

Trade traps

Why EU-ACP Economic Partnership Agreements pose a threat to Africa's development



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Acronyms and abbreviations

ACP	Africa, Caribbean and Pacific group of countries	IMF	International Monetary Fund
ADB	African Development Bank	IPA	investment promotion agency
AU	African Union	KACFC	Kenya Agro-Chemicals and Food Company
BIT	Bilateral Investment Treaty	MDG	Millennium Development Goal
CAP	Common Agricultural Policy	MIGA	Multilateral Investment Guarantee Agency
CEMAC	Central African Economic and Monetary Community	NAFTA	North American Free Trade Agreement
COMESA	Common Market for Eastern and Southern Africa	NIC	Newly Industrialising Countries
CPA	Cotonou Partnership Agreement	OECD	Organisation for Economic Co-operation and Development
DRC	Democratic Republic of Congo	PTA	Preferential Trade Area for Eastern and Southern Africa
EAC	East African Community	RTA	Regional Trade Agreement
EBA	Everything But Arms initiative	SADC	Southern African Development Community
EC	European Commission	SADCC	Southern African Development Co-ordination Conference
ECOWAS	Economic Community of West African States	SAP	Structural Adjustment Programme
EPA	Economic Partnership Agreement	SDT	Special and Differential Treatment
ESA	Eastern and Southern Africa (Economic Partnership Agreement group)	TDCA	Trade, Development and Co-operation Agreement (EU-South Africa)
EU	European Union	UNCTAD	United Nations Conference on Trade and Development
FAO	Food and Agriculture Organization (United Nations)	UNDP	United Nations Development Programme
FDI	Foreign Direct Investment	UNECA	United Nations Economic Commission for Africa
FTA	Free Trade Agreement	VAT	Value Added Tax
GATS	General Agreement on Trade in Services	WAEMU	West African Economic Monetary Union
GATT	General Agreement on Tariffs and Trade	WTO	World Trade Organization
GDP	Gross Domestic Product		
ICOUR	Irrigation Company of the Upper East Region (Ghana)		
ICSID	International Centre for the Settlement of Disputes		

Executive summary

Proposed Economic Partnership Agreements (EPAs) between the European Union and African, Caribbean and Pacific (ACP) countries constitute a major threat to poverty reduction and development. They will:

- construct new and unfair trade rules by creating free trade areas between the EU and regional groupings of ACP countries
- reduce the policy space that ACP countries need to develop their economies and eradicate poverty
- lead to significant losses in ACP fiscal revenues
- lead to de-industrialisation in ACP countries
- undermine African regional integration
- grant European corporations greater rights over African economies.

This report challenges the European Commission's argument that free trade EPAs are the only way to meet WTO requirements and to integrate African countries into the global economy. Developing countries have a right to special and differential treatment under WTO rules: any new trade agreement between the EU and ACP countries must preserve and expand this right.

New research by ActionAid in Ghana and Kenya refutes the European Commission's argument that EPAs would aid poverty reduction and promote sustainable development. On the contrary, reciprocal trade liberalisation under EPAs would lead to a decline in manufacturing and agro-industrial development. Agro-processing industries, such as the Ghanaian tomato and Kenyan sugar industries are particularly vulnerable. Eliminating tariffs would create significant revenue losses for a typical sub-Saharan African government leading to either severe cutbacks in public services or increased taxes on poor people.

The EU is using the EPA negotiations to push through agreements on investment, government procurement and competition policy that developing countries rejected at WTO negotiations in 2003. These agreements would reduce the policy space available to African governments.

EPAs threaten regional integration, a central plank of African development strategy since political independence. This strategy has sought to ameliorate the economic problems created by the colonial fragmentation of Africa into many nation states with little economic coherence. The EPAs configuration process has created new regional groupings that are inconsistent with, and undermine, existing African economic and political blocs. Reducing regional integration to trade liberalisation undermines the broader socio-economic and political objectives of existing bodies.

ACP concerns have been marginalised while the European Commission has employed divide-and-rule tactics in the EPA negotiations. The European Commission ignored ACP concerns during the first phase of the negotiations and continues to meddle in internal ACP negotiation processes under the guise of capacity building.

There are viable alternatives to EPAs, such as extending the Everything But Arms scheme to all ACP countries or revising WTO rules to allow for truly pro-poor and pro-development EPAs.

ActionAid calls on British and European governments to change the European Commission's EPA negotiating mandate, and withdraw demands for reciprocal trade liberalisation and agreements on the 'Singapore issues'. Both EU and ACP countries must push for the reform of WTO rules to allow for pro-poor and pro-development trade agreements between developing and developed countries. The European Commission must begin an immediate examination of all possible alternatives to EPAs.

1. Introduction

Three decades after the first Lomé convention set the trading relationship between the European Union and African, Caribbean and Pacific (ACP) countries, new economic partnership agreements (EPAs) are being negotiated that constitute a major threat to poverty reduction efforts and the development prospects of some of the world's poorest countries.

New research by ActionAid in Ghana and Kenya shows that the proposed EPAs would harm African industrialisation efforts by forcing fledgling industries to compete with established European corporations. Lost revenues from indiscriminate and premature trade liberalisation would create a strain on government finances and public services. EPA investment agreements would restrict the ability of African governments to pursue nationally prioritised economic and social objectives.

Trade with the EU is very important for Africa. The EU is a far more important market for Africa than the US or Japan.¹ For historical reasons, the EU is sub-Saharan Africa's single largest trading partner, receiving about 31% of Africa's exports and supplying 40% of its imports.²

Between 1975 and 2000, trade between the EU and ACP countries was governed by the Lomé conventions,³ which granted ACP countries better access to the EU market than other developing countries.⁴ The preferences granted to ACP countries under these conventions were non-reciprocal: ACP countries did not have to extend similar or other preferences to the EU in return. This was based on the recognition that, because of the vast differences in economic development between the EU and ACP countries, any fair trade

arrangement between them had to treat ACP countries differently. With the expiry of the Lomé preferences, the EU and ACP countries signed a cooperation accord known as the Cotonou Partnership Agreement (CPA) in 2000, which provides for the negotiations and establishment of new trade agreements between the EU and regional ACP groupings by 1st January 2008.

EPA negotiations are one set of a series of bilateral negotiations taking place in parallel to the multilateral WTO talks.⁵ The growing influence of developing countries at the WTO, particularly of larger countries such as China, India and Brazil, has made it more difficult for the EU and US to dictate terms to the rest of the world.⁶ As a result both economic superpowers have increasingly focused on bilateral and regional trade negotiations in order to secure new markets for their goods and services and obtain concessions from poor countries that would be difficult to achieve at the WTO.

EPAs are premised on the assumption that indiscriminate trade liberalisation and market deregulation are best for achieving development. This model of development was forced upon many developing countries in the 1980s and 1990s through policy conditions imposed by the World Bank and the IMF, with disastrous consequences.⁷ Under this model, the number of people living below the poverty line continued to rise rather than decline, with 1.2 billion people in the developing world living on less than US\$1 a day by 2000. In Africa, the number increased from 217 million in 1987 to 291 million (46% of the total population) in 2000.⁸

¹ Stevens, C. and Kennan, J. (2004) 'Comparative Study of Preferential Access Schemes for Africa', Report on a DFID-commissioned study, IDS: April 2004, p.17.

² Hinkle, L. and Schiff, M. (2004) 'Economic Partnership Agreements between Sub-Saharan Africa and the EU: a development perspective', *World Economy*, Vol.27, Issue 9.

³ They remain in place under a WTO waiver until December 2007 when they must either be replaced by another trade agreement or be extended through another WTO waiver.

⁴ Guaranteed quotas and prices and/or duty free market access, in certain agricultural products, especially sugar, beef and bananas.

⁵ There are 6 EPA regions in total: 4 for Africa, 1 for the Caribbean, 1 for the Pacific.

⁶ Although rich countries still do their best to get their way by using dirty tricks and underhand tactics. See ActionAid (2004) 'Divide and Rule: the EU and US response to developing country alliances at the WTO'.

⁷ On the failure of the 'Washington Consensus' see, Kohsaka, A. (2004) *New development strategies: Beyond the Washington Consensus*, Palgrave, Macmillan; Stewart, F. et al (1987) *Adjustment With a Human Face*, UNICEF, New York; UNCTAD (2002) *Economic Development in Africa*, UNCTAD, Geneva.

⁸ World Bank (2001) *Attacking Poverty*, Oxford University Press, Oxford.

In a series of studies, Harvard University economist, Dani Rodrik, has shown that there is little evidence that trade liberalisation is correlated with economic growth. He has shown that whilst no country has developed successfully by turning its back on international trade, none has developed by simply liberalising its trade either. The critical balance lies in each country adopting its own trade and investment policies and strategies, in line with its development needs.⁹

A growing body of evidence supports Rodrik's work. For instance, the *Africa Economic Report 2004* concludes that trade liberalisation alone will not boost growth and poverty reduction in Africa.¹⁰ Instead, the report argues that the successful integration of Africa into the world economy will require better-educated and healthier workforces, improved economic and political governance, better quality infrastructure, and dynamic trade policies, including gradual and targeted trade liberalisation. A recent report by the United Nations Conference on Trade and Development (UNCTAD) draws a similar conclusion.¹¹

Trade liberalisation plus enhanced market access does not necessarily equal poverty reduction: most poor countries undertook extensive trade liberalisation in the 1990s, and also received some degree of preferential market access from developed countries, but performed dismally in reducing poverty. UNCTAD warns that if past trends continue, the poorest countries in the world will continue to lag behind the rest in 2015, the year by which the international community hopes to halve the proportion of the global population living in extreme poverty.

Evidence from successful developers including the US, UK, other European countries and the 'Asian tigers' shows that protecting infant industries was an important part of early trade and industrial policy.¹² Careful use of protection together with other policies to encourage backward and forward linkages, learning and adoption of technology will be needed by African countries to overcome the many market failures that exist in their economies. Successful developed countries did not accept the economists' notion of fixed comparative advantage in producing and exporting particular goods; rather, they developed comparative advantage as they went along. For example, Taiwan was transformed from a tiny Japanese colony in the 1940s to a global leader in steel and micro-processors in a single generation. Successful development needs a dynamic, long-term policy approach, which Africa will lose if it locks itself into free trade with Europe.

ActionAid believes that trade and markets can be important instruments for achieving economic development and poverty reduction. But they must be managed fairly to enhance opportunities for the poor and to protect the vulnerable. ActionAid calls for the demands for full reciprocal trade liberalisation and negotiations on investment, competition policy and public procurement to be dropped from the EPA negotiations. Alternatives to EPAs must be sought.

⁹ See Rodriguez, F. and Rodrik, D. (1999) 'Trade Policy and Economic Growth: A Sceptic's Guide to the Cross-Country Evidence', Centre for Economic Policy Research, Discussion Paper Series 2143; Rodrik, D. (2001) 'The Global Governance of Trade As If Development Really Mattered', UNDP; Rodrik, D. (2002) 'Trade Rout: Reform in Argentina, Take Two', *New Republic*, 14th January 2002.

¹⁰ UNECA (2004) *Africa Economic Report 2004*, UNECA, New York.

¹¹ UNCTAD (2004) *The Least Developed Countries Report*, UNCTAD, Geneva.

¹² Chang, H.-J. (1993) 'The Political Economy of Industrial Policy in Korea', *Cambridge Journal of Economics*, Vol.16, No.2; Amsden, A. (1989) *Asia's Next Giant*, OUP, Oxford.

2. EPAs: the European Commission's main arguments

The European Commission advances two main arguments in support of its demand for the creation of free trade agreements (FTAs) between itself and regional groupings of ACP countries. The first is legal – that this is the only arrangement acceptable to the WTO. The second is economic – that such FTAs will stimulate economic development in ACP countries.¹³ We deal with each of these in turn.

WTO compatibility: the European Commission's legal argument

The Cotonou Partnership Agreement (CPA) that provides for EPA negotiations explicitly links them to the WTO, stating that:

*The Parties agree to conclude new WTO-compatible trading arrangements.*¹⁴

In the early 1990s, the non-reciprocal trade preferences under Lomé governing trade relations between the EU and ACP countries were increasingly challenged: they were seen to discriminate against other developing countries and were therefore deemed incompatible with certain WTO rules. There was also concern that the trade preferences had failed to integrate many ACP countries into the global economy and were less likely to do so because of increasing preference erosion (a decline in the value of the Lomé preferences as a result of multilateral trade liberalisation).¹⁵ This was the context under which EPAs were proposed.

EPAs fall under the WTO rules on regional trade agreements (RTAs). The most important of these is Article XXIV of the General Agreement on Tariffs and Trade (GATT) 1994, a founding document of the WTO, which states that:

5. (c) any interim agreement shall include a plan and schedule for the formation of such a customs union or of such a free-trade area within a reasonable length of time¹⁶

The WTO's understanding of a "reasonable length of time" is that:

*The "reasonable length of time" referred to in paragraph 5(c) of Article XXIV should exceed 10 years only in exceptional cases. In cases where Members parties to an interim agreement believe that 10 years would be insufficient they shall provide a full explanation to the Council for Trade in Goods of the need for a longer period.*¹⁷

Article XXIV goes on to say that:

8. (b) A free-trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated on substantially all the trade between the constituent territories in products originating in such territories...¹⁸

The European Commission interprets the above clauses to mean that 90% of the trade in goods between the two parties must be liberalised over a period of 10-12 years¹⁹ an interpretation first used during the EU-South African trade negotiations in 1999.

There are a number of problems with the EU's conception of reciprocity in EPAs. Firstly, the principle of reciprocity as intended in the GATT/WTO does not necessarily carry over to North-South trade agreements, since small countries have not been required to offer

¹³ Lamy, P. (2004) *Opening of the negotiations for the Economic Partnership Agreement (EPA) between the Caribbean Forum of ACP States (CARIFORUM) and the European Union*, Statement by Pascal Lamy, Kingston, Jamaica, 16th April 2004, http://europa.eu.int/comm/commissioners/lamy/speeches_articles/spla220_en.htm

¹⁴ Article 36.1 of the Cotonou Partnership Agreement (2000).

¹⁵ Mbuende, K. and Davies, R. (2002) 'Beyond the Rhetoric of Economic Partnership Agreements', www.weedbonn.org/eu/texte/Booklet-Cape-Town-JPA.doc

¹⁶ WTO (1994) 'General Agreement on Tariffs and Trade: Article XXIV', http://www.wto.org/english/tratop_e/region_e/regatt_e.htm#gatt

¹⁷ WTO (1994) 'Understanding on the Interpretation of Article XXIV of the General Agreement on Tariffs and Trade 1994', http://www.wto.org/english/tratop_e/region_e/regatt_e.htm#gatt

¹⁸ WTO (1994) 'General Agreements on Tariffs and Trade: Article XXIV', http://www.wto.org/english/tratop_e/region_e/regatt_e.htm#gatt

¹⁹ European Commission (undated) *interpretation of Article XXIV*, http://europa.eu.int/comm/external_relations/mercotur/bacground_doc/template_paper5.htm; also based on EU-South Africa Trade, Development and Co-operation Agreement liberalisation timescale.

reciprocal concessions to industrial countries in multilateral negotiations.²⁰ The 1979 *Enabling Clause* calls upon industrialised countries not to seek reciprocal concessions inconsistent with the development, financial and trade needs of individual developing countries. Secondly, reciprocity between developing and developed countries can be very damaging to the former because the asymmetries in economic size mean that developing countries have to make relatively larger concessions and bear disproportionately high costs of adjustment than the developed countries. Premature trade liberalisation can also contribute to de-industrialisation in developing countries, characterised by a decline in manufacturing, the collapse of industries, and a loss of jobs and 'tacit knowledge'.²¹

For African countries to liberalise 90% of all trade with the EU within a 10-12 year period would require them to open all but 10% of their markets to EU products within a decade, regardless of the structural weaknesses or the macro-economic conditions of their economies.

'Asymmetrical liberalisation' is not the solution

The proposition that the gap in development between EU and ACP countries can be addressed through 'asymmetrical reciprocity or liberalisation' is not convincing.

Although this differential approach, based on the trade agreement between the EU and South Africa²², gives ACP countries the opportunity to make slightly less drastic (under 90%) cuts in tariffs over a slightly longer time period, the extent to which developing countries liberalise their trade should be based on their individual development and economic needs, and not determined by arbitrary timeframes and product coverage.

Asymmetrical or not, reciprocity would 'lock in' African countries to only one path to development – that of a liberalisation or free trade model. More importantly, basing African country trade liberalisation commitments on arbitrary timeframes presupposes that development is a linear process, which is often not the case. What is the use of giving a country a longer transition period, when they may be worse off economically in 15 years' time than they are now?

Special and differential treatment for developing countries

The European Commission's claim that EPAs must be free trade areas in order to conform to WTO rules is self-serving and misleading. The WTO recognises that developing and developed countries are different, and reflects this in its rules on special and differential treatment (SDT). For example, the General Agreement on Trade in Services (GATS) makes special provision for developing countries in relation to regional agreements on services.²³ SDT is also explicitly part of the Cotonou Partnership Agreement, which states that:

*Economic and trade co-operation shall take account of the different needs and levels of development of the ACP countries and regions. In this context, the Parties reaffirm their attachment to ensuring special and differential treatment for all ACP countries.*²⁴

WTO compatibility is a moving target

Furthermore, an examination of all SDT-related provisions is part of the ongoing WTO Doha round negotiations,²⁵ effectively making WTO compatibility a moving target. In fact, ACP countries tabled a proposal at the WTO in April 2004 seeking more flexibility with regard to the interpretation of reciprocity in FTAs between developed and developing countries:

²⁰ Freund, C. (2002) 'Reciprocity in Free Trade Agreements', World Bank; Staiger, R. 'Tariff Phase-Outs: Theory and Evidence from GATT and NAFTA: Comment' in Frankel, J (ed) (1998) *The Regionalization of World Economy*, University of Chicago Press, Chicago; Yanai, A. (2001) 'Reciprocity in Trade Liberalisation', APEC Study Center, Working Paper Series 00/01 – No 2.

²¹ See for instance, Freund, C. (2002); Hinkle, L. and Schiff, M. (2004); Frankel, J. (1998); World Bank (2004) *Global Economic Prospects 2005*, World Bank, Washington D.C.; Yanai, A. (2001).

²² Under which South Africa was to liberalise about 86% of its trade with the EU, and the EU was to liberalise about 94% with South Africa (90% unweighted average of the two sides' trade).

²³ Article V, paragraph 3.a of WTO (1994) *General Agreement on Trade in Services*.

²⁴ Article 35.3 of the Cotonou Partnership Agreement (2000)

²⁵ WTO (2001) 'Doha Ministerial Declaration', Paragraph 44.

2. EPAs: the European Commission's main arguments

With regard to duties, appropriate flexibility shall be provided for developing countries in meeting the "substantially all the trade" requirement in respect of trade and product coverage, including in terms of the application of favourable methodology and/or lower threshold levels, if to be applied, in the measurement of trade and product coverage of developing country parties to an RTA [regional trade agreement].

The maximum length of the transition period permissible is to be established, the period should be determined in such a manner that is consistent with the trade, development and financial situation of developing countries, but in any case not less than 18 years.²⁶

This matter is of interest to many developing countries in the light of the proliferation of FTAs between developed and developing countries.²⁷ However, the EU continues to show little interest in changing WTO rules on regional trade agreements, insisting that the current WTO rules offer enough 'flexibility' to enable the creation of development-friendly trade agreements between developed and developing countries.

Whatever happened to the 'round for free'?

In May 2004 the EU proposed a special deal for the world's poorest countries at the WTO. Known as a 'round for free', the offer was that the G-90 group of least developed countries and ACP states,

would not be called upon to further open their markets while they would benefit from improved access to developed and rich developing markets for their agricultural and industrial products.²⁸

Although this was a political tactic employed by the EU to divide developing countries at the WTO (by creating a wedge between the G-90 and the G-20), taken at face value, the EU appeared to accept the development case for non-reciprocal trade liberalisation at the WTO. Yet in parallel EPA negotiations, the EU insists that reciprocity is good for ACP countries. The contradiction is glaring.

²⁶ WTO (2004) 'ACP Submission on Regional Trade Agreements', 28th April 2004, pp.3-4.

²⁷ For instance, CAFTA (the Central America Free Trade Agreement) which brings together the US and El Salvador, Honduras, Nicaragua, Guatemala, and later Costa Rica and the FTAA (the Free Trade Area of the Americas) which brings together the US and 34 other countries in the Americas⁸

²⁸ European Commission (2004) 'WTO-DDA – EU ready to go extra mile in three key areas of the talks', 10th May 2004, http://europa-eu-un.org/articles/lt/article_3490_lt.htm

3. EPAs: the impact of reciprocity on development and poverty reduction in Africa

The effect of trade liberalisation on poverty reduction depends on:

- how much poor people produce exported goods and consume imports
- the degree of labour mobility
- the state of domestic industries
- the state of income distribution.²⁹

Depending on these factors, trade liberalisation can create winners and losers, aggravating or reducing gender, income or regional disparities. A successful or pro-poor trade liberalisation strategy is one that ensures that the winners' gains outweigh the losers' losses (i.e. the winners can compensate the losers).

The experience of the East Asian 'tigers' demonstrates that successful trade policies must be aligned with, rather than pursued in isolation from, development strategies.³⁰ For instance, trade liberalisation might be accompanied by complementary measures, such as infrastructure development, skills formation, asset redistribution, interventions in basic services such as health and the extension of credit facilities.

There is little evidence that trade liberalisation under EPAs would be aligned with Africa's development needs. On the contrary, it would follow the indiscriminate approach employed during structural adjustment programmes (SAPs) – opening markets without considering the development needs of individual countries.

That approach to trade liberalisation in Africa through SAPs had negative consequences, as detailed below:³¹

- **Côte d'Ivoire's** chemical, textile, footwear and automobile assembly industries collapsed after tariffs were cut 40% in 1986, leading to massive job losses and negative multiplier effects throughout the economy.
- A trade liberalisation programme that reduced the effective rate of protection from 165% in 1985 to 90% in 1988 had eliminated one third of manufacturing jobs in **Senegal** by 1990.
- In **Ghana**, liberalisation of consumer imports caused employment in manufacturing to fall from 78,700 in 1987 to 28,000 in 1993.
- In **Tanzania, Uganda, Zambia, Zaire, Sierra Leone** and **Sudan**, trade liberalisation in the 1980s generated huge surges in consumer imports and cutbacks in the foreign exchange available to purchase capital and intermediate goods, with severe consequences for industrial output and employment. In **Uganda** for instance, industrial capacity utilisation languished at 22% whilst consumer imports absorbed 40-60% of foreign exchange. A similar fall in industrial capacity usage and unemployment in **Nigeria** led to policy reversals in 1990, 1992 and 1994.
- **Kenya's** beverage, textile, sugar, cement, tobacco, leather and glass sectors have struggled to survive competition from imports since a major trade liberalisation programme was initiated in 1993. Between 1993 and 1997, growth in industrial output fell by 2.6% while growth in industrial employment fell by 2.2%.

²⁹ UNECA (2004) *Africa Economic Report 2004*, UNECA, New York; Winters, A. (2002) 'Trade Policies of Poverty Alleviation', in Hoekman, B. and Matoo, A. (2002) *Trade, Development and the WTO*, World Bank, Washington D.C.

³⁰ Amsden, A. (1989) *Asia's Next Giant*, OUP, Oxford; Chang, H.-J. (1993) 'The Political Economy of Industrial Policy in Korea', *Cambridge Journal of Economics*, Vol.16, No.2.

³¹ Buffie, E. (2001) *Trade Policy in Developing Countries*, CUP, Cambridge.

3. EPAs: the impact of reciprocity on development and poverty reduction in Africa

Table 1 Manufacturing output as a share of GDP and total employment, by region, 1960-2000

Region	1960		1970		1980		1990		2000	
	GDP %	Emp %	GDP %	Emp %	GDP %	Emp %	GDP %	Emp %	GDP %	Emp %
Sub-Saharan Africa	15.3	4.4	17.8	4.8	17.4	6.2	14.9	5.9	14.9	5.5
West Asia & North Africa	10.9	7.9	12.2	10.7	10.1	12.9	15.6	15.1	14.2	15.3
Latin America	28.1	15.4	26.8	16.3	28.2	16.5	25.0	16.8	17.8	14.2
South Asia	13.8	8.7	14.5	9.2	17.4	10.7	18.0	13.0	15.7	13.9
East Asia (excl. China)	14.6	8.0	20.6	10.4	25.4	15.8	26.8	16.6	27.0	14.9
First-tier NICs	16.3	10.5	24.2	12.9	29.6	18.5	28.4	21.0	26.2	16.1
China	23.7	10.9	30.1	11.5	40.6	10.3	33.0	13.5	34.5	11.5
Developing countries	21.5	10.0	22.3	10.8	24.7	11.5	24.4	13.6	22.7	12.5

Source: UNCTAD Trade and Development Report 2003

UNCTAD secretariat calculations, based on data on manufacturing output and GDP at current prices from World Bank, 1984 and 2003; Government Statistical System of the Republic of China, online; International Labor Organization.

Note: Sub-Saharan Africa includes Benin, Botswana, Burkina Faso, Cameroon, Central African Republic, Chad, Congo, Côte d'Ivoire, Democratic Republic of the Congo, Gabon, Ghana, Kenya, Lesotho, Malawi, Mauritania, Mauritius, Niger, Nigeria, Rwanda, Senegal, South Africa, Togo, Zambia and Zimbabwe; Latin America includes the Southern Cone countries and Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay and Peru; South Asia includes Bangladesh, India, Pakistan and Sri Lanka; East Asia includes Hong Kong (China), Indonesia, Malaysia, the Philippines, the Republic of Korea, Singapore, Taiwan Province of China and Thailand.

EU integration: the wrong example

The European Commission holds that economic integration in general, and trade liberalisation in particular, benefits all the countries involved. It claims that removing barriers to trade leads to increased competition, lower prices, transfer of knowledge, increased efficiency, and ultimately, overall positive welfare gains and economic development. This claim is based on the development experience of the EU itself.

There are two fundamental problems with this position:

- European economic integration involved countries at similar levels of development. Africa contains some of the poorest countries in the world and Europe some of the richest; the two parties to the deal are not equal.
- It took Europe nearly half a century to complete the elimination of all internal barriers to trade in goods.³² Yet the EU is now demanding that African countries not only eliminate internal barriers amongst themselves, but also all barriers to trade with the EU within 10-12 years.³³

The impact of trade liberalisation under EPAs would be deeper than that experienced under SAPs because SAPs involved tariff reduction not elimination. For instance, without some form of infant industry protection, it is hard to see how African manufacturing, in its nascent stage and already trailing the rest of the world, will survive competition from European corporations. Table 1 shows that manufacturing output in sub-Saharan Africa has fallen as a share of GDP since its peak in 1970.

Table 1 shows that even at its peak, manufacturing in Africa was relatively low compared to the newly industrialising countries (NICs). Manufacturing employment as a share of total employment in sub-Saharan Africa has fallen consistently since 1980. As is demonstrated by the tomato canning and sugar industries in Ghana and Kenya respectively, further indiscriminate trade liberalisation in Africa at this stage is likely to worsen the problem of de-industrialisation on the continent, making poverty reduction efforts, such as the pursuit of the millennium development goals, much harder to achieve.

Evidence from Kenya and Ghana

Two factors combine to make agricultural trade liberalisation a critical concern of African countries. Firstly, agriculture is the mainstay of many African economies, accounting for the bulk of national income, providing livelihoods for 80-90% of the population, and supplying about 20% of Africa's merchandise exports.³⁴ Secondly, the agricultural sector is the most distorted market in world trade, partly as a result of the protectionist policies of developed countries. Whilst many African countries have been forced by SAPs to reduce or eliminate many forms of support to their producers, industrial countries continue to subsidise theirs.³⁵

Trade liberalisation under EPAs would pose two main problems to African agriculture. Firstly, African producers would find it hard to compete with European products benefiting from EU subsidies and other forms of support. More importantly, as Africa largely remains an agrarian economy, agricultural trade liberalisation would affect household welfare in more ways than one. As

³² Szepesi, S. (2004) 'Coercion or Engagement? Economics and Institutions in ACP-EU Trade Negotiations', ECDPM Discussion Paper, 56 Maastricht, p.3.

³³ European Commission (undated) Interpretation of Article XXIV, http://europa.eu.int/comm/external_relations/mercotur/bacground_doc/template_paper5.htm; also based on EU-South Africa Trade, Development and Co-operation Agreement liberalisation timescale.

³⁴ UNECA (2004).

³⁵ UNECA (2004).

3. EPAs: the impact of reciprocity on development and poverty reduction in Africa

households are both producers and consumers, welfare gains on the consumption side could easily be offset by losses in production if the household is a net producer of non-tradables. Similarly, poor infrastructure might leave African countries unable to realise new market opportunities, even in commodities where the continent has a competitive edge. There would therefore be minimal gains for producers.

The economies of Kenya and Ghana illustrate the threat that reciprocal trade liberalisation under EPAs would pose to African countries. Like many African countries, agriculture forms the backbone of these countries' economies, accounting for 39% and 25% of Ghana's and Kenya's GDP respectively.³⁶ It supports the livelihoods of millions of small-scale farmers, provides employment to over 80% of the population and supports the countries' industrialisation efforts, including the following sectors:

- agro-chemicals and agro-machinery
- food processing
- furniture
- leather
- pharmaceuticals
- supermarkets chains
- informal markets
- banking
- transportation
- educational and research institutes.

Furthermore, the agricultural sector houses most of the commodities and products that are vital to these countries' economies because of their contribution to:

- national food security
- national employment
- fiscal revenues or GDP
- the development of national infrastructure
- providing industrial linkages
- land and labour use.

³⁶ ISSER (2004) *The State of the Ghanaian Economy in 2003*, ISSER, Legon; Republic of Kenya (2004) *Economic Survey 2004*, Government Printer, Nairobi.

Mexico's experience under NAFTA: the countryside can't take it any more (El campo no aguanta más)

Mexico's experience under the North American Free Trade Agreement (NAFTA) is a living example of the negative developmental consequences of FTAs between developed and developing countries:

Increased trade but greater poverty

Whilst the volume of trade between the US and Mexico nearly doubled within the first decade of NAFTA, the number of people living below the poverty line in Mexico increased from 30% in 1994 to over 40% in 2003. Between 1994 and 2000, there was a 60% decline in real wages and a 50% decline in the basic goods – food clothing, housing, health and education – that Mexicans could afford to buy.³⁷

Double standards

NAFTA isn't really a 'free trade area' in practice, as the US continues to subsidise its domestic industries, especially corn. The liberalisation of the investment sector has created major US monopolies in Mexico, while the US uses flimsy health and safety measures to impose trade barriers on Mexican products.³⁸

Loss of food security

The country has increasingly become food insecure, depending on imports for about 40% of its food requirements.³⁹ For instance, before NAFTA, Mexico imported only 2.5 million tonnes of corn per year, as the rest was produced locally: by 2001 they were importing 6 million tonnes a year.⁴⁰

Rural displacement

Corn imports have displaced thousands of Mexicans living in rural areas who cultivated corn prior to NAFTA. It is estimated that for every 10 tonnes of corn

exported to Mexico under NAFTA, an average of 2 rural Mexican dwellers migrate to the US.⁴¹ Up to 15 million Mexican small farmers could be displaced by the end of the decade because of NAFTA's agriculture provisions.⁴²

Greater malnutrition

The liberalisation of the Mexican food industry has also resulted in poorer health for Mexicans. The Food and Agriculture Organization (FAO) of the United Nations found that 5 million Mexicans are malnourished.⁴³ By displacing local producers, NAFTA has damaged local sources of quality food and its low food tariffs have encouraged junk food imports from the US.⁴⁴

More unemployment

By the end of the 1990s, 1.7 million jobs had been lost in agriculture, particularly in the corn and bean sectors, which were flooded by subsidised US imports: 28,000 small businesses have been forced to close down.

Economic domination, US profiteering

Less than 50 US corporations dominate the Mexican economy.⁴⁵ The big NAFTA winners have been large agribusinesses. Within the first decade of NAFTA, US corporation Archer Daniels Midland's profits nearly tripled from US\$110 million to US\$301 million and ConAgra's profits grew from US\$143 million to US\$413 million. In contrast, many Mexicans have been forced into informal sector employment where workers have no contract protections and are not entitled to holiday or overtime pay.⁴⁶

³⁷ Doykos (1999); Carlsen, L. (2003) 'The Mexican Farmers' Movement: Exposing the Myths of Free Trade', South Centre, Geneva.

³⁸ Carlsen, L. (2003)

³⁹ Carlsen, L. (2003)

⁴⁰ CropChoice News, Thursday 10th July 2003.

⁴¹ CropChoice News.

⁴² Public Citizen Report (2001).

⁴³ White, M. et al (2003) 'NAFTA and the FTAA: A Gender Analysis of Employment and Poverty Impacts in Agriculture', Women's Edge Coalition.

⁴⁴ Carlsen, L. (2003)

⁴⁵ This accounts for the increased volume of trade between Mexico and the US. See: Carlsen, L. (2003).

⁴⁶ Public Citizen Report (2001).

3. EPAs: the impact of reciprocity on development and poverty reduction in Africa

ActionAid research conducted in Kenya and Ghana suggests that reciprocity represents a major threat to development and poverty reduction in Africa, propelled not by legal or development imperatives, but mainly by EU market access interests.* The research shows that EPAs threaten sub-sectors and products that are critical to Africa's food security, employment and long-term development. Much of this threat will come from processed imported products from the EU. The following case studies show that the agriculture, industrial and service sectors in African economies are so inter-twined and inter-dependent that the 10% 'protective window', proposed under EPAs is highly unlikely to protect these countries' long-term development needs.

Tomatoes and the agro-processing industry in Ghana

The Upper East region is the poorest region of Ghana, where tomatoes have been grown on a commercial basis since the early 1960s. Several irrigation projects have been set up, including the Tono project managed by ICOUR (Irrigation Company of the Upper East Region), a government parastatal established to promote the production of food and cash crops by small-scale farmers. The Tono Dam, built between 1975 and 1985, is one of the largest agricultural dams in West Africa, covering a total catchment area of 3,600 hectares and providing a developed area of 2,400 hectares for growing irrigated crops. There are nine villages living and farming within the project area and each village has a population of 3-5,000 people. The dam, which allows for year-round farming, has greatly aided in the development of the region.

Tomatoes have long been the most lucrative crop in the Upper East region (more profitable than rice, maize, groundnuts, yam, pepper and dairy). Close to 90% of the two million people living in the area cultivates them. The country had moved into tomato processing as early as 1968, with the establishment of three tomato canneries producing tomato paste and puree, in

Pwalugu and Wenchi districts and at Nsawam near Accra. These canneries operated on partial contract farming arrangements, providing either equipment to farmers or guaranteeing market access for pre-agreed quantities produced by smallholders. Not all farmers were engaged with the factories, but their presence helped reduce the bargaining power of 'Accra women' – fresh tomato traders who bought supplies from farmers not contracted to the canneries, for sale throughout the country.

The irrigation projects were conceived of as tools for achieving national food security and improving rural incomes. Towards this end, in the 1960s and 1970s, the Ghanaian government intervened heavily in agriculture, providing substantial subsidies, including machinery and equipment, or in the case of the tomato industry, three processing factories initiated by the state.

During the 1980s and 1990s, as part of policy conditions from the IMF and the World Bank, the Ghanaian government embarked on a major

Table 2 Tomato paste imported into Ghana: 1990 - 2002

Year	Quantity (tonnes)	Value (US\$ million)
1990	-	-
1991	3,600	5.3
1992	4,700	5.9
1993	3,900	4.7
1994	3,200	4.1
1995	5,300	8.0
1996	-	-
1997	1,765	1.9
1998	3,208	3.0
1999	10,264	11.1
2000	13,051	11.0
2001	16,152	11.4
2002	24,077	17.5

Source: FAOSTAT: various

* This includes not only the EU's market access interests in Africa but also its market access interests globally. Concluding development-unfriendly FTAs with Africa would set a precedent for it to follow in pursuing FTAs with other countries.

privatisation, deregulation and liberalisation programme, selling the tomato canning factories and relaxing trade restrictions on tomato imports. This led to the collapse of the Pwalugu and Nsawam tomato canning factories, and enabled the heavily subsidised EU tomato industry to penetrate the Ghanaian economy, as shown in table 2.

Increasing imports of EU tomato paste have impacted negatively on the livelihoods of Ghanaian tomato farmers, traders and industry employees, some of whom have been displaced from their livelihoods, retrenched or subjected to uncompetitive pricing practices by middlemen who have now gained control of the fresh tomato market in Ghana.

Samwel Abora: Ghanaian tomato farmer



Cosmas Ochieng/ActionAid UK

Samwel Abora resigned from his job at the University of Ghana at Legon, Accra in 1981 to concentrate on tomato farming in Talisi District near the Pwalugu tomato canning factory. He started growing tomatoes on a part-time basis in 1978, and quickly realised that the 5,000 Ghanaian cedis a year the university paid him was far lower than the 30,000 cedis he was getting as a tomato farmer. So he left the university to concentrate full time on tomato farming in 1981.

Samwel made a successful living, educating his four daughters and three sons on the income derived from tomato farming, even managing to buy a tractor. He achieved national honours twice, winning the Best Tomato Farmer award in the Upper East Region in 1994, and Best Overall Farmer, Upper East Region in 1999.

However, competition from EU products means that Samwel, like many of his fellow farmers at Pwalugu, can no longer rely on tomato farming to make ends meet. He has to plant a whole range of crops, including maize, but this intercropping only provides food for seven months of the year.

Samwel, like many farmers in the Upper East Region, now finds it difficult to pay school fees and to access basic health services. Whilst liberalisation has undermined their livelihoods, structural adjustment policies have led to the introduction of school fees in primary schools and 'cost-sharing' or user fees in government hospitals and health clinics.

3. EPAs: the impact of reciprocity on development and poverty reduction in Africa

Why are EU tomato products cheaper than Ghanaian ones?

The EU is the single biggest producer of fresh tomatoes in the world with Italy, Spain, Greece, Portugal and

France its leading producers.⁴⁷ About 20% of EU exports of tinned tomato paste and puree go to West Africa.⁴⁸

EU policies guarantee European tomato producers a minimum price and subsidise tomato processors and exporters. Currently, processed tomato products in the EU receive approximately €300 million per year in direct subsidies and several million more indirectly (see Table 3). This constitutes unfair competition to Ghanaian tomato producers who receive no support from their government. In fact, since the liberalisation and market deregulation of the last decade, prices of agricultural inputs in Ghana have continued to rise. In 2003, for example, the price of a hoe, the most basic tool used by Ghanaian farmers, rose by 30.8% whilst the prices of cutlasses and machetes rose by 15.1% and 14.3% respectively. Price increases for fertilisers and chemicals ranged from 2.5% to 32.2%.⁴⁹

Table 3 EU tomato subsidies

	Appropriations 2004
Export refunds on fruit and vegetables	€41,000,000
Compensation for withdrawals and buying-in	€82,000,000
Operational funds for producer organisations	€543,000,000
Production aid for processed tomato products	€298,000,000

Source: DG Budget 2005⁵⁰

Further liberalisation of the tomato industry in Ghana, as EPAs would probably require, would potentially result in a flood of subsidised EU imports. That would in turn threaten the livelihoods of 3 million Ghanaian farmers and traders and hinder Ghanaian industrialisation through agro-processing, as the collapse of the Pwalugu and Nsawam canning factories demonstrate.

Although the Ghanaian tomato industry has internal inefficiencies (poor roads, a lack of equipment, credit, storage and refrigeration facilities), and the entry of EU exporters into the Ghanaian market poses a serious challenge, the tomato industry in Ghana remains viable and worth protecting in the interest of the country's long-term development. Table 4 shows that, despite increasing imports of EU tomato paste and the collapse of Pwalugu and Nsawam factories, the production of local fresh tomatoes remains substantial. Indeed, the total land area used for tomato production grew by about 30% from 28,400 hectares in 1996 to 37,000 hectares in 2000.⁵¹

Table 4 Tomato production in Ghana, 1990 - 2003

Year	Tomato production (tonnes)
1990	86,400
1991	91,700
1992	100,200
1993	107,000
1994	181,500
1995	213,000
1996	182,000
1997	219,800
1998	216,200
1999	215,000
2000	200,000
2001	200,000
2002	200,000
2003	200,000

Source: FAOSTAT: Various

⁴⁷ WWF (undated) 'Why work on agriculture?' <http://www.wwf.org.uk/researcher/issues/agriculture/index.asp>

⁴⁸ WWF (undated)

⁴⁹ ISSER (2004) pp.119-120.

⁵⁰ http://europa.eu.int/eur-lex/budget/data/P2005_VOL4/EN/nmc-titleN123A5/nmc-chapterN12624/index.html#N12624

⁵¹ Government of Ghana (2002) 'Ghana Investment Profile'.



Cosmas Ochieng/ActionAid UK

Why worry about the Ghanaian tomato industry?

Imported tomato paste from the EU presents a major challenge to the Ghanaian tomato industry. The Pwalugu, Wenchi and Nsawam tomato canning factories were an integral part of the government's early efforts at industrialisation. The government invested heavily in the tomato industry because it envisaged that it would play a multi-functional role in the economy: laying the groundwork for future industrialisation by creating and supporting agro-based industries, developing rural infrastructure, enhancing food security and improving rural livelihoods. Despite its flaws, the Ghanaian tomato industry has gone a long way in trying to meet some of these objectives, and with some reforms and a little protection from subsidised EU products, it has the capacity to fulfil its intended objectives.

The cost of losing the industry to EU imports cannot simply be viewed in relation to potentially cheaper imported tomato paste, but must be considered as part of Ghana's dynamic, long-term development interests.

Moreover, estimates of annual fresh tomato production in Ghana underestimate the losses incurred by producers as a result of poor infrastructure and storage facilities and marketing problems. These problems underscore the utility of local tomato processing: since the collapse of the two canning factories, it is estimated that nearly half of all tomatoes produced in Ghana annually go to waste due to storage, transport and marketing problems.⁵²

Sugar and the agro-chemicals and food industry in Kenya

Sugar is a vital sub-sector of Kenya's economy. Like the tomato industry in Ghana, the sugar industry in Kenya was to have a multi-functional role: it would encourage rural industrialisation and infrastructure development with a view to laying the groundwork for the country's agro-industrialisation, while providing rural employment and bolstering national food security programmes. Sugarcane farming remains the main lucrative economic activity in Nyanza and Western provinces. The sub-sector is a £200 million industry, indirectly supporting 3 million people and providing direct and indirect employment to 500,000 others,⁵³ and is the main source of livelihood for over 100,000 smallholder farmers. The industry also generates about 10 billion Kenya shillings (approximately £100 million) in government revenues through taxes on farmers, companies, consumers and import duties.⁵⁴

The industry has helped to develop the regional economies of Nyanza and Western provinces by attracting other industries that rely on sugar by-products as raw materials, such as agro-chemicals and food processing, as well as confectionery and soft drinks manufacturers.⁵⁵ It has also stimulated the development of rural infrastructure, including co-generation of electricity from factories such as Mumias Sugar Company, and provides quality primary education, basic healthcare and social services – five

⁵² Yamson (2001) Interview with Mr. Yamson, Chief Executive Officer of Unilever Ghana, <http://www.winne.com/ghana4/vp05.html>

⁵³ Republic of Kenya (2003) 'Report of the Task Force on the Sugar Industry Crisis'.

⁵⁴ Republic of Kenya (2003)

⁵⁵ Potential exists in Eastern and Coast provinces as well and plans are underway to revive collapsed factories in these regions.

3. EPAs: the impact of reciprocity on development and poverty reduction in Africa

of the six sugar factories each have a first-class primary school and health clinic serving local communities as well as a 'premiership' football club.

In spite of the contribution that the sugar industry has made towards fulfilling the objectives of Kenya's national food policy, Kenya remains a net importer of sugar, producing 400,000 tonnes of sugar per year against an annual national consumption of 600,000 tonnes. Partly as a result of the distorted global sugar market and partly as a result of internal inefficiencies, imported sugar is much cheaper than locally produced sugar. Most of this imported sugar comes from Common Market for Eastern and Southern Africa (COMESA) countries.

Kenya's accession to the COMESA Free Trade Agreement in 2000, which led to a reduction on import duties on sugar from COMESA countries, nearly wiped out the Kenyan sugar industry. This was partly responsible for the collapse of two sugar factories (Miwani and Muhoroni), and, with many factories failing to pay farmers as a result of their inability to sell locally produced sugar, throwing both the factories and the farmers into long-term debt problems.⁵⁶ The

government had to seek a temporary waiver from COMESA to impose up to 120% duty on COMESA sugar imports beyond the 200,000 tonne import quota.

The Kenyan government acknowledges the inefficiency of the national sugar industry, and has instituted measures aimed at restoring efficiency to the sector.⁵⁷ To do this, the government must be able to protect the sector while it is being re-structured. If the policy space needed to do this were to be eliminated under EPAs, an industry that is vital to Kenya's long-term development interests would be severely threatened.

The multi-functionality of the Kenyan sugar industry is exemplified by its contribution to the national agro-chemicals and food industries (see box).

The sugar industry has played a critical role in the growth of the agro-chemicals and food industry in Kenya, supplying spirit markets in Kenya and COMESA and exporting the surplus to Europe, while most of the yeast is sold regionally in East and Central Africa. The viability of this industry and its vitality to Nyanza and Western provinces is underscored by the recent commissioning of the Kisumu Molasses Plant, another,

The Kenya Agro-Chemicals and Food Company

The Kenya Agro-Chemical and Food Company (KACFC), which relies on by-products of sugarcane processing to produce a variety of food and industrial products, exemplifies the role that sugar plays in the Kenyan economy and underscores the critical inter-relationship between agriculture and industry in Kenya.

The company, located next to Muhoroni Sugar Factory in Kisumu district, was incorporated in 1988 as a joint venture between the Government of Kenya and the

private sector. The plant was initially set up to produce power alcohol and bakers' yeast from cane molasses (syrup) – a by-product of sugarcane processing. KACFC has since expanded and diversified into other related products, and currently uses 85,000 tonnes of cane molasses a year (60% of Kenya's sugar industry production) to produce a wide range of food, pharmaceutical and industrial products, including methylated spirits, alcohol, industrial solvents, yeast and ethanol.

⁵⁶ These problems were aggravated by Kenya's own internal efficiency problems – factory mismanagement, corruption, political patronage and lack of enforcement of import quotas – see for instance, Republic of Kenya (2003).

⁵⁷ Republic of Kenya (2003).

potentially much bigger, company relying on sugar by-products to produce agro-chemical and food products.

While it is true that the Kenyan sugar industry has long faced internal inefficiencies, due to corruption and political patronage amongst other factors, it remains central to Kenya's long-term development. It is therefore essential that these problems be addressed internally to ensure the survival of the sector and to protect the industry from subsidised EU imports.

Eliminating protection against imported sugar might mean cheaper (imported) sugar for Kenyans (although this depends on traders passing on the lower prices to consumers). But this potential benefit must be seen in the context of the massive impact the end of protection would have on livelihoods and jobs, which goes beyond sugar farmers and their families. Given the structure of African economies, tariff reductions do not merely result in loss of government revenues or jobs.

An industry like sugar in Kenya for example, does not just serve its 100,000 smallholder producers: it indirectly supports 3 million people, accounts for 28% of government excise revenues, provides employment for half a million people, supports several other industries, as well as rural infrastructure, hospitals and schools. This makes the distinction between 'producers' and 'consumers' less useful, as producers are not only also consumers, but are also the source of consumer purchasing power.

Thus, whilst imported sugar might be cheap in the short term, it is incapable of fulfilling the multi-functional roles that locally produced sugar plays, such as providing industrial linkages and supporting rural employment. The benefits of locally produced sugar must not be determined from the narrow lens of consumer welfare but rather be considered from the much broader perspective of long-term national development.

4. EPAs: the impact on African government revenues and public services

Because they depend heavily on trade taxes for fiscal revenue, the fiscal stability of many African countries is threatened by trade liberalisation. The United Nations Economic Commission for Africa (UNECA) estimates that international trade taxes generated on average 30.5% of total revenues for sub-Saharan African countries over the last decade. This compares with 0.8% for high-income OECD countries, 18.42% for lower-medium income countries and 22.5% for all low-income countries.⁵⁸ Moreover, whilst the share of trade taxes as percentage of total current revenues is declining in the rest of the world, in Africa it has either stayed flat or increased slightly.⁵⁹

The loss of revenue from the elimination of import duties could therefore lead to severe cutbacks in African public expenditures at a time that the continent is struggling to combat HIV/AIDS, illiteracy and food insecurity, amongst other problems. This would be inconsistent with the current global consensus that increased public spending in poor countries is necessary to meet development objectives,⁶⁰ a fact recognised by the Secretary-General of the United Nations, Kofi Annan:

A major concern, for example, is the impact that the trade liberalization to be wrought by EPAs would have on fiscal revenue. Many of your countries are heavily dependent on income from tariffs for government revenue. 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.⁶¹

EU countries, on the other hand, will not face this problem of revenue losses, partly because many traditional African exports already enter the EU market duty-free and partly because the economies of the EU are diversified and have huge taxable income bases.

The European Commission argues that revenue losses from tariff elimination constitute 'short-term adjustment costs' which would be overcome quickly through, for instance, re-structuring African tax systems, which have long been viewed as inefficient.

This argument is fundamentally flawed. Admittedly, shifting taxation away from tariffs has proved extremely difficult for many African governments: tariffs accounted for 31% of total tax revenue in Africa in 1975, yet by 1995 had declined by only 4% to 27%.⁶² While some African countries have inefficient tax systems, many have undergone significant restructuring since 1995, through a range of tax measures aimed at expanding the tax base and making them more efficient. These include the introduction of the value-added tax (VAT), taxes directed at farmers and other low-income groups, as well as local state or council taxes. Charts 1 and 2 show the diversification and complexity of tax systems in Senegal and Kenya.

⁵⁸ UNECA (2004) p.192.

⁵⁹ UNECA (2004) p.192.

⁶⁰ See for example: Brown, G. (2004) Speech by Gordon Brown on 'Making globalisation work for all – the challenge of delivering the Monterrey consensus' 16th February 2004 in which he said: "It is precisely because we know that education is the very best anti-poverty strategy, the best economic development programme, that the UK will, over ten years, spend £1 billion on educational aid – alongside the World Bank's excellent education Fast Track Initiative. Yet while all the public spending on sub-Saharan African education taken together is, per pupil, is still less than \$40 a year, less than one dollar per week, it is estimated that, overall, education needs, annually, \$10 billion - predictable regular financing that no one aid budget, and no one nation, can achieve on its own." http://www.hm-treasury.gov.uk/newsroom_and_speeches/press/2004/press_12_04.cfm

⁶¹ Annan, K. (2004) UN Secretary-General Kofi Annan's message to the Fourth Summit of Heads of State and Government of the African, Caribbean, Pacific Group, delivered by K.Y. Amoako, Executive Secretary, Economic Commission for Africa, in Maputo, 23rd June, <http://www.un.org/News/Press/docs/2004/sgsm9386.doc.htm>

⁶² Keen, M. and Lighthart, J.E. (1999) 'Coordinating Tariff Reduction and Domestic Tax Reform', IMF, p.3.

Chart 1 Senegal: (taxes as a percentage of government revenue)

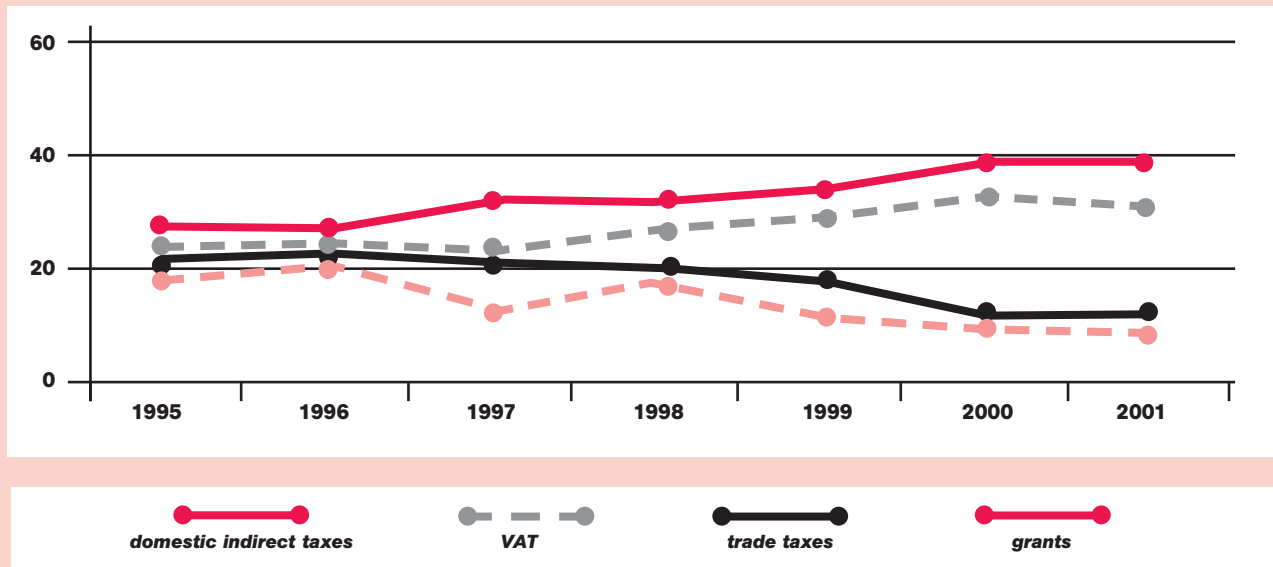
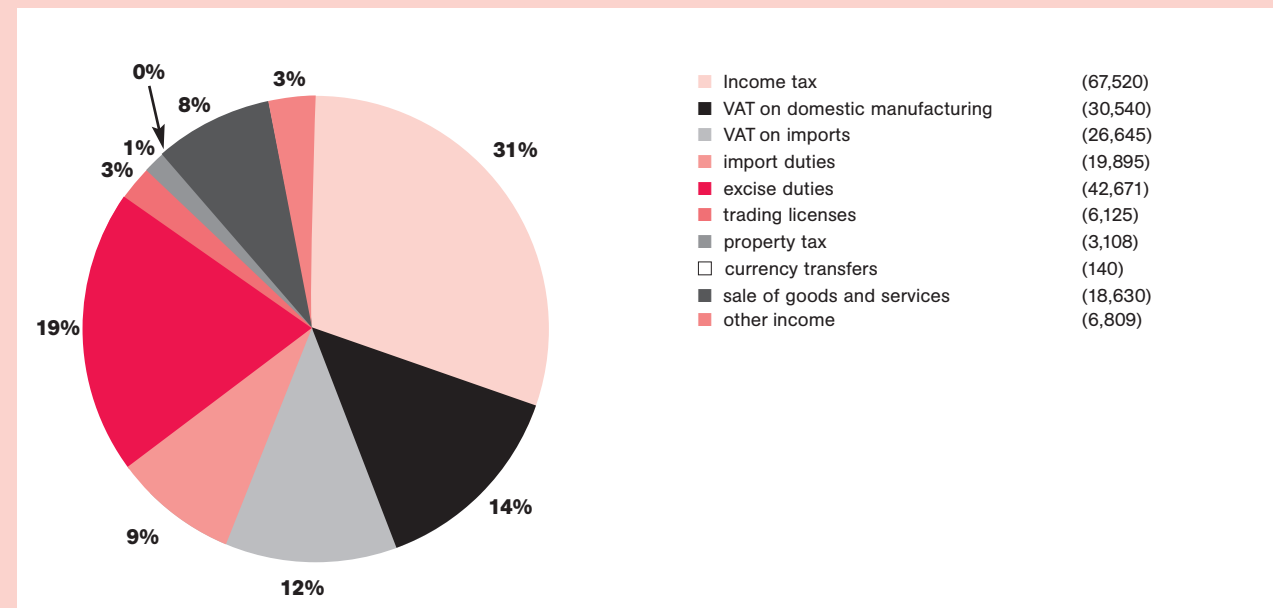


Chart 2 Composition of Kenyan government revenue by source 2002-2003 (KEPLOTRADE Background Study No 8)



4. EPAs: the impact on African government revenues and public services

The charts confirm that many African countries have diversified their tax systems away from over-reliance on import duties within the last decade. In Senegal, for instance, the government has increased indirect taxes such as VAT as the proportional contribution of import taxes to government revenues has declined.

Table 5 shows the pervasive nature of VAT in African countries.

1986	Niger
1989	Malawi
1990	Kenya
1991	Benin, Mali
1993	Burkina Faso
1994	Madagascar, Nigeria
1995	Gabon, Mauritania, Togo, Zambia
1996	Guinea, Uganda
1997	Republic of Congo
1998	Ghana, Mauritius, Tanzania
1999	Cameroon, Mozambique
2000	Chad, Namibia, Sudan

Source: IMF, Various

Whilst VAT is generally regarded as being non-distortionary and for that reason better than tariffs, it can negatively impact on the poor. The UN Economic Commission for Africa notes:

Taxing consumption may be more regressive than taxing income, and this is a particular concern in poor countries, especially as in many of their economies commodity taxes have traditionally accounted for a higher proportion of government revenues than income taxes.⁶³

The European Commission's argument that revenue losses under EPAs can easily be remedied through tax adjustment is therefore hollow. Because many African countries have already liberalised through structural adjustment, they will face reductions in revenues as a result of further liberalisation.⁶⁴

It is difficult to see how increases in other forms of taxation can be made in ways that are both fair and effective. A growing body of evidence suggests that new and often intractable problems have arisen where other forms of taxation have been tried. This casts grave doubts on the viability of further tax reforms, even where they are feasible. For instance, in Uganda and Tanzania, local taxes have been severely criticised for serious revenue leakages in the private tax collection system and for the adverse impacts that the regressive nature of these taxes have on income distribution.⁶⁵ In Tanzania, poor public services and perceived corruption amongst officials have led to significant resistance to local taxes. Furthermore, many local government staff in these countries lack the capacity to administer new complex forms of revenue collection.⁶⁶

ActionAid research in Ghana and Kenya found that, in addition to increasing indirect taxes, the governments of the two countries have also resorted to directly taxing agricultural producers. In Ghana, this takes the form of an export tax on cocoa (long taxed) and timber products whilst in Kenya a 'presumptive income tax' is levied on farmers producing crops such as sugarcane. These taxes depress farmer incomes and can discourage commodity production, as has periodically been the case with export taxes on Ghanaian cocoa.

⁶³ UNECA (2004) p.203.

⁶⁴ UNECA (2004) p.197.

⁶⁵ Bahigwa, G. et al (2004) 'Uganda Rural Taxation Study: final report', p.iii.

⁶⁶ Fieldstad, O-H. (2001) 'Fiscal decentralisation in Tanzania: for better or worse?' WP 2001:10, Chr. Michelson Institute.

5. EPAs: investment agreements and other 'Singapore issues'

The European Commission's proposals for EPAs also seek to include agreements on investment, government procurement and competition policy, issues often known within the WTO as the 'Singapore issues'. Developing countries, and specifically ACP governments, decisively rejected the idea of opening up discussions on these issues at the 2003 WTO Cancún Ministerial.

One of the Singapore issues is investment. The European Commission argues that increased flows of foreign direct investment (FDI) are central to poverty alleviation and essential if African countries are to take advantage of greater access to the European market. ActionAid agrees that FDI could aid Africa's development if managed responsibly, but we disagree with the European Commission's policy of greater deregulation of African investment regimes and indiscriminately opening up African markets to European corporations. This would remove the policy tools that governments might use to ensure that investment is socially responsible, economically productive and consistent with national development goals.

In seeking an agreement on investment, government procurement and competition policy under EPAs after developing countries collectively rejected such agreements at the WTO, the European Commission is pursuing a self-interested market access agenda without due consideration to the development needs of African countries.⁶⁷ Agreements on these issues would create lopsided rules that would disproportionately benefit EU investors at the expense of domestic African investors, leading to the economic exploitation of African producers, workers, small-scale and medium-level processors. It would also curtail the policy choices available to African governments in pursuit of their development objectives.

Investment agreements do not increase investment flows

The European Commission argues that an investment agreement would attract much-needed FDI into these countries. However, extensive literature suggests that FDI does not necessarily precede economic growth or follow the conclusion of investment protection treaties or free market policies.⁶⁸

Despite the high number of bilateral investment treaties (BITs) concluded by African countries (see below) and the extensive rights given to foreign investors, Africa continues to lag behind the rest of the world in attracting FDI. The 1990s saw a massive explosion in both global FDI and flows to developing countries: FDI in the world grew by an average of 26% per year, while the flows to developing countries grew by 21%. Yet flows to Africa only grew by 14% per year (mostly concentrated in South Africa and North Africa). Africa's share of total world FDI and total developing country FDI dropped by 1% and 3% respectively.⁶⁹ A recent World Bank survey on FDI flows from industrial countries to 31 developing countries explains this contradiction by stating that,

Countries that had concluded a BIT were no more likely to receive additional FDI than were countries without such a pact.⁷⁰

Interestingly, countries such as China and Malaysia, with comparatively illiberal investment regimes have been amongst the largest recipients of FDI during the last decade. This suggests that the level of a country's per capita income, its rate of growth and its physical and human capital infrastructure are more critical determinants of FDI than free markets or legal and regulatory frameworks.⁷¹

There is therefore no compelling reason why investment agreements under EPAs will lead to increased FDI flows to Africa. On the contrary, such agreements, including

⁶⁷ Investment, government procurement and competition policy were withdrawn from the Doha Development Agenda and put into working groups.

⁶⁸ African Development Bank (2001) 'International Investment in Africa: Trends and Opportunities'; Chang, H.-J. (2003); Chang, H.-J. (2002); Singh, A. (2001) 'Foreign Direct Investment and International Agreements: A South Perspective', South Centre, Geneva; UNCTAD (2000) *A Positive Agenda for Developing Countries: Issues for Future Trade Negotiations*, UNCTAD, Geneva; World Bank (2003) *Global Economic Prospects and the Developing Countries 2003: Investing to Unlock Global Opportunities*, World Bank, Washington D.C.

⁶⁹ African Development Bank (2001).

⁷⁰ World Bank (2003).

⁷¹ Bhinda, N. et al (1999) *Private Capital Flows to Africa: Perception and Reality*, FONDAD, The Hague.

5. EPAs: investment agreements and other ‘Singapore issues’

increased rights for European corporations to repatriate profits abroad, could increase capital flight from the continent. Africa already has a higher proportion of wealth held overseas by residents than any other region of the world: 39% as opposed to east Asia’s 6% before the financial crisis of 1997.⁷² Capital flight amounts to a significant economic loss for Africa, constituting a diversion of domestic savings from investment and a loss of fiscal revenue (through loss of taxation). It also sustains the adverse psychological perception that Africa is not conducive to FDI.

Investor-friendly regimes are already in place

Since the mid 1980s, nearly all African countries have taken steps to reform and liberalise their investment regimes through a combination of policy, legal and institutional changes. Consequently, the continent has one of the most investor-friendly investment regimes in the world. There are currently 35 investment promotion agencies (IPAs) in Africa, and African countries have concluded 428 bilateral investment treaties (BITs), mostly with European countries⁷³: this constitutes about a quarter of all BITs in the world.

At least 42 African countries have joined both the Convention for the Settlement of Investment Disputes between States and Other States (administered by the International Centre for the Settlement of Investment Disputes – ICSID) and the Multilateral Investment Guarantee Agency (MIGA), administered by the World Bank, which offer non-commercial risk coverage for foreign investment.

These investment agencies and treaties already fulfil the EU’s stated aims of new investment agreements, which are:

- guaranteed repatriation of profits and dividends and creating a conducive environment for FDI.

These agencies and treaties are not just limited to protecting and promoting FDI – they perform a wide range of functions. BITs, for instance, reflect the asymmetrical power relationship between African and European countries. Many European countries have used them to obtain investment concessions from African countries that they would not obtain at the WTO.

Nearly all the BITs in Africa provide for all the principles that were rejected at the WTO in 2003 as part of the ‘Singapore issues’ package, giving foreign corporations equal treatment to local industries (usually small and medium scale). This is known as the principle of ‘non-discrimination’ or national treatment. Many BITs in Africa go beyond this principle to discriminate against domestic investors: in order to attract FDI, foreign investors in nearly all the BITs in Africa are given greater rights than domestic investors.

Investors are protected by competition for FDI

Evidence suggests that protection of foreign investors is guaranteed by the intense competition for FDI between developing countries, ensuring that no developing country is keen to develop a poor reputation with foreign investors.⁷⁴ Under these circumstances, it is difficult not to see the EU’s push for investment agreements as part of an aggressive strategy to further open African markets for its corporations.

Corporate abuse

Foreign investors have exploited these rights to constrain the rights of African states to pursue legitimate economic, social and environmental priorities. Since the 1990s, foreign investors have used some of these treaties to file suits barring African states from pursuing economic policies that would undermine their profits, or seeking compensation for losses associated with socially or environmentally prioritised objectives.

⁷² UNECA (1999) ‘The joint conference of African Ministers of Finance and Economic Planning and Development’, UNECA, 9th May 1999, Addis Ababa, Ethiopia.

⁷³ African Development Bank (2001).

⁷⁴ Singh, A. (2001).

Twenty-one such cases have been brought against African states, the majority of which involve multinational companies claiming monopoly rights over mining and extractive industries, particularly in mineral-rich but war-torn countries such as the Democratic Republic of Congo (DRC).⁷⁵

Do as I say, not as I did...

Economic history demonstrates that non-discrimination or national treatment – the idea that a country cannot or should not systematically discriminate between domestic and foreign investors – is not a successful development strategy. During the early stages of their development, many of the now developed countries did not adhere to this principle. They used a range of instruments, including limits on foreign ownership, insistence on joint ventures between foreign and local firms, local employment and performance requirements to build up their national industries.⁷⁶ Even today,

employment policies in nearly all the developed countries discriminate against developing country labour.

The infant industry argument best illustrates the case for national discrimination. Infant industry protection (more broadly defined than by the simple deployment of tariffs⁷⁷), is necessary, if not sufficient, for developmental success. Every now-developed country adopted such a strategy; every successful developing country since 1945 followed such a path.⁷⁸ By denying African countries this same right, developed countries are hampering their industrial development.

By limiting the policy space available to governments in their pursuit of social or economic objectives, investment agreements would also disenfranchise the African people, by limiting their ability to determine their own social or economic priorities. Local policy ownership would be further sidelined in favour of greater rights for corporations.

The NAFTA investment agreement: a threat to society and the environment⁷⁹

The investment agreement under NAFTA is so broadly defined that it gives foreign investors the right to seek compensation from any government action that reduces an investor's property value or expected profits. Within the first decade of NAFTA, multinational corporations had used these provisions to attack a wide range of environmental, social and economic measures in Mexico, Canada and the US, claiming a whopping US\$13 billion compensation in their initial filings. Some examples are listed here:

- In 1997, Metaclad, a US firm filed a US\$90 million claim against a Mexican municipality's refusal to grant it construction permit for a toxic waste dump. The NAFTA investors' tribunal awarded Metaclad US\$15.6 million despite the fact that the

municipality was observing a state declaration of an ecological zone within its jurisdiction.

- In 1998, the US Ethyl Corporation won US\$13 million in compensation and forced Canada to lift its ban on MMT, a gasoline additive that can damage the nervous system.
- In 2000, the NAFTA investors' tribunal forced Canada to pay US\$50 million to another US toxic waste disposal company, SD Myers. Canada, acting in accordance with the Basel convention on the control of transboundary movement of hazardous waste, had denied it the right to export hazardous polychlorinated biphenyl waste from Canada for incineration in the US.

⁷⁵ ICSID (2003); www.icsid.org

⁷⁶ Chang, H.-J. (2002); Ranis, G. (2003) 'Symposium on Infant Industries: A Comment', *Oxford Development Studies*; Tribe, M. (2003) 'Manufacturing, Development and De-industrialisation: Rethinking the Infant Industry Concept', *The Courier, ACP-EU*.

⁷⁷ To include selective credit, overvalued exchange rates, preferential access to rationed inputs, favoured access to research and development etc.

⁷⁸ See Chang, H.-J. (2002); Ranis, G. (2003); Tribe, M. (2003).

⁷⁹ Alejandro, V. (undated) RMACL Mexico, presentation to the European Parliament: 'Learning Lessons from NAFTA: Dangers of an Investment Agreement at the WTO'.

6. EPAs: the impact on African regional integration

The colonial fragmentation of Africa into many nation states with little economic coherence has made regional integration a central plank of African development strategy since political independence. The small size and the primary production structure of the typical African economy has provided the rationale for pursuing mutually beneficial economic objectives through regional integration amongst adjacent states. At the same time the pan-African political aspiration for continental identity, unity and emancipation from the economic and political vestiges of Africa's colonial past provides the political underpinnings of economic and political integration in Africa.

Regional integration efforts

In order to realise these objectives, African countries have established a number of continental and regional economic and political bodies since the 1960s, including the African Union (AU); the East African Community (EAC); the Economic Community of West African States (ECOWAS); the Southern African Development Community (SADC); the Central African Economic and Monetary Community (CEMAC); the West African Economic Monetary Union (WAEMU); and the African Development Bank (ADB).

African regional integration has been pursued as a strategy for the structural transformation of African economies. It is intended to promote the self-reliant development of African states by expanding markets, creating economies of scale and diversifying African economies.

African efforts to achieve these goals through regional integration between 1960 and 1990 have been hampered by endemic political instability, low levels of structural complementarity among many African economies,⁸⁰ inadequate mechanisms for equitably

sharing the costs and benefits of regional integration,⁸¹ flawed economic policies, overlapping membership and external interference by the superpowers during the cold war. Nevertheless, despite these problems, African regional integration made great strides in:

- monetary integration, e.g. WAEMU
- regional infrastructure and political action, e.g. SADCC (predecessor to SADC), in containing and mitigating the economic effects of apartheid South Africa
- dealing with political turmoil, e.g. ECOWAS in Liberia and Sierra Leone
- non-tariff integration, e.g. PTA (predecessor to COMESA), which created common forms and common trade rules.

Since the 1990s, African governments have renewed regional integration efforts. The new efforts are taking place in a different environment from that of the past – a new generation of African leaders, a post-cold war world, and a shift in economic policy from inward-looking to more outward-oriented strategies. Achieving political and economic objectives will still be difficult, but the prospects look much better than they did in the past.

EPAs threaten to kill off these prospects. The European Commission claims that EPAs will promote African regional integration by increasing intra-regional African trade, trade between Africa and the EU, and trade between Africa and the rest of the world. However, evidence suggests the opposite. Due to a combination of economic, political and historical factors, regional integration in Africa is a vastly complex exercise that cannot be achieved simply by trade liberalisation.

⁸⁰ De Melo, J. and Panagariya, A. (1992) 'New Dimensions in Regional Integration', Centre for Economic Policy Research.

⁸¹ This in particular has long plagued the East African Community (EAC) one of the earliest and relatively advanced African efforts at regional integration. It partly contributed to the collapse of the initial experiment in 1977 and continues to strain the newly revived EAC. It recently torpedoed efforts to establish an East African Customs Union by September 2004 and this has now been postponed to 2005 when the three countries propose to approach the World Bank for funds to offset revenue losses that would accrue as a result of the Union.

Why EPAs would not foster African regional integration

Over the last decade, the African Development Bank has conducted a series of studies on regional integration in Africa.⁸² These studies make two critical observations that undermine any notion that EPAs are compatible with African regional integration:

The first is that the complexities of African regional integration underscore the need for the following:

- flexibility in the evolution of integration organisations
- pragmatism in the speed of integration
- political will on the part of participating countries to ensure the implementation of agreed measures.

Because African countries differ in size, levels of economic development, and the need and extent of reforms needed, the process of regional integration must be sufficiently flexible to allow it to proceed at different speeds for different sub-groups of countries. This is known as a 'multi-speed variable geometry approach'. For instance, although COMESA is a Free Trade Agreement, bringing together 21 African countries, to date, only 9 of these countries have reduced their tariffs to zero; 6 have reduced tariffs in the range of 20-90% and 5 have not made any reductions at all. It is this 'multiple speed, variable geometry approach' that has enabled the region to keep moving towards greater regional integration.

Although it has taken existing African regional bodies more than 20 years to reach their current levels of coherence, EPAs require African countries to group themselves into regional free trade areas between now and 2007 and eliminate 90% of the tariffs between them and the EU within a 10-12 year period. This ignores the fact that the coherence, indeed the very

survival, of many African regional trade agreements has depended on the kind of flexibility displayed by COMESA. Moreover, regional integration through groupings specifically formed for the purpose of concluding EPAs with the EU constitutes a process that is EU-driven rather than mobilised through grassroots African support or with the political will and commitment of African political leaders. Such groupings would suffer from a lack of internal or political cohesion.

The second observation is that, given the low levels of complementarity between African economies, regional integration should adopt a *production-focussed* approach which addresses supply-side constraints such as infrastructure and other regional public goods (for example: roads, dams, research and development). This approach will generate growth and create the scope for increased trade rather than a *trade-focussed* strategy favoured by EPAs, which does not align trade liberalisation with the development strategies or interests of individual countries. The trade-focussed approach reduces regional integration to trade liberalisation.

EPAs also threaten to break up existing African regional groupings. In order to negotiate EPAs, some countries have been forced to join new groupings of countries outside the regional bodies they already belong to, causing a lot of strain and raising questions about the viability of long established economic and political blocs such as COMESA, ECOWAS, EAC and SADC. Part of the problem is that some African countries are members of more than one regional grouping, yet the EU insists that:

*An individual state can only be a member of a single trading arrangement with the EU [and] it is imperative that the problems raised by overlapping membership must be resolved by those concerned.*⁸³

⁸² African Development Bank (1989) 'Economic Integration and Development in Africa'; African Development Bank (1993) 'Economic Integration and Structural Adjustment'; African Development Bank (1993) 'Economic Integration in Southern Africa'.

⁸³ Nielson, P. (2004) 'Commissioner Nielson's Speech at the Opening of SADC-EU negotiations for the Economic Partnership Agreement', 8th July 2004: http://europa.eu-un.org/articles/sv/article_3655_sv.htm

Market access problems

Besides its incompatibility with African regional integration, EPAs will not enhance African access to the European market. This is because:

- Many African countries already enjoy good access to the EU market on quota and duty-free terms, particularly in traditional commodity exports. The Everything But Arms (EBA) agreement offers Least Developed Countries duty access on virtually all imports.⁸⁴
- The EU will maintain protectionist policies such as the Common Agricultural Policy (CAP) and stringent health and safety regulations. In spite of the framework agreement in at the WTO in July 2004, domestic support for agriculture will remain in place for a long time. As the Mexicans realised through NAFTA, a 'free trade area' between a developed country and a developing country is not really 'free'. Developed countries can still use their power to impose all forms of non-trade barriers to products from their poor FTA partners.
- Many African countries are not natural trading partners because they largely produce, export and import similar products, so the scope for intra-African regional trade is limited.⁸⁵
- EPAs would not lead to increased trade between Africa and the rest of the world unless the significant supply-side constraints currently plaguing African countries, such as poor and dilapidated infrastructure, are urgently addressed.

The factors above combine to create a hub-and-spoke regional integration rather than a partnership. Europe is the hub, and each African EPA group serves as a spoke, providing a limited number of raw commodities of diminishing economic value. In this situation, intra-African trade is of decreasing importance. As one Ghanaian tomato scholar put it:

EPAs may be the EU's idea of a partnership, but they will be our pathway to poverty.

⁸⁴ Stevens, C. and Kennan, J. (2004) p.17.

⁸⁵ De la Rocha, M. (2003) 'The Cotonou Agreement and Its Implications for the Regional Trade Agenda in Eastern and Southern Africa', World Bank Policy Research Working Paper 3090; Szepesi, S. (2004) 'Coercion or Engagement? Economics and Institutions in ACP-EU Trade Negotiations', ECDPM Discussion Paper, 56 Maastricht; Wood, A. and Mayer, J. (2001) 'Africa's Export Structure in a Comparative Perspective', Cambridge Journal of Economics, Vol.25 No.3.

7. EPAs: the negotiations are flawed

The process by which EPAs are being negotiated is deeply flawed. Many ACP countries have weak trade negotiating capacities and are heavily dependent on EU aid. The European Commission has taken advantage of its political and economic power to dictate the pace and terms of EPA negotiations to ACP countries.

Pace of the EPA negotiations

EPA negotiations were supposed to be conducted in two phases. The first phase began in September 2002 between the EU and all ACP countries, negotiating as a bloc. This provided a more balanced negotiating scenario, but the European Commission hastily pushed for an inconclusive end to this phase of the negotiations, and then hurriedly forced the second phase, which involved dividing the ACP bloc into much smaller sub-regions whilst the EU remained as a single negotiating bloc.⁸⁶

The first phase of the negotiations was very important to ACP countries because they wanted to avoid a situation whereby the EU would use divide-and-rule tactics by seeking agreements with the weakest groupings first and then using these as the template for similar agreements with more advanced regions. In particular, the ACP countries had wanted to use the first phase of talks to obtain a legally-binding framework with the EU on the scope and structure that would guide phase two of the EPA negotiations at the regional level. Such a framework would have resolved the question of reciprocity once and for all and avoided the current situation whereby the EU sets the terms and pace of the negotiations and uses divide-and-rule tactics to obtain maximum concessions from ACP countries. The EU objected to such a framework, and significant divergences between EU and ACP positions from that phase remain unresolved.

European meddling

The European Commission continues to insist that the EPA process is one of meaningful 'negotiations' rather than European impositions. Yet this is rather difficult to sustain when the EPA process is examined in detail. For example, the European Commission directly funds many of the trade negotiators on the African side. EU officials sometimes attend intra-African regional meetings and even national negotiating preparatory meetings. This level of intervention by the European Commission makes it difficult to see the EPA process as a genuine negotiation.

Lack of an independent dispute settlement mechanism

Any trade agreement needs a neutral and respected dispute settlement mechanism. These exist in the WTO and in NAFTA, for example. However, EPAs make no provision for such a mechanism. As a result, the EU will most likely act as 'judge' in any disputes, because of its role as an 'aid donor' and its sheer economic and political might. The history of dispute settlement at the WTO and NAFTA underscore the utility of such a mechanism within trade agreements: the fact that one does not exist for EPAs is in itself a sufficient reason for ACP countries to reject them.

African voices

The EU continues to ignore the concerns of ACP countries as expressed by political leaders, trade negotiators and civil society organisations. For instance, in an address to the joint ACP-EU ministers' meeting in Gaborone on 6th May 2004, the President of Botswana expressed grave doubts concerning reciprocity by defending the non-reciprocal trade preferences under Lomé. He described them as,

equal to none, in their capacity to create opportunities for the integration of the economies of ACP countries into the world economy.

⁸⁶ For this and other 'process issues' relating to EPAs negotiations see, for instance: www.epawatch.net

He then issued the following warning about EPAs:

You will understand, therefore, if we are apprehensive about the proposed Economic Partnership Agreements (EPAs), which are currently being negotiated. This is in spite of repeated EU assurances that the Economic Partnership Agreements would not disadvantage any ACP country. We fear that our economies will not be able to withstand the pressures associated with liberalization. This therefore challenges us all as partners to ensure that the outcome of the ongoing EPA negotiations does not leave ACP countries more vulnerable to the vagaries of globalisation and liberalisation, thus further marginalising their economies.⁸⁷

Mauritius has expressed similar concerns. In a written submission to the EU and ACP member states on 17th May 2002 it warned against using WTO rules as a guise for imposing a failed model of economic development on ACP countries.

The clear and unequivocal position of the ACP Group is that the current WTO rules are inherently imbalanced against the development needs of the Group. In line with the results of the Doha WTO Ministerial Conference, the ACP Group will therefore refrain from making commitment(s) on this front until the WTO rules for trade arrangements between developed and developing countries become clear, and also on special and differential treatment.⁸⁸

Botswana and Mauritius are two of Africa's most successful economies. They can speak relatively freely because they are less dependent on EU aid. Their concerns are shared by a great many number of African countries that will not speak as freely because of their dependence on EU aid. More importantly, these two countries understand the importance of international trade in economic development, having been the greatest beneficiaries of the non-reciprocal Lomé preferences.

⁸⁷ Mogae, F. (2004) 'Speech by President of Botswana, Festus Mogae in an address to the Joint ACP-EU Ministers Meeting in Gaborone on 6th May 2004'.

⁸⁸ Government of Mauritius (2002).

8. EPAs: the alternatives

The Cotonou Partnership Agreement provides for examination of

All alternative possibilities, in order to provide these countries with a new framework of trade, which is equivalent to their existing situation and in conformity with WTO rules.⁸⁹

A forthcoming ActionAid report examines in detail possible alternatives to EPAs. These might include:

- extending the Everything But Arms initiative to all ACP countries
- revising the Enabling Clause, Article XXIV and related articles of the WTO to allow for development-friendly trade agreements between developed and developing countries
- basing reciprocity on the attainment of objective socio-economic indicators rather than on arbitrary timeframes and percentage of traded goods.

⁸⁹ Article 37.6, Cotonou Partnership Agreement (2000).

9. Conclusions and recommendations

Reciprocal trade liberalisation between rich developed countries and poor developing countries is a major threat to poverty reduction and development. Developing country governments must be allowed to protect and promote infant industries in order to develop their economies and eradicate poverty.

Reciprocal trade liberalisation is at the heart of proposed economic partnership agreements between the European Union and African countries. ActionAid research in Ghana and Kenya shows that free trade EPAs would inflict substantial damage on emerging African industrial sectors and close off the policy space governments need to ensure long-term national development.

EPAs threaten African fiscal stability and public spending. They introduce investment agreements and other 'Singapore issues' that would undermine African policy choices. EPAs threaten African regional integration and lack an independent dispute settlement mechanism.

The EPA negotiating process will continue to lack a credible development focus so long as the European Commission seeks to marginalise African concerns and foment division amongst the ACP group.

ActionAid therefore calls upon UK and European policy makers to make changes in the following areas:

European Commission's EPA negotiating mandate

European Union member states must revise the European Commission's EPA negotiating mandate to withdraw:

- the demand for reciprocal trade liberalisation
- negotiations on investment, competition policy and public procurement.

The British Government must use its presidency of the EU in 2005 to ensure a comprehensive review of the European Commission's EPA negotiating mandate so as to withdraw the demands for reciprocal trade liberalisation and negotiations on investment, competition policy and government procurement.

WTO rules

The European Union must use its influence at the WTO to push for the revision of Article XXIV and other clauses governing regional trade agreements between developed and developing countries. Provision should be made for more pro-poor and pro-development free trade areas between developed and developing countries. This should form an integral part of a concluded Doha development round.

Parliamentary oversight

UK: the House of Commons' International Development and Trade and Industry select committees to open inquiries into the state of EPA negotiations.

The European Parliament must launch an investigation into the European Commission's approach to the EPA negotiations and to exercise effective oversight over the Commission's negotiating mandate, tactics and processes.

Alternatives to EPAs

The European Union must begin to immediately examine all possible alternatives to EPAs.

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