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TRADE STRUCTURE AS A CONSTRAINT TO MULTILATERAL AND REGIONAL ARRANGEMENTS IN SUB-SAHARAN AFRICA: THE WTO AND THE AFRICAN UNION

Alice Sindzingre *

*Research Fellow, CNRS Paris-University, Paris-10-EconomieX; Associate Researcher, Institut de Sciences Politiques (IEP), Bordeaux; Visiting lecturer, School of Oriental and African Studies, London.

E-mails: sindzingre@wanadoo.fr; as97@soas.ac.uk

Abstract

A crucial factor explains the poor economic performance of Sub-Saharan Africa, i.e. the risky market and trade structure that is entailed by commodity dependence, because of the volatility of commodity prices, therefore the volatility of earnings and its negative fiscal effects, which in turn threaten to create poverty traps. This structure is compounded by additional constraints stemming from globalisation, and trade reforms that are conditional on programmes with the international financial institutions (IFIs) and WTO membership. The paper shows that the detrimental factors of commodity dependence and lack of an industrial base, though they constitute crucial obstacles to long-term growth in Sub-Saharan Africa, have not been addressed in depth by the IFI programmes and the WTO rules and negotiations, including albeit welcomed decisions on the enhancing of market access and the removal of agricultural subsidies. The latter, particularly when some form of tariff escalation is maintained, does not transform the commodity-exporting structure of Sub-Saharan Africa. The disappointment with multilateralism that emerged in the 1990s has reinforced the thrust towards regional and bilateral agreements. The paper argues that these agreements do not constitute a preferable alternative to trade liberalisation on a multilateral basis because they are often ineffective in helping Sub-Saharan African countries to diversify and reinforce their industrial sectors. North-South agreements such as the EPAs with the EU do not appear to bring about improvements. The highest level of regional agreement, the African Union, is affected by several inefficiencies and is not likely to bring about significant changes. The increasing presence of China may represent a major factor for change. China, however, is mainly driven by the securing of the inputs that are vital to its growth: it is therefore also unlikely, the paper argues, to change the specialisation of SSA in commodity production and exports. The effectiveness of multilateral and regional trade policies therefore depends on allowing room for developmental policies, e.g., fostering the import of industrial products from low-income countries and a policy space for their domestic industrial policies.

Keywords: trade liberalisation; commodity dependence; regional agreements; Sub-Saharan Africa;

So what are the “big issues” facing world trade today?(...) The third issue is where and how trade opening should take place, whether to do it multilaterally, or do it through bilateral FTAs or regional integration, or both at the same time. Pascal Lamy, Kuala Lumpur, 17 August 2007.

Introduction

The disappointing growth performance of low-income countries since the 1980s, particularly in Sub-Saharan Africa (SSA), is one of the key challenges to both international financial institutions (IFIs) and theories of development economics¹. Many SSA countries, however, have exhibited better growth rates since the mid-2000s due to a change in global demand driven primarily by China. But Easterly (2001a) has shown that ‘per capita growth in the typical developing country between 1980 and 1998 was zero’, despite an increase in adjustment lending. Economic stagnation in low-income countries here contrasts with other regions, such as Asia, which has questioned the concept of catching-up, and even suggested a divergence between groups of countries.

The development economics literature has provided many theoretical explanations for this. A first set of explanations focuses on factors ‘within Sub-Saharan Africa’: in particular, its market structures (particularly the dependence on primary commodity exports) and the related factor of unfavourable endowments (natural resources, geography); inefficient domestic policies - which justifies policy reform and conditional lending by the IFIs, as well as the latter’s stance that “policy matters”-; governance problems, inefficient institutions, and a specific political economy (e.g., predatory regimes). A second set of explanations focuses on factors situated ‘outside Sub-Saharan Africa’: e.g., international constraints, exposure to global markets, competition, multilateral and regional agreements (on trade, investment), and trade policies of developed countries (trade barriers).

The paper argues that two factors have been crucial in explaining the disappointing performance of SSA and most low-income countries. These two factors question some key assumptions in development economics, both under its neoclassical perspective (e.g., a limited role for the state) and the “heterodox” one (e.g., commodity exports may be detrimental to growth). These factors also call into question the lending and aid mechanisms that are conditional on reforms, which are provided by the IFIs to low-income countries: they question the fact that, in theory and at the policy level, commodity dependence and reforms such as trade openness are usually analysed independently, while one of the key problems in Sub-Saharan Africa may be the reciprocal effects (or the lack of impact) between commodity dependence and trade liberalisation.

The pre-eminent factor is the market and export structures, which are specific to SSA: the dependence of Sub-Saharan African countries on commodities for their exports constitutes a crucial explanation of their poor performance (due, e.g., to price volatility and vulnerability to external shocks), while little progress has been made over the last

¹ The author is grateful to Raymond Toye for his very relevant comments and suggestions on this paper, though the usual caveat applies.

century with regard to diversification. This explanation is currently challenged by growth rates that are caused by the increase in commodity prices ensuing from the global demand in commodities, in particular those driven by China. This raises new questions as to whether this demand for commodities produced by low-income countries weakens the theoretical arguments regarding the negative impact of commodity dependence. This also reactivates the debate in regard to the possibility of a commodity-based growth (and low value-added products) in environments characterised by unskilled labour, as well as the related debate on industrialisation as a necessary step in the growth process in a context of globalisation.

The second factor is that while ‘policies matter’, most of those that were implemented in SSA turned out to be inefficient. Two decades of policy reform and liberalisation, in particular trade liberalisation, linked with IFI conditional lending did not help SSA countries to escape the constraints ensuing from its market structures and dependence on primary products, nor trigger a sustainable path of growth, whereas conditional lending has limited the ‘policy space’ of governments. This is compounded by the negative effects of aid dependence. The processes of multilateral trade liberalisation that were pursued under WTO rules had similar effects.

Multilateral trade rules appeared to include many constraints and uncertainties for the member countries, and the WTO came under increasing criticism. Regional arrangements had existed for a long time and were often viewed as sub-optimal both in economic theory and in their actual implementation, especially in developing countries. Uncertainty in the Uruguay Round negotiations (1986-1994) and doubts regarding multilateralism have led to an increase in regional agreements in the 1990s (Low et al. 2006). Many developing countries implemented regional agreements that sometimes intensified trade liberalisation within their member countries. Multilateral and regional agreements have multiplied and combined with the IFI liberalisation reforms, creating complex and overlapping sets of rules, which have been coined as a ‘spaghetti bowl’.

In the case of SSA, however, these agreements do not seem to be efficient for enhancing growth and helping countries to escape from the trap of commodity dependence, due to several factors: the fact precisely that regional trade agreements and liberalisation do not address the problem of commodity dependence; the fragility of industrial sectors; and the lack of diversification. North-South agreements such as the EPAs, which succeed the Cotonou Agreement, and a regional agreement at a continental level such as the African Union, may be analysed in this perspective. This ineffectiveness has weakened the legitimacy of regional institutions and arrangements, which is combined with a domestic political economy that undermines the credibility of economic policy in general in the eyes of SSA civil societies.

In sum, growth in SSA is hindered by the major constraint of its market structures - dependence on commodities and on external finance, the latter being mostly IFI lending conditional on trade reform. A crucial question is whether this constraint is addressed by the current reforms recommended by the IFIs or multilateral agreements such as with the WTO: if not, may regional arrangements be efficient solutions for SSA economies?

Important theoretical issues in development economics are at stake, in particular the endogeneity of these factors. Factors taken separately did not result in poor performance in other countries: it is their combination, the presence of cumulative causation and threshold effects that have generated the current outcomes in low-income countries -

which explains why similar factors and policy reforms may have had positive effects in other settings, such as in Asia. Likewise, commodity exports and natural resource endowments are not a 'curse' per se, as has been demonstrated by the Scandinavian countries², which supports the argument that "policies matter". The concept of 'poverty trap', which refers to these cumulative causation and threshold effects ('traps'), has been recently reactivated in development economics, with the question of whether low-income countries, in particular some SSA countries, are in fact caught in a poverty trap. Against this concept, Easterly (2005) and Kraay and Raddatz (2006) have underscored that SSA has been growing for the past five decades, even if its rate of growth has been slow.

Another theoretical issue refers to policies: a comparison with other regions exhibiting high growth rates, e. g., the Asian 'developmental model' (Japan, Korea, Taiwan) and more recently China reveals that while policies mattered, they differed from those recommended by the IFIs or WTO principles, especially regarding trade liberalisation. These Asian states did not depend on endowments of natural resources, but relied above all on state intervention, public policies targeted to incentives towards industrial development, and strong institutions.

The paper is structured as follows. Section 1 analyses the constraints to growth in SSA countries that ensue from their trade and export structure, in particular primary commodity dependence, which is compounded in some low-income countries by an additional dependence - aid dependence. Section 2 examines the additional constraints for SSA stemming from trade liberalisation, which is central to IFI programmes as well as WTO rules. Section 3 finally explores whether regional trade arrangements address these constraints better than multilateral arrangements, firstly regarding the theoretical debates on the respective gains and costs of multilateralism vs. regionalism, then regarding the experiences of regional arrangements in SSA, with a focus on two examples, the prospective EPAs with the EU and the African Union. These arrangements seem unlikely to contribute to the transformation of market and trade structures that hinder sustainable growth in SSA.

1. The constraints ensuing from trade and export structure in Sub-Saharan Africa

This section examines the constraints to growth in SSA countries that ensue from their trade and export structure, above all primary commodity dependence, which is compounded in some low-income countries by aid dependence.

The dependence on primary commodities: the key constraint

It is well-known but bears repetition. Commodity dependence remains a crucial issue in most SSA countries. It is a legacy of colonial market structures (Hopkins 1973) - colonies exported primary commodities while importing manufactured goods from the colonising countries - and of the associated types of taxation, which obliged most of them to produce cash crops and export commodities generating foreign exchange.

² E.g., in the 1990s in Finland, timber represented 40% of exports.

Low-income countries improved their export performance in the 2000s, but this is mostly due to higher international prices of the commodities they export – the ‘commodity boom’ that occurred after 2002 (IMF 2007; see also Appendix 1 and 2). In 2005, Africa recorded its highest shares in world merchandise exports in two decades, due to oil market behaviour over the two preceding years (WTO 2006).

Is this good or bad news for SSA? As shown by the United Nations Conference on Trade and Development (UNCTAD), contrary to the previous decade, the trade value of computers and other electronic products expanded no faster than that of manufactured goods, and electronic products have not regained their dynamic role in the expansion of trade in manufactures in the 1990s when the export value of electronic goods rose twice as fast as that of all other manufactured goods. It may be bad news because the key negative dimension of commodity dependence is volatility, while export concentration is increasingly recognised as negative *per se*. The increase in commodity volatility – for several reasons, e.g., financial globalisation – is a matter of heated debate: nevertheless, 2006 was characterised by the volatility of primary commodity prices.

The relevant perspective should be the long term rather than the short term. SSA may exhibit an increased trade orientation, but the share of SSA in world trade continues to decline (IMF 2007, see also Appendix 1). Its exports have grown more slowly than world exports. From the mid-1950s to 1990, SSA’s share of global exports fell from 3.1 to under 1.2% (Amjadi and Yeats 1995). According to UNCTAD³, the share of SSA exports in world exports was 3.8% in 1980, 2.0% in 1990, 1.5% in 2000, with a slight improvement in 2004 (1.6%). The share of SSA imports in world imports was 3.2% in 1980, 1.6% in 1990, 1.2% in 2000, with similarly a slight improvement in 2004 (1.4%).

As highlighted by UNCTAD (2003a), a key point is that SSA marginalisation in world trade does not reflect some intrinsic incapacity, but rather its inability to sustain growth: SSA failures are developmental failures, not export failures. Africa’s trade performance reflects its problems regarding financing, efficient logistics, capital and skills, which play a key role in international trade.

Indeed, the structure of SSA exports exhibits the following pattern (World Bank *World Development Indicators/WDI* 2004, 2006): in 2004: food: 16% of exports; agricultural raw materials: 5%; fuels: 38%; ores, metals: 10%; manufactures: 31%. In 2002: food: 17% of total merchandise exports; agricultural raw materials: 6%; fuels: 29%; ores and metals: 8%; manufactures: 35%. In 2001: food: 16%; agricultural raw materials: 6%; fuels: 31; ores, metals: 8%; manufactures: 33%.

SSA has not diversified the structure of exports after two decades of structural adjustment (UNCTAD 2001)⁴. It relies on primary commodities since the colonial period: 95.3% of SSA exports were primary commodities in 1980 (oil and non-oil), and were still at 81.3% in 1997. The export pattern does not show any product diversification: in 2005: the share of fuels has risen to over half of total SSA exports (IMF 2007, table 4.1).

³ *Handbook of Statistics*, 2007, selected statistics for Africa.

⁴ As underscored by the World Bank *Global Economic Prospects* (2002, p. 63): in SSA “agricultural exports are concentrated in five major crops (cocoa, coffee, cotton, sugar, and tobacco), which, in 1990–95, accounted for an estimated 62% of total agricultural exports. Export concentration has hardly changed over time, since these same five crops represented 63% of total agricultural exports in the 1970s”.

This is particularly clear in oil-exporting countries: in 1990, oil represented 90% of Nigerian exports; in 2002, 100%, 98% in 2004 (WDI 2004, 2006)). In 1990, agricultural raw materials represented 62% of the total exports of Mali, and 94% in 1999 (WDI 2001) but 42% in 2003 (WDI 2005). In Benin, however, they represented 56% in 1990, 71% in 2001, 59% in 2003, 49% in 2004 (WDI 2003, 2005, 2006). In Cameroon, they represented 14% in 1990, 21% in 2001, 20% in 2003, 24% in 2004 - but fuel represented 47% of exports in 2004 (WDI 2003, 2005, 2006).

SSA primarily trades with Europe. SSA exports go first to Europe, followed by North America and Asia; imports from North America are small while imports from Asia are increasing (WTO *International Trade Statistics*, quoted in Low et al. 2006). In 2004, Africa supplied 25% of Europe's, 20% of USA and Canada's and China's crude oil imports⁵. In 2006, due to the global commodity boom, SSA exports towards the US overtook those towards the EU due to rising exports of fuels and other commodities (IMF 2007, figure 2.6).

In addition, LDCs and especially SSA are affected by high levels of export concentration: e.g., Mauritania exports 13 products, Angola 13 products, Congo 30 products, vs. e.g., 221 for Ireland or 214 for Portugal) (Jansen 2004, from the UNCTAD *Handbook of Statistics* 2002).

An important reason why dependence on commodities for exports is considered as negative for SSA is that it generates uncertainties. These uncertainties particularly threaten SSA oil-producing countries - Angola, Cameroon, Chad, Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Gabon, and Nigeria -, as oil booms and busts are very difficult to manage in terms of fiscal deficits: financing fiscal deficits is fraught with uncertainty because there are many variables that are outside a government's control, e.g. oil reserves and oil prices (Olters 2007).

Uncertainties are underscored by the IMF: according to the World Economic Outlook (September 2006), the period 2002-06 witnessed a rise in fuel and non-fuel commodity prices, with non-fuel commodities having a higher share in world trade (14%, 2000-04) than fuel commodities (7%). The WEO underlines that many developing countries are highly dependent on oil as well as non-fuel commodities for export earnings: 36 countries have a ratio of non-fuel commodity exports to GDP of over 10%, and 92 countries, over 5%. A key problem is that export earnings are often generated by a small number of commodities. The IMF has mixed views regarding the future dynamics of commodity markets. Prices, particularly of metals, may remain high, but for some studies, this is mostly due to speculation that has decoupled metals prices from market fundamentals. Compared with the prices of manufactures, however, commodity prices stopped falling in the 1990s as the growing globalisation of the manufacturing sector slowed producer price inflation.

The IMF does not disagree with studies such as those of Raul Prebisch and others published since the 1950s that have highlighted the long-term downward trend over most of the 20th century: prices continue to decline gradually in real terms, as during most of the past century, and prices of most non-fuel commodities remain below their historical peaks in real terms. For the IMF, over the past five decades, commodity prices have fallen relative to consumer prices at the rate of about 1.6 % a year, a downward

⁵ SWAC *Atlas on Regional Integration, economic series: oil and gas*, April 2007.

trend that is explained by large productivity gains in the agricultural and metals sectors relative to other sectors.

Interestingly, the World Bank underscores the same uncertainties (World Bank 2007). SSA is expected to enjoy the 4th consecutive year of growth in 2007. In 2006, average growth in oil exporting countries was 6.9%, where growth is in line with increasing capacity (Angola, Equatorial Guinea, Nigeria). For the World Bank, growth in SSA mostly stems from exports to China and higher commodity prices for oil and metals. A crucial issue, however, is that SSA manufactured exports are simultaneously affected by the competition from China and India (e.g., in South Africa), particularly the SSA clothing industry: textile exports to the US fell by 17.3% and to the EU by 16.9%. However, a positive outcome of Chinese demand for cotton and reduced price subsidies in the US and EU is the possible benefits for cotton producers in West Africa. The World Bank expects oil prices to remain highly volatile.

The key point is that it views SSA as the region that is the most vulnerable to declines in prices of energy and minerals because it relies too much on commodity exports. What is worrying for SSA, the Bank argues that the oil and mineral exporters are the most vulnerable countries to a commodity price shock.

Price volatility and poverty traps

A conceptual question that is linked to the dependence on primary commodities is that of the existence of a 'poverty trap' in which SSA producing countries would be caught due to declining and volatile commodity prices. Poverty traps would imply that even if SSA exports were less resource-based and enjoyed a rise in the share of manufactures in their exports, they would experience a reduction in export revenues. In addition, commodity price shocks and volatility aggravate poverty in already poor countries.

The long-run behaviour of prices is a matter of intense debates. It is usually explained by differences in demand elasticity for manufactures and commodities, as well as by the market power enjoyed in manufactured goods by developed countries. Alternative explanations are based on technical progress and secular improvements in agricultural productivity. Other factors are trade policies (agricultural subsidies, tariff escalation) in developed countries and the structure of the international markets for commodities.

For the Food and Agriculture Organization (FAO), SSA countries are characterised by a sequence of traits that are linked and function as a trap: dependence on primary commodities, low productivity, low value added, high competition in their main sector of activity. Slow export growth (decrease in the real price of products), diminution of market shares, concentration of exports in a few products for which global demand is declining, all these features generate the poverty trap: lower international prices of commodities, lower domestic agricultural income, lower agricultural wages, lower public revenues, deterioration of the terms of trade and of the balance of payments. For UNCTAD, global trade is boosted by manufactures, not by agricultural commodities.

The characteristics of prices of primary commodities remain controversial, especially the decline in relative prices vis-à-vis manufactured goods, but there is a consensus on their volatility. Over the long-run, the volatility of SSA countries' terms of trade is detrimental to growth, and terms of trade shocks are very costly for these countries. Shocks are not symmetrical: the negative effects from a negative price shock are larger

and more long-lasting than the positive ones; in commodity price cycles, price slumps last longer than booms, and may have more detrimental consequences (e.g. on manufacturing sectors) (Cashin et al. 2002, Jones and Olken 2005).

A well-known theoretical explanation of commodity prices behaviour and the negative impact of the dependence on commodities as a main resource is the Prebisch-Singer hypothesis of a secular decline in world real prices of commodities and a deterioration in the terms of trade for developing countries vis-à-vis industrialised countries, due to the deterioration in the commodities/manufactures terms of trade. The negative effects of commodities exports are also underlined by the theory of Dutch disease, and the more questionable concept of the 'natural resources curse'.

Commodity dependence is compounded by the 'adding-up problem' (or 'fallacy of composition'). Prices decline if several countries simultaneously export the same commodities, if the price elasticity of demand for commodities is low and the income elasticity of demand is low: when demand does not increase, the revenue from a commodity with low price elasticity of demand falls when supply is increased. The additional supply causes price to fall proportionately more than the increase in supply (e.g., when new producers enter markets where prices are already instable and where low-income countries are already in tight competition, such as Vietnam with coffee). These processes were analysed via the concept of 'immiserizing growth' long ago (Bhagwati 1958): increases in output may lead to a deterioration of the terms of trade that offsets the beneficial effects of expansion and reduces the country's real income.

Another controversial issue is that of comparative advantages and factor endowments. The question is whether SSA has a comparative advantage in primary commodities exports. SSA endowments are constituted by relatively abundant natural resources and relatively scarce skilled labour: there is little hope for manufacturing for export, except in unskilled-labour-intensive primary processing activities, the constraint being the skills/land ratio (Wood and Mayer 1998). The possible options and growth paths for SSA therefore remain subject to debate - exports of primary commodities, or processed commodities, or industrialisation strategies?

The ambiguous impact of China

The debate on the relationship between commodities and growth is complicated by the emergence of China as a major player in SSA and its huge demand for commodities, many of them being produced in SSA (e.g., oil, cotton, copper) (Appendix 3). China's trade with SSA increased 50-fold between 1980 and 2005, reaching \$40 billion, though it represented only 2.5% of Chinese foreign trade. China and India together account for about 10% of both SSA exports and imports - 25% more than the share of these two countries in world trade (Broadman 2006). SSA imports from China are mostly consumer goods and exports to China mostly oil and other primary products⁶. The emergence of China as trade partner for SSA relies on fuels and raw materials: from small amounts in 1990, China's share in 2005 represented one-fourth of SSA exports of raw materials and one-sixth of fuels (IMF 2007, table 4.3).

⁶ SWAC *Atlas on Regional Integration, economic series: Africa and China*, December 2006.

The increasing presence of China as a major trading partner and investor is a factor of change, with the possible prospect of SSA growth being boosted by it and other large emerging countries (India, Brazil). Outcomes are uncertain, the process is ongoing, and is the subject of a growing body of literature.

Many arguments underline the positive dimensions of China for SSA: in particular, capital now flows in a region that was characterised by its scarcity. Commodity prices have increased for producing countries, exports have been boosted and growth rates have risen. There are many pessimistic arguments, however. Such capital surges entail the well-known risk of Dutch disease; China is mainly driven by a quest for natural resources and the securing of energetic needs necessary to its growth, which is therefore very unlikely to change the specialisation of SSA in commodity production and exports. For some commodities (e.g., copper, aluminium), China's consumption represented in 2003 between one-fifth and one-fourth of world consumption (Khan 2007). China imported more than 25% of world imports of cotton in 2004 (Goldstein et al. 2006)⁷. Angola, South Africa, Sudan, DR Congo, Equatorial Guinea, Nigeria and Gabon represented in 2005 90% of SSA's exports to China (Broadman 2006).

China's demand for natural resources maintains SSA in its century-long export structure and may even increase its dependence on primary products: indeed, while SSA exports primary products to China, it imports from China cheap manufactured products that are more competitive than those locally produced. There are long-term investments from Chinese entrepreneurs in SSA domestic industrial sectors (e.g., the largest ice-cream factory in Malawi⁸). The manufacturing and the construction sectors attract China's FDI (UNCTAD-UNDP 2007). FDI, however, are skewed towards the natural resources sector - most FDI are in the countries that export to China (e.g., Sudan, Nigeria) and in the primary sector, such as oil and copper (Broadman 2006).

As highlighted by Zafar (2007), trade between China and SSA in 2006 totalled more than \$50 billion – mainly based on imports of oil from Angola and Sudan, timber from Central Africa, and copper from Zambia, which has increased the price of oil and metals from SSA and the region's real GDP. Chinese demand for oil, however, has increased the import bill for many SSA oil-importing countries. Zafar also confirms the findings of many other studies, i.e. that China's exports may threaten local production in the manufacturing sector, in particular its exports of low-cost textiles.

The IMF, in its *World Economic Outlook 2006*, was cautious as to whether the rise of China and other large emerging markets will induce fundamental changes in long-term price trends, and whether this demand will be sustained. It warned that prices follow the global product cycle, which may lead to the decrease of some commodity prices when the pursuit of growth in China will have shifted its demand for certain commodities.

⁷ It is worth quoting *The Economist Intelligence Unit ViewsWire, Energy for China* (12 July 2007): “After two decades of rapid economic growth, China is now the world's second largest energy consumer (behind the US). Total energy consumption has risen by an annual average of more than 11% during the past five years, reaching 1.7bn tonnes of oil equivalent in 2006 (...). As China's dependence on foreign oil and gas rises, efforts to secure access to multiple sources of imports will continue. Already, China has actively sought to diversify its foreign supplies, focusing not only on the Middle East and Central Asia, but also increasingly on Africa, South-east Asia and Latin America. By 2025, according to the US Energy Information Administration, foreign supplies will account for a dizzying 77% of China's total oil consumption, compared to the current level of less than 50%”.

⁸ *New York Times*, 18 August 2007.

Additional constraints stemming from dependence on foreign aid

Aid has a crucial fiscal and institutional impact. It is increasingly acknowledged that aid may not be the solution to economic development, but the problem, especially in aid-dependent countries, i.e. in most SSA countries. Aid ineffectiveness has been the subject of reflections for a decade, which resulted in a series of reforms (budget support, attempts at improving donors' coherence, etc.). Improvements are disappointing: intrinsically, donors have no incentives to cooperate in the 'aid game', as aid is a dimension of foreign policy (Alesina and Dollar 1998).

Some SSA countries are excessively dependent on aid, for budgets, investment, maintenance, infrastructure, health, education (Appendix 4). SSA dependence on aid represented 28 \$ per capita in 2002 or 6.3% of GNI (4.5% in 1997); 34\$ per capita and 6% of GNI in 2003; 36\$ per capita and 5.3% of GNI in 2004 (*WDI* 2004, 2005, 2006). In 2002, aid represented 32.2% of gross capital formation; 29.5% in 2003; 26.1% in 2004 (24.5% in 1997).

There are some extreme cases: in the DR Congo, in 2003, aid represented 99.9% of the GNI; in 2004, in Sierra Leone, 34.3% of GNI; in Liberia, 53.4% of GNI; in Burundi, 54.6% of GNI. In Mozambique, aid amounted to 25% of GNI in 2003 and 85.7% of gross capital formation. Other top SSA aid-dependent countries are Sao Tome, Sierra Leone, Mauritania, Eritrea, Guinea Bissau, Burundi, Ethiopia, Rwanda (*World Bank African Development Indicators/ADI* 2004). In some countries, however, dependence ratios are low, e.g., Nigeria, Botswana, South Africa (less than 1% of GDP). SSA countries, however, are not the worst cases: e.g., in Haiti in 1997, aid represented 93.4% of central government expenditure; in Nicaragua in 2002, 84.9%.

Donor proliferation creates additional problems. As underscored by the World Bank (*World Bank-IDA* 2007), the average number of donors per country nearly tripled over the last half century, rising from about 12 in the 1960s to about 33 in the period 2001-2005. The number of international organisations, funds and programs is now higher than the number of developing countries they were created to assist. Aid channels are multiple and generate an additional burden on the already weak implementation capacities in low-income countries: donors impose their own processes for projects and recipient civil services are overwhelmed by their requirements. This combines with the fragmentation of aid and the associated transaction costs: in Tanzania for example, 700 projects were managed by 56 parallel implementation units, half of all technical assistance was not coordinated with the government and 541 donor missions came during 2005 (17% involving more than one donor) (*OECD-DAC progress report* 2006, quoted by *World Bank-IDA* 2007).

Aid dependence is a problem that is acknowledged by the IMF, on the grounds that it induces absorption and spending problems (Gupta et al. 2005). The IMF has even questioned the aid-growth link: here its perspective differs from that of the World Bank (Rajan and Subramanian 2005a, b, *IMF-IEO* 2007). Aid dependence has many detrimental economic consequences: in low-income countries in particular, aid surges may create Dutch disease effects.

As for commodity prices, a key problem is aid volatility (which is highlighted by the IMF, Bulir and Hamann 2006). Aid flows are unpredictable. In addition, they are even

more volatile than fiscal revenues, particularly in highly aid-dependent countries. This relative volatility increases with the degree of aid dependence (measured by the aid-to-revenue ratio) and its effects compound those of public revenues volatility, which itself ensues from commodity price volatility. Aid therefore may not resolve the problems of low-income countries, but contribute to them.

Negative effects of aid dependence are not only of an economic nature: aid dependence affects state institutions, via its negative fiscal impact - on public revenues -, and its detrimental effects on the relationship between the state and citizens. If governments raise a substantial proportion of their revenues from aid, they are less incited to build their legitimacy as they are more accountable to donors than citizens (Moss et al 2006).

2. The mixed gains from trade liberalisation: IFI conditional lending and WTO membership

In this context, trade reforms – trade liberalisation ensuing from IFI programmes and WTO membership - have exhibited mixed gains and have generated additional constraints. These constraints operate at the economic level, such as the fiscal impact, the sectoral impact due to lack of competitiveness, as well as at the political economy level, such as with asymmetric information and bargaining power. The conditions for trade liberalisation to benefit SSA countries remain a matter of debate: it has represented an additional constraint on SSA economies, but does not appear to have addressed and resolved the key obstacle to growth of excessive dependence on primary products.

The mitigated effects of IFI programmes

Due to a sharp drop in commodity prices and severe external shocks in the end-1970s-early 1980s, most SSA countries suffered acute balance of payment and fiscal crises, which became a debt crisis and obliged them to ask for the support of the IMF and the World Bank, the latter's lending, however, being conditional on policy reform.

SSA terms of trade suffered a clear decline: with an index set at 100 in 1995, SSA terms of trade evolved as following: 160.6 (1980), 96.0 (1993), 92.3 (1998), 108.9 (2000), 109.5 (2002) (ADI 2004). The decline was aggravated by volatility: with the index set in 2000 at 100, SSA terms of trade evolved as follows: 141 (1980); 85 (1998); 101 (2003) (ADI 2005). Export unit values also suffered a decline over the last decade: with an index set at 100 in 1995, it represented 123.5 in 1980 but 90.1 in 2002. Signalling the increase in global demand created by China, the 2000s witnessed an improvement: the index fixed at 100 in 2000 increased to 115 in 2003 (ADI 2005).

The IMF (focused on stability of the international financial and monetary system) and the World Bank (which is a development bank) have different mandates and put forward different theoretical frameworks. The IMF addresses balance of payment problems ; it therefore provides short-term relief and proposes stabilisation policies that are more focused on the demand side, while the World Bank addresses more structural problems, which led to the structural adjustment programmes that were part of its conditional lending in the 1980s: they were centred on the supply side, i.e. adjusting

wages and prices, removing 'rigidities', liberalising markets, improving allocative efficiency of markets, product markets and labour markets. The theoretical paradigm relied on the theory of absorption (i.e. private consumption, domestic investment and government expenditure), which explained the problems of SSA countries by the excess of absorption relatively to their level of income. IMF stabilisation programmes therefore prescribed the reduction of domestic demand, fiscal deficits, and the stabilisation of public spending, i.e. reduction of the wage bill; increase of public revenues; broadening the tax base; export growth. For the IMF, the determinants of growth were a limited fiscal deficit, trade openness, minimal state intervention, private investment, making the market mechanisms work, "getting prices right" (i.e., wages, goods and services, interest rates, exchange rates).

The key argument of the IFIs that justifies conditional lending – i.e. the exchange of financing for policy reforms - is that whatever unfavourable market structures or initial endowments may be, these can be transformed by domestic policies: "policies matter". The IFIs in the 1980s prescribed policies centred on a minimal state and the adjustment of prices according to market forces, in particular trade openness and privatisation. Here the state is viewed more as the problem (creating price distortions) than the solution.

The so-called 'Washington Consensus' (Williamson 1990) was therefore a package of 10 reforms: fiscal discipline; reordering public expenditure priorities; tax reform; liberalising interest rates; competitive exchange rates; trade liberalisation; liberalisation of inward FDI; privatisation; deregulation (easing barriers to entry and exit); property rights. For the IFIs, failures of reforms are due to domestic policies ("bad" government policies), policy reversals, poor 'governance', governments' 'foot-dragging', partial implementation of programmes, lack of 'ownership'. The World Bank has also often legitimised adjustment by political economy factors: SSA is characterised by rent-seeking governments, and IFIs programmes destabilise the rents, which they extract from marketing boards and state-owned enterprises, for example. The 1980s witnessed little improvement, and the IFIs progressively included a medium-term dimension in their programmes, which induced a closer coordination between the IMF and the World Bank in low-income countries, especially in SSA.

These theoretical frameworks contrast with the economic theories of development that have been elaborated after WWII (e.g., by Paul Rosentstein-Rodan or Gunnar Myrdal). The latter have shown that the state is necessary at the early phases of development, as it is the only agent that is able to reallocate factors - capital and labour -, which justified state-led 'big push' policies. In the context of SSA, these economic theories backed state intervention and import-substitution policies that were implemented after independence, which was compounded by the necessity of building states, civil services, industrial sectors, almost from scratch. It must be noted that for both theoretical frameworks, policies matter: policy reform may trigger a virtuous path of growth.

In some cases, the IFI programmes have had positive effects: e.g., on countries in deep crises, civil wars, economic collapse, e.g., Ghana, Uganda. For some studies, however, IMF stabilisation programmes have led to reductions in output growth (Przeworski and Vreeland 2000) or may have no significant effect on growth (Barro and Lee 2003). Programmes may also have negative distributional effects, e.g., wage compression (Vreeland 2003). IFI programmes may have eroded the industrial sectors that were

based on import-substitution and employment for the labour force exposed to international competition.

As shown by Easterly (2001a), the median per capita growth for 12 countries having incurred adjustment credits more than 15 times between 1980-94, compared to 2.5% in 1960-79, was zero: the IMF and the World Bank made 958 adjustment loans to developing countries over 1980-98, but with ‘disappointing performances’ in terms of growth, despite improvements in domestic policies. Easterly (2001b) coins these decades as the “lost decades” for SSA, “in spite of policy reform” - factors being slow growth in OECD countries, the rise in world interest rates that increased the debt burden of developing countries, and terms of trade shocks. Over time, the mitigated success has led to repeated lending (which the IMF coins as the ‘prolonged users’) since the early-1980s until today.

A more balanced view of the state was promoted in the 1990s, e.g., with Joseph Stiglitz and the World Bank *World Development Report 1997* that recommended to ‘rehabilitate the state’ in developing countries. The role for the state, even here, remains limited: its core missions are the provision of a small number of public goods, such as macroeconomic stability. The IFIs shifted in the late 1990s towards programmes focused on poverty reduction and social sectors, the PRSPs (Poverty Reduction Strategy Papers of the World Bank⁹) and PRGFs (Poverty Reduction and Growth Facilities of the IMF), which are also criticised, in particular regarding the IMF. The latter’s most important function is akin to insurance (short-term relief in time of crisis). Emerging countries exit as soon as it is possible from IMF programmes due to the high political costs associated with borrowing from it (Kapur and Webb 2006). For low-income countries, borrowing from the IFIs has brought about little improvement, structural change and diversification of their economies.

Uncertain effects of trade liberalisation in low-income countries

As is well-known, IFIs policy reforms have been subjected to many criticisms, in particular regarding the relationship between trade openness (liberalisation of exports and imports, market access) and growth. This relationship has become still more debated with the requests of multilateral trade liberalisation linked to WTO membership.

The trade policy-growth relationship follows various channels described by Wacziarg (2001), which depend on the countries concerned, and may differ in poor countries such as in SSA: government policy; domestic allocation and distribution (e.g., price distortions, factor accumulation, investment); technology transfer (e.g., FDI). Trade liberalisation may have positive effects above a certain threshold of income, as it did for some emerging countries. Income and industrial capacities may create threshold effects which maintain low-income countries in poverty (Sindzingre 2007a). Some of the poorest ones seem caught in the poverty trap of commodity dependence, very volatile fiscal resources, lack of incentives for strengthening industrial sectors and investing in human capital, high inequality and high unemployment, hence brain drain and aid dependence that in turn negatively impact availability of local technological skills and

⁹ Replacing earlier World Bank Policy Framework Papers (PFPs), and confidential IMF Letters of Intent.

maintain the commodity-based trade structure. They cannot reach the ‘tipping point’ beyond which they could escape the trap.

The relationship between trade openness and growth appears to be robust over the long run (Maddison 2001). It has been, however, debated in recent history, before the recent wave of globalisation. As emphasized by Clemens and Williamson (2001, 2002), Latin America before WWI exhibited high tariffs and high growth, and Asia exactly the opposite; they argue that high tariffs do not mean necessarily ‘protection’, but rather may signal weak governments, non loyal bureaucracies, land abundance (which means few people to tax), which therefore can rely only on tariffs for raising revenues. Clemens and Williamson show that the trade openness-growth relationship became positive after WWII because countries’ trade partners’ tariffs had decreased. The sign would not be positive if partners’ tariffs had remained much higher, if they were enjoying lesser growth, and if countries were less connected by transportation. Considering the structure of protection rather than average tariffs leads to a less straightforward relationship between trade openness and growth: for example, using late 20th century data, Nunn and Trefler (2004) reveal that if tariffs are calculated separately for skill-intensive and unskilled-labour-intensive industry, countries that have protected the former have grown more rapidly than countries that protect the latter (2004, quoted in Lehmann and O’Rourke 2007).

There are doubts even within the IMF about this relationship, e.g. as to whether the link is a recent phenomenon. As shown by Vamvakidis (2002), from 1870 to the present, econometric exercises do not find a positive growth-openness connection before 1970, and even find a negative correlation for 1920-1940.

The positive relationship between trade liberalisation and growth has also been questioned by Rodriguez and Rodrik (1999), who argue that trade policy in SSA works as it does elsewhere. In their view, trade restrictions are obstacles to exports, and their reduction improved trade performance in SSA. The dismantling of marketing boards and the lowering of import tariffs have increased traditional and non-traditional exports. For Rodriguez and Rodrik, SSA poor performance is explained by its poor infrastructure, its geography, its dependence on a limited number of primary products, which mean that although trade reforms may raise trade volumes, their influence on economic growth is weaker.

A key point is that trade liberalisation may be associated with export growth – but in fact exports of primary products. In Cameroon, for example, trade liberalisation has been associated with an increase in international trade of 70% - but effects must be assessed at the sectoral level - stable exports of wood, but a decrease in agricultural exports (Abena Nguema 2006). As shown by Teal (2002) in the case of Ghana, however, growth in exports is likely to concern traditional primary exports, in this case cocoa: in Ghana, after 15 years of trade reform inspired by the IFIs, non-primary exports have remained very small (and consisted of agricultural processed products), manufactured exports did not increase, and the composition of exports was almost identical in 1999 to that of 1910.

The dismantling of marketing boards and the exposure of producers to global markets has often had negative effects in SSA, because these reforms do not address - and may even aggravate - the key constraints that characterise low-income countries, i.e. uncertainty, the lack of markets for insurance, the absence of state social protection.

Even if they are inefficient in theory, guaranteed prices may have a positive function of providing insurance in environments marked by uncertainty.

A crucial problem for SSA countries is the fiscal effects of trade liberalisation: trade liberalisation may be beneficial for growth, but it entails fiscal costs. Indeed, an important issue regarding the impact of policy reform (trade policy) in SSA is its tax structure, as it is based on external trade, the bulk of which is the export of commodities with volatile prices (Sindzingre 2007b). In low-income countries, due to the weakness of institutions and civil services, taxes are primarily those 'easy to collect', i.e. trade taxes, rather than those that are 'hard to collect', e.g. income tax (Aizenman and Jinjark 2005, 2006).

Trade liberalisation has often had negative effects on the fiscal balance in SSA countries, given the historical dependence of their revenue structure on external trade. There has been a clear decrease in trade taxes in SSA: from 4.9% to 3.5% of GDP for import duties, and from 1% to 0.4% of GDP for export duties between the early 1990s and the early 2000s (Gupta, Powell et al. 2005). The IMF is aware of the problem of the reliance on trade taxes as a source of government revenue (Baunsgaard and Keen 2005): in SSA, trade taxes represent 1/4 of all government revenues. Countries have not equally recovered from other sources the revenues which were lost due to trade liberalisation: for middle-income countries, the recovery amounts to 45–60 cents for each dollar of lost trade tax revenue. Revenue recovery, however, is very weak in low-income countries, precisely the ones most dependent on trade tax revenues: about 30 cents of each lost dollar. There is no evidence that low-income countries which have implemented value added tax (VAT) have recovered better than those which have not.

Constraints ensuing from WTO membership

Trade liberalisation has been reinforced by WTO membership, its rules being based on reciprocity and non-discrimination. As shown by UNCTAD (e.g., the Least Developed Countries/LDCs reports, UNCTAD 2003a), pressure from both IFIs and WTO trade rules have led SSA countries to significantly open their economies during the last two decades. The merchandise trade/GDP ratio increased from 42.4% in 1990 to 54.7% in 2004, while the trade in services/GDP ratio increased from 11% to 12.1% over the same period (World Bank, *World Development Indicators 2006*).

The gains of trade liberalisation for SSA countries, however, have been mixed, in terms of growth, improvement of their share in global trade, transformation of their export structure and export diversification. Even the studies that are optimistic on the long-term gains of WTO negotiations for SSA acknowledge the existence of short-term adjustment costs of trade openness (Low et al. 2006).

As emphasized by Jensen (2007), the poorest SSA countries perceive they are not able to reap the gains that may stem from WTO membership through the sole mechanism of reciprocity, which explains their interest in the Special and Differential Treatment negotiated within the WTO, in particular their demands for a 'policy space'. The latter are backed by UNCTAD— i.e. the possibility to devise trade policies (trade restrictions) that would allow them to implement industrial policies. Openness to global competition and reciprocity with more industrial countries may be viewed indeed as a threat for industrial sectors, which are narrow and fragile. The protection of infant industries,

despite the difficulties of its concrete implementation, has long been considered by the followers of Frederick List¹⁰ as a necessary condition for growth in developing countries. The WTO rules are viewed as ‘shrinking the development space’ (Wade 2002, Shafaeddin 2005) and preventing developing countries from implementing growth strategies that were at the root of the growth of East Asian countries (Amsden 2000). Policy space is viewed as a crucial mechanism of learning and discovering comparative advantages - the ‘self-discovery’ analysed by Hausmann and Rodrik (2003, 2006).

This has contributed to a mitigated support for multilateral liberalisation as embodied by the WTO, and fed both the paralysis of negotiations and the thrust towards regional or bilateral trade arrangements. This mitigated support has been compounded by the toughness of negotiations in the last Round, the Doha Round launched in 2001, e.g. on agricultural subsidies and industrial tariff cuts, which may lead to a stalemate and the ‘hibernation of the Round for years’¹¹. This weak support has characterised the poorer countries that rely on commodities, which therefore do not export high-value added industrial products, exhibit very narrow technological capacities and cannot compete with industrialised countries. In addition, due to low productivity, political economy problems, uncertainty regarding investment and property rights, poor infrastructure, many SSA countries have difficulty competing with low-end products from other developing countries, such as China.

The WTO has not addressed in depth the specific problems created by commodity dependence in SSA countries, including the Doha Round, and despite their efforts, SSA countries have difficulties in making their interests recognised (Gibbon 2007). The weak negotiation capacity of SSA countries within the WTO has indeed been often highlighted, which is associated with a limited participation in the system. This is revealed by the lack of use of the mechanism that was initially devised in order to secure the respect of rules and an equal capacity to exercise their rights for all members, the Dispute Settlement Mechanism: in fact, not a single SSA country has used it in ten years, in contrast with its extensive use by other developing countries (Alavi 2007). Moreover, as shown by Jensen and Gibbon (2007), the Doha ‘development’ Round has devised proposals that were often irrelevant, or even entailed negative effects for SSA countries: in the WTO the OECD countries’ liberalisation entails the risk of increases in agriculture food prices in countries depending on food imports for food security, when removal of subsidies will be effective. Most low-income SSA countries are indeed net food importers.

At the same time, subsidies are a complex issue. Applied in industrialised countries, they have hindered the development of agricultural and industrial sectors in SSA countries, e.g. for rice, vegetables, and meat (Jadot and Rolland 1996). Likewise, the extension of the WTO’s mandate to issues going beyond the traditional trade barriers (i.e., tariffs and quotas), such as standards and intellectual property rights, has met with little support on the part of SSA countries.

Indeed, the issue of subsidies, as shown in the negotiations in the agriculture sector, involves ambiguous outcomes. The reduction in subsidies in agriculture may reinforce

¹⁰ The economist who developed the infant industry argument in the 19th century (Shafaeddin 2000).

¹¹ Without an accord by early 2008, the Doha Round is expected to go into hibernation for years, if not indefinitely, as election campaigns get underway in the US and then in India (Bridges, 18 July 2007).

the specialisation of SSA countries in primary commodities. The cuts in farm subsidies in developed countries, especially those of the US and the EU, which are consistently demanded by low-income countries, foster the commodity sectors of these countries – their competitiveness and export capacity –, as in the case of the cotton-producing SSA countries: West Africa cotton exports are a success and contribute to the livelihood of a great number of small producers¹²; they may enhance domestic growth, particularly in the context of strong global demand (China). There is a risk in strengthening specialisation in the export of such a commodity, however, since it maintains countries' vulnerability to high price volatility, dependence on very few exports and weak diversification. This risk is paradoxically likely if the four West African countries affected by US cotton subsidies (Benin, Burkina Faso, Chad, and Mali) succeed in negotiating cotton-specific additional subsidy reductions¹³.

The WTO brought about little change regarding a key factor that maintains the specialisation of SSA countries in the export of a very small number of primary products: tariff peaks and tariff escalation. Developed countries' trade policies such as tariff peaks on agricultural products hamper diversification from traditional commodities (average tariffs faced by low-income countries may be low, but tariff peaks, higher than average, apply to commodities such as sugar or horticultural products); tariff escalation by developed countries likewise hinders the processing of commodities, which would allow an increase in the value-added of exports. Such tariff escalation in agricultural commodity chains clearly deters diversification.

Protection covers products essential for developing countries: as underlined by the FAO (2004), the tariff peaks on agricultural imports are 350% for tobacco, 277% for chocolate, 171% for oilseeds, 134% for poultry. UNCTAD (2003a) also underscores how market access and tariff peaks have remained a key problem in SSA and mostly affect agriculture: tariffs escalate between raw and semi-finished as well as between semi-finished and finished products, which obviously hinders diversification of SSA in the products it is the most likely to export, i.e. agricultural products: coffee beans and final processed coffee are subject to tariffs of 7.3% and 12.1% respectively in the EU, and 0.1% and 10.1% in the United States; for cocoa, tariffs at the raw, intermediate and final stages are 0.5%, 9.7% and 30.6% respectively in the EU; and 0%, 0.2% and 15.3% in the United States (UNCTAD 2003a).

Another issue is the tariff cuts on industrial products: while they can foster the exports by SSA countries of manufactured products with more value-added, they can also be a threat for local industrial sectors that have been supported by preferential trade agreements (such as the AGOA) and often cannot compete with either low-end products from Asia or rich countries technological capacities.

The impact of the erosion of preferences on SSA has brought about mixed gains for countries that mostly export commodities – mineral, oil or agricultural. Francois et al. (2006) show that non-reciprocal trade preferences have long been granted to various developing countries, early in the history of the GATT, reflecting past colonial trade ties. In 1968, UNCTAD recommended the creation of a 'Generalized System of

¹² Out of 12 countries exporting cotton in Africa, 8 are in West Africa. On cotton, see the documents by the Sahel and West Africa Club, OECD; on cotton in West Africa, the *SWAC Atlas on Regional Integration, economic series: cotton, August 2006*.

¹³ *Bridges Weekly*, 8 March 2006; 18 July 2007.

Preferences' (GSP) under which industrialised countries would grant trade preferences to all developing countries on a non-reciprocal basis, in order to modify the most-favoured-nation (MFN) clause of the GATT by (partially) exempting developing countries from this obligation, while encouraging developed countries to discriminate in favour of imports from developing countries. A key principle is that such 'special and differential treatment' has to be granted on the basis of 'non-reciprocity'.

For François et al., a key point is that the developing countries that were granted the fewest preferences in the 1960s, those in East Asia, have grown the fastest. Conversely, those granted the deepest preferences, including SSA LDCs, exhibited low growth rates. For François et al., tariff reductions in OECD countries will translate into worsening export performance for the least developed countries, the erosion of trade preferences may become a stumbling block for multilateral trade liberalisation.

3. May regional trade arrangements address these constraints?

In the last decade, developing countries have made an increasing use of regional arrangements: a crucial question is therefore whether regional trade arrangements address these constraints – commodity dependence, mixed gains from trade liberalisation - better than multilateral arrangements. The theoretical debates on the respective gains and costs of multilateralism vs. regionalism in this context are highlighted here, as well as the many obstacles facing regional arrangements in SSA. The example of the African Union (AU) shows that while regional groupings address certain problems created by WTO trade reforms and decision-making, as well as strengthen the representation of SSA countries within the WTO, regional arrangements such as the AU, are unable to ease these constraints and transform the market and trade structures that hinder sustainable growth in SSA.

Multilateralism vs. regionalism? The theoretical debates

By definition, regional integration agreements entail a discrimination against non-members (preferential liberalisation among partner countries only). This is inconsistent with the fundamental principle of the WTO, the most-favoured-nation (MFN) rule. It is only compatible with the WTO rules if not aimed at discrimination against non-members¹⁴.

¹⁴ It may be of interest to quote *in extenso* the WTO Annual Report 2007, section XI, Committee on Regional Trade Agreements: "The promotion of preferential trade relations among selective partners through the establishment of regional trade agreements (RTAs) is today a key trade policy objective of many WTO Members. The overall number of RTAs is increasing steadily, a trend likely to be strengthened by the many RTAs under negotiation. In 2006, 27 new agreements were notified to the WTO; of these, 16 were notified under Article XXIV of the GATT 1994, 11 under GATS Article V and none under the Enabling Clause. As of 31 December 2006, 215 active RTAs have been notified to the WTO, of which 148 under GATT Art. XXIV, 46 under GATS Art. V and 21 under the Enabling Clause. RTAs are not only increasing in numbers but also evolving in their regulatory provisions, scope, coverage and partner composition. Most of the RTAs in the making go beyond tariff concessions in trade in goods to include preferential commitments in services and innovative provisions in areas such as investment,

There is a variety of regional arrangements - in terms of stance vis-à-vis non members, depth, coverage (goods, services, factor mobility). There are: 1) arrangements with modest aims, such as preferential trading arrangements (PTAs), i.e. lower tariffs on imports from the partners than from the rest of the world, or a free trade areas (FTAs), i.e. zero tariffs among partners, and positive tariffs with the rest of the world; 2) arrangements aiming at deeper integration, such as a customs union (common external tariff/CET for partner countries), a common market (freedom of movement of labour, firms, services and capital) and an economic union, which goes further than a common market and where major economic policies are coordinated (Lyakurwa et al. 1997). An economic union, e.g. the EU, exhibits a greater loss of sovereignty, more commitment and more complex policymaking than in a loose free trade area. Regional integration agreements are also called trade blocs (World Bank 2000). Besides trade agreements, another key integration scheme is monetary integration, which is exemplified in SSA by the Franc Zone.

Table 1: RTAs and types of trade liberalisation

Scope of beneficiaries	Method of implementation	
	Reciprocal	Unilateral
Preferential	NAFTA, EU, COMESA, EPAs, other RTAs	GSP, AGOA, EBA, Cotonou
Nondiscriminatory (MFN): all countries	GATT/WTO agreements	Autonomous liberalisation

Source: *World Bank Global Economic Prospects 2005*, box 2.1.

The choice between a free trade agreement and a customs union remains a matter of debate. Customs unions are supposed to be more efficient than FTAs and to foster greater market integration, but they also require more coordination and entail tighter constraints on member policies and sovereignty (Schiff and Winters 2003).

Facing the lack of alternative to Doha, the focus has shifted towards regionalism. Bilateral trade deals have multiplied. Regional arrangements have recently witnessed a significant increase (Appendix 5 and 6): 6 fold in 2 decades (World Bank 2005), with multiple overlappings that have been coined as ‘spaghetti bowls’. Half of world trade now takes place within trade blocs (Hoekman and Schiff 2002). New form of blocs and trading arrangements include rich and poor countries – these are termed ‘North-South’ (Venables 2003). There is a trend towards comprehensive regional agreements, which include trade-related and investment-related provisions and extend to services, intellectual property rights and competition. Most regional free trade agreements are

competition policy, trade facilitation, government procurement, intellectual property, electronic commerce and, in some cases, labour and environment. Such innovations may lay the ground for future multilateral rules on these issues; however, the different regulatory regimes put in place through RTAs also make international trade more complex and may undermine the principles upon which the WTO stands, namely transparency, predictability and nondiscrimination. As for the nature of the agreements and their partner composition, the evolving preferential trading landscape seems to know no bounds; layers of preferential trading relations are being established at the bilateral, regional, continental and crossregional level and among partners irrespective of their level of economic development”.

also investment agreements: as highlighted by an UNCTAD¹⁵, out of 58 RTAs, 66% contained chapters on investment and 17% provisions on investment: here what is at stake is not only trade liberalisation, but also that of foreign direct investment.

This 'rush to regionalism' has generated a 'domino effect': FTA negotiations react to one another, and as FTAs disadvantage non-members, every time one is signed there is pressure from non-member exporters to engage in integration (Cosbey 2005, Baldwin, 1995).

The relative efficiency of multilateralism, regionalism, and bilateralism is hotly debated (Bhagwati 1992, OECD 2003 for a review). Regional integration agreements in the 1990s have followed a model of 'open regionalism' (as distinct from 'closed regionalism'): trading blocs between developing countries in the 1960s-1970s were indeed more based on a model of import-substitution and therefore on high external trade barriers. The recent wave of regional agreements is more outward-looking and focused on international trade.

As coined by the World Bank (2005), the objective is to make 'regionalism complementary to multilateralism'. For the World Bank, multilateral liberalisation is more beneficial than RTAs (World Bank 2005): the political and economic benefits of regional trade blocs are illusory and imply trade-offs; effective integration equates to more than reducing tariffs and quotas. In the 1980s, the IFIs' adjustment programmes were devised within national frameworks and did not focus on regional integration¹⁶. The World Bank progressively considered regional integration in a more positive way, arguing that it locks countries into policy reform and achieves economies of scale, however depending on institutional capacity and infrastructure.

For the IMF, regional integration, more than the increase of intra-regional trade, allows member countries to gain policy credibility for trade reforms and tariff liberalisation (on the example of COMESA and the Southern African Development Community/SADC, Khandelwal 2004). As explained by Schiff and Winters (2003), the existence of imperfect competition, market power, product differentiation, increasing returns have improved the recognition of the benefits of RIAs: many countries are too small for activities subject to large economies of scale.

The proliferation of FTAs may last (Baldwin 2006): hence even if regional trade agreements are sub-optimal, moving to global free trade will require a multilateralisation of regionalism from fuzzy sub-blocs, with 'spaghetti bowls' as building blocs. The 'noodle bowl' of Asian regionalism, with East Asia having around 70 free-trade deals by the end of 2006, has, according to Baldwin, the most detrimental effects in terms of complicating logistics, since agreements all include different rules.

A key theoretical debate is whether preferential trading arrangements are superior to multilateral liberalisation, or at least an alternative when multilateral liberalisation proceeds slowly, and whether developing countries should seek arrangements with industrial countries or among themselves (Puga and Venables 1997, Burfisher et al.

¹⁵ Note on RIAs in 2003 (TD/B/com.2/54).

¹⁶ Regionalism may be viewed as a notion that is remote from the conceptual foundations of the multilateralism of the IFIs: it may be argued that the system of Bretton Woods, among other objectives, was created at the end of WWII in order to avoid the earlier global division in monetary blocs (Raymond Toye, personal communication, August 2007).

2004). For economic theory, the comparison of multilateralism vs. regionalism is assessed in terms of economic costs and benefits: as asked by Bhagwati et al. (1999), “are FTAs building blocks or stumbling blocks for global free trade?” FTAs violate the MFN principle and are disincentives for multilateralisation, therefore can they provide a basis for multilateralisation?

Another theoretical issue is the relationship between RTAs and growth: Traditionally in international economics, preference is given to broad liberalisation, said to lead to faster growth than regional trade agreements. For Vamvakidis (1999), for example, the impact of RTAs on growth and investment is negative and RTAs are implemented at the expense of broad liberalisation. In the 1990s, however, regionalism was rehabilitated via theories of ‘new regionalism’ (De Melo et al. 1993), in line with Jacob Viner (1950), who introduced the concepts of trade creation and trade diversion.

Viner’s theory revealed that the welfare impact of preferential trade agreements is ambiguous, because preferential trade liberalization can either result in the replacement of inefficient domestic production with low-cost imports from member countries (trade creation) or in the substitution of efficient, low-cost imports from non-member countries with less efficient imports from member countries (i.e., trade diversion) (Mayda and Steinberg 2006). As underscored by Mayda and Steinberg, this model also explains political economy mechanisms: under trade creation, preferential trade agreements may be building blocks for multilateral trade negotiations, since policymakers can build consensus from the gains of partial trade liberalisation.

Viner’s concepts also suggest that North-South agreements may be more welfare-enhancing than South-South ones (Hoekman and Schiff 2002). ‘North-South’ regional agreements may generate technology transfers for Southern members. According to Mayda and Steinberg, the welfare effects taking place through trade creation and trade diversion show that South-South agreements between small countries are not likely to produce gains for their members, because developing countries trade little with each other, as is the case in SSA - low-income countries tend to have a comparative advantage in the same sectors. Therefore, South-South trade agreements are likely to lead to trade diversion as opposed to trade creation. In addition, low-income countries are less likely to produce the efficiency gains that are linked to economies of scale, since South-South agreements give access to smaller markets than North-South ones. Indeed, they show that between 1994 and 2003, COMESA’s preferential tariff liberalisation has not considerably increased Uganda’s trade with member countries.

Many studies confirm that the welfare effects of regional trade agreements on members are ambiguous and depend on the balance between trade creation and diversion (De Melo and Panagariya 1993). If the partner country production displaces higher cost domestic production, there are gains and trade creation; but if the partner country production displaces lower-cost imports from the rest of the world, trade diversion occurs (Schiff and Winters 2003; on the SADC, Lewis et al. 2002). As shown by Venables (2001, 2003), there are winners and losers from regional integration agreements, depending on the comparative advantage of member countries, relative to each other and relative to the rest of the world - which is a strong argument for North-South rather than South-South agreements, the latter being prone to trade diversion. Regional integration agreements have geographic, agglomeration and concentration effects: they create clusters that entail both benefits and costs, and development in a

single member country rather than in all, which may increase divergences in economic structures and incomes between members of RIAs.

The stakes are high: different trading arrangements may have a major impact as they change the attractiveness of countries regarding manufacturing production and therefore may foster or prevent industrial development. This has obvious consequences in terms of political economy and explains the failure of some agreements. The relocation of production effects determined by the comparative advantage of member countries can be a force for divergence. “South-South” regional agreement schemes between economically small low-income countries entail tensions that lead to failure of the agreement, an example has been the East African Community (EAC) (World Bank 2000, Venables 1999)¹⁷. Patterns of comparative advantage, however, are not immutable (Puga and Venables 1997).

Regional agreements have other effects, in particular fiscal effects via the reduction in trade taxes - direct effect when tariffs on intra-trade are reduced and indirect effect when importers diminish imports subject to tariffs. As for multilateral liberalisation, tariff revenue may decrease, with an ambiguous overall effect on national income depending on trade policy toward non-member countries. Revenue losses may be substantial in SSA for example, where fiscal resources heavily rely on the taxation of external trade.

In fine, the slowdown and disappointment with multilateralism that have led to the multiplication of regional and bilateral agreements, especially North-South ones, exhibit serious limitations. As underlined by the World Bank¹⁸ quoting Pascal Lamy, economic models show that the direct benefits of a successful trade round may accrue to a small number of competitive exporters (e.g., China and Brazil). The collapse of the Doha Round, however, weakens the multilateral rules-based trading system and boosts preferential trade deals - 250 accords, double the number a decade ago, accounting for more than half of world trade. The ‘spaghetti bowl’ of different rules that include tariff and non-tariff barriers increasingly hinders trade, especially for poor countries. This multiplication allows for the expression of the asymmetric power of developed countries more than multilateralism, and also makes the rules of international trade increasingly complex and costly not only for trade but even for growth (Daudin 2007).

The weak integration of SSA: limited intra-trade and overlapping arrangements

Trade within SSA represents a small fraction of each country’s total trade, in contrast with other parts of the world (table 2). It has remained roughly constant, though a slight increase is noted in the early 1990s, from 8% in 1989 to 12% in 1995 (Yeats 1999). This trade involves very little manufacturing or intra-industry trade (half of this trade is accounted for by petroleum, cotton, live animals, maize and cocoa).

¹⁷ The manufacturing sector in the EAC was concentrated in the Nairobi region, which reaped most gains at the expense of manufacturing in Uganda and Tanzania. Kenya was producing 70% of the manufactures. By 1958, 404 of the 474 companies registered in East Africa were located in Kenya. By 1960 Kenya’s manufacturing sector accounted for 10% of its GNP, 4% in Uganda and Tanzania. This brought about the collapse of the EAC in 1977 (World Bank 2000, Venables 1999).

¹⁸ World Bank, *DevNews*, 26 July 2006.

The figures provided by the World Bank *World Development Indicators* confirm the very limited level of exchanges within trade blocs (being defined as groups of countries that have established special preferential arrangements governing trade between members) (Appendix 7). The EAC exhibited in 2004 the highest level of intra-bloc exchange (14.6% of its exports within the bloc), followed by the West African Economic and Monetary Union (WAEMU) (13.9%), the Cross-Border Initiative (13.2%), and the SADC (9.5%) and the Economic Community of West African States (ECOWAS) (8.5%). The other blocs exhibit lower levels.

Table 2: World network of trade, 2004

	Europe	NAFTA	Asia	MiddleEast	Africa	S&CAmerica	World
Europe	33%	7%	8%		2%		45%
NAFTA		8%	9%				15%
Asia			13%	3%			27%
MiddleEast							4%
Africa							3%
S&CAmerica							3%
World	44%	21%	23%	3%	2%	3%	100%

Source: Baldwin (2006); his note: The inter-regional flows are summed over both directions, so there are no entries in the lower triangle of the matrix. All flows are taken as a % of world trade and numbers less than 2% are zeroed out for clarity's sake.

The level of SSA intra-trade is very low. There is a debate as to whether the actual levels of SSA intra-trade are lower than their potential. Some studies argue it has the expected level, and that there is little unexploited potential for intra-SSA trade (Goldstein 2002). Gravity models comparing the actual trade and what the model predicts show that in the absence of trade restrictions, the scope for SSA intra-trade is intrinsically modest: integration schemes did not increase intra-regional trade, which is low not because of trade restrictions, but because of incomes and geography. Trade potential depends on total economic size (GDP) and trade intensity (trade/GDP), which is affected by geographic and economic determinants (proxied by GDP per capita); trade attraction is determined by the total costs of bilateral trade (e.g. transports costs), policy choices and history (Foroutan and Pritchett 1993). Coulibaly and Fontagné (2004) show with the example of WAEMU that the very low intra-SSA trade is explained by the size of the exporting and the importing economies, but this 'missing trade' is also explained by geography, and especially the very high trade costs of being landlocked and poor. In the case of North-South trade, SSA trade with industrial countries is not unusually low. SSA trade with industrial countries is explained by economic size, geographical distance and population (Coe and Hoffmaister 1999).

Regional agreements and organisations have multiplied in SSA, as shown by the World Bank World Development Indicators (2005, 2006), which lists regional trade blocs¹⁹:

¹⁹ The Economic and Monetary Community of Central Africa (CEMAC); the Economic Community of the Countries of the Great Lakes (CEPGL); the Common Market for Eastern and Southern Africa (COMESA); the Cross-Border Initiative (CBI); the Economic Community of Central African States (ECCAS); the Economic Community of West African States (ECOWAS); the Indian Ocean Commission; the Mano River Union (MRU); the Southern African Development Community (SADC); the Central African Customs and Economic Union (UDEAC, formerly Union Douanière et Economique de l'Afrique

There are now more than 30 arrangements in SSA (Yang and Gupta, 2005). Such a proliferation of agreements – ‘spaghetti bowl’ – is not likely to be efficient, still more as the market size of RTAs has a positive impact on FDI (Jaumotte 2004). This ‘spaghetti bowl’ obviously challenges a higher-level grouping such as the African Union (Appendix 8 and 9).

Lack of effectiveness ensues from multiple objectives and overlapping memberships of SSA regional arrangements. For example the SADC, the COMESA, the SACU overlap and contradict (Sidaway and Gibb 1998). Likewise, regional arrangements in SSA are undermined by the similarity of problems among countries: most of SSA economies exhibit similar market structures with a comparative advantage lying in primary products, i.e. the post-colonial ‘small open economy model’ of Hopkins (1973) – imports of manufactures from developed countries, exports of primary goods to these countries.

The Central African Economic and Monetary Community (CEMAC) may be a case in point: it is characterised by low growth, high dependence on oil, volatility resulting from dependence on commodity exports, very limited intra-regional linkages, political instability, in addition to infrastructural and transit problems, low complementarities in goods and factor of production, and export of similar products (Zafar and Kubota 2003).

Unchanged export structures

Regional trade arrangements in SSA have been ineffective in promoting trade and FDI (Yang and Gupta 2005). Relatively high external trade barriers and low resource complementarity between member countries limit both intra- and extra-regional trade. Small market size, poor transport facilities and high trading costs make it difficult for SSA countries to reap the potential benefits of RTAs. For such IMF studies, it is necessary to improve infrastructure and strengthen the domestic revenue base in order to compensate for revenue losses from trade liberalisation.

In West Africa, for example, ECOWAS has been ineffective in promoting trade among its members. Hanink and Owusu (1998) show that trade flows are strong when considered on a relative basis, but the same pattern existed before ECOWAS: the agreement did not introduce significant changes. On the example of groundnuts exporters, Badiane and Kinteh (1994) also underscore the ineffectiveness of associations of countries in defending their exports.

A crucial point is that SSA regional arrangements have had a limited effectiveness precisely because of the export structure of many SSA countries, and at the same time, they had a limited effectiveness in modifying this export structure. A CGE (computable general equilibrium) model of Madagascar’s economy elaborated by Hallaert (2007) reveals that the SADC FTA has had a limited impact on Madagascar’s real GDP because liberalisation affects only a small share of its total imports. The model, however, suggests that the trade and production patterns may change and benefit the textile and clothing sector. Interestingly and in line with the theories that view multilateralism as more efficient than regionalism, Hallaert shows that gains from the

Centrale); the West African Economic and Monetary Union (UEMOA); East African Cooperation; the Southern African Customs Union (SACU) (World Bank, *World Development Indicators 2005, 2006*).

SADC FTA become substantial only when the regional liberalisation is accompanied by a multilateral liberalisation.

The crucial constraint of infrastructure in Sub-Saharan Africa

Constraints on the effectiveness of regional agreements stem above all from infrastructure. As emphasized by the IMF SSA Regional Economic Outlook (2007), the recent commodity boom has improved SSA exports' prospects and may even reverse the long-term decline in its share of trade: but despite a dramatic increase of SSA exports, particularly towards China, they are still dominated by commodities, especially oil. For the IMF, SSA's inability to diversify is due largely to a lack of infrastructure and the high costs of doing business. The very poor infrastructure in SSA has a very detrimental impact on trade and transport – e.g., road and telecommunication infrastructure –, though the telecom sector has improved in the last decade due to privatisation and FDI.

On the example of the procedural requirements for exporting and importing a standardised cargo of goods, from the contractual agreement between the two parties to the delivery of goods in 126 countries, the World Bank study by Djankov et al. (2006) (and the World Bank *Doing Business 2006* report), highlights the long delays: on average, each additional day that a product is delayed prior to being shipped reduces trade by at least 1%. Delays have an even greater impact on developing country exports and exports of time-sensitive goods, such as perishable agricultural products. A day's delay reduces a country's relative exports of time-sensitive to time-insensitive agricultural goods by 7%²⁰ (Appendix 10). For the World Bank report, it is unlikely that many countries in SSA will benefit significantly from existing duty-free access provisions or from trade liberalisation in OECD agricultural markets under a WTO agreement unless export procedures are simplified. This is compounded by corruption and checkpoints at each step of the transport chain within and across borders, which significantly hinders SSA intra-trade (Appendix 11)²¹.

UNECA (2004) also views infrastructure as a key problem for competitiveness in SSA: infrastructure and export diversification are correlated, particularly power and rural electrification (but also transport, telecommunications, etc.). Transportation costs are much higher in SSA than any other region of the world: they accounted for some 60% of the total price of cassava in Central African countries (IFAD roundtable 18-1-2005) (Sindzingre 2000).

²⁰ According to Djankov et al. (2006), it takes 116 days to move an export container from the factory in Bangui (Central African Republic) to the nearest port and fulfil all the customs, administrative, and port requirements to load the cargo onto a ship. It takes 71 days to do so from Ouagadougou (Burkina Faso), 87 days from Ndjamena (Chad), 93 from Almaty (Kazakhstan), and 105 from Baghdad. In contrast, it takes only 5 days from Copenhagen, 6 from Berlin, 16 from Port Louis (Mauritius), 20 days from Shanghai, Kuala Lumpur or Santiago de Chile. For the World Bank *Doing Business 2006* report, if Burkina Faso reduced its factory-to-ship time from 71 days to 27 days (the median for the sample), exports may increase by 45 %. If the Central African Republic reduced its median factory-to-ship time from 116 days to 27 days, exports would double.

²¹ This has been a recurrent argument advanced by the World Bank for explaining SSA trade deficiencies, before the heavy focus on OECD subsidies and trade liberalisation (e.g., Yeats et al. 1996).

Similarly, for Limão and Venables (1999), problems of infrastructure, geography and therefore transport jointly explain the relatively low levels of trade in SSA, landlocked countries suffering from high transport costs: they show that the elasticity of trade flows with regard to transport costs is high (-2.5) and that the median landlocked country has only 30% of the trade volume of the median coastal economy. They calculate that halving transport costs would increase the volume of trade by 5. Many SSA countries are unfortunately landlocked or transit countries: a regional approach to transport infrastructure and transit systems is therefore crucial for trade and investment (such as in the corridor approach in the SADC).

The limitations of 'North-South' schemes: the example of EPAs

North-South preferential schemes have had mixed outcomes. As argued by Stevens (2005), preferences are a feature of the trading system since the 1960s and their impacts remain controversial: many beneficiaries, such as most SSA states, have failed the 'reasonably efficient supply' requirement. He underscores that preferences are a relative matter: some supposedly preferred countries are unable to benefit, especially in SSA, as shown by the constraints imposed by the rules of origin of the EU and until 2000 the requirements by the US of a competitive textile industry supplying inputs as well as a clothing industry. Similarly the new EU GSP (June 2005) removes some old discrimination for almost every product but creates new ones. François et al. (2006) confirm that preferences are underused because of administrative burdens (4% of the value of goods traded) – which reduces the losses for countries affected by preference erosion.

Many preferential market access schemes exist between North and South countries under unilateral trade preferences. The Generalised System of Preferences (GSPs) schemes are tariff preferences granted by developed countries to let certain manufactured and semi-manufactured goods from developing countries enter their markets at lower tariffs than from other developed or developing countries. With GSPs, special treatment for LDCs is provided by developed countries (UNCTAD 2003c). The EU GSP grants unilateral tariff preferences: it grants products imported from GSP beneficiary countries duty-free access or a tariff reduction (lower tariffs than Most Favoured Nation/MFN level) levels. Rules of origin are requirements for products covered by the GSP, to be met for them to be considered as originating in the exporting country. The new EU GSP of 2005 has added 300 products to the previous 7,200 products and grants additional tariff reductions to countries with 'good governance', conventions on human rights, labour rights, and environmental protection. The EU GSP scheme's rules of origin are often viewed as insurmountable barriers to trade, and promises of improvements by the EU meet with scepticism (Stevens 2006).

Rules of origin are indeed often criticised for inducing an underutilisation of trade preferences (UNCTAD 2003c, UNCTAD 2002). Rules of origin are required by any preferential agreement, North-South or South-South, in order to authenticate that goods claiming tariff preferences are produced in an eligible country: valuable objectives of fostering clusters of linked industries within the grouping, however, may be risky when the size of markets is small and the industrial sector is not diversified, as it may result in protection and discouraging FDI, as shown by Flatters and Kirk (2003) on the example of SADC.

The EU 'Everything But Arms' (EBA), initiative, launched in 2001 for LDCs is the most favourable treatment: it is a preferential trade arrangement, which grants unrestricted duty-free, quota free access to EU markets to all LDCs products, excluding arms and ammunition (with a transition for the phasing-out of customs duties on three 'sensitive' products, bananas, rice and sugar). The EBA, however, cannot bring about dramatic changes, not only because of the complexity of its rules, but because over 99% of EU imports from the LDCs are of products which the EU had already liberalised (the MFN duty is zero) (Brenton 2003): for Brenton, encouraging export diversification is therefore the condition of effectiveness of the EBA.

The Cotonou Partnership Agreement for the ACP countries, launched in 2000, which includes many SSA countries, has replaced the EU-ACP countries' Lomé Convention. The Cotonou Agreement implemented EU trade preferences with ACP countries via preferential duty regime (Bilal 2007a, Appendix 12). The EU provides non-reciprocal duty-free market access to all ACP countries, except South Africa until 2008. In SSA, the successive Lomé Conventions did not significantly improve growth, trade integration and trade diversification. As underlined by Gavin (2007), the preferential access has been exaggerated, because many primary commodities that are exported by ACP countries do not receive preferential treatment in the EU market, these products being MFN duty-free (75% of imports from LDCs into the EU are duty free on an MFN basis): preferences have been under-utilised - as in the case of the EBA.

The EU and ACP countries have implemented new trading arrangements that rely on trade liberalisation between the two parties. The EPAs (Economic Partnership Agreements) are new arrangements with the EU, for which negotiations started in 2002; they are WTO-compatible and replace the Lomé Convention unilateral preferences. Instead of the non-reciprocal and discriminatory trade preferences of the Lomé Convention, EPAs are a new trade regime based on free trade between the ACP countries and the EU, which involves before 2008 the progressive removal of trade barriers on the basis of ACP regional integration. The EPAs shift the current non-reciprocal EU trade preferences vis-à-vis ACP countries to domestic market access for almost all products from the EU within a 12-year period (2008-2020). EPAs rely on six ACP regional groupings²² and regional integration is in this instance a basis for the integration of the ACP countries into the world economy. In a regional EPA, between the EU and a regional grouping, the latter negotiates as a single block. For the non-LDC ACP countries that do not belong to regional groupings and which are implementing a regional EPA, there can be a Free Trade Agreement with the EU, as is the case for South Africa, or access to the EU via the less favourable GSP (UNCTAD 2003). The

²² In 2005, the EPAs with the EU involved six sub-ACP regions: *West Africa* (Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo); *Central Africa*: Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon, Sao Tome and Principe; *East and Southern Africa*: Burundi, Comoros, Democratic Republic of Congo, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia, Zimbabwe; *Southern Africa Development Community*: Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland, Tanzania; *Caribbean*: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Surinam, Trinidad and Tobago; *Pacific*: Cook Islands, Federation of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu (quoted from Stevens and Kennan 2006).

EPAs are due to be concluded by 31 December 2007, but this may be difficult for some ACP regions (Bilal 2007b).

The outcomes of EPAs are the subject of worries and controversy. As highlighted by the WTO Annual Report 2007 (XI. Committee on Regional Trade Agreements), EPAs are supposed to strengthen existing regional integration arrangements: this may be the case in Western and Central Africa, where negotiations are taking place with the ECOWAS and CEMAC, but not in Eastern and Southern Africa where the EPAs foresee two configurations (East and Southern Africa/ESA and SADC minus²³) with members from four distinct regional integration schemes. Each of these RTAs is either already a customs union (EAC and SACU), or planning to become one (SADC and COMESA), which, for the WTO Report, makes it likely that the ESA and SADC EPAs will clash with the existing RTAs.

The key point is that EPAs do not appear to significantly modify the existing market and export structure of SSA countries and excessive reliance on commodities, and may in some case have negative effects, e.g. threaten local agricultural or industrial sectors, or create fiscal tensions via revenue losses. Stevens and Kennan (2006) build scenarios on the assumption that 'substantially all' trade with the EU must be liberalised if the EPAs are to be compatible with WTO rules on regional trade agreements: they show that EPAs may affect the ability of 6 countries in SSA to continue to provide protection to their domestic agro-food sectors. EPAs may not require major changes in existing levels of border protection to domestic agriculture in Ethiopia, Lesotho, Mozambique and Zambia but the effects on Tanzania and Uganda may be greater. Models elaborated at the Overseas Development Institute (ODI) (Stevens et al. 2006, Cali and te Velde 2006) show that the impact of EPAs on goods is small compared to multilateral liberalisation (and if the potential exclusion of sensitive products is taken into account) The impact, however, is the greatest in SSA: welfare effects seem positive for almost all countries, but large tariff revenue losses may occur.

EPAs are criticised as asymmetrical devices that are not focused on development, with the EU as a winner and the developing countries as losers. As underscored by Gavin (2007), EPAs may reinforce the EU's economic leverage to impose comprehensive trade and investment liberalisation, which will benefit European firms but not contribute to the growth and industrialisation of the concerned countries. EPAs aim to enhance market access for products in which ACP countries have comparative advantages (agriculture and labour-intensive services) and open ACP markets to EU exports. The benefit depends on the reforms that ACP countries will have to undertake and on the EU's support for these countries (Njinkeu 2005). There are benefits, but also risks, in giving preferential access to the EU in services sectors, where African countries are likely to import (Jansen 2006). For Hoekman (2005), since the EPAs include not only merchandise but also trade in services, challenges for ACP countries are significant. A crucial challenge is that EPAs are not bilateral, but between the EU (a common market) and ACP regional blocs that include heterogeneous groupings: some SSA PTAs are FTAs that incorporate smaller customs unions, and include both LDC and non-LDC members. Differences in priorities across members of these PTAs make it more difficult to negotiate. The EU prefers to negotiate with customs unions, implying that PTA

²³ In Southern Africa, the 'SADC-minus' group includes the BLNS (Botswana, Lesotho, Namibia, Swaziland), Angola, Mozambique and Tanzania (Bach 2006).

members also need to agree on a common external tariff, but countries differ in terms of products currently obtaining protection.

EPAs may create revenue effects that are analogous to multilateral trade liberalisation, in particular fiscal losses. Zouhoun-Bi and Nielsen (2007) model the fiscal revenue implications of the prospective EPA between ECOWAS and the EU and find that eliminating tariffs on all imports from the EU would increase ECOWAS' imports from the EU by 10.5–11.5% for certain countries but that total government revenues would also decrease by 2.4–5.6% due to lower fiscal revenues, revenue losses differing between countries, however. Hinkle and Newfarmer (2005) confirm that for EPAs to have positive effects on SSA economies, they need to be associated with an improvement of domestic tax systems. Milner, Morrissey and McKay (2005) measure the short-run welfare consequences and the static effects on trade flows and tariff revenue for ACP countries, which with EPAs retain preferential access to the EU market, but on a reciprocal basis: the case of the East African Cooperation (Kenya, Tanzania and Uganda) shows that the welfare effects (excluding revenue effects) are small, whether positive or negative: an important point is that ACP countries will experience short-run adjustment costs, especially in the form of revenue losses.

However, in some sectors EPAs may have positive outcomes, such as in fisheries: Ponte et al. (2007) reveal that while SSA countries are usually weaker in bilateral settings than in multilateral ones, and while regarding fisheries SSA countries are likely to lose from WTP negotiations, they may gain from EPAs. Given the EU need to import fish, the SSA countries have a bargaining power that may be improved by EPAs, which involves regional groupings. However, they underscore that this collective power will be limited by the division in six EPAs sub-regions, with four in SSA.

Another North-South preferential scheme has been an amendment of the US GSP, the AGOA (Africa Growth and Opportunity Act) (2000), which is an exchange of policy reform for preferential access for SSA exports to the US. It provides duty-free and quota-free market access to certain SSA products, e.g. textiles and apparel, until 2015. AGOA is an example of the limitations of this type of scheme, due in particular to the condition of rules of origin that restrict market access. Inputs must be from SSA or the US, while the SSA apparel sector is already destabilised by the elimination of the quotas of the MultiFibre Agreement in 2005 that has exposed SSA to greater competition and has lowered SSA apparel exports by 30% (Mattoo et al. 2002). Olarreaga and Orden (2004) have highlighted other AGOA limitations: apparel exporters received in fact only 1/3rd of the 'tariff preference rent' (i.e. the tariff which was previously collected by the US) and smaller exporters received less than larger ones, because of the market power of US importers vis-à-vis their SSA exporter counterparts. Many schemes aimed to improve market access to developed countries, but this market remains protected: a better access would produce substantial gains for SSA (Ianchovichina et al. 2001).

However, for some studies, preferences are utilised. Candau and Jean (2005) show that in 2001, EU preferences to developing countries were well utilised, especially in SSA, and that for several SSA countries, the value of EU tariff preferences is worth a significant proportion of their world exports: in 2001, 48.9% of EU's imports were dutiable, i.e. involving products for which the MFN duty is not zero. Among these dutiable imports, 56.5% were eligible to a preferential regime, and the benefit of a preferential regime was requested for 81.3% of eligible imports. The utilisation rate is

high in the case for SSA LDCs: they did not use the EBA initiative, rather using the Cotonou regime, which is already extremely favourable both in terms of rates and of associated constraints. Candau and Jean find that for SSA in 2001, the utilisation rate of the Cotonou scheme amounted to 94% of imports by the EU.

In fine, for Aryeetey (1998), SSA countries have to pursue unilateral non-preferential trade liberalisation, but in order to integrate into the world economy rather than for regional integration. However, there are arguments against unilateral trade liberalisation: countries' policies have different speeds, thus unilateral trade liberalisation leads to widening tariffs structures, which work against regional trade. Aryeetey also highlights a trade liberalisation based on rules of origin more than on value added and little political commitment.

The limitations of a 'South-South' scheme: the example of the African Union

The most encompassing of South-South schemes for SSA is the African Union. Njinkeu and Powo Fosso (2006) underscore that the AU has been selected at the highest political level as the framework through which SSA countries should strengthen their links before integrating to the rest of the world, building 5 regions (Central, Eastern, North, Southern and West) that would form the African Economic Community (AEC) over a period of 34 to 40 years from 1994, at the time of the former Organisation of African Unity (OAU). As noticed by Njinkeu and Powo Fosso, "the challenge is to effectively implement such a plan".

The AU shows that regional groupings may address certain problems intrinsic to WTO rules and decision-making: they could strengthen the capacity for collective action and voicing, and the representation of SSA countries within the WTO. The key point, however, is that a regional arrangement such as the AU is not likely to be able to transform the market and trade structures that hinder sustainable growth in SSA: commodity dependence, narrow industrial bases, an industrial and trade policy space that is severely constrained by IFI and WTO trade liberalisation requisites. More still than regional arrangements of a smaller size (such as the WAEMU or the ECOWAS), the AU is indeed affected by the problems that contribute to the inefficiencies of regional arrangements in SSA, at the political economy, institutional, and economic levels: heterogeneity of member countries, divergence of interests, lack of economic complementarities, and overlap between other arrangements - the 'spaghetti bowl'.

The AU was created in 2002 - replacing the OAU - aiming to promote political, social and economic development as well as security in Africa, with the explicit goal of political and economic integration of its 53 African member countries. The AU sought to borrow some of its institutions from the EU model of economic and political integration. This had been done previously by other regional arrangements, e.g., by the NEPAD, which used instruments such as peer review and multilateral surveillance, as well as the WAEMU (Claeys and Sindzingre 2004).

The African Union is an arrangement that is limited not only by the constraints analysed above but by the recurrent characteristics of SSA political economy. It is severely constrained by political rivalry between countries and their governments and by political phenomena such as the formation of unstable coalitions that vary according to

particular issues – economic (e.g., management of natural resources, such as oil, or of infrastructures) and political (e.g., conflicts).

At the internal level the AU's effectiveness is eroded by the fact that several of its member states may be viewed as 'weak states' or non-democratic – and sometimes predatory - regimes. For similar reasons, the concrete achievements of the NEPAD have been so far disappointing. The EU itself has had to overcome analogous problems, e.g. the propensity to inefficiency inherent in bureaucracies (even elected ones such as parliaments), promotion of self-interest and corruption. These are obviously even more difficult to overcome in some states of SSA where greed and corruption cannot be restrained, due to weak institutions, lack of the rule of law, of checks and balances, and of agencies of restraint or supervision (Collier 1991).

The AU does not include the enforcement and hand-binding devices that are necessary for a supra-organisation to show credible sanctions. For Oyejide (1998), the effectiveness of regional integration entails prerequisites, not only high levels of intra-group transactions and complementarities in goods and factors of production, but also an effective supra-national authority.

The effectiveness of the AU and its commission merely reflects the political and economic situation of its members. The increasing presence of China as a trade partner in all SSA countries intensifies the centrifugal tendencies, as China's quest for natural resources is based on bilateral negotiations and non-interference – i.e. does not provide any incentive for economic linkages between countries. As emphasized by Bach (2006), the AU labelled eight regional economic groupings as 'regional economic communities', which ignores the OAU division (five regions) and key existing regional groupings (SACU, UEMOA, CEMAC). Political motives here have prevailed and this has reinforced overlappings and confusion.

The intrinsic weaknesses of the AU were epitomised by the AU Summit of 2007 (1-3 July) in Ghana: organisations and agreements aiming at regional integration in SSA are already plagued by the fact that their exports are commodities that are demanded in industrialised economies, that they lack economic complementarities and levels of bilateral trade are low, as well as by conflicting political interests. These problems are likely to be intensified at a supra-level, which has the ambition to include all African economies and sub-regional groupings beyond their heterogeneity. They are compounded by the ambition of the AU to work towards a 'United States of Africa', to achieve full political and economic integration of African countries and to build an AU government.

The positions that were defended have underscored the divergence. Broadly speaking there were three positions: supporting internal integration within already fragile countries; building a AU government that would follow a federal model at the scale of the African continent – a position that was immediately hampered by the perception of hidden interest of particular countries (i.e. Libya's goals of extending its power abroad); the view of such objectives as a waste of time and utopia. The latter position, held by the majority, emphasizes the visas that are required for circulation of people between SSA countries, the recurrent dissents between governments and sensitivity over their sovereignty, and therefore views the strengthening of existing regional integration arrangements as the only feasible agenda: i.e., building first regional integration, then aiming at a broader one.

Conclusion

The paper has shown that a crucial factor may explain the poor economic performance of SSA, i.e. the risky market and trade structure that is entailed by commodity dependence, because of the volatility of commodity prices, therefore the volatility of earnings and its fiscal negative effects, which in turn entail risks of resilient 'low equilibria' and poverty traps. This structure is compounded by additional constraints stemming from globalisation and trade reforms that are conditional on IFI programmes and WTO membership.

The key point is that the detrimental factors of commodity dependence and lack of industrial base, though they constitute crucial obstacles to long-term growth in SSA, have not been addressed in depth by the IFI programmes and the WTO rules and negotiations, despite welcomed decisions on the enhancing of market access and the removal of agricultural subsidies: the latter, particularly when some form of tariff escalation is maintained, do not transform the structure of SSA as an exporter of commodities.

The disappointment with multilateralism that emerged in the 1990s has reinforced the thrust towards regional and bilateral agreements, in SSA as well as in other parts of the world. It has been argued that in SSA these agreements do not constitute a better solution than trade liberalisation on a multilateral basis as recommended by the IFIs and the WTO, because they are often ineffective in helping SSA countries to diversify and reinforce their industrial sectors.

North-South agreements such as the EPAS do not appear to bring about improvements in this regard. As with the WTO, EPAs may maintain the specialisation of SSA in primary products and are a challenge for domestic industries. The highest level of regional agreement, the African Union, has also been examined: it is, however, intrinsically affected by several inefficiencies and is not likely to bring about significant changes in SSA's economic situation.

The increasing presence of China as a trading partner and investor represents a major factor of change for SSA, with the possible prospect of a growth that would be boosted by the big emerging countries (China, India, Brazil). China, however, is mainly driven by a quest for natural resources and the securing of the energetic inputs that are vital to its growth: it is therefore also unlikely to change the specialisation of SSA in commodity production and exports.

The effectiveness of multilateral and regional trade policies therefore depends on high-income countries allowing room for developmental policies, e.g., fostering the import of industrial products from low-income countries and a policy space for the latter' domestic industrial policies.

There is no 'commodity curse': 'orthodox' and 'heterodox' stances, be they held by the IFIs or UNCTAD, all agree that "policies matter" and that policies may induce structural changes. The question is: which policies? The developing countries that witnessed the most spectacular growth rates, the Asian 'developmental states' and China, suggest some ingredients: credible institutions, state intervention through

targeted policies (reallocation of factors, price distortions, fiscal exonerations) aiming at the development of exports based on an industrial sector and the 'discovery' of comparative advantages, and governments and a political economy committed to growth.

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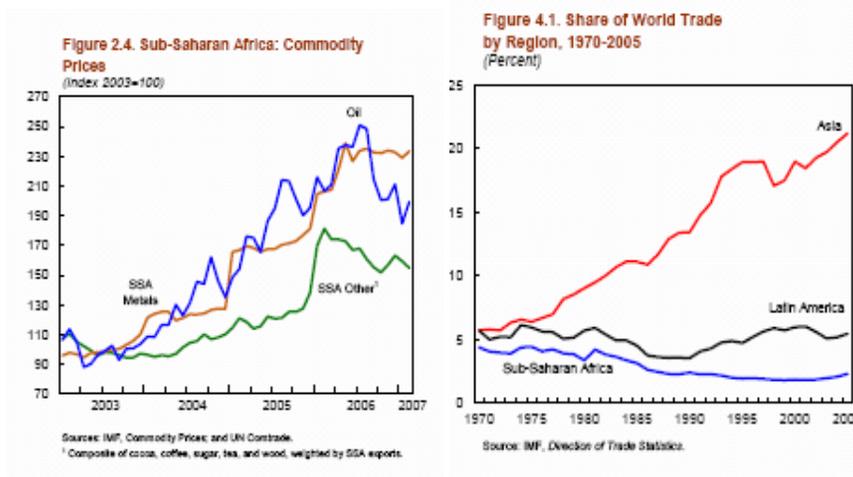
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Appendix 1: Commodity dependence



Source: IMF (2007), *Regional Economic Outlook: Sub-Saharan Africa*.

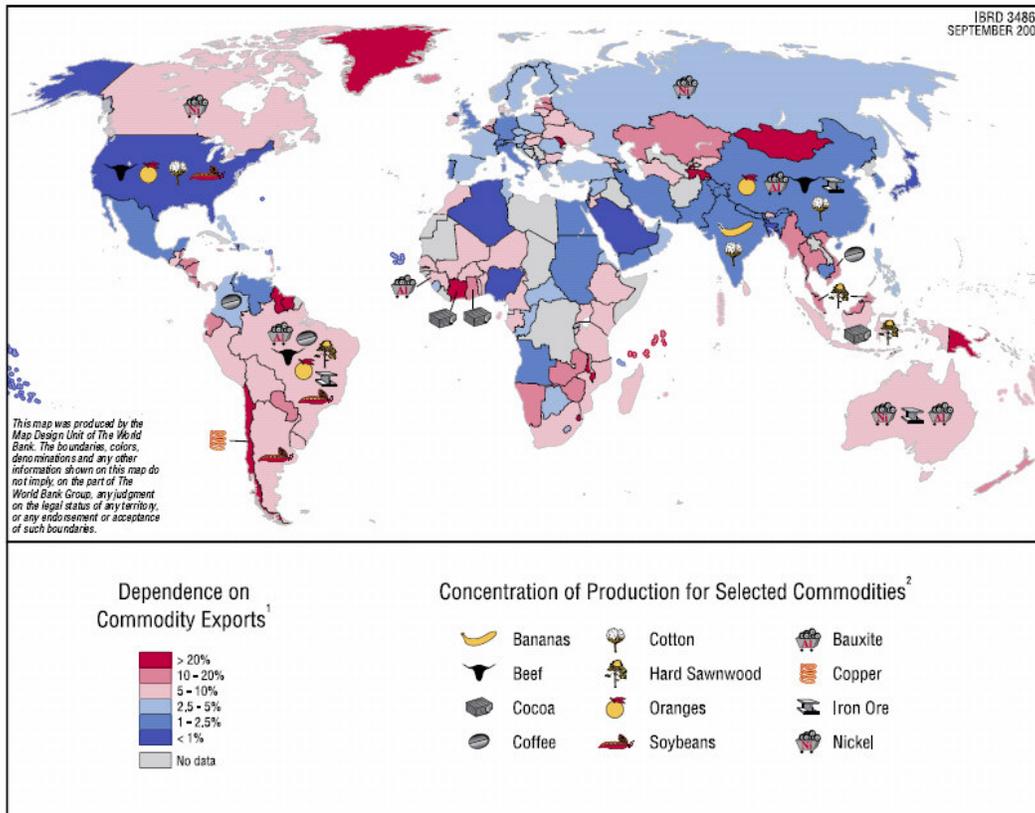
Dependence on exports of selected non-fuel commodities (2000–04, in percent)

	Country	Share in total exports
Aluminium	Suriname	47
	Tajikistan	46
	Guinea	36
	Mozambique	26
Cocoa	Côte d'Ivoire	34
Coffee	Burundi	43
Copper	Zambia	41
	Chile	31
	Mongolia	20
Cotton	Burkina Faso	42
	Benin	28
Fish	Iceland	30
	Seychelles	30

Source: IMF, WEO September 2006: Table 5.1. World Bank, World Integrated Trade Solution database.

Appendix 2: Map of commodity dependence

Source: IMF World Economic Outlook (September 2006).



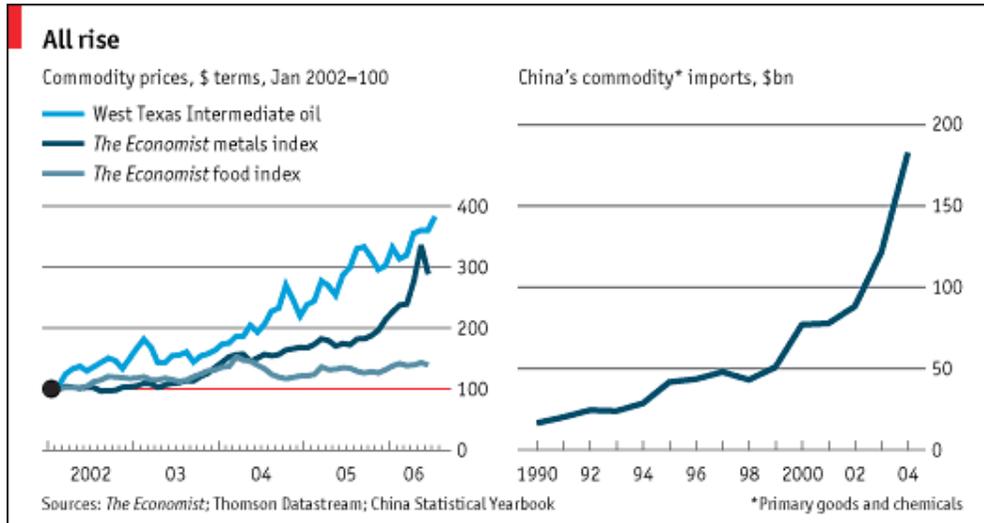
Sources: British Geological Survey, *World Mineral Statistics 1998/2002* (2004); FAOSTAT data (2006); Foreign Agricultural Service, Official USDA estimates (2006); World Bank, World Integrated Trade Solution Database; World Bureau of Metal Statistics, *World Metal Statistics Yearbook 2006* (2006); and IMF staff calculations.

¹ Share of nonfuel commodity exports in gross domestic product. See Appendix 5.1 for details.

² Symbols are assigned to the countries whose share of world production is over 10 percent. For metals, the production shares refer to mining output. Bauxite is the raw material most widely used in the production of aluminum.

Appendix 3: The growing impact of China on SSA economies

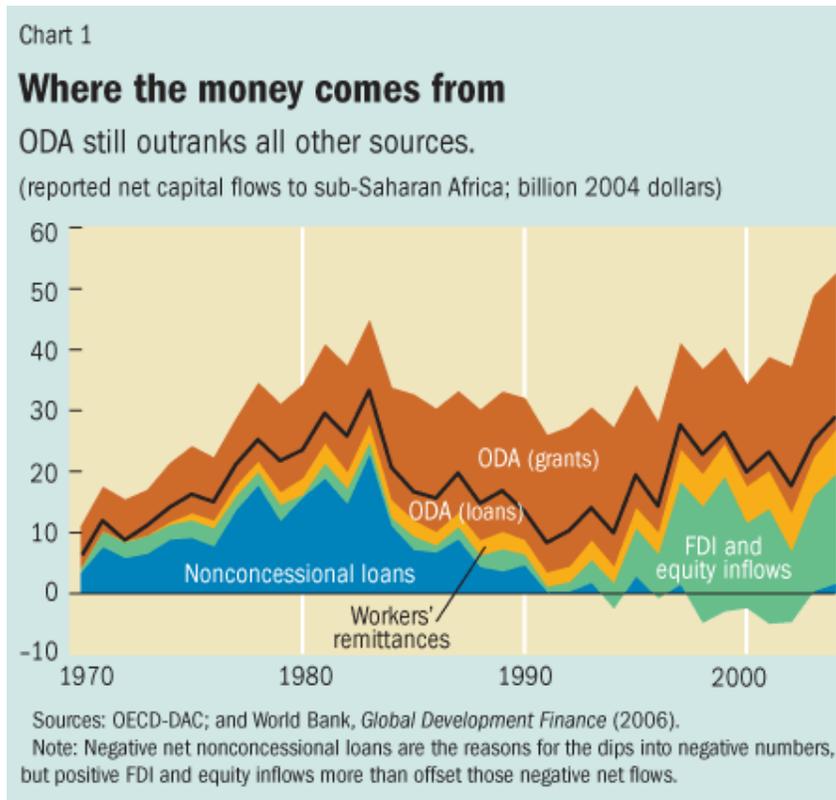
Source: *The Economist.com*, 20 July 2006



Source: *The Economist.com*, 3 February 2007



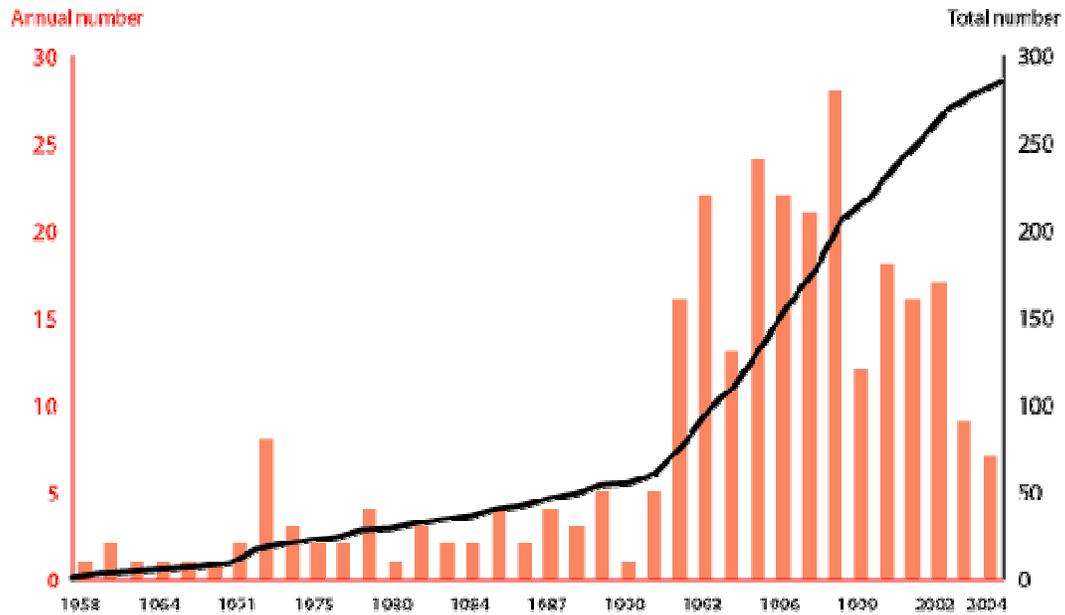
Appendix 4: Aid dependence in Sub-Saharan Africa



Source: Mark Sundberg and Alan Gelb (2006), Making Aid Work, *Finance and Development*, vol. 43, n°4, December.

Appendix 5: Regional trade agreements are proliferating

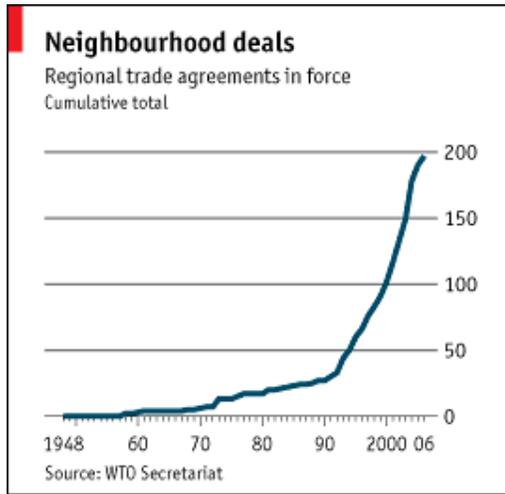
Source: World Bank (2005), *Global Economic Prospects*, and World Bank *World Development Indicators* (2006)



There are more than 250 regional trade agreements in force—six times as many as two decades ago. About a third of global trade takes place between countries that have some form of reciprocal regional trade agreement.

Appendix 6: The increase in regional trade agreements.

Source: *The Economist*, 27 July 2006



Appendix 7: Intra-trade in Sub-Saharan Africa

SSA trade, as fraction of total commerce (\$ billion)

1980	1980	1985	1990	1995	1998
Africa	5.2	4.9	7.3	10.3	11.4
EU	60.8	59.2	65.9	62.4	60.2
Mercosur	14.3	6.7	10.6	21.6	25.5
NAFTA	33.6	43.9	41.4	46.2	51.0
East Asia	22.4	20.7	20.7	26.4	22.2

Source: Goldstein (2002).

SSA merchandise exports within blocs: % of total bloc exports

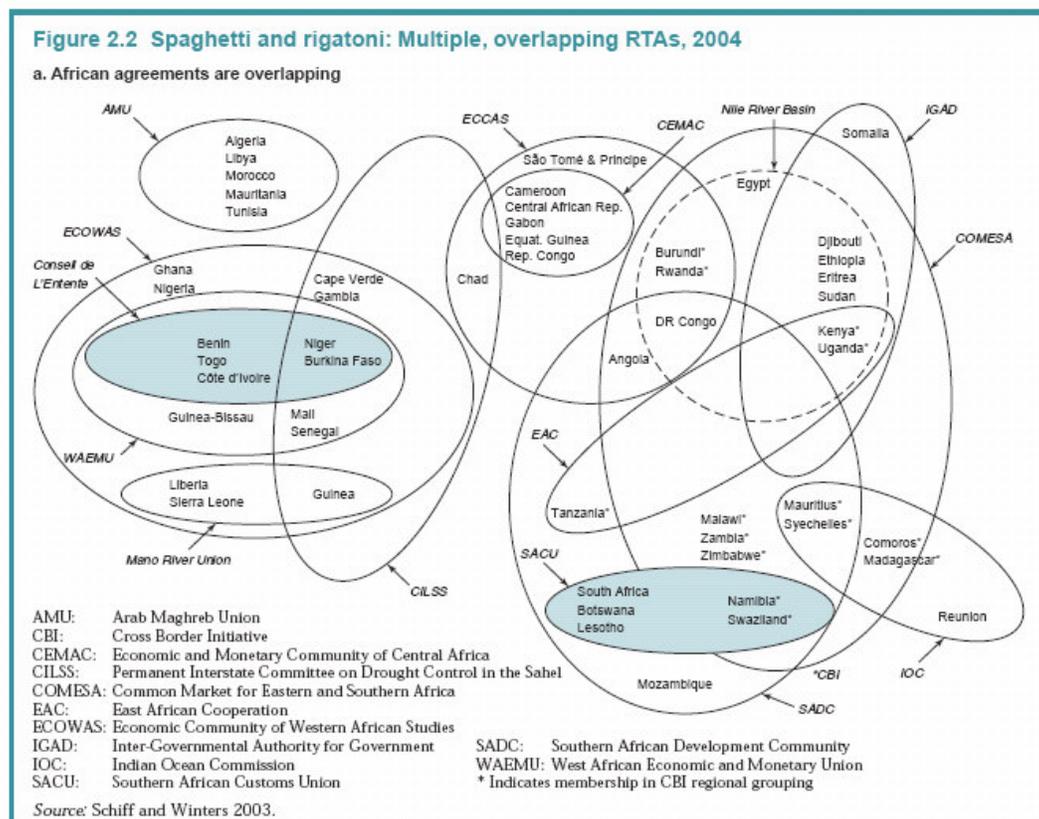
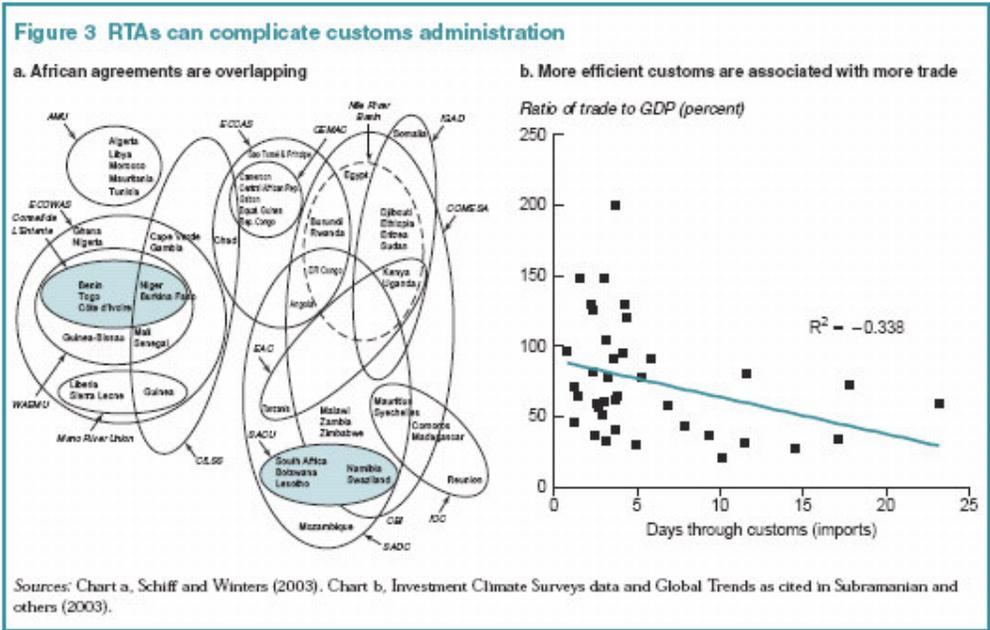
	1970	1980	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
CEMAC	4.8	1.6	2.3	2.1	2.3	2.0	2.3	1.7	1.0	1.3	1.5	1.4	1.3
CEPGL	0.4	0.1	0.5	0.5	0.5	0.4	0.6	0.7	0.8	0.8	0.9	1.3	1.2
COMESA	9.6	6.4	7.1	8.2	8.0	7.8	9.5	8.1	6.3	7.1	6.4	6.6	6.7
CrossBorder Initiative	9.3	8.8	10.3	11.9	12.4	12.7	13.9	12.1	10.5	8.8	12.3	11.4	13.2
EAC	16.9	10.2	13.4	17.4	-	-	19.0	14.4	16.1	13.8	13.3	14.0	14.6
ECCAS	9.6	1.4	1.4	1.5	1.6	1.5	1.8	1.3	1.1	1.3	1.1	1.0	0.9
ECOWAS	2.9	10.1	7.9	9.0	8.5	8.6	10.7	10.4	7.9	8.5	10.9	8.6	8.5
Indian OceanComm	8.4	3.9	4.1	6.0	5.4	3.9	4.7	4.8	4.4	5.7	4.4	6.1	4.3
ManoRiver Union	0.2	0.8	0.0	0.1	0.3	0.5	0.1	0.4	0.4	0.3	0.2	0.3	0.3
SADC	8.0	2.0	4.8	8.7	9.4	10.4	10.4	11.9	12.0	9.7	9.5	9.8	9.5
UDEAC	4.9	1.6	2.3	2.1	2.3	2.0	2.3	1.7	1.0	1.3	1.4	1.4	1.2
UEMOA	6.5	9.6	13.0	10.3	9.6	11.8	11.0	13.1	13.1	12.7	12.2	13.3	13.9

SSA total merchandise exports by trade bloc, % of world exports

	1970	1980	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
CEMAC	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.2
CEPGL	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
COMESA	1.6	0.6	0.4	0.4	0.4	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.5
CrossBorder Initiative	0.8	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.1	0.2	0.1
EAC	0.3	0.1	0.1	0.1	-	-	0.1	0.1	0.0	0.1	0.1	0.1	0.1
ECCAS	0.6	0.3	0.3	0.2	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.3
ECOWAS	1.1	0.4	0.6	0.4	0.5	0.5	0.4	0.4	0.6	0.5	0.5	0.5	0.5
Indian OceanComm	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MRU	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SADC	2.2	1.6	1.0	0.8	0.8	0.8	0.7	0.6	0.6	0.7	0.7	0.7	0.7
UDEAC	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.2
UEMOA	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Source: World Bank *World Development Indicators* (2005, 2006). Exports within bloc are the sum of exports by members of a trade bloc to other members of the bloc. Total exports by bloc as a share of world exports are the ratio of the bloc's total exports (within the bloc and to the rest of the world) to total exports by all economies in the world.

Appendix 8: The ‘spaghetti bowl’ in Sub-Saharan Africa. Source: World Bank (2005), Global Economic Prospects



Appendix 10: Procedural requirements for exporting and importing a standardised cargo of goods.

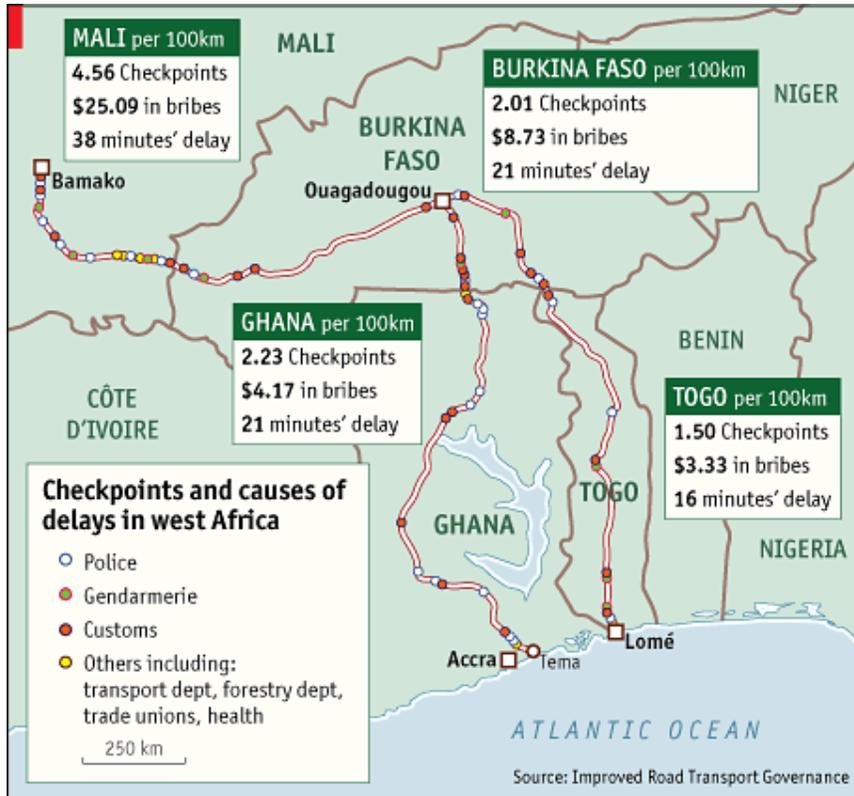
Source: World Bank 'Doing Business' report 2006.

Region or Economy	Documents for export (number)	Signatures for export (number)	Time for export (days)	Documents for import (number)	Signatures for import (number)	Time for import (days)
East Asia & Pacific	7.1	7.2	25.8	10.3	9.0	28.6
Europe & Central Asia	7.7	10.9	31.6	11.7	15.0	43.0
Latin Amer & Caribbean	7.5	8.0	30.3	10.6	11.0	37.0
MiddleEast North Africa	7.3	14.5	33.6	10.6	21.3	41.9
OECD High income	5.3	3.2	12.6	6.9	3.3	14.0
South Asia	8.1	12.1	33.7	12.8	24.0	46.5
SSA	8.5	18.9	48.6	12.8	29.9	60.5

Appendix 11: 'Highway robbery'.

Source: *The Economist.com*, 15 August 2007

West Africa "official" checkpoints to pass through for four interstate roads crossing Mali, Ghana, Togo and Burkina Faso: in Mali, a driver pays over \$25 in bribes at some 4.6 checkpoints every 100km; in Burkina Faso, \$8.73 at two checkpoints. Customs officers are the most successful for supplementing their income, followed by the police.



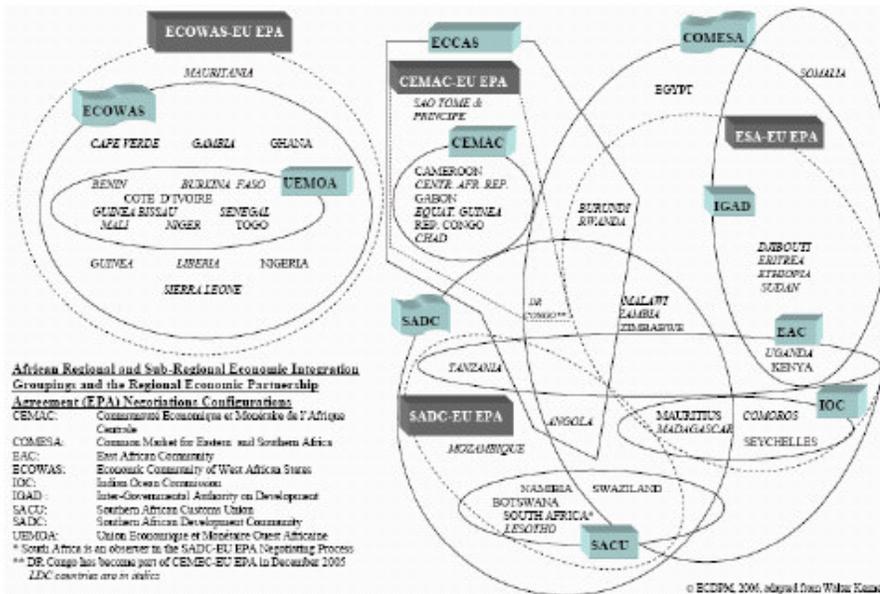
Appendix 12: The impact of the Cotonou Agreement. Source: Bilal (2007)

Preference Margin for ACP into EU

	Sector	Average MFN duty	Average GSP duty	Average Cotonou duty
ACP	Agriculture	39,7%	34,6%	0,57%
ACP	Fish	15,2%	8,5%	0,00%
ACP	Industry	6,4%	3,6%	0,00%
ACP	TOTAL	22,1%	17,5%	0,24%

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The EPAs in SSA. Source: Bilal (2007).



Stage II of negotiations: 2003 – 2007: Regional negotiations

- ECOWAS+: West Africa
- CEMAC+: Central Africa
- ESA: East and Southern Africa
- SADC: Southern Africa
- CARIFORUM: Caribbean
- Pacific Forum: Pacific