

# ACP-EU Relations in a Changing World Economy

## Summary

The rapid pace of technological change, the liberalisation of markets and the spread of new systems of organising and controlling production have eroded the traditional sources of comparative advantage of the ACP countries in resource and labour intensive goods, and the relative importance of trade preferences. The Uruguay Round of multilateral trade negotiations has accelerated this process and placed substantial new obligations on ACP members of the WTO. At the same time, these fundamental changes in the world economy open up a complex variety of new opportunities in international trade. The relative importance of the ACP in EU trade has also declined, especially since 1990, and the importance of the ACP group in EU trade relations has also been eroded by new EU trade and co-operation agreements with Eastern Europe, Asia, Latin America and the Mediterranean countries. These new arrangements, particularly with Eastern Europe, could be used to assist the ACP countries in gaining access to new markets. In view of these substantial changes in the world economy and in EU trade relations, and the fundamental importance of trade to output and employment in the ACP countries, it is essential that, in contrast to the existing Convention, a new agreement *concentrates* on enabling the ACP countries to adjust to these changes and to participate more fully in the world economy by closely *integrating* the trade, industrial, agricultural, technical and financial co-operation provisions in a coherent strategy to increase the export capacity of the ACP countries.

## 1.1 Globalisation and Liberalisation: Implications for the ACP Countries

The increasing integration of markets in factors of production and products and services is the inevitable outcome of international trade and in this sense 'globalisation' is not a new phenomenon. Also, we are still a long way away from living in a truly 'global economy'. However, the rate of integration markets in factors and products and services has been greatly accelerated by the pace of innovations in technology and in the management and organisation of firms. Falling costs in the fields of telecommunications, transport and information technology, and new groups of technologies such as micro-electronics, biotechnology and new materials technologies, have all changed the face of industrial development. This process has gone hand-in-hand with the development of multinational companies. Their competitive advantage derives primarily from their ability to overcome market failures (both inefficient markets and missing markets) by internalising markets and transactions within the firm; as well as by developing new systems of control and production (e.g. just-in-time production). Liberalisation of markets in goods, services, and factors of production (especially capital) by the industrialised countries and by many developing countries have fuelled this process. The result of this is that international trade is now best viewed in terms of 'processes' rather than 'products', with production being organised through an intricate and rapidly expanding network of cross-border transactions. That is, products are produced through a series of processes carried out in different geographical

locations according to the specific requirements of that particular stage of production and the cost and other advantages of that location.

Globalisation has tended to change previous sources of comparative advantage. For example, the technological revolution has often decreased economies of scale in production and this, together with just-in-time production has shifted the location of production closer to the market (in the industrialised and higher income developing countries), enabling a quicker response to changes in market conditions. New technologies also greatly economise on the use of raw materials in production, and micro-technologies economise on the use of labour in production. All of these factors erode (though do not eliminate) the traditional advantages of the ACP countries in resource-based and labour intensive production. It is worth noting that ACP merchandise exports grew at the same rate as international trade until the recession in world trade in 1980. After the end of the recession in the mid 1980s, the merchandise exports of ACP African and Caribbean countries grew at substantially less than both the growth of world trade and the exports of other developing countries (excluding major exporters of oil and manufactures). Only the Pacific ACP countries recorded an increased growth in merchandise exports. Part of the explanation for this declining share of world trade (falling by over 50% in 1975-93) may be found in the anti-export bias of the domestic policies of a number of ACP countries, but a declining global demand for traditional exports has also played an important part.

On the other hand, the new technologies and the liberalisation of world trade open up new market opportunities. For example, the ability of the new technologies to decrease the minimum efficient scale of production, and economise on the use of skilled labour, combined with the world-wide sourcing and marketing strategies of companies, (not only large multinationals) has opened up new 'niche filling' opportunities for enterprising firms in ACP countries. In this respect, the very rapid establishment and growth of the clothing industry in Mauritius

is a good example of what can be achieved with limited resources in a very short period of time. Similarly, exports of services which now represent one-fifth and one-third of the merchandise exports of Sub-Saharan Africa and the Pacific respectively, and a much higher proportion of the exports of a number of Caribbean countries, have grown on average at 5% p.a. for Sub-Saharan Africa and 10% p.a. or more for the Caribbean and Pacific. Trade liberalisation, particularly by developing and industrialising countries in Asia and Latin America, and by the Central and East European countries, combined with a rapidly changing structure of production and trade as these countries move up the ladder of comparative advantage, opens up potentially large market opportunities for the ACP countries lower down the ladder of comparative advantage.

Enterprises, particularly the small, medium and micro-enterprises which predominate in the ACP countries, however, cannot take advantage of these market opportunities either directly or indirectly (as suppliers of intermediate goods and services) without help from other agents both in the public and private sector, and they in turn need external assistance and resources. ACP-EU trade, industrial, financial and technical co-operation needs to be much more closely *co-ordinated* than in the past and *focused* on enabling the ACP countries to achieve a greater integration into the world economy. Liberalisation and structural adjustment policies, if properly designed to fit the economic and social conditions of the country, can provide the necessary conditions for sustained growth and development, but by themselves will not be sufficient, particularly in achieving a substantial improvement in the standards of living of the poor. The combination of liberalisation and structural adjustment, with an ACP-EU Agreement focused on improving the supply response of the ACP countries, could rapidly transform the economic condition of the ACP countries.

In a few, very poor, ACP countries, exports account for only a small proportion of national

production, but on average exports of goods and non-factor services account for 30% of output, and in countries such as Kenya, Trinidad and Tobago, Botswana, Jamaica, Mauritius and Papua New Guinea, exports account for 40% to 60% of GDP. For very small ACP countries (micro states), exports are the mainstay of the economy. Also, rapidly growing economies are characterised by an even more rapid growth of exports so that the current, high, share of exports in GDP can be expected to rise to even higher levels with economic development. Both theory and evidence also demonstrate that increased exports by developing countries can generate a substantial growth of employment, since their comparative advantage will lie in the production of goods which are intensive in the use of the relatively abundant factor(s) of production. Mauritius, for example, was able to take advantage of its preferential access to the EU and US markets (principally in clothing) and its relatively abundant supply of labour, to rapidly increase its exports from the EPZ so that the EPZ accounted for most of the increase in employment and enabled unemployment to fall from a crisis level of 20% in 1980 to 3% (full employment) in 1988. Production of higher value crops can also generate a substantial amount of employment both directly and indirectly. For example, a recent joint venture between Kenyan and French firms to export canned green beans created employment for 20,000 poor farmers in West Kenya. Further employment can also be created in processing, distribution and transport and in associated suppliers of goods and services.

## 1.2 Implications of the Uruguay Round and the Establishment of the World Trade Organisation

### Why the Uruguay Round was so important

The Uruguay Round (UR) of multilateral trade negotiations was the most far reaching of all of the GATT negotiations and has given a substantial impetus to the globalisation and liberalisation of the world economy. It has also

decreased both the need for, and the benefits from, an ACP-EU preferential trade agreement. The UR covered not only traditional areas such as tariffs on industrial products, but also non-tariff barriers, in particular the phasing-out of voluntary export restraint agreements and the quantitative restrictions on textiles and clothing under the Multi-Fibre Agreement (MFA), and for the first time, reductions in the protection of agriculture. In addition, it covered a series of trade related areas concerning foreign investment, intellectual property rights, and services, which had previously been left to the discretion of individual governments. GATT 'disciplines' have also been strengthened, for example, discipline on safeguards, anti-dumping measures, subsidies and countervailing measures (except agriculture) and other agreements on technical barriers to trade, standards, etc. have been clarified, while the 'Understanding on Rules and Procedures Governing the Settlement of Disputes' has improved the speed and automaticity of the dispute settlement procedures. There is also great pressure from the developed countries for the developing countries to become members of the World Trade Organisation (WTO), and unlike the previous arrangements which allowed the developing countries to agree to a proportion of the provisions of the GATT, all members must now accept it as a *single undertaking* while membership of the WTO is conditional on countries having schedules of commitments and obligations.

The effects of this large programme of reform on the ACP countries will only be revealed over the next decade but the pressure for these changes has arisen from the globalisation of production and widespread liberalisation of world trade, particularly by the developing countries and the transitional economies of Eastern Europe. Short of a world-wide depression of the dimensions of the 1930s, these forces are sufficiently powerful to ensure that this fundamental shift towards a rule-based system of international trade will continue to strengthen, although we are still a long way short of a world of free

trade. It is for this reason that this report emphasises the fundamental importance of building up the capacity to participate in an expanding world economy. We can already see a widening gap between the more industrialised developing countries which have built up their technological capacity and engaged in outward-oriented trade policies, and the less advanced countries which desperately need a strategy to develop their competitiveness in world markets. In the context of the Lomé Convention, these fundamental changes in the world economy mean that trade preferences of any significance will be of limited value early in the next century. A new agreement must concentrate on building export capacity and assisting the ACP countries in participating in this new world trading system.

There are many comprehensive studies on the impact of the Uruguay Round on the developing countries (e.g. Page and Davenport 1994, and Safadi and Laird 1996) as well as studies directly relevant to the ACP countries (Greenaway and Milner 1995, Davenport 1995, Davenport, Hewitt and Koning 1995). We therefore do not seek to re-work this ground but simply highlight the main results of the Uruguay Round relevant to the ACP countries and their implications for a new ACP-EU agreement.

### **Agriculture – temperate products**

European and North American countries have heavily protected their agriculture through a complex system of non-tariff barriers and guaranteed prices well above world prices. As a result, output has greatly increased while consumption in Europe has been reduced by high prices and with the excess supply being dumped on world markets, depressing world prices. The UR agreement on agriculture has attempted to reduce these distortions by turning all non-tariff border measures of protection into tariff equivalents and then reducing these tariffs by an average of 36% over six years (24% over ten years for developing countries). Export subsidies have to decrease by 36% in value and 24% in terms of the volume of exports. Because of the methods chosen for cal-

culating the tariff equivalence, it is generally accepted that the reductions in border protection will be minimal and that the inclusion of agriculture in the GATT and the tariffication process is more important in laying down the basis for future liberalisation in agricultural trade. The other important point to note is that domestic subsidies to agriculture (EU compensation payments and US deficiency payments) are not part of the liberalisation agreement.

Liberalisation of world trade will increase world food prices as a result of the decreased supply of subsidised exports and this will adversely affect ACP net food importers such as Angola, Côte d'Ivoire, Senegal and Nigeria (Davenport, Hewitt and Koning). EU support for agricultural producers can also be expected to switch from border protection to producer subsidies (i.e. shifting the costs of protection from EU consumers to taxpayers). Ultimately there could be something like free trade in temperate products (though in the case of sugar this is only expected to occur in the very long run) and, as a result, ACP sugar and beef exporters covered by the protocols of the Convention (particularly Mauritius, Fiji, Guyana, Jamaica, Swaziland, Botswana and Zimbabwe) would suffer a significant loss of revenue due to the decrease in the EU price, though in the medium term, EU sugar prices are expected to only slowly decline. (Chapter 7 examines the implications for these and other products covered by the EU's common agricultural policy in more detail). The long run effects of liberalisation on both the level and variability of world food prices are difficult to estimate since they depend on assumptions about the size of domestic subsidies of northern agriculture, the supply response of other producers, notably in Eastern Europe and the non-ACP developing countries, to high world prices, as well as the probability of China becoming a net food importer, but the expectation is that food prices will rise and fluctuations decline.

The implications for the ACP countries are that a *new ACP-EU agreement must address the need for sugar exporters which are substantially dependent on the EU market to engage in a long run*

*programme of diversifying their agricultural production.* Trade liberalisation by the industrialised countries, non-ACP developing countries, and by the transitional economies, will open markets both by country and product and a new agreement could provide the technical and financial resources to exploit these opportunities. In the case of net food importing ACP countries, the WTO agreement provides for the monitoring of the effects of the agreement on the least developed and net food importing countries, but does not provide resources for remedying adverse consequences on these countries. International institutions are already under financial pressure and are therefore unlikely to be able to provide additional assistance. Since most of the countries likely to be adversely affected are ACP countries, it seems appropriate that *a new agreement should target resources aimed at enabling these countries to adjust to rising world food prices*, both by improving their agricultural sector and by increasing their export revenues (and therefore increasing their capacity to import food).

#### **Agriculture – tropical products**

The largest reductions in EU tariffs were the 100% decreases in coffee beans (previously 5%) and cocoa beans (previously 3%). Although the margin of tariff preference for the ACP was small, it nevertheless represents a straightforward trade diversion loss to ACP exporters since all the other major cocoa importers already had zero tariffs and so there is no opportunity for any compensating UR induced increases in import demand for ACP exports in non-EU markets. Other significant losses of preferences in important ACP exports are in tobacco, fruits, cut flowers and nuts and spices, although reductions in duties in non-EU countries may open up unexploited markets for these products.

As will be discussed in Chapter 2, a number of ACP countries have diversified into fish and fisheries products and EU reductions in tariffs on these products from 14.8% to 11.8% (GSP rate of 10.6%) could also produce significant trade diversion losses.

#### **Industrial products**

The largest single impact from the liberalisation of trade in industrial products on the ACP countries will be the phasing out of the MFA by 2005. Exemption from MFA quantitative restrictions in the EU market was particularly important in developing the clothing industry in Mauritius as well as in Jamaica, Zimbabwe, Kenya, Côte d'Ivoire, Lesotho, Botswana, Ethiopia (McQueen and Stevens 1989) and in an increasing number of ACP countries including Mozambique, Namibia, Tanzania, Zambia, Dominican Republic, Haiti and Fiji. ACP exports of clothing to the EU were worth an average ecu 544m p.a. in 1990-92 (Davenport, Hewitt and Koning, 1995). Unrestricted access for other developing countries can be expected to lead to a substantial increase in imports from low cost suppliers (relative to the ACP countries) in Asia and in Turkey who are currently constrained by quotas. It will also make it more difficult for major exporters of cotton textiles such as Benin, Burkina Faso, Cameroon, Chad, Côte d'Ivoire, Mali, Mozambique, Namibia, Sudan, Tanzania and Togo to develop exports to the EU from their embryonic clothing industry. There may be some compensating increase in exports to other markets such as the Caribbean countries to the US market, but this is likely to be small, while major ACP exporters such as Mauritius have been unable to fill their existing US quotas and so cannot expect any trade stimulating effect from liberalisation.

Of the remaining industrial products, decreases in tariffs on veneers and plywoods and wood pulp and paper will adversely affect Cameroon, Côte d'Ivoire, Gabon, Ghana and Papua New Guinea. The ODI study also identifies significant losses in metals and minerals for Angola, Congo, Gabon, Ghana, Guinea, Liberia, Mauritania, Sierra Leone, Zaire, Zambia, Zimbabwe, Dominican Republic and Papua New Guinea. The Bahamas records substantial losses for chemicals, transport equipment, and industrial products. Significant losses (given the size of

their manufactured exports) in 'other industrial products' are also recorded for Ethiopia, Kenya, Madagascar, Mauritania, Mauritius, Mozambique, Senegal, Zaire, Dominican Republic, Jamaica, Surinam, Trinidad and Tobago (also adversely affected in chemicals).

### Dynamic effects

Although the static loss arising from the preference erosion is estimated at only 1.3% of total ACP exports (ODI, 1995) this understates its true significance. As the ODI report indicates, some ACP states such as Djibouti, The Gambia, Guinea-Bissau, Cape Verde and W. Samoa (ODI, 1995 Table A12) will suffer a loss of export earnings substantially above this average.

Secondly, these losses will be concentrated in particular sectors of the economy and often in embryonic industries which could form the beginnings of diversification of exports out of a dependence on primary products.

Thirdly, loss of preferences has not simply been in terms of cuts in *nominal EU tariffs* but also in terms of *effective tariffs* (and therefore effective preferences) since the degree of tariff escalation (in terms of the absolute increase in tariffs at each stage of processing), has fallen in almost all products. For example in the case of EU duties on coffee:

EU % Tariff	Pre-UR	Post-UR	Decrease in Tariff
coffee beans	5.0	0	5
coffee, roasted/ground	15.1	7.4	7.7
coffee extracts, prep.	18.0	9.0	9.0

Source: computed from Greenaway and Milner, 1995.

By decreasing the tariff on the final stages of processing (for example, the roasting and final preparation of coffee) more than on the raw material (for example, coffee beans), the effective degree of protection of processing has been reduced. ACP countries have only been engaged in a small amount of processing of raw materials

and so the reduction in effective rates of protection (preferences) will have little effect on existing foreign exchange earnings, but it will make it more difficult for them to engage in this in the future.

The only exception to the reduction in the effective margin of preferences is cocoa:

EU % Tariff	Pre-UR	Post-UR	Decrease in Tariff
cocoa beans	3	0	3
cocoa paste	15.0	9.6	5.4
cocoa butter	12.0	7.7	4.3
cocoa powder	16.0	8.0	8.0
cocoa chocolate	12.5	10.0	2.5

Source: computed from Greenaway and Milner, 1995.

Fourthly, preference erosion can be expected to reduce investment in these sectors from what would otherwise have been the case in the absence of reductions in tariffs and tariff escalation.

Against these dynamic losses must be set the growth effects arising from the general liberalisation of trade. The average trade-weighted tariffs on industrial goods facing developing countries as a whole has decreased by 34% to 4.5%, and while this has lowered the margin of preferences for the ACP countries, it should have a trade stimulating effect on other, less preferred developing countries, who in turn will increase their imports as their real income rises. In addition, these countries have decreased their tariffs on imports from other developing countries to a trade weighted average of 7.1% (Safadi and Laird, 1996). The proportion of tariff bindings (i.e. maximum tariffs declared to the WTO and which cannot be increased) on industrial products has also been substantially increased by developing and transitional economies.

Tariff bindings in the industrial countries now average 99%. In Africa, tariff bindings on industrial products have also substantially increased but declared bound rates are often well above actual applied rates and so cannot be expected to have a significant effect and act as an 'anchor' for trade liberalisation policies.

**Table 1.1 Tariff Changes under the Uruguay Round**

	% tariff lines bound		% imports under bound tariffs	
	Pre-UR	Post-UR	Pre-UR	Post-UR
Developing countries	22	72	14	59
Transition economies	73	98	74	96
Latin America	38	100	57	100
Central Europe	63	98	68	97
Asia	17	67	36	70
Africa	13	69	26	90

Source: Sofadi and Laird, 1996.

The combination of the phasing out of the MFA, the prohibition of 'grey area' measures (voluntary export restraints, orderly marketing arrangements, etc) and the elimination of existing safeguard measures (new safeguards must demonstrate actual damage or that of serious injury and can only discriminate among suppliers in exceptional circumstances), together with the decrease in tariffs and increase in bound tariffs, should stimulate the growth of output in the developing and transitional economies and open up new markets for ACP exports. *The ability of the ACP countries to take advantage of the new trade opportunities, will, however, depend on their capacity to export and it is on this, rather than claims for preferences that the ACP countries should concentrate the provisions of a new agreement.*

### Anti-dumping rules

ACP countries have not been subject to discriminatory protective actions by the developed countries but this is mainly because they have not been exporters of significant amounts of sensitive products. This situation could change in the future if countries switch towards contingent protection (i.e. if the criteria deferring a particular 'injury' are met, then compensatory trade restrictions can be imposed) as a result of the prohibition of 'grey area' measures and increased competitive pressure on an increasing list of sensitive industries. Foremost among contingent protection measures are the use, or threat of instigating, anti-dumping procedures. The UR seeks to strengthen the procedures through the

'Agreement on Implementation of Article VI of GATT 1994', for example regarding the methodology of calculating the margin of dumping, injury, etc., and specifies that anti-dumping duties can only remain for five years unless it can be proved that removal of the duty would lead to a resumption of dumping. However under Art. 17.6 (i) GATT disputes settlement panels can only 'determine whether the authorities' establishment of the facts was proper and whether their evaluation of those facts was unbiased and objective. If the establishment of the facts was proper and the evaluation was unbiased and objective, even though the panel might have reached a different conclusion, the evaluation shall not be overturned' (p.193).

In view of this the ACP may wish to consider including in any future agreement a clause which stipulates that the EU will not use any measure of contingent protection provided the ACP states comply with certain agreed criteria. This would then enable the ACP to move beyond the protection of GATT 1994 and obtain the assurance of market access which investors and exporters require. Such an assurance would be potentially more valuable than any further trade preferences.

### Settlement of disputes

Annex 2 of the Marrakesh Agreement covers the 'Understanding on Rules and Procedures Governing the Settlement of Disputes' and in a number of respects has greatly strengthened the procedures. A Disputes Settlement Body (DSB) has been established and the adoption of panel

reports has been changed from a 'consensus to accept' to the need for a 'consensus to reject' panel reports. This 'virtually guarantees the adoption of panel findings' (Safadi and Laird, 1996, p.1238) compared to the pre-UR position where the adoption of a panel report could be blocked by a veto. If there are objections to the panel findings then the DSB refers the matter to a three person Appellate Body whose adopted rulings are binding. Appeals are limited to 'issues of law covered in panel reports and legal interpretations developed by the panel'. A strict timetable is enforced on the proceedings, WTO members must use the multilateral disputes settlement procedures and the Agreement prohibits unilateral actions contrary to these procedures. Article 24 also requires Members to 'exercise due restraint in raising matters under these procedures involving a least developed country Member'.

In total, these measures greatly strengthen the GATT as a rule-based system governing international trade and 'protect the weak (developing countries) from the strong' (developed countries). In this important sense the ACP countries have less need than in 1975 for a trade agreement with the EU to guarantee market access and can have more confidence in developing their multilateral trading links. The downside of this, as ACP banana exporters have suffered from, is that any aspects of the EU's favourable treatment of the ACP as compared to other developing countries, are also now more subject to successful challenge.

### TRIPs and TRIMs

Trade-Related Aspects of Intellectual Property Rights (TRIPs) Agreement requires members to apply national treatment and MFN treatment for all intellectual property covered by the Agreement. It stipulates minimum standards of law and enforcement for copyright, trademarks, geographical indications, industrial designs, patents on layout-designs of integrated circuits, protection of undisclosed information, control of anti-competitive practices in contractual

licences. Developing countries have a 5 year period and the least developed 11 years to put these measures into place. Some ACP countries may, to a small extent, benefit from the Agreement through attracting increased flows of foreign direct investment and transfers of technology. Against this must be set the substantial costs of compliance and the increased price of products with a significant intellectual property component, such as hybrid seeds, pharmaceuticals and agricultural chemicals.

The Agreement on Trade-Related Investment Measures (TRIMs) requires members to apply national treatment to investment measures related to trade in goods (not services) and in an Annex provides an 'illustrative list' of TRIMs that are inconsistent with GATT 1994, including local content requirements, trade and foreign exchange balancing requirements, restrictions on access to foreign exchange (and home imports), local equity requirements, technology transfer requirements. Article 4 allows developing country members to deviate *temporarily* from these measures but only under the provisions of Article XVIII (infant industry protection) and GATT rules on balance of payments safeguard measures.

Safadi and Laird (1996) argue that the TRIMs Agreement is beneficial to developing countries because the prohibited measures have a trade and investment distorting effect on developing countries, and because they discourage foreign direct investment, since they act as an implicit tax. The alternative view is that the Agreement weakens the bargaining power of host developing countries in their dealings with multinational enterprises (MNEs) and may reduce their developmental impact. It is also at variance with the way in which the NICs successfully managed their relations with foreign companies' involvement in their economies and maximised their developmental impact.

TRIPs and TRIMs raise substantial issues for the ACP countries both in terms of drawing up an inventory of what is needed to comply with WTO requirements, analysing the implications

of compliance with these requirements, identifying the legal and administrative measures which are needed for compliance, estimating the costs of compliance, and identifying whether there are alternative measures which would influence the activities of MNEs and maximise their contribution to the host economy.

There is much discussion on the need to increase the participation of MNEs in the ACP countries and their potential contribution is analysed in Chapter 8. As part of this policy, *the ACP countries need to obtain financial and technical assistance in a new agreement which deal with the complex and largely unexplored issues concerning the impact of TRIPs and TRIMs.*

### General Agreement on Trade in Services (GATS)

The GATS may be seen as a first step in dealing with a neglected but rapidly growing segment of national economies and international trade. Members participating in the GATS make sector specific commitments concerning the degree of national treatment and market access conditions by all forms of delivery of the service (trade, movement of consumers or producers, commercial presence). Obvious areas for ACP offers are in financial services, transport services, telecommunications, tourism, and professional services, agreements on which could increase the export earnings of participating countries both directly (e.g. tourism) and, most importantly, indirectly by providing services complementary to production in export sectors. Also, Article IV of the GATS is specifically concerned with 'increasing the participation of developing countries' in world trade through negotiated specific commitments relating to:

- (a) the strengthening of their domestic services capacity and its efficiency and competitiveness, *inter alia* through access to technology on a commercial basis;
- (b) the improvement of their access to distribution channels and information networks; and

- (c) the liberalisation of market access in sectors and modes of supply of export interest to them.

Also, developed countries, and to the extent possible other members, are required to establish *contact points* to facilitate the access of developing country service suppliers to information relating to their markets on:

- (a) commercial and technical aspects of the supply of services;
- (b) registration, recognition and obtaining of professional qualifications;
- (c) the availability of services technology.

Special priority is to be given to the least developed countries in achieving these objectives, while both Article IV and Article XIX recognise the difficulty of the developing countries, and particularly the least developed, in liberalising sectors and types of transaction.

*The ACP countries may wish to consider whether many of the issues and matters concerning the GATS would not be best organised on a regional basis. Implementation of GATS Agreements could also be effectively organised through a successor ACP-EU Agreement, especially since most of these areas are subject to the provisions of the EU Single Market Agreement.*

### Establishment of the World Trade Organization (WTO)

Prior to the Marrakesh Agreement, the GATT had an ill-defined status as both an agreement and an institution (the Secretariat). The establishment of the WTO emphasised the objective of strengthening and firmly establishing a rule-based system of international trade as a single undertaking in which members have both rights and obligations. Members of the WTO obtain protection from discriminatory actions in return for providing specific undertakings and agreeing to certain disciplines governing trade in goods and services. Amid all the details of the UR and attempts to quantify its benefits, this is generally

acknowledged as the most important achievement of the UR and of particular value to the developing countries. The WTO, however, is a 'member driven' organisation in the sense that it responds to initiatives taken by members rather than initiating proposals on its own behalf like the World Bank or the European Commission. There are (in January 1997) 53 ACP members of the WTO with a further 5 applications being considered by the WTO (see Table 1.2).

The ACP countries are, however, at a disadvantage since many countries do not have permanent offices in Geneva, and of those that do, most have to cover all of the international bodies in Geneva. *There are therefore clear advantages in the ACP countries (who will soon comprise 57 of the 160 members of the WTO) co-ordinating and pooling their resources so that they can more effectively represent their interests and monitor the many proposals going through committees which could affect them (e.g. trade related environmental and labour issues) and initiate actions which could enable them to obtain*

*greater benefits from participating more fully in the world economy.*

The WTO, in co-operation with developed country member states, UNCTAD and the ITC, have various programmes for providing technical assistance and co-operation but these efforts concentrate on training individuals and preparing studies. *A new Agreement could assist the ACP countries in building the institutional capacity of the ACP countries to enable them to obtain the maximum benefit from their membership of the WTO and to implement their obligations as members.* This would act as a counterpart to the EU's pressure on ACP countries to become members of the WTO and enforce WTO disciplines. The EU would provide, as appropriate, financial and technical assistance to individual ACP countries, groups of ACP countries, and the ACP group as a whole, to enable them to:

- ❖ maintain and staff effective representation in Geneva, particularly directed at assisting the least developed countries;

**Table 1.2 ACP Members of the WTO (as at 29.1.97)**

Angola	Ghana	Papua New Guinea
Antigua and Barbuda	Grenada	Rwanda
Barbados	Guinea-Bissau	St Kitts and Nevis
Belize	Guinea, Rep. of	St Lucia
Benin	Guyana	St Vincent and the Grenadines
Botswana	Haiti	Senegal
Burkina Faso	Jamaica	Sierra Leone
Burundi	Kenya	Solomon Islands
Cameroon	Lesotho	Surinam
Central African Republic	Madagascar	Swaziland
Chad	Malawi	Tanzania
Côte d'Ivoire	Mali	Togo
Djibouti	Mauritania	Trinidad and Tobago
Dominica	Mauritius	Uganda
Dominican Republic	Mozambique	Zaire
Fiji	Namibia	Zambia
Gabon	Niger	Zimbabwe
The Gambia	Nigeria	

**Observer Governments**

Congo, Seychelles, Sudan, Tonga, Vanuatu

- ❖ exercise their rights and benefit from the protection offered by the WTO Agreements;
- ❖ define and pursue their individual and collective interests in negotiations;
- ❖ implement their obligations as members of the WTO;
- ❖ explain the implications of membership of the WTO to the private sector in ACP countries in terms of their rights of market access, the opportunities which these rights offer, and obligations and constraints which membership imposes, and the increased competition which they may face;
- ❖ identify market opportunities, particularly as these evolve with the implementation of WTO disciplines by other countries, including other developing countries, and as a result of subsequent negotiations.

### 1.3 Changes in the Geographical Composition of EU Trade

#### *The changing patterns of EU trade*

The period since 1989 has seen a fundamental transformation of the 'transition economies' of Russia, the Central and East European countries (CEEC), other Newly Independent States (NIS), China and Vietnam, while India has embarked on a major programme of structural adjustment. Together, these economies have a population of 2.7 billion people and their impact on EU trade has already been substantial and will be even greater in the future.

Eastern Europe for example, traded around 19% of its exports and 17% of total imports with the EU in the 1980s. By 1992 these proportions had increased to 42% and 44% respectively. In the case of China, South Asia and the ASEAN countries, the proportion of exports and imports from the EU have broadly remained the same, but the high growth rates of trade have greatly increased the value of trade with the EU.

Table 1.3 summarises these large and rapid shifts in EU trade in non-oil products for different groups of countries. Whereas EU non-oil imports from the CEEC in 1990 were about one-third those of the ACP, by 1993 they had already exceeded those of the ACP. Similarly, EU imports from China in 1990 were 22% less than imports from the ACP but by 1993 they were nearly double the value of imports from the ACP and increasing rapidly. Imports from South Asia were roughly half those from the ACP but by 1993 were nearly equal to those from the ACP. With the increase in EU imports from these countries has also gone a substantial increase in EU exports to these countries. Of the nine regional groupings shown in Table.1.3 the ACP was the third largest market for EU exports in 1990, but by 1993 the ACP had fallen to sixth position and, given the growth of EU exports to Russia, is now probably in seventh position and will soon also be overtaken by China.

Poland, Hungary and the Czech Republic have been at the forefront, both economically and politically, in the EU's rapidly developing relations with the CEEC. Thus trade with these countries which averaged around \$10 billion in 1988/89 had increased to over \$40 billion by 1994. Most of this trade was with Germany but has increasingly included Austria and Italy in the case of the Czech Republic, and the UK in the case of Poland. EU trade with Russia, mainly involving Germany, but also with Italy, France, the UK and Austria, has also begun to grow quite rapidly. Overall, EU trade with Eastern Europe has more than doubled over the period 1988-94.

#### **Implications for ACP exports to the EU**

The largest single impact on the EU trade with developing countries has been the return of China to world markets. The degree of similarity with ACP exports is small and confined largely to clothing, as China's other exports are largely confined to labour intensive manufactured goods such as toys, sports goods, footwear and consumer electronics, which are not exported by the ACP

Table 1.3 Geographical Distribution of EU's Non-oil Trade

ecu bn	EU Imports		EU Exports	
	1990	1993	1990	1993
ACP	13.5	10.6	16.6	16.4
CEE Countries	4.8	10.9	12.1	20.1
Former USSR	7.5	10.9	11.2	15.8
Med. Basin	25.4	24.6	44.5	51.2
Latin America	22.6	20.1	15.6	24.0
China	10.5	19.4	5.3	11.3
ASEAN	16.6	25.5	16.1	22.9
4 NIEs in Asia	26.3	31.2	23.3	34.0
South Asia	6.9	9.3	8.3	9.3

Source: Adapted from *The European Union and World Trade*, European Commission, 1994.

countries. Much more important is the general problem posed by the rapidly increasing involvement of the developing countries in Asia and to a lesser extent, Latin America, in world markets. The 'first tier' NICs had to become competitive in world markets relative to the high labour cost industrialised countries, while the 'next tier' NICs have had the more difficult task of becoming competitive relative to the low cost and high quality levels of the NICs. A third group of developing countries are now emerging in Asia and Latin America to challenge this group. The ACP are therefore faced, in turn, with having to become competitive in both the price and quality of the goods exported against this established competition, – a potentially much more difficult task than that facing the 'first tier' NICs.

Fortunately, the task is not quite as formidable as it appears, as the process of economic development enables countries to ascend the 'ladder of comparative advantage' and vacate the lower rungs of the ladder occupied by the production of labour intensive goods using relatively unskilled and semi-skilled labour. EU imports of footwear from South Korea and clothing from Hong Kong have been reduced relative to more capital and skill intensive goods, making it easier for the EU to absorb increased imports from, for example, China. In addition, the growth of these economies has fuelled the rapid growth of intra-industry trade among the developing countries.

Thus as countries move up the ladder of comparative advantage they leave room for other countries in the markets they have vacated and become new markets for labour intensive goods. Also, the increase in real incomes in world markets and the increased competitiveness of these goods produces a more than proportional increase in demand.

The transition, however, is not a smooth process and empirical evidence demonstrates that countries retain their comparative advantage in goods such as footwear and clothing for some considerable period of time by investing in labour saving technology, quality up-grading, and improving on organisational and marketing efficiency. Latecomers to industrialisation such as the ACP, therefore have to find and develop their niche both in terms of products and markets, in this complex and rapidly changing world of global trade. This may be found in EU markets largely vacated by more industrialised developing countries, in the markets of the more industrialised developing countries, transitional economies, or in non-EU developed economies. In a world of international trade increasingly dominated by differentiated products, developing countries, including the ACP, will also increasingly become simultaneously importers and exporters of the same broad class of manufactured goods. *The ACP will, however, only be able to participate in this process if they greatly improve on*

*the flexibility and adaptability of their economies and a successor arrangement to Lomé IV should concentrate on meeting this objective.*

### **EU trade with the CEEC and the Baltic states**

With regard to the CEEC countries, analysis of measures of revealed comparative advantage suggests that these countries have fundamentally different competitive advantages to the ACP. They have a substantial stock of physical and human capital and a long history of manufacturing and trading, but the previous command economy structures created many activities which were not competitive in world markets. As a result, they have to endure the costs of a period (whose length will vary substantially from one country to another) of adjustment. This has involved the reallocation of resources, investment in infrastructure, plant and machinery and investment in training to develop more modern, broader and flexible skills, as well institutional development in government finance and in their legal systems. Association with the EU has been seen by both parties as strengthening and deepening this process through liberalising access to each other's markets and providing a secure foundation for flows of European investment into these economies. Above all, the 'Europe Agreements' of 1994 and 1995 providing for association and leading ultimately to accession to the EU, were seen from the beginning as making the political changes in the CEEC countries irreversible.

Thus, whilst there is, at present, some degree of overlap in the exports of the CEEC and the ACP to the EU in such products as clothing, fish and furniture, this is not substantial and can be expected to be even less important in the long run as these countries diversify into medium and high skill intensive products and 'heavy' indus-

trial products such as steel and chemicals. Competition in the EU market will then be with the more industrialised countries in Asia and Latin America and less efficient producers in the EU. Of greater significance is the fact that exports of agricultural and manufactured goods from the CEEC will compete directly with higher cost producers in the EU. As will be discussed in Chapter 3, the Europe Agreements envisage free trade *only* in industrial products by the year 2002, (with exceptions in a few agricultural products), and with safeguard clauses to protect EU producers. It is doubtful, however, whether such exclusions will be able to persist over the long term both in terms of compatibility with GATT rules governing free trade areas and customs unions (Article XXIV) and with a vision of a wider European Union.

The positive aspect of these events is that they open up a potentially very substantial new market for ACP exports. The EU Association Agreements (Europe Agreements) cover all aspects of co-operation between the EU and the CEEC and Baltic countries and in addition, encourage these countries to liberalise trade between themselves, for example through the creation of the Central European Free Trade Association and through the PHARE multi-country trade development programme. *The ACP could link the provisions of a successor arrangement to Lomé IV with the Agreements for the CEE countries.* By linking the Agreements through institutional arrangements and technical assistance, the ACP could obtain preferential access to these markets (which have a combined population of 122 million) not only in terms of exemptions from the trade restrictions applied by these countries during the pre-accession period, but also in terms of knowledge of the requirements of these markets.

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