HEINRICH BÖLL STIFTUNG
INTERNATIONAL POLITICS

E-Paper

Europe, Africa, and the Transatlantic

The North – South Challenge for Development-Friendly Trade Policy

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Edited by Heinrich-Böll-Stiftung

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Abstract

Global economic integration proceeds in regional clusters, and here we encounter paradoxical patterns. Developing countries are drawn into comprehensive trade and investment deals with the industrialised North, while remaining loosely integrated within their own regional economic communities. For twelve years, the Economic Partnership Agreements (EPA) that the European Union proposed to the African, Caribbean, Pacific (ACP) countries have been a controversial example of such comprehensive deals. As they now come to conclusion, the paper analyses their outcome in format and content. The agreements presently cover two thirds of the Sub-Saharan countries and roughly respect the African regional groups. In substance the EPAs have been limited to liberalisation of trade in goods only. These results are nevertheless critical for ACP development. The paper concludes that challenges can be mastered during implementation, and that there still is some essential policy space for national or regional agro-industrial strategies. Major risks stem from uneven implementation along North–South and South–South lines. Whether African countries arrive at a deep and rules-based integration among themselves, including the free movement of goods, services, labour, and capital, will decide about their future position in global trade, as much as development-friendly EPA implementation. In order to make regional communities and their trade agreements with the EU a success, aid for trade will have to be thoroughly revamped.

The next challenge for the developing world comes from comprehensive trade and investment agreements currently negotiated in the North and with selected emerging countries in Asia. While the proposed Transatlantic Trade and Investment Partnership (TTIP) can be a sensible way of abolishing tariffs and technical barriers to transatlantic trade, the agreement has become, and with good reason, a global concern regarding (1) employment; (2) standards that define the way we live; and (3) its impact on developing countries. Full transatlantic liberalisation will divert some trade from third countries while benefiting others. This paper reviews the body of existing TTIP studies and finds them both factually and methodically deficient with regard to third-country effects. Estimated positive effects for the global South certainly have to be considered, yet they frequently rely on unrealistic economic and political assumptions. The likely effects of EPA and TTIP combined – something no available study has considered yet – will inevitably erode EPA preferences, while the assumed third-country effects will not come about by market forces alone. Positive effects for developing countries will only occur if pushed for by politics. Some proposals that would help the global South, especially on rules for product origin, can be formulated and introduced into revamped TTIP negotiations. However, and this should be a priority, the poorest developing countries need an institutional platform for feeding their concerns into the North-North deliberations, enabling them to counteract the possible negative effects of such agreements.

1. Dimensions of Regionalism

International trade and investment are increasingly intertwined with regional integration. In Europe, cross-border trade and investment have chiefly been boosted by EU integration. However, Europe, Africa, and other regions approach integration in ways that are politically, socially, economically, and culturally specific. This paper deals with only two of these dimensions – the evolution of formal regional economic communities (REC) among neighbouring states in Africa and inter-regional economic agreements among distant partners. In trade policy, both are described as Regional Trade Agreements (RTA). The conflation of those two trajectories means that today the future of regional economic integration among developing states is subject to global negotiations. To understand what is at stake, we need, at first, to distinguish between so-called shallow and deep integration.

African countries have made substantial inroads into effective integration of their respective regions. Examples, at the political level, include the transformation of SADCC, once an alliance of frontline states, into the co-operative SADC of today; repeated ECOWAS successes in peace-making and conflict-resolution in Western Africa; and the unprecedented revival of EAC, a failed community, in 1997, and its subsequent expansion. In the language of trade economics, the African RECs however still represent a precarious intra-African '*shallow integration*'. This observation does not underplay growing intra-regional trade in Africa – even more substantial, if one accounts for informal trade – but points to two characteristics: First, integration of economic activities other than goods is making little headway, and second, institutionally functional integration is lagging. Apart from special sectoral tasks, the regional communities concentrate on granting mutual preferences for trade in goods, that is, some customs reductions 'at the border,' and they do this imperfectly.

'Deep integration', in contrast, comprises economic issues 'behind the border,' above all the facilitation of services and foreign investment, which, in turn, will profit the trade in goods.[1] The term 'deep integration' is somewhat loosely defined in international economics, as it combines two criteria – on the one hand, the distinction between what is happening at the physical customs barrier and what is regulated behind the border and, on the other, the distinction between the movement of goods as opposed to services, investment, and labour. However, the notion of deep integration appropriately points to all activity that harmonises modes of production, of private and public service delivery, and of protecting the environment and the consumer – that is, society at large – across national or continental borders. For this very reason such endeavours are both fundamentally important and,

1 For the consideration of deep versus shallow integration in the context of EU negotiations with Africa see Claar and Nölke (2013), based on Lawrence (1996).

at times, highly controversial – in particular when people discover that something sold to them as a 'trade' agreement may turn out to alter their whole way of life.

Academics as well as politicians are split over the question why trade integration (not to mention deeper running endeavours) is making only moderate progress in developing regions, Africa among them. Some compare the timelines of economic integration with other world regions, pointing out that Asian RECs also have a poor record on functional integration; or they refer to levels of per-capita income where, relative to the EU, African RECs are performing quite well, considering their current stage of development. Others relate the low levels of economic integration to what respective communities nominally pretend to be or to have achieved, which shifts the focus to the complex underlying reasons for poor integration. The renewed efforts, in the 1990s and 2000s, to intensify integration may, in this respect, be attributed to the spirit of 'new regionalism.' However, since the first decade of the 2000s, this revival has been outweighed and even jeopardized by efforts towards bi-regional integration between partners that are geographically distant. Let us put this into a long-term perspective of global trade negotiations.

1.1 The deep integration paradox

Global multilateralism, as seen during the first three decades of GATT, essentially meant 'shallow integration' – a poor expression for an honourable endeavour. After the catastrophic experience of the highly protectionist period before World War II, the uppermost goal was to cut customs tariffs on trade in ways that profited most nations. This was accomplished rather well. Some regional economic communities, essentially among developed nations, aimed even higher.[2] Beginning with the 1979 Tokyo Round and formalised in the Uruguay Round's «single undertaking,» which tied numerous integration issues into one deep integration process, this became a multilateral agenda.

However, after the four-year stalemate over GATT negotiations in the 1990s, and still more with the protracted deadlock of the WTO Doha round, all global actors have increasingly turned away from multilateral and towards ambitious bi-regional strategies, which they are trying to formalise in trade agreements (RTA). This has only to be qualified as of

2 Baldwin (2008: 38) just counts three, the EEC, EFTA, and the Closer Economic Relationship (CER) between Australia and New Zealand.

late the Doha talks produced a surprising result at the 9th WTO Ministerial Conference, in Bali 3-7 December 2013, by concluding the WTO Trade Facilitation Agreement (TFA).

The replacement of multilateral, Doha-style integration by bi-regional trade agreements is defended by the initiating parties in the global North and by one school in trade theory that emphasises their role as *stepping stones* for further global liberalisation. Rigorous market-liberal trade theorists never really bought into this logic, neither for regional trade blocs nor for bi-regional trade agreements, as they consider them to be *stumbling blocks* on the way towards a more integrated world economy (Brenton, Hoppe et al. 2008: 155-158).

As the WTO secretariat noted, RTAs among non-contiguous regions of the global North and South are, paradoxically, often more extensive in nature than the regional economic communities of the South. The former agreements cover trade, investment, goods, services, free access to public procurement, etc., while the latter remain confined to an imperfect liberalisation of trade in goods.[3] Critical observers are indeed concerned that emerging integration between neighbours may be jeopardised by deep integration at a distance.

In order to understand the impact of these North-South agreements on Africa, we will investigate two important examples – the four-tier EU preference system with special respect to Economic Partnership Agreements (EPA), which the European Union proposes to sign with the African, Caribbean and Pacific (ACP) countries, and TTIP, a comprehensive North-North initiative that may have severe consequences for the global South. We begin with the EPAs. Since their introduction in the 2000 Cotonou Agreement, the EU-ACP Economic Partnership Agreements have often been heralded as the beginning of a new era for mutually beneficial co-operation. Others, however, have stressed possible negative consequences from the way negotiation groups are put together as well as from the very content of the agreements, which, it is claimed, is at odds with producer protection and agricultural and industrial policies in Africa.

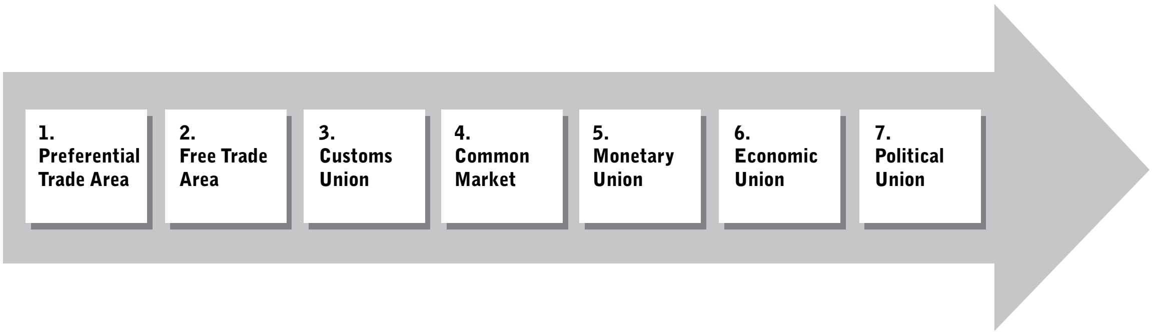
1.2 Regional negotiation groups in Africa

In the EPA negotiations, the main African regional economic communities would have been the obvious counterparts for the EU. However, the regional groups in Africa as well

3 See Burfisher, Robinson et al. (2003); Fiorentino, Verdeja et al. (2007).

as in other developing regions overlap in a number of ways – trade economist Jagdish Bhagwati famously called this a «*spaghetti bowl*» – as a country may belong to three or four RECs. On a hypothetical linear path of regional integration (see **Figure 1** below), RECs have remained, with regard to trade in goods, mostly preferential trade areas (PTA) or free trade areas (FTA), all with imperfectly liberalised markets. This also applies to most RECs which officially go beyond that and pretend to be a customs union or a common market. While overlapping memberships between stage 1 or 2 RECs are possible – you can grant different advantages to different friends – this is impossible for a customs union, all the more when negotiating unified tariffs with a third party, such as the EU.

Figure 1: The Linear Path of Regional Economic Integration



When EPA negotiations began in 2002, this problem was resolved by what Africans largely saw as a divisive approach of the European Commission (EC), which, in order to obtain geographically distinct groups, allegedly named their regional partners in Africa *ad libitum*. Knowledgeable political analysts paint a far more nuanced picture of who actually cut the negotiation groups to size, and scientific evidence for how the EPA groups came about is scant. Whatever the reasons for the composition of the groups, initially none of the African negotiating teams at the table corresponded to an existing regional community.

Another troubling question arose when EPA negotiations almost broke down, because the EC presented an over-ambitious, 'deep'-reaching agenda: What would happen in the case of failure? The least developed countries (LDC) had little to fear from an EPA breakdown, as they may always return to the duty-free and quota-free (DFQF) access to the European market via the EU's Everything but Arms (EBA) facility. Oil-exporting countries like Angola or Nigeria did not have much to worry about either. The real threat was to advancing Non-LDCs, which, by not signing an EPA, would run the risk of a forced return to the EU's General System of Preferences (GSP), meaning they would have to pay considerable duties on their main agricultural exports. In Africa only Cape Verde benefits from the more generous GSP+.[4] (See **Table 1**)

Table 1: Preference regimes of the European Union relevant for Sub-Saharan Africa

Preference regime	Year	Country Coverage	Revocable ?
1. General System of Preferences (GSP) (reformed)	2014-2024	Low and lower middle income developing countries, unless covered below	Yes, and time limit
2. GSP+, formally part of GSP	2006	Vulnerable developing countries, implementing core international conventions on human and labour rights, environmental protection and good governance	Idem
3. Everything but Arms (EBA), formally part of GSP	2001	Least developed countries (LDC), unless concluding an EPA	No time limit, but yes for grave violations*
4.a Cotonou Preferences (de facto applied until 2014, now expired)	2001-2007	All ACP countries (LDC + Non-LDC)	Yes**
4.b Economic Partnership Agreements (EPA), replacing the Cotonou preferences	2008	Concluding ACP countries	No, except via Cotonou HR clause

** See Myanmar/Burma until July 2013 ** See Fiji and Zimbabwe*

In this situation, there was a massive danger that some middle-income countries may break rank and sign individual EPAs. However, the relevant African RECs all strive to become customs unions, or accommodate such customs unions within their confines. Such unions have a common external tariff (CET). If trade agreements with partners in the North include tariff concessions on the African side, they should under no circumstances be concluded bilaterally but regionally.

This should already have been observed for the earlier EU – South African Trade, Development and Cooperation Agreement (TDCA), yet South Africa struck a bilateral agreement – the actual Fall of Man with regard to the format of negotiations.[5] The interim EPAs

4 In GSP+ additional tariff reduction is granted to ca. 16 countries that have signed key international conventions. Besides, this will leave the EU in an awkward position towards the US, when offering complete removal of tariffs in TTIP, as the US has not signed important protocols (for example only two of the eight ILO fundamental conventions on labour rights).

5 Ironically some bilateral agreements among African countries exist even within the same REC, something for which the SADC is notorious; see Asche and Brücher (2009).

(iEPAs) that Côte d'Ivoire and Ghana signed, as well as the one for Botswana, Lesotho and Swaziland (June 2009), were more cases in point. How can this be explained? As Côte d'Ivoire, Ghana or Cameroon stood to lose – with no EPA – from again becoming subject to EU import tariffs, their governments were about to abandon common trade policies that are necessary for the development of the whole region in favour of national agrarian export interests (Botswana's 'beefocracy,' Cameroon's banana exporters, Côte d'Ivoire's and Ghana's cocoa planters).

1.3 Policy space

With regard to the content of the EPA treaties, it was often suspected during the twelve years of negotiations that deep bi-regional deals between geographically distant partners would reduce Africa's trade policy space considerably (Khumalo and Mulleta 2010). In trade theory, strategic choices open to developing country groups are best described by the antagonistic positions of e.g. Venables (2003) and Stiglitz et al. (2009). One extreme is the recommendation to abandon South-South regional integration altogether in favour of North-South arrangements (such as EPA or AGOA), while the other proposes to avoid any bilateral North-South agreements, come what may. The decision, which approach to take, is not obvious, neither in theory nor in practice, as even the EC had to admit (European Commission 2010). In substance, almost all provisions that were at stake in the inter-regional negotiations with Europe (import tariffs, subsidies, export taxes, etc.) are there to defend either fiscal leeway or agro-industrial policy space in the African regions, and twelve years of EC reluctance to make concessions on the majority of these items solidified the opinion in Africa that the new regionalism of the EPA type was to reduce African economic living space altogether.

In Africa, popular resentment against EPAs is frequently fuelled by agricultural import surges. The most prominent example: For about twenty years, the West has been exporting massive amounts of chicken meat to Western and Southern Africa. Indeed, chicken play a surprisingly big role in trade disputes. This phenomenon, which is typical for global trade patterns, is shaped by EU and US consumer preferences for chicken filets and results in subsidies that make the price of such products almost unbeatable for African producers.[6] It was feared that the signing of the EPA would lead to an increase of such cases.

6 For a thorough analysis of the case, with a focus on Cameroon, see Mari and Buntzel (2007). On issues of how the political economy of vested interested obstructed countermeasures against mass chicken imports, and of the technical complexity of trade protection measures under WTO rules, see Asche (2008). Countries such as Cameroon, Côte d'Ivoire, Senegal, or Nigeria that now have banned the import of frozen chicken parts will have to abolish such restrictions 'after EPA'. Similarly, since 2000, South Africa has charged anti-dumping duties on bone-in chicken exports from the US and, currently, also from Germany, the Netherlands, and the UK. For this, South Africa will now be 'reviewed' regarding its further eligibility under AGOA. In a similar vein, the TTIP controversy over US chlorine washed chicken versus EU chicken and turkey, all to different degrees full of antibiotics, is a modern fable about global trade and the need to change consumer behaviour.

2. EPA outcomes

Early in 2014, the European Commission issued an ultimatum: If EPA negotiations were not concluded by 1 October, the Cotonou preferences granted to Non-LDCs in the EPA groups would be cancelled and the less generous GSP again become effective. It actually happened to Kenya for a couple of months. For years, a number of critical observers, including the author, had argued that the EPA negotiations had reached a stalemate and should be started all over again. Before the last round of negotiations the list of contentious issues had reached dizzying proportions. Items included the degree to which ACP states would have to open their markets, export duties, food security and infant protection, the most favoured nation clause, a non-execution clause in case of human rights violations, and additionality of EPA-related aid for trade (Bilal and Ramdoo 2010; Schmieg 2014). Nevertheless, those who assumed the issues would be beyond resolution were proven mostly wrong.

2.1 The EPAs concluded

Negotiations for three Economic Partnership Agreements have been concluded, and currently the treaties' text is under legal review, after which they may be signed and ratified. They are:

1. The ECOWAS EPA, concluded 6 February 2014, and endorsed by ECOWAS heads of state for signature on 10 July 2014. It involves all 15 ECOWAS member states and Mauritania.
2. The EAC EPA, concluded on 16 October 2014, for all five EAC member states.
3. The SADC EPA, concluded 15 July 2014. It includes all five SACU members, Botswana, Lesotho, Namibia, Swaziland (the BLNS states), and South Africa, plus Mozambique. As nine of the fifteen SADC states are missing from the «SADC EPA Group» a more appropriate name for the agreement would be SADC- or SACU+.

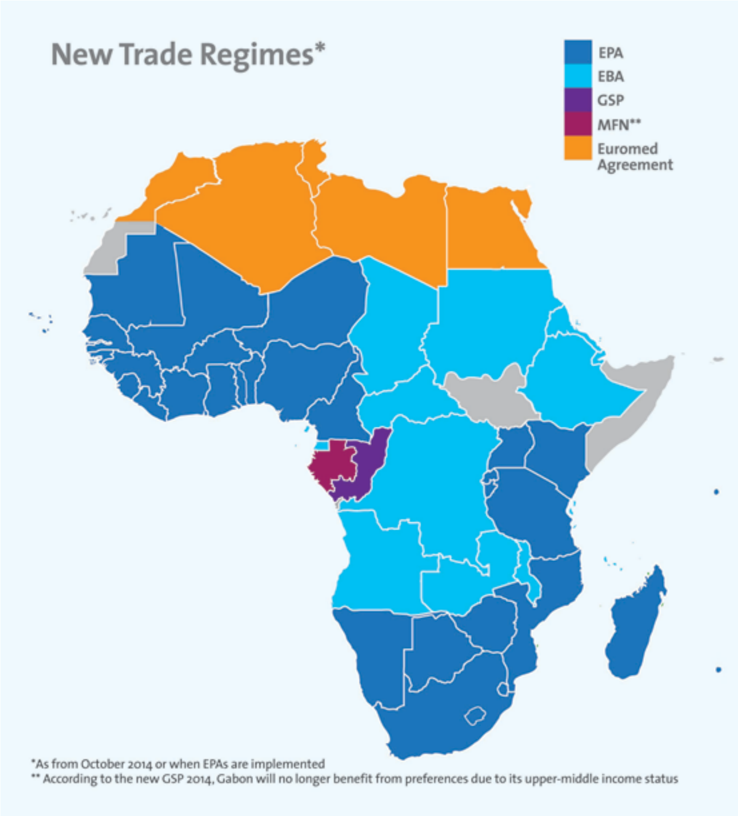
Few observers doubt that ratification will take place, yet civil society and business associations critical of EPA continue to lobby for non-ratification. In addition, there are:

1. An interim EPA with SADC members Mauritius, the Seychelles, Zimbabwe, and Madagascar of the initial «Eastern and Southern Africa» (ESA) negotiation group,

provisionally in force since May 2012. However, many items are still subject to further negotiation.

2. An interim EPA with Cameroon, as the only signing member of the Central African negotiation group, provisionally in power since August 2014.

Figure 2: EU trade regimes after conclusion of the EPA



(map courtesy of ECDPM)

In light of the earlier debate, the first key question is, do the three completed EPAs by way of their format obstruct the consolidation of African regional communities? They rather do not. The grouping of countries roughly corresponds to obvious regional criteria, and, in a way, the EPAs even help simplify the panoply of RECs:

- Tanzania (also member of SADC) decided to group itself with the EAC – where it arguably belongs.
- Regarding the ECOWAS EPA, the destructive single-country iEPAs with Côte d'Ivoire and Ghana have been shelved, and tensions between the francophone UEMOA/WAEMU and ECOWAS were resolved in favour of the larger group. EPA negotiations were also instrumental for working out the ECOWAS common external tariff (CET), which, interestingly, is along the lines of the existing CET of the smaller UEMOA.

ECOWAS ministers decided to make the CET effective as of 1 January 2015.[7] Mauritania, which is not a member of any Sub-Saharan REC, is now well hosted in the ECOWAS context.

- The most important achievement of the ««SACU+» EPA is that, by including South Africa, it supersedes the bilateral TDCA of 2004. It also offers to South Africa better terms for wine, sugar, fish, flowers, and canned fruit than the TDCA.[8]

To a certain extent, the EU-ACP negotiations represent a Hegelian ruse of history as they prompted three African regional economic communities to get their act together. However, if some governments or parliaments in EPA countries now regard the concessions as too great and refuse to sign, disaster will loom for the African RECs.[9]

Elsewhere on the continent considerable problems remain. Just 32 of the 49 Sub-Saharan countries are part of EPAs, and it is unlikely that the remainder will join. Vast central Africa is mostly a blank spot on the EPA map. More than any others, CEMAC and ECCAS represent the division and overlapping of regional economic communities, and this in what is arguably the weakest of the four Sub-Saharan sub-regions, in terms of institutional capacity and intra-regional trade integration. According to an EC overview of EPA negotiations (January 2015) the crisis in the Central African Republic contributed to the impasse, and the future of negotiations is up in the air. Secondly, four countries of the Southern African region, all belonging to SADC, are neither covered by the «SACU+» EPA, nor by the «ESA» iEPA. They are Angola (which participated in the SADC EPA negotiations), DR Congo, Malawi, and Zambia. Overall, a vast band of countries in Eastern, Central, and Southern Africa is still not part of the new trade agreements with Europe. It has to be remembered that many in Africa criticised the arbitrary composition of the EPA negotiation groups. The late Malawian president Bingu wa Mutharika was not the only one to claim that this was a new «*plan to divide Africa*» and promised never to sign an EPA. His younger brother, who is now in charge, has still not signed.

With respect to the format of the treaties, the sanguine assessment of the EPA outcome is hence conditional on important assumptions: For CEMAC a solution similar to the one in West Africa has to be found (where the sister monetary union UEMOA is part of the EPA) and non-signatory SADC states will have to join one of the 'SADC' agreements. Otherwise,

7 To our knowledge the CET is not yet operational due to a number of implementation problems, among them the need for some countries to renegotiate WTO tariffs; see also Coste and Von Uexkuell (2015).

8 Source: EC communication, 5 September 2014. However, South Africa is the only EPA country to which the EU opens its market only to 95%.

9 For the ECOWAS EPA this is mainly conditional on the willingness of Nigeria's new federal government to sign. Opposition from interests vested in the practice of on-off import bans and duties, which marked Nigeria's trade policy for decades and fuelled corruption, remains apparently strong, although World Bank simulations have shown both the ECOWAS CET and the EPA would have aggregate positive effects on Nigerian consumers and producers (nb: not necessarily in all other ECOWAS states), see Von Uexkuell and Shui (2014).

the Central African and SADC regions remain cases of 'ultra-light' integration and will probably focus on the intra-African tripartite free trade agreement of COMESA, EAC and SADC, signed in June 2015, which is vast but not deep and whose eventual relationship with the EU is perfectly unclear.

2.2 The content of economic partnership agreements

2.2.1 Integration modes revisited

Let us return to the paradox outlined above: One the one hand, we have agreements among distant, non-contiguous country groups, which aim at deep integration while, on the other, neighbouring developing countries often have nothing but some integration for merchandise trade. So what is the geopolitical outcome of the EPA negotiations? The answer is clear: The latter model of integration prevails – surprisingly also in North-South direction. The EPAs confine themselves to establishing free-trade areas between the EU and African regions – on goods only. All other issues, mainly the so-called Singapore and Cotonou items, were not part of the final negotiations and were consigned to rendezvous clauses, meaning, no agreement – but we will meet again. The following issues are deferred to future talks:

1. Trade in services
2. Rules for investment
3. Protection of intellectual property rights
4. Competition policy
5. Public procurement
6. Sustainable development and the environment
7. (in ECOWAS only:) Controls on the movement of capital, data protection, and consumer protection.

It is important to note that the non-execution clause in case of democratic and human rights violations is also missing from the final texts. This would have enabled the EU to suspend the agreement in case of grave human rights, labour, or environmental abuses. The clauses had been controversial even among civil society groups, and some – mainly in the North – will keep criticising their omission. EC officials argue that, if necessary, the non-execution clause in the overarching Cotonou agreement may be applied. Here, a possible better alternative could be a joint assessment of the civil rights impacts of EPAs[10]; and finding a legal way to pursue not only governments but as well companies for human rights abuses all along their global value chains might be equally important.

Confinement to trade in goods marks an important difference between the African EPAs and the CARIFORUM EPA, concluded on 15 October 2008. The omission of rules for services, investment etc. is not per se an advantage for African countries.[11] However, at present, given the fundamental bias in the global setting of trade negotiations, this is arguably the better outcome. For the time being, no bi-regional deep integration along ACP-EU lines jeopardises intra-African integration – contrary to what this author had expected (Asche 2012). The greatest potential challenge from 'deep' integration currently is third-country effects stemming from other comprehensive trade and investment deals, such as TTIP or TPP.

2.2.2 The trade agreements

As a consequence, an examination of how development-friendly EPAs are can largely be confined to regulations for trade in goods. Over the twelve years of negotiations there have been a number of important contentious issues. For those of them that were not postponed to later talks, a look at the treaty texts helps clarify their likely effect on trade.

a. The market access offer

In continuation of the earlier trade regimes, the European Union maintains 100% DFQF trade liberalisation for African exports, with a limited exception for South Africa. Therefore, it is still important to explain to a wider public that whenever sealing off of EU markets against African imports occurs this has nothing to do with high overall tariff barriers or with tariff escalation for processed goods but is caused by non-tariff measures (NTM), for example cumbersome rules of origin (see below), by EU agricultural policy, or prohibitive immigration rules.

In turn, the EC considered the liberalisation of about 85% of trade volume by African states as necessary to achieve the WTO goal of liberalising «essentially all trade» and thus as sufficiently reciprocal to waive all EU duties. On both fiscal and structural grounds many have criticised this 85% target as too high. The figure itself remains arbitrary and, at the last minute, even five EU member states (not including Germany) suggested a 75% target. In the end, the actual figures are fairly consistent, with an estimated 85.6% for SACU+, 82.6% for EAC, and 82 % for ECOWAS.

10 See Bartels (2014) for an in-depth analysis of the issue and forward-looking suggestions.

11 For an analysis of how development-friendly deep integration is in the CARIFORUM EPA, see Qualmann (2009).

As I have argued in 2008, given the degree of prior trade liberalisation, this cannot be considered a serious *additional* impediment for African development. African countries already have low MFN tariffs, and the EPA groups largely offer their existing zero-tariff band as initial market opening to the EU. In areas where sizeable tariffs still exist, long transition periods of 15, 20, or 25 years have been agreed upon, with grace periods of five, seven or twelve years before the reduction sets in. This mitigates both negative fiscal and sectoral impacts of the trade liberalisation. Important fiscal losses will occur, but estimates vary wildly, which shows that we need new, reliable tax projections for all EPA countries as part of joint implementation monitoring.

A critical area is the 15% to 17% of imports exempted from tariff liberalisation. Here the Africans had to make rational choices of what to protect. The exclusion lists attached to the final EPAs feature predominantly agricultural produce and processed agricultural products. Why such a sweeping protective move? It is not just that agriculture is still the predominant sector in Africa, but also that the EU refused to negotiate on European agricultural policy. Although direct EU export subsidies were abolished some years ago, production subsidies still tilt the game against African competitors, and their negotiators have responded with block protection of agriculture. We will discuss below whether this wholesale protection is cause to celebrate.

Some industrial products are protected in all three EPAs, namely more advanced manufacturing products in SACU+ and miscellaneous goods in EAC and ECOWAS+. With the possible exception of textile products, here it is hard to discern any strategic choices. ECOWAS exclusions comprise cement, pharmaceuticals, soap, and cosmetics; the EAC lists extravagant goods like matches, crown corks, and batteries – all suggesting either protection of fiscal revenue or of vested interests as the underlying reason.[12]

b. Infant industry protection and safeguard clauses

To thrive, fledgling agro-industries in developing countries may need some shelter, yet certainly not permanent but flexible, time-bound protection. In the long term, rigid protection with an unchanged EPA exclusion list will stifle dynamic structural policy. It does simply not make sense that developing countries have to declare, in 2015, which industries they want to protect once and for all, which is why a more flexible solution based on the development-friendly interpretation of special and differential treatment according to GATT Article VIII would be sensible, foreseeing the possibility to swap protected against freed production lines, notified to the contracting parties (Asche 2008: 88).

African negotiators have criticized the EC's defensive stance that the usual anti-dumping and safeguard clauses suffice as protection against sudden import spikes or to help new

12 For the dilemma with these protection lists see Vollmer, Martinez-Zarzosoy et al. (2009) and Milner, Morrissey et al. (2008).

industries. Such emergency measures are difficult to handle for developing countries and, again, the opposite of strategic agricultural and industrial policy. Alternatively they suggested

> *«the need to have a stand-alone provision for the treatment of infant industries, which would allow them the flexibility to take domestic policy measures to provide temporary support their nascent industries.» (Bilal and Ramdoo 2010: 24)*

All three EPAs now contain explicit clauses to protect infant industries. Their awkward phrasing points to the reluctance of EC negotiators to accept them, most obviously so in the EAC EPA. They are mainly admitted as defence measures against adverse effects of EPA implementation. With some generous interpretation and imaginative handling the cumbersome regulations may also be used to protect fledgling industries. However, in areas where EU producers, many of them from former colonial powers, historically hold near-monopolies in African markets, it becomes very difficult for African countries to invoke EPA rules to protect national producers who want to start fabricating from scratch, for example, refrigerators, air-conditioning units, or water taps. African countries can still raise the common external tariff (CET) for the rest of the world, say China, up to bound WTO rates, yet they cannot do this regarding the EU.

One also has to keep in mind that provisions more or less suited to protect and promote new industrial production – clear sunset clauses, here: after eight years - do not necessarily serve to avert social and, in particular, environmental harm, the long-term consequences of which cannot be adequately countered with short-term measures.

c. Export duties

In spite of persistent EC opposition, all three EPAs finally grant the right to levy export duties. African negotiators fought for such duties as tools to encourage or preserve local processing of primary goods, stop speculation, and assure food safety. The *cause célèbre* in support of their arguments is the instance when the IMF/World Bank enforced the abolition of Mozambique's export duty on raw cashew nuts, which triggered the destruction of a local industry that has never fully recovered, as processing of Mozambican cashews moved to India. The EPAs state that signatories may «*not institute any new duties or taxes in connection with the exportation of goods to the other Party,*» but this is followed by the all-important clause that the African countries «*can impose a temporary duty*» on exports «*to foster the development of domestic industry,*» as well as for other reasons, that will be initially limited to a period of four years and involves cumbersome proceedings but can serve the purpose (quotes from the EAC EPA draft). Export duties are also an important source of fiscal revenue. For example, Guinea Bissau obtains 40% of its revenue from cashew exports, and such duties can stay in place, although they will be subject to regular joint review.[13]

d. Subsidies

African governments that want to support new national industries in cases where this is difficult, for instance because the domestic market has always been dominated by European suppliers, may do so because the EPAs still explicitly allow the «*payment of subsidies exclusively to national producers*» (Art. 18,4 EAC EPA). This importantly includes instances where national firms operate with higher labour-intensity or use eco-friendly techniques. The difference to tariffs is that subsidies are an expense, and cash-strapped governments will consider carefully whether to incur it. Finally, direct export subsidies are generally to be phased out in conformity with GATT, and the EPAs could not have it otherwise.

e. Local content rules and local or sustainable procurement

National rules requiring that a fixed percentage of the gross value of exports, in particular when produced by foreign investors, must be domestically sourced, used to be a common device of traditional industrial policy in developing countries. Since the 1980s such practices have been proscribed, as local content quotas were often set far too high, fostering corruption to circumvent them instead of supporting domestic suppliers. All three EPAs ban such regulations with identical wording, arguably provided by Brussels.

Of late, some countries have considered smarter local content legislation to encourage foreign investors to source more supplies locally. Examples are rules applying to the emerging oil and gas industries in Ghana, Tanzania, and Uganda. It is hard to understand why African countries unanimously decided to forego this opportunity – probably it was part of the bargain. Still, it remains possible to nudge foreign investors towards raising their local content quota through public-private dialogue or via joint ventures, as China ingeniously did. For a number of products, and depending on respective REC constellations, it may be the better anyway to replace local by *regional content rules* (cf. the section on RoO below).

Regarding public procurement, it should be noted that the EPAs grant the governments on either side the right to privilege national suppliers over importers– or environmentally-friendly suppliers over polluters (though this is not explicitly mentioned). This means, your government can safely buy school desks locally, e.g. from suppliers using certified wood. Sustainable local procurement thus remains an option, which, in turn, corroborates our overall assessment that the EPAs do not aim at deep integration.

13 In some cases where no national processing ('beneficiation') of the raw commodity is envisaged, things are even simpler: Export duties can be introduced and raised ad libitum, as long as they are not higher than those imposed for internal sale.

f. Most favoured nation treatment

Most favoured nation treatment (MFN) means receiving equal trade advantages as the country «most favoured» by the nation or bloc granting such treatment. The European Commission requested MFN treatment from its EPA counterparts, arguing other trade partners were as competitive as EU suppliers and approaching or exceeding per-capita-income levels of poorer EU member states. Initially this was rejected by the African side, which wanted to retain the right to grant, for example, Brazil, China, and other RECs better trade conditions than Europe. The compromise agreed upon focuses on economies with more than a 1% share in world trade (1.5% for regional blocs), put on a par with the EU for MFN treatment. By excluding all ACP and other African states from the MFN clause, preferential treatment by one EPA group for the Cariforum or other African countries or groupings remains possible – which is a welcome result.

g. Rules of origin

A particular problem is posed by the Rules of Origin (RoO) in bi-regional arrangements such as AGOA and the EPAs. These rules aim to protect a market against redirected imports from third countries, for example China or India. While it is impossible to abandon them altogether, Rules of Origin have a solid reputation, in trade economics, of being a very dull subject and a great nuisance for both traders and customs officials.

The EU General System of Preferences (GSP) and now the EPAs contribute to the questionable reputation of these rules but substantial progress has been made lately. Until 2010, all products not *wholly obtained* (= entirely produced in the exporting country) were subject to restrictions under the EU's GSP, with so-called double stage requirements for both general GSP and for the least developed countries under the Everything but Arms (EBA) regime. When importing supplies, it was necessary to perform two substantial steps of transformation in the exporting country. For example, after importing yarn from Asia, this had, first, to be woven into fabric and then to be made into clothes. Regional sourcing in Africa was not yet an option for preferential exports to the EU. GSP reform abolished such regulations, effective 1 January 2011.[14] An impact evaluation had indeed shown that the actual use of the EU preferences was particularly low for products which are of most interest to LDCs – processed agricultural and textile goods – and that the cumbersome RoO were one of the reasons. RoO now essentially prescribe a single transformation stage, defined as *substantial working or processing* of imported raw materials or intermediate goods.

Further, the GSP reform of the RoO redefined *cumulation*, that is, when goods do not wholly originate in the exporting country but get inputs from elsewhere. The GSP maintained

14 The 2010 EU regulation can be found at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do? uri=OJ:L:2010:307:0001:0081:EN:PDF.

so-called *bilateral cumulation*, the mutual recognition of manufacturing stages for products shipped back and forth between the EU and the developing country. Importantly, the regulation also relaxed rules for *regional cumulation*.

All three African EPAs have now incorporated the new EU rules of origin, and the interminable annexes on substantive working and processing, product by product, largely copy the 2010 EU GSP regulation for LDCs. This is also true for regional cumulation, and, under the new heading *diagonal cumulation*, preferences are extended to fairly limited processing steps in the EPA group, the EU, its overseas countries and territories (OCT), and *other ACP EPA states*. This means, even pan-African cumulation is facilitated – provided the third country has also concluded an EPA. Here, the subtle pressure is still on: For all non-signatories the former GSP rules apply, and if they are Non-LDCs they will have to pay GSP duties, instead of being duty and quota free.

The EC's concessions on single-stage and cumulation rules of origin in the EPAs are good for producers in Africa. The key question is, will they suffice? Former Dutch minister Herfkens has put this in historical perspective:

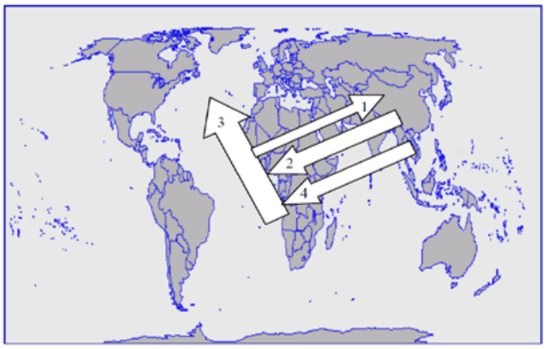
> *«Probably the most fundamental problem with current RoO is that they were created decades ago. Since that time, the world globalized: production of a good became fragmented between many countries, with each specializing in one narrow task. Comparative advantages are less and less at the level of whole products, but simply a specific transformation step.» (Herfkens 2015: 8)*

Against the background of a supposed global transition from trade in goods to *trade in tasks*, relaxed RoO certainly help developing countries to maintain their position in global value chains (GVC). Nevertheless, Herfkens adds, by requiring that substantial value be added, RoO can still be prohibitive. Does this mean *substantive working or processing* is asking too much of a 'task'? This depends on some important assumptions, namely that the global division of labour is rational throughout - a division of labour in which the less developed countries carry out only minor tasks in areas where they are supposed to have their tiny comparative advantage. From a developmental point of view it appears more important that less developed countries gain greater participation in global value chains and perform more substantial steps of product transformation. Neglecting the requirement of substantive working or processing would risk destroying all differentiated preference systems, as the transshipment of goods from advanced production centres to LDCs for mere re-labelling or cosmetic processing would likely get out of control.

In addition, one can safely assume that today's low global transport cost – often associated with a 'death of distance' – does not reflect the true social cost, in particular not the socialised environmental cost.[15] If so, promoting the now dominant global division of labour is neither developmental nor ecological. This author used to exemplify the problem in one of his lectures by putting a jar of orange jam on the desk. It was a Danish brand, a product found in 2005 in a South African-owned supermarket in Maputo, Mozambique. The fruit in it either came from Southern Europe or, possibly, Morocco and, according to the label on the jar, it had been processed in Poland. It is not clear whether the marmalade ever saw Denmark. Transporting it via South Africa to Mozambique is hard to justify – with all due respect to consumer preferences of European expatriates or the African middle classes.

The European Union maintains that EPAs aim to foster integration among ACP countries, supporting production chains *in developing regions*. In Sub-Saharan Africa, this has worked only in a very limited way, mostly in Mauritius and South Africa (Staritz 2011: 61). The relaxation of rules thus appears to be welcome for exporters from African regional communities. The problem is that the less stringent RoO a priori do *not* privilege regional integration. Take again the example of the clothing industry. Here, apparel producers will certainly benefit from liberalised rules. In substance, they reinforce the dispersed chain of production within the global triangle, as they facilitate the global sourcing of inputs from where they are produced most efficiently – for yarn and cloth this is largely China. (See **figure 3**)

Figure 3: The new triangle of textile trade with Africa



Legend: 1: Cotton exports from (West) Africa; 2: Yarn and cloth imports from China; 3: Apparel exports to US (under AGOA) and EU; 4: Cheap apparel imports for consumers. Source: author

The extent to which the clothing sector in Sub-Saharan Africa uses locally produced yarn, fabric, and accessories is very limited. From a static perspective, this may be market-efficient; from a dynamic perspective, this leaves Africa with disjointed stages of production, for example, producing raw cotton and then performing the most labour-intensive steps of

15 This refers to the 85% of global freight transported by sea and perishable goods delivered by air. Maritime freight is low on CO2 emissions when compared to road transportation, still it is important to reduce its contribution to the global environmental damage, see OECD and ITF (2015): www.internationaltransportforum.org/pub/TranspOutlook.html.

apparel-making at the end of the chain.[16] The lifting of double and triple transformation rules relieves all pressure on lead firms to make their African production chains longer or more integrated.[17]

In 2008, this author proposed that the EU should grant special tax advantages to ACP regional products that have undergone several steps of transformation (of whatever length and value) within the REC. As all these products continue to enter the European space duty and quota free, no positive tax exemption is possible.[18] A reward for a genuine, say *East African Product©* would have to be a negative import tax, in other words, a premium for regional sourcing among ACP states. As customs paperwork, documenting the origin of the product, has to be undertaken anyway, such a genuine *aid for regional trade* would do little to increase the bureaucratic burden. As the EU predictably remains unwilling to venture such a bold move, new promotional measures will have to be tried, betting on consumer preferences for geographical indications. European consumers increasingly favour regional products at home – products grown and fully manufactured in ACP partner RECs could be promoted in the same way and granted every non-tariff advantage imaginable.

2.3 Political assessment

What is the overall political result of the EPA negotiations for Africa? In one word: The big battle is over, yet the challenge posed by implementation is sizable. Some economic policy space has been successfully defended in the negotiation rounds, as EPA are down-sized to a palatable trade-in-goods agenda. There is greater leeway to develop agro-industrial strategies than previously feared, and some trade defence measures are still workable. Also, there is room for further preferential South-South integration, as not all trade preferences are to be granted to the EU right away. Regional integration in Africa is not in present danger from EPAs, conditional on resolving the issues relating to Central Africa, the rest of

16 The authors of the African Economic Outlook 2014, otherwise quite in favour of the new fragmented value chains, interestingly refer to cases where integrated chains are now considered more efficient than the dispersed mode of production (AfDB, OECD et al. 2014).

17 This happened in Southern Africa when Taiwanese firms feared the phase-out of the AGOA TCF derogation.

18 As all EPAs include a ban on internal taxes and duties that differentiate between products originating in the region or elsewhere. Positive discrimination of regional African products through VAT or an excise tax rebate is now barred.

the SADC, and the residual eastern and southern group, including important countries such as Ethiopia that are not members in any concluding REC.

In sum, the EPA process has not turned out to be a second Berlin Conference, as some critics had feared with good reason – former Tanzanian and now South Centre president Benjamin Mkapa among them. This marks an important success for all African stakeholders – governments, private sector, civil society, media, and academia. Active civil society participation, above all in West Africa, has paid of (Trommer 2014), although certain NGOs seem unwilling to admit their success and keep on attacking the EPAs, for example the NGO confederation Concord. The final EPAs also prove that the European Commission is capable of adapting its negotiation stance.

However, not all is well. The EU's *behind-the-border* policies, namely for agricultural products (for example the cotton subsidy), remain a major impediment. Wherever there is a large enough price differential, European agricultural exports with their indirect subsidies can still disrupt African markets – be it frozen chicken wings or tomato paste. However, some safeguards to stop such blatant trade failures have been available to African states all along and remain in the trade policy arsenal. On the export side policies to encourage local manufacturing through export duties on raw materials have been restricted, yet remain possible – an important premise for agro-industrial development and resource governance in mineral-rich countries.

Therefore, EPAs are not insuperable obstacles to new industrial policy, to good mineral resource governance, or to regional integration, and by extension also the combination of these three political vectors in regional industrial policies or wider green growth strategies clearly remains an option. As the required policy space for agro-industrial diversification and deepening is, roughly speaking, assured one is inclined to say: Now is the time to go ahead. Notably, an elephant in the room once identified by McCarthy (2010) should be recognized: carry a regional community through the tedious exercise of institutionally ambitious integration in full blown customs unions and common markets can only be justified if the respective REC has operational regional strategies to develop new productive capacities. Wherever this is not the case, the cost of the bulky institutional superstructure and the price consumers have to pay is simply too high. In this case, a light integration model without EU-style 'heavy' institutions would be preferable.[19] Which of the two models will prevail in Africa remains to be seen.[20]

19 Recall that representatives of 'stumbling block' theory consider the African institution-intensive REC model inferior to multilateral integration anyway (Draper 2010; Draper, Freytag et al. 2013).

20 One has to remember that representatives of 'stumbling block' theory consider the African institution-intensive REC model inferior to multilateral integration (Draper 2010; Draper, Freytag et al. 2013).

Ideally, efforts to develop sustainable agricultural and industrial policies would have preceded trade negotiations, both in Africa and in Europe, and they would have been based on a broad public-private dialogue (PPD). However, things happened the other way around.

- Most African countries have some agricultural strategy, and many have produced industrial policy documents; however very few, if any, strategies and policies have been operational enough to guide trade negotiations, and instead of a co-ordinated PPD on such policies there were spontaneous protests and NGO campaigns. In Africa, there are hardly any specific *regional* industrial and agricultural policies, and, admittedly, they are difficult to conceive.[21] Hopefully, now that the North-South deals have been struck, some serious efforts will be undertaken. The preparatory work done so far indicates that the chances are best in the EAC.
- In Europe EPA negotiations were skewed from the outset towards further opening African markets to European suppliers, and there was no strategic dialogue on the European growth model in conjunction with the African one. It is high time to engage in an open dialogue on the sustainability of conventional European high-subsidy, high-input agriculture.

Implementation of the EPA increases the domestic challenges for regional integration in Africa. We already noted that, in spite of some nominal 'free trade areas' and 'customs unions,' there is no completely liberalised internal trade in Africa. In actual fact there are sequenced tariff liberalisation schedules in place – much like those in the EPAs – that often differentiate between less and more advanced countries within the REC. Agreements like the SADC Treaty contain almost all the safeguards also found in the EPAs. Exception clauses are regularly invoked to re-erect tariff and non-tariff barriers (NTB) between member states – or regulations are altogether disregarded and trade barriers imposed. There simply is no free trade.[22] Consequently, African regional economic communities now run the risk that liberalised trade with the EU *and* rules-based external border administration are forced upon them, while there still is neither free nor rules-based trade within the regional communities.

In sum, African RECs must be careful not to perpetuate the North-South integration paradox in the area of merchandise trade by privileging distant suppliers over their African neighbours. In addition to external risks of the EPAs such as increased import pressure, fiscal losses, etc. there is now a three-fold threat to regional integration in Africa

21 See Matambalya (2015) for a comprehensive review of industrialisation strategies in African RECs and how the EU can support them.

22 There is an interesting NTB reporting and monitoring mechanism for COMESA, EAC, and SADC, see: www.tradebarriers.org. This mechanism has apparently eliminated a number of NTBs. In the complaints statistic, issues related to rules of origin rank second, behind lengthy customs procedures.

1. Anger about an imposed EPA may provoke some African governments not to implement the agreement as scheduled. While traditional EPA critics will rejoice[23], EU-Africa trade will suffer.
2. Conversely, the free and rules-based extra-African trade schedule may be implemented as signed, while intra-African and intra-REC trade remains restricted by high and irregular informal barriers. This would amount to external liberalisation without internal liberalisation – a quite likely worst-case scenario for regional integration in Africa.
3. Although formally playing by the rules, vested interests may entice African governments to misuse the room for manoeuvre offered by the EPAs for protectionist policies – instead of using it to promote new and productive approaches.

EPA implementation will take time – and so will the TTIP and TPP negotiations. This transition period offers a window of opportunity that African governments will have to use to proactively strengthen vulnerable industries, stabilise global value chains, and launch new production facilities.[24] TTIP, if concluded, implies very deep integration and will affect all topics now confined to the EPA rendezvous clauses. Here, African states and regional communities will have to act during the scheduled follow-up negotiations. To avoid altogether talks about aspects such as services, investment, or standards that still restrict the EU-Africa trade while others negotiate deep integration is no strategy. African negotiation groups – if not a single group – will have to define the relevant issues for further negotiations and also try to replace bilateral investment treaties, in which such issues are presently covered, with a more general framework.

New Aid for Trade

Following from the challenges enumerated above are a few remarks on the development co-operation agenda contained in the EPAs. Few analysts believed that the Aid for Trade (AfT) initiative, launched as part of the Doha Round, would truly help developing countries cope with the challenges of global liberalisation. Meta-analyses and AfT-related research have found that the impact of such aid on developing countries' growth in trade was hardly ever operationalised or evaluated. AfT does little to support new manufacturing industries at the company level, except for some small to medium enterprises (Razzaque and te Velde 2013: 413).[25] To meet the real needs of developing countries, AfT will have to be completely redesigned, so as to account for new triangular (North-North-South) global trade and to prepare the developing countries for the opportunities and challenges of new global product specifications and standards.

23 As they do over delays with the implementation of the CARIFORUM EPA.

24 The Economic Commission for Africa arrives at a very similar conclusion (UNECA 2015: 155-164).

25 Limited exceptions to the rule are development finance institutions, such as those regrouped in the EDFI partnership. However, aid for trade provided by, for example, the German DEG cannot be properly evaluated because important information is missing (Kröger and Voionmaa 2015: 60).

A new AfT also needs institutional reform. Assistance for African trade policy initiatives should not be directed by European or American donors. An alternative would be an open fund with potential recipients or RECs applying for technical advisory services in a transparent and competitive process – a process open to agencies from other developing countries. The lengthy sections in the EPAs that deal with development co-operation and list traditional aid projects would profit from such a novel approach.

Monitoring and Evaluation (M&E) will also be crucial to the success of the EPAs. In the ECOWAS EPA, evaluation is rightly defined as one of five strategic axes of the Development Programme, including assessments of the progress made regarding competitiveness and productivity. In the SADC EPA, Annex X mentions the joint evaluation of private and public sector capacity to apply the new rules of origin – a critical issue indeed.[26] The baseline for evaluation is: despite the Cotonou preferences, African trade accounts for only 2-3% of EU exports and imports. In monitoring and evaluating the EPAs, a central focus must be on the assumption that the change from a unilateral, asymmetrical trade liberalisation (Cotonou) to a reciprocal and far less asymmetrical system with European imports further eased will make African exports more competitive and raise trade figures. This was always a bold assumption, though supported by one (contested) trade theorem, the so-called anti-export bias of import protection, which states that cheaper imports strengthen export competitiveness. If the import-export nexus proves valid, this is great; if not, new ways to strengthen African productive capacity will have to be found. Regular outcome monitoring and so-called formative evaluations that accompany EPA implementation will have to include prior impact assessments of third party RTAs (here: the proposed TTIP and others). Given the obvious third-country effects of TTIP, this needs to be part of the EPA M&E mandate.

26 Strangely, the EAC EPA says nothing about evaluation.

3. The transatlantic partnership

3.1 TTIP as a deep integration project

For Africa, implementing the Economic Partnership Agreements constitutes a tall order – and that despite the fact that the treaties have been limited to trade in goods. Global political attention is now focussed on other economic integration projects, which affect Africa indirectly. Since 2009, the EU and Canada have been negotiating CETA, and, since 2010, Trans-Pacific Partnership (TPP) negotiations are underway. Add to this the proposed Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US, and the general shift away from multilateral and towards bi-regional agreements becomes apparent.

Major bi-regional treaties such as TTIP are under critical scrutiny for good reason, as they limit national or regional sovereignty. Critics on the left are not always aware that the opposite side of the political spectrum is also critical of such treaties. An older group of market-liberal critics opposes such bi-regional agreements, as they consider them obstacles on the way towards greater multilateral liberalisation. However, the alternative to both bi-regional and multilateral pacts is bilateral agreements such as, for example, the bilateral investment treaties (BIT), and this latter format does not guarantee better results for the environment, consumers, or development than group-based negotiations with North America or the European Union. Hence, critics of TTIP should always consider the alternatives.

3.2 Main contentious issues

The official negotiators routinely claim that big trade and investment pacts generate growth and employment, however, their immediate concern is very different – they focus on cost reduction for private investors. Consequently, many stakeholders doubt that further trade liberalisation is a win-win situation, and the classical concern is that over job losses. In addition, the following aspects of TTIP are at the centre of a debate which has become Europe-wide: Investor state dispute settlement (ISDS); privatisation of public utilities versus public provision of essential services; consumer, environmental, social, technical, etc. standards for goods and services; protection of culture and media.

Many of these issues, such as the investor-state arbitration, are not part of the EPAs, and not a single consumer or social standard has been harmonised in those treaties. For instance, EPAs do contain arbitration mechanisms, however they concern state-to-EU regulations and are hence less problematic. The question is, why did the EC renounce investor-state arbitration in the EPAs, something considered to be of paramount importance by the advocates of the transatlantic negotiations? There are two answers. Firstly, the bilateral investment treaties still have provisions for such rulings. Of the ca. 130 German bilateral investment treaties, 85 have ISDS clauses. Secondly, TTIP is the testing ground for new bi-regional regulations meant to replace earlier bilateral/bi-regional provisions.

Initial studies tried to forecast trade, growth and income effects, mainly within the EU, with little focus on third countries. These studies, referred to as Ecorys, CEPII, CEPR, tend to stress the positive economic effects for both regions and, in general, for third countries too, though they predict considerably lower growth rates than publicly announced by some governments and business associations.[27] Essentially, they rely on computable general equilibrium (CGE) models and make use of sector-level or micro-level assessments. To this, the first ifo study, commissioned by the Bertelsmann Foundation, adds some gravity modelling (Felbermayr, Heid et al. 2013). An alternative calculation from Tufts University, based on the explicitly Keynesian UN Global Policy Model, predicts grave negative consequences concerning jobs and income distribution, something ignored in the CGE models (Capaldo 2014).

While the studies gauge the effects of the removal of tariff barriers, they have a greater focus on non-tariff barriers such as administrative, technical, social, and environmental regulations. In the spirit of GATT/WTO such non-tariff *measures* (NTM) are described throughout as being nothing but non-tariff *barriers* (NTB). This subtle notional shift has the

27 See Berden, Francois et al. (2009); Fontagné, Gourdon et al. (2013); Francois, Manchin et al. (2013).

effect that the studies list high numbers of dispensable NTM/NTB yet ignore the social cost of abolishing them, which is considerable, as many of them are meant to protect people's welfare (Raza, Grumiller et al. 2014). By the same token, the studies ignore potentially important trade *creation* effects for developing countries, for example, through norms for fair trade or sustainable agriculture.

Some of the main factual assumptions behind the models are questionable, too. For example, they all look at *gross* exports after tariffs and NTB have been removed – and predict a double-digit growth in trade between the EU and US. For *net* exports, most[28] suppose that this will include a massive diversion away from intra-European trade and towards transatlantic trade (including US exports with sourcing from third countries). In other words, the transatlantic trade intensifies while trade within Europe declines. Tufts points out that this presents the European Commission with a serious policy paradox. Indirectly suppliers, for example from China, would benefit, as well as Mexican and Salvadorian *maquilas* or agro-exporters used by US exporters to Europe. The reason behind the assumption that EU suppliers are not competitive in labour-intensive goods are earlier examples of regional integration – within the EU or the North American Free Trade Agreement (NAFTA). What matters for the Africa-related discussion below: here, trade diversion away *from* Europe is considered a critical factor in favour of the US *and* some developing countries. Shortly, we will discuss what these supply chains from Mexico to US, and further into the EU, may imply for ACP competitors.

More recently, some studies have put greater emphasis on the effects TTIP will have for developing countries. A second ifo study, commissioned by the German Development Ministry, estimated their welfare losses as «not dramatic» (Felbermayr, Kohler et al. 2015). The upbeat assessment is based on the following three pillars:

1. Growth in the EU and US from liberalised trade (trade creation) and investment will offer additional export opportunities for developing countries.
2. The preference erosion for developing countries through the abolition of transatlantic tariffs will divert trade to the EU and US. Existing global value chains with the participation of third world producers will however mitigate this effect.
3. The harmonisation of technical, social, or environmental transatlantic product standards will have important positive spillover effects for developing countries, as it will make it easier for their producers to serve this unified market.

Taken together, and in stark contrast to earlier considerations, there now is an emphasis on how trade may be diverted *from developing countries.* Exports from Sub-Saharan Africa to Europe are concentrated in exactly those few market sectors where tariffs still exist between the EU and US – textiles, footwear, and processed agricultural goods – hence the imminent risks from preference erosion.

28 An exception is CEPII.

What about the efforts to assuage such concerns by stressing (1) the trickle-down effect of additional growth, (2) global value chains, and (3) the positive effect of harmonised standards? Will those three factors suffice to ward off negative effects of TTIP on developing countries?

Ad 1) «Trickle-down»: It makes sense to abolish residual tariffs between highly industrialised countries. However, the growth effects and the subsequent indirect effects on exports from third countries to the EU and US are very difficult to predict, and claims that losses from trade diversion will be offset by gains from transatlantic growth are on shaky ground. The estimated GDP effects vary wildly and are essentially theory with numbers.

Ad 2) «Value chain resilience»: Projections on how trade diversion versus trade resilience will play out in global production chains are fraught with methodological and factual problems. A number of authors assert that most developing countries are so well integrated into global value chains that little trade will be diverted. Admittedly, the GVC literature in general remains inconclusive on the perspectives such chains offer for less developed countries. In a daring effort to sum up a comprehensive body of literature, one can safely posit that global commodity, supply, or value chains present a market-based way for developing countries to participate in global production networks. As a rule, such global chains are governed by a few lead companies and not by governments, and success stories often come about regardless of government policies – see Kenya's horticultural and Bangladesh's textile production. However, analysts agree that, in order to succeed, even well managed global value chains need good public policy, regulation, and training, as well as social and environmental policies, otherwise countries will typically run the risk of «trading down» (Gibbon and Ponte 2005). This has become an important field for development aid – something that would be difficult to explain if the invisible hand of the market were sufficient. TTIP studies largely ignore the critical GVC literature, which comes to less upbeat conclusions about the nature of such chains and the opportunities for developing country producers.

Three examples may show why many estimates of TTIP's positive effects on developing countries are in all likelihood grossly exaggerated:

1. The abolition of outright prohibitive agricultural tariffs by the US (350% on tobacco, 130% on peanuts) may make Southern Europe competitive again and also affect goods like fruit juice. Ongoing subsidies for cotton on both sides of the Atlantic, though not conforming to WTO policy, may have similar effects in combination with zero tariffs
2. If transatlantic tariffs on clothes and shoes (ca. 30%) are scrapped, this may have devastating effects on African and Asian producers. Apparel-making is known as the archetypical footloose industry. It is possible that TTIP will lead to a resurgence of textile, clothing, and leather industries in Southern Europe, and the fact that Africa grows its own cotton will not be enough to sustain its downstream industries.
3. Selected hi-tech industries may also be affected. There is some car and car parts production in Africa, however with little depth. Exceptions are the automobile industries in South Africa and, partly, Nigeria. One study shows that Morocco specialises

in wiring harnesses, as does Tunisia, where they constitute the second most important export (6%, as in Morocco). In both countries this is helped by their proximity to European assembly plants, and the link might indeed remain intact. To stay viable, South Africa's car industry, on the other hand, had to be propped up repeatedly through special programmes (the MIDP), in particular for car parts suppliers.

In sum, case studies may seriously underestimate the negative effects on third world countries of breaking up existing value chains.

Add to this what is happening at the cutting edge of industrial production. Above all, Germany and the US are pushing ahead with new, automated ways of integrating production, consumption, and services. In both countries this is driven by a joint initiative of government and industry, often under the catchwords «industry 4.0» and «internet of things.» Rapid responses to differentiated customer demands in car and machine making is a feature, which can be extended to light consumer goods, where economies of scope also matter. Although it is too early to say whether this will become the fourth industrial revolution, as some claim, it is obvious that only suppliers in countries with high-speed and highly secure internet connections will be able to participate, and that less qualified workers may lose their jobs – further factors that do not favour the developing countries.

Finally, none of the studies has considered the *joint* effects of TTIP and EPA – for the simple reason that the effects of the EPAs were not yet known. Thus far, the further opening of African markets through EPAs on the import side, combined with the potential effects of TTP on export production chains has not been investigated, and neither have cases where industrial diversification will be completely aborted through the combined effect of both treaties. By definition, such foregone production possibilities are difficult to measure and are hence rarely counted in the balance sheet of trade agreements.[29]

Ad 3) «Spillovers»: The second ifo study – and by analogy the CEPR study – has been heavily criticised by German advocacy groups because it reversed the negative conclusions of the first study, however without withdrawing it – something rarely seen in sound economic research. Apart from the optimistic GVC assessment, this was mainly done by stressing the spillover effects of harmonised product standards. Critics noted that designing such development-friendly effects is not at all part of the TTIP negotiators' mandate (Foodwatch 2015; Grotefendt, Hachfeld et al. 2015). As a matter of principle, harmonised rules and standards work very much like *public goods*, and it is difficult to exclude outsiders; therefore, it is not far-fetched to consider them welcome for developing countries. However, positive externalities of harmonised standards for third parties are extremely difficult to

29 For example, resource-rich developing countries are not much at risk from TTIP, as long as they continue to be nothing but exporters of raw materials, but the picture changes once they try to add value to their exports. Processed mineral and, even more so, processed agricultural products may face increased competition from US or EU producers, and therefore downstream industrialisation ('beneficiation') may not occur in the first place, as also German NGOs (see para below) critically observed with regard to the ifo study produced for Germany's Development Ministry.

establish across the board. This becomes clearer from a taxonomy of the general cases set out in the TTIP negotiations. They are:

a. Cases where product standards are different, yet high in both the EU and US, and can be mutually acknowledged as equivalent. Drug regulation seems to be a good case in point. Rules of origin belong here.
b. Cases where standards are high on both sides but need to be harmonised, mostly at high levels, in order to avoid lowering consumer (etc.) protection.
c. Cases where standards diverge and one side has superior regulations. Here, one would expect standardisation at the higher level, for example, the general implementation of US FDA standards for medical equipment (German companies are lobbying the EC to oppose this).
d. Cases where standards on both sides are low. Bode (2015) singles out food & agriculture as areas with weak regulation. Here, the solutions for cases a. and b. cannot apply.
e. Finally, the often cited cases of outdated technical product standards, which exist for purely historical reasons and could thus be lowered or abolished.

Of those five cases only the last may be of advantage to third-country suppliers, provided they have respective products to offer. How the fundamental difference between Europe's precautionary principle (*Vorsorgeprinzip*) and laxer principles in the US (*Nachsorgeprinzip*), which, in turn, comes with severe liability risks, will play out across the five cases is difficult to predict. The limited evidence available makes it nearly impossible to predict any *automatic* spillover effects from TTIP.

EPAs and TTIP combined mean, on the one hand, that African countries lose the advantage against their North American competitors of duty-free access to EU markets, while, on the other, none of the third-country effects of TTIP will occur automatically. Geopolitically, this erosion of preferences would deal another blow to the already difficult relationship between EU and ACP countries. Positive outcomes for third countries do not trickle down; they have to be brought about by deliberate political decisions. This means the format (institutions, actors, processes) and contents of TTIP have to be changed in such a way as to make TTIP negotiation (and EPA implementation) truly participatory for developing country stakeholders.

3.3 Development-friendly solutions

Concerning the **format** of partnerships: Some critics view the risk of excluding developing countries from a mega-regional treaty such as TTIP as so great that they want to send the negotiators back to the multilateral table, that is, to where they came from.[30] However, this disregards the fact, that there, developing countries would face similar risks – which is why the global trade talks of the Doha round finally broke down. The history of trade negotiations will not likely come full circle. In the foreseeable future the only practicable format is to bring representatives of the most vulnerable countries to the table. The EPAs with the ACP states have established a new institutional structure for bilateral consultation. TTIP proposes the same across the Atlantic, including a bilateral consultative council that will have to advise on the impact of new legislation (and is therefore regarded with suspicion by those worried about legislative sovereignty). The EU and USA may consider third-country effects via an institution such as an **ACP TTIP Advisory Council** – a council that would review all major proposals for NTB/standard reforms regarding their third-country effects. This would require a formal change of the TTIP mandate, reflecting that the EU is already legally bound by the Cotonou Agreement to support the development needs of ACP countries. Giving ACP countries a contractual right to be heard on the development impact of TTIP will honour the obligation from Cotonou. Participants shall include the public and private sector, civil society, trade unions, and research institutions.

An **open facility** to finance the necessary technical expertise for the representatives of developing countries, akin or aligned to the fund already discussed for EPA implementation, would complete the desirable institutional structure. This idea is similar to the Global Trade Facility proposed by Stiglitz and possibly anchored at UNCTAD (Stiglitz and Charlton 2013).

On **content:** Customs duties between the EU and US have no worthwhile protective, only prohibitive functions. The same is true about true technical non-tariff barriers. As these hindrances will (and should) be lifted, an alternative to an all-encompassing 'deep' TTIP may be a light, trade-only agreement (mainly on trade in goods and related services). To abandon even this and stop TTIP altogether because of potential detrimental third-country effects would be a loss of vision. Negative third-country effects must be taken seriously; however, the solution cannot be the status quo. Therefore, a «Stop TTIP» campaign should arguably only refer to TTIP in its present format, and only if this format cannot be thoroughly revamped, stopping TTIP becomes the best policy option.

30 Experts from the German Institutes for Development and for International and Security Affairs argue unconvincingly along this line (Berger and Brandi 2015; Dieter 2014).

In light of all the arguments, the core agenda of the EU-US trade negotiations (whether deep or not) should be completed with two considerations in mind: The first is to «**do good.**» Key points will come from the EU and US trade preference systems discussed above. After EPA, these systems will still be different and with room for improvement. Within TTIP (or a provisional agreement), trade preferences for developing countries can be harmonised and made mutually compatible, as Herfkens (2015) convincingly argues. Harmonisation is needed for country coverage (which is better in the US than in the EU system) and product coverage (which is better in the EU with its «everything but arms» and now EPA). Harmonisation or mutual recognition is also needed for rules and standards, above all the rules of origin. Once different EU and US RoO systems (and their methodologies to determine product origin) become interchangeable, this may greatly help African and ACP producers to defend their position in global value chains. Here, a key issue is the extension of relaxed cumulation rules (as discussed above) to trilateral trade. This would go beyond the single step, substantive transformation requirement and would bolster the confidence of African producers and their foreign investors regarding their chances in the new transatlantic setting. Currently, no such consideration is part of TTIP, and it would be innovative and a boost to development to put it on the agenda. Technically, this would also necessitate a re-working of the respective parts of EPAs and AGOA.

The second consideration is «**do no harm**», comprising all other standards now under review for TTIP: Trade-offs for developing countries from high work or safety standards are known since long: the more desirable they are, the more challenging it is to comply. Therefore, it is good practice in development aid to help farmers or entrepreneurs to conform with demanding fair trade or ILO labour safety standards. In principle, this is widely acknowledged. TTIP should offer representatives of Third World exporters (entrepreneurs, workers and farmers alike) the *ex ante* opportunity to have their say about the impact of (a) the mutual recognition of roughly equivalent standards, (b) the EU-US harmonisation of standards, (c) the extension of harmonisation and bilateral recognition to ACP countries, and (d) the explicit non-recognition of standards, accompanied (not replaced, as of now) by in-depth sector studies.

Not all concrete proposals discussed may be implemented. The whole body of arguments presented here has two overarching goals, which should be pursued in any event: Africa/ACP concerns have to be *institutionally* anchored in TTIP (replacing the present lax invitation that negotiators should kindly consider the effects their endeavours will have on developing countries); and, by the same token, the agendas of North-South agreements (AGOA, EPA) need to be systematically linked up with North-North ones.

Appendix

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List of abbreviations

ACP	African, Caribbean and Pacific Group of States
AfDB	African Development Bank
AfT	Aid for Trade
AGOA	African Growth and Opportunity Act (USA)
AU	African Union
BLNS	Botswana, Lesotho, Namibia, Swaziland
BRIC(S)	Brazil, Russia, India, China, (South Africa)
CARIFORUM	Caribbean Forum of ACP Countries
CEMAC	Communauté Economique et Monétaire de l'Afrique Centrale
CET	Common External Tariff
CETA	Comprehensive Economic and Trade Agreement
CM	Common Market
COMESA	Common Market for Eastern and Southern Africa
CPA	Cotonou Partnership Agreement (ACP-EU)
CU	Customs Union
DC	Developing Country
EAC	East African Community
EBA	Everything But Arms (EU)
EC	European Commission
ECA	UN Economic Commission for Africa
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EDFI	European Development Finance Institutions
EPA	Economic Partnership Agreement (EU, ACP)
FDI	Foreign direct investment
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GSP	General System of Preferences
GVC	Global Value (Supply) Chain
ILO	International Labour Organization
IMF	International Monetary Fund
LDC	Least Developed Country
LIC	Low Income Country

LMIC	Lower Middle Income Country
MDG	Millennium Development Goal
MFN	Most Favoured Nation (clause)
MIC	Middle Income Country
MU	Monetary Union
NGO	Non-Governmental Organisation
NTB / NTM	Non-Tariff Barriers / Non-Tariff Measures
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PPD	Public private dialogue
PTA	Preferential Trade Agreement
REC	Regional Economic Community
RISDP	Regional Indicative Strategic Development Plan (SADC)
RoO	Rules of Origin
RoW	Rest of the World
RTA	Regional Trade Agreement
SACU	Southern African Customs Union
SADC	Southern African Development Community
SME	Small and Medium(-sized) Enterprise
TDCA	Trade, Development and Cooperation Agreement (EU, South Africa)
TPP	Trans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership
UEMOA	Union Economique et Monétaire Ouest Africaine
UMIC	Upper Middle Income Country
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union (=UEMOA)
WTO	World Trade Organization

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Imprint

Edited by Heinrich-Böll-Stiftung
Schumannstr. 8, 10117 Berlin
Place of publication: www.boell.de
Release date: October 2015

You can find other E-Books here:
www.boell.de/en/publications

31 The author thanks Francis Matambalya for a thorough review and Christine Chemnitz, Jonne Brücher, Andreas Freytag, Anna-Lena Fritzen, Francisco Mari, Evita Schmieg and Barbara Sennholz-Weinhardt for their critical comments. However, the views expressed in this paper are those of the author and do not necessarily represent the views of the Heinrich Böll Foundation or any of the reviewers.