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Features

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'Delivering the goods' on Aid for Trade

A TNI interview with the UK Minister for Trade and Development Gareth Thomas

Despite emerging more than three years ago at the 2005 WTO Hong Kong Ministerial, on-the-ground implementation of the "Aid for Trade" (AfT) initiative has proved complicated so far. While there has been progress in agreeing definitions of AfT categories and increased monitoring of donors, ACP countries routinely point out that they have yet to see tangible benefits from AfT. A high-level conference on 6-7 April brought donors together with representatives from across COMESA, EAC, and SADC countries to launch the North-South Corridor initiative, an AfT pilot project covering transport and trade facilitation. *Trade Negotiations Insights* interviewed the Hon. Gareth Thomas MP, Minister for Trade and Development, for his thoughts, given the UK's role as a key contributing donor to the project, and the new opportunities available through AfT.

Trade Negotiations Insights: Aid for Trade (AfT) first came to prominence at the WTO Hong Kong Ministerial at the end of 2005, before the recent slowdown that is now affecting the world economy. How can donors such as DFID ensure that commitments to increase AfT are kept, while also maintaining development spending in other important areas?

Gareth Thomas: The UK has made a formal pledge to deliver at least £409m per year as Aid for Trade by 2010 and we are well on track to deliver this. We are also party to an EU-wide target of €2bn per year by 2010. Recent statistics show we are well on course to reach this target as well. I think the current crisis has shown how important Aid for Trade is - both to address short-term needs like shrinking access to trade finance, and to address long-term structural challenges to help countries build their capacity to trade and remain competitive in an increasingly globalised world. We will do and are doing our bit to argue for continued high ambitions around Aid for Trade going forward.

TNI: As part of its commitment to delivering Aid for Trade, DFID last year launched a dedicated strategy for AfT. What are the significant features and opportunities of the new approach, and how does it differ from previous efforts to increase developing countries' trade?

GT: We launched our first Aid for Trade strategy in late 2008. It sets out how we will deliver out ambitious plans and increased levels of resources for Aid for Trade at the country, regional, and global level. What is new is the increased emphasis on mainstreaming trade throughout DFID's programmes and activities resulting in more concrete support towards a growth and trade agenda in DFID's priority countries. Also, we are stepping up our support for regional programmes significantly, including support to African Regional Economic Councils (RECs), towards regional integration like the North-South Corridor (NSC), etc. The strategy also sets out how we will continue to play an important role championing Aid for Trade and moving the debate forward at the global

(Continued on page 3)

Editorial

During the G20 London Summit on 2 April, world leaders pledged to support developing countries in their efforts to combat the negative effects the economic crisis is having on these vulnerable populations, many of which are in the ACP. Now that the meeting has concluded, many are asking, what now?

This May issue of *Trade Negotiations Insights* is a special edition focussing on the global economic crisis and its affects, particularly in light of the G20 London Summit and the ambitious pledges from heads of state. Here, Augosto Lopez-Claros discusses whether the outcomes of the G20 meeting should be viewed as a success or a disappointment, and whether reforms of the Bretton Woods institutions have gone far enough; The Overseas Development Institute elaborates on their ongoing research on quantifying the impact the crisis is having on developing countries; Eveline Herfkens examines how deficits in the global governance system are especially crippling in light of the present situation and could set back development for decades to come; and Sanya Reid Smith considers certain provisions in the EPAs, notably on trade in services, that may impact the ability of countries to respond to the crisis.

TNI's lead interview with UK Minister of Trade and Development Gareth Thomas opens the first in a new series of articles on Aid for Trade – a critical issue as ACP countries build their trading capacities while the economic crisis threatens to bring cuts to Donor aid budgets.

Finally, moving slightly away from the economic crisis, this May issue also contains a European Commission response to an article published by TNI in February 2009 entitled "Undercutting Africa: Why EPAs threaten the world's forest and forest peoples."

How the world will respond to the crisis will determine whether the development progress made in developing countries over the past several years will bounce back, sustain itself, or even grow. As discussed throughout this issue, it is evident that clear objectives and coherent trade and development policies are now more important than ever.

This is also a special issue as it is the last one edited by Cailtin Zaino. The TNI team, ECDPM and ICTSD wish her well! Her dedicated contribution will be dearly missed.

As always, feedback is welcomed and can be sent to Aurelie Walker (aw@ecdpm.org). We hope that you will enjoy this May issue of TNI!

News and publications
In brief

The European Commission swiftly follows up on G20 commitments

Shortly following the conclusion of the G20 London Summit, the European Commission outlined a range of actions that the EU will take to support developing countries combat negative effects of the economic crisis. The European Commission is the first of the twenty nations that form the G20 to take the lead in following up on commitments taken during the 2 April meeting. Included in the Commission's strategy is a promise to increase aid to an estimated €69 billion by 2010; a plan to frontload €3 billion, or 72% of its budget support to ACP nations, to help continue social safety-net spending; and a commitment to serve as the role model for other countries through new initiatives aimed at making existing aid more effective.

G8 agriculture ministers look to combat rising cost of food

The Group of Eight rich nations (G8) took a first step towards fighting the rising cost of basic food during a meeting held 18-20 April 2009. Together, the G8 agriculture ministers and key emerging and developing country ministers, called for action to tackle commercial price-fixing, among other main food security challenges, and they worked toward establishing a consensus around issues that affect access, availability, and utilisation of food among the world's most vulnerable populations. The group also called for a study that will examine setting up a global system to stockpile essential foodstuffs to help deal with humanitarian emergencies, or to limit price volatility. While participants and the head of the UN Food and Agriculture Organization (FAO) were pleased with the meeting's results, calling it an important step forward, some non-governmental agencies, such as Oxfam, were not as enthusiastic. The British-based charity called the meeting a "collective failure."

The Economic Partnership Agreement and beyond: The case of innovation and industrial policy

The formation of the CARIFORUM-EU Economic Partnership Agreement (EPA) honours the commitment made by all African, Caribbean and Pacific nations in the Cotonou Agreement to conclude an agreement that is WTO-compatible. It is a comprehensive agreement that covers not just goods but also services, investment, and trade-related issues like innovation and intellectual property. This article posits that now that negotiations have ceased and an agreement has been signed in some cases, it is necessary to focus on effective implementation. Further, this paper suggests that the development of innovation and industrial policies is a salient part of the implementation process.

To view this publication, see: www.shridathramphalcentre.org/index.php?option=com_rokdownloads&view=file&Itemid=100003&id=68:the-economic-partnership-agreement-and-beyond:-the-case-of-innovation-and-industrial-policy

The CARIFORUM and Pacific ACP Economic Partnership Agreements: Challenges ahead?

This report on the CARIFORUM and Pacific ACP Economic Partnership Agreements analyses the detailed implications for the economies of the countries involved of commitments signed or initialled, including an indication of the broad country and region-wide effects. The two agreements cover general provisions related to trade in goods and, in the case of CARIFORUM, an agreement on services as well as coverage on other trade-related issues. The authors argue that the agreements are likely to have far-reaching implications for all countries involved, but that there has been almost no informed discussion of the likely detailed effects of the agreements based on an analysis of their impact at an industry or sectoral level. Understanding what these Economic Partnership Agreements mean is challenging, but necessary for both trade negotiators and the private sector. This publication therefore provides an initial analysis and could form the basis of more detailed work at the national level.

To view this publication see: The CARIFORUM and Pacific ACP Economic Partnership Agreements: Challenges ahead?, Christopher Stevens, Jane Kennan, and Mareike Meyn, Commonwealth Secretariat, www.thecommonwealth.org

News Sources

1 "G8 takes first step against food price speculation," Agence France Presse, 21 April 2009.
2 "Commission first to act on G20 with strategy to support developing countries," European Commission, 8 April 2009.

Continued from front page

arena, as well as working closely with key multilateral partners like the World Bank, the African Development Bank, and the European Commission. For instance, we are just about to provide support towards a new World Bank Trade Facilitation Facility helping countries reduce the time and cost it takes for goods to cross borders, and to support the International Trade Centre in its efforts to help women traders and highlight the importance of women in trade. We are also supporting research, thinking, and policy development around the linkages between trade and poverty and how we can design support programmes that help the world's poorest to fully benefit from more open markets.

TNI: Most recently, DFID along with other donors such as the European Commission, World Bank and African Development Bank pledged USD 1bn for a pilot AfT project, the 'North-South Corridor', in East and Southern Africa. How is this expected to contribute to increasing trade and development in the region, and what are the key lessons for future AfT projects in the region and elsewhere?

GT: This was the fruit of long and hard labour. For the first time, it brought together the much needed political buy-in and support (through the presence of four African Presidents and some twenty-five ministers) and the funding (through the presence of key donors and agencies and more than USD 1bn raised) around a common investment need: to improve conditions for trading along one of Africa's busiest trading routes. It adopted a regional approach and relied on the concerned regional RECs to design, own, and take the initiative forward. It brought together the hardware investment needs (roads repair) with the software reform needs (rail concessions, border crossing management, etc.). It was also a breakthrough for our ways of working as donors; grounded in a true African-led process, donors agreed to adopt a regional approach and offer regional solutions. We are hoping to support other RECs to replicate this interesting and promising concept in other regions and areas.

The North-South Corridor will provide huge opportunities for trade in Southern and Eastern Africa. This highly practical scheme will free up bottlenecks that lie on the main trading routes across eight African countries through faster border crossing, improved railways, and better highways. If the road upgrades do not take place then the North-South Corridor road links will gradually deteriorate and become impassable in ten to fifteen years.

The initiative is seeking to finance the upgrade and maintenance of 8,000 kilometres of road – the equivalent to the road distance between Paris and Beijing - and rehabilitate 600 kilometres of rail track. Travelling times by road from Lusaka to Durban will fall by 10% after improvements are made along the North-South Corridor. Transit times at the Chirundu border post - between Zimbabwe and Zambia - will fall by at least 20%. The Corridor will directly benefit eight countries: Tanzania, DRC, Zambia, Malawi, Botswana, Zimbabwe, Mozambique, and South Africa.

TNI: Beyond the North-South Corridor pilot project, what other types of Aid for Trade projects and programmes is DFID considering for ACP countries? How does the process move forward from here, and how can ACP countries themselves build on the momentum and maximise the benefits of AfT?

GT: The NSC programme forms part of our new Trademark Southern Africa programme that will help deliver more trade, growth, and regional integration in Southern Africa. We have just approved a similar regional ambitious programme for eastern Africa focused on Uganda, Tanzania, Kenya, Rwanda, and Burundi. We are also designing a similar programme for West Africa. While all are slightly different, their broad aims are the same: to promote regional integration and growth through trade working with capacity building of key trade bodies, regional infrastructure, export promotion trade facilitation measures, etc. AfT is a partnership between donors and partner countries. Donors should provide more resources and give more emphasis on Aft in their programmes. But partner countries also need to do their part and better mainstream trade through their own development plans. All too often trade is overlooked or not considered part of an effective growth and development strategy, and trade ministries are marginalised. The more countries focus on trade as part of their development solution, the more support could come.

TNI: How are principles of developing country 'ownership' being incorporated into the AfT agenda, and why does this matter? Does AfT also provide an opportunity to foster better co-ordination among donors, as well as to improve the quality and quantity of aid?

GT: Ownership comes from the partnership aspect where trade is mainstreamed through national development plans. Also, the NSC was an excellent example of ownership: an African led initiative and programme with donors offering financial and technical support.

AfT offers an excellent opportunity to improve donor co-ordination. This is true for all areas of support, but for AfT to have most effect, we are talking about regional efforts or capital-intensive support. The more donors that can co-ordinate around this, the more impact AfT will have. DFID is also channelling an increasing part of our AfT support (60% at the moment) through multilaterals; this is a way to cut transaction costs and improve prospects for effective delivery. There is also a good WTO-driven debate on AfT that monitors our efforts and promises and offers a platform for debate and improved coordination.

TNI: Finally, a key concern for ACP countries has been the linkages between AfT and trade agreements such as the EPAs with the EU, and the stalled Doha Round at the WTO. How do you see such linkages?

GT: There are no formal linkages between these trade agreements and provision of AfT and AfT is not conditional on signing any EPAs or a Doha deal, etc. DFID has provided AfT-type support for decades and will continue to do so regardless of the future of any trade agreements. But AfT as a concept sprung out of the 2005 WTO Ministerial and a recognition that poorer countries will not be able to benefit from open markets and more liberalisation unless they receive support to build their trading capacities. So the more we open up markets, the more there will be a need for AfT. ACPs will also face some specific challenges around the signature of EPAs. It is important that the donor community continues to offer support that can help them make the most out of these new agreements; DFID is already doing this, working in close co-operation with the European Commission and other EU member states.

Was the G20 London Summit a success?

Augusto López-Claros

Whether to view the G20 London Summit as a success or as a disappointment is very much a function of one's point of reference.[1] Viewed against the needs of the moment—a global economic crisis without parallel since the Great Depression—it could be argued that the Summit did not go far enough. The fact is that in the past 30 years the global economy has become both more complex and more interconnected, but the mechanisms and institutions we have to deal with crises have not kept pace with the tempo of change. Consequently, what has emerged is a "governance gap:" an inability to cope with complex global problems either because the institutions we have are woefully unprepared or, in some cases, because we do not even have an institution with the relevant jurisdiction to address the problem in question (e.g. climate change). Against these challenges the Summit's achievements—a combination of well-meaning declarations and a few hard decisions—were at best a mixed bag.

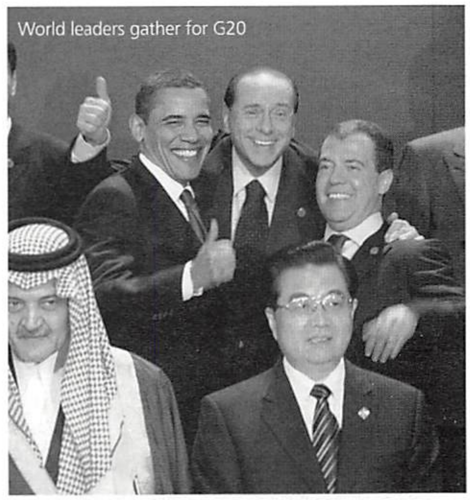


Photo via Richard Lewis/ Newsteam.co.uk;Crown Copyright.

On the positive side, it is no doubt an achievement of sorts to have brought some of the larger emerging markets into the decision making process. The G7, accounting for 11% of the world's population, was clearly not a broad enough forum. The G7 was originally created to discuss "major economic and political issues facing their domestic societies and the international community as a whole." In time, it became a good forum for open debate about global problems, but not a particularly effective problem-solving vehicle. In the public's imagination, its semi-annual meetings were largely perceived as excellent photo opportunities, not as brain-storming sessions focused on particular problems requiring urgent solutions as was, for instance, the 1944 Bretton Woods conference; G7 meetings are actually intended—as noted by a former G7 prime minister—to preserve the status quo.

The creation of the G20 in 1999 was seen as recognition of the new economic and political realities, but neither the Swiss nor the Dutch nor the Spanish were particularly happy at being excluded. Switzerland manages a third of the world's private wealth and the Netherlands is the most generous donor and, by far, the country with the most development-friendly policies. Spain, a country whose economy is more than five times the size of Argentina's (a member of the G20!), took great exception to being excluded from the November 2008 G20 Summit—only strenuous lobbying delivered a last-minute invitation.

Of course, both the G7 and the G20 remain, in fact, official bodies. Their deliberations bring to the table heads of state and a small coterie of civil servants. There is no representation from the business community, nor does civil society participate. Given the global nature of the problems we face and the increasingly shared perception that solutions to these will require broad-based collaboration across various stakeholder groups, for many, these groups still suffer from a deficit of legitimacy. They are not a fair representation of humanity and, as such, cannot be expected to make any important decisions on its behalf. There are no low income countries among the G20—their voices simply do not count. Despite these flaws, some progress was made in London and I would like to focus on those that pertain to the International Monetary Fund.

> "Given the global nature of the problems we face and the increasingly shared perception that solutions to these will require broad-based collaboration across various stakeholder groups, for many, these groups still suffer from a deficit of legitimacy."

During much of the past decade the International Monetary Fund (IMF) has found itself in the middle of virtually all major emerging market crises and questions about its effectiveness have been raised; indeed some have argued that the organisation is no longer needed in a world of largely floating exchange rates. It is clear, however, that with fully globalised financial markets in which policy missteps in one country have costly spillover effects on others (as we have seen over the past year), an institution that will have sufficient resources to deal with episodes of financial instability and that will help cushion or prevent the effects of future crises is indispensable.

Like a central bank, the IMF can create international liquidity through its lending operations and the occasional allocations to its members of Special Drawing Rights (SDRs), its composite currency. The IMF already is, thus, in a limited sense, a small international bank of issue. As seen during much of the past decade and a half, the Fund can also play the role of "lender of last resort" for an economy experiencing debt-servicing difficulties. But the amount of support it can provide has traditionally been limited by the size of the country's membership quota and there is an upper limit on total available resources; as of early-2009 this amounted to about USD 250 billion, a puny amount when compared with the sorts of sums that are necessary to intervene in industrial or larger emerging markets countries in distress.

There are a number of ways to deal with these funding shortfalls. One proposal some years back was to create a Financial Stability Fund, to supplement IMF resources. This would be a facility that could be financed by an annual fee on the stock of cross-border investment; a 0.1% tax could generate some USD 25-30 billion per year, which could then be used over time to create a USD 300 billion facility. An alternative and more promising proposal would be to give the Fund the authority to create SDRs as needed, as a national central bank can in theory, to meet demands by would-be borrowers. When this idea was first put forward in the early 1980s, concerns were raised about the possible inflationary implications of such liquidity injections, but international inflation was a serious problem then in ways that, in the midst of a global recession, it is clearly not; measures could be introduced to safeguard against this.

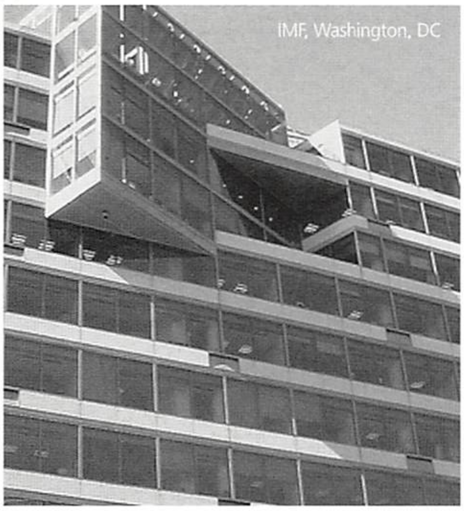


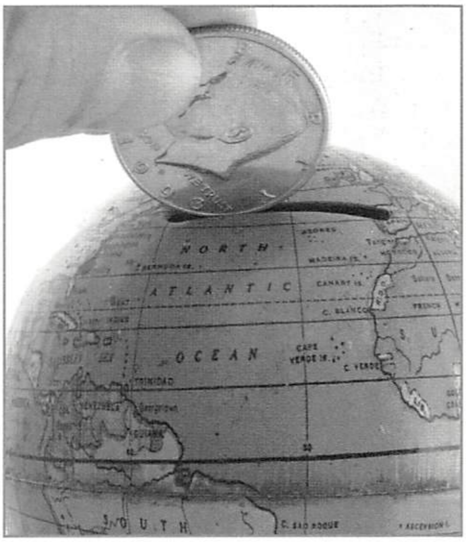
Photo via D.F. Shapinsky for pingnews/Shapinsky MultiMedia.

The London Summit made some progress toward strengthening the capacity of the IMF to play a supportive role to emerging markets currently suffering the effects of the international financial crisis. This was achieved mainly by significantly expanding the resources available to the organisation under special borrowing arrangements negotiated with a few central banks and by allowing a USD 250 billion SDR issue. But the Summit seems to have been less successful in moving more quickly to update the voting power of its member countries to better reflect the changes that have taken place in the structure of the global economy during the past quarter century. Slowly and grudgingly, kicking and screaming, EU members finally appear to recognise the absurdity of a system where the voting power of the EU currently stands at 32.4%, whereas the combined voting power of the United States, China, India, Brazil, and Russia, accounting for about half of the world's population is 26.9%, though, collectively, these countries account for a much larger share of global GDP. This distribution of power leads to such anomalies as Belgium having a larger quota than India, and China having a quota only marginally higher than Italy's and well below that of France. These are facts that have undermined the institution's credibility. Not surprisingly, Asian countries do not see they have a stake in empowering the IMF, rather regarding it increasingly as embodying power relationships that no longer reflect contemporary economic and political realities. An IMF without credibility, of course, is of no use to the international community, particularly at a time of global crises. That these so-called "voice reforms" have to wait until 2011 is a good indicator of the enormous inertia that has to be overcome to modernise our sclerotic global institutions, at a time when it is of the utmost urgency to strengthen mechanisms of international co-operation.

Also welcome was the decision to finally break with the convention adhered to ever since the IMF's creation, which establishes that it's managing director (MD) must be an EU citizen.[2] Like the veto power in the UN Security Council this practice is an aberration and should have been done away with long ago. It is, in fact, surprising that this practice has persisted for so long given that IMF lending operations have no budgetary implications for members such as the US and the EU (indeed they earn a return on their SDR reserve assets). The salaries of the Fund's MD and its entire staff, as well as all other administrative expenditures, are entirely financed by the interest paid by borrowing countries. In other words, the IMF functions thanks to taxpayers in middle and low-income countries, not the rich countries who have run it since it was first founded.

“An IMF without credibility, of course, is of no use to the international community, particularly at a time of global crises.”

Despite the important symbolism of the G20's decision, efforts will have to be made not to allow the new system to turn into something actually worse. The main risk is that we could now move to the system in place at the UN, where the Secretary General is chosen on a rotating basis, from different regions of the world. The problem with that system is that it tends to breed mediocrity, with the top job going to someone who is acceptable to all constituencies—a process which then leads to the lowest common denominator.



It remains an open question whether, in retrospect, the London Summit will be seen as a good starting point for a more multilateral approach to global problem solving. In my view, the main risk we currently face does not stem from the financial crisis itself. Rather, the risk is that within a year the global economy will be perking up again (because the housing sectors will have bottomed and the unwinding of commodity prices will boost consumption among oil importers) and governments will go back to business as usual, missing a once-in-a-life-time opportunity to address the serious vulnerabilities in the world's financial system that the current crisis has revealed. In that scenario, the next crisis would find us with little ammunition left – *that* is the real danger.

Author
Augusto Lopez-Claros was IMF resident representative in Russia and chief economist of the World Economic Forum. In 2007 he was co-editor of *The International Monetary System, the IMF, and the G-20: A Great Transformation in the Making?* published by Palgrave Macmillan.

Notes
1 For the record, the G20, in fact, is the G22 as it also includes Spain and the Netherlands, two countries originally excluded from membership.
2 A similar recommendation applies to the World Bank, whose president has traditionally been an U.S. citizen.

The financial crisis and Africa: Monitoring the effects, policy responses, and new development models

The G20 London Summit is over and the verdict is out. So, what is in it for Africa? While there are some really good promises on aid and finance, now we need to wait and see whether and how the USD 50 billion earmarked for low-income developing countries[1] will actually flow to those who need it, under what conditions, and whether this will flow through reformed or old style institutions. We also need to wait and see whether the G20 countries refrain from becoming more protectionist, and if they will engage in a 'rainbow stimulus',[2] thereby investing in Aid for Trade, protecting the poorest, and supporting low-carbon technologies. And we need to wait and see if global financial regulation will be improved. Finally, the G20 has also asked for a monitoring of the effects of the global financial crisis on developing countries.

In light of this, the Overseas Development Institute (ODI) is co-ordinating a large study examining the effects of the global financial crisis in ten developing countries. This links developing country research institutes, think tanks, and donor agencies, with funding from the UK Department for International Development (DFID) and the Dutch Ministry of Foreign Affairs. The research is ongoing, and the following reflects the views of the authors alone, but there are already important preliminary findings.

The International Monetary Fund (IMF) suggests that around 30% of low income countries could be considered highly vulnerable to the consequences of the global financial crisis (Table 1). About 50% of these highly vulnerable countries are in sub-Saharan Africa (SSA) and the majority face sizable declines in projected GDP, some in excess of 5%. About 60% of the countries are also found to be highly vulnerable to the simulated shock (trade remittances, foreign direct investment (FDI), aid). Here too, more than half are in SSA. Of the African case studies, Ghana and Zambia are highly vulnerable to the effects of the global financial crisis, followed by Benin, Nigeria, Kenya, and Uganda.

We are engaging in a unique monitoring study that has, at its heart, 40 researchers working in 10 developing countries: Bangladesh, Benin, Bolivia, Cambodia, Ghana, Kenya, Indonesia, Nigeria, Uganda, and Zambia. The current research examines the ways in which different countries are being affected by the developed country-created economic crisis. Even though there is some inevitable time lag between the impact in the north and in the south, and while it is always difficult to interpret high frequency data, the research has already found clear signs of stress, which are further elaborated on below.

For one, portfolio investment flows experienced a dramatic drop in 2008 in most countries, resulting in some large net outflows and a significant decline in equity markets in 2008 and into 2009. In Uganda and Zambia there was a considerable drop in foreign portfolio investment. Kenya too experienced net portfolio outflows of about USD 48 million in June 2008 and USD 12 million in October 2008. There is also

Table 1. IMF Vulnerability Table (selected country case studies)

	Changes in Real GDP forecasts Spring WEO proj. 1/ 2009 less 2008 2/	Changes in reserves (months of imports) Spring WEO proj. 1/ 2009 less 2008 2/	Vulnerability Score (Overall assessment) 3/, 4/
Benin	-2.0	-0.6	M
Ghana	-3.4	-1.2	H
Kenya	-0.4	0.4	L
Nigeria	-5.0	-3.9	M
Uganda	-1.0	-0.6	L
Zambia	-2.4	0.2	H
All LICs	-2.1	-0.3	26H, 31M, 3L
SSA	-1.8	-0.2	

1/ Current projection for 2009 less Spring WEO projection for 2009.
2/ Current projection for 2009 less 2008 actual.
3/ Vulnerability to Combined Shock: Trade, Remittances, Aid, FDI.
4/ H = High risk; M=Medium risk; L=Low risk.

Sources: World Economic Outlook database and Fund staff calculations.

evidence of the increased tightening of credit conditions for bank lending in Ghana and Zambia. FDI has been less affected, but this varies across countries. The financial contagion is not, however, the severest of the shocks revealed in our results so far.

> It will be important to continue monitoring the effects of the global financial crisis on developing responses. And while this alone will not help the poorest, it may well lead to a faster understanding of developing country policy.

The real shock facing the 10 countries reviewed is worse: export values are falling. In Kenya, remittances were down 27% in January 2009 compared to January 2008, after a year of volatility. Aid to Uganda fell in 2008, and might decline further due to the global financial crisis. Zambia lost 8,100 (25%) of its 30,000 mining jobs in 2008.

Economic policy responses to the global financial crisis vary widely in Africa, from 'business as usual' to more pro-active approaches. Some countries are considering implementing or accelerating growth policies (e.g. Mauritius), or even implementing a fiscal stimulus. But others have responded with only very small monetary policy steps and not much else (e.g. Kenya or Uganda).

There is also a wide range of social policy responses in the ten countries. These range from significant reductions in overall social sector allocations (Nigeria and Zambia) to countries where, with donor support, social protection provisions are being extended rapidly from a low base, to others where an already well developed system is being expanded to respond to increased need. The scale of the social protection response may be determined by the extent of revenue contraction, the ability of the government to access resources to finance the fiscal deficit, and the pre-existence of a social protection system.

> We need to rethink African economic policies to understand the best possible way to engage the global economy.

It will be important to continue monitoring the effects of the global financial crisis on developing responses. And while this alone will not help the poorest, it may well lead to a faster understanding of developing country policy and better informed actions focused on addressing the fall out of the global financial crisis on developing countries.

Finally, it will be crucial to re-consider development models in the context of the global financial crisis. Those countries that were more exposed to globalisation (banking, trade, etc.) and the international economy have often benefitted from these models, but are likely to lose out most now. And it remains unclear what can be done. We need to rethink African economic policies to understand the best possible way to engage the global economy. We already knew that markets could fail, and we now know that the practice is more worrying than previously thought. Good state-business relations will no doubt help, but other factors too are needed.

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Notes

1 See: www.londonsummit.gov.uk/resources/en/news/15766232/communique-020409
2 See: www.odi.org.uk/resources/details.asp?id=2863&title=blue-green-red-rainbow-stimulus-tackle-global-recession

Dealing with global governance deficits and the MDGs: A trade agenda for G20 leaders

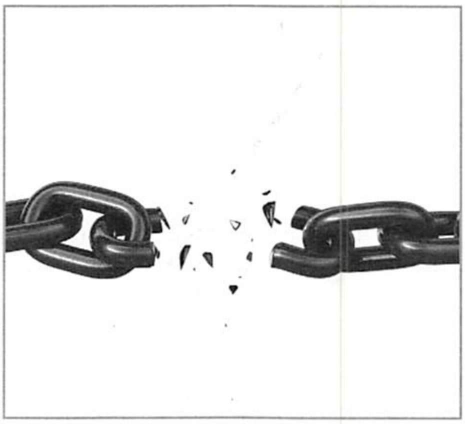
Eveline Herfkens

Since the Millennium Development Goals (MDGs) were agreed in 2000, many developing countries have made great strides. The world was on track to achieve at least the first Millennium Goal of halving the number of extreme poor, and it was coming close to reaching several other objectives as well. But the present crisis is wiping out that hard fought progress. Poor countries' access to credit has been reduced, resulting in slower investment and growth; already pitiful official development assistance (ODA) levels are falling; and Africa might be robbed of its one chance in a generation to make real progress. In the meantime, the world lacks an effective system of global governance. The three deficits in the system I elaborate on below have hampered the structure in the past, but they are especially crippling in the present situation.


Author Eveline Herfkens

1. A Compliance deficit.

Too many government officials agree on the most wonderful promises at international meetings (e.g. the Millennium Declaration), and take the plane back home to business as usual, not following through on their pledges. The most blatant example is the 0.7% ODA/GNI target agreed at the United Nations (UN) more than three decades ago and every year since. Most recently, on trade, the commitment of the G20 leaders in Washington, DC last November to a one-year moratorium on protectionist measures was broken by most participants within a few months. The promise made by the G7 Finance Ministers in Rome this February that the group "remains committed to refrain from protectionists measures which would only exacerbate the downturn," lacks credibility in view of the reality of the "lend local" conditions in bailout packages and "buy local" conditions in stimulus packages. In the past I have praised the World Trade Organization (WTO) for its dispute settlement mechanism. It remains to be seen whether this mechanism will prove robust enough to cope with today's emerging economic nationalism.



2. A Coherence deficit.

Global governance is fatally fragmented. Due to the lack of coherence within governments, both rich and poor countries are taking divergent positions in various international organisations and forums. Today's world faces multiple daunting challenges: climate change, terrorism, a global food crisis, a water crisis, and an economic downturn that provokes protectionism. These challenges cannot be dealt with separately, stove piped in different multilateral forums. Over the last several years, world leaders, in rhetoric at least, have increasingly acknowledged interdependence – not just of countries, but also of issues. However, most countries leave the UN system to foreign affairs ministries to deal with; the UN remains at the margin of political domestic agenda's, while the involvement of heads' of government/state is mainly limited to photo opportunities. They leave trade policies to trade ministers in the WTO and they leave the international financial institutions to their finance ministers and central bank governors, whose positions are more similar to their peers than to the positions taken by their foreign affairs colleagues at the United Nations (or their health or labour colleagues in the World Health Organization (WHO)/International Labour Organization (ILO), etc). The only way to deal effectively with today's global challenges is by global collaborative action in a coherent way, instead of leaving them to fragmented separate negotiation processes in various isolated and autistic forums. The problem is not that the leaders of international organisations do not want to co-operate: it is the member states' national governments who speak through different ministries with diverse tongues and messages at various international bodies. Coherence starts at home. It is high time to make trade work for development and ensure trade negotiation outcomes are consistent with the lofty, but unfulfilled promises of our political leaders: a small concrete step within the WTO would be to broaden the Trade Policy Reviews to include a review of how trade policies impact sustainable development goals (for better or for worse) and proposals for how to integrate sustainable development concerns into trade policies.

"The UN remains at the margin of political domestic agenda's, while the involvement of heads' of government/state is mainly limited to photo opportunities."

3. A triple Democratic deficit:

That is, the lack of voice of poor countries, lack of voice of people in general, and lack of voice for the poor in developing countries in particular.

a. The crisis might have one silver lining: global governance might become slightly more inclusive. Last year's G20 meeting showed that rich countries now acknowledge the need to fully involve several large countries in financial global governance. The G7 had paid lip service to this for a long time, but now these "newly emerging" countries have the negotiation leverage as they are dearly needed to help out in the present crisis to keep up demand. This will accelerate the process already underway in the WTO. Only a few years ago, it was the United States and the European Union that decided the outcome of the negotiations. If they agreed, the deal was basically done. Those days are over, as we saw exemplified in the cast of players in last summer's breakdown of Doha Round negotiations: India and China on one side, the US and Brazil on the other, and the EU trying to find compromises. Still some 100-plus countries hardly have a voice. It would help if these new "emerging powers" would leverage their new influence in international meetings to account for the interest of those not represented. Within the WTO itself, the traditional 'member driven' governance leaves the poorer and smaller developing countries with very limited institutional capabilities at a disadvantage both in analyzing and negotiating issues. Strengthening the role of the WTO Secretariat in providing the weakest countries information and analysis regarding the development impacts of specific proposals on the negotiating table would help enable more effective engagement in negotiations and could even the playing field.

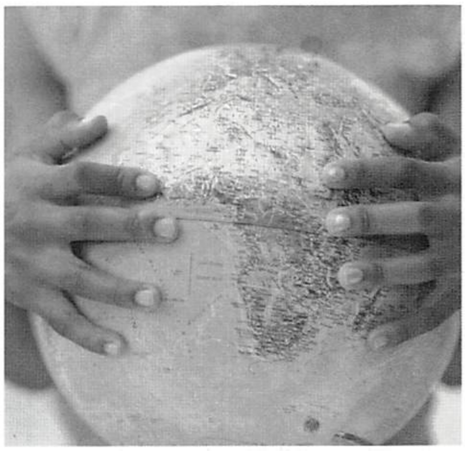
b. Parliamentarians need to hold their governments accountable for their decisions in international arenas. In general, instructions to international meetings are typically insufficiently discussed by parliaments and within trade policies. Moreover, most relevant international organisations lack a parliamentary assembly, such as those for the Council of Europe and NATO. Thus, they lack a constituency and educated parliamentary involvement. Politicians tend to act based on wining – not losing – votes. They will continue to get away with playing to the domestic protectionist gallery, as long as the general public and its elected representatives remain illiterate of its costs. It is time to liberate trade from the clutches of the powerful lobbies who hijack our trade policies at the expense of everybody else. The WTO could help, not only by making Trade Policy Reviews more coherent by incorporating sustainable development considerations, but also by involving more stakeholders in countries in the process, more widely disseminating these reports, and promoting parliamentary debate about them in the country concerned. Some parliaments already discuss OECD/ Development Assistance Committee Peer Reviews, which increasingly cover coherence issues.

> "It is high time to put an end to vested interests and lobbies dominating our trade policy and to educate public opinion and increase awareness among taxpayers and consumers of the costs and perils of present protectionism."

c. Many developing countries fail to ensure that their own trade policies benefit the poor. "The rich make the rules at the expense of the poor" does not apply only at the international level. Developing country trade barriers often protect the rich, at the expense of the poor. Benefits arising from preferential market access are not always used or often do not help the poor as they are captured by officials through nepotism, and export growth does not realize its potential to become pro-poor inclusive growth. For trade to reduce poverty, complementary domestic policies are needed. The poverty reduction objective should be mainstreamed in developing countries' trade policies, while trade needs to be integrated in national poverty reduction strategies, as no country ever developed through aid alone. Effective policies should empower the poor pro-actively to grab new opportunities provided by market access and by investing in human capital, as education and skills are critical for integration in the world economy.

Conclusion

It is high time to put an end to vested interests and lobbies dominating our trade policy and to educate public opinion and increase awareness among taxpayers and consumers of the costs and perils of present protectionism. It is also time for developing countries to take responsibility for making trade work for the poor.



But most of all, it is time to make trade policies part of the broader relationship, not just with other countries, but, more importantly, of the broader agenda of challenges of global poverty, the environment, and security. Unless we start addressing the three deficits of global governance immediately, the present crises will result not only in missing the lofty promises of the Millennium Development Goals, but set back development for decades to come.

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EPA Provisions may impact the ability of some developing countries to respond to the crisis

Sanya Reid Smith

The global financial— and now economic— crisis is having serious impacts on developing countries.[1] These countries are experiencing decreasing government income due to declining commodity-related tax revenue,[2] crowding out of developing country sovereign debt issuers,[3] and pro-cyclical aid. Unfortunately, this is occurring at a time when increased government revenue is required for stimulus packages and social safety-nets,[4] such as those implemented by industrialised countries.[5] Moreover, certain provisions in the EPAs may impact the ability of some countries to respond to the crisis; this article examines selected EPA provisions on trade in services.

Services provisions

Including services commitments in an EPA beyond co-operation is likely to trigger Article V of the General Agreement on Trade in Services with which the EPA services chapter will have to comply to be WTO compatible. The EU could interpret Article V as requiring liberalisation of 80% of services sectors. If this occurs, developing countries may not be allowed to exclude essential services and financial services. Once liberalised, it will no longer be permitted for companies in this sector to be nationalised (for example, a financial institution) if needed. Furthermore, the likelihood of account deficits in developing countries as a result of the crisis are liable to be exacerbated by such extensive services liberalisation, because foreign service suppliers generally do not generate export revenue but repatriate their profits.

The CARIFORUM-European Commission EPA title on services and investment appears to be a template for the European Commission EPAs for all regions so it will be used as the basis for this analysis. With respect to financial services in particular, there are a number of provisions that may make it difficult to prevent future crises and to effectively deal with the current crisis.

There is an explicit provision that requires CARIFORUM countries to permit EU financial services suppliers to supply a new financial service if that CARIFORUM country allows its own financial institutions to do so, and if it has committed to liberalise that particular financial service in the EPA.[6] This is in a situation where, according to the IMF, the emergence of new types of financial instruments and the inability of regulators to keep up was one of the causes of the current crisis.[7] Thus, if a CARIFORUM country allowed hedge fund activity domestically, it would have to allow hedge funds from EU countries to enter and introduce similar services. Since the European institutions are much larger than domestic ones, the risks to the economy by this liberalisation would increase manifold. Given that 'financial services' are broadly defined,[8] the same applies to derivatives and other risky new financial instruments. There is a prudential carve out,[9] however; it is narrower in some respects than the WTO equivalent[10] and even use of the WTO one has been challenged, especially by the European Commission.[11]

In addition, if market access commitments are made in financial services, parties to the EPA cannot set limits on the size or form of financial institutions, unless exceptions are listed.[12] This is problematic for a number of reasons. First, when financial institutions that are very large collapse, they must be bailed out in order to avoid causing systematic problems for the whole economy. However, articles 67 and 76 of the CARIFORUM EPA make it difficult to limit the size of financial institutions if they are liberalised under the EPA. These provisions also prevent firewalls that separate deposits from risky investment banking. Second, given the recent evidence of lack of solvency of banks, countries may wish to require them to establish as subsidiaries (which must have their own capital reserves) rather than mere branches.[13] However, the CARIFORUM EPA does not appear to allow this unless it is listed as an exception.[14] When this is combined with the requirement to allow new financial services, it would appear to enable a branch to supply these risky new financial products, unless the European Commission and CARIFORUM agree on the form these financial institutions should take (or unless it is listed as an exception).

Finally, the G20[15] agrees that one of the drivers of the current turmoil was that financial innovation outpaced the ability of regulators to effectively monitor it; there is therefore a need for better regulation.[16] However, it is also clear from the G20 that they are still learning about the causes of the crisis and how best to regulate them. The group notes that they will still be developing prudential and other regulations even in 2010.[17] Given this, it would seem premature to agree to legally binding provisions in EPAs that may prevent the implementation of the G20's own recommended regulations to deal with the current crises and prevent future crises.

Call for caution on EPA negotiations

Beyond the EPAs, provisions in free trade agreements with other industrialised countries, bilateral investment treaties and WTO agreements may also prohibit the increased regulation of financial institutions and other measures that would help countries effectively deal with this crisis now and prevent catastrophes in the future. Given this, in February 2009, President Jagdeo of Guyana called for the suspension of the implementation of the CARIFORUM-European Commission Economic Partnership Agreement until the global financial crisis is resolved so that the region can source the funds necessary. Certainly countries should be cautious and consider implementing a moratorium on existing negotiations or on the initialling, signing, or implementation of EPAs until a comprehensive study has been conducted.

Author

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Notes

1 See for example: "Swimming against the tide: how developing countries are coping with the global crisis," Background Paper prepared by World Bank Staff for the G20 Finance Ministers and Central Bank Governors Meeting, Horsham, United Kingdom on March 13-14, 2009, *http://siteresources.worldbank.org/NEWS/Resources/swimmingagainstthetide-march2009.pdf*
2 See International Monetary Fund report on the significantly worsening economic outlook for sub-Saharan Africa: *www.imf.org/external/pubs/ft/survey/so/2009/CAR030909A.htm*
3 See footnote 1.
4 Impact of the Global Financial Crisis on Sub-Saharan Africa, IMF, 2009; See: *www.imf.org/external/pubs/ft/books/2009/afrglobfin/ssaglobalfin.pdf*
5 See footnote 1.
6 Article 106.
7 See footnote 1.
8 Article 103.2.
9 Article 104.
10 See: *www.lawstaff.auckland.ac.nz/~ekel001/Pacific_Trade_files/CARICOM_cf%20Pacific_EPA.pdf*
11 See: *www.policyalternatives.ca/documents/National_Office_Pubs/2008/Financial_Instability_and_GATS.pdf*
12 Article 67 and 76.
13 See footnote 11.
14 Although footnote 10 to Article 67.2(e) states that parties can require a specific legal form when being incorporated, this is only allowed without being listed as an exception and if it is applied in a non discriminatory manner. Since this would only apply to foreign banks, it appears to be discriminatory.
15 The African Union and other developing countries have called for the G20 process to include all United Nations members. See, for example: "Declaration of the Heads of State (Assembly/AU/Decl.2(XII)) of the African Union." A United Nations process that does include all 192 member states is the Commission of Experts on Reforms of the International Monetary and Financial System, chaired by Professor Joseph Stiglitz. The preliminary recommendations of this Commission address many of the concerns of the African Union. There is a scheduled conference at the highest level to adopt these recommendations that will be held in June 2009: *www.un.org/ga/president/63/letters/recommendationExperts200309.pdf*
16 See: *www.g20.org/Documents/g20_wg1_010409.pdf*
17 See for example: *www.g20.org/Documents/Fin_Deps_Fin_Reg_Annex_020409_-_1615_final.pdf; and www.g20.org/Documents/g20_wg2_010409.pdf*

EPAs and natural resources: The European sustainability agenda

Peter Thompson

EPAs are a special type of trade agreement, unlike other Free Trade Agreements (FTAs) that the European Union has negotiated throughout recent years. Despite all the suspicions and accusations floated on this subject, the Commission did not set itself any offensive interest in EPA negotiations.

It is a fact that there is a worldwide 'gold rush' where major economies, in particular emerging ones, have been aggressively working towards securing access to raw materials with reportedly little regard for economic and social sustainability or environment protection. Africa is one of their key targets. It is also true that, as part of its Global Europe strategy, the Commission has been pushing a specific agenda on raw material trade liberalisation *eg*, through commitments on free trade in raw materials into trade agreements. However, EPAs are not classical FTAs and there is no such thing on the EPA negotiation table. Securing access to natural resources is not on the agenda[1] as EPAs are focussed on the needs of the ACP side. Sustainable development is at the top of the negotiation agenda *eg*, through chapters on forestry, fishery and the environment as well as social provisions (including labour standards). EPAs are indeed trade agreements but their central objective is development, more precisely how best to ensure that trade brings about sustainable development.

> "EPAs are indeed trade agreements but their central objective is development, more precisely how best to ensure that trade brings about sustainable development."

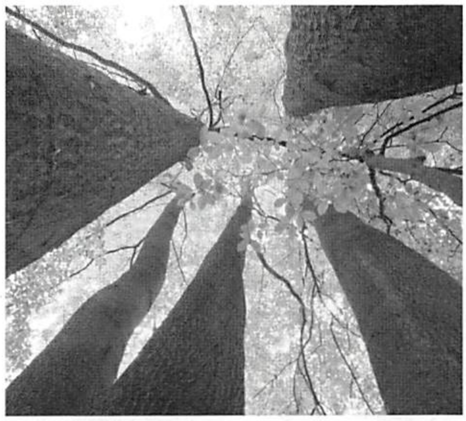
The Commission considers that the EPA with the Caribbean region sets an encouraging precedent. Sustainable development is the key principle governing the agreement with specific chapters covering environmental and social provisions. Like in other EPAs, the Caribbean States are free to take measures to protect the environment or natural resources and the agreement prevents lowering social or environmental standards in order to achieve investment or trade benefits.

There are also commitments not to use trade or investment related legislation in order to limit environmental protection.

Forestry is a key sector for sustainable development in many ACP countries. Contrary to assertions that this sector would illustrate the alleged Commission's careless negotiations tactics and aggressive agenda[2], the European Union (EU) is at the forefront of the battle against illegal logging, in particular through the Forest Law Enforcement, Governance and Trade (FLEGT) initiative. Interestingly enough, Ghana, one of the interim EPA signatories, has also been the first country to conclude the negotiations of a FLEGT Voluntary Partnership Agreement (VPA) with the EU in September 2008.[3] The European Union's commitment to fight illegal logging is mirrored in the EPA negotiations with the region which enjoys one of the most important forest areas, namely Central Africa. As part of the comprehensive regional EPA which is under negotiations, the Commission has tabled a chapter on forest resources management designed to strengthen governance and promote legal and sustainable trade of forest-based products both at the EU and regional levels. In addition, Central Africa's Regional Strategy under the 10th EDF, currently under finalisation, identifies the sustainable management of natural resources as a development cooperation priority.

More generally, it has been argued that ACP countries should control their markets for raw materials and agricultural export products through export restrictions (primarily export taxes) and should not facilitate foreign direct investment (FDI).[4] In most cases, export taxes do not aim at protecting specific economic sectors, in particular in the ACP countries. Their main purpose is essentially fiscal. These government revenues can be secured through different, more economically efficient, types of taxes. In addition, in the EPA negotiations, the Commission has tackled the export taxes issue with as much flexibility as possible in order to address the ACP countries' special development needs. The Commission proposes that EPAs allow for exceptions to introduce or keep export taxes in certain cases such as state budgetary reasons or protection of the environment. The Commission has shown it is open to necessary derogations, provided they are well defined in terms of purpose and duration and are non-discriminatory to other ACP trading partners.

It is striking that the EPAs provisions on investment liberalisation have been heavily criticised whereas ACP countries badly need FDI: sub-Saharan Africa is the region with the lowest level of investment in the world. As reminded by the Barbados Ambassador in Brussels in a speech on 13 February 2008, *'(we) aggressively seek FDI to support our economic development. EPA rules on investment give predictability and transparency on market access in the manufacturing, mining, agriculture and forestry, and service sector in both the EU and (ACP countries)'*. Attracting FDI is even more necessary in the current economic and financial crisis. Investment liberalisation does not mean, however, that ACP countries will lose their policy space to regulate, in particular for environmental, sustainability or public health purposes.



Overall, the EU has been negotiating in an open and flexible way to meet ACP needs. Sustainable development standards, which are conducive to a balanced economic growth in full respect of environmental and social requirements, are embedded in EPAs. The Commission believes EPAs are the way to go to ensure a fair and sustainable growth to ACP countries.

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Notes

1 Ronnie Hall, "Undercutting Africa," Trade Negotiations Insights, Vol. 8, No. 1, February 2009.
2 See footnote 1
3 Under VPAs, legally-produced timber exported to the EU can be identified using licenses issued by Partner countries. This will be underpinned by timber legality assurance systems developed under the auspices of each VPA. Definitions of legally-produced timber incorporate laws that address the three pillars of sustainability, i.e. those aimed at social, environmental and economic objectives, and are agreed through a national multi-stakeholder process in the Partner country.
4 See footnote 1

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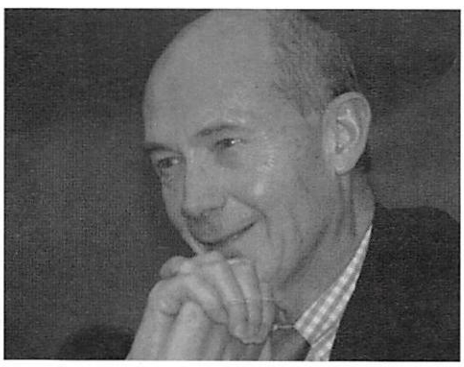
WTO Roundup

G20 leaders boost trade finance, resist protectionism

In the face of the steepest drop in world trade in 60 years, leaders from the Group of 20 economic (G20) powers agreed in early April to provide funding for USD 250 billion worth of international trade flows. The heads of state also reiterated the vow they made in November not to establish any new barriers to trade, this time adding a promise to report any such measures to the WTO.

The G20 leaders vowed to resist the kind of tit-for-tat protectionism that exacerbated and prolonged the Great Depression of the 1930s. They extended to the end of 2010 the commitment they made in November 2008 "to refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports."



The leaders also agreed to "notify promptly the WTO of any such measures," and called on the global trade body and other relevant international institutions "to monitor and report publicly on our adherence to these undertakings on a quarterly basis."

On Doha, the leaders reiterated a familiar pledge to continue to work towards. "We remain committed to reaching an ambitious and balanced conclusion to the Doha Development Round, which is urgently needed. This could boost the global economy by at least USD150 billion per annum."

Leaders reportedly agreed to discuss Doha again when the G8 countries gather in July. Emerging economies Brazil, China, India, Mexico and South Africa will also be represented at the summit.

WTO protectionism warning

The G20 commitment to counter protectionism and boost trade came following a WTO report that warned global commerce is in danger of "an incremental build-up of restrictions that could slowly strangle international trade" and undermine worldwide attempts to restore growth.

In its report the WTO predicted that world merchandise trade will shrink by 9% this year; the OECD estimated a 13.2% "collapse." This marks a sharp reverse in a decades-long pattern that saw trade volumes outstrip GDP growth, as the development of international production chains meant that many components in a single product crossed borders and thus were counted towards trade figures.

Both the WTO and the OECD put most of the blame for the trade contraction on reduced global demand and shortages of global finance, not on protectionist barriers. Falling commodity prices and a rising US dollar have helped push down the dollar value of trade.

> "We remain committed to reaching an ambitious and balanced conclusion to the Doha Development Round, which is urgently needed."

The report, which WTO secretariat officials hope will be discussed by Members in mid-April following its translation into French and Spanish, contained numerous plugs for the troubled Doha Round of trade negotiations.

WTO urges EU to liberalise agriculture, services sectors

The European Union will play a key role in shortening and reversing the current global economic slowdown, according to another WTO report released on 6 April 2009. But Brussels should further liberalise its services and agricultural sectors to stimulate the bloc's recovery from the losses that it has suffered in the global financial and economic crisis.

> "Both the WTO and the OECD put most of the blame for the trade contraction on reduced global demand and shortages of global finance, not on protectionist barriers."

The report noted that the EU had already made some progress on this front: common Agricultural Policy (CAP) reforms passed in 2003 increased the market-orientation and competitiveness of the sugar, fruit and vegetables, and wine subsectors and eliminated export subsidies of fruits, vegetables, and wine. Export subsidies for farm goods continue to be one of the EU's most controversial breaches of WTO principles. In January, the EU, citing the global economic crisis, reinstated export subsidies for some dairy products and increased spending on poultry. The move drew heavy criticism from the WTO Membership.

The WTO also called for further liberalisation of the services sector, which the report called the backbone of the European economy. While the EU has made progress in opening up its telecoms and postal industries, significant regulatory and administrative hurdles continue to obstruct the flow of services trade among the EU's member states. Many services, including tourism, distribution, construction, and engineering, lack a common market policy within the 27-member bloc, the report said.

But the report commended the EU for its active membership in the WTO, calling the bloc "a major force" behind the Doha Round negotiations. The WTO secretariat conducts periodic reviews of all of its Members' trade policies. This was the ninth such review for the EU.

Notes

This is a modified version of fuller articles originally published as:
- "G20 Leaders Boost Trade Finance, Renew Vow to Resist Protectionism," Bridges Weekly Trade News Digest, Volume 13, Number 13, 8 April 2009.
- "WTO Urges EU to Liberalise Agriculture, Services Sectors," Bridges Weekly Trade News Digest, Volume 13, Number 13, 8 April 2009.
- "WTO Warns of 'Significant Slippage' toward Protectionism," Bridges Weekly Trade News Digest, Volume 13, Number 12, 1 April 2009.

EPA Update

Melissa Julian

African Union Trade Ministers adopt EPA declaration

African Trade Union ministers called on the African group in the World Trade Organization (WTO), in collaboration with other members, to intensify efforts towards appropriately amending Article XXIV of GATT 1994. The intent is to allow for necessary Special and Differential Treatment provisions, as well as the less than full reciprocity principle, and explicit flexibilities that are consistent with the asymmetry required to make the Economic Partnership Agreements (EPAs) development oriented. This would be inline with the EPA declaration, which was adopted at the African Trade Union meeting on 16-20 March 2009. The ministers also called on the European Commission to show greater flexibility in its position during the negotiations of full and comprehensive EPAs.

> "Ministers stressed that a well-structed, balanced, and development-oriented EPA can offer significant development dividends to Africa."

Ministers stressed that a well structured, balanced, and development-oriented EPA, which offers improved market access into the EU market, takes adequate account of the difference in the levels of development of the EU and African countries, provides the latter with necessary policy space, and which addresses the supply-side constraints of African economies can offer significant development dividends to Africa.

Ministers also welcomed the EU strategy on Aid for Trade and urged that the initiative be adequately funded, and effectively and expeditiously implemented to enable African countries and regions to fully benefit from the implementation of EPAs.

Ministers further reiterated the need for the contentious issues in the EPAs to be adequately addressed in the context of the negotiations of full and comprehensive EPAs.

Ministers also considered an EPA Template as work in progress and called on the African Union Commission (AUC), United Nations Economic Commission for Africa (UNECA), and the regional economic communities (RECs) to continue to consult in order to further strengthen the document and ensure coherence. They encouraged African countries and regions to make use of the template where necessary.

Of note was the need to keep trade open, to monitor the impact on competitiveness of African products that the stimulus and bail out packages in the west are having, and the need to develop intra-African trade. WTO Director General Pascal Lamy[1] said the lack of liquidity for trade financing and the higher risk premium is noticeably impacting the demand for commodities. This is outside the jurisdiction of the WTO, but international financial institutions and commercial banks are being mobilised to address the problem. Protectionist measures are taking the form of non-tariff barriers and import licensing, as well as tariff and subsidy rises and bail out packages.

Central African EPA negotiations postponed

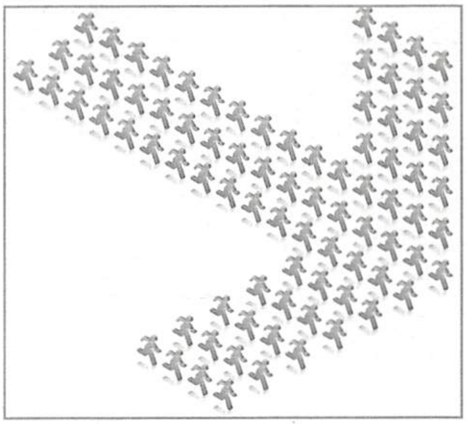
The joint technical negotiating meeting scheduled to be held in Brussels the week of 20 April has been postponed at Central Africa's request. This will allow Central Africa to first hold a regional trade ministerial meeting to, among other things, discuss EPA issues and establish their political direction. The CEMAC Secretariat is also currently undergoing a major reorganisation (all posts have apparently been published and are available), which has also disrupted its operations. No new date for joint negotiations has been set yet.

Progress made in West Africa EPA negotiations, but much work remains to conclude in June 2009

Progress was made at the informal round of EPA technical negotiations in Abuja from 24-27 March 2009. The two sides have agreed nearly all of the EPA text in goods, dispute settlement, general exceptions, institutions, and final provisions. Progress was also made in negotiations on issues such as transition periods for Special and Differential Treatment and agricultural subsidies. Divergence remains, however, on development co-operation, including beyond the Cotonu Agreement, and tariff measures to support sectoral policies in West Africa. West Africa has proposed that the joint Council consultative committee consider these issues.

Divergence also remains in relation to West Africa's (WA) market access offer. The European Commission identified products representing around 20% of EU exports that could potentially be good candidates for liberalisation either because they are inputs for certain WA economic operators, or because there are little to no exports from the EU (hence no competition). WA took careful note of the European Commission's comments and appreciated their approach of not focussing on the coverage, but rather aiming at establishing a development friendly offer, based on sound economic reasoning. WA promised to table an improved offer in the next round on this basis.

A separate parallel meeting took place on rules of origin with detailed line by line exchanges on specific rules for agricultural products. These exchanges open the way to potentially solving all divergences on the draft protocol and will continue in a next series of meetings where detailed exchanges on fishery and industrial products will take place.



Eastern and Southern Africa and the European Commission break deadlock to allow joint technical EPA negotiations to resume

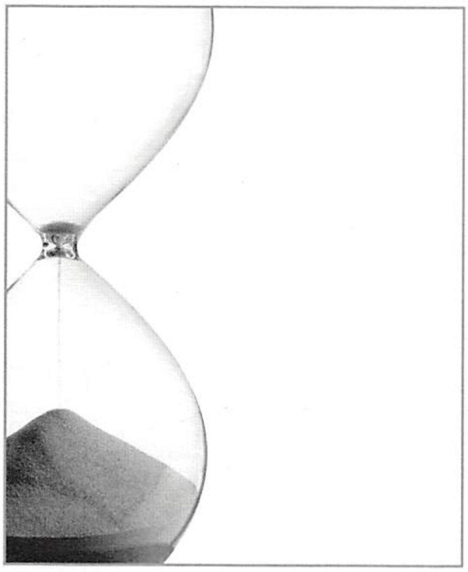
Joint Technical EPA negotiations can now resume after months of suspension, following political agreement reached between ESA Trade Ministers and the European Trade Commissioner. Consensus was reached during their joint meeting held in Lusaka on 6 April 2009. According to ESA sources, the major challenges faced in the negotiations are largely due to the European Commission's inflexibility to accommodate ESA least developed countries (LDCs). At the joint ministerial meeting, however, Commissioner Ashton showed her readiness to deal with contentious issues such as export taxes, quantitative restrictions, infant industries, development benchmarks, agriculture,

(Continued on page 14)

Continued from page 13

including a special safeguard clause for agriculture, additionality of resources, and other political issues such as the most favoured nation clause. There was an understanding that once political decisions are made and compromises reached, they will be attached to the interim EPA before signature.

The Commissioner also expressed a desire for the negotiations to be completed—at least on the broad framework—before the mandate of the current Commission ends. In this respect, the European Commission would be prepared to adopt a flexible approach underpinned by the principle of variable geometry whereby those countries that are willing to move on some issues, including trade in services, could do so and others can join later.



Sources attending the meeting say Ashton also made it clear that in a partnership she was not going to impose anything that the other partner was not wiling to accept at this point. If what she has said is followed up by Commission officials, progress can be made, sources say.

As regards the signing of the ESA-EU IEPA, reports indicate that it may take place in August. The Commission's services are still bogged down in the translation quagmire. Moreover, DG Trade is adding on new challenges by trying to link decisions on ESA requests with the IEPA trade regime that will be applied on its signature.

East African Community EPA nearly finalised, but divergence remains on key issues

While much of the text of a comprehensive EPA has been agreed, East African Community (EAC) sources indicate that negotiation progress is proceeding slowly on areas of interest in relation to development co-operation, trade in services, trade-related issues, and rules of origin. Monitoring and evaluation and benchmarking to guide implementation also need to be discussed.

Tanzania continues to object to a national identity document, access to and use of land, as well as permanent residence inclusion in the EAC Common Market Protocol.[2]

According to EAC sources, due to challenges faced by the region, the initial deadline of concluding the full EPA by July 2009 may not be met.

"Time is not on our side," EU Trade Commissioner tells SADC

"Time is not on our side," wrote the EU Trade Commissioner to SADC Trade Ministers at the end of March 2009, following their joint meeting days earlier. During their meeting, agreement, in principle, was reached on most of the main concerns expressed by South Africa, Namibia, and Angola (i.e., quantitative restrictions, special treatment for Lesotho, food security, free circulation of goods, infant industry, export taxes). Here too, the European Commission proposed that the two remaining outstanding issues—identification of parties and the most favoured nation clause—be discussed in the framework of the negotiations towards a final EPA. She recalled the urgency of signing the interim EPA and she called on Ministers to agree with the European Commission proposal on the way forward in order to sign the interim EPA, notify the WTO, and advance negotiations on the final EPA.

SADC officials note, however, that concerns remain within the region about the impact of notifying the interim EPA to the WTO before concluding the full EPA. They are particularly concerned with losing negotiating power on contentious issues and tariff re-alignments within the region. Political level follow-up continues on both sides to discuss how to move forward and how to perhaps implement a SADC EPA without South Africa while not undermining the SACU Common External Tariff. It seems the IEPA may be signed without South Africa, especially if rumours are confirmed that Namibia appears to have been swayed and is now leaning towards putting its signature under the IEPA.

At the moment, a date for the signature of the SADC interim EPA is not yet confirmed. Technically, it could be as early as May if the SADC group gives their agreement in the coming days.

"Sources attending the meeting say Ashton also made it clear that in a partnership she was not going to impose anything that the other partner was not wiling to accept."

COMESA, EAC, and SADC agree to establish single customs union

Twenty six African states from three regional economic communities - COMESA, EAC and SADC – agreed on a free trade agreement (FTA) encompassing member states of the three Regional Economic Communities with the ultimate goal of establishing a single customs union. The decision was taken at a meeting on 6 April 2009 in Lusaka. Here, COMESA, EAC, and SADC adopted a memorandum of understanding (MoU) on inter-regional co-operation and integration, which binds leaders to liberalise trade among their economies, co-operate in customs matters, and establish an FTA. It also obligates the leaders to design joint programmes for agricultural development and food security, and to collaborate with other members in preparation of common regional positions and strategies in both multilateral and international fora.

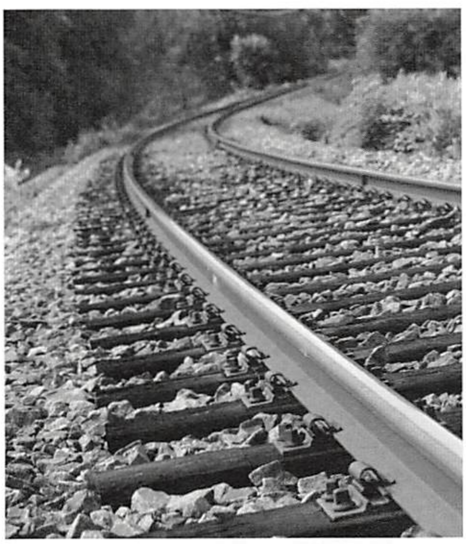
To facilitate cross-border trade, reduce transport delays and costs, and promote public and private sector investment, which in turn limits the potential to raise GDP growth rates, leaders also launched and received funding for a comprehensive USD 1.2bn Aid for Trade and infrastructure programme. The North-South Corridor Pilot Aid for Trade Programme[3] focuses on major regional infrastructure development including transport, power, and trade facilitation projects along the North-South Corridor traversing eight countries in East and Southern Africa. The European Commission, for example, pledged EUR 115 million and the UK committed £100m. The African Development Bank Pledged USD 600 million, as well.

Leaders also announced plans to implement critical reforms such as simplifying regulatory processes to speed up cross border clearing procedures, harmonize transit and transport regulations, and simplify administrative requirements.

Caribbean focus is on establishing institutions for EPA implementation

The Caribbean is focussing on the establishment and operationalisation of various EPA institutions at both the regional and national levels. Consequently, there have not been any significant meetings on the EPA during the past month.

The Caribbean Regional Negotiating Machinery (CRNM) is holding a series of seminars designed to build awareness of the European Commission-CARIFORUM EPA with the region's private sector. The EPA awareness workshops conducted in Barbados, Dominica, Grenada, and the Bahamas were received with keen interest.



Still no reply from the European Commission to the Pacific's request for continuation of EPA negotiations

No reply had been received by mid-April 2009 from European Trade Commissioner Catherine Ashton to a letter sent on 10 March 2009 from Hans Joachim Keil, Samoa Trade Minister and Pacific Leadspokespeson for EPA Negotiations. In the letter, Keil proposed to hold a Joint Technical Working Group meeting in late March/early April in Brussels to seek convergence on outstanding technical issues (MFN treatment, export taxes, infant industry provisions, etc.) to the greatest extent possible. Contentious issues must be addressed before additional Pacific ACP countries table goods market access offers, after which time senior political representatives could decide on the way forward with a view to signing the EPA this year.

“Contentious issues must be addressed before additional Pacific ACP countries table goods market access offers, after which time senior political representatives could decide on the way forward with a view to signing the EPA this year.”

A meeting of the Pacific ACP Technical Working Group on Legal, Institutional and Capacity-Building Issues is tentatively scheduled for 20-21 April 2009 to prepare for the next joint negotiations with the European Commission.

In other news, the Pacific Islands Forum Secretariat is seeking proposals from experts on aid for trade and the establishment of the Pacific Trade and Development Facility.[4]

Author
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Notes

1 See: *www.wto.org/english/news_e/sppl_e/sppl121_e.htm*
2 East African Business Week, Kampala. 14 April 2009. See: *www.tralac.org/cgi-bin/giga.cgi?cmd=cause_dir_news_item&cause_id=1694&news_id=64649&cat_id=1026*
3 *www.northsouthcorridor.org*
4 Request for proposals on Aid for Trade and the establishment of the Pacific Trade, Pacific Islands Forum Secretariat,15 April 2009. See: *www.pipso.org/pipso-forum.php?PHPSESSID=3725631d11d4d2f7a2092f3aecea215b&topic=60.0*

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Trade Negotiations Insights

Calendar and resources

ACP-EU Events

May

4 ACP technical follow-up group on EPA negotiations and implementation, Brussels

4-8 West African EPA Ministerial Monitoring Committee meeting, Abuja

5-6 ACP Ministerial Trade Committee meeting, Brussels

5-9 European Commission-West Africa Technical EPA Negotiations, Abuja

7 Joint ACP-EU Ministerial Trade Committee, Brussels

7 Chatham House conference "Investing in Africa's Emerging Markets," London

7-8 4th Conference of African Ministers in Charge of Integration, Yaoundé

7-8 IDB/WTO Second Regional Review on Aid for Trade for Latin America and the Caribbean, Jamaica

13 Civil society dialogue meeting on trade and climate change, DG Trade, European Commission, Brussels

13-14 Annual Meetings of the Boards of Governors of the African Development Bank and the African Development Fund, Dakar

13-15 11th Special ACP ministerial conference on sugar, Guyana

14-15 27th Meeting of the CARICOM Council for Trade and Economic Development (COTED), Guyana

18-19 EU General Affairs and External Relations Council with development ministers, Brussels

21 Conference on implementing the Economic Partnership Agreement, Caribbean Council / Caribbean Association of Industry and Commerce, Kingston

25-26 EPA Meeting of West African Members of Parliament, Abuja

25-28 ACP Council of Ministers meeting, Brussels

26-27 Civil society dialogue seminar "The EU and Civil Society: Working together for fair and open trade," DG Trade, European Commission, Brussels

27-28 Media sensitization meeting on EPA, ECOWAS, Abuja

28-29 ACP- European Community Council of Ministers, Brussels

June

2-3 CARIFORUM Council of Ministers meeting, Guyana

4 EPA-ESA Council Meeting, Victoria Falls

4-5 ECOWAS Trade & Investment Conference, Brussels

7-8 13th COMESA Summit of Heads of State and Government, Victoria Falls

WTO Events

May

6-8 WTO: Trade Policy Review Body — Solomon Islands

27-28 WTO General Council

28-29 Workshop for Mediators in Intellectual Property Disputes WIPO — Geneva

June

10-12 WTO: Trade Policy Review Body — New Zealand

23-26 Executive Committee of the Codex Alimentarius Commission (62nd Session) FAO — Rome

24-26 WTO: Trade Policy Review Body — Morocco

TBA General Council: 2nd Global Review of Aid for Trade WTO — Geneva

TBA Working Party on the medium-term plan and the programme budget, fifty-second session UNCTAD — Geneva

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