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Between a rock and a hard place

**Africa faces no-win situation
in trade deal with Europe**

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By N. Kachingwe

Introduction

Since the end of the Cold War, industrialized countries have been busying themselves with the re-organisation of international trade regimes. Included in this globalisation mission is the setting of trade deals between themselves and developing countries.

Supposedly all this to-do about trade is about lifting the poorest of the poor out of their misery. Increased trade liberalization, it is said, will provide opportunities for developing countries to boost export earnings. The Doha Development Round within the WTO is supposed to work towards this goal through deepened liberalization, covering areas of economic activity that have so far been left out of trade talks – for example government procurement and the privatization of public services.

Offers of increased market access to the lucrative markets in industrialized countries have been packaged in the form of the US Africa Growth and Opportunity Act (AGOA) and the European Union's Cotonou Agreement and NAFTA. Unfortunately, all this generosity has a price attached to it, in the form of policy conditionalities on signatory countries to liberalise, privatize and deregulate in the name of attracting investment and facilitating increased business activity.

In September last year, trade ministers from the Africa, Caribbean and Pacific Group met their counterparts from the European Union to start negotiations for a new trade deal. If the European Union has its way, the negotiations will centre around establishment of free trade areas or "Economic Partnership Agreements", which would constitute the new framework for trade relations between countries and sub-regions of the ACP.

Why the need for a new trade deal? Previously, exports from the ACP countries entered the European Union market through the Lome Conventions – a series of agreement dating back to 1975. In 1994, following a trade dispute between the US and the EU over banana exports from the Caribbean, the WTO ruled that the Lome Convention gave ACP countries an unfair trade advantage over compared to other WTO members and therefore violated WTO rules.

There are various legal and developmental arguments around that particular WTO ruling, particularly given that the WTO rules make provision for special and differential treatment for developing countries. In the event, ACP countries were faced with two options. Under the first option, ACP countries could choose to abandon the Lome Convention arrangements and export under the EU's General System of Preferences (GSP).

The negotiations will centre around establishment of NAFTA-style free trade areas between EU countries and African, Caribbean and Pacific states

Economic Partnership Agreements would allow 90% of EU products unrestricted access to ACP markets within a ten-year time frame.

This option would mean less generous treatment for ACP exports, and therefore a potential loss of export earnings for these countries as their products would become less competitive. Given that the EU is one of the top destinations for ACP exports, losing market share would have fairly serious economic consequences on key export sectors. However, access to EU markets through the General System of Preferences is on a non-reciprocal basis, and therefore the GSP would continue to allow local ACP markets some protection from subsidized EU exports.

The danger in the EPA proposal lies principally in the fact that local producers, manufacturers, and service providers would have to face competition from a flood of European imports and companies.

Introducing Economic Partnership Agreements Option 2 involved setting up a free trade area (FTA) with the European Union, euphemistically dubbed “Economic Partnership Agreements” (EPAs). Under this option, ACP exports would enjoy the same preferences as before, BUT, unlike the Lome Conventions or the GSP, ACP countries would have to reciprocate, meaning that they would have to allow virtually unrestricted access to their markets for almost all EU products within a ten year transition period. The danger in the EPA proposal lies principally in the fact that local producers, manufacturers, and service providers, already battered and weakened from Structural Adjustment, would have to face competition from a flood of European imports and companies.

The EPA/FTA model is one that the EU is pursuing under various names as part of its global trade strategy to create more trade and export opportunities for European companies worldwide. The European Commission, which negotiates on behalf of all the EU member states has been mandated to negotiate free trade areas with the ACP States.

The EU argues that EPAs are the only possible option, if the ACP wish to both maintain the existing market access arrangements and comply with the WTO rules,. It is also argued by the EU that the EPAs are the best option for “integrating ACP countries into the global economy”. In plain language this means trade liberalization.

While the benefits of EPAs are uncertain, there is wide agreement on the negative impacts

Free trade areas: a disaster for developing countries: From the outset of the negotiations, the ACP countries have found themselves between a rock and a hard place. Basic economics tells us that free trade areas between a highly industrialized, rich regions and economically underdeveloped poor countries will tend to disproportionately favour the economically strong, unless very specific measures are taken to ensure balanced benefits. Certainly this has been validated by assessments of the losses and gains following the entry into force of various WTO agreements.

In addition to tariff reduction, the EU is demanding that the ACP agree to policy changes that are similar to its highly controversial proposals within the WTO. An example in the negotiating mandate is the EU proposals in relation to services liberalization. The EU’s strategy is to ensure that what it might not get in the WTO negotiations, it can try to secure through bilateral deals with countries and regions, such as EPAs. Furthermore, if the ACP agree to certain proposals in the EPA negotiations, the EU’s hand in the WTO negotiations would be considerably strengthened.

As is the case in the WTO where the new round of negotiations has been called the “development round”, there is an attempt to disguise purely mercantilist interests as development. It is (vaguely) said that EPAs will result in increased flows of foreign direct investment and technology transfers and there is an unspecified promise of better market access to the EU. In fact, whereas policy makers have been unable to make any convincing arguments about the benefits of EPAs, there is no doubt about the negative impacts of EPAs on ACP economies.

EPAs are geared towards meeting the EU's agenda to expand its share of markets throughout the world.

EPAs : brave new world or history repeated? When the EPA option was first tabled by the EU in the Cotonou negotiations, ACP countries put up strong resistance to the proposal because of the many problematic implications for their economies. Rather than agree outright to EPAs as the framework for the trade negotiations, they argued for “alternative trade arrangements” which would comply with WTO rules – while stressing that certain WTO rules should be reviewed in those areas which present difficulties for developing countries. The expectation on the ACP side is that the EU and the ACP Group should use their numbers (soon to be over 100 countries) in the WTO to make a case for greater consideration of developing country needs in the international trade regime.

The EU is one of the key players in charting the direction of the WTO. Within the WTO, it has become clear that the EU is more preoccupied with pushing the concerns of big business (ie. accessing markets in other regions) than seriously addressing development questions. The main reason why EPAs – as envisaged in the EU negotiating mandate – can never work for the ACP countries is because they are geared towards meeting the EU's external trade agenda to expand its share of markets throughout the world. There is a clear coherence and consistency between what the EU advocates in the WTO and what it is advocating in EPAs.

As a result, it is not surprising that the EU's negotiating proposal envisages a situation where ACP countries lift all restrictions to European exports to the ACP regions, and where EU companies would be able to establish themselves and do business freely in ACP countries. The negotiating proposals do not make any mention of the EU's (highly costly) protectionist policies such as the notorious Common Agricultural Policy (CAP), and its own unfair trade practices (eg. dumping). The EU mandate is above all not about sharing and caring – it is about economic expansion and domination. A brave new world indeed.

The EPA proposal is bad enough; even worse is the extent to which it has gained acceptability

EPAs: a reality check

If the EPA proposal is bad enough, what is even worse is the extent to which it has gained acceptability. But it is worthwhile reminding ourselves in plain language of exactly what EPAs – under the current EU proposals - would mean.

- ***significant declines in government revenue*** as a result of the elimination of import taxes on EU goods. This will result in less budget funding for social and human development and would probably also result in higher tax burdens for citizens (eg. sales taxes) in order for governments to make up for lost revenue. The EU has already stated that it is not prepared to discuss new debt cancellation initiatives, as a way of compensating for these revenue losses.
- ***closures of local manufacturing ventures, especially SMEs*** as a result of competition from cheap subsidized imports. We are likely to see increased job losses, unemployment,

poverty and loss of livelihoods. Industrialisation strategies to diversify and expand economic production would also be undermined because of the difficulties for new entrants to the market to compete.

- delivery of **basic social services in the hands of non-national private sector operators** as a result of selling off of essential public services to European transnational corporations under privatization agreements: the provision of health, education, and other basic social services will only be available to those who can pay for them. Low income groups will have less access to fewer basic social services.
- **declines in inter-regional trade** as a result of “trade diversion”: countries of the region will lose their markets in neighbouring countries. Instead of regional cooperation, there will be increased competition between countries of the region to attract “investment” from the EU.
- **opening up to European competition for all government tenders:** local companies who derive their income from government contracts (supplies, services etc) will have to compete with EU companies in bids and profits from these transactions will be repatriated as a result of “investment protection” deals.
- **dumping of cheap EU agricultural surpluses** (dairy products, cereals, beef etc): will threaten the viability of agriculture and agri-processing industries, particularly for small scale farming sector which does not receive state support. The result will be the collapse of the rural economies, and increased impoverishment and food insecurity particularly amongst women who are the backbone of the agricultural sector.
- **losses and collapse of local retail sectors** in both goods and services because of the entry into the market of European operators. The small and medium sized businesses, where the majority of formal sector workers are employed will be the most vulnerable because it is easy to undercut them. Local economic actors, particularly SME's and women will be pushed to the margins as informal sector operators.
- investment measures that prohibit restrictions on repatriation of profits will result in **continued capital flight from ACP economies**. Government would not be able to give different treatment to local entrepreneurs as a means of supporting them to survive competition. There is likely to be increasing resentment towards Europeans and European businesses who will be seen as being treated more favorably and dominating local economies. Social tensions and political conflict will increase, because of widening class divisions between the haves and have nots as wealthy local elites remain the sole local beneficiaries from liberalization.
- **dispossession of indigenous land owners and lost livelihoods** to give way to operations such as European tourism and mining “investors.”

ACP countries have all experienced these impacts to a greater or lesser extent as a result of trade liberalization and deregulation. The human cost has been immeasurable. EPAs are clearly not designed to reverse these impacts – rather they will exacerbate them.

What the ACP are seeking from the trade negotiations

During 2002, the ACP Group established guidelines outlining its objectives in the negotiations. The ACP have stated that their objectives in relation to the trade agreement should be:

- sustainable development and poverty eradication
- integration into the world economy through development-oriented EPAs
- sustained economic growth, development of the private sector, increased employment, increased access to the factors of production

- more beneficial market access
- enhancing the production, supply and trading capacity of the ACP countries and their capacity to attract investment
- reducing dependency on primary production through diversification and value added
- structural transformation of ACP countries into knowledge based competitive economies
- address obstacles to the exports of ACP goods and services to the EU
- complementarity between development strategies and economic and trade cooperation
- secure the underwriting by the EU of the costs of adjustment associated with the implementation of EPAs
- resolving the problem of ACP indebtedness.

The ACP Group have stressed that market access and preferences on their own can not solve ACP countries' economic development challenges. The negotiating guidelines call for an interpretation of EPAs as a combination of a trade and trade development package. This interpretation is significantly different from that of the EU – particularly given that the ACP explicitly state that they do not consider that EPAs necessarily mean ACP countries have to liberalise if it is not in their interests.

The ACP negotiating guidelines clearly reflect a high level of concern with regard to the domestic impact of trade liberalization with the EU. In order to mitigate the negative impacts, the ACP have included demands for additional funding and debt cancellation as compensation for the negative impact of EPAs. The ACP also stress that “current WTO rules are inherently imbalanced against the development needs of ACP States.” In that sense, they are only accepting WTO compatibility if there are changes within the WTO.

The ACP explicitly state that they do not consider that EPAs necessarily mean ACP countries have to liberalise if it is not in their interests.

There is barely any convergence between the ACP Group and the EU in the substance, approach and objectives of what the trade negotiations should really be about. And while the ACP guidelines clearly show that they do not wholeheartedly embrace the free trade area idea, it is not clear what elements of the EU proposal they consider to be unacceptable. Compromises and meeting each other halfway are supposed to be part of negotiation, but even half of what the EU is demanding is far too much.

What chances do the ACP have of getting a good deal out of these negotiations?

In a negotiation where the parties are of equal strength, it can be presumed that the give and take from each party will be fairly equitable. This is not the case in this negotiation.

The ACP countries are in an extremely weak bargaining position. They will be in an even weaker position in the second phase of the negotiations when they have to stand against the EU as sub-regional blocs. Unfortunately, this is the point where the detail of the EPAs will be hammered out. Within sub-regional groups, it will be easier for the EU to play one country off against the other in order to get concessions. The ACP mandate stresses the need for unity and solidarity; but given that the ACP Group is made up of 78 countries, with often divergent or competing interests, it will not be very difficult to exploit tensions and rivalries within the Group to force an agreement on difficult issues.

The ACP have entered these negotiations because of pressure from the EU and the WTO – rather than because they genuinely felt the EPAs are in their interests

Together the EU and its member states make up over half the aid contributions to ACP countries, giving the EU a major bargaining chip. The ACP on the other hand have very little leverage to extract anything more than minor concessions from the EU. No matter how good a fight the ACP put up, the likelihood that the EU will get most of what it wants is not just high, it is an inevitability.

The EU will also have on its side a very skilled team of career negotiators and strategists who will simply run rings around the ACP. When the EU has had its way in the past, it has not been because it was right and because the ACP were wrong, it was simply because they are better and stronger negotiators. They can hold out for longer, when things come to a deadlock. The ACP have to worry about short term concerns, which the EU does not have to worry about in the same way.

ACP countries simply do not have the capacity to do a thorough job in these negotiations. Most trade ministries have to deal simultaneously with Cotonou, WTO, AGOA and regional trade negotiations at the same time. The number of issues to cover is vast, and each question is complex. In the time frame that is proposed, the ACP will not have been able to make thorough and independent assessments of the impact of what they are agreeing to – something which the EU has generally been reluctant to assist with. In reality, the ACP side is normally carried by a few strong countries who have the means to get organized. Within the ACP Group, the weak link in the chain is at the national level, where many countries, have not done adequate homework to identify their interests and assess which proposals pose risks and which offer real benefits.

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Another strategic weakness for the ACP Group is that there seems not to be such a thing as a bottom line or cut-off point. We can not tell which issues for the ACP Group are non-negotiables - in other words at what stage they are prepared to abandon negotiations. The policy always seems to be that an agreement must be reached at all costs, and so it is hard to know whether, when pushed to the wall, the ACP would buckle under pressure, rather than walk away from the negotiating table with no agreement. It is almost as if, for the ACP Group, any agreement is better than no agreement at all.

Is there a way out?

In EU-ACP policy making circles, the debate on EPAs is currently about damage limitation; in other words, how to ensure that the ACP will not lose out completely from a free trade area/EPA arrangement. But the trade liberalization / WTO experiences to date beg the question: should the ACP be negotiating EPAs at all? While trade preferences have done some good for ACP countries, the economic relationship between Europe and the ACP remains characterized by a very high level of dependency of ACP countries on European markets. The ACP countries have identified a fairly sound set of objectives as the basis for a trade agenda. It would be nothing short of a miracle if these objectives could be met through a free trade area with such an economically powerful partner, who to all appearances, is particularly unsympathetic to their special circumstances?

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Policy documents that have been developed within the OAU/AU for example have stressed that the economic transformation and self-reliant development sought by the ACP depend on

strengthening economic ties and trade between African countries and regions. Unfortunately, initiatives like the EPAs and AGOA – which continue to entrench unequal relations with industrialised nations always take precedence over regional initiatives like the Africa Economic Community plan that was signed by heads of state in the late nineties. The result is ever increasing dependency on rich countries – for aid, trade and investment.

the economic transformation and self-reliant development sought by the ACP depend on strengthening economic ties and trade between African countries and regions.

The ACP, it would seem, are obliged to enter into these negotiations because of pressure from the EU and the WTO, not because they ever felt that these negotiations were needed or in their interests. In fact the ACP Group had actually identified the status quo (Lome trade arrangements) as the ideal option. The timelines for completing the negotiations are determined by imperatives set by the WTO (ten years); they have nothing to do with the complex circumstances of different ACP countries and sub-regions. The need to negotiate in fact stems from the fact that the ACP are dependent on the EU for their export earnings, which in many cases are the result of preferential treatment that is accorded to them. But now the EU is exacting a heavy price to maintain these preferences – a price which the ACP can ill afford to pay. This is what is referred to as “adjustment costs” of EPAs, which have to be borne by the entire society.

The challenge for the ACP is not only to reduce dependency on the export of primary products to the EU. It is to reduce dependency on the EU altogether. Certainly, losing the EU’s preferential trade concessions would also entail adjustment costs.

What governments have to explain to their citizens is why and how the “adjustment costs” of an EPA are less than the “adjustment cost” of losing the special trade preferences. After all it has been rightly argued that countries in Asia which had similar levels of development as ACP countries at independence have now become economic tigers – without any special preferences from the EU.

Why negotiate a liberalization agreement with the EU, until it has made commitments to reform its own unfair trade policies and practices towards developing countries?

Social movements from all sides have taken the position that within the WTO, there should be no new round of negotiations until the WTO was reformed and development issues were taken on board the WTO agenda more seriously. The reason for this position is that it is overwhelmingly clear that developing countries – even large ones – have very little power to influence the overall outcome of negotiations. The playing field is too uneven and the opposing side is too strong (not to mention wily!). Why play the game if the rules are unfair?

The same reasoning should apply to EPA negotiations. Why negotiate a liberalization agreement with the EU, until it has made commitments to reform its own trade policies and practices towards developing countries? Or until it has agreed to support debt cancellation? Or until it has agreed to substantially increase aid towards ACP economic revival?

ACP governments – individually or collectively - do have the option to simply throw out the EPA proposal and look for more viable options to deal with the economic challenges in their countries, as well as a hostile global environment. It is not an easy challenge, but the alternative is even less attractive.

Issues for civil society: is another world possible?

Civil society and social movements have for too long been neglecting issues of multilateral trade. They have a duty to sound the alarm bell when in international arena, their governments are being pressured or enticed into agreements that are not in the national interest. They also have a responsibility to push governments to address structural inequities and inequalities between North and South in multilateral fora. Not enough pressure is being put on governments to take a firm stand against ill conceived initiatives coming from the North.

ACP governments have the option to simply throw out the EPA proposal and look for more viable options to deal with their countries' economic challenges.

The ACP Negotiating Guidelines clearly state that “EPAs will have to establish legitimacy in ACP states, particularly as regards their contribution to sustainable development of those countries.” It calls for the involvement of all stakeholders in the negotiations process, public scrutiny of the negotiations including parliamentary follow ups, and inclusive and transparent negotiations process. But the stakeholders can not be involved if they are not up to speed on and informed on the issues.

The EPA negotiations are not simply an obscure diplomatic exercise. They are about lives, livelihoods and our regions' economic prospects. The idea of setting up free trade areas with the European Union under the current circumstances is - to put it bluntly - foolhardy. In matters of trade, the EU's indifference and insensitivity to the needs of developing countries makes the whole idea of partnership a ludicrous joke. It should be inconceivable that the EU can so ruthlessly exploit its position of influence to make demands of countries where people live on less than a euro a day simply to further it's the interests of its multi-billionaire corporations. This is what is happening and there should be a public outcry against it.

It should be inconceivable that the EU can so ruthlessly exploit its position of influence to extract trade concessions from countries where most people live on less than a euro a day

If the general public in ACP countries were properly informed about the issues in the negotiations, and they had a choice to accept or reject free trade areas with Europe, there is a strong likelihood that they would reject EPAs. After all, why is it that only the ACP have to face “adjustment costs” while the EU barely needs to give such problems a second thought? Foreign aid notwithstanding, the perception of the public – and rightly so – is that developing countries get a raw deal from the North. The hype about free trade and globalisation being good for development is simply yet another example of double standards and hypocrisy that the rich countries are becoming more, rather than less famous for in their dealings with there poorer countries.

Maybe it is about time we just said “no.”

***N. Kachingwe
MWENGO, 2003***

NOTES

Acknowledgements

The opinions expressed in this article are the those of the author. To draw up the article, we have used as reference material various studies, reports, commentaries and analyses undertaken by the organisations and individuals mentioned below.

- ACP-EU Joint Parliamentary Assembly
- Action for Southern Africa
- African Forum on Debt and Development
- APRODEV
- Caribbean Policy Development Centre
- EcoNews Africa
- ENDA-TM
- Eurostep
- Institute for Global Dialogue
- Dot Keet/Alternative Information Development Centre
- Moses Tekere/Trade and Development Studies Center
- MWENGO
- Pacific Concerns Resource Centre
- Paul Goodison/European Research Office
- Third World Network/Africa Trade Network
- SAPRIN
- Southern and East African Trade Information and Negotiations Initiative (SEATINI)
- Third World Network (Africa Secretariat)

About the Author

Nancy Kachingwe is the Programme Officer at MWENGO, a reflection and development centre for NGOs in East and Southern Africa.

The East and Southern Africa Civil Society Economic Policy Project, launched in July 2002 in Nairobi is a collaborative project between NGOs, people's movements and regional networks working on development, rights and social justice. The overall goals are

- to build a critical mass of civil society organisations in the region to advocate for people-centred economic policies and programmes
- to foster collaboration between NGOs, the media, academics, churches, unions and various social movements so that ordinary people are better informed and demand accountability on economic policy.

This feature series will cover various topics relating to economic and social development, and will carry papers by social justice activists from the African continent.

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