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Advantages and Risks of Economic Partnership Agreements

Introduction

The Economic Partnership Agreements (EPAs), namely free trade agreements based on the principle of reciprocity, are now high on the agenda of many regional integration blocs, including that of the European Union (EU), Economic Community of West African States (ECOWAS), Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA), Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM) and Pacific Forum. The EPAs mark a radical shift in the relationship between the African, Caribbean and Pacific (ACP) countries and their most important partner for aid and trade – the European Union. Previously characterized by preferential market access and aid for building trade capacity, this new "partnership" obliges ACP countries to sign free trade agreements with the EU in order to maintain market access, on which producers and traders depend, and to benefit from the development assistance package that is tied to the EPAs.

Some consider that the EPAs have the potential to offer the ACP countries good opportunities as a tool for development and poverty reduction. Others see many risks in terms of development prospects for the ACP countries. This paper attempts to discuss the advantages and risks of the Economic Partnership Agreements resorting to the EU-ACP case-study.

Origin and Objectives of the EU-ACP Partnership Agreements

The EU-ACP relationship started in 1975 with the signing of the ECC-ACP Lomé Convention and the cooperation between the ACP countries and the EU was governed by four successive Lomé Conventions based on unilateral trade preferences. The successive Cotonou Agreement was signed in June 2000 (entered into force in 2002) and intends to reverse this relationship to reciprocal trade arrangements. The negotiations started with an ACP-EU phase in September 2002. The second phase, at regional level, has been launched in different regions. The EPA negotiations are expected to end by December 2007 and its major objective, as stated in the Cotonou Agreement, is to reduce and eventually eradicate poverty while contributing to sustainable development and to the gradual integration of the ACP countries into the world economy.[1]

Advantages of the EPAs

In the first place, the EPAs may improve the market access of the ACP countries to the EU's market and enhance trade related areas like competition and investment. As a result, the EPAs might lead to a transformation of the ACP´s economies.

Secondly, the agreements may go beyond mere free trade by enhancing the political dimension, explicitly addressing corruption, promoting participatory approaches, and refocusing development policies on poverty reduction.[2] However, this raises the major policy challenge of how the future trade arrangement between the EU and the ACP countries will be structured so as to fully accommodate the needs and rights of least developed countries (LDCs).

1 ACP-EU Partnership Agreement, Chapter 1, Article 1.

2 See Borrman, Axel and Busse, Matthias, "The Institutional Challenge of the ACP/EU Economic Partnership Agreements", Hamburg: Institute of Internal Economics, 2006.

Thirdly, the EPAs may promote and support deeper regional integration, which is an important objective of the EPAs. The Cotonou Agreement recognizes regional integration as a key instrument for the integration of the ACP countries into the world economy.[3] The main question the countries of the South, especially African countries, are facing is how they are going to sign and how this might affect their respective regional integration efforts. For example, Tanzania, Kenya and Uganda belong to the East African Community (EAC); yet Kenya and Uganda are part of the Eastern and Southern Africa (ESA) group, while Tanzania belongs to the SADC.

Furthermore, the EPAs have a provision on development assistance. This kind of assistance may be used to enhance regional integration, address supply-side constraints to production and help to cope with the costs of adjustment caused by trade reforms in the ACP countries.

Risks of the EPAs

Although the EU-ACP Economic Partnership Agreements present some potential advantages for the participating countries of the south, criticism, such as economic and social marginalization, has arisen. For example, various NGOs launched a "Stop EPA" campaign in September 2004. The following risks are anticipated in the ACP countries:

First, opening the ACP markets to the EU is likely to result in a transfer of tariff revenues from the ACP countries to the EU, which would worsen the terms of trade and result in welfare losses. Trade liberalization within the ACP countries and with the EU implies that fiscal revenues currently obtained from tariffs and duties on imports would disappear. In particular, the fiscal revenues of the small countries, whose economies are more dependent on trade related taxation, would be seriously affected. For some coun-

3 See Nalunga, Jane and Kivumbi, Douglas, "The Economic Partnership Agreements-Implications and Way Forward: A Case of Uganda", Kampala: SEATIN, 2005.

tries this would mean up to 30 % in revenue losses[4] and the EPAs do not have compensatory mechanisms to address them.

Secondly, the EPAs may lead to farmers losing livelihood when faced with increasingly subsidized, cheaper products from EU countries. Historically, Europe has made use of trade safeguarding measures to help their economies take off and still these countries use overt and concealed protectionism mechanisms that distort free competition system, as in the case of the agricultural sector.

Thirdly, consumers in developing countries may be facing food insecurity if the domestic and regional food markets collapse and the reliance on imports increases. Despite receiving preferential access to EU markets for more than 25 years, the ACP exports have in general performed poorly. For example, the share of the ACP exports to the EU fell by more than a half, from 8% in 1975 to 2.8% in 2000.[5] The ACP countries' exports are heavily concentrated in primary commodities. If no serious efforts are undertaken in the ACP countries, the EPAs could result into economic disasters.

Fourthly, globalization and trade liberalization are not without severe contradictions. Rather than benefiting all nations, they tend to produce gains for some at the expense of others. As the UNDP observed in 2005, it is not a positive sum-game but rather "a two edged sword [...] with winners and losers".[6] Although most countries are likely to gain from the process of liberalization in the long run, it is clear that in the short and medium run, some developing countries in the ACP group will face difficulties due to the erosion of the preferential margins, which they are now enjoying under the Lome Convention.[7]

4 For detailed discussion on this matter see Basil Jones, Basil "EU-ACP Partnership Agreement: Can Gambia benefit?" Nairobi: International Development Research Centre (IDRC), 2006.
5 Nalunga and Kivumbi, op. cit., p.3.
6 UNDP, Human Development Report, New York: UNDP, 2005.
7 For detailed discussion see Severine Rugumamu "EU-ACP Partnership: An appraisal" in Cooperation South, Special Unit for TCDC Vol. 2, New York, UNDP, 1999. pp 45-56.

Furthermore, the EPA negotiations would bundle countries of the south into new regional political structures; a development that would separate them from ongoing regional integration frameworks and hamper regionalization efforts. African countries have long considered regional integration as an important development strategy. It is both a means to overcome the limitations of small markets and an opportunity to pool resources for infrastructure and major production projects. Nevertheless, it is unlikely that regional integration will be advanced enough to kick-start growth by the time the EU expects African countries to start opening up markets to EU imports. In addition, since the ACP countries belong to multiple economic integration blocs, the EPA structures would further split and bundle them into weak and loose trade negotiating machinery.

Conclusion

It can be argued that if the EPAs continue to be carried out under their current form, they will more probably undermine the development potential of poor countries by exposing poor producers and traders to unequal competition and by tying the hands of governments to use trade policy selectively to support their agricultural and industrial development. This is reflected by the fact that the process is lacking the political will needed to facilitate the transformation of the existing structures which largely resemble the colonial era (providing raw materials and cheap labor while consuming manufactured and capital goods from the north).

In order for the ACP countries to benefit from the EPAs, the EU should provide for adjustment periods, which would temporarily allow asymmetric trade arrangements between the EU and the ACP countries. These asymmetric relations should include the protection of certain sectors and products. Dispensations should differ between regions or countries according to their respective level of development (income or human development), level of competitiveness and export dependency on EU markets.[8]

8 Ibid. p. 52.