Module-11

SAFTA and EPAs: A Brief Background and their Current Status

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Acronyms

ACP	African, Caribbean and Pacific
BLNS	Botswana, Lesotho, Namibia and Swaziland
CEMAC	Economic and Monetary Community of Central Africa
ECOWAS	Economic Community of West African States
EBA	Everything But Arms
EPAs	Economic Partnership Agreements
ESA	East and South Africa
EU	European Union
FTA	Free Trade Area
GATT	General Agreement on Tariff and Trade
GSP	Generalised System of Preference
IPRs	Intellectual Property Rights
LDCs	Lease Developed Countries
MERCOSUR	Southern Common Market
MFN	Most Favoured Nation
NAFTA	North American Free Trade Agreement
NTBs	Non-Tariff Barriers
RoO	Rules of Origin
RTAs	Regional Trade Agreements
SAARC	South Asian Association of Regional Cooperation
SAD	Single Administrative Document
SADC	Southern African Development Community
SAFTA	SAARC Preferential Trading Arrangement
SAPTA	South Asian Free Trade Area
S&DT	Special and Differential Treatment
TBT	Technical Barrier to Trade
TKC	Trans-Kalahari Corridor
USAID	United States Agency for International Development
WTO	World Trade Organisation

1. Introduction

One of the most debated and complex issues relating to the multilateral trading system is the proliferation of the 'Regional Trade Agreements' (RTAs). The recent proliferation of RTAs has posed a number of interesting and difficult questions for the economists as well as trade policy formulators. The most important question is whether it is consistent with the rule based multilateral trading system or not. The other two most obvious questions are: why there is spurt of RTAs and whether it is a good development or not a fair option in terms of its effects on trade, investment and people's lives.

There are certain advantages of RTAs, as decision making process among members are easy under RTAs due to small membership, and because RTAs can experiment with subjects which have proven virtually impossible to be developed in the multilateral framework. At the same time, RTAs can develop protectionist measures due to complex Rules of Origin (RoO) and add to the transaction cost of trading amongst the members. Another important aspect of RTAs relates to its effect whether it leads to 'trade-creation' or 'trade-diversion'. In most cases where a country maintains a higher external tariff on multilateral basis, the dominance of 'trade-diversion' has been experienced, which is a serious shortcoming associated with RTAs. Therefore, strong arguments are put forward that unilateral economic liberalisation on a multilateral basis is the best option. The traditional arguments, however, in favour of RTAs rest on the evidence that suggest them to be mainly 'trade-creating'. Moreover, through the RTAs a country can 'lock-in' the reforms, which is often politically not feasible under the multilateral trading system. In this regard, the Free Trade Agreements (FTAs) are also seen as either 'building blocks' or the 'second-best' choice for economic liberalisation.

In South Asia, South Asian Association of Regional Cooperation (SAARC) was set up in 1985, and the agreement on SAARC Preferential Trading Arrangement (SAPTA) was signed in 1993, while the agreement of South Asian Free Trade Area (SAFTA) was signed on January 06, 2004 during the 12th SAARC Summit held in Islamabad. The agreement on SAFTA was signed with the understanding that the sensitive lists, RoO, mechanism for compensation of revenue losses for the least developed countries (LDCs) and areas for technical assistance for them would be negotiated for implementation subsequently. The Committee of Experts concluded negotiations on these areas in December 2005 and SAFTA came into force on January 01, 2006. However, there was a delay in commencement of trade liberalisation programme due to procedural requirements for ratification of the agreement. It was, therefore, agreed that tariff reduction programme would commence on July 01, 2006. At the same time, it was agreed that timeframe for reduction of tariffs would remain unchanged. Presently, the first year implementation of SAFTA is in place.

The European Union (EU) has a special trade and aid relationship with the African, Caribbean and Pacific (ACP) Group since 1975. Under the Lomé Conventions, these countries have been enjoying trade preferences into the EU Market. The Fourth Lomé Convention was replaced by the Cotonou Agreement in 2000, which provided a special aid budget, trade preference and a set of joint institutions available equally to all ACP countries. The trade preference under Lomé Convention and Cotonou Agreement have been unilateral, i.e., in return for favourable access to the EU market, for example, the ACP countries are obliged not to treat imports from Europe less favourable than from other extra-regional exporters. ACP countries and EU are now negotiating Economic Partnership Agreement (EPAs) with a view to expanding their trade and economic relations. The EPAs will replace the trade chapters of Cotonou Agreement whose World Trade Organisation (WTO) Waiver expires in 2008 and would be on WTO compatible agreement. Under the Lomé Convention, ACP countries have benefited from unilateral trade preferences into the EU market.

Though EU grants tariff preference to all developing countries on a unilateral and non-reciprocal basis under the Generalised System of Preferences (GSP) (a WTO compliant scheme under the Enabling Clause Decision of 1979), the preferences to the developing countries of the ACP group were more favourable. Therefore, such non-reciprocal arrangements became increasingly open to challenge in the WTO, because they were seen as discriminating against other developing countries. The solution came in the form of Cotonou Agreement which prescribed that by the beginning of 2008, a WTO Compatible Trade Agreement, termed as EPA must be in place. A waiver was taken to implement the Cotonou Agreement as it also discriminated one WTO developing member with the other.

To be WTO compatible, the EPA must fulfill the conditions prescribed under Article XXIV of GATT, 1994 which governs the provisions relating to FTAs. Article XXIV stipulates that under FTAs, tariffs should be eliminated on 'substantially all the trade' within a 'reasonable length of time'. So far, in the WTO jurisprudence 'substantially all the trade' has not been defined, however, it prescribes for a transition period of 10 years for full tariff liberalisation. Therefore, while that constitutes 'substantially all the trade" can be settled by EU and ACP countries through mutual consultations; the maximum timeframe for liberalising their tariff would be 10 years.

Of course, in exceptional cases a longer time frame can be prescribed as had happened in case of FTA between EU and South Africa, where a timeframe of 12 years is prescribed. This means that the EPAs would be 'reciprocal' which means that now the ACP countries shall have to open their markets to EU exports (on preferential basis) – whereas they enjoyed previously non-reciprocal preferential access to EU. Another major change is that the ACP group will be split between six EPAs. However, it is certain that for many of the ACP countries, which are LDCs this poses a very significant challenge. The EPAs negotiations present both an opportunity and a threat to the ACP countries.

Though the ACP countries are already getting the duty-free quota-free (DFQF) market access to the EU market, opportunities in the form of expansion of their exports to EU may arise as they can import certain intermediate items or capital goods at zero duty from EU leading to enhanced production there. There could be agreements on services and investment, etc., which may allow EU to invest in the ACP countries thereby establishing a backward forward linkages among the industries which would promote the transfer of technology and know-how from EU to the ACP countries. Secondly, the EPA will provide the ACP countries an opportunity to negotiate the RoO and removal of non-tariff barriers (NTBs) in the EU market. In the present unilateral concessions, the beneficiary countries do not have the opportunity to negotiate RoO, especially the product/sector specific RoO which makes it impossible for ACP products to get the originating status. Similarly, if there is a successful solution to some of the NTBs of EU that are blocking market access opportunities of ACP countries, their exports would increase. However, threat would also arise in the form of competition that the industries in the ACP countries would face from the more developed and efficient EU producers. Assessing the impact of EPAs is a challenging task nonetheless.

There are other items also on the EU's agenda, which includes asking ACP countries to make commitments on services, competition policy, intellectual property rights (IPRs), government procurement and investment etc. While some ACP states accept some of these items, others do not. The final scope of the EPAs is not yet clear.

This paper attempts to list some of the recent issues which are being debated, especially with reference to the developmental dimensions of RTAs. The paper then tries to provoke the following ideas which come to the minds of trade policy formulators and the business community:

- Are RTAs good for the country and for the overall multilateral trading system?
- How far is it true that broadening the scope of RTAs would enhance the welfare gains?
- Is it in the interest of the developing countries to contain themselves to a conventional RTA covering only goods or should they negotiate a comprehensive agreement with services, investments, disputes etc?
- How does one evaluate RTAs success and overall welfare?
- Which form of economic liberalisation is the best – the bilateral, regional or global?
- Will the EPAs be compatible with the developmental needs of the ACP countries?

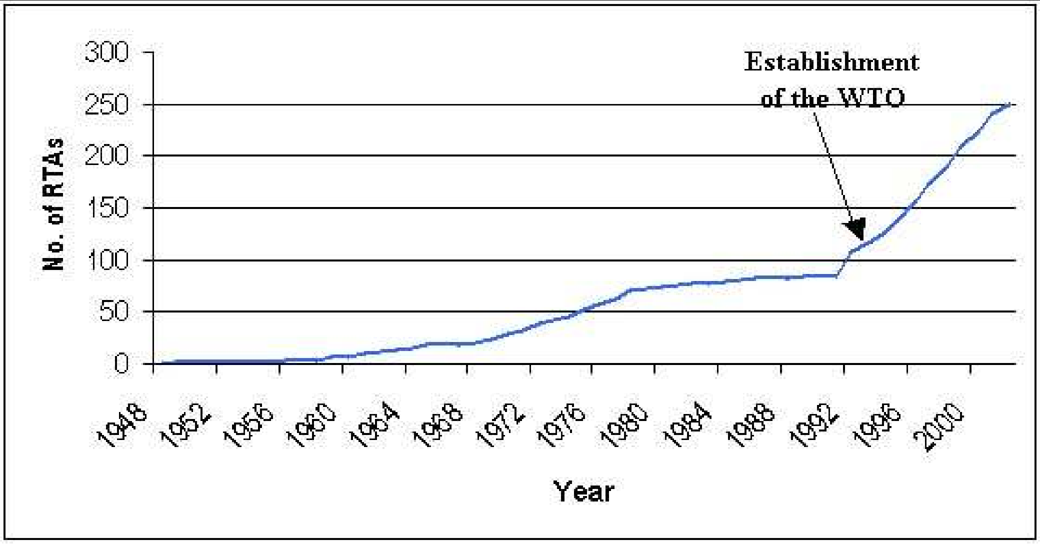
While the introduction part of the paper gives an overview of the welfare implications of RTAs, the second and third part deal with the challenging issues of informal border trade, including their adverse welfare consequences and the likely positive effects of bringing the issues of transit and services in RTAs. At present, one of the most ambitious RTAs is EPA, which is being negotiated between EU and ACP countries. The last two parts are devoted to the issues relating to EPA negotiations. They deal with the potential implications and the issues of development dimensions of EPAs as well as what alternatives other than EPAs are available to ACP countries.

2. Why is There Evidence of Adverse Welfare Implications of SAFTA?

The current RTAs are fundamentally altering the world trade landscape. At present, the number of agreements notified to WTO is more than 200[†], a rise of six fold on just two decades (see Figure 1).

† Recent accession of new members to EU has reduced the total number of RTAs. (Source:WTO)

Figure 1: RTAs Notified to the GATT/WTO (1948-2002), Cumulative



(Source: WTO, 2002)

Given the rush to conclude RTAs, it is expected that the number would touch 300 in a couple of years. Today, with the exception of Mongolia, all the WTO Members are participating in one or more RTA negotiations[‡].

Initially WTO encouraged the growth of RTAs because it believed that regional integration initiatives can complement the multilateral trade regime. The traditional theory of gains from trade suggests that removal of trade barriers allows consumers and producers to purchase from the cheapest and most competitive source of supply, which enhances efficiency and increases welfare as well. Following this logic, it was traditionally believed that regional trade blocks should generate gains from trade as member countries reduce trade barriers among themselves.

However, it was Viner (1950)[§] who introduced the concepts of 'trade creation' and 'trade diversion' to assess the net static welfare effects of RTAs. He showed that the net effect of trade liberalisation on a regional basis is not unambiguously positive and pointed out that RTAs can lead to 'trade creation' if, preferential liberalisation by a member country allowed it to replace the high cost and inefficient domestic producers by the low cost and efficient producers from other members of the RTA. On the other hand, 'trade diversion' takes place if the preferential liberalisation by a member country leads it to replace the low-cost production in the rest of the world (non-RTA members) by the higher-cost producers of the other member countries of the RTA. Trade diversion lowers welfare of not only the partner countries but the rest of the world also. The trade creation and trade diversion have opposite welfare implications and the net effect will depend upon which of these two effects dominate the RTA.

‡ Source: WTO

§ Viner, Jacob (1950): The Customs Union Issue, Carnegie Endowment for International Peace, New York

A group of economists led by Summers (1991)[**] opined that RTAs are likely to be more welfare enhancing because according to them, trade diversion is only likely to have a benign impact on the member countries. Lipsey (1957)[††] and Summers argued that if the member countries are geographically proximate and have very high trade dependence among each other, they are "Natural Trading Partners" and the RTA would be largely trade creating. Krugman (1991)[‡‡] pointed out that the beneficial effect of an RTA will depend on whether there is enough 'inherent regionalism' in the transport costs between the member countries of the RTA.

However, Bhagwati (1995)[§§], Panagariya (1996)[***] and Bhagwati and Panagariya (1996)[†††] contested these views. According to them, trade diversion is more likely to dominate trade creation in most situations. They argued that when trade is multilateral, i.e. when countries import from and export to union members as well as outside countries, trade diversion is inevitable. They further argued that a union with a proximate partner could be more harmful than with a distant one. In their view, as long as the country continued to import from the outside world, the price facing its consumers and producers would not change. Therefore, it would fail to reap any efficiency benefits that accrue via the decline in the internal price when liberalisation is non-discriminatory.

Instead, the country would lose tariff revenue on goods imported from the partner country with the lost revenue transferred to the latter's exporters. They pointed that being its largest trading partner, the US is a natural trading partner of India but the reverse is not true. Likewise, the US may be a natural trading partner of both Mexico and Canada but Mexico and Canada may not be natural trading partners of each other.

3. Does the Existence of Informal Border Trade and Services Trade Help Overturn the Results of Adverse Welfare Consequences?

Another debate is on the issue whether regionalism can help or hinder the multilateral trading system. Or will proliferation of RTAs be a "building block" or a "stumbling block" (Bhagwati's (1993) phrase) to global free trade? If the net trade creation

** Summers, L.,(1991): "Regionalism and the World Trading System" -Policy Implications of Trade and Currency Zones. Wyoming: Federal Reserve Bank of Kansas City

5 Lipsey, R. G (1957): "The Theory of Customs Union: Trade Diversion and Welfare"-Economica 24, 40-46.

6 Krugman, P. (1991), "Is Bilateralism Bad?" in E. Helpman and A. Razin (eds.), International Trade and Trade Policy, Cambridge, Mass.: MIT Press.

7 Bhagwati, J. (1995): "U.S. Trade Policy: The Infatuation with Free Trade Areas". In Bhagwati, J. & Krueger, A. eds., The Dangerous Drift to Preferential Trade Agreements, Washington, D.C., American Enterprise Institute for Public Policy Research.

8 Panagariya, A. (1996): "The Free Trade Area of the Americas: Good for Latin America?" World Economy 19, no. 5, September, 485-515.

9 Bhagwati, J. & Panagariya, A.(1996): The Economics of Preferential Trade Agreements, Washington, D.C. AEI Press.

effects of RTAs are positive, excluded countries can be impelled to seek membership of existing RTAs or negotiate new RTAs, thereby influencing global trade over time. The long-term effects on global trade hinge critically on whether the impetus triggers expansion of existing RTAs or duplication of separate RTAs. The existence of many overlapping RTAs may encounter the problem of discriminatory trade blocs that could be harmful to global free trade.

Box 1: Development Aspects of RTAs

The Global Economic Prospects 2005 makes the following observations on the developmental aspects of the RTAs:

- There is no strong evidence to support the claim that a preferential trade agreement (PTA) will be net trade creating or that all members will benefit. Positive outcomes depend on design and implementation.
- When embedded in a consistent and credible reform strategy, the key determinant of RTAs' success is low levels of external trade barriers. While many developing countries have reduced tariffs, they remain high in many countries and regions, and the risk of trade diversion remains significant. Further reductions in applied most favoured nation (MFN) tariffs will be required to ensure that regional agreements are beneficial for those participating in them and to minimise the impact on the countries that are left out.
- Trade agreements that provide for comprehensive liberalisation of trade across all major sectors and non-restrictive RoO are more likely to be successful. Agreements that devote considerable resources to negotiating limited positive lists or large negative lists and detailed product specific RoO limit the scope for gains.
- Effective implementation is crucial to positive outcomes, yet implementation is compromised by proliferation. If different agreements have different product coverage, different liberalisation schedules, and different RoO, the ability of agencies such as customs to apply the agreements is severely undermined. The capacity to effectively implement is a crucial issue that countries should consider before signing an RTA.
- Monitoring can play an important role in providing for effective implementation though often there is insufficient monitoring mechanism. Technical reviews are frequently not done, and when reports are made, senior officials fail to act on their recommendations.

The World Bank Global Economic Prospects (2005) published by World Bank observed that though the number of RTAs has increased tremendously and that the trade between RTA partners makes up nearly 40 percent of the total global trade, the value of preferences has steadily fallen. This is due to the fact that most of the countries have been reducing tariffs on across the board basis to its all trading partners on MFN basis. The World Bank has pointed that roughly 66 percent of the decline in the average tariffs in the developing countries during the last two decades has come from unilateral reductions, as distinct from 25 percent coming out of Uruguay Round and around 10 percent from RTAs. It has also pointed that the product exclusion and restrictive RoO as further limited the preferential market access.

To examine the likely consequences of FTAs, it would be important to understand first the way in which benefits and costs will be divided between the members of FTA. The outcome will depend on the comparative advantage of the members, relative to each other and rest of the world. The FTA may lead to trade creation – a welfare enhancing component or trade diversion or a welfare reducing component. Due to an FTA, if the imports in a member country take place from a more cost efficient producer of a partner country which replaces a high cost local/domestic producer, then this is trade creation.

However, if the increased imports from the partner country displace the efficient and lower cost producers of the rest of the world due to the tariff preferences of FTA, then this is the case of trade diversion. Venables[‡‡‡] has argued that if a group of low income countries form an FTA, there will be a tendency for the lowest income members to suffer real income loss due to trade diversion. However, if an FTA contains a high income country (relative to other members and to the world average) then the lower income members are likely to converge with the high income partners. It has been argued that the developing countries are likely to be better served by 'North-South' than by the 'South-South' FTAs. Additionally, the 'North-South' FTAs provide greater opportunities for the transfer of technology from the higher income member to the lower income members.

Does the existence of informal border trade and services trade help overturn the results of adverse welfare consequences? Informal cross-border trade in goods and services represents a particularly important and challenging unofficial, informal sector activity, as it demonstrates the essence of informal or 'shadow' trade (smuggling). Collecting data on such kind of trade is most of the times very difficult. Studies have pointed that the value of informal trade in case of Africa[§§§] and South Asia [****] etc., are quite higher than the formal trade that takes place. Generally, the 'informal trade activities' are defined by the following characteristics:

- Ease of entry or exit
- Reliance on indigenous resources
- Family ownership and management of resources
- Small scale nature of operations
- Basic sills which are acquired outside the formal education system.
- A business entity which is not legally recognised.

In most of the cases where the national borders are porous, hundreds of traders cross the border posts through informal channels with unrecorded merchandise and the flea markets boom with these goods. Most of the data, thus, relating to foreign trade and regional integration ignore informal cross-border trade flows and concentrate on the recorded or official trade flows. Further, the informal cross-border trade is stigmatised by the detestable label of smuggling and lack of interest arising from lack of data and difficulties in data collection due to secrecy of the activity. Therefore, in most of regional cooperation discussions, the policy dialogues are driven by the perception that the informal cross-border trade is not only welfare reducing and economically non-viable but socially undesirable. It has been argued that the informal cross-border trade undermines local industries, distorts price incentives to producers misguides domestic policies, negatively impacts on foreign exchange earnings, reduces tax-revenue and distorts the correct picture of intra-regional trade. At the same time,

‡‡‡ Venables, A.J. (1999): Regional Integration Agreements: a Force for Convergence or Divergence?
§§§ John Mwaniki: Impact of informal cross-border trade on regional integration in SADC and implications for Wealth creation.
Nyatanga Phocenah, Mpofn S. and Tekere M: Informal Cross-border Trade:Salient features and impact on welfare.

**** Zaid Bakht & Binayak Sen (2002): Border Trade in South Asian Growth Quadrangle another reality is that many people make a living out of such informal cross border trade.

It must also be recognised that in cases where the trade regimes in a country is relatively open, the chances of regional cooperation are better with its neighbouring countries. In all such cases, the cooperation in the areas of goods, services, transshipment, tourism, natural resources management can be greatly welfare enhancing.

Removing institutional obstacles to cross borders has more certain benefits than reducing intra-regional barriers, because it saves real resources, for example, trucks that make more deliveries to the port are more productive. Interventions that lead to a higher productivity have the greatest impact on trade and welfare-productivity, and this, in turn, has the greatest impact on trade and welfare, including further increases in productivities. In contrast, removing revenue-generating tariff barriers on a preferential basis can lead to trade diversion and reductions in welfare.

Box 2: Informal Cross Border Trade and Welfare: Case of Africa

Teka et ab (1999)[††††] have pointed out that though the official annual exports of cattle from Ethiopia, the most populous country Africa, are less than 2000, more than 25 times of this amount are unofficially exporter across borders. For some commodities, like livestock and grain, unofficial exports to neighbouring countries can exceed officially licensed trade by a factor of 30 or more.

Another study on informal cross border trade in the Horn of Africa was made by Peter Little (2005)[‡‡‡‡]. He pointed that as per his study during 1996-2001, the unofficial trade of cattle between Kenya and Somalia it was difficult to obtain the information from traders and border officials. The study points out that in addition to the livestock, other goods were also exchanged across the border. As per the study, the following cross-border trade patterns were found:

Little (2005) calculated the prevailing prices in the neighbouring countries to assess the impact of informal border trade. As per his calculation, (see Table 2) he shows that Mogadishu's prices, which were highest among Somali markets in the 1980s, are now lower than transit markets in the border trade, a stark contrast to the situation of the 1980s. As the data reveal, prices rose between 1987 and 1998 at market centers involved in cross-border trade (Afmadow and Liboi), while they actually declined in US dollar terms for Mogadishu. Prior to the collapse of the national government, cattle prices among Somalia's markets were always highest in Mogadishu. For the border town of Liboi, prices doubled between 1987-88 and 1996, a reflection of the strong growth in cross-border trade with Kenya.

Little it does find that the highest risks and costs in cattle trade involve the initial purchase and transport. It finds that while risks can be excessive in some years, the returns in cross-border trade are also very high – well above profits in other types of agricultural trade. The study concludes that the unofficial trans-border trade livestock and other critical commodities play important local and national development roles and would continue to do so until alternative markets and livelihoods are found for these area and their inhabitants.

†††† Teka T., A. A. Azere and A. Gebremariam (1999): Cross Border Livestock trade & Food Security in Southern & South eastern Borderlands of Ethiopia.

‡‡‡‡.Little Peter (2005): Unofficial trade when States are Weak: The case of cross border Commerce in the Horn of America.

Table 1: Cross Border Trade Goods

Somaliland to eastern Ethiopia	**Eastern Ethiopia to Somaliland**
Kerosene Wheat flour & pasts Sugar	Goats & sheep Maize and sorghum Cattle & camels Charcoal Kerosene
Somalia to Kenya	**Kenya to Somalia**
Cattle Consumer electronics Clothes Pasta	Mirrah (qat, a mild natural stimulant) Maize (small amount) Wheat flour (small amount) Tea Sugar

Table 2: Average Prices of Cattle in Selected Markets: 1987-88, 1996 and 1998 (in US$)

Year	**Mogadishu**	**Afmadow**	**Liboi (1)**	**Kismayo**
1987-88 (2)	121	94	83	80
1996 (3)	99	128	163	71
1998 (3)	110	117	133	100

Notes:

(1) Liboi is located on the Kenya/Somalia border.

(2) Based on analysis of monthly market data collected under the USAID/Livestock Marketing and Health Project. The period covered was January 1987 to February 1988, although data were not available for each market every month. The Somali Shilling (SoSh) exchange rate for the period averaged approximately 120SoSh=US$1.

(3) Based on data from interviews with 94 traders. Period covered was March 1996 to July 1996 and June to August 1998; cattle were quality two animals of medium-quality (cows and bulls older than seven years).

Box 3: Informal Cross Border Trade and Welfare: Case of South Asia

Ever since Bangladesh's independence there has been a substantial informal unrecorded trade across the India-Bangladesh land borders. Much of this trade is quasi-legal and is best characterised as "informal" rather than illegal, because there is wide participation by local people in the border areas, and the trade generally bypasses customs posts. As per the report, all the literature on the India-Bangladesh informal trade confirms that this trade is essentially one-way, from India to Bangladesh. Informal trade of the kind that exists between India and Bangladesh involving large numbers of local people individually transporting small quantities-often just as head loads or by bicycle rickshaw is sometimes called "bootleg" smuggling. Smuggled "bootleg" merchandise exports from Bangladesh exports to India have been estimated at only about three percent of Indian exports to Bangladesh.

According to the report, very approximate estimates based on surveys in Bangladesh during 2002, total smuggled exports from India to Bangladesh may have been around US$500mn, about 42 percent of Bangladesh's recorded imports from India in 2002/03, or about 30 percent of total imports (recorded plus smuggled). Most of the smuggled imports came by the land border. The report's estimate was based on interviews with "knowledgeable persons" in various regions on the Bangladesh side of the border only, and the estimated values of smuggling in some key products (notably cattle and sugar) were found to be much lower than estimates from the Indian side. These discrepancies suggest that the total smuggling could be as high as US$900mn, equivalent to about three quarters of the total recorded trade, or about 42 percent of total Bangladesh imports (recorded plus smuggled).

On studying the trends for a period of eight years during 1995-2003, the report points out that from these statistics one may like to infer that smuggling from India has been declining and it may be linked to the import liberalisation in Bangladesh. The consultant studies find that preferences for formal trade will be influenced by:

- The level of Bangladesh protective tariffs.
- The rigor of Customs administration, especially on the Bangladesh side.
- The nature of the goods and VAT administration in Bangladesh.
- The state of the infrastructure (roads, storage, technical and administrative capabilities etc) on both the Indian side and the Bangladesh side at the border Customs posts, and the resulting time and transaction costs associated with the use of these formal routes.

According to the 2002 surveys, the value and composition of "bootleg" smuggling was as follows:

(Source: World Bank Report: India-Bangladesh Trade, Trade Policies and Potential Free Trade Agreement)

Table 3: Composition of Traded Items

Products	% of total	Specific items
Cows and buffaloes	43	
Agricultural products	14	Of which 90% rice, wheat, pulses & timber
Processed foods	17	Of which 88% sugar
Textiles	16	Of which 63% *sarees*
All other	10	43 products

Table 4: Trends in Estimated "Bootleg" Smuggled Exports from India to Bangladesh

FY	Recorded land ($ million)	Recorded total ($ million)	Estimated bootleg ($ million)	Estimated bootleg as	
				% of land	% of total
1995	NA	645	371	NA.	58
1998	603	786	309	51	39
2003	580	1176	237	41	20

Notes: Back to back LC imports from India n.a. in FY 1995 & have been excluded from the FY 1998 and FY 2003 imports for consistency. Land border imports also n.a. for FY 1995." Bootleg" imports from studies mentioned in the text.

4. What Would be the Effect of A Wider Cooperation Including Transit and Services Trade?

Through the conventional RTAs only the tariffs and quotas on goods have been liberalised; however, the present RTAs are being designed to achieve much more than that. Under the present regime where all the WTO members have reduced their duties, logistics, transportation, regulatory barriers have become more important tool to determine the terms of trade. International connectivity and the costs of transport and logistics services are emerging as crucial factors in access to international trade. Whereas customs tariffs have been decreasing, the incidence of international transport costs has actually risen in recent years, now surpassing the value of import duties on most exports from developing countries. The long waiting times at border crossings are a major cost factor in transit transport operations.

It has been observed that most of the RTAs have not contributed substantially in reducing the associated trade costs. The situation further gets aggravated in cases of developing country. The issue of transit is, therefore, very important in governing the flow of trade. A major impediment to trade in this regard is crossing the borders for trade. Studies have pointed out that in some cases the trucks are not allowed to enter the neighbouring country, while in another case it was estimated that allowing the trucks of a landlocked country to operate in a transit country might save 30-40 percent of transit transport cost[§§§§].

Mc Callum (1995)[*****] has pointed out that trade within the countries is much more intense than between countries. In his view, if trade costs were insignificant, the propensities to trade nationally and internationally would be equal. His report suggested that Canadian provinces are more than 20 times likely to trade among themselves than they are to trade with the US States after controlling the main economic determinants of trade. Nitsch (2000)[†††††] found the evidence of substantial border effect in Europe, with internal trade being, on average, larger by a factor of 10 than trade with EU partners, although the magnitude of this effect did decline during the 1980s.

The retail price of a particular product tends to diverge with distance, and this difference is much higher when the two locations being compared lie on either side of a national border. Cost raising barriers may be linked in circles of causation, with significant impact due to scale economies in transport. For example, a reduction in tariffs or a decline in costs at the port may stimulate trade that can offer opportunities for transport companies to operate at more efficient levels of scale. And if there is

§§§§ UNCTAD (December 2004) Document No. TDB/COM.3/EM.22/3

***** Mc Collum, J.(1995): National borders matter: Canada US Regional Trade Patterns. American Economic Review 85; 615-623

††††† Nitsch,V. (2000): National Borders and International Trade: Evidence from the European Union, Canadian Journal of Economics 33: 1091-105.

effective competition in the transport sector, this could lead to lower transport prices and more trade & so on.[‡‡‡‡‡]

Box 4: Case Study of Trans-Kalahari Corridor: World Bank
The study on how the standardisation and simplification can lead to increase in trade volumes was done by World Bank. It has studied the case of Trans Kalahari Corridor[§§§§§]. The Trans-Kalahari Corridor (TKC), the road route between Gauteng province (South Africa) and Walvis Bay (Namibia) via Botswana was opened in 1998, replacing the traditional longer route through western South Africa. Despite major road rehabilitation in 1999, traffic reached only 15 percent of the expected capacity. The major obstacles occurred at the border crossings. This led the TKC Corridor Management Group to seek a partnership with the customs administrations of Namibia, Botswana, and South Africa. This partnership resulted in agreements (October 2000) to extend the operating hours of customs at the Namibia/Botswana border from 22 to 24 hours to enable loading and unloading in Windhoek and crossing the border in the same day. In August 2003, the TKC started a pilot phase to replace all existing transport documents with a single administrative document (SAD). To complement this effort, South African Customs developed a website with details on the SAD process. Border processing times were cut by more than half, from an average time of 45 minutes to 10–20 minutes. According to the United States Agency for International Development (USAID) estimations, reduced border delays created savings of US$2.6mn per year along the corridor. As a result, the route had become economical, and traffic flows increased. Operators were moving about 620,000 tonnes annually along the TKC, about 65 percent of expected capacity, until the Botswanan government increased road user charges in February 2004. In some cases, road charges were multiplied by a factor of 10. The customs problem had been settled, but following this unilateral decision affecting the transport sector, traffic decreased significantly.
Source: Global Economic Perspective (2005)

Another area where RTAs could be very effective in promoting development is liberalisation of Sectors of Services. The policy makers and trade negotiators have now started giving attention to several other areas to expand the activity of economic engagement in RTAs. Since the tariff barriers in RTAs have been lowered down, attention is being given now to include Services, Investments, temporary movement of natural persons, Intellectual Property Rights (IPRs) etc., since they have the greatest potential for affecting incomes and trade in developing countries.

From the development perspective, potentially beneficial components are such provisions which open services markets. In RTAs, liberalisation of services can enlarge the number of competitors and can generate incomes. North-South agreements, notably the bilateral free trade agreements of the US and of the European Union (EU), have been the important drivers for services, investment, and IPRs. In broad terms, the US, for example, offers access to its large market for goods in exchange for access to services markets in developing countries and their acceptance of rules governing investment and intellectual property rights.

‡‡‡‡‡ Hummels, D. and A. Skiba (2002): *A Virtuons Circle? Regional Tariff Liberalisation and Scale Economies in Transport.* In ‘Integrating the Americans: FTAA and Beyond”.

§§§§§ Global economic Prospects (2005) by World Bank

The EU market access agreements also cover many of these topics, if less specifically. Labor services – that is, the temporary movement of workers – are largely confined to professional and skilled workers, often intra-corporate transfers. South-South agreements tend to feature services liberalisation less prominently, and their rules governing investment, intellectual property, and even the temporary movement of workers, are commonly weak or absent altogether.

Services liberalisation with proper regulation can be a powerful driver of economic growth and poverty reduction in the multilateral context and to a certain degree in the RTAs. At the sectoral level, removing barriers to competition can lower prices, improve quality, and add variety. Because of the linkage effects – the fact that producers require telephones, use finance, need adequate transportation services, and benefit from business services – improving service sector performance can generate huge economic gains. Mattoo, and others (2001)[******] show that countries with fully liberalised financial and telecommunications sectors grew annually on average about 1.5 percentage points faster than other countries, controlling for other factors. These gains are not automatic; they require adequate regulation and a supportive investment climate – but the potential gains are large (World Bank 2001)[††††††].

In those areas where RTAs could seriously promote development – services liberalisation and temporary movement of workers – results have ranged from mixed to missed opportunities. In general, the US FTAs have prompted some additional services market openings in Bahrain, CAFTA, and Morocco, some changes in Singapore, but relatively few changes in Australia and Chile. To be sure, even those agreements that required no additional market opening could benefit developing countries, because investors may attach credibility to the lock-in effects of the treaty. In the South, agreements that have substantially improved services access are relatively limited, and those with greater market access often have the most restrictive rules of origin for investor nationality. In the wake of the September 11, 2001 attacks on the US, concerns for security have made cross-border movement of all persons subject to greater controls and scrutiny. This atmosphere does not bode well for expanding programs for temporary workers.

5. What are the Potential Implications of EPAs (Welfare Gains, Revenue Losses, Terms of Trade Shocks, Preference Erosion of LDCs)?

Since 2000, several major new trends have emerged in the pattern of regional trade agreements. One unifying characteristic is that these take RTAs well beyond agreements between adjacent countries. Having been a leading (and early) player in the RTA game, the EU had established many RTAs prior to the launch of the Doha Round. Since then, it has pursued market access agreements with a few individual

****** Mattoo, Aadittya, R. Rathindran, and A. Subramanian. 2001. Measuring Services Trade Liberalization and its Impact on Economic Growth: An Illustration. Policy Research Working Paper 2655, World Bank, Washington, DC.

†††††† World Bank. 2001. Global Economic Prospects and the Developing Countries 2002: Making Trade Work for the World's Poor.

partners as well as MERCOSUR. The EU has preferred to negotiate with blocs of countries and has encouraged the Mediterranean countries to sign agreements with one another and has supported the development of a web of bilateral RTAs between Southeastern European economies. The recent Economic Partnership Agreements (EPAs) were launched to replace the Cotonou agreement with the African, Caribbean, and Pacific (ACP) group in a WTO-compatible set of agreements, and the EPAs are seen by the EU as a development-promoting vehicle rather than as a way to gain additional market access.

EPAs are the most ambitious attempt to harness trade, development resources, and technical-legal assistance to the cause of integration-led development. The objective is to promote development, strengthen regional integration, and ensure compatibility with WTO principles. By negotiating reciprocal liberalisation with existing South-South regional groupings and by providing common rules of origin with cumulative provisions, participants hope to prevent the hub-and-spoke effects that plague many bilateral North-South agreements. The EPAs will also encourage liberalisation of services, provide for common product standards, and set up the negotiation of investor protections, based on state-to-state ad hoc arbitration of disputes[‡‡‡‡‡‡]. After a one-year clarification phase by the ACP states, the first negotiations were launched in October 2003. The EU initiated discussions with the Economic Community of West African States (ECOWAS) plus Mauritania, the Economic and Monetary Community of Central Africa (CEMAC) plus São Tomé, Eastern and Southern Africa (16 countries), the Southern African Development Community (SADC), the Caribbean ACP countries, and the Pacific states[§§§§§§]. Reciprocal trade liberalisation would be the centerpiece under the terms of the EPA programme. It may be noted that most of the EPA countries already enjoy preferential market access that the EU grants unilaterally under this programme.

ACP Governments believe that if EPAs are to support the economic development of their economies and contribute to the elimination of poverty in developing countries then they cannot simply be free trade area agreements. They must include measures to promote the structural transformation of ACP economies, so that they produce more value added goods and less basic commodities. Both the general scope and the content of EPAs are well-described in the Cotonou Agreement. EPAs are not foreseen to be just ordinary FTAs, they are to be FTAs plus, having a clear development dimension. The important principles for the current negotiations include the following[*******]:

(i) **<u>WTO compatibility:</u>** The most fundamental objective of EPA is to create a regime that is totally compatible with the requirements of Article XXIV of GATT and Article V of GATS. Therefore, for EPAs to be in full conformity with WTO provisions they must be in line with the requirement stipulated in Art. XXIV: 5(c), read with the Understanding, which states that a RTA must be formed 'within a reasonable length of time'. Another requirement is found in Art. XXIV: 8 which

‡‡‡‡‡‡ World Bank Global economic Prospects (2005)

§§§§§§ Kiener, C. (2004) Economic Partnership Agreements: a new approach to ACP-EU Economic and Trade Cooperation, Paper presented to the EU-World Bank, retreat on Preferential Trade Agreements

******* San Bilal : EPAs Process: Key issues and development perspective With specific references to East and Southern Africa defines that the parties eliminate duties and other restrictive regulations of commerce with respect to 'substantially all trade' between the constituent territories in products originating in such territories. Although the 'substantially all trade' phrase is one of the most disputed elements in WTO rules and there is no consensus on its definition so far, the EC however, maintains that substantially all trade has to cover as much as 90% of trade volume and items both.

(ii) **Reciprocity:** This is a radically new element in ACP-EU trade relations. For the first time, ACP countries will have to open up, on a reciprocal basis, their own markets to EU products in order to retain their preferential access to the EU market.

(iii) **Regionalism:** The principle of basing the future trade cooperation on regional integration initiatives stems from the conviction that regional integration is a key stepping stone towards further integration into the world economy, as well as a main instrument to stimulate investment and to lock in the necessary trade and economic reforms. Therefore, the chances of promoting regional cooperation amongst the ACP countries due to the EPA is high as they could collectively utilise their resources to avail the benefit of cumulation provisions of EPA.

(iv) **Differentiation:** Considerable weight in the Cotonou Partnership Agreement is given to special and differential treatment, which affirms the North-South character of the relationship. EPAs should provide sufficient scope for flexibility, special and differential treatment (S&DT) and asymmetry. In practice, this could mean that certain ACP countries will be allowed longer transitional periods before their markets are fully liberalised or that certain sectors are entirely excluded from liberalisation. In particular LDCs, small and vulnerable economies, landlocked countries and small islands, for which special provisions have been included in the Cotonou Partnership Agreement, should be able to benefit from differential treatment in EPAs. However, it remains uncertain how much flexibility is available for the EPAs that are currently being concluded. The ACP countries are split into six small groups for the negotiations; the smallest group, the Pacific Islands, is negotiating a trade agreement with an economic giant more than 1400 times its size.

Under the EPA, the ACP countries are also required to eliminate tariffs on nearly all of their European imports in order to meet the criteria of Article XXIV of GATT, 1994. This may though result in boosting consumer welfare due to the drop in the domestic prices, but it would lead to decrease in the market share of the domestic producers and non-EU exporters. Eliminating tariffs on EU goods would lead to huge financial losses for the ACP countries. Perez[†††††††] has pointed out that the customs revenue stood for 27 percent of the public revenue in the sub-Sahara Africa in 1995 and that the imports from EU in 2001 accounted for 42 percent of the total ACP African imports. Therefore, the likely revenue loss is another important factor in determining the cost of EPAs to the ACP countries.

††††††† Perez, R. (2006): Are the Economic Partnership Agreements a first best option for the African Caribbean Pacific Countries?

Box 5: Case Study: Revenue Loss
In many ACP countries, revenue from the imposition of import duties on traded products is a principal source of government income. Where the EU is the major trading partner, duties imposed on imports from the EU often represent a significant proportion of total customs duties raised by ACP countries. The progressive elimination of import duties on goods from the EU could thus have significant adverse effects on total government revenues. This is most notably the case for African ACP economies, given their trade orientation towards Europe. It is less of problem in the Pacific and the Caribbean, where the EU is generally a less important source of imports. In the case of four ACP countries which already find themselves in a free trade area with the EU, namely Botswana, Lesotho, Namibia and Swaziland (BLNS) it has been estimated that government revenue losses arising from the introduction of free trade with the EU will be between 5.3 percent of total government revenue (Botswana) and 13.9 percent (Swaziland). In the case of Namibia the losses faced are equivalent to nearly two and a half times the current Namibian Government budget deficit. The immediate problem facing these governments is to establish efficient and effective alternative systems of revenue collection to compensate for these losses.
Source: EPA watch website: www.epawatch.net

The Overseas Development Institute has studied the economic effects of EPAs on ACP region and as per their study[‡‡‡‡‡‡‡] the following scenario emerges (see Table 5):

Table 5: Economic effects of EPA on ACP Region

Region and source	**Trade creation (TC) / Trade diversion (TD)**	**Fiscal effects (loss of tariff revenues)**	**Welfare effects**	**Major gainers and losers**
Sub-Saharan Africa (as a whole)			Negative (EPA with no regional integration) Positive (removal of intra-SSA barriers or EU–SSA Free Trade Area)	
West Africa	TC larger than TD	Negative	Positive	Nigeria and Ghana (gainers); Cape Verde and Gambia (losers)
Central Africa	TC larger than TD	Negative	Positive	Cameroon, Gabon and DRC (gainers)
EAC	TC smaller than TD for Tanzania and equal to TD for Uganda	Large negative	Small negative for Tanzania; Negligible for Uganda	Tanzania (loser)
COMESA	TC larger than TD	Negative	Positive	Kenya, Mauritius, Sudan and Ethiopia (gainers)
SADC	TC larger than TD	Large negative	Large positive (EPA with regional integration) Small positive (EPA with no regional integration)	South Africa, Zimbabwe and Mauritius (gainers); Zambia, Tanzania, Mozambique Swaziland (losers)

‡‡‡‡‡‡‡ ODI Briefing Paper (June 2006): The potential effects of EPAs: What quantitative models say

Caribbean	TC smaller than TD (for simultaneous MFN tariff cuts < 50%) TC larger than TD (for simultaneous MFN tariff cuts > 50%)	Small negative	Small negative (for simultaneous MFN tariff cuts < 20%) Small positive (for simultaneous MFN tariff cuts < 20%)	
Pacific	TC larger than TD	Small negative	Small positive	Papua New Guinea and Fiji (gainers)

The study points out that various studies done in this regard tend to show that trade liberalisation of goods trade is broadly positive though not as large as could be expected from multilateral liberalisation due to varying trade diversion effects, or as large as could be expected from services trade liberalisation. It points out that the results from modelling need to be interpreted with caution because the modelling framework is essentially static (and dynamic productivity effects through attracting FDI might potentially be important); all models assume that tariff cuts will automatically translate into a proportionate reduction of prices, while it is likely that some of the cut will be appropriated by producers and/or importers; moreover, models lack important details in their trade scenarios and tend not to include an option whereby sensitive products can be excluded from trade liberalisation. Notwithstanding these limitations the results from the models provide important information on the basis of which negotiations could progress.

Perez (2006)[§§§§§§§] has argued that there will not be a significant gain to ACP countries as there will not be substantial increase in their exports to the European markets, whereas the European exporters would largely increase their shares in the ACP markets. This would lead to major trade imbalance to ACP countries leading to a reduction in intra-ACP trade at the expense of ACP – EU trade. A welfare loss to each of the ACP country has been projected as there would be a major drop in their industrial output along with the large reallocation of their workers.

6. Development Dimensions in EPAs

Everybody agrees that the EPAs currently being negotiated between the EU and the ACP regions should first and foremost be development-oriented. More than four years after the start of the negotiations (in September 2002), one would have expected that a consensus would emerge between the parties on this issue. Yet, sharp differences still prevail on the approach to development in these negotiations, creating tensions and frustrations among the parties.

In the views of the European Commission (EC), EPAs will foster development mainly through trade liberalisation and the creation of the right policy framework to attract investments. In their view, due to EPAs the ACP regions will benefit from the standard gains from trade:

- increased market access to the EU,

§§§§§§§ *ibid*

- reduced prices of EU imports for ACP consumers, and
- associated competitive effects should foster economic growth and hence development.

According to the EC, EPAs will not only address tariff, but also NTBs, and technical barriers to trade (TBT), as well as a number of trade-related "behind the border" measures (such as trade facilitation, competition, investment, etc.) as well as services, thus increasing the benefits from trade. With its comprehensive coverage, the new partnership should therefore also contribute to lock in policy reforms in the ACP, increasing the relevance and credibility of their regional integration process, as well as facilitating their integration in the world economy.

The benefit to ACP countries in terms of improved market access to the European markets is questionable. The ACP countries presently enjoy the unilateral tariff preference under the Cotonou Scheme. The EPA would replace the non-reciprocal scheme with a reciprocal scheme where the ACP countries shall have to provide duty-free market access to the EU. No additional market access would be available to ACP countries; however, EU will get much better benefit due to preferential opening of ACP markets to their exporters. Since most of the ACP countries still maintain high external tariffs, the EPA will create more of 'trade diversion' than 'trade creation' thereby causing loss of welfare to ACP countries.

While many of the ACP may agree with the EU on the potential development opportunities in an EPA, they tend to consider trade liberalisation and regional integration as necessary, yet far from sufficient conditions to foster development and alleviate poverty. In other words, creating large open integrated regional markets and increasing ACP export opportunities are only factors of potential development, which require additional conditions to be beneficial. In particular, ACP economies need to have the capacity both to benefit from increased market access and to face greater competition domestically. Trade liberalisation should thus be accompanied by development support to address supply-side constraints, as well as related institutional and structural weaknesses.

Proper sequencing of liberalisation commitments and implementation with development support is also of prime importance. The ACP have continuously stressed that high adjustment costs: fiscal reform to face the loss of import revenues, adjustment measures for loss of competitiveness and restructuring of domestic industries, institutional development (to address issues such as compliance with food and safety standards, harmonisation of custom procedures, etc.), may even negate the benefits from market liberalisation through an EPA.

Effective measures to enhance production and trading capacity, diversify exports, and develop human resources will be necessary for them to concretely benefit from improved market access conditions in Europe. Therefore, the EPA need to be accompanied by measures to remove supply-side constraints like unreliable public utilities, poor public infrastructure, weak institutional policy frameworks and low labour productivity. This could also include a framework investment agreement that would seek to attract more investments into the region.

East and Southern Africa (ESA) Members have also proposed to build into the EPA framework mechanisms to offset negative effects of ESA tariff reduction on government revenues and on the competitiveness of domestic industries. Besides supply-side constraints and adjustment costs, the development component of an EPA could cover the ability of ESA countries to comply with NTBs in EU markets such as technical, quality and food safety requirements on imports.

Box 6: Developmental Provisions of Cotonou Agreement

The Cotonou Agreement, which provides the legal basis for EPA negotiations, recognises this in Article 2 of the Cotonou Agreement:

*"differentiation and regionalisation: cooperation arrangements and **priorities shall vary according to a partner's level of development**, its needs, its performance and its long-term development strategy. Particular emphasis shall be placed on the regional dimension. Special treatment shall be given to the least-developed countries. The vulnerability of landlocked and island countries shall be taken into account".*

Article 34(4) of the Cotonou Agreement takes the development dimension one step further by prescribing the manner of implementation:

*"4. Economic and trade cooperation **shall** be implemented in full conformity with the provisions of the WTO, **including special and differential treatment**, taking account of the Parties' mutual interests and their respective levels of development".*

One possibility for more flexibility lies with the interpretation of the length of the transitional period. ACP countries are at different levels of development and the transitional arrangements of an RTA should reflect these differences. Hence they should be given a longer transitional period for domestic industry protection and to minimise the fiscal impact of an EPA. It is not unusual to find free trade agreements (FTAs) notified under Article XXIV with transitional arrangements exceeding 10 years. The North America FTA (NAFTA), Thailand – Australia, Thailand – New Zealand and the US and Australia are all examples of FTAs being gradually phased in over periods ranging from 15 to 20 years. If these advanced countries with simple configurations deserve transitional periods of this length surely ACP countries with more complex configurations deserve longer periods.

The WTO rules allow developed economies to grant non reciprocal trade preferences to developing countries. Both the current and previous trade arrangements between the EU and ACP countries are non-reciprocal preferential trade arrangements (PTAs). A key different between these arrangements and the proposed EPAs is that the EPAs will be reciprocal preferential trade agreements. In order to build the development agenda there should be effective and transparent provisions relating to non-reciprocal commitments.

For the latter, the end of trade asymmetry will bring about many serious consequences, for which the ACP countries are ill-equipped (lowering of customs and budget revenue, competition with imported products, pressures on ACP competitivity or on food security, etc). Adjustment costs will have to be measured accurately and be genuinely taken into account. According to certain experts, the ACP countries are quite simply not yet ready to meet this challenge, particularly since the timetable for the negotiations looks tight.

For EPAs to be the tool of development, it should be essential that it should leave ACP "no worse off". The trade liberalisation is just a necessary, but not sufficient condition to the effective development of the ACP; and EPAs should effectively promote development. EPAs will require significant adjustment costs, which if not properly addressed could impede the development of ACP economies. The EU has so far failed to grasp the magnitude of these adjustment costs and their potential destabilising impact on the ACP. The current mechanism to address EPAs adjustment costs do not guarantee the proper coverage of development support required in the context of EPAs, nor the timely deliver of the assistance needed; yet, appropriate level of support, timely disbursement of funding and effective delivery of assistance will affect not just the proper negotiation of EPAs, but especially the capacity to implement any agreement.

Since the EPA would force reciprocal market access commitments to be made by the ACP countries to the EU as against a non-reciprocal Cotonou Scheme, one would need to see what alternatives are available to the ACP countries. Under the EPA the gains to the ACP countries are asymmetrical to the gains of EU. While the developing ACP members have an option to switch from the Cotonou Scheme to the GSP, the ACP LDCs can opt for the 'Everything but Arms' (EBA) as they are not required to reciprocate preferential market access. The benefits to ACP countries in terms of preferential market access to EU will not be much less favourable than the Cotonou Scheme, but since they would not be required to provide any reciprocal preferential market access to EU needs a serious consideration by the ACP countries, especially the ACP LDCs.

While overall economic liberalisation in the multilateral framework is the 'best option'; the RTAs - the 'second best option' provide, at times much better opportunities to test the effects of economic liberalisation on a multilateral basis. At times when it is difficult for a government to take hard policy decisions due to political compulsions, the RTAs provide a better option for economic liberalisation. A country may unilaterally undertake liberalisation (i.e. cuts its MFN tariffs) which is argued to be the best option as there is no scope for trade diversion; however, for policymakers it is often difficult to sell the idea of multilateral liberalisation as they are evaluated by export performance rather than welfare benefits. Therefore, when a country gets duty-free access for its exports into other market through the FTAs, policymakers find it might find it relatively easy to justify opening up. This phenomenon thus explains why countries are keen to sign RTAs despite the economic arguments of adverse welfare implications.

From a development perspective, the WTO remains the best-available forum to discipline the use of trade-distorting policies. RTAs can complement the WTO efforts by cooperating on behind-the-border policies, especially on regulation-intensive issues such as services, trade facilitation, and the investment climate. Developing countries are likely to have the greatest success in harnessing trade for growth and poverty reduction if they adopt a three-pronged strategy that involves autonomous liberalisation, active multilateralism, and open regionalism.