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Assessing the Consequences of the Economic Partnership Agreement on the Rwandan Economy

By

Romain Perez, Stephen Karingi and
Hakim Ben Hammouda

March 2005

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Abstract

This paper quantifies the potential economic and welfare impacts of the Economic Partnership Agreement currently being negotiated between the European Union and the ACP countries, on the Rwandan economy. The paper analyses the trade creation and diversion effects of Rwanda reciprocating on the trade preferences that it currently enjoys in the European Union market. Three scenarios are considered. The first scenario looks at the implications of full dismantlement of the tariffs that EU exports face in Rwanda. The other two scenarios alternately look at opening up of Rwandan agriculture and non-agriculture sectors of the economy. The results show that EPAs that have full or substantial reciprocity would reinforce the linkages between Rwanda and European countries, including traditional partners such as Belgium, with implications for the regional integration arrangements that Rwanda is currently involved in. There will be significant trade diversion from other African countries currently trading with Rwanda. The results further indicate that the liberalization of industrial sectors in favour of imports from the EU result in more trade effects, particularly negative trade diversion, compared to the results from agricultural liberalization. The loss in revenue, which is a strong feature in general liberalization, is at the sectoral level, more pronounced in the industrial liberalization. These revenue shortfalls are likely to pose major challenge in the form of adjustment costs associated with tax policy and administration reforms and the required expenditure cuts and reallocations. Clearly, unless they are well structured, instead of fostering economic diversification, the EPA could lead Rwanda to deepen its comparative advantages in agricultural products.

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Trade and Regional Integration Division
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Addis Ababa, Ethiopia

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Introduction

In order to comply with World Trade Organization (WTO) rules, the European Union (EU) is renegotiating the non-reciprocal preferential trade agreements it has with African, Caribbean and Pacific (ACP) countries. These agreements are not in compliance with Article 24 of the General Agreement on Tariffs and Trade (GATT). According to this article, WTO members are allowed to selectively apply the Most Favored Nation (MFN) principle in only two cases: if they belong to a free trade zone and if they want to grant preferential access to all developing countries. The EU has opted for the first exemption, and will be negotiating an Economic Partnership Agreement (EPA) with each of the six Economic Communities regrouping the ACP countries¹ until the end of 2007. After the implementation of these free-trade agreements, which may last more than ten years after 2007, ACP countries will have to reduce down to zero their tariffs on exports from the EU, as a counterpart to the duty free access their exports will enjoy in European markets.

Ten years after the genocide that led to the death and the displacement of around one third of population, Rwanda has recovered the level of output it reached in the beginning of the nineties, and the Rwandan government has largely liberalized and stabilized the economy. However, the long-term outlook for the Rwandan economy is precarious. With high structural public and trade deficits, indebtedness reaching around 82 percent of Gross Domestic Product (GDP), the Rwandan recovery relies heavily on international aid. In this regard, it is important to make sure that the ensuing trade regime induced by the Free-Trade zone with the EU will not lead to a destabilization of the public and external accounts. Furthermore, this EPA needs to support and strengthen the recovery strategy of the Rwandan government.

Therefore, it appears necessary to assess carefully the impact of the EPA on the Rwandan economy. To what extent would the EPA would lead to a surge in European imports? How bad would the trade diversion be, leading to negative consequences for the regional partners of Rwanda? What would be the costs (in terms of trade balance and public revenues) and the gains (total welfare) for the country?

This study tries to assess the impact of the EPA on the Rwandan economy. Three scenarios have been tested, assessing the consequences of a full liberalization of trade from the EU, and more limited liberalizations of industrial and agricultural products exchanges. The first scenario, which is similar to full liberalization on Rwanda's part of its trade with the EU looks at the implications of Rwanda reciprocating fully on all the sectors. This is then followed with two other scenarios, which are limited liberalization. In the first of these scenarios, the focus is on tariff cuts within the agricultural sector while in the last scenario, the reciprocity is applied only on the industrial sector.

The results presented indicate that a free trade zone would reinforce the linkages between Rwanda and European countries, including traditional partners such as Belgium, with implications for the regional integration arrangements that Rwanda is currently involved in. There will be significant trade diversion from other African countries currently trading with Rwanda. The diversion will occur in the low-technology sectors, which are potentially good foundations for deepened regional integration based on trade in industrial goods. The results further indicate some important implications with respect to Rwanda's industrialization strategy. The liberalization of industrial sectors result in more trade effects, particularly negative trade diversion, compared to the results from agricultural liberalization. The loss in revenue, which is a strong feature in general liberalization, is at the sectoral level, more pronounced in the industrial liberalization. The economic structure of Rwanda, which supports self-reliance in food from the agriculture sector, underpins the limited losses in agriculture as compared to the industrial sector. Clearly, instead of opening doors to economic diversification, the EPA could lead Rwanda to deepen its comparative advantages in agricultural products.

The report is organized as follows. After analyzing the recent trends of the Rwandan economy in Section 1, as well as the trade features of the country in Section 2, this report presents the results of the simulations realized on the model developed by the World Bank and the United Nations Conference on Trade and Development, WITS/SMART² in Section 3.

1. Economic Performances³

Ten years after the genocide that cost the lives of over one million persons and deeply disrupted the economy⁴, Rwanda has recovered the level of production it had in the early nineties. In 2000, the GDP was equal to the GDP of 1990. Thanks to international aid and structural reforms to liberalize its economy, Rwanda has experienced growth rates higher than five percent since 2000 (6.8% in 2001 and 9.2% in 2002). A restrictive monetary policy, coupled with measures to increase public revenues, has enabled the country to tackle inflation since 2000. Thus, inflation has decreased from 9.8 percent in 1999, to 4.3 percent in 2000 and 2.5 percent in 2002.

However, the Rwandan economy suffers from structural weaknesses and has still to manage the consequences of the genocide.

The GDP per capita remains particularly low, at US\$220⁵, among the lowest in the world. Around two thirds of its population live in absolute poverty, with less than \$1 a day. Poverty, added to civil wars and a dramatic surge in HIV-AIDS pandemic have led to a reduced life expectancy of 39 years.

Costs of transaction and investment

The country faces a lack of infrastructure, with only 7.3 percent of asphalted roads and a road network of 14,000 kms. This situation is all the more detrimental given that the country is landlocked and isolated. Hence, the local transaction costs are high, which hampers the competitiveness of Rwanda. According to economic surveys, the large distance separating Rwanda from shipping ports (over 1,500 kms) added to the state of road infrastructure induce an implicit tax of over \$160 per ton.

Added to a global context of insecurity, these features of the Rwandan economy limit its attraction to foreign investors. Despite an increase in foreign direct investments (FDI) since 2000, FDI only reached \$49 million from mid-2000 to end of 2003⁶.

Structural imbalances

In spite of the reforms of the tax system⁷, public revenues do not cover public expenditures. The deficit was worsened by the cost of the civil war in Democratic Republic of Congo (DRC) as well as the judiciary process following the genocide in 1994⁸, reaching 11 percent of the GDP in 2002 and 12.1 percent in 2003. Therefore, the Rwandan government highly depends on the international aid to balance its budget. The aid accounted for 9.2 percent of the GDP in 1999, equivalent to \$45 per capita.

The Rwandan economy suffers also from an insufficient diversification of its output and a lack of competitiveness:

- The agricultural sector accounts for 44 percent of the GDP, and 90 percent of the employment⁹. The agricultural productivity is dropping due to the over exploitation of soil and excessive parceling out of land (80% of the parcels are less than one hectare). Demographic pressure leads to the use of less fertile lands at the base of the hills. Traditional agricultural methods are still in use, while modern technologies and intrans, costly and not adapted to a subsistence agriculture, are not widespread.
- Rwanda exports tea and coffee, which represent more than half of its exports. However, it is a net-importer of food. Cereals, vegetables, oil, sugar and dairy products accounted for 16.3 percent of its imports in 2002.
- The mining sector is not significant (0.2% of the GDP), in spite of important exports such as tungsten, coltan¹⁰ and cassiterite³. The level of extraction remains inferior to its 1990's level due to the disorganization induced by the genocide in 1994.
- Industrial output is not significant, estimated at 8.6 percent of GDP in 2001 (10.6% in 1996). The industrial sector employs barely two percent of the labour force and eight companies only employ more than 500 workers. Most industrial products are related to agriculture (food processing and tobacco industries).
- Services represented 45 percent of GDP in 2002, the largest subsectors being the wholesale and retail trade (9-10 % of GDP) and public administration (7% of GDP). Financial services are not developed as they account for only three percent of the GDP. The banking sector is weighed down by bad loans, which represent some 40 percent of the total portfolio at the end of 2001¹¹. This situation mainly results from insufficient controls as well as poor prudential norms. As a consequence, the private sector undergoes a credit crunch by the lending banks. Bank lending is concentrated in commerce and construction, while agriculture gets less than two percent of the total of the grants. Poor households also have little access to the formal financial sector.

The lack of diversification of the Rwandan economy does not enable the country to cover the costs of imports by the revenues of exports. International aid transfers as well as long-term loans balance the payment imbalance and the foreign currency reserves. However, the structural deficit of trade raises concerns about the ability of Rwanda to reduce its indebtedness, which reached 1.4 billion dollars at the end of 2002. Given its critical indebtedness, Rwanda has been invited to join the IMF-World Bank heavily indebted poor countries (HIPC)¹² initiative.

In order to achieve the reconciliation process, Rwanda must spend large amounts of money on genocide trials, and on demobilization and reintegration. This comes along with other important social needs of the country. This specific situation is not fully taken into account by the IMF-World Bank HIPC initiative. The Rwandan government, as well as other African governments, calls for more flexibility in terms of public spending and urges the international community to better take into account the post-conflict issues it is facing

Economic reforms

After the genocide, the Rwandan government implemented a set of measures related to the tax system, and monetary and sectoral policies.

In order to increase the tax revenues, a system of Value Added Tax (VAT) was launched in 2001. A new tax on cars was created, the fiscal base of the income taxes was increased, and the tax control system as well as the management of public funds have been improved. These initiatives have led to an increase in tax revenues from 9.7 percent of the GDP in 2002 to 11 percent in 2003. Besides, a significant programme of privatization was launched in 1997, so that 37 state-owned companies were sold to private investors¹³. After selling the nonfunctioning state-owned enterprises, mainly enterprises that had been seriously damaged by the civil war, the government is now selling its competitive businesses. A privatization secretariat has been set up to support the programme and a regulatory agency now sets the tariffs, grants licenses and prevents the constitution of monopolies. After the partial privatization of Rwandatel, Electrogaz and tea factories should be sold within the coming years.

Exchange control was partly liberalized in 1995 and 1998, enhancing a complete liberalization of the current transactions. However, revenues of exports are still strictly controlled by the Rwandan government. In the meantime, the regulation and supervision of the banking system have been improved thanks to coordinated actions of the National Bank of Rwanda, Ministries of Finance and Justice, and bankers association. Several commercial banks are still being restructured.

In 2000, the plan “Rwanda Vision 2020” was initiated to revitalize the economy. Good governance, economic revitalization, human development, regional integration and poverty reduction are the main axes of the plan. In the rural field, initiatives have been taken to transform the subsistence agriculture of Rwanda into a productive one, which would free capital and labour to the benefit of other sectors. Through modernization of process, use of selected intrans as well as diversification of outputs¹⁴, the Rwandan agriculture is expected to become an engine for the economic growth. This diversification imperative has also been included in “Vision 2020” as a priority for industry. Added to specific measures dedicated to sectors such as craft or food-processing industries, diversification would enable Rwanda to increase its share in the international trade and reduce poverty.

Selected targets for *Vision 2020*

Literacy (%)	48	100
Life expectancy (years)	49	55
Infant mortality rate (per 1,000 live births)	110	30
Poverty (% under \$1 a day)	64	30
Erosion-protected land (%)	20	100
Secondary teachers, qualified (%)	20	100

Source: *Economic Report on Africa 2003, Economic Commission for Africa*

Since 2001, the Rwandan government has been involved in a decentralization policy. Decentralization is seen as an efficient way to improve service delivery and ease national reconciliation. Therefore, a decentralization law was passed in 2001, enlarging the powers of the provinces, districts and sub districts, transferring them a significant amount of the government resources and allowing them to raise some of their income from local sources. However, this initiative will not necessarily improve pro-poor service delivery¹⁵ and is hampered by the lack of local capacity to manage public projects.

Economic Outlook

After three years of stable growth, the Rwandan economic results have been less satisfactory in 2003 and 2004, according to the IMF estimates¹⁶. In 2003, the real GDP growth was equal to only 0.9 percent. It reached six percent in 2004, but the inflation rate has been far above six percent in 2003-2004.

The overall fiscal deficit has been above 10 percent of the GDP (14.8% of the GDP in 2004) and the external current account deficit, excluding official transfers, should reach 21.4 percent of the GDP. These structural deficits lead to significant deterioration of the solvability of the Rwandan economy, as indebtedness rate has grown from 80.9 percent to 86.6 percent since 2002.

2. Trade features

Institutional framework

On May 26, 2003, the Rwandan people adopted a new Constitution that recognizes the primacy of International treaties, including WTO agreements, on national laws. Through this new legal frame, the country has shown its willingness to mainstream trade policies. Trade is identified as a priority in the “Rwanda Vision 2020” plan. There is an institutional framework for dealing with trade; affairs related to trade are dealt with by the foreign trade and finance minister. Other ministers, national institutions and private sector are also involved when they are concerned. Private sector participates in the definition of the trade policy through the “Public/Private Partnership Forum”, chaired by the president of the Rwandan Private Sector Federation.

Since the genocide, Rwanda authorities have increased their commitment in the Multilateral System as well as the regional integration process. Original WTO member, Rwanda joined the Free-Trade area of the Common Market for Eastern and Southern Africa (COMESA) on January First 2004. This has led the government to reduce to zero the tariffs on imports from other members of COMESA. Rwanda is also party to the treaty establishing the Economic Community of the Great Lakes Countries (CEPGL). It is a member of the Economic Community of Central African States. It also benefits from non-reciprocal preferential access to the EU market under the Cotonou Agreement, and the “Everything but Arms” agreement, and to the United States market under the African Growth and Opportunity Act (AGOA)¹⁷.

Rwandan trade policy is answers to the WTO principles. After the Uruguay Round, all the tariff lines were bound. The Rwandan government does not use any anti-dumping or safeguard measures to limit imports. All the tariffs are *ad valorem*. The average applied tariff was equal to 18 percent in 2003, and is decreasing, as it was equal to 19.2 percent in 2002. To make up for the tax revenue losses, the government has reformed the tax system (see part 1.), with the introduction of the VAT and privatization of some state-owned companies.

Tariff structure

Bound rates (see annexes for detailed figures)

The average bound rate is equal to 89 percent (76% for agricultural products, 91% for non-agricultural products). 75.3 percent of the tariff lines are bound at 100 percent, 12.9 percent at 80 percent.

Applied rates (see annexes for detailed figures)

Rwanda has a simplified tariff grill corresponding with the proposed external common tariff of COMESA members: 30 percent for the finished goods, 15 percent for intermediary goods, five percent for the raw materials and zero percent for capital goods. The average of the applied tariffs was equal to 18 percent in 2003, 18.8 percent on non-agricultural products, 13.2 percent on agricultural products. Dispersion of the tariff is limited, with no tariff peaks¹⁸. Fifty-six percent of the tariff lines ranged from five percent to 15 percent. A tariff of 30 percent is applied on 40 percent of the lines. 271 lines are duty free.

The Rwandan authorities determine products according to their level of transformation (tariff escalation) as the average applied tariffs equals eight percent on raw materials, 12.7 percent on intermediary goods and 23.4 percent on finished products. Paper and chemical products are the only products which are not concerned with tariff escalation.

Trade structure

Exports accounted for four to five percent of the GDP, and imports from 12.5 percent to 14 percent from 1997 to 2002. These imbalances imply a chronic deficit of the trade accounts (7.3% of the GDP in 2002 and 11% in 2003). This situation can be partly explained by the depreciation of the terms of exchange since the nineties¹⁹.

Exports are mainly concentrated on agricultural products, especially, tea, coffee and coltan, which accounted for 92 percent of exports in 2001 and 77 percent in 2002.

- Tea generated stable export revenues in the last years (around 25% of the total export). Rwanda benefits from optimal climatic and soil conditions for tea. 97 percent of the output is dedicated to the foreign markets. This industry, which employs more than 60,000 workers is largely owned by the state, and provides 36 percent of the government income.

Three quarters of the production is sold in Mombasa, Kenya, to Great Britain, Egypt, South Africa, Yemen, Sudan and Pakistan. The industry is strongly hampered by the high transport costs it faces.

- The coffee industry was plagued by the depreciation of the world prices. Coffee employs around 400,000 persons and remains the main export of Rwanda (30.5% of the exports in 2002). The production is still below the level reached prior to 1994. The industry suffers from the deterioration of the quality of the output, due to a loss of soil fertility, age of the plantations, the varieties grown, the absence of producers' organization as well as the lack of washing stations. The government tries to revitalize this strategic sector by promoting the modernization of the installations and cultivation methods. The target is to triple the level of output from its 2001 level (18,268 tons to 44,000-60,000 tons by 2010).

- The mining industry (chiefly cassiterite, coltan and tungsten) contributes a minor part of the GDP, but amounted to 35.5 percent of total export goods in 2002. Mining production is far below the level it reached before 1994 (in 2001 mining production was down to 77% of its 1990 level). The industry is also hampered by the decline of the world prices. According to experts, there are reserves of methane amounting to 70 billion cubic meters around Lake Kivu, but their exploitation has not begun yet.
- Sixteen percent of the Rwandan exports are re-exports²⁰ (transit activities), mainly of industrial goods, to the Democratic Republic of Congo.

Rwanda exports mainly to African countries, Kenya absorbing 55 percent of the Rwandan exports. Europe is the second destination for these exports, with Germany, Belgium and Switzerland being the main European export market of Rwanda.

Rwanda imports around \$250 million of goods, mainly food products (6.5% of the imports in 2002), mining products (7.2%), oil (6.5%), chemical products (5.4%) and transport equipments (10%). The sources of imports have been mostly African countries since 1998. The share of the European countries has decreased by around nine percent, to the benefice of Asian exporters.

3. Trade simulations on the Economic Partnership Agreements reform

The Economic Partnership Agreement will enable the EU and the ACP countries to continue their cooperation partnership in compliance with the WTO regulation, especially article 24 of the GATT. After the implementation of the EPAs, the EU and ACP countries will have formed a free trade zone, leading to a full liberalization of the exchanges between these two regions.

Article 24 of the GATT leaves room for the WTO members in terms of product coverage. In principle, all the products shall be included in the free-trade agreement. In fact, free trade agreements do not fully comply with this rule. Thus, after the free trade agreement of 1999 between South Africa and the EU, South Africa has liberalized only 86 percent of the European imports, while the EU has liberalized 95 percent of the South African imports²¹.

In this regard, three different scenarios will be tested, to assess the total effect of the EPAs on the Rwandan economy, as well as the likely aftermath of a partial liberalization:

- A general scenario, based on full liberalization of all the imports from the EU to Rwanda.
- A scenario limited to the liberalization of the agricultural imports from the EU.
- An industrial scenario, assessing the impact of a free trade zone limited to industrial exchanges.

In order to realize these simulations, we have used the WITS/SMART model²². **General Liberalization**

In this scenario, we focused the tax cuts on all the sectors.

The EPA will distort the Rwandan imports towards European countries, to the detriment of the regional trading partners of Rwanda.

Figure 1. Value of exports of the

EU to Rwanda (\$'000)

EU Exporter	European Exports change
Total Export Growth	13,609.4
Belgium	6,542.4
Germany	2,436.9
Netherlands	1,251.2
France	1,063.9
United Kingdom	803.9
Italy	643.0
Denmark	456.3
Sweden	181.6
Spain	141.8
Portugal	44.8
Greece	20.3
Austria	8.1
Luxembourg	7.4
Poland	5.4
Hungary	1.7
Ireland	0.5
Czech Republic	0.1

Source: WITS/SMART Model

Due to the EPAs reform, exports from the EU to Rwanda will rise by 23 percent, from \$58.4 million, to \$72 Million. This increase, which is not significant, at the level of the EU, changes the structures of imports of Rwanda: the share of the EU among exporters would increase from 27.4 percent to 32.2 percent to the detriment of other partners of Rwanda.

Even though the impact of the agreement would still be limited for Rwanda in terms of increase of its imports – the net increase would not exceed \$10 million, less than five percent of its level of import in 2002 ²³-, the bias introduced by the agreement appears to be unfavourable for at least two reasons:

- It weakens regional integration efforts, as COMESA countries are significantly losing from the agreement (see figure 3.) to the benefit of the EU countries (especially Belgium, France, Germany and Netherlands).
- It reinforces competitors that produce high technology value added goods.
- As shown in figure 2, most products imported from EU relate to vehicles, electrical machinery and textiles, sectors that Rwanda and its COMESA partners could develop. Thus, Kenya has been developing light industries producing small electrical equipment as well as car spare parts. This diversification strategy could be hampered by the EPAs reform.

Figure 2. Growth of traded volumes after EPAs (\$'000)

Product	Changes After EPAs
Total All products	10,552.7
HS.87 Vehicles o/t railw/tramw roll-stock, pts & access	2,398.2
HS.85 Electrical mchy equip parts thereof; sound record	1,700.1
HS.63 Other made up textile articles; sets; worn clothing	852.1
HS.84 Nuclear reactors, boilers, mchy & mech appliance;	651.4
HS.90 Optical, photo, cine, meas, checking, precision,	625.7
HS.39 Plastics and articles thereof.	468.0
HS.40 Rubber and articles thereof.	445.5
HS.94 Furniture; bedding, mattress, matt support, cushi	444.7
HS.11 Prod.mill.indust; malt; starches; inulin; wheat g	365.2
HS.49 Printed books, newspapers, pictures & other produ	322.2
HS.48 Paper & paperboard; art of paper pulp, paper/pape	254.4
HS.30 Pharmaceutical products.	214.9

Source: WITS/SMART Model

Trade Diversion

Trade diversion amounts to \$3.1 million, which is limited as regards he global level of trade for Rwanda.

However, this trade diversion is affecting COMESA trading partners of Rwanda as well as other African economies outside COMESA such as South Africa or Tanzania. The intra-COMESA loss of trade would amount to \$0.7 million, while intra-African trade would fall by \$1.4 million. These losses are concentrated on three major product categories: vehicles and transport equipment (HS 87, \$0.2 million), essential oils and cosmetic (HS 33, \$0.1 million) and diverse agricultural products (among which HS11, \$0.1 million).

Figure 2. Trade diversion from Rwanda – EU EPAs (\$'000)

Exporter to Rwanda	Export Diversion
Total COMESA	-747.7
Kenya	-451.4
Uganda	-209.0
Egypt	-63.4
Total Rest of Africa	-607.2
South Africa	-313.5
Tanzania	-245.5
Total Rest of the World	-1,702.8
United Arab Emirates	-643.0
Canada	-460.0
Japan	-159.9
India	-103.9
China	-80.3
Israel	-58.4
United States	-44.4
Switzerland	-35.6
Saudi Arabia	-17.0
Total export diversion	-3,056.6

Source: WITS/SMART Model

The other important source of the trade diversion is Asia, considering that a large part of the UAE imports are in fact coming from Asian countries, with a diversion amounting to \$1 million.

Some important partners of Rwanda are however little affected by the EPAs reform: the USA, which exports \$1.1 million, Swaziland (exports \$1.3 million, diversion 5 KUSD), Burundi (exports \$0.8 million, diversion 8

KUSD), Zambia (exports \$0.5 million, diversion 2 KUSD) and Mauritius (exports \$0.4 million, diversion of 1 KUSD).

Trade Diversion from COMESA

Figure 3. Diversion of exports from COMESA by main products (\$'000). Details in annexes.

Product		Change After EPAs
EGYPT: Total change in exports		-63.4
HS.21	Miscellaneous edible preparations.	-15.5
HS.94	Furniture; bedding, mattress, matt support, cushi	-9.5
HS.85	Electrical mchy equip parts thereof; sound record	-7.7
HS.85	Electrical mchy equip parts thereof; sound record	-5.5
HS.69	Ceramic products.	-3.0
UGANDA: Total change in exports		-209.0
HS.33	Essential oils & resinoids; perf, cosmetic/toilet	-21.9
HS.22	Beverages, spirits and vinegar.	-13.8
HS.11	Prod.mill.indust; malt; starches; inulin; wheat g	-12.7
HS.22	Beverages, spirits and vinegar.	-9.7
HS.87	Vehicles o/t railw/tramw roll-stock, pts & access	-7.3
KENYA: Total change in exports		-451.4
HS.87	Vehicles o/t railw/tramw roll-stock, pts & access	-51.7
HS.87	Vehicles o/t railw/tramw roll-stock, pts & access	-30.7
HS.11	Prod.mill.indust; malt; starches; inulin; wheat g	-25.1
HS.33	Essential oils & resinoids; perf, cosmetic/toilet	-16.9
HS.30	Pharmaceutical products.	-15.6

Source: WITS/SMART Model

Kenya and Uganda seem to be the biggest losers after simulating the agreement, although the losses are not significant considering the level of exports of these countries²⁴. However, due to the type of exports concerned, manufactured goods (particularly transport equipment and agro industrial products), these results are more alarming. Not only do the EPAs imply that trade integration within COMESA will be hampered, but the diversification strategy of the concerned countries is also affected negatively. Thus this agreement could raise serious concern about its consequences in terms of development.

Trade Diversion from the Rest of Africa

As for Kenya and Uganda, the consequences of the EPAs reforms do not appear to be very important in terms of value for the two other African losers, Tanzania and South Africa.

Figure 4. Diversion of exports from the Rest of Africa by main products (\$'000). Details in annexes.

Product		Change After EPAs
TANZANIA: Total change in exports		-245.5
HS.11	Prod.mill.indust; malt; starches; inulin; wheat.	-45.4
HS.63	Other made up textile articles; sets; worn clothing.	-39.4
HS.20	Prep of vegetable, fruit, nuts.	-28.1
HS.49	Printed books, newspapers, pictures & other produ	-6.5
HS.33	Essential oils & resinoids; perf, cosmetic/toilet.	-6.1
SOUTH AFRICA: Total change in exports		-313.5
HS.49	Printed books, newspapers, pictures & other produ	-57.0
HS.85	Electrical mchy equip parts thereof; sound record.	-23.6
HS.85	Electrical mchy equip parts thereof; sound record.	-22.5
HS.83	Miscellaneous articles of base metal.	-16.5
HS.85	Electrical mchy equip parts thereof; sound record.	-10.9

Source: WITS/SMART Model

However, the product analysis reveals that the exports losses concern sensitive products for the industrial development of these African countries. In Tanzania, the loss would affect emerging industrial sectors

such as textiles, which is considered as a strategic route to industrialization in many developing countries. South African losses only concern industrial products.

Rwanda will benefit from a limited gain of welfare, and will have to face significant public revenues losses.

The fiscal losses have two sources: the fiscal loss on trade diverted from non COMESA countries (most transactions inside COMESA are duty free or with very low customs taxes), which amounts to \$2.4 million, and the fiscal loss induced by the tax exoneration of European imports (\$58.4 million).

The fiscal loss amounts to \$5.6 millions, which is limited in respect of the Rwandan GDP (\$1.7 billion in 2002²⁵), but amounts to 2.5 percent of the Rwandan government revenues. Indeed, the EPAs reform would contradict two major development orientations of Rwanda:

Figure 5. Tariff Revenues losses by line of products (\$'000)

Product	Variation of Tariff Revenues after EPA
Total Tariff Revenues variation	-5,622.9
HS.87 Vehicles o/t railw/tramw roll-stock, pts & access.	-1,070.6
HS.85 Electrical mchy equip parts thereof; sound record.	-789.8
HS.63 Other made up textile articles; sets; worn clothing.	-683.5
HS.84 Nuclear reactors, boilers, mchy & mech. appliance.	-414.2
HS.11 Prod.mill.indust; malt; starches; inulin; wheat.	-366.0
HS.90 Optical, photo, cine, meas, checking, precision tools.	-293.5
HS.49 Printed books, newspapers, pictures & other products.	-252.1
HS.48 Paper & paperboard; art of paper pulp, paper.	-199.0
HS.39 Plastics and articles thereof.	-128.8
HS.22 Beverages, spirits and vinegar.	-126.8
HS.73 Articles of iron or steel.	-126.6
HS.30 Pharmaceutical products.	-121.6
HS.20 Prep of vegetable, fruit, nuts.	-112.3

Source: WITS/SMART Model

- Balancing the public budget. Of particular significance, the public deficit reached 11 percent of the GDP in 2002²⁶.
- Diversify the economy towards industrial sectors. With the EPAs agreement, the government would not be able to focus national revenues on strategic products necessary to the industrial development of the country (textile, vehicle/electrical equipment produced locally).

Welfare effect

In terms of welfare, Rwanda would record a net gain amounting to \$0.9 million, which is not very significant in regard of the Rwandan GDP (\$1.7 billion). This welfare would be captured by the consumers who would enjoy decreased prices, thanks to the reform of the EPAs. As import prices go down, consumers are able to consume more goods such as vehicles or textiles, for the same income.

Figure 6. Variation of Welfare by line of products (\$'000)

Product	Welfare changes After EPAs
Total variation of Welfare	875.8
HS.87 Vehicles o/t railw/tramw roll-stock, pts & access.	189.7
HS.63 Other made up textile articles; sets; worn clothing.	166.4
HS.85 Electrical mchy equip parts thereof; sound record.	122.3
HS.40 Rubber and articles thereof.	43.6
HS.94 Furniture; bedding, mattress, matt support.	43.3
HS.84 Nuclear reactors, boilers, mchy & mech appliance.	42.2
HS.48 Paper & paperboard; art of paper pulp, paper.	31.1
HS.49 Printed books, newspapers, pictures & other products.	25.4
HS.90 Optical, photo, cine, meas, checking, precision tools.	25.3
HS.11 Prod.mill.indust; malt; starches; inulin; wheat.	24.5
HS.39 Plastics and articles thereof.	22.7
HS.22 Beverages, spirits and vinegar.	13.6
HS.20 Prep of vegetable, fruit, nuts.	13.4
HS.92 Musical instruments; parts and access of such art.	10.4

Source: WITS/SMART Model

Sectoral approach (1): agricultural scenario

In this scenario, we focused the tax cuts on the agricultural sector only, leaving the industrial import tax of Rwanda unchanged.

In this scenario, the growth of trade of the EU is less significant than in the general scenario, due to the fact that EU mainly exports industrial goods to

Figure 7. Variation of trade of the EU (\$'000)

Exporter	Change After EPAs
Total Export Growth	2,144.5
Total Belgium	1,277.4
Total Italy	327.9
Total France	324.2
Total Netherlands	74.2
Total Germany	70.7
Total Portugal	29.2
Total Denmark	23.6
Total United Kingdom	17.2
Total Poland	0.1

Source: WITS/SMART Model

Rwanda and Rwanda imports mainly industrial goods. The total trade effect (trade increase of EU exports less trade diversion from the rest of the world), amounts to \$1.5 million²⁷, which may be seen as limited in volume but is still sensitive due to the sector concerned. As agriculture employs 90 percent of the active population in Rwanda, this increase could induce significant losses in terms of employment.

Figure 8. Diversion of trade (\$'000)

Exporter	Change After EPAs
Total export diversion	-598.9
COMESA	-265.0
Total Uganda	-109.4
Total Kenya	-111.6
Total Egypt, Arab Rep.	-32.5
Rest of Africa	-235.3
Total South Africa	-67.1
Total Tanzania	-168.3
Rest of the world	-98.6
Total United Arab Emirates	-67.8

Source: WITS/SMART Model

Furthermore, increase in EU trade appears to be as a result of trade diversion from African countries, meaning that EPAs reform is contradicting one of the principles of the Cotonou partnership agreement on deepening integration. Kenya, Uganda and Tanzania account for 65 percent of the trade diversion. Non-EU developed countries do not seem affected by such a scenario.

In the case of an agricultural scenario, diversion is higher than with a general scenario, as the part of trade growth resulting from trade diversion is higher. Thus, the share of the European trade growth induced by trade diversion would be equal to 27.5 percent, versus 22.5 percent in the previous scenario.

Given the net trade flow generated (\$1.4 million) and the weakness of the welfare gain (less than \$0.1 million), the cost for Rwanda in terms of tax loss is very significant.

Figure 9. Variation of Tax revenues (\$'000)

Product	Change After EPAs
Total Change after EPAs	-1,567.2
HS.11 Prod.mill.indust; malt; starches; inulin; wheat g	-732.1
HS.22 Beverages, spirits and vinegar.	-253.7
HS.20 Prep of vegetable, fruit, nuts or other parts of	-224.7
HS.04 Dairy prod; birds' eggs; natural honey; edible pr	-95.2
HS.21 Miscellaneous edible preparations.	-76.4
HS.19 Prep.of cereal, flour, starch/milk; pastrycooks'	-75.7

Source: WITS/SMART Model

Even though it represents only one percent of the public revenues, this loss would increase the dependency of Rwanda on international aid and raises questions about the solvency of its economy, for very limited gains.

Alternative solutions to limit the public deficits induced by EPAs (reduce expenditures, increase in rates of other taxes and improved tax administration) could be considered, but will not be easy to achieve, as revealed by the current public deficit.

It would be all the more difficult for Rwanda to accept such a situation, as most of these European products benefit from a large amount of subsidies which makes the competition on these market particularly unfair.

Figure 10. Variation of Welfare by line of products (\$'000)

Product	Change After EPAs
Total Welfare change	65.1
HS.11 Prod.mill.indust; malt; starches; inulin; wheat g	24.5
HS.22 Beverages, spirits and vinegar.	13.6
HS.20 Prep of vegetable, fruit, nuts or other parts of	13.4
HS.19 Prep.of cereal, flour, starch/milk; pastrycooks'	4.4
HS.21 Miscellaneous edible preparations.	2.9
HS.04 Dairy prod; birds' eggs; natural honey; edible pr	2.2

Source: WITS/SMART Model

The welfare perspective shows that Rwanda has little to gain on the agricultural products. Compared to a GDP of \$1.7 billion, a welfare increase by less than \$0.1 million is not significant.

Sectoral approach (2): industrial scenario

In this scenario, we focused the tax cuts on the industrial sector only, leaving the agricultural import tax of Rwanda unchanged.

Figure 11. Variation of trade of the EU (\$'000)

Exporter	Change After EPAs
TOTAL	12,536.1
Belgium	5,902.9
Germany	2,400.7
Netherlands	1,214.7
France	901.9
United Kingdom	795.3
Italy	479.0
Denmark	444.6
Sweden	181.6
Spain	141.8
Portugal	30.2
Greece	20.3
Austria	8.1
Luxembourg	7.4
Poland	5.4
Hungary	1.7
Ireland	0.5
Czech Republic	0.1

Source: WITS/SMART Model

This scenario offers a similar perspective than the general scenario, which confirms that the trade gain resulting from liberalization would be concentrated on industrial products.

In terms of exports from the EU, the gap between this scenario and the initial one is equal to \$1.1 million. Belgium, France and Italy would absorb the quasi totality of this relative drop, while Germany, Netherlands and Great Britain would keep the same level of exports towards Rwanda.

Twenty-two percent of the increase in trade is due to trade diversion, mainly from other developed countries (UAE, Canada and Japan). Trade diversion from COMESA would account for 22 percent of the diversion (40% for the African continent), while it accounts for more than 44 percent in the agricultural scenario (83% for the African continent).

The countries concerned by trade diversion are the same as in the initial scenario. Kenya remains the main loser among the African countries. As noticed previously, beverages, spare parts and resin oils are the products on which trade diversion is concentrated.

Figure 12. Trade diversion (\$'000)

Exporter	Change After EPAs
TOTAL	-2,756.8
Total COMESA	-620.5
Kenya	-395.7
Uganda	-154.3
Egypt, Arab Rep.	-47.2
Rest of Africa	-487.4
South Africa	-285.2
Tanzania	-161.3
Rest of the world	-1,649.0
United Arab Emirates	-608.7
Canada	-459.7
Japan	-159.9
India	-102.9
China	-78.4
Israel	-58.4
United States	-43.6
Switzerland	-35.6
Saudi Arabia	-16.0

Source: WITS/SMART Model

Of note, trade diversion undergone by developed countries is almost unchanged, with a gap inferior to \$0.1 million.

Tax revenue losses are significant as they represent around two percent of the public resources, which is all the more detrimental that Rwanda has not been able to balance its public budget over the last ten years. However the ratio welfare / tax losses is equal to 17.7 percent, versus 15.6 percent in the general scenario

and 4.1 percent in the agricultural scenario, meaning that EPAs reform would bring more welfare for a given cost (\$1 tariff revenue loss) on industrial products than on agricultural products, or, in other words, that the same level of welfare would induce smaller public revenues losses with industrial scenario than with the agricultural one.

Figure 12. Tax revenues losses (\$'000)

Product	Change After EPAs
TOTAL	-4079.6
HS.87 Vehicles o/t railw/tramw roll-stock, pts & access	-1070.6
HS.85 Electrical mchy equip parts thereof; sound record	-789.8
HS.63 Other made up textile articles; sets; worn clothing	-683.5
HS.84 Nuclear reactors, boilers, mchy & mech appliance;	-414.2
HS.90 Optical, photo, cine, meas, checking, precision,	-293.5
HS.49 Printed books, newspapers, pictures & other produ	-252.1
HS.48 Paper & paperboard; art of paper pulp, paper/pape	-199.0
HS.39 Plastics and articles thereof.	-128.8
HS.73 Articles of iron or steel.	-126.6
HS.30 Pharmaceutical products.	-121.6

Source: WITS/SMART Model

The analysis of the welfare results of industrial openness, reveals that bulk of welfare gain would result in the tax cuts on the industrial imports from EU. On these products Rwandan consumers are the more likely to benefit from decreases in prices.

Figure 14. Welfare Creation (\$'000)

Product	Change After EPAs
TOTAL	722.5
HS.87 Vehicles o/t railw/tramw roll-stock, pts & access	189.7
HS.63 Other made up textile articles; sets; worn clothing	166.4
HS.85 Electrical mchy equip parts thereof; sound record	122.3
HS.40 Rubber and articles thereof.	43.6
HS.94 Furniture; bedding, mattress, matt support, cushi	43.3
HS.84 Nuclear reactors, boilers, mchy & mech appliance;	42.2
HS.48 Paper & paperboard; art of paper pulp, paper/pape	31.1
HS.49 Printed books, newspapers, pictures & other produ	25.4
HS.90 Optical, photo, cine, meas, checking, precision,	25.3
HS.39 Plastics and articles thereof.	22.7
HS.92 Musical instruments; parts and access of such art	10.4

Source: WITS/SMART Model

Conclusion

Rwanda can expect limited gains in consumer welfare from the Economic Partnership Agreement which East and Southern African (ESA) countries are negotiating with the EU. These gains are not significant and not proportional to the cost of the agreement. This cost will be particularly heavy for the public resources of the Rwandan government, as public revenues losses would amount to a maximum of 2.5 percent of the current revenues level. In terms of external accounts, the impact of the EPA could also be significant, as imports would grow by four percent. Above all, EPA is inimical for the long-term strategy of Rwanda. Instead of leading the country to deepen regional integration and diversify its output, EPA will revitalize the trading partnership with Europe, as well as the traditional agricultural specialization of the country.

The consistent outcome from the scenarios is that EU stands to gain significantly in terms of expanded trade into Rwanda. While part of this trade expansion will result from trade creation, which is welfare improving, significant proportions of the trade gain will also be due to trade diversion from the rest of the world and from within the ESA EPA grouping that Rwanda is part of. As a result, while the reciprocity principle appears to be trade expanding, it will pose serious implications for deepened regional integration in the Eastern and Southern Africa region. Indeed, unless there are clear mitigating measures, the EPA could seriously undermine the gains that have been achieved so far in the integration process of the region.

Another consistent result from the simulations, are the potential adjustment costs that Rwanda will have to bear as a result of revenue shortfalls. Given the prominence of the EU imports into the country, the tariff dismantlement in each of the scenarios results in significant revenue shortfalls. The major challenge that these revenue shortfalls will pose is the adjustment costs associated with tax policy and administration reforms. The EPAs, if no appropriate measures are put in place to forestall the macroeconomic imbalances that are likely to result from the falling revenues, will have the possibility of undermining the developmental objectives of Rwanda.

Another important conclusion from the three scenarios is that the consequences of the EPA for the Rwandan economy will depend on the product lines concerned by the agreement. The more industrial products that are included, the stronger the trade diversion will take place, hampering regional integration and the less welfare the country gains.

These outcomes of the EPAs on Rwanda are consistent with the emerging evidence from other studies. This evidence can be summarised as follows: the EPAs will exacerbate the strain on fiscal systems in Africa; Undiversified economic structures in Africa will face unprecedented challenges; consumers in

African countries will be major beneficiaries from the EPAs; the non-EU countries will face a reduced market share in Africa; and regional integration efforts in Africa are likely to be hampered through trade diversion from African countries.

The overarching conclusion from all the emerging evidence and which applies to Rwanda is that the sequencing of policy reforms that Africa will need to undertake is critical to the success of the EPAs. The EPAs should focus more on deepening intra-African trade. This should be given sufficient lead-time to allow African countries to build the requisite competitiveness. This would have to be accompanied with significant developmental programmes to complement the larger markets with increased supply and diversified capacities. Eventually, any tariff dismantlement by African countries will need to be implemented in phases hand in hand with unrestricted market access for the African exports into the EU market. Clearly, the 10-12 year period interpreted from Article XXIV of GATT is only sufficient for the deepening of intra-African trade. The EPAs should look beyond the 12 years as the possible dates for introducing reciprocity. Before then, unrestricted market access and deeper African integration will have provided sufficient room for supply capacities and exports diversity to be built in the continent.

Annex 1: Macroeconomic perspectives (source WTO TPR 2004 – reference document)

Main indicators

	1995	1996	1997	1998	1999	2000	2001	2002
	Percentage							
Main indicators								
Real GDP growth	35.2	12.7	13.8	8.9	7.6	6	6.7	9.4
Inflation rate (measured on the basis of consumer prices) ^b	..	7.4	12	6.2	9.8	4.3	2.9	2.5
Rwanda francs per US\$ (end of period)	299.8	304	305	320	349	430	456	512
Nominal effective exchange rate (end of period – rate of change) ^c	-54.8	3.8	12.3	-11.9	5.7	-12.3	-3.4	-14.8
Real effective exchange rate (end of period – rate of change) ^c	-39.7	8.6	26.5	-18.2	5.1	-9.7	-5.3	-12
Share of real GDP								
Agriculture	44	46.8	42.8	43.4	43.9	45.1	46	..
Mining and quarrying industry	0.1	0.1	0.2	0.3	0.2	0.2	0.2	..
Manufacturing industry	10.2	10.5	11	10.5	9.4	8.5	8.6	..
Services	45.7	42.6	46	45.8	46.5	46.1	45	..

Public budget

	1995	1996	1997	1998	1999	2000	2001	2002
	Percentage of GDP							
Public finance ^d								
Deficit (-) or surplus (+)	1.6	-3.6	-2.2	-6.7	-6.4	-1.5	-5.3	-2
Deficit (-) or surplus (+), excluding grants	-13.7	-13.2	-9.2	-8.3	-9.7	-8.9	-9.5	-11

External accounts

	1995	1996	1997	1998	1999	2000	2001	2002
	Annual growth rate Percentage of GDP							
External accounts								
Balance in the current transactions account	-3.1	-6.7	-9.5	-9.6	-7.6	-5	-5.9	-7.3
of which: trade balance	-11.1	-10.9	-10	-9.7	-9.8	-8.4	-8.5	-9.6
Capital account balance	7.2	6.5	6.3	4.8	3.7	4.1	3.9	3.8
Financial account balance	-1.5	1.7	2.4	2.6	3.4	1.8	4.6	4.3

Tariffs

	Tariff		Bindings before Uruguay Round ^a	Bindings after Uruguay Round	
	2002	2003			
1. Bound tariff lines (percentage of all tariff lines)	100	100	11.8	100	
2. Duty-free tariff lines (percentage of all tariff lines)	4.9	4.9	0.9	0.8	
3. Non- <i>ad valorem</i> tariffs (percentage of all tariff lines)	0	0	0	0	
6. Simple average bound rate	19.2	18	17.6	89.1	
	Agricultural products (HS01-24)	15.1	14.2	9.9	76.2
	Non-agricultural products (HS25-97)	20	18.6	18.6	91.3
	WTO agricultural products ^b	14.4	13.2	11.6	74.8
	WTO non-agricultural products ^c	20	18.8	18.2	91.4
7. Domestic tariff "peaks" (percentage of all tariff lines) ^d	0	0	0	0	
8. International tariff "peaks" (percentage of all tariff lines) ^e	40.9	39.3	71.9	97.3	
9. Overall standard deviation of applied rates	9.8	10.6	8.4	24	
10. Applied "nuisance" rates (percentage of all tariff lines) ^f	0	0	0	0	

Source: WITS official Website. (<http://wits.worldbank.org/witsweb/Present/default.aspx>)

Annex 2: What is WITS?

The World Bank, in close collaboration with the United Nations Conference on Trade and Development (UNCTAD), has developed the World Integrated Trade Solution (WITS). It accesses and retrieves information on trade and tariffs which is compiled by the following international organizations:

- The United Nations Statistical Division (UNSD) Commodity Trade (COMTRADE) Data Base that contains Exports and Imports by Commodity and Partner Country. Values are recorded in US Dollars along with a variety of quantity measures. The Data Base includes information for over 130 countries, some of which have been reporting these types of statistics to the United Nations since 1962. The data are recorded according to six internationally recognized trade and tariff classifications.
- The United Nations Conference on Trade and Development (UNCTAD) Trade Analysis Information System (TRAINS) that contains information on Imports, Tariffs, Para-Tariffs and Non-Tariff Measures for 119 countries. The data on tariffs, para-tariffs and non-tariff measures are available at the most detailed commodity level of the national tariffs (i.e., at the tariff line level). The data are recorded according to three internationally recognized trade and tariff classifications.
- The World Trade Organization (WTO) Integrated Data Base (IDB) that contain Imports by Commodity and Partner Country and MFN Applied Tariffs for over 80 countries at the most detailed commodity level of the national tariffs; and, the Consolidated Tariff Schedule Data Base (CTS) that contains WTO Bound Tariffs, Initial Negotiating Rights (INR) and other indicators. The CTS is the official source for bound tariffs which are the concessions made by countries during a negotiation (e.g., the Uruguay Round of Multilateral Trade Negotiations). The data are recorded according to two internationally recognized trade and tariff classifications.

Features:

Wits is both:

- A gateway to trade and protection statistics through the databases listed above, allowing for retrieving, extracting and even exporting data.
- An analytical and simulation tool to estimate consequences of changes in tariff.

WITS is continuously undergoing development. New features are regularly added or updated to enhance the software.

Annex 3: Results of the simulation

General scenario

Trade diversion (>1,000 USD)

Exporter	Export Diversion
Total diversion	-3,056.6
United Arab Emirates	-643.0
Canada	-460.0
Kenya	-451.4
South Africa	-313.5
Tanzania	-245.5
Uganda	-209.0
Japan	-159.9
India	-103.9
China	-80.3
Egypt, Arab Rep.	-63.4
Israel	-58.4
United States	-44.4
Switzerland	-35.6
Saudi Arabia	-17.0
Tunisia	-10.3
Sao Tome and Principe	-9.4
Norway	-9.2
Congo, Dem. Rep.	-8.6
Burundi	-7.7
Brazil	-7.2
Nicaragua	-7.1
Indonesia	-6.4
Taiwan, China	-5.8
Gambia, The	-5.3
Swaziland	-5.1
Cameroon	-5.1
Pakistan	-5.0

Exporter	Export Diversion
Korea, Rep.	-4.9
Thailand	-4.9
Australia	-4.7
Oman	-4.5
Albania	-4.2
Mozambique	-3.9
Russian Federation	-3.8
Peru	-3.7
Turkey	-3.7
Nigeria	-3.5
Zimbabwe	-2.9
Gabon	-2.7
Hong Kong, China	-2.5
Zambia	-2.4
Senegal	-2.4
Ethiopia(excludes Eritrea)	-2.3
Guinea	-2.3
Singapore	-2.1
Niger	-2.1
Congo, Rep.	-1.5
Iran, Islamic Rep.	-1.4
Mauritius	-1.3
Northern Mariana Islands	-1.3
Iceland	-1.1
Mali	-1.1
Sri Lanka	-1.1

Trade creation by product line (>3,000 USD)

Product	Changes After EPAs
All products	10,552.7
HS.87 Vehicles o/t railw/tramw roll-stock, pts & access	2,398.2
HS.85 Electrical mchy equip parts thereof; sound record	1,700.1
HS.63 Other made up textile articles; sets; worn clothing	852.1
HS.84 Nuclear reactors, boilers, mchy & mech appliance;	651.4
HS.90 Optical, photo, cine, meas, checking, precision,	625.7
HS.39 Plastics and articles thereof.	468.0
HS.40 Rubber and articles thereof.	445.5
HS.94 Furniture; bedding, mattress, matt support, cushi	444.7
HS.11 Prod.mill.indust; malt; starches; inulin; wheat g	365.2
HS.49 Printed books, newspapers, pictures & other produ	322.2
HS.48 Paper & paperboard; art of paper pulp, paper/pape	254.4
HS.30 Pharmaceutical products.	214.9
HS.73 Articles of iron or steel.	162.4
HS.33 Essential oils & resinoids; perf, cosmetic/toilet	132.3
HS.92 Musical instruments; parts and access of such art	129.2
HS.22 Beverages, spirits and vinegar.	120.2
HS.20 Prep of vegetable, fruit, nuts or other parts of	106.3
HS.95 Toys, games & sports requisites; parts & access t	98.9
HS.83 Miscellaneous articles of base metal.	98.3
HS.62 Art of apparel & clothing access, not knitted/cro	79.6
HS.69 Ceramic products.	70.5
HS.38 Miscellaneous chemical products.	69.2
HS.82 Tool, implement, cutlery, spoon & fork, of base m	65.6
HS.04 Dairy prod; birds' eggs; natural honey; edible pr	51.0
HS.76 Aluminium and articles thereof.	48.4
HS.29 Organic chemicals.	46.5
HS.28 Inorgn chem; compds of prec mtl, radioact element	45.1
HS.21 Miscellaneous edible preparations.	40.0

Product	Changes After EPAs
HS.19 Prep.of cereal, flour, starch/milk; pastrycooks'	38.1
HS.37 Photographic or cinematographic goods.	35.4
HS.32 Tanning/dyeing extract; tannins & derivs; pigm et	31.2
HS.61 Art of apparel & clothing access, knitted or croc	25.0
HS.96 Miscellaneous manufactured articles.	24.5
HS.66 Umbrellas, walking-sticks, seat-sticks, whips, et	23.6
HS.70 Glass and glassware.	23.3
HS.72 Iron and steel.	22.4
HS.27 Mineral fuels, oils & product of their distillati	19.0
HS.34 Soap, organic surface-active agents, washing prep	15.9
HS.57 Carpets and other textile floor coverings.	15.7
HS.35 Albuminoidal subs; modified starches; glues; enzy	14.1
HS.42 Articles of leather; saddlery/harness; travel goo	13.8
HS.65 Headgear and parts thereof.	9.3
HS.97 Works of art, collectors' pieces and antiques.	8.9
HS.89 Ships, boats and floating structures.	8.7
HS.17 Sugars and sugar confectionery.	8.5
HS.18 Cocoa and cocoa preparations.	8.1
HS.44 Wood and articles of wood; wood charcoal.	7.8
HS.74 Copper and articles thereof.	7.8
HS.68 Art of stone, plaster, cement, asbestos, mica/sim	7.8
HS.15 Animal/veg fats & oils & their cleavage products;	6.5
HS.16 Prep of meat, fish or crustaceans, molluscs etc	6.5
HS.58 Special woven fab; tufted tex fab; lace; tapestry	6.1
HS.52 Cotton.	5.6
HS.10 Cereals	5.0
HS.56 Wadding, felt & nonwoven; yarns; twine, cordage,	4.7
HS.03 Fish & crustacean, mollusc & other aquatic invert	4.4
HS.64 Footwear, gaiters and the like; parts of such art	4.1
HS.25 Salt; sulphur; earth & ston; plastering mat; lime	4.0

Product	Changes After EPAs
HS.09 Coffee, tea, mati and spices.	3.9
HS.91 Clocks and watches and parts thereof.	3.3
HS.12 Oil seed, oleagi fruits; miscell grain, seed, fru	3.2
HS.02 Meat and edible meat offal	2.9
HS.78 Lead and articles thereof.	2.8
HS.71 Natural/cultured pearls, prec stones & metals, co	2.6
HS.36 Explosives; pyrotechnic prod; matches; pyrop allo	2.4
HS.55 Man-made staple fibres.	2.3
HS.88 Aircraft, spacecraft, and parts thereof.	1.9
HS.23 Residues & waste from the food indust; prepr ani	1.1
HS.05 Products of animal origin, nes or included.	1.0

Public resources effect (< -1,000 USD)

Product	Variation of Revenues after EPA
Total HS.82 Tool, implement, cutlery, spoon & fork, of base m	-18.1
Total HS.70 Glass and glassware.	-16.1
Total HS.57 Carpets and other textile floor coverings.	-14.8
Total HS.27 Mineral fuels, oils & product of their distillati	-13.6
Total HS.72 Iron and steel.	-11.4
Total HS.97 Works of art, collectors' pieces and antiques.	-10.9
Total HS.35 Albuminoidal subs; modified starches; glues; enzy	-10.8
Total HS.34 Soap, organic surface-active agents, washing prep	-10.1
Total HS.17 Sugars and sugar confectionery.	-8.6
Total HS.18 Cocoa and cocoa preparations.	-8.2
Total HS.74 Copper and articles thereof.	-8.1
Total HS.16 Prep of meat, fish or crustaceans, molluscs etc	-6.7
Total HS.96 Miscellaneous manufactured articles.	-6.6
Total HS.89 Ships, boats and floating structures.	-6.4
Total HS.15 Animal/veg fats & oils & their cleavage products;	-6.2
Total HS.61 Art of apparel & clothing access, knitted or croc	-5.8
Total HS.66 Umbrellas, walking-sticks, seat-sticks, whips, et	-5.7
Total HS.12 Oil seed, oleagi fruits; miscell grain, seed, fru	-5.3
Total HS.44 Wood and articles of wood; wood charcoal.	-5.3
Total HS.58 Special woven fab; tufted tex fab; lace; tapestry	-5.0
Total HS.68 Art of stone, plaster, cement, asbestos, mica/sim	-5.0
Total HS.03 Fish & crustacean, mollusc & other aquatic invert	-4.8
Total HS.10 Cereals	-4.7
Total HS.52 Cotton.	-4.6
Total HS.09 Coffee, tea, mati and spices.	-4.0
Total HS.56 Wadding, felt & nonwoven; yarns; twine, cordage,	-3.9
Total HS.25 Salt; sulphur; earth & ston; plastering mat; lime	-3.0
Total HS.23 Residues & waste from the food indust; prepr ani	-3.0
Total HS.78 Lead and articles thereof.	-3.0

Product	Variation of Revenues after EPA
Total HS.02 Meat and edible meat offal	-2.9
Total HS.65 Headgear and parts thereof.	-2.3
Total HS.42 Articles of leather; saddlery/harness; travel goo	-2.2
Total HS.91 Clocks and watches and parts thereof.	-2.2
Total HS.55 Man-made staple fibres.	-1.8
Total HS.05 Products of animal origin, nes or included.	-1.1

Welfare (> 2,000 USD)

Product	Trade Total	Welfare changes After EPAs
TOTAL WELFARE VARIATION	10,552.7	875.8
HS.87 Vehicles o/t railw/tramw roll-stock, pts & access	2,398.2	189.7
HS.63 Other made up textile articles; sets; worn clothing	852.1	166.4
HS.85 Electrical mchy equip parts thereof; sound record	1,700.1	122.3
HS.40 Rubber and articles thereof.	445.5	43.6
HS.94 Furniture; bedding, mattress, matt support, cushi	444.7	43.3
HS.84 Nuclear reactors, boilers, mchy & mech appliance;	651.4	42.2
HS.48 Paper & paperboard; art of paper pulp, paper/pape	254.4	31.1
HS.49 Printed books, newspapers, pictures & other produ	322.2	25.4
HS.90 Optical, photo, cine, meas, checking, precision,	625.7	25.3
HS.11 Prod.mill.indust; malt; starches; inulin; wheat g	365.2	24.5
HS.39 Plastics and articles thereof.	468.0	22.7
HS.22 Beverages, spirits and vinegar.	120.2	13.6
HS.20 Prep of vegetable, fruit, nuts or other parts of	106.3	13.4
HS.92 Musical instruments; parts and access of such art	129.2	10.4
HS.33 Essential oils & resinoids; perf, cosmetic/toilet	132.3	9.9
HS.95 Toys, games & sports requisites; parts & access t	98.9	8.8
HS.83 Miscellaneous articles of base metal.	98.3	8.7
HS.73 Articles of iron or steel.	162.4	6.5
HS.62 Art of apparel & clothing access, not knitted/cro	79.6	6.1
HS.69 Ceramic products.	70.5	4.9
HS.19 Prep.of cereal, flour, starch/milk; pastrycooks'	38.1	4.4
HS.66 Umbrellas, walking-sticks, seat-sticks, whips, et	23.6	3.6
HS.37 Photographic or cinematographic goods.	35.4	3.6
HS.30 Pharmaceutical products.	214.9	3.5
HS.76 Aluminium and articles thereof.	48.4	3.0
HS.21 Miscellaneous edible preparations.	40.0	2.9
HS.61 Art of apparel & clothing access, knitted or croc	25.0	2.5
HS.96 Miscellaneous manufactured articles.	24.5	2.4

Product	Trade Total	Welfare changes After EPAs
HS.42 Articles of leather; saddlery/harness; travel goo	13.8	2.4
HS.04 Dairy prod; birds' eggs; natural honey; edible pr	51.0	2.2
HS.57 Carpets and other textile floor coverings.	15.7	2.1

Sectoral Scenario (1): Tax cuts on agricultural products only

Trade diversion

Exporter	Change After EPAs
Total export diversion	-598.9
Tanzania	-168.3
Kenya	-111.6
Uganda	-109.4
United Arab Emirates	-67.8
South Africa	-56.8
Egypt, Arab Rep.	-32.5
Tunisia	-6.9
Pakistan	-6.3
Swaziland	-6.3
China	-3.9
Oman	-3.7
Zambia	-3.5
Singapore	-2.5
Russian Federation	-2.2
Saudi Arabia	-2.0
India	-2.0
Burundi	-1.9
Mozambique	-1.8
United States	-1.7
Brazil	-1.6
Mauritius	-1.4
Nicaragua	-1.1
Turkey	-1.0
Vietnam	-0.6
Canada	-0.6
Nepal	-0.5
Zimbabwe	-0.3
Myanmar	-0.2
Lebanon	-0.2
Mali	-0.1
Cameroon	-0.1
Ghana	-0.1

Exporter	Change After EPAs
Kuwait	-0.1
Congo, Dem. Rep.	-0.1
Jordan	-0.1

Public revenues and imports by product line.

Product	Public revenues Change After EPAs	Imports Change After EPAs
TOTAL	-1567.2	1,544.4
HS.11 Prod.mill.indust; malt; starches; inulin; wheat g	-732.1	730.5
HS.22 Beverages, spirits and vinegar.	-253.7	240.4
HS.20 Prep of vegetable, fruit, nuts or other parts of	-224.7	212.5
HS.04 Dairy prod; birds' eggs; natural honey; edible pr	-95.2	102.0
HS.21 Miscellaneous edible preparations.	-76.4	79.9
HS.19 Prep.of cereal, flour, starch/milk; pastrycooks'	-75.7	76.3
HS.17 Sugars and sugar confectionery.	-17.3	17.1
HS.18 Cocoa and cocoa preparations.	-16.4	16.2
HS.16 Prep of meat, fish or crustaceans, molluscs etc	-13.4	12.9
HS.15 Animal/veg fats & oils & their cleavage products;	-12.4	13.1
HS.12 Oil seed, oleagi fruits; miscell grain, seed, fru	-10.7	6.3
HS.03 Fish & crustacean, mollusc & other aquatic invert	-9.6	8.7
HS.10 Cereals	-9.4	10.1
HS.09 Coffee, tea, matt and spices.	-8.1	7.9
HS.23 Residues & waste from the food indust; prepr ani	-6.0	2.1
HS.02 Meat and edible meat offal	-5.8	5.8
HS.05 Products of animal origin, nes or included.	-2.1	2.0
HS.24 Tobacco and manufactured tobacco substitutes	-1.5	1.5
HS.01 Live animals	-1.3	0.9
HS.08 Edible fruit and nuts; peel of citrus fruit or me	-0.7	0.6
HS.14 Vegetable plaiting materials; vegetable products	-0.3	0.2
HS.13 Lac; gums, resins & other vegetable saps & extract	-0.1	0.1
HS.06 Live tree & other plant; bulb, root; cut flowers	0.0	0.0

Sectoral Scenario (2): Tax cuts on industrial products only

Trade diversion

Exporter	Change After EPAs
TOTAL	-2,756.8
United Arab Emirates	-608.7
Canada	-459.7
Kenya	-395.7
South Africa	-285.2
Tanzania	-161.3
Japan	-159.9
Uganda	-154.3
India	-102.9
China	-78.4
Israel	-58.4
Egypt, Arab Rep.	-47.2
United States	-43.6
Switzerland	-35.6
Saudi Arabia	-16.0
Sao Tome and Principe	-9.4
Norway	-9.2
Congo, Dem. Rep.	-8.6
Tunisia	-6.8
Burundi	-6.8
Nicaragua	-6.5
Indonesia	-6.4
Brazil	-6.3
Taiwan, China	-5.8
Gambia, The	-5.3
Cameroon	-5.0
Korea, Rep.	-4.9
Thailand	-4.9
Australia	-4.7
Albania	-4.2
Peru	-3.7
Nigeria	-3.5
Turkey	-3.1

Exporter	Change After EPAs
Mozambique	-3.0
Zimbabwe	-2.8
Russian Federation	-2.8
Gabon	-2.7
Oman	-2.6
Hong Kong, China	-2.5
Senegal	-2.4
Ethiopia (excludes Eritrea)	-2.3
Guinea	-2.3
Niger	-2.1
Swaziland	-2.0
Pakistan	-1.8
Congo, Rep.	-1.5
Iran, Islamic Rep.	-1.4
Northern Mariana Islands	-1.3
Iceland	-1.1
Sri Lanka	-1.1
Mali	-1.0

Public revenues and imports (Changes in Tariff revenues > 300 USD)

Product	Change After EPAs	Tariff Change In Rev.
TOTAL	9,779.3	-4,836.6
HS.87 Vehicles o/t railw/tramw roll-stock, pts & access	2,398.2	-1,070.6
HS.85 Electrical mchy equip parts thereof; sound record	1,700.1	-789.8
HS.63 Other made up textile articles; sets; worn clothing	852.1	-683.5
HS.84 Nuclear reactors, boilers, mchy & mech appliance;	651.4	-414.2
HS.90 Optical, photo, cine, meas, checking, precision,	625.7	-293.5
HS.49 Printed books, newspapers, pictures & other produ	322.2	-252.1
HS.48 Paper & paperboard; art of paper pulp, paper/pape	254.4	-199.0
HS.39 Plastics and articles thereof.	468.0	-128.8
HS.73 Articles of iron or steel.	162.4	-126.6
HS.30 Pharmaceutical products.	214.9	-121.6
HS.33 Essential oils & resinoids; perf, cosmetic/toilet	132.3	-91.3
HS.94 Furniture; bedding, mattress, matt support, cushi	444.7	-76.2
HS.83 Miscellaneous articles of base metal.	98.3	-56.8
HS.40 Rubber and articles thereof.	445.5	-55.4
HS.76 Aluminium and articles thereof.	48.4	-45.7
HS.92 Musical instruments; parts and access of such art	129.2	-38.0
HS.38 Miscellaneous chemical products.	69.2	-35.1
HS.29 Organic chemicals.	46.5	-29.1
HS.37 Photographic or cinematographic goods.	35.4	-29.1
HS.28 Inorgn chem; compds of prec mtl, radioact element	45.1	-28.2
HS.95 Toys, games & sports requisites; parts & access t	98.9	-27.1
HS.69 Ceramic products.	70.5	-24.9
HS.62 Art of apparel & clothing access, not knitted/cro	79.6	-20.6
HS.32 Tanning/dyeing extract; tannins & derivs; pigm et	31.2	-18.5
HS.82 Tool, implement, cutlery, spoon & fork, of base m	65.6	-18.1
HS.70 Glass and glassware.	23.3	-16.1
HS.57 Carpets and other textile floor coverings.	15.7	-14.8
HS.27 Mineral fuels, oils & product of their distillati	19.0	-13.6
HS.72 Iron and steel.	22.4	-11.4
HS.97 Works of art, collectors' pieces and antiques.	8.9	-10.9
HS.35 Albuminoidal subs; modified starches; glues; enzy	14.1	-10.8
HS.34 Soap, organic surface-active agents, washing prep	15.9	-10.1
HS.74 Copper and articles thereof.	7.8	-8.1
HS.96 Miscellaneous manufactured articles.	24.5	-6.6

Product	Change After EPAs	Tariff Change In Rev.
HS.89 Ships, boats and floating structures.	8.7	-6.4
HS.61 Art of apparel & clothing access, knitted or croc	25.0	-5.8
HS.66 Umbrellas, walking-sticks, seat-sticks, whips, et	23.6	-5.7
HS.44 Wood and articles of wood; wood charcoal.	7.8	-5.3
HS.58 Special woven fab; tufted tex fab; lace; tapestry	6.1	-5.0
HS.68 Art of stone, plaster, cement, asbestos, mica/sim	7.8	-5.0
HS.52 Cotton.	5.6	-4.6
HS.56 Wadding, felt & nonwoven; yarns; twine, cordage,	4.7	-3.9
HS.25 Salt; sulphur; earth & ston; plastering mat; lime	4.0	-3.0
HS.78 Lead and articles thereof.	2.8	-3.0
HS.65 Headgear and parts thereof.	9.3	-2.3
HS.42 Articles of leather; saddlery/harness; travel goo	13.8	-2.2
HS.91 Clocks and watches and parts thereof.	3.3	-2.2
HS.55 Man-made staple fibres.	2.3	-1.8
HS.64 Footwear, gaiters and the like; parts of such art	4.1	-0.9
HS.71 Natural/cultured pearls, prec stones & metals, co	2.6	-0.8
HS.36 Explosives; pyrotechnic prod; matches; pyrop allo	2.4	-0.6
HS.59 Impregnated, coated, cover/laminated textile fabr	0.6	-0.5
HS.54 Man-made filaments.	0.3	-0.3
HS.88 Aircraft, spacecraft, and parts thereof.	1.9	-0.3

Welfare (change > 1,000 USD)

Product	Change After EPAs
TOTAL	810.0
HS.87 Vehicles o/t railw/tramw roll-stock, pts & access	189.7
HS.63 Other made up textile articles; sets; worn clothing	166.4
HS.85 Electrical mchy equip parts thereof; sound record	122.3
HS.40 Rubber and articles thereof.	43.6
HS.94 Furniture; bedding, mattress, matt support, cushi	43.3
HS.84 Nuclear reactors, boilers, mchy & mech appliance;	42.2
HS.48 Paper & paperboard; art of paper pulp, paper/pape	31.1
HS.49 Printed books, newspapers, pictures & other produ	25.4
HS.90 Optical, photo, cine, meas, checking, precision,	25.3
HS.39 Plastics and articles thereof.	22.7
HS.92 Musical instruments; parts and access of such art	10.4
HS.33 Essential oils & resinoids; perf, cosmetic/toilet	9.9
HS.95 Toys, games & sports requisites; parts & access t	8.8
HS.83 Miscellaneous articles of base metal.	8.7
HS.73 Articles of iron or steel.	6.5
HS.62 Art of apparel & clothing access, not knitted/cro	6.1
HS.69 Ceramic products.	4.9
HS.66 Umbrellas, walking-sticks, seat-sticks, whips, et	3.6
HS.37 Photographic or cinematographic goods.	3.6
HS.30 Pharmaceutical products.	3.5
HS.76 Aluminium and articles thereof.	3.0
HS.61 Art of apparel & clothing access, knitted or croc	2.5
HS.96 Miscellaneous manufactured articles.	2.4
HS.42 Articles of leather; saddlery/harness; travel goo	2.4
HS.57 Carpets and other textile floor coverings.	2.1
HS.82 Tool, implement, cutlery, spoon & fork, of base m	2.0
HS.38 Miscellaneous chemical products.	2.0
HS.70 Glass and glassware.	1.8
HS.65 Headgear and parts thereof.	1.4
HS.29 Organic chemicals.	1.3
HS.28 Inorgn chem; compds of prec mtl, radioact element	1.2
HS.97 Works of art, collectors' pieces and antiques.	1.2
HS.27 Mineral fuels, oils & product of their distillati	1.0

Endnotes

¹ Africa's groupings comprises of the Eastern and Southern Africa (ESA), Southern African Development Community (SADC), Economic Community for Western African States (ECOWAS) and Central African Economic and Monetary Community (CEMAC).

² The model is briefly described in the introduction of the third part, and more detailed in the annexes.

³ Most statistics are extracted from the Trade Policy Review undergone by the World Trade Organization and the Rwandan government in April 2004, and from the Economic Report on Africa 2003 issued by the Economic Commission for Africa. Data from other sources are referenced in the footnotes.

⁴ According to the ERA 2003, the genocide also displaced some 2 million civilians. Rural areas suffered particularly, especially due to the loss of labor and livestock. The proportion of poor people rose from 48% in 1985 to 68% in 2000

⁵ Unless otherwise stated, all \$ figures refer to United States dollars.

⁶ These investments were mainly focused on financial and telecom services. Mining and construction were also targeted. Main investors were coming from India, the US, Kenya, Germany, Belgium, Canada, Great Britain, the Netherlands, Switzerland, South Africa, Lebanon and Oman (in order of importance). The privatization campaign, as well as the introduction of the investment code and the setting up of a government agency promoting investment, were among the decisive factors contributing to this increase in FDI.

⁷ Please refer to the paragraph on economic reforms.

⁸ 107,000 persons linked to the genocide were still in jail at the end of 2003.

⁹ The main food crops are bananas, sweet potatoes, cassava, beans and sorghum.

¹⁰ Coltan (columbite-tantalite) is a black tar-like mineral, used to produce a vast array of small electronic devices, especially in mobile phones, laptop computers, pagers, and the like.

Cassiterite is a mineral, generally opaque, important ore of tin for eons and is still the greatest source of tin today

¹¹ Source: IMF "Rwanda Statistical Annex" Country Report 02/187.

¹² The planned reduction of the debt should be of 71% of its current value, which represents 810 million of dollars. Source IMF website. www.imf.org

¹³ Currently, the Rwandan government still owns and manages 42 major companies.

¹⁴ Five crops - beans, maize, potatoes, rice and soya - have been declared “priority crops”.

¹⁵ See Crook and Sverrisson 2001, who show that benefits of decentralization can also be captured by local elites.

¹⁶ Public Information Notice of the IMF, issued on November 16, 2004.

¹⁷ Rwanda was declared AGOA eligible on October 2, 2000; and eligible for apparel provision on March 3, 2003 (AGOA official website). AGOA II does not appear to change the case of Rwanda.

¹⁸ Defined as tariff higher than three times the national average.

¹⁹ According to the WTO Trade Policy Review the degradation of the terms of exchange were equal to 40% from 2000 to 2002.

²⁰ Mostly fuel, worn clothing and building material. These re-exports result from the insecurity context prevailing in RDC as well as the reconstruction needs of the cities of Goma and Bukavu.

²¹ Source: discussion paper number 60 of the European Center for Development Policy Management.

²² “The World Integrated Trade Solution (WITS) brings together various databases ranging from bilateral trade, commodity trade flows and various levels and types of protection. WITS also integrate analytical tools that support simulation analysis. The SMART simulation model is one of the analytical tools in WITS for simulation purposes. SMART contains in-built analytical modules that support trade policy analysis such as effects of multilateral tariff cuts, preferential trade liberalization and ad hoc tariff changes. The underlying theory behind this analytical tool is the standard partial equilibrium framework that considers dynamic effects constant. Like any partial equilibrium model, it has these strong assumptions allowing the trade policy analysis to be undertaken a country at a time”. Source “The analytical Methodology – The GTAP and SMART models and related databases”, S. Karingi, ECA, TRID, 2004.

²³ According to the TPR done by the WTO in 2004, Rwanda imported USD 251.2 million in 2002.

²⁴ In 2002, Kenya exported USD 1.9 billion of goods (WTO norms) and Uganda USD 0.5 billion). Source International Trade Center, official website www.intracen.org.

²⁵ World Bank Figures. <http://devdata.worldbank.org/external/dgcomp.asp?rmdk=110&smk=473880&w=0>

²⁶ WTO figures. TPR 2004.

²⁷ Total trade effect = growth of the EU exports (USD 2.1 million) – trade diversion (USD 0.6 million)

