SUMMARY OF COMMISSIONED STUDIES

Trade Policy Studies on Implications of Ethiopia’s Integration into Regional and Global Trading Systems
Introduction

Ethiopia applied to join the World Trade Organization (WTO) in 2003. However, reformative policies aimed at ensuring rapid integration into the multilateral trading system are not yet fully in place or implemented to complete WTO accession. Broad policy discretion over tariffs and other trade measures are in the hands of Ethiopia’s policy makers. Lessons from recently acceded countries indicate that the WTO accession process is quite complex and demands thorough preparation to allow well informed decisions on trade policy reforms that need to be made in-country to meet the requirements of accession. WTO rules and conditions have to be fully analyzed to understand the implications of WTO membership on the acceding economy.

In addition, Ethiopia is currently pursuing new multilateral trade agreements and numerous bilateral and regional trade pacts. It is also a member of the Common Market for Eastern and Southern Africa (COMESA) trade bloc, although it has not yet acceded to the COMESA free trade area (FTA) and customs union (CU) arrangements.

At the continental level, Ethiopia has signed and ratified the Abuja Treaty that aims to establish an Africa Economic Community (AEC) among the continent’s 54 countries. The Treaty emphasizes the importance of setting up the AEC through the coordination, harmonization, and progressive integration of the activities of regional economic communities (RECs). Formation of a Tripartite Free Trade Area (TFTA) among the three RECs namely COMESA, EAC and SADC is part of the preparatory action based on the Abuja treaty.

At the inter-regional level, although the country’s current trade with the EU is governed by the latter bloc’s “Everything but Arms (EBA)” preferential trade arrangement, Ethiopia, as part of the Eastern and Southern Africa (ESA) configuration, is currently negotiating an Economic Partnership Agreement (EPA) with the EU.

Analysis of the implications of Ethiopia’s integration into the global and regional trading system is critical to facilitate informed decisions that will help maximize the benefits of increased integration while limiting the negative impacts therein. It is important for Ethiopia to find the right mix of policies that will enable it to achieve its Growth and Transformation Plan (2011-2015) and the long-term goal of achieving middle-income country status by 2025 within a more open economy.

To support this process, UNDP has partnered with the Ministry of Trade and the European Union to build national capacity to make informed decisions about regional and global economic integration. Six studies have therefore been undertaken on the benefits and challenges of integration, and have offered clear recommendations on how to address the challenges and also take advantage of opportunities offered by increased economic integration. These studies include:

- Impact of the Trade Related Issues in the Economic Partnership Agreement on Ethiopia;
Revenue implications of Economic Partnership Agreement and alternative source of compensating revenue loss;

Implication of joining the new Initiative of COMESA-EAC-SADC Tripartite FTA;

Trade Related Intellectual Property Rights under accession to WTO;

Implication of WTO Accession on Education Related Services in Ethiopia and

Implication of WTO Accession on Health Related Services in Ethiopia.
Synthesis of the Trade Studies

Impact of Trade Related Issues in the Economic Partnership (EPA) Agreement on Ethiopia

This study establishes a detailed understanding and analysis of the existing policies, laws, practices and institutions concerning Investment, Competition Policy, Government Procurement and Trade and the Environment in Ethiopia. It also provides a broad negotiation strategy and a detailed roadmap for implementing the provisions in the EPA on these policy areas.

Unlike many other transition countries, Ethiopia does not have a separate law for FDI. Both domestic and FDI are governed by various proclamations. There are significant distinctions, however, among the type of investments foreigners and domestic investors may make. On pre-admission restriction/market access, making full market access commitments in the context of EPA will mean for Ethiopia opening sectors that are currently reserved to the State, domestic investors and Ethiopian nationals. Because Ethiopia is not yet ready to open any of these sectors, the country needs to set out in its schedule of commitments to these sectors, for which market access obligations will not apply. In other words, in GATS style liberalization Ethiopia’s list of commitments on establishment needs to contain all the sectors and sub-sectors that are exempted from market access commitments through establishment.

Preliminary findings indicate that the specific services-related competition provisions may pose some specific challenges for Ethiopia. While the telecom sector remains a government monopoly, the financial sector is not yet open to foreign competition. The country is still in the process of accession to the WTO and it is not clear which service sectors it will open up for competition as part of the accession. One important challenge for Ethiopia thus is how to accommodate these specific competition provisions within its policy in relation to services.

One of the challenges in the implementation of the environmental provisions is the lack of institutional and technical capacity among public and private sectors in Ethiopia. This important area needs addressing in the negotiations.

Revenue implications of EPA on Ethiopia, and Alternative Sources of Compensating Revenue

Loss

The study provides an analysis of the revenue implications and the potential losses from trade taxes resulting from Ethiopia’s Economic Partnership Agreement (EPA) with the European Union (EU), and joining the COMESA Free Trade Area (FTA). It also assesses potential revenue compensating mechanisms available to the country and the equity, social, economic and political implications of these alternatives. The study suggests fiscal reforms that are required to support the alternative revenue measures.
The study indicates an 80% tariff reduction for imports upon Ethiopia’s joining the EPA/EU and COMESA free trade areas. This will result in revenue losses of US $ 144.5 million and US $ 27.4 million respectively, covering over 4% of national revenue annually.

The study indicates that the revenue loss from import duties can be compensated by increased exports from the increased trade access, and by possibly raising the domestic trade taxes and VAT on imported luxury goods. The study recommends that since the revenue loss can be compensated, Ethiopia should proceed with conclusion of the EPA with the European Union and accession to the COMESA FTA.

**Study on Trade Related Intellectual Property Rights under Ethiopia’s Accession to WTO**

There is an information gap regarding the potential implications of the Agreement on the Trade-Related Aspects (the TRIPs Agreement) on the national intellectual property system of Ethiopia. The TRIPS Agreement is one of the three major constituent elements of the WTO, which resulted from the Uruguay Round of Negotiations. It provides minimum standards of Intellectual Property Rights (IPRs) to which all WTO Members shall comply.

WTO members are not only required to provide for protection of all the IPRs covered by the TRIPS Agreement but also to put in place effective enforcement mechanisms at the national level. The TRIPS Agreement has important implications on a wide range of key public policy issues.

The study assesses the potential impact of implementing the TRIPS Agreement on the transfer of foreign technology and enhancement of the domestic technological capabilities in Ethiopia. It reviews the extent to which the TRIPs agreement hinders or promotes the growth of creative industries in Ethiopia. Identifying the TRIPS flexibilities that may be used by Ethiopia to promote its policy objectives related to industrial development is also an important area of the study. The study identifies the national institutional and human resource gaps and challenges in enforcing the TRIPs agreement in Ethiopia.

**Study on Implications for Ethiopia in Joining the COMESA, EAC and SADC Tripartite Free Trade Area (FTA)**

This study assesses the implications for Ethiopia of establishing and joining the new COMESA-EAC-SADC Tripartite FTA. It makes a critical analysis of policy issues that will arise in merging the three regional economic communities (RECs) into a single REC based on the Abuja Treaty, as well as the legal and institutional framework required for its implementation. It also assesses the implications of the ongoing EPA negotiations between countries in the COMESA-EAC-SADC regions with the EU for the successful formation of the Tripartite FTA. The study gives a thorough and detailed
explanation of the potential economic, social, institutional and legal implications for Ethiopia in joining the COMESA -EAC- SADC Tripartite FTA; and provides an outline of plausible options for Ethiopia should it join the regional tripartite Free Trade Area.

Implications of WTO Accession on Health and Health Related Services in Ethiopia

Although the level of trade in health services in Ethiopia is modest at present, given the rapidly growing global health care industry and the likely removal of some of the regulatory barriers to such trade at the regional, multilateral, and the national levels, trade in health services is likely to take on greater importance in the future. International trade in health services is opening many possibilities for increasing the contribution of the health sector to the national economy of many countries. Governments from both developed and developing countries are exploring different options to enable them to benefit from the expected growth in this sector, including the implementation of export strategies for health services and the liberalization of business ownership to maximize resource endowment and other competitive advantages.

This study assesses the economic and social implications of WTO accession on the health and health-related services sector of Ethiopia. Specifically, the study examines the implications of responding to requests for commitments in the sector during accession negotiations. The study also assesses the potential impacts of opening the economy to trade in health and health-related services under the General Agreement on Trade and Services (GATS) and similarly identify different measures that may help prepare the sector for the reforms that will emerge from the negotiations.

The study also assesses the economic background and importance of Ethiopia’s health and health-related services. The study reviews the Policy and Regulatory Framework, including trade-related policies. It also, analysis the specific trade related policies currently in place, including:

- The extent to which current policies aim to expand Ethiopia’s trade in health and health-related services with a view of reaping potential benefits;
- Policies which provide incentives to health workers to return to Ethiopia;
- Possible universal service obligations; and
- Other policies that might help harness the benefits of private sector participation from abroad.

Study on Implication of WTO Accession on Education Related Services in Ethiopia

The purpose of the study is to assist Ethiopia make informed decisions about the upcoming accession negotiations with respect to the type of commitments it may wish to make in education and related services. The study assesses the implications of
WTO accession on the Ethiopian education service sector. Specifically, it examines the implications of responding to requests for further commitments in the sector during accession negotiations. The study also analyses the potential effects of opening the economy to trade in education services under General Agreement on Trade and Services (GATS) and similarly identifies different options that may help prepare the sector for those reforms likely to emerge from the negotiations for accession.

It reviews the specific trade-related policies in place, and the effectiveness of such policies.

It identifies and reviews policies that encourage the return of the Ethiopian Diaspora and recommends policies that would help harness the benefits of private sector participation from abroad.
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