Global Financial and Economic Crisis: Analysis of and Implications for ACP-EU Economic Partnership Agreements (EPAs)

Study prepared for the German Federal Ministry for Economic Cooperation and Development (BMZ)

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Abbreviations

ACP	African, Caribbean and Pacific
AU	African Union
BMZ	German Federal Ministry for Economic Cooperation and Development
CARIFORUM	Caribbean Forum
CEMAC	Communauté Économique et Monétaire de l'Afrique Centrale
EAC	East African Community
EC	European Community
ECDPM	European Centre for Development Policy Management
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
EU	European Union
FDI	Foreign Direct Investment
FTA	free-trade agreement
G8	Group of Eight
G20	Group of Twenty
GDP	Gross Domestic Product
GTZ	Die Deutsche Gesellschaft für Technische Zusammenarbeit (German international cooperation enterprise for sustainable development)
ICC	International Chamber of Commerce
ICCO	Interchurch Organization for Development Cooperation
IMF	International Monetary Funds
LDC	least developed country
OECD	Organisation for Economic Co-operation and Development
PACP	Pacific ACP
ODI	Overseas Development Institute
REC	regional economic community
SACU	Southern African Customs Union
SADC	Southern Africa Development Community
SAIIA	South African Institute for International Affairs
SSA	Sub-Saharan Africa
TWN	Third World Network
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UNS-SCN	United Nations Standing Committee on Nutrition
WB	World Bank
WTO	World Trade Organization

Abstract

The financial crisis, though having its origin in developed countries, has generated a global recession that has severe consequences for developing countries, including in Africa, in terms of their prospects for economic growth and development, notably through a decline of trade and investment flows, lower remittances, some lower commodity prices with a greater volatility, which appears to already lead to a reduction of employment opportunities and an increase in poverty and malnutrition for the most vulnerable people. In this context, it becomes more urgent for African countries to unleash the potentials that regional integration processes can play to stimulate development. The creation of effective regional markets, encompassing not only institutional arrangements but also physical integration, policy coordination and the pooling of resources, can be decisive to stimulate production capacities, trade and investment flows, when integrated in a broader development strategy that does not rely on an obsolete and rigid economic orthodoxy. The timely conclusion of economic partnership agreements (EPAs) between the European Union (EU) and some African regional groupings of the African, Caribbean and Pacific (ACP) Group must be able to contribute to such regional objectives. To do so, the content and scope of the EPAs should reflect the specific national and regional interests of countries concerned, and should not impose undue retrained on the need for these countries to pursue pro-active and counter-cyclical development policies. While some countries and regions may favour an ambitious agenda in their EPA, others may prefer a more limited and gradual approach. However, in spite of the potential merits of regional integration and EPAs in the medium and long term, they offer little prospects to address the immediate consequences of the crisis. In the short run, special attention should thus be given to the scope of commitments and their sequencing, to reflect the specific current conditions and development approaches of each country and region. Without such flexibility, EPAs may add to the pain of the crisis. The current crisis also calls for special effort to adequately address the short and medium terms adjustment needs of African ACP countries and regions; this is a necessary pre-condition for many African countries to conclude an EPA and to be able to effectively engage in the necessary reforms that can bring longer term development.

1 Introduction[1]

The global financial and economic crisis, though having its origin in the developed world, has far reaching consequences for developing countries, including in Africa. This study aims at relating the global financial and economic crisis' impact on African, Caribbean and Pacific (ACP) countries (with special focus on African ACP) to the approach by the European Union (EU) on economic partnership agreements (EPAs) and to deduce conclusions regarding this approach from a development perspective.

In order to do so, the approach of the study is threefold: Firstly, we assess the most striking implications of the financial and economic crisis on African ACP countries (Section 2). Then, we consider whether, and if so how, the global crisis may affect some of the fundamentals of African development strategies, at national and regional level, and what could be the implications on their ability to cope with such crisis in the future (Section 3). Based on this initial assessment, we identify how the concerns raised by the global crisis should affect the approach to EPAs and development perspective (Section 4). We conclude by summarising the key elements of our analysis (Section 5).

We argue that while EPAs are no immediate remedy to the crisis, they could further add to the difficulties encountered by some African countries, unless some flexibility is introduced in the EPA negotiations process and appropriate development support measures are promptly adopted and implemented.

Indeed, the financial crisis has generated a global recession that has severe consequences for Africa ACP countries, in terms of their prospects for economic growth and development, notably through a decline of trade and investment flows, lower remittances, some lower commodity prices with a greater volatility, which appears to already lead to a reduction of employment opportunities and an increase in poverty and malnutrition for the most vulnerable people. In this context, it becomes more urgent for African countries to unleash the potentials that regional integration processes can play to stimulate development. The creation of effective regional markets, encompassing not only institutional arrangements but also physical integration, policy coordination and the pooling of resources, can be decisive to stimulate production capacities, trade and investment flows, when integrated in a broader development strategy that does not rely on an obsolete and rigid economic orthodoxy. The timely conclusion of EPAs must be able to contribute to such regional objectives. To do so, the content and scope of the EPAs should reflect the specific national and regional interests of countries concerned, and should not impose undue retrained on the need for these countries to pursue pro-active and counter-cyclical development policies. While some countries and regions may favour an ambitious agenda in their EPA, others may prefer a more limited and gradual approach. However, in spite of the potential merits of regional integration and EPAs in the medium and long term, they offer little prospects to address the immediate consequences of the crisis. In the short run, special attention should thus be given to the scope of commitments and their sequencing, to reflect the specific current conditions and development approaches of each country and region. Without such flexibility, EPAs may add to the pain of the crisis. The current crisis also calls for special effort to adequately address the short and medium terms adjustment needs of African ACP countries and regions; this is a necessary pre-condition for

[1] This study, commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ) to the European Centre for Development Policy Management (ECDPM), aims to provide a preliminary assessment on the approach of Economic Partnership Agreements against the background of the current financial and economic crisis. The study has been jointly carried out by Sanoussi Bilal of the European Centre for Development Policy Management (ECDPM), Peter Draper of the South Africa Institute of International Affairs (SAIIA) and Dirk Willem te Velde of the Overseas Development Institute (ODI). The authors would like to thank Birgit Hofmann, Dan Lui, Regine Qualmann and Aurelie Walker for their most helpful comments. The views expressed are those of the authors only and should not be attributed to ECDPM, ODI, SAIIA, BMZ or any other person or institution.

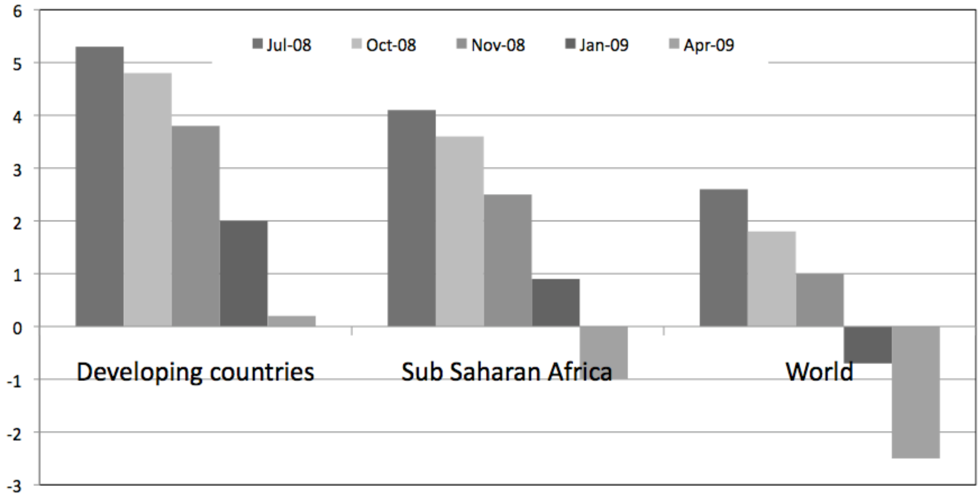
many African countries to conclude an EPA and to be able to effectively engage in the necessary reforms that can bring longer term development.

2 The effects of the global financial and economic crisis on sub-Saharan Africa.

2.1 The aggregate effects

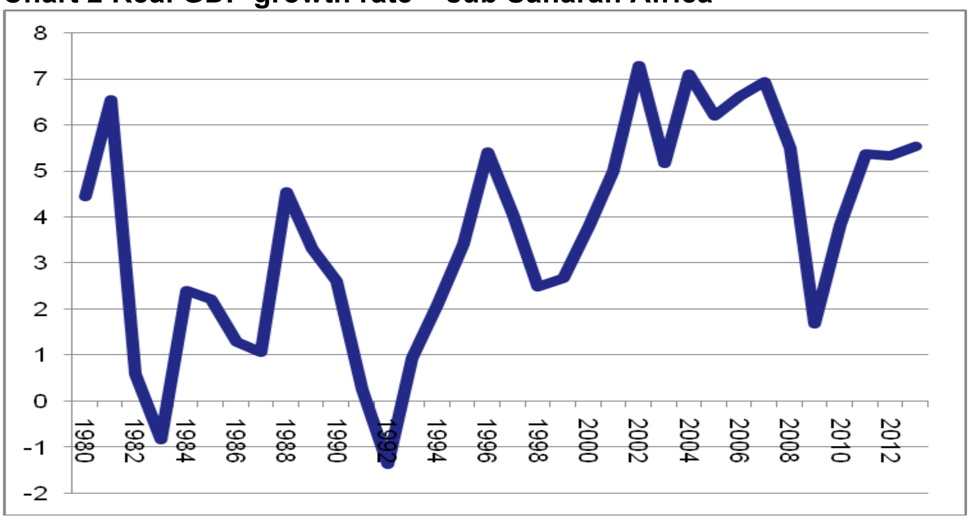
Sub-Saharan Africa (SSA) was growing at nearly 7% a year in the years leading up to the global financial crisis of autumn 2008. Growth prospects have since been changed dramatically. Africa is now forecast to grow by only 1.7% in 2009, and GDP per capita growth is likely to be negative (chart 1). Current IMF forecasts imply a strong dip in growth before returning to more than 5% in 2011 (chart 2).

Chart 1 Revisions of GDP per capita growth in sub Saharan Africa in 2009



Source: IMF and te Velde (2009)

Chart 2 Real GDP growth rate – sub Saharan Africa



Source: IMF (forecast from 2008 / 2009)

Barrell *et al.* (2009) estimate that the output loss of the global financial crisis for sub-Saharan Africa (SSA) alone is around US$ 40 – 50 billion a year 2009 and 2010. Table 1 summarises the findings in terms of the growth rates of real GDP expected for SSA. Under a pre-crisis scenario, real GDP in SSA could have been expected to rise by about 6.5% per annum 2008-2010. The crisis has reduced prospects significantly, with growth expected to be just 1.75 – 2.25% per annum 2009-2010. Announced fiscal packages in the G-20 economies may offset some of this loss, raising the prospects for growth to about 3.25% per annum in these years. On top of this, a fiscal expansion of $50 billion should raise growth to average 5.6% in the two years, which should greatly alleviate the direct impact of the financial crisis on SSA.[2]

Table 1. Summary of growth projections for sub-Saharan Africa [(a)]

	2007	2008	2009	2010	Long-run impact
Pre-crisis	855.8	6.5	6.5	6.5	Base
Post-crisis		5.4	2.2	1.7	Returns to base
G-20 fiscal packages			3.3	3.2	Returns to base
$50 bn infrastructure			7.2	4.0	Increased by

Note: (a) Growth rates for the $50 billion fiscal expansions in SSA also include the spillover impact of currently agreed fiscal programmes in the G-20 economies. Forecasts and model simulations based on the NiGEM model (Barrell *et al*. 2009).

Table 2 provides further data on GDP growth, the fiscal balance and the current account. It suggests that the fiscal balance and current accounts are expected to worsen considerably over 2009, especially for oil exporters (Angola, Cameroon, Chad, Congo, Equitorial Guinea, Gabon and Nigeria) but decreasing oil prices have helped oil importers (though not enough to offset other declining external flows).The growth slowdown is pronounced in low income countries, while fragile states have already been growing more slowly for some time. The middle income countries (e.g. Botswana, South Africa, Namibia and Seychelles) on the other hand are currently seeing the largest growth slowdown. The SADC and CEMAC regions face the greatest slowdowns.

Table 2. Economic performance in sub Saharan Africa

	2007	2008 est	2009 p	2010 p
Real GDP oil exporters, % annual growth	8.9	6.9	1.4	4.0
Real GDP oil importers, % …	5.8	4.6	1.6	3.6
Real GDP low income, %	7.3	6.9	4.5	4.8
Real GDP fragile, %	3.3	3.7	3.1	4.4
Real GDP middle income, %	5.0	3.1	-0.8	2.5
Fiscal balance (incl. Grants) oil exporters, % o	3.4	7.8	-7.5	-2.5
Fiscal balance (incl. Grants) oil importers, % o	-0.3	-1.7	-3.4	-3.4
Current account oil importers, % of GDP	-6.1	-7.5	-7.0	-7.4
Current account oil exporters, % of GDP	6.6	8.0	-8.4	-2.3
Inflation, %	7.2	11.6	10.5	7.1

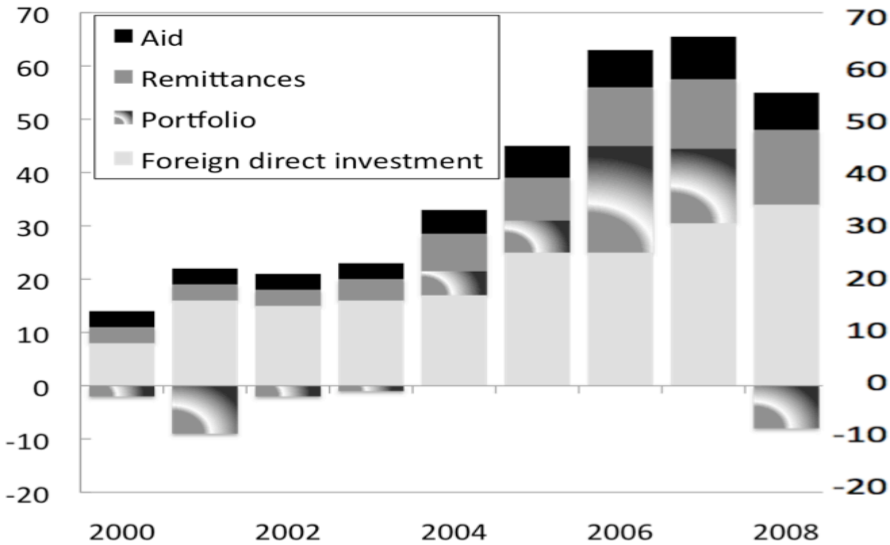
Source: IMF Regional Economic Outlook for sub Saharan Africa

[2] While stimulus packages by the larger world economies should contribute to promote growth, the extent to and channel through which they will do so will depend on their specific implementation; trade & competition-distortive industrial policy measures in developed countries may dampen the growth recovery prospects in SSA.

2.2 Disaggregated effects

The same transmission belts (trade, private finance, aid, remittances) affect countries in different ways. Private financial flows have been affected, but there is a need for disaggregation. Much of the recent capital flows (2006-2007) into Africa have been due to portfolio flows (see Chart 3).

Chart 3. Private financial flows to sub Saharan Africa



Source: IMF (2009a).

Portfolio investment flows fell dramatically in 2008 in most countries (there are now nearly twenty African countries with stock markets), and there were even shifts from inflows to large net outflows, as well as a significant drop in equity markets in 2008 and into 2009. There are signs of the tightening of credit conditions for bank lending in Ghana and Zambia. Foreign Direct Investment (FDI) has been affected less (it still recorded record values in 2008), but this varies across countries, and deteriorated during the course of 2008. The issuing of bonds has been put on hold in Ghana, Kenya and Uganda. After issuing international bonds in 2007, Gabon, Ghana, Nigeria and Seychelles were unable to do so in 2008.

The value of trade is declining (the expected declines on volumes of world trade are up to 13%, and in Africa the value of trade can decline by 25% according to the African Export-Import Bank). Prices of most commodities such as copper, diamonds and oil declined dramatically, affecting countries such as Nigeria, Zambia and Botswana. Cocoa and gold prices did not decline, however, which is good news for exporting countries such as Ghana. Imports bills for fertilizer and oil have declined, taking some pressure off the current account in oil importing countries (see Table 3). The overall impact on trade for each African country thus greatly depends on the composition of its trade balance; countries with more diversified exports are on average less exposed to the current economic downturn.

Remittances are down in many countries. In Kenya, for example, remittances were down by 27% in January 2009 compared to January 2008, following a volatile year (see ODI study, 2009). Cali and Dell'Erba (2009) suggest remittances to SSA might fall by 9% from US$ 20 billion in 2008 to US$ 18 billion in 2009 (see Table 4).

There is little evidence of an aid pull out so far. While there was a fall in aid to Uganda in 2008, it may be too soon to blame this on the crisis.

Table 3. Commodity prices, 2005-March 2009

Commodity/unit		2005	2007	2008	Jan. 2009	Mar. 2009
Aluminium	US$/mt	1,988	2,638	2,573	2,150	1,336
Copper	US$/mt	3,180	7,118	6,956	4,980	3,750
Gold	US$/troy oz.	423	697	872	800	924
Crude oil	US$/barrel	48	71	97	75	47
Natural rubber	US cent/kg.	142	239	273	198	154
Cocoa	US cent/kg.	158	195	258	233	250
Coffee (Arabica)	US cent/kg.	198	272	308	270	283
Coffee (Robusta)	US cent/kg.	120	191	232	200	168
Cotton	US$/kg.	100	140	157	120	118
Palm oil	US$/ton	420	780	949	550	597
Rice, milled (Thailand; 5%)	US$/ton	258	326	650	589	588
Sugar (raw, free market)	US cent/kg.	15	22	28	30	30

Sources: 2005: IMF IFS CD-ROM; 2008 and 2009: World Bank Commodity Price Data (Pink Sheet), January and April 2009.

Table 4. Prospects for remittances to sub Saharan Africa

	World Bank forecasts, March 2009					Cali and Dell'Erba forecasts, March 2009			
		Base case		Low case		Base case		Low case	
	2008e*	2009f	2010f	2009f	2010f	2009f	2010f	2009f	2010f
US$b									
Developing countries	305e	290	299	280	280	272[A];282[B]	312	239[A];270[B]	315
SSA	20	19	20	18	18	19	21	18	21
Growth rate (%)									
Developing countries	8.8	-5	2.9	-8.2	0.2	-8[A]; 8[B]	5	-12[A]; -22[B]	8
SSA	6.3	-4.4	3.5	-7.9	0.0	-6	7	-9	10

Notes: *World Bank forecast is based on the March 2009 data on remittances. [+] Our estimates are based on February 2009 data on remittances. A estimates based on outflows' predictions. B estimates based on inflows' predictions. See Cali and Dell'Erba (2009).

Growth forecasts have been revised downwards in all countries, contrasting with excellent growth records for developing countries in the years leading up to 2007 and even into 2008. Kenyan growth may reach only 3-4% in 2009, down from 7% in 2007, after a sluggish 2008 dominated by political turmoil. Some other countries such as Zambia have seen their growth prospects affected less, despite the impact of the global financial crisis on the mining industry. Growth in countries is affected differently because of sector composition and sector effects: tourism is affected in Kenya, copper in Zambia and DRC, diamonds in Botswana, flowers in Ethiopia and Kenya.

In terms of employment effects, the ODI (2009) study suggests that FDI-generated employment in Ghana dropped from 15,526 people at the end of 2007 to 10,022 at the end of 2008. In Kenya, the labour-intensive horticultural industry, which employs an estimated three million people, had to cut around 1,200 jobs this year and suffered a 35% drop in exports of flowers. In Zambia, 8,100 of the 30,000 workers in the mining sector lost their jobs in 2008. In DRC, close to an estimated 200,000 workers have lost their jobs in mining.

The ODI study also provides simple back of the envelope calculations suggesting that the number of households in poverty may increase as a result of the crisis than would otherwise have been the case, e.g. by 233,000 in Uganda (0.8% of the population); and 230,000 in Ghana (1% of the population).

As a consequence, poverty and malnutrition are increasing in developing countries, including Africa, affecting principally the most vulnerable groups of populations, as poor households first response to the crisis tends to be to save on food costs and non-staple food consumption (UNS-SCN, 2009). The energy and food crisis will further contribute to poverty vulnerability, in particular in poor households in net-food importing countries.

The IMF suggests that around 30% of low income countries could be considered highly vulnerable to the consequences of the global financial crisis. About 50 percent of these highly vulnerable countries are in sub-Saharan Africa (SSA). The majority of the highly vulnerable countries 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, FDI, aid). More than half of the countries with high vulnerabilities resulting from the simulated shock are also in SSA.

3 Does the Crisis Change the Fundamentals of African Development Strategies?

Having charted the contours of the financial crisis' impact on African economies, now we turn to the implications they hold for the decades of economic reform pursued on the continent. We focus on two dimensions: unilateral, or measures adopted at the country level; and regional economic integration. In both cases we acknowledge that it is difficult to generalize across an entire continent, albeit we believe there are strong continuities across regions.

3.1 General Approaches to Development Strategy

In the wake of independence in the late 1950s and 1960s most African economies pursued development strategies in keeping with the development orthodoxies of the time. Generally this could be characterized as import substitution industrialization, utilizing a combination of high import tariffs and domestic subsidies with the latter funded by international loans and development assistance, underpinned by fixed exchange rate regimes. The macroeconomic dislocations of the 1970s (as the Bretton Woods exchange rate regime collapsed and oil price shocks ensued) and early 1980s (the era of high real interest rates pursued in the United States in particular) forced many African economies into debt default and ultimately structural adjustment programmes under the tutelage of the international finance institutions in terms of which they were obliged to adopt conservative macroeconomic policies, float their exchange rates[3], and open their economies to trade. This orthodoxy, later termed the "Washington consensus" prevailed through the 1990s and for the most part up to the present time.

As is well known, however, a backlash against the "Washington consensus" orthodoxy has been building for some time (Rodrik, 2006; Sally, 2007; Serra and Stiglitz eds, 2008; Williamson, 2005). Behind this is a long-running debate concerning the "real" Asian development model that lay behind the success of certain East Asian countries in rapidly industrializing their economies.[4] Even if some of those ingredients are not currently replicable in African conditions – particularly the institutional ones associated with effective states – the

[3] With the notable exception of the 15 plus FCFA countries of West and Central Africa (which performed well in stability terms but badly in competitiveness aspects.

[4] The so-called "newly industrialized countries" (NICs): Singapore, Hong Kong, Taiwan, and South Korea.

fact that the NICs succeeded partly by utilizing some unorthodox policy measures contributed to increasing questioning of the policy package proposed by the IMF and World Bank. Furthermore, developing countries have become very aware of the contradictions between developed country advocacy of liberal policies in the developing world whilst retaining protection in key sectors of their own economies, principally agriculture, certain labour-intensive sectors and green industries (Chang, 2003).

Consequently the package came under great scrutiny during the Asian financial crisis of the late 1990s since its one-size-fits-all approach did not seem suitable to Asian conditions. Responding to these ideological challenges the World Bank shifted its approach to a more pragmatic, developmental model (Stiglitz, 2002) whilst the IMF seemed to remain wedded to its orthodox approach.

3.2 The current global crisis and development in Africa

This is the broad backdrop to the current economic crisis. The key difference this time around is that the crisis is centred on the developed world, and the focus has fallen on a range of policy errors there most notably financial sector governance (precipitate liberalization and reliance on market forces), and lax monetary policy pursued in the United States in particular. Given that these countries dominate the international finance institutions which have historically proposed orthodox Washington consensus policies for African states, it is clear that critics of such policies now have a greatly strengthened hand. Ironically the IMF's hand has also been strengthened during this crisis since it is the only global lender of last resort, but if deliberations in the G20 Finance and Heads of State meetings are anything to go by the IMF will be obliged to moderate its insistence on orthodox policy conditionalities in extending liquidity to crisis-hit African (and other) economies.

So how will these dynamics play out in African states? Central to answering this question is some assessment of whether structural adjustment policies have actually worked on the continent. If not then their repudiation is more likely; if they have then their repudiation is less likely. Unfortunately there is no simple answer to this question – the policy package seems to be working in a few countries (Ghana, Tanzania, Uganda for example) that are relatively politically stable, but not in others which are chronically unstable. And whilst it is clear that many African economies, particularly resource exporters, experienced substantial economic growth in recent years it is not clear that this was attributable to orthodox economic policies; rather other, more powerful factors were at play especially the forces associated with the "great moderation".[5] A key question therefore is whether global growth will resume sooner rather than later, since if it does then the policy debate will recede but if it doesn't then alternative policy approaches will move into the spotlight and may find fertile terrain.

Either way it is to be hoped that the crisis will be recognized for what it is – a liquidity crunch leading to precipitate trade contraction in Africa which is not amenable to trade policy measures. In this regard there seems to be a consensus amongst African economic policy elites canvassed informally in various forums[6] that reversing the trade and broader economic liberalization experienced over the last couple of decades would not be helpful. In this light the counterfactual also has to be considered: if the orthodox policy package were to be reversed

[5] The period of low global interest rates and consequent huge surplus liquidity associated with lax monetary policy in the United States and the rampant growth of the Chinese economy. These factors, inter alia, propelled global economic growth and generated huge demand for commodities, which benefitted many African economies and in turn drove investment and infrastructure expansion.

[6] SAIIA's dialogue on the G20's London Summit (see www.saiia.org.za/index.php?option=com_content&view=article&id=893&Itemid=206), and a panel discussion on Africa, trade, and the economic crisis at the World Economic Forum meetings in Cape Town which was moderated by Peter Draper. This is not definitive evidence, to be sure, but does indicate that the nature of the crisis is well understood and that for our purposes, trade policy reversals are not regarded as being desirable.

what would its impact be? This takes us into the realm of speculation and ideology, but overall our sense is that to reverse economic liberalization policies in the context of generally weak (in the institutional sense) states would create more problems than it would solve.

This leaves open the question of the expansionary role monetary and fiscal policies could play in responding to the crisis. Again a country-by-country approach is necessary. Ideally monetary policy should be the primary lever for expansionary policies since its impact is more direct and reversible. On the fiscal front those countries that still experience substantial debt burdens are not well-placed to pursue fiscal expansion; others which have reduced their debt burdens have more freedom of action. For that group of countries the obvious question is who would finance fiscal expansion in a context of sharply diminished private capital inflows and serious limits on donor development assistance owing to the latter's domestic fiscal constraints.

3.3 Approaches to Regional Economic Integration

One of the EU's main stated objectives for EPAs was to use them as instruments to build regional economic integration in ACP countries. This broad objective of building "south-south" economic integration is shared with a range of actors, from the multilateral finance institutions to ACP member states. Concerning Africa, for example, there are ambitious plans to establish an "African Economic Community" by 2028, whilst currently there are fourteen regional economic communities (RECs).[7] Hence at a broad political level the EU's thinking is aligned with that of its negotiating partners.

African countries generally trade overwhelmingly with developed countries from which inward investment is also primarily sourced. Within this, the bulk of regional exports are undifferentiated commodities that are not needed in regional supply-chains owing to the serious underdevelopment of manufacturing industry – with the notable exception of South Africa, to a lesser extent Kenya, (until fairly recently) Zimbabwe and possibly Nigeria. Thus the basis for meaningful exchange so crucial to constructing RECs would not seem to exist.[8]

More theoretically, proponents of the "New Economic Geography" advance strong arguments against promoting south-south economic integration schemes amongst poor developing countries (World Bank, 2000). The theory predicts that whilst all countries in such schemes have a comparative disadvantage in manufacturing relative to the global economy, there will be one with less of a disadvantage than the others. Hence industrial activity will tend to relocate to the relatively advantaged country at the expense of the others. This effect will be aggravated by agglomeration economics, by which is meant that industrial concentration in the relatively advantaged country (consider South Africa and Kenya in Southern and Eastern Africa respectively) will be promoted. Furthermore, as tariff levels decline overall within the regional economic community (REC) so those countries suffering from industrial relocation will also experience trade diversion effects - importing relatively expensive goods from the growing industrial centre (i.e. their neighbour) rather than more efficient global producers, thereby lowering their overall welfare. Meanwhile, the favoured country will gain as regional industry relocates to its soil and real wages rise as a result. Clearly these effects would generate substantial political tensions over time[9] which in turn would undermine integration processes.

[7] Only 8 RECs are officially recognized by the African Union.

[8] A caveat is necessary here. Nobody knows how much informal and unrecorded trade takes place across national borders. Partly this is because borders are not firmly under control, whilst there is also an undeniable element of corruption at play. In this regard regional trade facilitation measures can help to increase the level of formality in such trade and increase the volume of trade at the same time (Lesser and Moisé-Leeman, 2009).

[9] This process was a substantial factor behind the unravelling of the original East African Community, as Kenya attracted manufacturing investment and relocation at the expense of Uganda and Tanzania. It also partly explains why South Africa continues to "compensate" its customs union partners for their membership of SACU.

Offsetting this view, there are many problems associated with the current political fragmentation of states in Africa. Collier and Venables (2008) highlight three: increasing inequality in the distribution of natural advantage; costs due to the loss of scale economies in production; and loss of public goods as the scale of political cooperation is reduced. Concerning the first point they note that fragmentation inhibits migration of people to where resources and markets are concentrated, which in turn lowers aggregate efficiency and minimises development of urban production centres of sufficient scale to drive productivity increases.[10] Regarding the second point they note that African markets are very small considered individually, whereas pooling markets through regional economic integration in principle affords greater economies of scale and the potential for regional production sharing, albeit it runs the risk of diverting trade. This is important because small markets are vulnerable to monopoly/monopsony capture, which in turn may discourage investment in them. The third point is particularly relevant in the African context where states are weak and their fiscal bases small. In this context regional provision of public goods (ODI, 2008) notably in the spheres of policy coordination and provision of network services infrastructure (energy, finance, telecommunications, transport) has an important role to play. Moving beyond trade provisions, regional integration can also promote better institutions and intra-regional cooperation. It is based on such considerations that UNCTAD recently stressed that "*regional integration, when designed and implemented within a broader development strategy to promote economic diversification, structural changes and technological development, could enhance productive capacities of African economies, realize economies of scale and improve competitiveness and serve as a launching pad for African economies' effective participation in the global economy*" (UNCTAD, 2009, p.1).

This economic logic is sound in principle, but confronts a key challenge: the politics of building African RECs. The most important issue to confront is that of deepening political commitment to regional economic integration. In light of the relative "youth" of states in the region it is perhaps not surprising to find that leaders in many countries are reluctant to yield their prerogatives. After all, regional integration involves pooling sovereignty – in Africa's case it is newly acquired. Part of this political commitment should involve rationalizing the RECs given the well-known problem of overlapping memberships and conflicting integration processes (Dinka and Kennes, 2007; Draper *et al.*, 2007). These are problems home-brewed in Africa, requiring Africans to resolve them. Unfortunately the necessary leadership seems to be in short supply.

From the aforegoing, whilst regional economic integration in Africa can bring benefits, it is not likely to drive dynamic economic development. The logic of north-south economic integration is much more compelling: it reinforces comparative advantages, promotes income convergence, and over time should also promote knowledge transfers from developed to developing countries.[11] Whilst this approach at first sight would seem to "condemn" African countries to the status of perennial suppliers of primary products to northern markets, this conclusion assumes that comparative advantage is static – which is clearly not the case. There is substantial evidence that countries which pursued unilateral trade liberalization have experienced dynamic growth and diversification over time (Draper *et al.*, 2009). The real obstacle to economic diversification in the African case is the very low level of economic development to begin with. Integrating with neighbours that also suffer from this problem should mitigate this problem to some extent, but does not hold as much potential to overcome it as integration with dynamic and large external markets. This is a strong theoretical argument in support of EPAs.

[10] However, they also note that reducing border barriers amongst contiguous states with small markets would favour development of a few urban centres but at the national level would reinforce the agglomeration impacts highlighted in the previous paragraph.

[11] The accession of relatively poor countries into the European Union in various waves provides strong evidence of such convergence effects.

Yet it is questionable whether vulnerable economies could cope with the competition from efficient northern producers if the agreements are not sensitive to development needs. Furthermore, as discussed above if they do not have appropriate institutions in place to manage ensuing liberalization the ultimate effect could be further dislocation (Borrmann *et al.*, 2007; Szepesi, 2004). And if liberalization is only partial, as seems probable, then it is unlikely that production shifts will actually occur. The end result therefore may be to increase profit margins for the more powerful actors in supply-chains – most likely EU companies – without the efficiency enhancing effects associated with meaningful liberalization. So ACP states have to carefully consider their room for manoeuvre in such negotiations and their state of preparedness in light of the economic impact negotiated outcomes may have.

This points to a more limited agenda, tailored to regional capacities. In this light, external actors have a critical role to play in supporting development of institutions such as customs authorities and infrastructure systems through an aid for trade agenda; a fact that has perhaps not been recognized enough in the EPA process. These initiatives may have the added benefit of promoting regional value-chains and integrated production, thereby developing economies of scale to compete globally. The downside, however, will be the agglomeration forces noted above. In our view, to the extent that RECs are actually likely to work in Sub-Saharan Africa[12], it is likely that over a period of time a small set of regional leaders will emerge around which regional economies will increasingly concentrate. The key question then is how those regional leaders can be supported and boosted, with a long-term view to pulling their regions up with them.

How does the economic crisis affect these dynamics? The answer is – not much. It is not intra-regional trade that is driving recessionary impacts on the continent, rather as outlined above it is Africa's connection to the outside, principally developed, world that is to blame. The flip side is that regional economic integration does not offer much of an alternative in the medium term since neighbouring markets are generally small and trade levels are low. Furthermore, capital inflows are sourced primarily from outside the region. And seeking to build deeper regional economic integration doesn't mean it is necessarily going to happen, given the economic and political obstacles cited above. Consequently, African countries will remain locked into current trading relationships with the EU for the foreseeable future.

Nonetheless, if regional integration is no panacea to address the global crisis in the short term, greater cooperation and cohesion at the regional level may be an important source of synergy among national economies (UNECA, 2006, 2008). In particular, pooling of resources and capacity to build regional public goods and coordinate policies through regional cooperation and integration remains a promising avenue, including to build and to regulate domestic and regional transactions and markets (ODI, 2008; UNCTAD, 2009). In this regard, it is important that the economic partnership agreements contribute to foster, rather than undermine, regional ambitions.[13]

4 EPAs and the global crisis

What are the possible consequences of the global crisis on the approach to EPA negotiations? With declining trade and investment flows, reduced remittances and more pessimistic growth expectations, as highlighted in Section 2, most ACP governments, in particular in Africa, will be

[12] Unfortunately the available empirical evidence points in the opposite direction: levels of intra-regional trade remain very low in all major RECs in Africa, not exceeding 10 percent in any case.

[13] Arguably, the CARIFORUM-EC EPA process has already contributed to re-focus the attention and strengthen the efforts of Caribbean policy-makers on their own regional integration process. See also Bertelsmann-Scott and Draper (2006), Bilal and Braun-Munzinger (2008), Dinka and Kennes (2007) and Meyn, (2007).

facing serious budgetary constraints and forced to make difficult choices for the future of their economies. What role EPAs can play, or should not play?

There is a wide range of potential outcomes, and knowing that the situation of African economies vary from country to country, it is unlikely that a one-size-fits-all approach would be suitable. Two opposite options can be identified.

4.1 EPAs medicine as part of prescription for prosperity

At one extreme stand the “EPA enthusiasts”. It is by their sheer scope and depth of ambition that EPAs can effectively contribute to address some of the systemic impediments to economic development in ACP countries. In particular, EPAs can foster the creation of a business-friendly environment that, with the appropriate regulatory framework, can in turn lead to sustainable development in the ACP. EPAs, by their regional coverage, by encompassing a broad agenda for extensive trade liberalisation, including goods and services, by addressing nominal as well as technical barriers to trade, and most importantly, by tackling behind-the-border issues such as investment and competition rules, public procurement, intellectual property rights and trade facilitation issues, are believed to be effective instruments to stimulate endogenous growth in Africa. Combined with strong commitments on social, labour and environmental rules and accompanied by appropriate levels of development cooperation, as repeatedly pledged by the EU, EPAs could become an antidote to the global crisis and a credible guarantee against future backlashes and policy reversals that would erode the prospects for domestic growth. Or at least so goes the argument. The direct consequence for the negotiation process is that all interim EPAs should be signed as quickly as possible[14] and that regional full and comprehensive EPAs should be concluded as soon as possible with the remaining African (and Pacific) ACP regions concerned. This is the position adopted by the European Commission, as spelled out for instance in its Communication on supporting developing countries in coping with the crisis (European Commission, 2009). In fact, it simply reaffirms the longstanding approach of the EU to EPA negotiations, pursued long before the global crisis began. In this respect, the ‘EPA enthusiast’ approach would largely amount to a ‘business as usual’ stance, with simply renewed commitments and efforts to conclude EPAs: (1) at the regional level; (2) liberalising most of the trade over a reasonable period of time; (3) comprehensive in their scope, with significant commitments in services and on trade-related issues; (4) in a timely manner, avoiding delays in finalising negotiations, signing and ratifying and implementing the agreements; and (5) accompanied by appropriate measures, including regional Aid for Trade packages.

4.2 EPA poison as further hindrance to recovery

At the other end of the policy spectrum stand the ‘EPA fearful’ or ‘EPA sceptics’ (ICCO, 2008; Oxfam, 2008; TWN, 2009b; Weller and Ulmer, 2008). They tend to view EPAs as another attempt by developed countries, in this case Europe, to impose an obsolete model of development based on too rigid neo-classical recipes that ignore key lessons from both the historical development of rich nations (Reinert, 2007) and recent experiences in supporting developing countries, notably through the Washington consensus which many consider, as discussed in Section 3, as obsolete (Rodrik, 2006, 2007; and Serra and Stiglitz, 2008).[15] In a nutshell, some critics claim that EPAs, with their liberal agenda forced upon Africa will exacerbate, rather than alleviate the negative effects of the crisis and institute a new policy and

[14] The signature by Botswana, Lesotho and Swaziland on 4 June 2009 of their interim EPAs is a step in that direction, though the move appears to be motivated more by considerations related to WTO compatibility than by imperative from the global crisis.
[15] At the last G-20 Summit, the UK Prime Minister himself, Gordon Borwn, claimed that the “old Washington consensus is over” (see for instance “The Washington consensus is dead”, The Guardian, 10 April 2009, www.guardian.co.uk/commentisfree/cifamerica/2009/apr/09/obama-g20-nato-foreign-policy).

regulatory framework that will ultimately undermine the African ACP countries ability to respond to similar crises in the future (Kategekwa, 2008; Reid Smith, 2009). In particular, they argue that opening up local markets to international competition from EU products will further contribute to put domestic production under pressure at a time when international export market opportunities are dwindling and food security is under threat. In addition, the removal of custom duties from EU imports will exacerbate further problems of tightened budgetary constraints experienced by many developing and ACP countries as a result of the global crisis (see Section 2). This, combined with liberal regulatory commitments, will in turn reduce the capacity of ACP governments to pro-actively intervene in their domestic economies, for instance through appropriate stimulus packages, targeted domestic subsidies or specific social programmes and safety nets (Jones, 2009; and Khor, 2009). More broadly, the EPA sceptics fear that EPAs will unduly limit the policy space required by ACP countries and regions to pursue their own development strategies while at same the time further exposing them to predatory behaviour from Europe interests and international shocks, such as the current financial, economic, food or energy crises. Such concerns were echoed by the United Nations Commission which highlighted the risks that liberalisation and de-regulation in some trade agreements may pose for the economic prosperity of the developing countries concerned (see Box 1).[16]

Box 1. Regional/bilateral trade agreements and the financial crisis

"Many bilateral and regional trade agreements contain commitments that restrict the ability of countries to respond to the current crisis with appropriate regulatory, structural, and macro-economic reforms and support packages. Not only deregulation policies akin to those that are now recognized as having played a role in the onset of the crisis been imposed on developing countries, but that have also faced restrictions on their ability to manage their capital account and financial systems (e.g. as a result of financial and capital market liberalization policies). These policies are now placing a heavy burden on many developing countries.

All trade agreements need to be reviewed to ensure that they are consistent with the need for an inclusive and comprehensive international regulatory framework which is conducive to crisis prevention and management, counter-cyclical and prudential safeguards, provision of development and inclusive finance."

Source: United Nations (2009, ch.4 : para 73&74).

4.3 What do we know?

Substitute sterile ideological debate by pragmatic approach

It is unlikely that the global crisis will alter the approach of the strongest advocates and critics of EPAs, well entrenched in their respective position for over 7 years. The EPA enthusiasts find in the crisis mainly further arguments for pressing for reforms of the ACP economies that will bring about growth and development (e.g. Michel, 2008). As for the EPA sceptics, many see in the crisis another opportunity to re-package their well-rehearsed arguments against EPAs (e.g. Oxfam, 2008). Continued engagement on the development merits of the EPAs is important. Related to the global crisis, though, the key question is whether EPAs can significantly help address some of the negative consequences of global crisis or, on the contrary, whether EPAs

[16] Similarly, in a recent report on the Caribbean experience, the World Bank, while recognizing that "*Trade liberalization under the EPA may have significant economic and social gains for the Caribbean region*", notably in services, warned that "*trade liberalization in the Caribbean is being implemented in a fragile macroeconomic and structural environment. Trade liberalization (and more specifically the EPA process) should pay more attention to these constraints, which go beyond trade issues per se and cover a large range of issues, such as macroeconomic imbalances, small economic size, infrastructure deficiencies, and economic vulnerability of the Caribbean*." (World Bank – OAS, 2009; p.ix)

will add to the troubles resulting from the crisis. Depending on the answer, pragmatic approaches have to be identified to tailor the EPA content, identify and effectively implement appropriate accompanying measures and conclude the EPA negotiating process in a way to mitigate the impact the global crisis and maximise the potential benefits of an EPA. What do we know so far?

Short run versus long run perspective
In the short run, an EPA is unlikely to make much of a difference. EPA main commitments cover a period up to about 15 years, and implementation will be gradual. So, if EPAs can help address some of the fundamentals of African ACP economies, their effects will not be felt immediately. In this sense, EPAs are no quick fix for the global crisis. On the other hand, commitments under EPAs have to be made in a period of economic hardship. These may have two opposite consequences.

- On the positive side, the conclusion of EPAs can have a *'signalling effect'* towards the domestic and international community, indicating to private sector that economic reforms are underway and a more pro-business environment to be expected. This in turn may boost confidence in the economic recovery or development of a country, stimulating both local investment and foreign direct investment.
- On the negative side, *adjustment costs* to an EPA will be more difficult to address in a period of economic downturn. While most of the potential benefits of EPA reforms will be reaped in the longer term, adjustment costs - in terms of market opening, productive adjustments, infrastructure development, fiscal reforms, etc. – are likely to be borne in the short and medium term. In times of crisis, balances of payment constraints in most African ACP countries reduce their capacity to address these adjustments costs. The increased challenge of addressing adjustment costs has also a political cost. Given the general short-term horizon of politicians in general, some African policy-makers may find it more difficult to agree on an EPA that will add to their short term difficulties with the elusive prospect of greater benefits in the future.

The challenges of facing adjustment costs could be partly addressed through the adoption and delivery of appropriate accompanying measures to EPAs, discussed with the EU in parallel to the EPA negotiations. But as the crisis is affecting mainly developed countries, donors will be increasingly at pain to deliver on their ODA commitments or beyond, raising doubts as to their ability to meet some African countries need for greater reliance on development assistance.

Variety among African ACP countries
As discussed in Section 2, the crisis will have differentiated effects on African ACP countries, depending on their characteristics. The same holds true for EPAs (Balula and Baltzer, 2007; Bilal and Stevens, 2009; and Fontagné *et al*., 2008). It is therefore necessary to distinguish approaches to EPAs according to the category of countries and the specific challenges they are confronted with. Yet, if a one-size-fits-all is not appropriate, a tailored-made approach is not possible either, since EPAs are negotiated and due to be concluded at the regional level, here each African EPA regional grouping encompass countries with different characteristics and interests. Accordingly, some African countries have concluded interim EPAs by the end of 2007 to maintain their access to the EU market (in most cases their interests centred on handful of products: banana, sugar, cocoa, fish, beef, horticulture, textile, etc.); some have a stronger interest in concluding a full EPA than others (depending on their interests, capacity and engagement towards economic reforms); some put a greater reliance on the provision of appropriate *additional* development support than others; etc.

EPA fatigue
EPA negotiations have been dragging on for 7 years and risk loosing momentum. Following the rush by 35 countries to conclude interim EPAs by the end of 2007 (plus Zambia in 2008), there is no sense of urgency in conclude full regional EPAs among many African ACP countries. Deadlines for conclusion (set to end of 2008 or mid-2009) have been or will be

missed in all regions, and apart from some regional organisations and a few countries, the EPA negotiations do not appear as a development priority in Africa. In this context, the global crisis has not contributed so far to invigorate the EPA talks or related measures. At the last ACP Ministerial Trade Committee, the Joint ACP-EU Ministerial Trade Committee, the ACP Council of Ministers and the Joint ACP-EU Council of Ministers, all held in May 2009, the issue of the financial crisis was hardly discussed in concrete terms: no specific reference were made to linkages with EPAs, and no declaration was issued. As for regional EPA negotiations, no shifts of approach or new proposals were made to address the impact of the global crisis. This may well reflect the lack of coordination at the ACP level rather than the lack of concerns about the impact of the global crisis on EPA negotiations and prospects, though.

African ACP concerns
Notwithstanding the lack of explicitly articulated linkages between the global crisis and EPAs by ACP policy-makers, many African leaders have expressed serious concerns about the impact of the crisis on their economies. As highlighted in Section 2, the global crisis leads to lower investment flows, lower remittances, more volatile and often lower commodity prices, all factors contributing to reduced economic growth prospects in Africa. It is clear that, in this context, the crisis will have impacts on the EPA negotiations and EPA implementation. Some trade specific issues are worth pointing out at this stage.

The crisis will affect trade flows and the perception on potential benefits from new trade agreements such as EPAs. As discussed in Section 2, lower international demand and fall in global trade will negatively affect the exporting opportunities of African ACP countries[17]: as many African economies heavily rely on export-generated revenues, domestic employment as well as development & social programmes are likely to be negatively affected; as a result, domestic protectionist pressures are likely to rise in several African countries (as in developed countries by the way[18]), including against market opening for EU products in the context of an EPA. In parallel, lower demand in Europe may alter the perception of preferences granted by the EU to EPA countries: while some ACP countries may become even more dependent on the preferential margin granted to their exports by the EU (e.g. in products for which the EU preferential market remains dominant), and thus more interested in the speedy conclusion of an EPA, others may see less value in preferences whose benefits are reduced due to the fall of EU demands for those products (in which case other markets and product diversification away from Europe might become more attractive). The perceived cost-benefits of reciprocal trade liberalisation for African ACP policy-makers is thus likely to be altered by the crisis, though not necessarily in the same direction for all countries: some may put a greater emphasis on the positive conclusion of the EPA negotiations, in some cases on a comprehensive agenda, whereas others may reconsider their interest in concluding an EPA.[19]

Potential shortages in trade financing have raised concerns among some Sub-Saharan African countries. These fears have been underlined by the G20 in May 2009 in London which attributed part of the fall in trade flows to the credit shortage resulting from the financial crisis, and accordingly pledged US$ 250 billion in support of trade finance.[20] The extent to which

[17] This phenomenon of dampened prospect for export-led growth by developing countries was recently described The Economist as “export fatalism” (The Economist, “Fatalism v fetishism: How will developing countries grow after the financial crisis?”, 11 June 2009).
[18] On protectionist pressures, read for instance WTO Director-General Pascal Lamy “Retreating from market opening is not a solution to the economic crisis”, 24 April 2009 (www.wto.org/english/news_e/sppl_e/sppl122_e.htm) and see the new initiative to monitor policies that affect world trade www.globaltradealert.org
[19] For instance, the new government in South Africa seems to favour a more sector-based industrial policy that may require tariff increase (Draper and Khumalo, 2009); Namibia seems to weigh the future potential of beef exports to the EU compare to new regional market opportunities; and Botswana seems to prioritise its relations with Europe by moving ahead with the signing of its interim EPA and advancing in negotiations towards a full EPA.
[20] www.londonsummit.gov.uk/en/summit-aims/summit-communique

constraints in trade financing will affect the African ACP and their ability to benefit from new EPA-related export opportunities appear limited though. Indeed, preliminary surveys suggest that, while emerging and middle-income economies seem to be affected by a tightening of trade credit (in particular in Asia), this does not yet to be a major concern for lower-income countries and Africa, for which other factors (such as lower commodity prices, lower demand, lower remittances, greater exchange rate volatility) seem to be more prominent (Humphrey, 2009; and ICC, 2009). But these surveys also reveal disparities of situation according to countries and sectors concerns, suggesting that specific measures may also be required. Ensuring that new exporting opportunities under an EPA will not be prevented because of shortage in trade finance could thus still play an important role.

The collapse of global trade will have an effect on the loss of custom revenues due to trade liberalisation and on the balance of trade and its composition. Lower trade flows means that:
(1) Import duties will be levied on a lower amount of goods, resulting in less customs revenue raised by African countries, further reducing government income and its capacity to spend (leading to increased debts or lower -social and other- spending, or both), and that
(2) consequently, with lower trade and less customs revenue due the crisis, the impact of the reduction of duties resulting from EPA trade liberalisation will be less on fiscal revenue (i.e. the lower the value of trade, the lower the import duties revenue, the lower the customs revenues forgone under EPA liberalisation).
While the latter factor (2) would tend to facilitate market opening commitments in an EPA, the EPA induced fall of import duties will further put strain on national budgets, and hence reduce the ability to address adjustment costs of an EPA (as discussed above).[21] The fall of trade flows with the EU could also have an effect on the liberalisation schedules to be negotiated in EPAs. Some products may become (temporarily) more sensitive and other less, depending on how they are affected by the crisis. Besides, liberalisation commitments must cover, according to the WTO rules on regional trading agreement (Article XXIV of GATT), 'substantially all trade' between the parties. This is normally calculated using a 3-year average. Provided the change in trade flows also affects the composition of trade between the parties, which is likely as not all products traded will be affected in the same way by the crisis, the criteria for WTO-compliance in liberalisation and hence the composition of the basket of goods excluded from liberalisation could be greatly affected by the reference years (and arguably the balance of trade, though this has been rejected by the European Commission since the late 2007; see Lui and Bilal, 2009).

These trade considerations, in particular on fiscal revenues and liberalisation incentives, could be adequately addressed in a more positive economic climate. But in the current context of concomitant crises (financial, economic, food, energy crises), uncertainty and pessimistic growth forecasts, they may become serious cause of concerns for some policy makers. Four other elements must be kept in mind when considering the possible impact on the global crisis on the EPA approach.

First, comprehensive EPAs aim at liberalising not only trade in goods, but also trade in services, possibly including the financial sector. If there is one general lesson from the financial crisis is that the financial sector needs careful and appropriate regulation (IMF, 2009b). But the type of regulation required and the reforms needed are less clear.[22] Second, and more broadly, the financial crisis has stressed the importance of effective regulatory frameworks. Comprehensive EPAs offer to cover a number of trade-related issues (competition, investment, procurement, etc.) for which rule-setting are required to reap the benefits from market opening. Third, as already mentioned, accompanying support will be required to address EPA adjustments. Europe is taking this issue seriously and has undertaken a number of

[21] For a discussion on fiscal revenues and EPAs, see Bilal and Roza (2007).
[22] See for instance "Brussels' plans for financial reform need work", Financial Times, 8 June 2009 and in the US context "Doubts over plan for systemic risk regulator", Financial Times, 11 June 2009, www.ft.com

commitments to this end, notably in the context of aid for trade, with significant ODA attached to it (Lui and Bilal, 2009). But there is a general consensus, at least among 'insiders', to agree that there is unlikely to be overall fresh new additional money in the near future, as donors are unlikely to collectively meet their existing ODA commitments, let alone go beyond. Fourth, the creation of effective regional markets may contribute to foster development and thus partially alleviate some of the negative impacts of the global crisis. But the state of regional integration in Africa remains deficient (Section 3; UNECA, 2006, 2008). In addition, the EPA negotiation process has so far mainly contributed to strain regional integration processes in Africa, notably with the conclusion of interim EPAs with individual countries or groups of countries cutting across RECs (Bilal and Braun-Munzinger, 2008; Bilal and Stevens, 2009; Draper and Khumalo, 2009; and Draper *et al*., 2007).

4.4 Recommendations for a pragmatic approach in the EPA process

With the global crisis having drastically changed the context under which EPA negotiations are conducted and under which EPAs are likely to be implemented, some adjustments to the current approach to EPAs are needed. The EPAs will not solve the economic crisis though, nor will the economic crisis prevent the completion of a sensible EPA agenda. A complete overhaul of the EPA approach because of the current crisis is therefore not required, but specific adjustments should be made. Such adjustments should follow the recent impetus given by the new EU Trade Commissioner, Catherine Ashton, who has been so far more receptive and responsive to ACP concerns over EPAs. A revised approach could entail, *inter alia*, the following elements.

Trade in goods
Reciprocal market opening is a *sine qua non* condition for an EPA. However, the extent and speed of this opening can be adapted to particular conditions faced by the respective African countries and regions concerned, within the limits of the WTO rules. Countries or regions experiencing sever difficulties due to the economic crisis should thus be allowed to postpone or backload their trade liberalisation, possibly over longer than 15 years transition period. Market opening could also, where appropriate, cover *in the range* of 80% of the EU imported goods, rather than *at least* 80% as currently required by the European Commission, so as to provide the flexibility to exclude more products if needed to cope with the global crisis. Perhaps even more important, all EPAs could include specific clauses providing for the possible revision of liberalisation schedules (as in the CARIFORUM-EU EPA), as well as better provisions to facilitate the adoption of safeguard measures, including for balance-of-payment purposes. Recognising the opportunity for African countries to support emerging sectors with high potential for international competitiveness, in line with recent proposals (e.g. to promote exportables; Rodrik, 2009) and historical practice by developed and newly industrialised economies (Reinert, 2007), infant industry protection measures should be more readily allowed in EPAs, including beyond the transition period for liberalisation. Along the same line and subject to restraints as well, provisions on export restrictions could be made more flexible.[23] Standstill provisions could also be reviewed, so as to prevent to consolidate, in EPA liberalisation schedules, tariffs set at temporarily low levels as a response to the food crisis for instance. ACP supply chains and value added could also be enhanced by simplifying and relaxing rules of origin, as well as allowing for cumulation, notably among ACP countries. While this list does not intend to be exhaustive, it illustrates the scope for flexibility which, if more systematically considered for the African ACP, could help mitigate some of the direct effects of

[23] Disciplines on export measures, as well as trade restrictions in general, are a necessary condition for any free trade agreement (as for the multilateral trading system) to be effective, from both a trade and welfare perspective; but a right balance has to be found in the flexibility permitted within the remits of these disciples. It is ironic, and in fact regrettable, that the EU, so eager to promote discipline on export measures at the WTO and in particular in the EPAs, has earlier this year reintroduced export refunds for milk, butter and butteroil (see www.globaltradealert.org/measure/ec-reintroduction-export-refunds-milk-butter-and-butteroil)

the global crisis in the context of an EPA (for an extended discussion on the possible flexibility in EPAs, see Lui and Bilal, 2009).

Trade in services
A comprehensive EPA also aims at covering trade in services, where trade liberalisation could lead to potentially significant benefits for some economies (GTZ, 2009; Sauvé and Ward, 2009). In the context of the global crisis, special attention should be given to this area. For some African ACP countries, substantial liberalisation in services in an EPA can stimulate their economies. To those parties interested, the EU should provide appropriate support to build regulatory capacity and make generous offers in response to requests, notably in sectors where these countries have a comparative advantage (e.g. tourism, temporary movement of persons under Mode 4). Particular caution should be given to liberalisation in financial services though, as some provisions on financial liberalisation may have detrimental effects on liberalisation (Cann, 2009; TWN, 2009a). In the CARIFORUM EPA for instance, critics have pointed to the risk entailed in allowing, under certain conditions, EU financial services providers to supply a new financial service, which could have detrimental effect on the local economy in the absence of proper regulation (Reid Smith, 2009; TWN, 2009b). Indeed, financial services regulation requires appropriate sequencing of reforms and the establishment of a proper regulatory framework prior to liberalisation. The inefficacity of regulators has been one of the main sources of the financial crisis; extreme caution is thus called for (IMF, 2009). In its recommendations, the UN Commission argues that "*The reciprocal impact of liberalizing trade in financial services and liberalizing capital account transactions need to be thoroughly considered by developing country authorities. In case of liberalization there needs to be consistency between both areas as well as the implementation of regulatory and supervisory frameworks for the financial sector*"; in addition, "*Macroeconomic stability and an efficient regulatory framework and functioning institutions are a precondition for liberalization of financial services and the capital account, not vice versa. Strategies and concepts of opening up developing economies need to include appropriate reforms and sequencing*." (UN, 2009, para. 76 and 77). Some African ACP countries may thus prefer to delay negotiations on services liberalisation, in particular but not only on financial services, so as to better prepare and sequence their liberalisation commitments. The EU should respect such development strategies and not unduly press for services liberalisation prior to the establishment of proper regulatory frameworks (Hoekman and Messerlin, 1999; Vander Stichele, 2006); built-in agenda in services could also be considered, where appropriate.

Trade-related issues: towards a comprehensive agenda
Addressing trade-related issues can be an important source of efficiency gains (GTZ, 2009). But it often requires the adoption of proper, enforceable regulatory frameworks. Such frameworks are however often absent or incomplete at the national or regional level. EPAs can help trigger regulatory development in some countries and regions. But EPA provisions, on investment or public procurement for instance, may also reduce the ability of African ACP counties to adopt discriminatory measures in favour of their economies. While some forms of restraints is ultimately desirable from an economic efficiency perspective, it may unduly reduce the ability of some countries to actively intervene to support their economies (Marti and Ssenkubuge, 2009), intervention that may be critical in times of crisis. To the extent that EPAs adopt a gradual approach to these issues, in line with national and regional development priorities of the parties concerned, EPA commitments (in terms of regulatory provisions, institutional capacity support and adjustment needs) may play a beneficial role in stimulating a business and investment conducive environment that can promote equitable growth. However, for several African countries and regions most trade-related issues advocated by the EU do not appear to be a priority at this stage of the EPA negotiation process. By pressing for a comprehensive agenda in such cases, the EU runs the risk of over stretching the limited capacity of some African countries which are more concerned by urgent actions to tackle the consequences of the economic crisis. For the right reasons or not, many African ACP countries do not seem to see EPAs, and in particular trade-related provisions, as key instruments for

their development, let alone for addressing the immediate impacts of the crisis. Flexibility from the EU on these issues, with possible built-in agenda where appropriate, should also be recommended.

Addressing loss of fiscal revenues and other adjustments costs
Perhaps one of the main sources of concern, at least for some countries (in particular in West and Central Africa) is the loss of fiscal revenues due to liberalisation on imports from the EU. While this issue is not new, it has gained ever greater importance in the context of the budgetary constraints that the economic crisis has heightened. Baunsgaard and Keen (2005), surveying over 100 countries over a quarter of a century, have found that, while revenue losses from trade liberalisation was not a problem in high and middle incomes, low-income countries recovered only 30 cents for every dollar lost of customs revenues. In the absence of appropriate remedy to the prospect of such losses, an EPA may thus not be affordable, or politically acceptable, for some African ACP governments. The food and economic crisis is already the source of some instability in some of poorer countries, whose governments may not risk further unpopularity or unrest for the sake of an EPA. The European Commission has promised to help addressing the loss of net fiscal revenues and to support fiscal reforms. But little is known as to how this will take place. The EU (EU member states and European Commission) needs to urgently address this problem and make clearer commitments on measures of support. In the absence of which, several African ACP countries, more likely LDCs, may ultimately decide to opt out from an EPA, irrespective of its longer term merits.

More broadly, the adoption of appropriate support measures, notably in the context of 'regional aid for trade packages' as proposed by the European Commission, and the establishment of effective delivery mechanisms to channel this support are key condition to address adjustment costs related to EPAs. With the global crisis, there is an additional sense of urgency to respond to the need of the African ACP countries. Development assistance can be front loaded and its effectiveness improved, as suggested by the European Commission (2009) and the Council (2009), but the potential of such measures is limited. Nonetheless, such loadable efforts should be further encouraged and speedily implemented. Existing mechanisms should also be used - notably support through budget support or commodity funds to address price and exchange rate volatility – or adapted. In this respect, the proposal by the European Commission for 'vulnerability FLEX' should be carefully considered, with regards to its mechanism, funding and effective delivery.

Foster effective regional integration
In view of its ambitions, perhaps the ultimate test of an EPA is on its impact on regional integration processes. Should an EPA be successful, it must strengthen the capacity of regional actors to act collectively, through enhanced cooperation and where necessary harmonisation, so as to establish regional frameworks for some *inter alia* economic activities and policies, institutional arrangements and infrastructures, as well as other appropriate policy issues. The form and scope, depth and speed of integration may (in fact should) vary according to the respective conditions and priorities of each regional process. But an EPA should not undermine it. Nor should an EPA prevent or preclude the creation of regional markets, regional regulatory and institutional frameworks that could help address some of the negative consequences of the global crisis. As it stands, however, EPAs could prove very devise for some African ACP regions. The extreme tensions raised in Southern Africa by the conclusion and recent signing by some SADC countries of an interim EPA are an illustration of this danger (Draper and Khumalo, 2009; Walker, 2009). With the global crisis in full force, most African countries can ill afford to become inward looking and neglect the synergies and economic benefits that effective regional economic integration could bring about. It is thus imperative that the conclusion of EPAs preserve the regional integration processes in place. This is likely to require in some regions that the EU adjust its demands and introduces greater flexibility in its approach, as suggested above, so as to bring on board of an EPA all countries of a regional grouping and hence preserve regional cohesion.

5 Concluding summary

The financial, economic, food and energy crises have far reaching implications on developing countries, notably on the African ACP countries that are currently negotiating comprehensive EPAs with the EU. In this context, should the EU approach to the EPA process be adjusted to address the concerns raised by this global crisis? We argue that while EPAs are no immediate remedy to the crisis, they could further add to the difficulties encountered by some African countries, unless some flexibility is introduced in the EPA negotiations process and appropriate development support measures are promptly adopted and implemented.

While the African ACP is a heterogeneous group of countries, the overall impact of the crisis is to reduce the prospects for economic growth and development, notably through a decline of trade and investment flows, lower remittances, some lower commodity prices with a greater volatility, which appears to already lead to a reduction of employment opportunities and an increase in poverty and malnutrition for the most vulnerable people.

The crisis therefore calls into question the orthodoxy of the common approach to development in Africa. Whether alternative development approaches will be put in place will partly depend on the length of the current crisis (the shorter it is the less likely new policy approaches will be adopted). But one should be cautious about drastic reversal of development approach led by ideology. Rather, a more pragmatic case-by-case, country-by-country approach should be pursued. The same applies in the context of the approach to EPAs. Without questioning the merits of regional integration in Africa in the medium to longer term, there seems to be little opportunity for immediate regional synergy that would allow regional economic communities to effectively address the immediate consequences of the crisis. However, greater and more effective cooperation and cohesion at the regional level on key policy domains (notably those related to facilitating regional transactions, markets and regulatory frameworks) could play an important role in fostering development and helping cope with economic crisis in the medium and longer term.

In this context, the approach to EPAs should move away from mainly systemic considerations on the merits of neo-liberal economic reform and liberalisation framework and focus on a more pragmatic approach. In particular, the difficulties resulting from the global crisis should be more explicitly taken into consideration in the EPA process. This should lead to greater flexibility in the EPA agenda, including *inter alia*: (i) possible revision of some EPA provisions regarding market opening, in particular by introducing, where appropriate, some flexibility in the scope and speed of trade liberalisation as well as in some other specific provisions (revision of schedules, safeguards, infant industry support measures, export restrictions, standstill clauses, rules of origins); (ii) careful services liberalisation, considering proper sequencing and regulatory requirements, notably in the sensitive sector of financial services (At the source of the financial crisis), and possible postponement or built-in agenda for commitments in this area when desired by the African party concerned; (iii) some flexibility and restraints in trade-related areas when the African side does not express an interest for the issue at stake. In addition, the global crisis has further heightened the need for timely and appropriate level of support, notably in terms of EPA-related aid for trade EPA, and effective delivery mechanisms; greater effort should be made to effectively address the EPA-related loss of duties revenues and need for fiscal adjustment, as in the context of the crisis this issue has become extremely sensitive in some regions (notably West and Central Africa) and could prevent the conclusion of an EPA by some African leaders. A central issue for the EPA approach is not to undermine the regional integration processes in Africa, as effective integration may be source of stability and synergy for the development of these countries, all more important in the context of crisis. To this end, the EPA agenda may be tailored made to better fit the collective priorities of each regional grouping in a cohesive manner. Without such flexibility, EPAs may add to the pain of the crisis, instead of relieving it.

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