2	Meat and edible meat offal	9.785	-26.481	-3.559	-20.256
code 3	Fish, crustaceans, molluscs, aquatic invertebrates ne	18.642	271.625	36.166	326.434
code 5	Products of animal origin, nes	-3.980	4.449	-1.154	-686
code 6	Live trees, plants, bulbs, roots, cut flowers etc	31.778	102.908	19.555	154.242
code 7	Edible vegetables and certain roots and tubers	-42.627	36.976	-4.904	-10.555
code 8	Edible fruit, nuts, peel of citrus fruit, melons	-10.020	38.948	-3.963	24.965
code 9	Coffee, tea, mate and spices	-865.296	-311.310	181.543	-995.063
code 12	Oil seed, oleagiu fruits, grain, seed, fruit, etc, ne	-11.862	20.074	-3.715	4.496
code 13	Lac, gums, resins, vegetable saps and extracts nes	-5.986	-18.571	1.795	-22.762
code 14	Vegetable plaiting materials, vegetable products nes	-2.486	2.126	-829	-1.188
code 16	Meat, fish and seafood food preparations nes	-101	192.970	-193	192.676
code 17	Sugars and sugar confectionery	-69.840	71.529	-10.369	-8.680
code 20	Vegetable, fruit, nut, etc food preparations	-7.263	-764	59	-7.968
code 24	Tobacco and manufactured tobacco substitutes	27.091	1.213	100	28.404
code 25	Salt, sulphur, earth, stone, plaster, lime and cement	-1.794	43.056	-2.210	39.053
code 26	Ores, slag and ash	-4.484	70.582	-11.342	54.756
code 27	Mineral fuels, oils, distillation products, etc	1.063.946	-289.456	-134.446	640.044
code 28	Inorganic chemicals, precious metal compound, isotope	-1.317	99.986	-12.227	86.442
code 31	Fertilizers	-13.261	124.508	-48.328	62.918
code 41	Raw hides and skins (other than furskins) and leather	-7.439	73.135	-5.532	60.165
code 46	Manufactures of plaiting material, basketwork, etc.	116	4.016	253	4.385
code 52	Cotton	-186.844	-43.285	17.993	-212.136
code 53	Vegetable textile fibres nes, paper yarn, woven fabri	-9.558	-4.453	1.621	-12.390
code 55	manmade staple fibres	-19.214	-27.075	11.380	-34.909
code 57	Carpets and other textile floor coverings	-9.191	38.091	-16.428	12.472
code 61	Articles of apparel, accessories, knit or crochet	239.773	-92.927	-38.825	108.021
code 62	Articles of apparel, accessories, not knit or crochet	57.963	-98.618	-15.898	-56.553
code 63	Other made textile articles, sets, worn clothing etc	21.698	-12.648	-3.656	5.394
code 69	Ceramic products	-511	12.544	-464	11.569
code 71	Pearls, precious stones, metals, coins, etc	-74.294	-680.200	50.553	-703.941
code 74	Copper and articles thereof	-54.029	-111.433	42.932	-122.530
code 75	Nickel and articles thereof	-7.061	533	-119	-6.647
code 76	Aluminium and articles thereof	-9.010	24.731	-1.644	14.077
code 81	Other base metals, cermets, articles thereof	1.517	-50.344	-1.068	-49.894

**Figure 3 Demand and Competitiveness effect on the dynamics of COMESA/eu exports (1995/2002) \_expressed in % proportion\_hs 92 2 digit**



Source: Author's elaboration on UN COMtrade data

### **4.3. EU North-South trade analysis. 2° case study: Kenya and Mauritius**

#### *Major message*

*The second case study, on Kenya and Mauritius, proves to be interesting in comparing two different dimension of trade: the regional and the absolute one. Indexes are calculated both with respect to COMESA countries as a whole and with respect to the world. Even if other sectors show interesting results, Kenya enjoys the best comparative advantages in the exports of Cut-flowers, Fishery and Food preparations, Coffee and Tea. Mauritius exports composition shows its main strength in the Textiles & clothing sector. Very good record belong to the Sugar sector, specifically as a consequence of the 'commodity protocol' accorded to this country in the framework of the Cotonou Agreement, while other promising results are obtained for sectors like Clocks and watches, and Sunglasses.*

#### **4.3.1. Trade intensity index (TII) analysis**

The methodology applied to the present study take us to the specific case of two COMESA countries: Kenya and Mauritius. The following analysis take into consideration only the trade pattern between these countries and the European Union. Analysing the economic (tissue) of both the countries goes far beyond the scope of the present study. These case studies are going to be taken into consideration as 'nation state' examples and furthermore, deeper analysis are provided in the next paragraphs with respect to the Kenyan fishery sector and to the Mauritius textile and clothing industry.

Tables 4 and 5 and figures 3, 3b and 4 give us an idea of the main strengths and weaknesses of the countries' trade relations with the EU. The dynamic path is calculated over the period 1995-2002 and it is analysed using as a benchmark first the regional partners of COMESA, and than the world market as a whole. The Trade Intensity indexes, calculated both with respect to COMESA and the world, reflect the trends of the comparative advantages that the two countries enjoy exporting to EU markets.

Figure 3 and table 4 highlight the comparison between two different dimensions of trade: the regional one and the absolute (or world) one. The data show for example, that exporting to EU markets, Kenya enjoys a strong comparative advantage with respect to its COMESA partners in the Vegetable and fruit. sector (HS20) and in the Food processed sector (HS21). If we compare Kenyan suppliers with respect to the world ones, the same holds true only in the first one (HS20). This kind of analysis proves to be interesting in order to balance the different trade concerns inside the negotiating group. It is important to remember that all these values reflect trade flows towards the EU, and than, the strengths of Kenya respect to its COMESA partners raise the expectations that the EPA negotiating position of the latter will be stronger in these sectors in order to take advantage of the regional comparative advantages.

Cut-flowers and live trees (HS6) enjoy a good comparative advantage with respect to COMESA suppliers, but the latter is, in any case, quite stable. The recent huge sector development is reflected by calculating the indexes with respect to the world supply. The value is high and it is more than doubled in the seven years path taken into account. Figure 4b gives details of the best performing products.

Regionally speaking, Kenyan fishery and fish preparation suffer a real slowdown (see infra), but on a world level, Kenya remains a strong EU partner in this sector. Especially the product line referred to Fish preparation seems to highlight a real industry 'boom'. Beverages and spirits (HS22) and Textiles fibres (HS53) show a similar regional trend. Good tendencies at a regional level, lie in the Cereal sector (HS19), in the Textile fabrics one (HS60) and importantly in the product line grouping Vehicles other than railway (HS87). As expected, the same trends are not confirmed at a worldwide level.

Good dynamic path are present also in the Salt and stones sector (HS25) and in the Coffee and Tea industry. The latter, despite the depressed world markets, increase their EU market shares with respect to COMESA and to the world supplier.

The situation is different for Mauritius. First and foremost, data availability is unfortunate. The indexes calculated are incomplete and as a result, the analysis is quite prejudiced.

After the recent independence, Mauritius economy showed up high economic growth rate and it is considered today one of the most promising country in Eastern and Southern Africa. The outcome of the calculations describe good dynamic evolution in agricultural sectors like Live animals (HS 1) and Fish and seafood preparations (HS16). While the indexes for the first one double with respect both to COMESA and the world, the latter shows an interesting performance especially with respect to world markets. It is reasonable to believe that inside the regional market, Mauritius has good competitors in food processing sector.

Other dynamic values can be found in sector like Leather (HS42), Fertilizers (HS31) and in the Soap and waxes sector (HS32), but the bulk of Mauritius exports is concentrated in the textile sector and specifically in the Textiles and clothing industry (HS 61-64). High values, even if not really dynamic in the period taken into account are present for most of this industry (see infra).

The exports of Optical and Clocks (HS 90,91) are also tough compared to the region. These results are particularly interesting for all the manufactured goods (also HS 95,96). and for the Glass and glassware sector (HS70) that, even being still weak both with respect to the region and the world supplier, show to be an economic segment with high potentialities. These trends are relevant to the process of regional integration for it means that COMESA might be an interesting potential market for Mauritius exports. These latter considerations should be bared in mind by the negotiators during EPA talks in order to obtain good market conditions for these promising sectors even in the EU market.

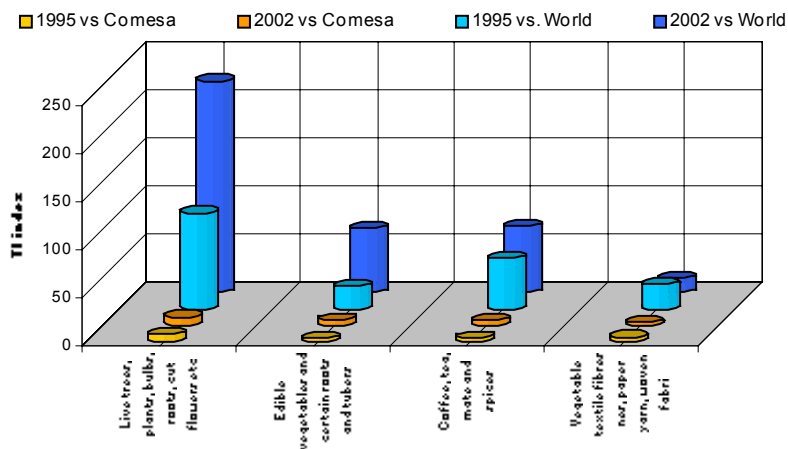
**Table 3 Dynamic of Kenya/EU TII with respect to COMESA and with respect to World (95/02- 2 dig.)**

Code	Kenya Commodity Description	1995	2002	1995	2002
		TII Comesa	vs. TII Comesa	vs. TII vs. W	TII vs. W
3	Fish, crustaceans, molluscs, aquatic invertebrates ne	2,72	0,58	4,37	3,18
6	Live trees, plants, bulbs, roots, cut flowers etc	6,97	8,21	99,86	220,86
7	Edible vegetables and certain roots and tubers	2,38	5,31	23,12	66,76
8	Edible fruit, nuts, peel of citrus fruit, melons	2,28	1,8	2,26	2,88
9	Coffee, tea, mate and spices	3,27	4,68	52,44	69,05
13	Lac, gums, resins, vegetable saps and extracts nes	1,16	0,58	12,88	5,22
14	Vegetable plaiting materials, vegetable products nes	0,03	2,48	0,05	13,32
16	Meat, fish and seafood food preparations nes	0,02	0,37	0,02	3,5
19	Cereal, flour, starch, milk preparations and products	1,7	6,92	0,11	0,49
20	Vegetable, fruit, nut, etc food preparations	10,28	9,06	21,55	21,9
21	Miscellaneous edible preparations	9,53	10,77	2,97	1,92
22	Beverages, spirits and vinegar	4,87	1,36	0,26	0,4
24	Tobacco and manufactured tobacco substitutes	0,09	0,36	0,63	3,84
25	Salt, sulphur, earth, stone, plaster, lime and cement	1,27	2,07	1,1	4,62
32	Tanning, dyeing extracts, tannins, derivs, pigments et	3,54	3,02	0,41	0,33
41	Raw hides and skins (other than furskins) and leather	2,52	0,74	5,83	3,45
46	Manufactures of plaiting material, basketwork, etc.	4,27		2,18	
49	Printed books, newspapers, pictures etc	3,86	4,58	0,24	0,68
51	Wool, animal hair, horsehair yarn and fabric thereof	5,45	6,88	0,65	0,66
53	Vegetable textile fibres nes, paper yarn, woven fabri	4,01	2,49	25,52	15,31
60	Knitted or crocheted fabric	1,66	4,15	0,41	0,96
68	Stone, plaster, cement, asbestos, mica, etc articles	3,95	2,23	0,4	0,62
87	Vehicles other than railway, tramway	2,48	4,19	0,04	0,05
92	Musical instruments, parts and accessories	1,12	3,43		0,1

Source: Author's elaboration on UN COMtrade data

**Figure 4 Kenyan comparative advantages**

Figure 3b: Dynamic Kenya/EU TII vs. Comesa and World-detail on Cut flowers, Edible Vegetables, Coffee & co, Natural Textile (95/02, HS92-2 dig)



Source: Author’s elaboration on UN COMtrade data

**Table 4 Dynamic of Mauritius/EU TII with respect to COMESA and with respect to World (95/02- 2 dig.)**

Code	Mauritius Commodity description	1995	2002	1995	2002
		TII COMESA	vs TII COMESA	vs TII vsWorld	TII vsWorld
1	Live animals	2,73	7,25	2,41	7,91
16	Meat, fish and seafood food preparations nes	2,69	1,87	9,21	18,31
19	Cereal, flour, starch, milk preparations and products	-	2,51	-	0,18
31	Fertilizers	-	1,5	0,1	0,6
32	Soaps, lubricants, waxes, candles, modelling pastes	2	10,62	-	0,15
37	Photographic or cinematographic goods	1,17	0,15	0,02	0,03
42	Articles of leather, animal gut, harness, travel good	3,12	4,62	0,78	-
49	Printed books, newspapers, pictures etc	0,51	1,71	0,04	-
51	Wool, animal hair, horsehair yarn and fabric thereof	0,24	2,32	0,03	-
52	Cotton	0,18	-	1,58	1,7
58	Special woven or tufted fabric, lace, tapestry etc	2,45	-	0,42	-
61	Articles of apparel, accessories, knit or crochet	3,98	4,89	18,25	18,46
62	Articles of apparel, accessories, not knit or crochet	2,79	4,22	4,88	5,26
63	Other made textile articles, sets, worn clothing etc	-	-	1,71	-
65	Headgear and parts thereof	1,62	1,37	0,06	0,39
70	Glass and glassware	0,11	1,73	0,01	0,18
71	Pearls, precious stones, metals, coins, etc	0,37	1,41	2,16	2,58
83	Miscellaneous articles of base metal	2,59	0,43	0,09	0,06
90	Optical, photo, technical, medical, etc apparatus	1,4	2	0,19	0,13
91	Clocks and watches and parts thereof	5,05	4,24	2,91	1,54
95	Toys, games, sports requisites	4,16	3,65	0,84	0,52
96	Miscellaneous manufactured articles	2,42	3,54	0,52	0,93

Source: Author’s elaboration on UN COMtrade data

## 5. Conclusion

The aim of the present study is to shed some light on the ongoing Economic Partnership Agreements (EPAs) negotiations. As far as these trade agreements are still a project and that negotiations on a technical level are ongoing, definitive considerations are difficult to draw.

In any case, the analysis highlights that the evolution of the Cotonou Agreement into a set of free-trade Agreements between the EU and the regional groupings present in the ACP region need a certain number of prerequisites without whom, a positive outcome is not to be expected.

First of all, regional integration should be pushed forward inside the ACP region. A striking feature of regional integration agreements especially for what concern the African experiences, is that after a few years of well performance, they tend to lose effect and to convert into empty 'paper arrangements'. In this respect, the study highlights that the S-S-N integration scheme promoted by EPAs has the qualities to evolve into an unexpected success. This somehow new pattern should allow ACP countries to back their regional integration commitments to a strong northern partner. Regional integration organisations within ACP countries might benefit, through EPAs, of the role of the EU as a 'policy commitment anchor'. The credibility spill over arising from the autonomous conclusion of a binding contract with a strong northern partner, able to retaliate heavily after every deviation, is the key issue in this context, and probably represents the more significant feature of these new trade schemes.

The extent of 'deep integration' will be another necessary key point. First and foremost, the EU should be prepared to weaken RoO requirements and foster a higher degree of harmonisation of standards. The findings stress in fact, that the bulk of EU market access constraints is no more represented by tariff barriers but by "tricky" standards and technical barriers (such as sanitary and sanitary measures). The feeling is that international co-operation and specifically the funds provided by the European Development Fund (EDF) should be more and more devoted to this latter aspect targeting specifically private sector development and the extent of the various 'supply side constraints' that impede ACP countries' insertion into the world trade arena.

The study provides then a methodology to assess strengths and weaknesses of ACP countries in negotiating and concluding an EPA. The latter is applied to the case of COMESA, Kenya and Mauritius. The calculation of Trade Intensity indexes (TII) between these and the EU gives us an idea of their dynamic comparative advantages in exporting towards the EU. These findings, associated with a decomposition of the exports dynamism are the starting point to have a clear idea before starting negotiating any trade agreement.

The findings suggest that COMESA, as a whole, benefits from trade preferences especially in the agricultural sector. The EU agricultural market, even being to a certain extent protected, represents for COMESA the bulk of its comparative advantage with respect to the world. In this respect, the most significant sectors to be taken into account as strong negotiating points are Cut-flowers, Fishery, Sugar, Tobacco, Coffee and Tea.

The range of processed products COMESA exports competitively is very narrow. Industrial and metal sectors are losing ground as other traditional exports like Cotton and Precious stones. Good dynamics show up in the Fertiliser and Chemical sectors along with the Textiles & Clothing industry (T&C). The demand and competitiveness effect analysis shows similar trends for the same segments. Notably, Food preparations, especially the fish ones, gains massive margins of competitiveness vis à vis the rest of the world. Huge surge in EU demand are present in the Tobacco, Oil and Fuels, and T&C sectors.

Kenya and Mauritius, taken as case studies, show general results similar to the ones of COMESA. Nevertheless, this analysis proves to be interesting in comparing two different dimension of trade: the regional and the absolute one. Indexes are calculated both with respect to COMESA countries as a whole and with respect to the world. Even if other sectors show interesting results, Kenya's exports to the EU enjoy, respect to the world and its regional peers, high comparative advantages in sector like Cut-flowers, Fishery and Food preparations, Coffee and Tea. Mauritius' exports composition shows its main strength in Textiles & Clothing sector. Very good record belong to the Sugar sector, (specifically as a consequence of the 'commodity protocol' accorded to this country in the framework of the Cotonou Agreement) and other

promising results are obtain for sectors like Clocks and watches, and Sunglasses. These latter sectors gains competitiveness specifically in the COMESA market. This might have strong implications in the regional integration process, meaning that the latter is clearly a promising market for Mauritius' exports.

This last point becomes more interesting taking into consideration the Textile and Clothing industry in Mauritius. This sector case study shows in fact that this industry, for long at the roots of the economic development of the country, is losing ground. The TII towards the EU, are declining and the competitiveness analysis show similar results. Is there an industrial change coming up ? If so, the negotiators should take it strongly into account in concluding EPA. The long term view is in fact the most important dimension in the present negotiations. Furthermore, the promising signals shown by the aforementioned Clocks and watches Sunglasses and Glassware industries should be taken into account in trying to obtain, through the negotiations, particularly good 'market access' conditions.

Kenyan fishery industry provides a striking example of how much importance should be devoted to the negotiations of fair and clear provisions regarding sanitary and phyto-sanitary regulations. The latter sector suffered several imports bans from the EU in the last decade, and has been seriously damaged by these. Even if findings suggest that nowadays the Kenyan fishery exports are performing well in the EU markets, the lesson to be learned is that EPAs arrangements on these regulations should build up a framework aimed at supporting active cooperation between the parties opposed to unilateral actions. Technical co-operation should play a key role. Given that huge concessions on these regulations from the EU are not to be expected, the only way out seems to improve the capacity of Kenya (or conversely of ACP countries) to meet the standards required by the EU.

All in all, the study shed a positive light on EPA. The evolution of the trade provision of the Cotonou agreements is a necessary step to favour the full insertion of ACP countries into the world trade arena. Furthermore, even if negotiations of EPA are a difficult political and economic process, both parties might be greatly benefited by the conclusion of a good arrangement. The final verdict is then, that the huge potentialities of EPAs are worth the efforts. A failure to achieve the aforementioned objectives would represent a failure for the EU North-South pattern of trade and ultimately, another bottleneck for the regional integration processes in ACP regions.



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## Appendix

The total variation of good 'i' exports to EU from region 'j' is decomposable as follow:

$$\Delta X_{i,j}^{EU} = \Delta X_{i,j}^D + \Delta X_{i,j}^C + \Delta X_{i,j}^R$$

Where  $\Delta X_{i,j}^{EU}$  represents the total absolute variation of good 'i' exports from region 'j' to EU (and conversely the total variation in EU's imports of good 'i' from the region 'j'). The factors  $\Delta X_{i,j}^D$ ,  $\Delta X_{i,j}^C$ ,  $\Delta X_{i,j}^R$  represent respectively the variation of exports due to a variation in EU demand, due to a variation in competitiveness of region 'j' and due to a residual component.

Let's define:

x = region 'j' exports' trade value<sup>47</sup> at time 0,

y = region 'j' exports' trade value at time T,

a = total EU demand at time 0,

b = total EU demand at time T;

hence:

$S_0 = x/a$  and  $S_t = y/b$  are the shares of region 'j' exports in EU demand, at time 0 and t,

$D_0 = a$  and  $D_t = b$  are EU demand at time 0 and t.

As a result from time 0 to time T,

$$\Delta X_{i,j}^D = S_0 \cdot (D_t - D_0)$$

$$\Delta X_{i,j}^C = (S_t - S_0) \cdot D_0$$

$$\Delta X_{i,j}^R = \Delta X_{i,j}^{EU} - (\Delta X_{i,j}^D + \Delta X_{i,j}^C)$$

the residual effect is calculated by subtraction of the two aforementioned effects from total regional variation in good 'i' exports. Demand and competitiveness cannot alone explain all the variation.

Given

$$\Delta X_{i,j}^{EU} = (y - x)$$

hence:

$$\Delta X_{i,j}^R = (y - x) - \left( \frac{xb}{a} + \frac{ya}{b} - 2x \right) = x \left( \frac{a-b}{a} \right) - y \left( \frac{a-b}{b} \right) = (b-a) \cdot \left( \frac{y}{b} - \frac{x}{a} \right)$$

$$\Delta X_{i,j}^R = (D_t - D_0) \cdot (S_t - S_0)$$

The real significance of the residual remains, in any case, unexplained by the variables we use in this study. Further research are to be performed to better comprehend the economic implication of such component.

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<sup>47</sup> Trade value = (price\*quantity).