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## Thematic Focus:

# "Trade and Development: Making the Link"



True: trade can bring about development. But the path from trade to inclusive and sustainable growth, and ultimately to development, can be a tortuous one, full of obstacles and pitfalls. Moreover, in the words of Dani Rodrik, if there is one economics, there are many recipes. As recently recognized by the World Bank, the required development approach is "one that pays attention to contextual variations and uncertain trajectories of change". This implies that trade and other economic reforms must be tailor-made to the specific conditions and characteristics of the country or region where they are undertaken.

What does this mean in practice? First, trade cannot be seen as a stand-alone policy. It must be embedded into a broader development strategy and agenda for inclusive and sustainable growth. Second, political leadership and domestic ownership are key. Too often, these are lacking, leading to half-hearted, poorly conceived and implemented reforms. Third, an evidence-based approach must be followed, which requires adequate transparency and proper monitoring.

While these principles are well recognized by the international community and in some countries, their effective implementation remains a challenge. The collection of articles in this issue of *GREAT Insights* illustrates some of these.

Consider the international commitment to strengthen the linkages between trade and development. The European Union (EU) has traditionally been at the forefront of such endeavour, notably in the framework of its long-lasting partnership with the African, Caribbean and Pacific (ACP) group of countries, and more recently on the aid-for-trade (Aft) agenda. Yet, the EU seems to draw surprisingly little lessons from its rich experience.

A revealing case in this regard is perhaps the seemingly never-ending negotiations on economic partnership agreements (EPAs), started 10 years ago. The aim appeared noble: to address in a comprehensive package inter-related trade and economic issues for development. The reality is that few in Africa and the Pacific have bought in an agenda mainly driven by the EU.

With a few exceptions, the main reason for most countries to continue negotiating is to maintain a preferential access to the EU market, as well as preserve unity in their regional integration processes. The price to pay: to open up their market to EU goods (for many, as little as possible) and to subscribe to a number of related rules requested by the EU (for many, in the most flexible way possible).

While the European Commission has officially recognized some of the problems a couple of years ago, there is no lessons drawn in its recent Communication on *Trade, Growth and Development*. Instead, it is seeking to impose some kind of deadline, by 2014. The ACP Group, NGOs, and the International Trade Committee of the European Parliament call for an extension of the deadline. This may however simply be a distraction from the real issue. In most cases, imposing trade rules will not work for development. A consensus based on joint ownership should rather be found. The EU should be transparent about how it will articulate in EPAs its new strategy to differentiation. In particular, it should make public the flexibility it intends to provide to address key remaining concerns of African negotiators. By the same token, African and Pacific leaders should make clear their stance on EPAs, list their demands and walk out of the negotiations if not genuinely interested. After 10 years of negotiations, time is no longer of the essence; political leadership is.

The EU can be a great ally to developing countries in better linking trade to development objectives. For this, it must show greater understanding, flexibility and coherence in its actions. But the onus lies primarily on developing countries to determine their own path to equitable and sustainable development, and engage their partners (in the North as well as in the South) accordingly.

San Bilal

# 27 September 2012: 10 Years of EPA Negotiations

## From Misconception and Mismanagement to Failure

Marc Maes



Even if the EU continues to insist that its concept of economic partnership agreements (EPAs) was and is the right one, and ACP countries continue to repeat their commitment to a development friendly outcome, after ten years of negotiations, it can no longer be denied that the EPA negotiations are a big failure. Which is not necessarily a sad thing: they have never been a good idea anyway.

### Little to show for

Since the initialing of the CARIFORUM EPA at the end of 2007, no other complete comprehensive regional EPA has been agreed; and it seems that there will not be any other, although partial regional and sub-regional agreements remain possible. Besides the newest issues that the EU has come up with, like good governance in tax matters and the “Turkey clause”, negotiators are still discussing basics like tariffs and aid for trade or contentious issues raised by the interim EPAs concluded by the end of 2007. In the meantime, the EU is welcoming the ratification of un-amended interim EPAs as “excellent news”<sup>2</sup> and is preparing legal steps against ACP countries that fail to ratify or to implement EPAs.

### Mind the gap

The main reason why EPAs have failed is the gap between the EU approach to EPAs and the ACP expectations, or more precisely the inappropriateness of the EU’s approach.

In 2002 the EU Commission drafted a negotiating mandate for ambitious “comprehensive deep integration” free trade agreements, which would not only liberalise investments and the trade in goods and services but also introduce disciplines for competition, government procurement, trade facilitation, intellectual property rights and data protection.

Most ACP countries on the other hand were hoping for agreements that would offer a flexible fix for the WTO compatibility issue and that would otherwise concentrate on strengthening their productive capacities, their infrastructure, institutions and regional integration efforts.

The EU’s comprehensive deep integration concept went well beyond what was foreseen by the Cotonou Agreement or what was required by the WTO. In fact

the Commission’s EPA mandate was the most comprehensive of the time, more comprehensive than the Doha Agenda. Yet for the EU it would not involve much policy change: the mandate reflected existing EU practices and regulatory approaches; and was meant to export them. Here also lies the most important offensive interest of the EU: making 76 ACP countries sign up to the EU’s regulatory approach would be a great advantage for the EU, in particular in the WTO.

For the ACP countries however, almost everything in the EU’s EPA would require huge reforms: administrative, legal and constitutional. For many issues that the EU wanted to address in the EPAs ACP countries had not yet designed domestic policies, let alone regional schemes or international plans. The EU’s EPA concept therefore was much more than a trade agreement; it was a huge economic reform programme.

### Inappropriateness of trade negotiations

Could such programme bring development? Perhaps.

In its preparation for the *Commission’s Communication on Trade, Growth and Development* published this January, DG DEVCO commissioned a study of the state of play of the economic research on the relation between trade, development and poverty reduction. The study noted that the results of that research are inconclusive and that the development outcome of trade liberalisation cannot be taken for granted: trade liberalisation can improve but also harm economic development and poverty reduction. The study also noted: “The countries that have benefited the most are those that have carried out selective and gradual liberalisation and have continued to provide state support to a number of key economic sectors”<sup>3</sup>.

The countries that have benefited the most are those that have carried out selective and gradual liberalisation and have continued to provide state support to a number of key economic sectors.

The study says that the positive outcome of trade liberalisation depends on many factors. These include: the choice of sectors, the sequencing, the speed, the preparatory process, the accompanying measures, the infrastructure, the institutions, the adjustment measures, the access to credit, and very importantly the extent to which there is ownership by the countries and stakeholders involved and the extent to which the liberalisation policy is embedded in the broader development strategy. In other words, a well-prepared elaborate reform programme, that takes into account all these factors, can possibly deliver a development outcome.

But the questions here are: can such a programme be elaborated in the context of trade negotiations? Between 76 developing and least developed countries and the EU? Can it be written by trade negotiators? Can it be put into a hardly amendable trade agreement with an implementation time frame of 20 to 25 and an eternal lifespan? Can it be co-drafted and enforceable by the EU?

Trade negotiations are a very exclusive form of policy making. It is based on secret (unless leaked) mandates, given after closed door discussions between or within governments, with hardly any parliamentary involvement. Negotiations, proposals and texts are secret. Briefings and consultations are inadequate. And the results cannot be changed by parliaments (or even by governments as the ACP countries found out when asking to revise the contentious issues in the interim EPAs). Trade negotiations are a completely inadequate and inappropriate method for the huge reform effort that the EU wanted EPAs to accomplish; completely contradictory to the ownership requirement even at the top level. Indeed there have been numerous incidents of technical negotiators running ahead of political decision makers; regional secretariats running ahead of national governments; and regional and national parliaments, farmers' organisations, trade unions and business associations not knowing what was going on. No wonder civil society revolted against such scheme: economic reform is too important to all layers of society to be left to behind closed door negotiations.

### Mismanagement

There have also been numerous incidents between the EU and the ACP countries. The Commission proved to be a rigid negotiator clinging on to its positions, pushing back ACP proposals. Several ACP Council resolutions express ACP frustration about the gap between the fine development rhetoric of the EU and its behaviour at the negotiating table. The Cotonou Agreement speaks of flexibility and the taking into account of different needs and development levels, regional integration efforts, policy choices and priorities.

But the EPA negotiations were never a quest for the most suited trade measures; instead they were an attempt in making ACP countries sign up to the EU scheme. For the EU EPAs had to fit its overall trade policy; they could not differ too much from its standard approaches. Moreover the attitude of the negotiators and commissioners was often paternalistic and the more the 2007 deadline approached the more the ACP complained of being bullied. And so the exaggerated ambition, the overburdening of the negotiating agenda, the rigid and paternalistic attitude and the bullying destroyed whatever "enchantment" EPAs might have had.

### EPA mess

Today both the EU and the ACP countries struggle with the mess that the EPA negotiations have created.

The interim EPAs have complicated the negotiations even further: they have caused rifts in the regions and the refusal of the EU to swiftly amend them left the negotiations stuck with protracted discussions on contentious issues. All regions are split and the danger exists that the EPAs negotiations will exacerbate the divisions: because the EU's rigid interpretation of WTO compatibility or offensive interests prevent regional agreement; because ACP countries ratify un-amended interim EPAs; or because the EU negotiates Singapore issues with individual countries.

The Cotonou Agreement speaks of flexibility and the taking into account of different needs and development levels, regional integration efforts, policy choices and priorities.

In the meantime, Caribbean countries are struggling with the implementation of the CARIFORUM EPA: most have yet to ratify the agreement, start to eliminate tariffs and prepare measures to avoid the impact on tariff revenue or on the competitiveness of their industries. The Caribbean case seems to demonstrate how little understanding and ownership there is of the comprehensive and complex EPA and how inconvenient the EPA commitments are.

This does not bode well for any EPAs in Africa and the Pacific where the institutional and economic situations are even more precarious. The EU's threat to launch legal procedures against non-complying Caribbean governments adds to the EPA mess.

And so does the Commission's proposal to amend Market Access Regulation 1528/2007 to withdraw preferential market access from ACP countries that have not begun to ratify (interim) EPAs by the end of next year. The proposal has once more upset the ACP countries. The new deadline is too tight

for the ACP regions that are still trying to replace the contested and divisive interim EPAs by regional goods agreements. It will force countries again to accept agreements, not because they think they will serve their development, but because they want to avoid losing preferences. It will push countries to ratify the interim EPAs that they have been trying to amend in the past 5 years.

### A thing of the past

EPA negotiations started 10 years ago, but they were conceived in the mid 1990's. Much has changed since then. Emerging developing countries have increased their share of the world market. China has become one of the largest trading nations. ACP countries have diversified trading partners and donors. The climate, food, financial and economic crises have brought about new challenges and highlighted the need to maintain policy space and to strengthen local and regional markets. The EU is struggling with the Euro crisis and undergoing austerity measures. It has been reviewing its trade and cooperation strategies.

Meanwhile preferential market access to the EU has been eroded by reforms (CAP reform, abolition of commodity protocols, more stringent sanitary standards) and EU bilateral trade agreements. For many ACP countries, the current cost of losing EU preferential tariffs is far less than the revenue lost when eliminating their own tariffs on EU imports.

The painstaking and divisive EPA negotiations need to be re-assessed in this context.

### Notes

1. This clause by the EU requests the third country to enter into negotiations and conclude a FTA with Turkey as soon as possible.
2. See the quote from EU Commissioner De Gucht in the press release on the ratification of 4 "ESA" interim EPAs, <http://trade.ec.europa.eu/doclib/press/index.cfm?id=800>.
3. Commission Staff Working Document accompanying the Communication Trade, Growth and Development. Brussels, 27.1.2012 COM(2012) 22 final (quote: p.9). The Commission has not release the study, but the staff working paper summarises the results.

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# The East African Integration: Achievements and Challenges

Abdullah Makame

The formation of the East African Community (EAC) in 1999 by the United Republic of Tanzania, the Republic of Kenya and the Republic of Uganda was the achievement of the trio's cooperation since the collapse of the original EAC in 1977.



The enthusiasm of the EAC to facilitate trade among its members is enshrined in Article 5 (2) of the Treaty establishing the East African Community which states that the first stage of EAC integration will be the formation of a Customs Union, skipping the earlier stages of Preferential Trade Area and Free Trade Area. The EAC Customs Union Protocol came into force in January 2005. The Customs Union has four major elements: (1) the establishment of a Common External Tariff (CET); (2) the establishment of EAC Rules of Origin (RoO) criteria, including Certificates of Origin and Simplified Certificates of Origin; (3) the internal elimination of tariffs for goods meeting the EAC RoO criteria and (4) the elimination of Non Tariff Barriers (NTBs). The primary objective of the Protocol establishing the Customs Union is to facilitate inter and intra regional trade in goods. The Treaty establishing the East African Community then names as subsequent stages of EAC integration the establishment of a Common Market, then a Monetary Union and ultimately a Political Federation.

## Achievements of the East African Community

The strides taken by the EAC to have a Customs Union Protocol in force and a Community Law – the Customs Management Act -- made it attractive to other countries such Rwanda and Burundi to accede the Treaty in 2006. The latter two countries became fully fledged members of the EAC in July 2007, and started to implement the Customs Union in 2009. The Republic of Southern Sudan has applied to join the EAC and the process of evaluating her admission is ongoing. Currently the EAC is recognized globally and representatives from various countries and international organisations have submitted their credentials to the Secretary General of the East African Community. There are other countries envying to join the regional bloc, as the Summit of EAC Heads of State and Government have said in their 2011 Communiqué. The region has

increased both inter- and intra-regional trade, and has also witnessed an increase in intra-EAC Foreign Direct Investments (FDI) as well as in FDI from outside. The East African Legislative Assembly (EALA) has passed several community laws and the Council of Ministers has established various Sectoral Councils to oversee policy issues in the regional integration progress. There is mutual recognition of standards marks across the region where the bureaus of standards have developed an EAC catalogue of Standards. In pursuit of facilitating trade the EAC has embarked on a mission to establish One Stop Border Posts that have already been articulated within the auspices of the Community Law. Finally, the EAC Council of Ministers has recently approved the 'EAC Customs Valuation Manual' – a document which provides guidelines on how to implement and uniformly interpret EAC Customs valuation provisions within the Community and therefore helps overcome challenges in this respect.

## Challenges in implementing the EAC Customs Union

Despite these progress made throughout the years, some challenges remain noteworthy when it comes to the implementation of the EAC Customs Union.

*Implementing the CET* has been challenging to the Partner States. Customs valuation procedures have been varying, resulting in different computed values for taxation. Since 2005, Uganda has produced a list of industrial products that are exempted from the CET. A similar list of industrial inputs is in place for Rwanda and Burundi. Moreover, the United Republic of Tanzania, as a member of both the Southern African Development Community (SADC) and the EAC, has taken integration commitments in both regional contexts, thereby having to implement two CET, one being for EAC and the other for SADC. Likewise, the remaining four members of the EAC are also members of the Common Market for Eastern and Southern Africa (COMESA), thus facing similar challenges as

the one encountered by Tanzania in terms of multiple commitments taken in the contexts of various integration agenda.

*Rules of origin* implementation has been largely successful in the region, except for a number of challenges where disputes have arisen and verification missions were constituted to address the problems. In the wheat industry, we have for instance observed protectionist tendencies which have been justified using rules of origin-related arguments. Moreover, efforts in sensitisation/awareness-raising seem to have been too limited to allow relevant stakeholders realize the opportunities they could draw from EAC integration.

*Internal Tariff Elimination* is an area where the EAC Partner States have scored one hundred percent in implementation, and it is our anticipation that this achievement will be a yardstick to influence the others..

The EAC has undergone great efforts to eliminate *Non-Tariff Barriers*. Similar efforts have been undertaken at the SADC and COMESA levels, where national and regional structures to monitor and curb NTBs are in place; and have attracted a genuine cooperation between the public and private sectors. There are however a number of NTBs remaining in the EAC as well as in COMESA and SADC: while some have been eliminated, others are mushrooming up.

The EAC is yet to have a Single Customs Territory despite having the protocol in place. Other notable challenges include challenges emanating from Special Economic Zones (SEZs) and Export Processing Zones (EPZs) regimes as well as those of Investments Promotion Authorities; the delayed adoption of the EAC Industrialisation Policy and Strategy, and the long overdue EAC Sanitary Phytosanitary (SPS) Protocol.



## Other developments and challenges: looking beyond the customs union

The EAC seems to be the most vibrant Regional Economic Community (REC) in the Southern hemisphere and is tremendously advancing in its integration process: however, crucial issues remain to be addressed.

### Sequencing

Despite the challenges encountered in implementing the first stage of integration, *i.e.* the EAC Customs Union, the EAC moved on and entered into a Common Market in 2010, after completing the negotiations in 2009. The Common Market Protocol calls for liberalisation of the labour market, capital market and services market, as the goods market has already been liberalised by the Customs Union Protocol. As I am writing this article, implementation of the Common Market in EAC has however not gone beyond the signing and ratification of the Protocol. There are several national laws that have to be amended so that they are compatible with the Common Market; no single law has been amended by any Partner State so far.

Despite these challenges, the completion of the Common Market negotiations made the EAC proceed forward with the negotiations of the third stage of EAC integration, *i.e.* the negotiations of the Monetary Union. Both policy-makers and experts seem to have non-technical reasoning at this stage: the Customs Union has not been fully implemented, the Common Market has not gone beyond ratification; and yet, now comes the negotiations of the Monetary Union. The negotiators have maintained their guts on the negotiating timeframe, and have ignored the economic turbulence facing the Euro Zone's austerity measures and the macroeconomic convergence. As much as EAC can venture in numerous fronts, this one seems to be rather premature.

### EPAs

The EPA Negotiations are taking twists and turns and at some stage we get convinced that the EAC is not sure what it wants in EPA and how it can achieve it.

It is important that we implement the Abuja Declaration and progress in the regional integration agenda.

### EAC – SADC – COMESA Tripartite Grand Free Trade Area

Another development to pay attention to is the potential EAC – SADC – COMESA Tripartite Grand Free Trade Area. Given the situation on the ground in terms of EAC integration and the way the REC is engaging on numerous fronts, it is very likely that we can get to the level of signing the Tripartite Grand Free Trade Agreement and still have basic outstanding issues that need to be solved. Our main appeal to the Secretariats of COMESA, EAC and SADC as well as to individual Partner States is to conduct a self evaluation exercise. It is important that we implement the Abuja Declaration and progress in the regional integration agenda. But there is a great need of connecting the regional and national players so that the regional commitments get implemented nationally. The poor state of infrastructure and energy also remain a challenge to a great number of African countries, making intra-African trade very expensive.

### Opportunities and challenges for tanzania in the EAC

Tanzania is the largest country in the EAC, it borders all the EAC Partner States and has vast areas of arable land that can be used as a food basket to the other EAC countries as well as beyond EAC. It has a large coastal strip that is endowed with natural harbours. The country is rich in natural resources including wildlife and tourism attraction sites. It has recorded political stability since its independence in 1961. Likewise, it is worth noting that the headquarters of the EAC are located in Arusha, Tanzania. These are so many attributes that can be considered clear

advantages for Tanzania to play a critical role in the EAC and beyond, notably if a strategic roadmap was to be crafted in Tanzania. Most Tanzanians however lack awareness of the regional integration process and cannot as such articulate the benefits that can be drawn from the EAC integration process. Moreover, like many African countries, the country has inadequate and poor infrastructures that prevent it to tap the opportunities at hand. Besides, the people, including within the private sector, are not very entrepreneurial as they tend to over-rely on the government; this may be labelled as 'hangover of ujamaa' – the socialist political system that was in place in the country for over three decades after independence. Issues of red tape and corruption have been in the headlines, especially in important areas such as power generation and supply – challenges that make the cost of doing business high. Finally, the most displeasing behaviour of Tanzania in the regional integration is the Food Export Ban; this does not only portray the country as an untrustworthy partner to fellow EAC Partner States, but it also demoralizes farmers who are forced to store their produces and face losses where they have no appropriate storage facilities. It also encourages cross-border informal trade, thereby denying the government revenues and statistics.

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# Market Integration and Border Effects in Eastern Africa

Bruno Versailles



Trading in East Africa can be difficult, both within and between countries. Between countries, the establishment of a customs union between the members of the East African Community (EAC)<sup>1</sup> in 2007, implies that, in principle, there should not be any impediments to trade goods across their borders. What do the numbers say on the cost of intra-regional trade in the EAC?

A customs union implies that participating countries cannot levy any tariffs on goods entering from another participating country. However, such tariffs are subject to exemptions and are not always uniformly applied<sup>2</sup>. What is more, EAC member countries have in the past erected so-called non-tariff barriers (NTBs) to discourage imports. Such NTBs can take many forms, including outright import bans, imposing quality conditions on imports, packaging requirements, etc.

Within countries, bad or non-existing roads, governance issues (e.g. security or corruption) or lack of market information can mean that it is prohibitively expensive for farmers and traders to bring produce to certain markets. Poor infrastructure plays a double-negative role for landlocked countries, as imports are dependent on the quality of their neighbours' transport network. This motivates a search for finding good ways to measure the impact of international borders on market efficiency.

## Quantifying price differences within the EAC member countries

My research tries to quantify the relative importance of these effects, by looking at price differences within and between all EAC countries, except Tanzania. The starting point is the Law of One Price (LOP) which says that identical goods should, absent any distortions, sell for the same price in different locations. The standard example is that if shop A on one side of town is selling bread for \$0.80 a loaf and shop B on the other side is selling it for \$1.00 a loaf, there is an arbitrage opportunity, with gains to be made from buying bread at \$0.80 and selling it outside of shop B for \$0.99. In an ideal setting this incentive to exploit differences in prices eventually drives those prices to equalize through competition.

Yet there are a lot of reasons why the LOP might not hold – one common one is the presence of transportation costs (in my example above the arbitrage opportunity vanishes if it costs me \$0.25 to move a loaf of a bread between the shops). While the LOP is more of a theoretical ideal than an empirical reality, it is a reasonable benchmark for testing whether or not markets are working efficiently: if two identical goods are being sold for separate prices in otherwise identical settings, we know something is amiss. Looking at the prices of identical goods on either side of a border might tell us the extent to which borders are preventing prices from equalizing.

I use monthly price data between 2004 and 2008 from cities in Kenya, Uganda, Rwanda and Burundi to try and explain deviations to the LOP. Note that, except for Kenya, these are all landlocked countries. To disentangle the effect of a border from that of distance, I compare prices between cities *both* within and across these countries, while also trying to account for other factors that might drive a wedge between prices, such as changes in the exchange rate or non-tariff barriers to trade. I identify 24 goods that are deemed comparable across the 4 countries and 39 cities for which I have data. These goods are mainly food items that are widely consumed in the region.

## Large price differences between EAC member countries

Even after allowing for these potentially-confounding factors, price differences are significantly larger (between 13 and 20%) between cities on opposite sides of a border. i.e. borders still appear to impede market integration. However, other variables also have an impact on price differentials between cities. A distance of 100 km between two cities allows for departures of around 13 percent from the LOP benchmark. From this estimate, we can calculate that the border effect is equivalent to differences in prices between two cities that are between 300 and 6,000 kilometers apart, depending on the specification. Compared to similar work done on the US-Canada border, distance plays a much bigger role in East Africa. What are the effects for cities that are more than one border apart? For example to get from Burundi to Uganda, one has to go through Rwanda. Our estimation shows that the border effect is additive, i.e. cities which are divided by more than one border see a larger divergence in prices than those with only one border in between them. The two other potential explanations for

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## More information is needed on exactly what impedes cross-border trade

differences in prices that I look into, non-tariff barriers and the nominal exchange rate seem to be less important. The variable for NTBs is effectively an index where, using information from the World Bank's Doing Business surveys, I combine information on (i) number of documents entrepreneurs/traders have to fill out for clearance before they can import or export a good, (ii) number of days it takes to import or export goods, and (iii) cost of fees for importing or exporting a 20 foot container. When explaining deviations from the LOP, the coefficient on NTBs is significant but very low. The way the variable is constructed however, makes it hard to interpret the size of the coefficient. The coefficient on the nominal exchange rate is also close to zero, implying a high pass-through from foreign to domestic prices, corroborating the conventional wisdom that pass-through is relatively rapid and complete in developing countries as opposed to more advanced economies.

The effect of landlocked countries shows up when we investigate the impact of the Kenyan political crisis at the beginning of 2008. The price data shows an increased divergence in prices for the first half of 2008, as Kenya is a transit country for many goods entering three aforementioned landlocked EAC countries.

### Key lessons

The policy implications of this line of research are clear. First of all, there is a lot of work still to be done in low-income countries like the EAC member countries to improve the transport infrastructure,

governance and market information *within* countries. Indeed, it is no surprise that the largest distance effects are found in Burundi, which was for a large part of the estimation period embroiled in a civil war. Even if EAC countries get their act together and further reduce border costs, there still needs to be more attention given to reducing transportation costs within countries, where poor roads and corruption remain a problem. A study by Rwanda's Private Sector Federation found that the trek from Mombasa to Kigali required a whopping 36 stops and \$864 in bribes, mostly at police checkpoints and weigh stations within countries, rather than at the border.

## reducing tariffs is only one in an array of complementary initiatives needed for reaping the benefits of economic integration. The EAC

Second, the importance of the border effect brings home once again the message that reducing tariffs is only one in an array of complementary initiatives needed for reaping the benefits of economic integration. The EAC introduced a customs union in 2005 aimed at zeroing all tariffs between member countries, establishing a common external tariff and attempting to reduce non-tariff barriers as much as possible. While I do find that price differences between Kenyan and Ugandan cities (Rwanda and Burundi had yet to join) did fall ever so slightly after the customs union was adopted, the border effect persists, suggesting that integration still has a long way to go.

Third, more information is needed on exactly what impedes cross-border trade and more data is needed on non-tariff barriers. The construction of a non-tariff barrier index as an explanatory variable is a starting point, but would probably need to be disaggregated to get a better understanding of the underlying issues.

Fourth, the research shows the importance of whether a country is landlocked in the transmission of economic shocks. The Kenya crisis at the end of 2008 severely disrupted markets in Burundi, Rwanda and Uganda and caused acute shortages in e.g. petrol products. As such governance issues in transit countries become a key issue for these landlocked countries, which is another reason for deeper regional integration.

This article summarises the findings of CSAE Working Paper WPS/2012-01 "*Market Integration and Border Effects in Eastern Africa*", available at <http://www.csae.ox.ac.uk/>.

### Notes

1. The EAC is made up of Kenya, Tanzania, Uganda, Burundi and Rwanda.
2. For example, a recent publication found that on average tariffs within the EAC have gone down from 26.1 percent in 1994 to 9.2 percent in 2011.

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# The Next Decade of EU Trade Policy: Confronting Global Challenges?

Dirk Willem te Velde

On 27 January 2012, the European Commission published a Communication 'Trade, Growth and Development: Tailoring trade and investment policy for those countries most in need'. It is the first on the topic since 2002, and is intended to set out a direction of travel for the next decade.



The communication (a) reviews changes in the world ('the great reshuffle'), (b) summarises what the EU has achieved over the past decade in terms of trade and investment policy with respect to developing countries, and (c) lays out an agenda to 2020 or so, for the EU itself and within the multilateral context. There is also a short section on what developing countries must do (see box 1).

In response, the Council issued its conclusions on 16 March, stating that the Council is committed to 1) promoting a multilateral agenda for trade and development (e.g. pursuing the Doha Round and the LDC package); 2) promoting market access for developing countries (e.g. the Generalised System of Preferences (GSP), Economic Partnership Agreements); 3) working towards sustainable development through a green economy (e.g. liberalisation of green goods and services, financing and public-private partnerships); and 4) developing more focused, targeted and coordinated Aid for Trade (AFT).

Because of the potentially wide-ranging impact of the Communication, framing trade policy for a decade amidst the middle of large global shocks, a set of 18 essays<sup>1</sup> from the world's leading trade and development experts set out to discuss the main issues covered. These essays suggest there is much to celebrate in the EU document: it identifies a number of global challenges in what it calls a 'reshuffle'; it recognises important dilemmas, such as whether and how to differentiate among countries in a heterogeneous world and how to use trade and investment policy to address climate change and other environmental problems; and formulates good solutions such as targeted 'aid for trade'. It is a pity though that some good solutions and other possible offers in the Communication were narrowed down significantly in the Council conclusions.

However, the essays also flag up a series of major concerns, which we have grouped into five categories.

## There is a major concern that the EU is moving towards protectionism

A major worry expressed by several authors is that the EU will retreat into protectionism (e.g. vis-à-vis BRICs) in the range of trade-related economic policies. For example, the first reform of the EU's generalised system of preferences (GSP) in 30 years, to be implemented in 2014, will see richer developing countries (e.g. India or Vietnam) lose trade concessions of up to €57 million each year. Clearly, the GSP reform is likely to impose more trade barriers on a range of products and countries when they are

There is a clear danger that differentiation in the area of trade will be applied without consideration of economic principles

### Box 1: Structure of the EC Communication: "Trade, growth and development: tailoring trade and investment policy for those most in need"

1. Purpose
2. A changing world
  - 2.1. The great reshuffle in the world economic order
  - 2.2. Lessons for trade and investment policies for development
3. What we have done so far
  - 3.1. Innovative autonomous schemes
  - 3.2. Leading on aid for trade
  - 3.3. Renewed bilateral and regional efforts
  - 3.4. Mixed global picture
4. Tasks for the next decade
  - 4.1. What Europe can offer
    - 4.1.1. More focused preferences
    - 4.1.2. Better targeted aid for trade
    - 4.1.3. Complementary instruments boosting FDI
    - 4.1.4. Comprehensive and modulated bilateral/regional agreements
    - 4.1.5. A values-based trade agenda to promote sustainable development
    - 4.1.6. Helping vulnerable countries improve their resilience and response to crisis
  - 4.2. Domestic reforms and good governance are key to trade-led growth
  - 4.3. The multilateral agenda until 2020
    - 4.3.1. Delivering on the development dimensions of the Doha Development Agenda
    - 4.3.2. Setting a firm basis for the future
    - 4.3.3. Tackling emerging challenges
5. Conclusion

not benefiting from a reciprocal FTA with the EU. And the EU claims that this will be to the benefit of the poorest developing countries, but instead it is more likely that richer nations such as Switzerland and the US will reap the rewards, while EU consumers will lose out and the poorest countries will hardly gain anything.

At the same time, developing countries including Kenya, Ghana, Botswana, Namibia and Swaziland could lose €30m each year to the EU, if they do not sign up to the EU's Economic Partnership Agreements (EPAs). This would increase to €76m if Cameroon and Côte d'Ivoire fail to ratify their respective EPA. The planned date for the implementation of this regulation is 2014, although the International Trade Committee (INTA) of the European



Parliament voted in June to extend the deadline to 2016 <sup>2</sup>.

And such threats are not confined to tariffs. The Commission has issued a proposal to close government procurement markets to firms from countries that exclude European firms. And an EU member state argued this July for the re-introduction of export subsidies for dairy products. Is this part of a trend in protectionist measures that many of us feared would happen in difficult economic times? Shouldn't the response relate to how to make use of growing markets outside the EU?

### **There is no clear strategy behind the EU's approach towards differentiation and is currently applied largely on an ad hoc basis**

There is a clear danger that differentiation in the area of trade will be applied without consideration of economic principles and without a clear strategy that brings together the various fields in which differentiation can be applied: aid, trade, climate change, etc. For example, trade theory suggests lower tariffs (including those applied to emerging powers) are better, and differentiation is a distraction. On the other hand, it seems difficult to defend (on a 'needs' basis) aid to G20 countries at the end of the decade. Moreover, environmental changes are in the hands of emerging powers, which should increasingly, and proportionally to their development stage, contribute to finding solutions to climate change and natural resource scarcity issues.

### **The Communication neglects the importance of non-trade policies for developing country growth and fails in its duty to promote Policy Coherence for Development (PCD)**

There is a missed opportunity to make non-trade policies coherent with development goals. The obvious example is the Common Agricultural Policy (CAP), which is clearly at odds with development goals. There are a myriad of ways to achieve the stated goals of the CAP without having to pay economically inefficient and environmentally harmful subsidies to a selected group of European farmers. There seems to be no sense of urgency in the need for step changes in PCD.

### **The EU is taking the wrong approach to the role of trade in tackling global problems**

The EU takes a defensive position on the role of trade in tackling global challenges like climate change and food security, even (threatening to) imposing trade barriers for green purposes. In fact, the opposite needs to occur: free trade can help countries reap

A moment of reckoning will arrive in 2015 when the Commission will need to report to the Council

the benefits of economies of scale in green industries and can provide access to water, land and hence food, as long as there are no trade (tariff and non-tariff) barriers.

### **Trade policy has little meaning without being embedded in and linked to policies for growth**

Trade and investment (policies) do not have a one-to-one causal relationship with growth, and seem largely irrelevant in, for example, the Pacific. Instead, the EU should be problem-focused and examine how it can contribute, with what type of support. It could for instance support developing country initiatives, policies and institutions for good governance, industrialisation and diversification, regional integration efforts and systems to manage Aft, as these are required to make EU trade and investment policies work for development.

So trade is not the single panacea for one single challenge, but it helps to achieve a range of policy objectives, and its role will vary enormously from one context to the next.

In addition to the above five points, there are a number of issues that will become urgent policy issues for the EU in 2014 unless they are contained. For example, what will happen to African, Caribbean and Pacific (ACP) countries that have not signed up to an EPA when they lose trade preferences, or current GSP beneficiaries when they lose preferences? Or what will happen when we realise that the CAP has not been reformed despite it being economically inefficient, financially expensive and not environmentally sustainable, with alternatives available. These are all issues that should become clearer before 2015, the next milestone for the EU's trade strategy.

A moment of reckoning will arrive in 2015 when the Commission will need to report to the Council on progress on the Communication and Council conclusions. The interested observer may wish to build a checklist of concerns.

Our checklist for the report will include:

- Has the EU been able to fight protectionism and not give in to protectionist forces?

- Has the EU developed an overarching strategy on differentiation?
- Has the EU succeeded in placing trade and related policies as part of policy coherence for development and delivered step changes in PCD?
- Has the EU mainstreamed trade throughout its work on climate change and natural resource scarcity?
- Has the EU managed to better link trade policy to a country's growth strategy?
- Has the approach towards EPAs, GSP and the CAP been satisfactory and not harmed relationships with developing countries?
- The EU needs to ensure that the next decade of trade policy is fit to confront 21st-century trade issues, rather than protecting policies – such as the CAP – that can work counter to growth and development, both in developing countries and in the EU.

#### **Notes**

1. These can be accessed here: [www.odi.org.uk/resources/docs/7727.pdf](http://www.odi.org.uk/resources/docs/7727.pdf)
2. European Parliament. Press Release *Developing countries need more time to ratify new EU trade agreements, say MEPs*. 22 June 2012..

*This article is based on the report he edited: "The next decade of EU trade policy: confronting global challenges?" It was published by the European Development Cooperation Strengthening Programme at ODI and can be accessed at: [www.odi.org.uk/resources/docs/7727.pdf](http://www.odi.org.uk/resources/docs/7727.pdf) Essay contributors included Yurendra Basnett, Vishnu Bassant, Sanoussi Bilal, Derek Brien, Nicola Cantore, Bipul Chatterjee, Fredrik Erixon, Stephany Griffith-Jones, Siân Herbert, Ken Heydon, Jodie Keane, Christian Kingombe, Federico Lupo Pasino, Ali Mansoor, Pradeep Mehta, Patrick Messerlin, Oliver Morrissey, Salomon Samen, Nikunj Soni, Chris Stevens and Dirk Willem te Velde.*

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# Export Diversification in the CFA Franc Zone: Degree, Sophistication and Dynamics

Christophe Cottet, Nicole Madariaga, Nicolas Jégou

Sub-Saharan Africa has recorded strong economic growth since the early 2000s. Is this only the result of a catching up process following decades of structural adjustment or is it an indication of deeper structural changes?



A way of answering this question is by looking at diversification patterns. Empirical literature suggests that economic diversification goes hand in hand with economic development, at least in the early stages. At first sight, the CFA Franc zone countries, among the poorest of developing countries, fit that picture well: exports are concentrated on a small set of natural resources and raw materials.

Going beyond this common observation, we first focus on changes in export patterns that have occurred in these countries during the last decade. Recent work has shown that a low degree of export diversification does not necessarily imply a complete lack of diversification dynamics: even in the lowest income countries, export patterns are renewed and are sometimes enriched with new products. Furthermore, we examine the capacity of CFA Franc zone countries to “sophisticate” their exports. Indeed, some authors have found that even a “slight” sophistication of exports can create knowledge and learning. This may lead in a second stage to accelerating creation of new sophisticated products and contributing to diversification of exports.

Besides the standard Herfindahl index that is commonly used in the literature to measure export concentration, we propose two original indicators to analyze dynamics of export diversification. First, we explore changes in sophistication of exports by computing an indicator able to capture the capacity of countries to foster innovation and to process primary products: we chose industrial exports per capita. The second indicator allows us to deepen the analysis of the link between diversification and export growth. It relies on concepts of changes at the “intensive” margin and at the “extensive” margin: export growth is thus divided into expansion due to new products (extensive margin) and expansion due to existing/ traditional products (intensive margin) in the export pattern. These indicators have been computed for each of the CFA franc zone countries over the 1995-2007 period using COMTRADE data. However, because of important data shortcomings in the case of CFA Franc zone countries, it has

been largely cleaned up, which constitutes an additional value added of our work.

## Three key lessons emerge from our analysis:

- Diversification processes inside the Franc zone are heterogeneous. Compared to a benchmark of developing countries, exports of all the CFA franc zone countries appear clearly concentrated. However, within the CFA Franc zone, the path of export diversification is very different from one country to another;
- One specificity of CFA Franc zone countries is that the growth rate of industrial export seems to be below that of other developing countries, including sub-Saharan Africa countries. This could be a barrier to increase of exports and economic growth;
- Exports of new products contributed only for a small part to growth of total exports. Unlike some other sub-Saharan Africa countries, difficulties in supporting and promoting new sets of products in the CFA Franc zone seem to have limited new exported products success (the so-called “Big Hits”); export dynamics thus crucially depends on growth of traditional exported products.

These results bring some fruitful insights on what constrain export diversification in CFA Franc zone countries. A diversification propelling growth of exports requires (i) intensification of existing export flows coupled with (ii) emergence of new exported products that are (iii) likely to “survive” to maturity in the country’s export pattern. However, at least one of these three elements is systematically missing in every CFA Franc zone countries. Some countries have relied on their traditional exports, such as Cameroon and Cote d’Ivoire, but have failed to bring out new exported products. Other countries succeeded in exporting new products but at the expense of already existing exports which have declined. As an example, while oil exports grew rapidly in Chad, cotton almost vanished from the export structure. Others finally succeeded in diversifying their exports by moving up

the value ladder, although primarily within a specific industry (like methanol products brought out from gaz). Senegal is the only country that has successfully launched a set of new products which contributed to expand its exports. The question remains whether this is a sustainable and structural change, or just a timely new export line...

That being said, although the renewal of exports may significantly increase the level of per capita income, it is not necessarily a guarantee for economic development per se! Equatorial Guinea is a striking example: development of gas and oil industry - the main source of export diversification in this country - has brought little benefits to the population. This case underlines the need for efficient public policy to promote competitiveness and support investment in industry. Emerging countries’ success is another demonstration of the essential role public policies have to play in order to convert export diversification into sustainable economic development.

*This article is a summary of an AFD study “La diversification des exportations en zone franc : degré, sophistication et dynamique”, available at <http://www.afd.fr/Macrodev>. An English version of this article will soon be available.*

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# EU Sugar Reform in 2015: Cost Competitiveness for Whose Benefit?

Ben Richardson



Proposals to end internal sugar quotas would likely jeopardise jobs in the cane and beet industries and concentrate rents among multinational food and drink manufacturers. Any accompanying aid for developing country exporters would need to be done differently, but avoiding reform in the first place would be preferable.

The European Commission's proposal to end its quota management system for sugar in 2015 has sparked major debate in the sector. Done with a view to increasing competitiveness by allowing low cost producers in the region to expand, many in fact see this as unfair and have begun lobbying policy-makers to this effect.

All this is reminiscent of the last round of reform in 2006, when the EU sugar regime underwent its most radical change in decades. By slashing the internal price of sugar by over a third in order to drive down levels of subsidised exports, dozens of European beet factories were forced to close. As well as hurting domestic producers, this also affected sugarcane farmers and workers in the eighteen African, Caribbean and Pacific (ACP) countries which had preferential access to the EU.

As part of this policy overhaul, the Commission provided restructuring aid to all existing suppliers. While funds allocated to EU countries were left largely in the hands of the private sector, those for the ACP countries were channelled through the EU aid system. Known as the Accompanying Measures for Sugar Protocol countries (AMSP), this 'Aid for Trade' package set aside €3bn in grant finance to help the ACP enhance the competitiveness of their sugarcane industries, diversify activity in cane growing areas, and cushion the socio-environmental impacts of reform.

The likely effect of the 2015 proposal will be to tie the EU price closer to the world price and once again reduce the export earnings of many poor developing countries. This has led some observers to suggest that another aid package will be needed this time round. If this does indeed happen, it is crucial to recognise the AMSP's poor track record in providing safety nets for those who suddenly lost their livelihoods as a result of trade reform.

This was due to the clash of organisational logics between the EU Delegations and the sugar industry as well as the slow nature of aid disbursement, especially since most AMSP recipients could not be allocated direct budget

support because of a lack of government transparency. In Swaziland for example, only 10% of the €34m it was initially allocated had been spent by 2011. Moreover, those projects that were prioritised tended to reflect the EU's preference for technical assistance and large infrastructural projects like road-building. The upshot in the Swazi case was that those 4,400 people who had their jobs cut or outsourced by the sugar mills were left without any form of adjustment support.

If policy-makers are serious about 'making trade work for the poor' and embedding an element of social protection in future Aid for Trade programmes, a change in the relationship between donors and the large milling companies that tend to dominate sugar industries is necessary.

This could involve earmarking a proportion of aid for retrenchment support and allowing companies to spend this upfront on retraining schemes and microcredit initiatives before claiming it back later once provision has been verified. Support for trade unions monitoring compliance with labour laws and better agricultural extension and negotiating support for cane farmers affected by lower prices would also help. Finally, the EU might consider a more ambitious role in terms of setting up revolving funds for farmers needing seasonal finance and to work with companies in the provision of social goods like HIV/AIDS programmes (since in many developing countries they are actually the main providers of 'public' welfare in rural areas).

On a more positive note, the major success of the AMSP in Swaziland was to give grants to hundreds of small farmers to enter into the sugar industry as outgrowers, allowing them to earn more money and gain access to reliable irrigated water. These gains should not now be jeopardised by further EU reform.

Despite their efforts at restructuring, the Swazi industry as a whole still relies on the remunerative export market offered by the EU. Were this to be eroded further, the consequences would again be felt among the vulnerable and poor of the country. This would undermine the significant investment that

the EU has already put into poverty alleviation within the sector and run counter to its commitments on trade and development policy coherence as set out in the Lisbon Agenda.

So who would actually benefit from this proposed change in policy? A clue is given in the positions adopted by industry actors. While beet producers in Europe and cane suppliers in the ACP and Least Developed Countries want the quotas extended to 2020, food and drink manufacturers like Coca-Cola, Kraft and Nestlé have lobbied for their abolition. While it might be assumed that this would in turn benefit consumers through lower prices for fizzy drinks or chocolate bars, it is worth noting that the European Court of Auditors has concluded that most of the cost savings associated with the last round of reform would simply be "added to the profit margin of industrial producers".<sup>1</sup>

With the decision on internal quotas due in early 2014, policy-makers advancing the cause of cost competitiveness would do well to bear this in mind.

## Notes

1. European Court of Auditors (2010) *Has the Reform of the Sugar Market Achieved its Main Objectives?* Special Report No. 6 (Luxembourg: Publications Office of the European Union).

This article is a summary of the findings of a broader ECDPM Discussion Paper: Richardson, Ben (2012) 'Trade, Aid and Rural Development: EU Sugar Policy and the Experience of Swaziland', ECDPM Discussion Paper 133, available at [www.ecdpm.org/dp133](http://www.ecdpm.org/dp133).

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# Inclusion of Aid for Trade in Trade Policy Reviews: Strengthening Value of Development Instruments for LDCs (and developing countries)

Raymond Saner, Lichia Yiu and Mario Filadoro

A fundamental activity of the WTO work is on-going surveillance of national trade policies. The Trade Policy Review (TPR) Mechanism ensures that all WTO Members are reviewed and assessed with the intent “to examine the impact of a Member’s trade policies and practices on the multilateral trading system.”<sup>1</sup> WTO Members agreed to set up the TPRs at the December 1988 ministerial meeting, during the Uruguay Round.<sup>2</sup>



TPRs can play a central role in mainstreaming trade into national development strategies. TPRs could be used to measure trade capacity gains of countries, a benefit from Aid for Trade (Aft) over time. To do so, it is important that TPRs become standardised in its methodology and reporting and the information pertaining to the Enhanced Integrated Framework (EIF) and other Aft investment be documented in the TPRs.

## Trends in recent TPRs

A quick scan of selected TPRs (see table 1) shows that some of the most recent TPRs make reference to Aft and some even have a complete section on Aft. Recent TPRs of WTO members benefitting from Aft include some information on Aft.

A pilot project assessing TPRs of LDCs found that the selected LDC’s effectiveness in mainstreaming trade in the national development strategies is low. Ministries are often reluctant to disseminate their TPR and share it with other ministries in order to avoid possible internal policy disputes. Experiences also show that when Trade Ministries actively disseminate their TPRs and implement recommendations made in their TPRs, positive results emerge. Another relevant initiative has been put in place by Jamaica, for example, which organized a follow-up event after the new TPR process was concluded and improved the receptiveness of stakeholders to the recommended changes. Such post TPR actions could be useful for other developing countries as well.

## What is the importance of Inter-Ministerial Coordination (IMC) for Aid for Trade?

IMC becomes crucial when a country faces cross-sector challenges. IMC is based on three functions: (i) eliminating redundancy of policy and project; (ii) managing cross-cutting issues; and (iii) integrating numerous international trade agreements and trade policies in a coherent manner.<sup>3</sup> When facing the need for inclusive growth, developing countries and LDCs need to improve

their IMC mechanisms to achieve better Aid for Trade surveillance, more effective trade facilitation initiatives to reduce costs, and better implement action of existing trade agreements.<sup>4</sup>

As mentioned in the Third Aid for Trade Global Review (2001), trade policy is “interdisciplinary by nature, and thus co-ordination and co-operation among the numerous actors is critical. Ministries of every sector must work together to ensure efficient policy.”<sup>5</sup> This vision however is often not supported by practice.

IMC and stakeholder consultations are essential in the five stages of policy making: 1) initiation; 2) formulation; 3) implementation; 4) evaluation; 5) monitoring. Poverty Reduction can be achieved through better alignment between the development and trade policy agendas. IMC and stakeholder consultation practices are often weak in many countries, including LDCs. To lock in good management practices, countries need monitoring systems to keep abreast of current practice, which in turn provides them with the possibility of continuous improvement and institutional learning.

## Need to better report Aft in TPRs

It is important to check the Record of the Meetings of the Trade Policy Review Body in order to know more about the amount of Aid that has been received by a WTO LDC Member. For instance, the Aft section of Cambodia’s TPR is mostly focused on EIF and WTO Trade-Related Technical Assistance (TRTA) data. There is no information about the actual amount of money provided by donors like the EU, or its Member States.

The Record of the Meeting of the TPR Body (Document WT/TPR/M/253), annexed to the TPR, contains some information about the amount of aid provided to Cambodia by certain WTO Members. This information is however not incorporated into the Aft section of Cambodia’s TPR. Examples: China: “... In order to help the Cambodian Government in its relief efforts, my Government has provided in kind 50 million RMB worth of

emergency humanitarian materials as well as US\$1.5 million cash aid to Cambodia...” (p.16, para. 80)

EU: “... Currently the EU is implementing a large number of different projects in Cambodia, aligned with Cambodia’s Rectangular Strategy and National Strategic Development Plan (NSDP). These ongoing efforts amount to about 100 million, with additional 40 million in the pipeline for the year 2011 alone...” (p.18, para. 90)

Centralisation of such information at one place makes tracking easier and monitoring more efficient and sustainable. Such a centralisation of Aft information in one document would also make the Global Trade Review better anchored in recorded evidence and hence more consistent.

## Policy recommendations:

Several recommendations are of urgent nature, and need to be addressed by the WTO’s Trade and Development Division and the WTO members - be they donor or beneficiary of Aft - namely:

1. In-depth coverage of the overall impact of Aft in TPRs. Future TPRs need to show impacts, results and alignment with country’s WTO obligations as reported in the TPR. Recipient countries should be assessed in terms of their development needs and levels of donor support. It is also important to reference impact evaluations of TRTA by donor countries and to contrast this with the TPR findings.
2. The 2012-2013 Global Review should include an in-depth cross-analysis of TPRs and make comparative analysis in order to assess whether the supply side and trade related infrastructure constraints have been addressed by respective LDC’s Aft investments.
3. 60 TPRs have been written and published over the last three years, and the WTO expects to prepare another 20 to 24 in 2012. The sections covering Aft in future TPRs should include information on commitments made in regard to Aft and EIF by:
  - Developed countries (donors)



- South-South cooperation (donors like Turkey, Saudi Arabia, Kuwait, China, India),
  - LDCs, especially the countries that have been identified in the Graduation Schedule of the Istanbul Declaration (2011).
4. Link Diagnostic Trade Integration Studies (DTIS) and Poverty Reduction Strategy Papers (PRSP) with TPRs in order to ensure coherence in trade and development policies. The trade part of PRSPs should be covered in TPRs in order to generate closer ties between poverty alleviation and trade strategy.
  5. TPRs and Regional Trade Agreements (RTAs) should have a closer link. Many RTAs and FTAs have now a development chapter or provisions related to AfT and/or trade facilitation that should be monitored to ensure coherence between the multilateral and regional levels. It might also be useful for donors and recipient countries to think about the “value added” of preparing “regional TPRs” as well as to not include them in the list of those of WTO Members.

## Conclusion

Future TPRs should assess the national and international coherence of trade and development policy design and policy mix in order to strengthen the value of TPRs for LDCs and low-income developing countries. Without policy coherence at both levels of

trade development, developing countries will less likely be able to increase national competitiveness and achieve sustainable development through improved trade performance. Economic competitiveness can be achieved by strengthening an LDC’s participation in the global supply and value chain. Without successful IMC, ministries do not harmonize their policies and a supply and value chain approach cannot be implemented. Opportunities exist for inclusive growth for developing countries and LDCs if a coherent approach to AfT is adopted. TPRs will be the central pillar to coalesce such strategic thinking.

## Notes

1. See [http://www.wto.org/english/docs\\_e/legal\\_e/29-tpm\\_e.htm](http://www.wto.org/english/docs_e/legal_e/29-tpm_e.htm)
2. See [http://www.wto.org/english/tratop\\_e/tp\\_e/tp\\_e.htm](http://www.wto.org/english/tratop_e/tp_e/tp_e.htm)
3. Saner, Raymond (2010), “Trade Policy Governance through Inter-Ministerial Coordination: A Source Book for Trade Officials and Development Experts”, Republic of Letters - Publishing, Dordrecht.
4. For an analysis on IMC and Stakeholder Consultation see the CSEND Report (2010) [http://www.csend.org/component/docman/doc\\_download/264-20100730-summaryreportofbookvernissagepublishableversion4pdf](http://www.csend.org/component/docman/doc_download/264-20100730-summaryreportofbookvernissagepublishableversion4pdf)
5. WTO (2011), *Third Aid for Trade Global Review*, p. 142, available from <http://www.wto.org/english/>

[res\\_e/booksp\\_e/a4t11\\_2\\_chap\\_e.pdf](#)

6. Istanbul Declaration, 3 May 2011, <http://www.un.org/wcm/content/site/ldc/home/pid/17029>
7. For an analysis on the value chain in LDCs, see Saner, Raymond, Yiu Lichia with Bhatia Alka study for UNDP “Commodity
8. Development Strategies in the Integrated Framework” (2009) available from <http://csend.org/publications/development-a-int-rel/48-commodity-development-strategies-in-the-integrated-framework>
9. CSEND Training Manual on Inter-Ministerial Coordination and Industrial Policy Making (2011) (Unpublished).

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**Table 1: Overview of AfT Sections in selected TPRs**

	Burundi (2003)	Benin, Burkina Faso and Mali (2010)	Cambodia (2011)	East African Community (2006)	Madagascar (2008)	Malawi (2010)	Nepal (2011)	Rwanda (2004)	Sierra Leone (2005)	Southern African Customs Union (2009)	Zambia (2009)
<b>AfT Section</b>	x a	x b	✓	x c	x d	✓	✓	x e	x f	x g	✓
Funds	x	✓	✓	x	x	✓	✓	x	x	x	✓
Donors/Partners	✓	x	✓	x	✓	✓	✓	✓	✓	x	✓
Sectors describing where funds are allocated	✓	x	✓	x	✓	✓	✓	✓	✓	x	✓
Strategy on how to spend the funds	✓	x	✓	x	✓	✓	✓	✓	x	x	✓
<b>Overall Secretariat report</b>											
Link/Coordination to PRSP	✓	✓	✓	✓	✓	✓	x	✓	✓	✓	✓

(a) TPR has a section on TRTA, pp.22-25.

(b) “Regional” TPR does not have a section on AfT. AfT is briefly mentioned in p.viii. “National” TPRs annexed have a section on AfT.

(c) TPR does not include a section on AfT. TPR of EAC Members do not include a section on AfT nor TRTA.

(d) TPR has an Annex on TRTA, p.23.

(e) TPR has a section on TRTA, pp.23-26.

(f) TPR does not include a section on AfT but it has an annex on TRTA in p.30.

(g) TPRs of SACU Member States (excepting South Africa) have a section on TRTA.

# Trade in Services: Combining International, Regional and National Endeavours

Anna Rosengren

Global trade in services has grown exponentially in the last decades, covering a full range of areas such as health, education, transport, telecommunication, construction, financial services, retail distribution and culture<sup>1</sup>. Due to its capacity to generate incomes, create employment and to provide positive linkages with other economic sectors, the importance of a strong service sector is today highly recognised as an essential part of any country's economic development strategy.



Yet, African, Caribbean and Pacific (ACP) states are lagging behind. Even though the ACP countries seem to have kept apace in terms of the average share of services trade to total trade (see Figure 1), the regional and national disparities are substantial.

Out of the total 77 ACP countries, 16 states represent nearly 80 % of the total ACP exports of services with South Africa alone accounting for almost 20 % (see Table 1), while the rest face severe services trade constraints<sup>2</sup>. Given the above mentioned developmental opportunities and growth potentials that lie in this sector - services now cover over 70 per cent of all employment in high-income countries<sup>3</sup> - the strategies on how to better tap these potentials is frequently debated within the ACP countries.

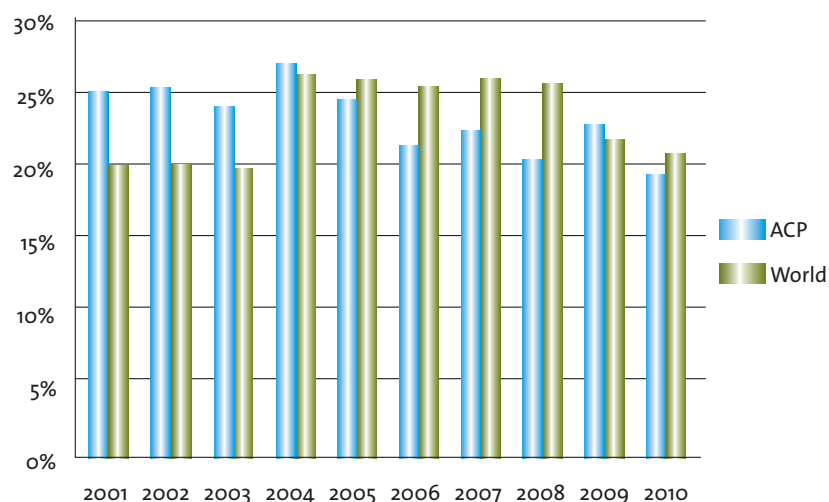
## Services and domestic regulatory framework

Slow growth of trade in services is partly due to a lack of capacity and resources (institutional, human, technological, financial etc.), underdeveloped ICT and telecommunications networks, and geographical disadvantages such as being landlocked or a remote island. However, one of the more profound barriers to increased trade is the slow progress in the establishment of strong legal and institutional frameworks for trade in services. At the time when many regional and bilateral trade agreements were initiated, the political focus was mainly placed on trade in goods. Both in the context of the trade relationships between ACP and EU and within regional economic

communities (RECs), discussions on trade in services only intensified around 2007. It is however not merely a question of timing and sequencing, negotiations on trade in services are far more complex and complicated compared to negotiations on trade in goods and therefore require much more time.<sup>4</sup>

However, one of the more profound barriers to increased trade is the slow progress in the establishment of strong legal and institutional frameworks for trade in services.

Figure 1: Trade in services as a share of total trade in the ACP countries and the world



Source: International Trade Centre, Trade Map, 2012-06-20

The level of complexity is due to primarily three factors. First of all, with trade in goods, decision makers can fairly easily get an overview of the most important sectors and assess the consequences of opening up those sectors. Since services cover much more inter-related and abstract economic activities, it is significantly harder to fully assess what the implications of liberalisation would be. Secondly, liberalisation of trade in services penetrates much deeper into the domestic economy. While liberalisation of trade in goods generally relates to adjustments of tariff lines, trade in services affects the entire economic system through the establishment of new service providers and service systems, technologies and networks, and regulatory frameworks.

**Table 1: Top ACP States Services Exporters**

	Value (USD millions)	Share (%)
South Africa	14'003.5	19.7
Cuba	8'231.0	11.6
Dominican Republic	5'091.0	7.1
Kenya	3'401.0	4.8
Jamaica	2'764.0	3.9
Mauritius	2'689.0	3.8
Bahamas	2'467.0	3.5
Nigeria	2'416.0	3.4
UR Tanzania	2'354.0	3.3
Ethiopia	2'353.0	3.3
Ghana	2'074.0	2.9
Cameroon	1'615.0	2.3
Barbados	1'506.0	2.1
Uganda	1'310.1	1.8
Côte d'Ivoire	1'150.0	1.6
Senegal	1'111.0	1.6
ACP Group	71'217.9	100

Source: Joint report by the UNCTAD and ACP Secretariats, 2011, African, Caribbean and Pacific States' Participation in International trade, UNCTAD/DITC/TNCD/Misc.27

This creates a ratchet effect where it becomes increasingly more difficult to revert back to previous situations or to use any safeguards measures to hamper the effect of the liberalisation. Thirdly, liberalisation of services generally requires countries to modify their domestic regulations. In effect therefore, the reformed regulation will, in principle, encompass trade with all partners, and in the case of bilateral agreements, specific preferential access is mentioned in the schedules of commitments.

### Providing legal security

The European service industry has long been an advocate of international service liberalisation and binding agreements. It argues that binding international

commitments send strong positive signals to potential investors, provide a sense of legal security, and reassure investors that there will not be policy reversals. Signing international agreement is presented as a way to speed up the establishment of implementing regular frameworks by bypassing time consuming national endeavours.

Following this arguments, it seems to be a doubtful for these industries that regional or national commitments taken within the RECs could provide investors with the same level of legal security, notably given the legacy of low levels of implementation in regional integration among ACP countries. If the aim is of setting in stone a stable policy environment, effective implementation is key to the credibility of commitments.

Also implicit in this logic is the idea that arguing for non-reciprocity, i.e. the longstanding demand of ACP countries that the EU should open its market to their service providers unilaterally, simply misses the point. The benefit of signing an agreement, according to industry proponents and much of the research around service trade liberalisation and development, is not so much the increased access to European markets, but rather the prospect of increased investments – and, should political will be sufficient- deeper regional integration.

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### Is there traction?

The increasingly positive economic prospects in Africa (Africa is the second strongest growth region, after Asia, and the number of FDI projects have increased by 27 % between 2010-2011 with a compound growth rate close to 20 % since 2007<sup>3</sup>), and in particular the increasing interests from alternative trade partners – such as China, India and Brazil – has confirmed that Africa is likely to become the next frontier for investment and trade. The African Union agenda on boosting intra-African trade, as recently adopted by the AU Summit, could further contribute to fostering trade in services. Africa has therefore become an attractive place for investors and lobbyists who want to secure their shares of the market.

While the arguments put forward by service industry in Europe sound rational, it is doubtful whether they will be sufficient to attract ACP partners to sign bilateral deals

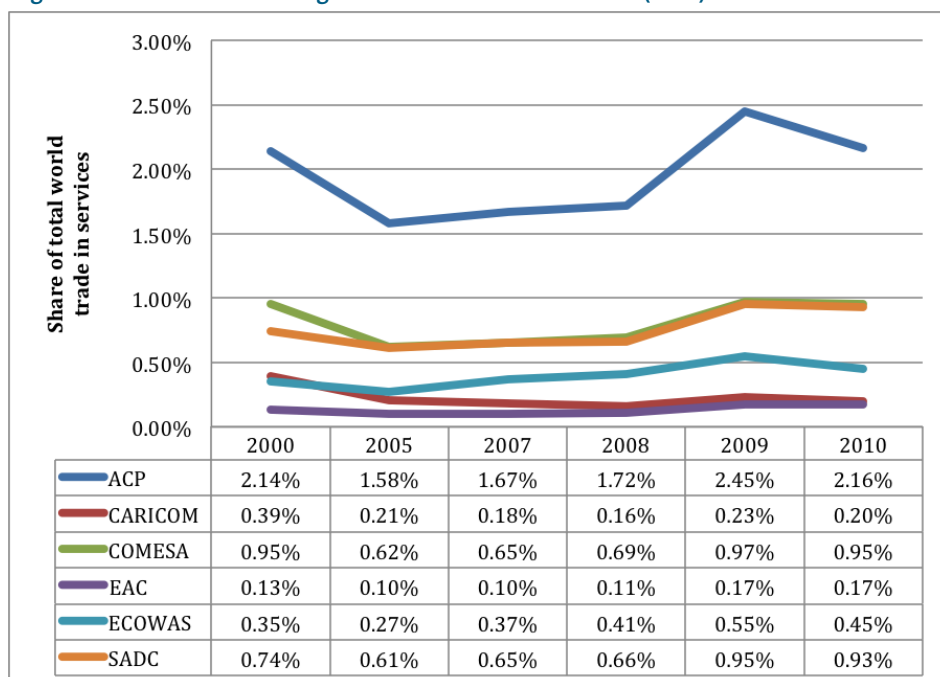
with Europe. The question is whether there are strong enough incentives for the ACP countries to devote extensive efforts into a liberalisation and regulation process with the EU, while domestic reforms are yet to be completed and regional frameworks are yet to be set up. Europe has a much more open services sector and is in the process of signing comprehensive free trade agreements (FTAs) which include deep commitments in services with some of its largest trading partners. In this regard, ACP countries can expect to have low margins of preferences in Europe, in exchange for commitments that would give Europe far more market access than any other trading partner with whom ACP countries do not have FTAs.

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## A pragmatic agenda

To ensure that the opening up of the service sector does in fact result in the expected developmental outcomes, it is vital that, prior to any negotiations with third countries, there exist an updated and comprehensive assessment of service sectors at the national level, including on the necessary reforms of domestic regulations to improve the efficiency of services provision. While this operation might take a considerable amount of time and effort, it is essential in avoiding the risk of liberalising markets without the proper insights and risk awareness. In addition,

Figure 2: ACP and selected Regional Economic Communities' (RECs) share of total world



Source: International Trade Centre, Trade map, 2012-08-20  
Note: Not all RECs are included due to missing data

countries need to define their offensive and defensive interests vis-à-vis third countries in order to prioritise and sequence market openings. Once this is in place, a country will then be able to benefit from opening their markets to third countries. The next sensible thing then would presumably be to liberalise with the partner you trade most with and that could bring greatest benefits, whether this is at the regional level, with the EU or WTO, or with one of the emerging players.

## Notes

1. Liberalisation of cultural provisions is an area that ECDPM has been engaged in through e.g. the Discussion Paper No. 128 on Implementing cultural provisions of CARIFORUM-EU EPA
2. Opening remarks by the Secretary General at the Workshop on Strategy for Development of Services Sectors in ACP States. 2-3 May, Brussels, <http://www.acp.int/content/opening-remarks-secretary-general-workshop-strategy-development-services-sectors-acp-states>
3. WTO (2010) Measuring Trade in Services,

4. World Trade Organisation, Switzerland  
See for instance Kruger, P. 2012. "Services Negotiations Under the Tripartite FTA". GREAT Insights, Volume 1, Issue 1. January-February 2012. Maastricht: ECDPM [http://www.ecdpm.org/Web\\_ECDPM/Web/Content/Navigation.nsf/index2?readform&http://www.ecdpm.org/Web\\_ECDPM/Web/Content/Content.nsf/7732def81dddf7ac1256c240034fe65/cec955a5c6cc1fddc1257997005252d1?OpenDocument](http://www.ecdpm.org/Web_ECDPM/Web/Content/Navigation.nsf/index2?readform&http://www.ecdpm.org/Web_ECDPM/Web/Content/Content.nsf/7732def81dddf7ac1256c240034fe65/cec955a5c6cc1fddc1257997005252d1?OpenDocument)
5. Ernst & Young, 2012, *Building Bridges*, Ernst & Young's Attractiveness Survey 2012 Africa, [http://www.ey.com/Publication/vwLUAssets/EY\\_2012\\_Africa\\_attractiveness\\_survey/\\$FILE/attractiveness\\_2012\\_africa\\_v17.pdf](http://www.ey.com/Publication/vwLUAssets/EY_2012_Africa_attractiveness_survey/$FILE/attractiveness_2012_africa_v17.pdf)

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# Monthly Highlights from ECDPM's Talking Points Blog

[www.ecdpm-talkingpoints.org/](http://www.ecdpm-talkingpoints.org/)

*Could Dlamini-Zuma's election revive EU-Africa relations? Talking Points, Geert Laporte, 20 July 2012*

African leaders from more than 50 countries met on 15 and 16 July for the African Union summit at the impressive Chinese-funded AU headquarters in Addis Ababa. Boosting intra-African trade was the key theme of the summit, but the election of the AU Commission (AUC) Chairperson and its new top officials dominated the largest part of the meeting. Benin's President Yayi Boni, currently holding the rotating presidency of the African Union, had the firm intention to break the stalemate that has been dragging on since January when AU member states could not reach agreement over (...)

*Partnership, not parenthood as a basis for Europe's relations with a new Egypt, Talking Points, Anthony Zielicki (Guest Blogger), 19 July 2012*

As EU High Representative Catherine Ashton visits Cairo this week, both Europe and Egypt will think about how they can mould a new relationship. With a newly elected Egyptian President the EU must in turn create a new framework for cooperation with the country. The last thing that Egyptians want is to be told what to do by the EU. As the Arab world's most populous state stumbles on its path towards democracy and Europe itself struggles economically, can the EU really establish a new and mutually beneficial relationship with a (...)

*EU negotiates future development funding: where will the money go?, Talking Points, Ulrika Kilnes, 5 July 2012*

For those concerned with development and Africa, the three big questions during the EU budget negotiations are: "how much money is going to be available?", "what is it going to be for?" and "which countries are going to get it?". One year has passed since the EU institutions started the cycle of negotiations for its next multiannual financial framework (MFF) covering the period 2014-2020. A key round of talks took place last week. Negotiations between Member States' ministers are mostly centred on the "big ticket items" of spending inside the EU – Cohesion Policy and (...)

## Monthly highlights from ECDPM's Weekly Compass Update

[www.ecdpm.org/weeklycompass](http://www.ecdpm.org/weeklycompass)

*Cyprus and the world: how to make a difference?, Weekly Compass, no 118, 20 July 2012*

Holding the rotating EU Council Presidency in the second half of 2012, Cyprus is chairing the Council's Working Parties on Development Cooperation and ACP in this period. An ECDPM Briefing Note targeting Cypriot policy-makers and NGOs gives an overview of opportunities for them to engage in EU development cooperation and outlines possibilities for making a difference in this field. Key areas for Cypriot action are the on-going budget negotiations, aid effectiveness and policy coherence for development. Others interested in the state of affairs of EU development policy modernisation will also find this paper a useful orientation tool.

*EC report: despite crisis EU must deliver on aid commitments, Weekly Compass, no 177, 13 July 2012*

As a whole, the EU has kept up progress on its aid pledges, but the situation differs greatly between Member States, the EU Accountability Report 2012 on Financing for Development finds. Together with this report, the EU published a Communication proposing further action to reach agreed EU aid targets, such as spending 0.7% of GNI for development by 2015. In view of the fact that domestic resources mobilisation, not aid flows, is the largest source of development finance, Europe is "considering ways to provide greater emphasis to this area, notably as part of budget support operations". Innovative financing, such as blending, is seen as "essential".

*Swazi farmers could again be hard hit by EU CAP reform, Weekly Compass, no 117, 13 July 2012*

When the EU reformed its sugar trade regime in 2006, it reduced the reference price for sugar by 36%. This drop affected sugarcane producers in the 18 ACP countries, which had preferential access to the EU. Swaziland, a significant sugar exporter whose economy is highly dependent on the industry was hard hit, experiencing labour losses and welfare rollback. To cushion this impact, the EU agreed an Aid for Trade Programme - the Accompanying Measures for Sugar Protocol. A new ECDPM Discussion Paper analysing Swaziland's experience reveals deficiencies in the practices of EU aid delivery. It warns that the upcoming reform of the EU Common Agricultural Policy, comprising further changes of sugar policy, could undermine the positive effects of the Aid for Trade programme.

*Private sector and development: common or conflicting interests? Weekly Compass, no 116, 6 July 2012*

"Profit and developmental objectives can be obtained together, but more needs to be understood about where the alignment of interests takes place" explain ECDPM's Bruce Byiers and Anna Rosengren in a new discussion paper on the private sector's role in development. But before we can identify common interests, it is important to be clear about what we mean by "engaging the private sector". The paper distinguishes between "private sector development" - focusing on domestic economies of poor countries - and engaging the "private sector for development" - making international business contribute to inclusive growth. Although there are overlaps, these two forms of engagement operate through different channels and thus have different practical implications and impacts. A clear understanding of reasons behind past successes and failures should form the basis of ongoing policy discussions.

### ACP-EU Trade Calendar

#### August

- 2-3 Meeting of CARIFORUM EPA National coordinators and Heads of EPA National EPA Implementation Units, Santo Domingo, Dominican Republic.
- 8-9 2nd CARIFORUM-EU Business Forum, with the theme "Making the CARIFORUM-EU Economic Partnership Agreement (EPA) Work", London, UK
- 27-31 43rd Pacific Islands Forum & Related Meetings, Rarotonga, Cooks Islands

#### September

- 17-21 EAC-EU Technical Level Meetings (notably on Rules of Origins and Dispute Settlements), Brussels, Belgium.
- 27 Joint CARIFORUM-EU Trade and Development Committee meeting, Port-of-Spain, Trinidad and Tobago (TBC)
- TBC SADC-EU EPA technical meeting on Rules of Origins (venue, TBC)
- TBC ESA-EU iEPA Committee inaugural meeting, Brussels, Belgium (TBC)

#### October

- 5-6 COMESA Council of Ministers, Kampala, Uganda
- 6-7 COMESA Business Forum, Kampala, Uganda
- 8-12 Central Africa- EU Technical meeting, Brussels, Belgium (TBC)
- 26 Joint CARIFORUM-EU Council meeting, Brussels, Belgium (TBC)
- TBC Pacific-EU Technical negotiating session (venue tbc)
- TBC EAC-EU joint Senior Officials' Meeting, EAC Region (TBC)

### Resources

**Common or conflicting interests? Reflections on the Private Sector (for) Development Agenda**, Bruce Byiers, Anna Rosengren, ECDPM Discussion Paper, July 2012, [www.ecdpm.org/dp131](http://www.ecdpm.org/dp131)

**Trade, aid and rural development: EU sugar policy and the experience of Swaziland**, Ben Richardson, ECDPM Discussion Paper, July 2012, [www.ecdpm.org/dp133](http://www.ecdpm.org/dp133)

**EU development cooperation under the Cyprus Presidency: How to make a difference?** Jeske van Seters, Mikaela Gavass, Niels Keijzer, Geert Laporte, ECDPM Briefing Note, July 2012, [www.ecdpm.org/bn43](http://www.ecdpm.org/bn43)

**MDGs 2.0: What Goals, Targets and Timeframe?** Jonathan Karver, Charles Kenny, Andy Sumner, IDS Working Paper No 398, July 2012, [www.ids.ac.uk](http://www.ids.ac.uk)

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**Country-by-Country Reporting: Accounting for globalization locally**, Richard Murphy FCA for the Tax Justice Network, Tax Justice Network, July 2012, [www.taxjustice.net](http://www.taxjustice.net)

**Transparency in Corporate Reporting: Assessing the World's Largest Companies**, Barbara Kowalczyk-Hoyer, Transparency International, July 2012, [www.transparency.org](http://www.transparency.org)

**Public Financial Management Reforms In Post-Conflict Countries Synthesis Report**, World Bank, Global Center on Conflict Security and Development, PREM Network, July 2012, [www-wds.worldbank.org](http://www-wds.worldbank.org)

**Matching Reforms to Institutional Realities: A Framework for Assessing Social Service Delivery Reform Strategies in Developing Countries**, Ariel Fiszbein and Yasuhiko Matsuda, Policy Research Working Paper 6136, World Bank, July 2012, [www-wds.worldbank.org](http://www-wds.worldbank.org)

**A Global Perspective on Effectiveness of Aid for Trade**, Maria Berrittella and Jian Zhang, Policy Research Working Paper 6126, World Bank, July 2012, [www-wds.worldbank.org](http://www-wds.worldbank.org)

**Political Transitions and New Socioeconomic Bargains in North Africa**, Stephen King, Economic Brief, African Development Bank, July 2012, [www.afdb.org](http://www.afdb.org)

**OECD-FAO Agricultural Outlook 2012-2021**, OECD and FAO, July 2012, [www.oecd.org](http://www.oecd.org)

**World Investment Report 2012: Towards a New Generation of Investment Policies**, UNCTAD, July 2012, [www.unctad.org](http://www.unctad.org)

**Regionalizing infrastructure for deepening market integration: the case of East Africa**, Ioannis N. Kessides, Policy Research Working Paper 6113, World Bank, June 2012, [www-wds.worldbank.org](http://www-wds.worldbank.org)

**Doing business to fight poverty? An evaluation of the Belgian Investment Company for Developing Countries (BIO)**, Jan Van de Poel, 11.11.11, June 2012, [www.eurodad.org](http://www.eurodad.org)

**Investing mineral wealth in development assets: Ghana, Liberia and Sierra Leone**, Daniel Boakye, Sébastien Dessus, Yusuf Foday, Felix Oppong, Policy Research Working Paper 6089, World Bank, June 2012, [www-wds.worldbank.org](http://www-wds.worldbank.org)

**Key Drivers of PPPs in Electricity Generation in Developing Countries Cross-Country Evidence of Switching between PPP Investment in Fossil Fuel and Renewable-Based Generation**, Maria Vagliasindi, Policy Research Working Paper 6118, World Bank, July 2012, [www-wds.worldbank.org](http://www-wds.worldbank.org)

**Guide to the Services Trade Restrictions Database**, Ingo Borchert, Batshur Gootiiz, Aaditya Mattoo, Policy Research Working Paper 6108, World Bank, June 2012, [www-wds.worldbank.org](http://www-wds.worldbank.org)

GREAT Insights is published by ECDPM

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