



Strengthening Economic Partnership Agreements and the Future of the EU–Africa Trade Relationships in the Next Decade

Ali M. Mansoor, Vishnu Bassant and Salomon Samen

This section suggests a way out of the present EPA deadlock and proposes a practical approach that would: (1) better prepare Africa for the future of EU-Africa open trade relationships under EU-Africa full EPAs; and (2) maximise the chances of success in terms of greater integration of African economies into European and global markets.

With Free Trade Agreements (FTAs) proliferating and now becoming the principal means for liberalising trade, the approach suggested here stands against the background of the current World Trade Organisation (WTO) Doha global trade impasse and the lack of enthusiasm of African policymakers for moving aggressively towards FTAs as proposed under EU full EPAs.

We first explore the key flaws in the design of EPAs. After this, we propose a two-step approach framework to allow for a gradual, smooth but rapid integration of African economies into global markets, while creating regionally competitive markets in Africa in preparation for the future of EU-Africa open trade relationships under full EPAs between the EU and Africa.

Key flaws in the design of EPAs

Although very well intended, EPAs contain severe flaws: (1) a bias against African regional integration (EPA countries to be open to the EU but not to their African neighbours, because of limited progress on African regional integration; hub and spoke effects; fragmentation of existing markets, with Africa trading with the EU under multiple arrangements: countries benefiting from Everything but Arms (EBA) versus others; (2) significant trade diversion; (3) restricted and complex rules of origin; and (4) no significant support to the alleviation of supply-side constraints and improved competitiveness.

While the alleviation of supply-side constraints is necessary to respond to the expected opening of EU markets as a result of full EPAs, current support and offers of development assistance are vague and lack specifics. This uncertainty should be tackled with dedicated and predictable resources in the spirit of the cohesion fund used for the transition of Eastern Europe from centrally planned to market economies and for the EU enlargement during the accession of Iberian countries (Portugal and Spain), rather than along the lines of existing Aid for Trade (AfT) programmes, which are perceived to be small in value and which lack focus. Rules for such financing need to be aligned to promote policy reforms aimed at a single market behind low barriers. Necessary policy reforms include measures to: (1) reform the tax system to be less dependent on trade taxes and rely more strongly on value-added tax (VAT) and other taxes on consumption; (2) improve doing business and competitiveness indicators, given serious weaknesses in the business and investment climates in Africa, as well as promoting small and medium enterprises (SMEs) by ensuring upstream and downstream linkages of local firms with global supply chains; (3) develop public infrastructure; and (4) expand the use of Special Economic Zones (SEZs).

Dedicated and predictable financial support is essential to: (1) meet adjustment costs for firms and workers, for the technical and financial assistance needed to mitigate temporary revenue losses and mitigate the negative impact of integration adjustment (the way the structural and cohesion funds were used for Iberian as well as Central and Eastern European countries' accession to the EU); (2) support implementation of business reforms; (3) improve infrastructure to take advantage of increased export opportunities; and (4) scale up capacity-building needs (the way international organisations – the Bank for International Settlements (BIS), the European Bank for reconstruction and Development (EBRD), the International

Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the World Bank and the WTO – supported the Joint Vienna Institute (JVI) to provide instruction of the highest standards to help the transition of Central and Eastern Europe economies from centrally planned to market-based economies).

A two-step approach to free trade with the EU and accelerated economic transition in Africa

In line with the infant industry argument advocated in the 18th and 19th centuries by Alexander Hamilton and Friedrich List, and resuscitated more recently by authors such as Ha-Joon Chang, we argue that, as nascent African industries do not have the economies of scale of their older competitors from Europe, and as they operate in a business environment littered with supply-side rigidities and limited skilled labour, they need some time for preparation/adjustment until they can attain similar economies of scale and production efficiency.

A two-step approach is proposed here to allow for a more gradual transition towards open competition with the EU in the long term.

- The first stage of the proposed approach could last five years, and would focus essentially on the advancement of deepened regional integration aimed at a full FTA in the entire Africa region, which would occur when sub-regional level integration moves in tandem. Emphasis would be put on broad regional integration measures rather than simply focusing narrowly on trade in goods, with trade in services, movement of capital/ regional financial market integration at the centre of discussions. The first stage should not support a trade-diverting common external tariff (CET), but commit funding to trade-creating tariff liberalisation based on lowest non-zero tariff. When tariffs are relatively high in a country (around 30%), firm commitments should be made to lowering them within five years to not more than 15% to avoid a trade-diverting CET. The proposal to focus in the first five years on intra-regional trade liberalisation in Africa would make the EPA more politically acceptable in the first phase and pave the way for full reciprocity in the second phase.

- The second stage would move towards a full EPA/ FTA as expected by the EU through a plurilateral FTA between the EU and Africa aiming to cover all major trade issues, including services, step by step. This could be realised well in advance of the 15 years provided in the current interim EPAs.

With substantial political commitment in Africa, as expressed by African Heads of States in the Lagos Action Plan (1980) and the Abuja Treaty (1991), and more recently during the January 2012 AU Heads of States Summit, policy reforms and actions formulated in this proposal to advance regional integration and progress towards a FTA with Europe would be feasible if strongly backed by: (1) dedicated, timely and quick disbursing development assistance structured in the spirit of the EU cohesion funds serving as incentives to countries to implement reforms; and (2) massive capacity building.