Rejection of EPAs by Africa: Implications for the Developing World

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"Let's not talk about the Economic Partnership Agreements! We've said we rejected them -- for us, it's finished. When we meet again, we'll discuss things, the EU will present their EPAs, and we will present something else."- Senegalese President Maitre Abdoulaye Wade (EU-Africa Summit Ends With Meager Results, Deutsche Welle 09.12.2007)

The deadlock between the African countries and the European Union (EU) in the recent summit in Lisbon, Portugal scheduled to finalize the Economic Partnership Agreement (EPA) probably has much wider implications than just being a failure of the two continents to forge a partnership on economic issues. The disagreement in the negotiations over trade facilitation issues between the two blocs and the eventual rejection of the EPAs by the African countries is not only a major setback for the EU, which had been trying to impose its economic and trade agenda on the most backward continent, but also marks a clear break in the historical relationship of the African nations with their erstwhile colonial rulers.

The more significant aspect of this resistance to the EPAs by the African nations is that it comes in the wake of an incumbent threat, well-emphasized by the EU during the negotiations, of expiration of all provisions of preferential treatment in European markets in case the Cotonou Agreement were not replaced by EPAs by the end of 2007. The Cotonou Agreement signed in 2000 between the EU and the African, Carribean and Pacific (ACP) states ensured a continuation of the non-reciprocal, preferential market access, granted to the ACP countries by the Lome Conventions. The EU in its campaign for EPAs carefully underscored the point that the EPAs were an absolute necessity for maintaining tariff-free zones in the EU markets for African exports in future.

The EU is currently also the largest trading partner of Africa with a trade volume of more than 215 billion euros in 2006. A number of African countries are also dependent, some quite heavily, on the EU for aid and development funds. The fact that these unfavourable contexts did not deter the African nations from adopting a strong and uncompromising position in the EPA negotiations definitely marks a departure from the traditional donor-recipient relationship between the North and the South. This departure was so evident that it could not be ignored even, in the face-saving joint declaration that was signed at the end of the Lisbon summit that otherwise ended in differences. The declaration carried the line- *"We are resolved to build a new strategic political partnership for the future, overcoming the traditional donor-recipient relationship," (Ambitious EU-Africa summit ends in trade deadlock, Guardian, Dec 9, 2007).* The political leadership of Africa clearly pressed for a ‘partnership of equals’ in the future.

Issues of disagreement in the EPA negotiations:

The haste with which the EU has pursued the EPA negotiations completely showed that they preferred to remain oblivious about the issue that a replacement of the Cotonou Agreement with the EPAs meant an important change in the trade regimes for the African countries. While the earlier Lome conventions and the Cotonou Agreement granted the ACP countries non-reciprocal, preferential access to EU markets, the EPAs were in essence reciprocal bilateral free trade agreements. From the very beginning, the different economic blocs within Africa have been incredulous regarding the reciprocity issue based on the apprehension that a sudden surge of European imports in the African markets can adversely affect their already vulnerable food production, food processing and infant manufacturing industries. On the other hand, the nascent stage of development of African enterprises and associated supply-side constraints did not promise much in terms of garnering advantages from competitive access in the European markets.

In such a context, differences between the two blocs emerged on a whole range of issues during the EPA talks. While the EPAs were projected to be about the development of the African nations, a major debate surfaced on the very definition of development in an earlier round of negotiations, when the 16 country East and Southern African (ESA) grouping met the EU in Brussels in November. The ESA countries defined development to be a further strengthening of their agricultural and industrial production base and demanded a list of development projects, with concrete financial commitments, from the EU. The EU, in its effort to undermine such a notion of 'development' and not concede any such commitments, suggested that these demands be put outside the main text in a separate 'development matrix'. The ESA as a counter strategy pressed for a legally binding clause to be attached to the 'matrix', which the EU eventually also declined terming the demands as a mere 'Christmas shopping list'.

The EU has also been unwilling to separately discuss agricultural trade policy, which was the biggest concern for the African countries. The Common Agricultural Policy (CAP) reform did not propose any elimination of domestic support to European farmers but merely sought to shift the support measures to categories in WTO that are considered to be non trade-distorting. The African countries have been driven by the concern that their local agricultural production and agri-based industries will be wiped out by competition from subsidized European imports. They demanded that elimination of both the domestic support and the export subsidies currently provided by the EU nations be discussed as part of the CAP reform. This is an important issue as a large part of the employment, especially for women, is generated from these sectors in the majority of the African economies. The EU gave a poor response to these concerns, maintaining that these were their internal affair and cannot be bought under the scope of the EPAs.

There were major disagreements also over the scope of products that should continue to receive protection and the time frame for tariff elimination. The EU wanted the African economies to reduce protection to only 10 percent of their products, which was completely unacceptable to the latter. The EU also rejected the demand for a five-year moratorium on tariff dismantlement that the African countries thought was necessary.

This unbridled liberalization of their economies was unambiguously rejected by the African nations.

The central argument for the sheer necessity of the EPAs that was forwarded by the EU was to make the trade arrangement between the EU and ACP more compatible with the multilateral trading principles. However, the EU has vigorously tried to push WTO-plus positions on more than one occasion during the EPA talks. The EU wanted agreements on some of the Singapore issues, like investment, competition policy, government procurement, as part of the EPAs. This meant that the African countries would have had to concede vital ground that they had successfully gained in the WTO. The aggressive mood of the EU was reflected in their asking for a liberalization of public procurement by the African countries when the WTO negotiations were at most dealing with transparency in government procurement. These issues were dropped from the Doha Work programme essentially due to the resilient opposition by the ACP countries along with other developing nations in the WTO.

The EU went beyond its negotiating mandate by pursuing an agreement to deregulate the entry of European investors and businesses in the ACP countries. They were clearly asking for more than anything that they have achieved in the multilateral negotiations. The EU also wanted a WTO-plus approach with regard to liberalization of services even as the ACP countries clearly stated that they are not in a position to make any commitment greater than those made in the WTO. The uncompromising and aggressive attitude of the EU made the African countries feel that they were being hurried through a reform process that will have crucial implications for their economies in future. The regional economic integration process that is currently under progress in the African continent was also perceived to be potentially hampered by the EPAs without any significant and compensating economic gains.

This multiplicity of factors prompted the African nations to reject the EPAs wholesale. The onus for the failure of the EPA talks primarily lie with the EU as the Cotonou agreement had explicitly mandated that the EPAs should be negotiated only with those ACP countries, which were in a position to do so, and alternatives should be explored with other non-LDCs. This was never recognized seriously by the EU in its approach to the EPA negotiations.

Africa to depend more on Asian FDI inflows?

The EU has been particularly wary of the recent increases in the Chinese investment in the African continent. The Chinese economy, with its growing demand for minerals and oil, has also engaged in larger volumes of trade with several African nations. In 2006, the total trade that China had with Africa amounted to 43 billion euros, the third largest by any single country or block. A United Nations study on FDI in Africa in 2007 reveals that the annual FDI inflows into Africa from expanding developing countries in Asia like China or India have been lower than the FDI inflows from UK, USA or France at the beginning of the new century (Table 1).

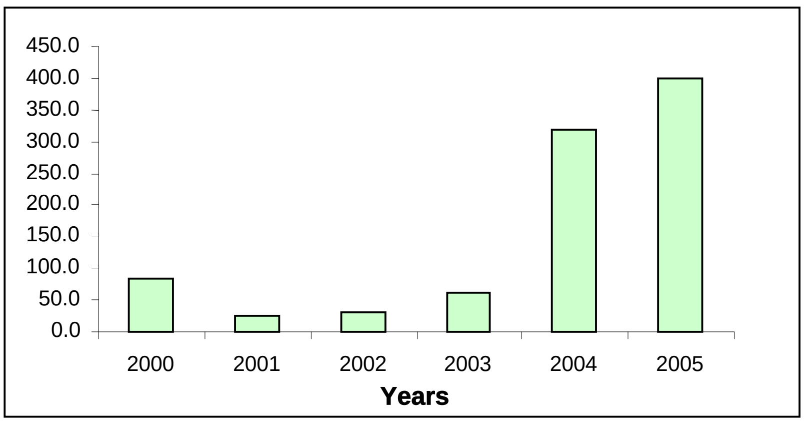
Table1: FDI flows to Africa from selected countries, 2000-2004 (mn USD)

Year	China	India	Malaysia	France	Germany	United Kingdom	United States
2000	85.0	243.3	77.7	1 300.9	651.4	2 119.7	716.0
2001	24.5	184.8	49.4	1 796.0	-259.5	1 658.4	2 438.0
2002	30.1	883.4	340.1	855.4	-328.4	3 291.3	-578.0
2003	60.8	338.4	411.0	1 095.9	-319.4	5 639.4	2 697.0
2004	320.0	22.1	175.6	1 028.1	181.3	10 588.1	1 325.0

Source: *Asian Foreign Direct Investment in Africa*, United Nations, 2007

While the inflow of Chinese FDI in Africa has not been very large in the past decade, the European nations are alarmed by the recent surge in Chinese FDI inflows. According to the UN study, in the years 2004 and 2005, the volume of China's FDI in Africa has been USD 320 mn and USD 400 mn respectively (Figure 1).

Figure 1: China's FDI outflows to Africa, 1999-2005 (mn USD)



Source: *Asian Foreign Direct Investment in Africa*, United Nations, 2007

Another concern for the EU is the large increase in the FDI stock of major Asian developing countries in Africa (Table 2). From Table 2, we can see that the FDI stock of China, India and Malaysia in Africa has significantly expanded in absolute terms over the last one and a half decades. In case of India and Malaysia, the African share in their total FDI stock has also substantially increased. Additionally, China cancelled debts amounting to USD 1.27 bn for 31 African countries in 2003 and has maintained a policy of giving debt relief and aid to African countries in the subsequent years. This has considerably increased the bargaining power of the latter in asking for similar debt relief from the IMF and World Bank.

Table 2: FDI stock of China, India and Malaysia in Africa and the World (mn USD)

	China		India		Malaysia	
Regions	1990	2005	1996	2004	1991	2004
Africa	49.2	1595.3	296.6	1968.6	1.1	1880.1
Total	1029	57200	3139	11039	3043	41508
Share of Africa	4.78	2.79	9.45	17.83	0.04	4.53

Source: *Asian Foreign Direct Investment in Africa*, United Nations, 2007

The World Bank, while welcoming the growing Chinese investment in Africa, skeptically observed that China should be more concerned about fighting poverty, corruption and human rights abuses in Africa and not exacerbate the existing problems of the continent. The response of the African leaders to the FDI and aid inflows from China has been quite different, declaring Africa to be mature enough to deal with newer developing countries. In the words of Senegalese President Wade-*"Africa defends its interests, its economic interests. China and India have become major partners for Africa"* (*Africa says big enough to cope with China courtship*, Reuters Africa, Dec 9, 2007). In the rejection of the EPAs, the African economies have conveyed a clear message to the North that they prefer to depend increasingly on a South-South cooperation strategy in the coming times.

Implications of the new development:

The outright refusal to sign the EPAs by the African nations is undoubtedly a watershed event in the history of bilateral trade agreements. It has more than one implication for the developing world. First, there has been a growing awareness among the African people regarding the negative impacts of the reforms process that their countries have been adopting for some time now. There were widespread campaigns by civil society organizations which resulted in 'A Global Call for Action to Stop EPAs' in 2006. This call was jointly issued by thirty CSOs, including global actors like the Action Aid, Oxfam International and Christian Aid, when they got organized on a single platform-the African Trade Network (ATN) in Harare. The earlier UN Secretary General Kofi Annan had also pointed out to the African head of states that-'*…The prospect of falling government revenue, combined with falling commodity prices and huge external indebtedness, imposes a heavy burden on your countries and threatens to further hinder your ability to achieve the Millennium Development Goals'* (*Six Reasons to Oppose EPAs in their Current Form*, www.twnafrica.org).

The democratic, affirmative action meant that it created a significant pressure on the respective African governments to protect the interest of their people. It is clearly a changed situation from the times when the EU and other developed nations could manipulate authoritarian regimes to unilaterally impose their trade and economic agenda on the African people. The rejection of the EPAs by Africa will potentially inspire other LDCs to protect their own interests more vigorously in bilateral agreements with the developed nations.

The other important implication of this development has been the stronger resolve of the African political leadership to strive for greater South-South cooperation. The rise in the economic power of Asian developing countries like China and India has provided more leverage to African economies in their negotiations at the bilateral and multilateral levels. The message from the African nations has been one that they are more inclined to enter into cooperation with other developing nations than sign trade agreements with the North, which compromise their own interests and endanger the livelihoods of their people. The outcome of the Lisbon summit clearly points out that the EU and other developed nations will have to overcome their colonial mindsets if they want to reach economic agreements with African nations in the emerging world economic scenario.