SWP Comments

Stiftung
Wissenschaft und
Politik

German Institute
for International and
Security Affairs

Trade Policy Options for Sub-Saharan Africa

TTIP, EPAs, WTO and African Integration

Evita Schmieg

Within the framework of a sustainable foreign trade policy, exports and imports represent a potentially important factor supporting economic and social development. The international level has proposed many objectives and instruments to harness that potential for the benefit of developing countries. Yet sub-Saharan Africa's exports are still overwhelmingly unprocessed raw materials that make little contribution to value added and development. Decades of EU (and to some extent also US) trade preferences have produced little in the way of practical impacts for these countries, talks at the World Trade Organisation have progressed at snail's pace, and the promised development dividend has failed to materialise. Implementation of the Transatlantic Trade and Investment Partnership will further sharpen the pressure of competition. Economic Partnership Agreements concluded with the European Union bring risks as well as opportunities. What possibilities do countries south of the Sahara have to promote sustainable development processes through foreign trade? And what support would the European Union and United States be able to offer?

Thirty-four of the world's forty-eight poorest countries (LDCs) lie in Sub-Saharan Africa, along with a majority of the poorer countries. And Africa has been making the slowest headway on the UN's Millennium Development Goals (MDGs) set for 2015. Progress has, however, been made on reducing poverty, according to the United Nations Economic Commission for Africa in its 2014 MDG report. The proportion of the population living on less than $1.25/day fell from 57 percent in 1990 to 47 percent in 2011. Foreign trade represents the bulk of many sub-Saharan economies; for example, 89 percent in Ghana, according to the World Bank. If progress is to be made towards those goals, strategies to reduce poverty and promote sustainable development must therefore grasp the opportunities potentially offered by foreign trade. That is why the MDGs included an indicator tracking access to the markets of the industrialised countries for products from the LDCs. International trade also plays a role in the Sustainable Development Goals (SDGs), which are currently under discus-

Dr. Evita Schmieg is an Associate in SWP's EU / Europe Division
This paper was prepared as part of the project "EU External Trade Policy and Development: Sustainable Development Policy in the Age of Globalisation", funded by the German Federal Ministry for Economic Cooperation and Development

sion to succeed the MDGs. Access to the markets of the industrialised countries, measured in terms of average tariffs, has improved considerably since the turn of the century, and the export subsidies granted by OECD countries, which harm local agriculture, have fallen. Between 2000 and 2013 the countries of sub-Saharan Africa were able to expand their global exports from $94 to $424 billion, with a slightly positive balance of trade.

The past decade has witnessed a major structural shift in the destinations of Africa's exports. By 2013 Asia was taking the largest single share (34 percent), having already surpassed the European Union as largest trading partner in 2009. The European Union's share has fallen from 36 percent of sub-Saharan Africa's exports in 2000 to 25 percent in 2013, that of the United States more than halved from 22 percent to 10 percent over the same period. Regional trade within sub-Saharan Africa accounts for 16 percent.

The international community has repeatedly committed to encouraging a diversification of exports from the poorest countries and improving their integration into the global economy, not least by the route of preferential trade agreements. But few countries have been able to use their preferences to step up domestic value creation and increase exports. Under the Cotonou Agreement the European Union abolished tariffs on 97 percent of all imports of goods from African, Caribbean and Pacific states (the ACP), while its Everything but Arms Initiative exempts all imports from the poorest countries from tariffs and quotas. The United States has also granted selective preferences including more generous rules of origin in the African Growth and Opportunity Act (AGOA). Yet still the countries south of the Sahara continue to export primarily raw materials: fuel, ores and metals together make up 70 percent of exports to countries outside the region, finished goods just 8 percent (2013 figures). It is therefore necessary to strengthen the contribution the foreign trade system makes to sustainable development through increasing value creation and creating jobs. The developing countries also see additional challenges in the shape of so-called mega-regionals. These very large free trade zones joining major economic blocs, such as the Transpacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), by nature discriminate against third countries.

The WTO's Doha Development Round

The ministerial declaration at the beginning of the world trade talks in the Qatari capital Doha in November 2001, shortly after the 11 September attacks, placed the "needs and interests" of the developing countries at the heart of the Doha Development Agenda. A series of measures that would certainly have been suited to further that objective – and had been prioritised by the developing countries – were agreed in 2005: duty-free and quota-free access to the markets of the industrialised countries and emerging economies for at least 97 percent of exports from the poorest countries; abolition of agricultural export subsidies and comparable instruments by 2013; and expedited elimination of production subsidies for cotton from developed countries (in order to ease downward global price pressure on an important export commodity, especially for West Africa). However, the political will to implement these decisions as a so-called "early harvest" (regardless of the overall outcome of the Round) proved to be lacking.

Consequently the promise with which the Development Round began has yet to be kept. While the developing countries may also benefit from the WTO agreement on "trade facilitation" reached in December 2013 in Bali, the topic was introduced by industrialised countries whose firms stand to benefit most from cutting bureaucracy at borders. At the same time, the legal and institutional reforms required to implement trade facilitation are costly. The agreement therefore ties the obligation to implement to the provision of development support from industrialised countries. But because this requires time, there are question marks over implementation in many countries. Bali also prepared the ground for another important agreement. In response to Indian urgings, possibilities to support public stockpiling for food security are to be opened up, although further negotiations are still required. For most African countries the instrument will play no major role for the foreseeable future, because they simply lack the resources to conduct such interventions. One clear indication of this is that only a small minority even of those countries that agreed to do so in the 2003 African Union Maputo Declaration on Agriculture and Food Security are actually able to dedicate 10 percent of their budget to agriculture. So the outcome of the WTO ministerial conference in Bali does not represent any progress on the development promise of the WTO Round, even if it was politically important in confirming the organisation's status in the international system.

TTIP and Third Countries

While the effects of the Transatlantic Trade and Investment Partnership (TTIP) on third countries will manifest themselves only after the talks have concluded, the mechanisms are already known. Typically for a bilateral free trade agreement, TTIP pursues the objective of reciprocal elimination of tariffs, potentially squeezing third countries out of markets in a process known as trade diversion. This would affect above all products that are presently still subject to high tariffs in the European Union and United States: textiles, shoes, agricultural products and foodstuffs. It would for example be harmful to Bangladeshi and Kenyan exports to Europe. These disadvantages could be counteracted in certain third countries that are already integrated into the value chains for the EU and US markets, for example Morocco in the field of automotive components. Opinions diverge over the possible effects of TTIP (see *SWP Zeitschriftenschau* 1/2014).

It is even more difficult to assess the consequences of regulatory agreements and harmonisation of standards. Far-reaching harmonisation would present a challenge especially to poorer countries with weaker institutions of quality infrastructure. In the European Union and the United States societal preferences are already driving product quality and improvements in the environmental and social conditions of production. In the long term, third countries must therefore continuously adapt to increasingly demanding markets. Already today, for example, 80 percent of Kenya's agricultural exports are subject to private standards extending beyond official ones, whose fulfilment is required by major supermarket chains.

But in connection with TTIP, harmonisation of rules and standards will probably not represent the normal case. Experience with the EU internal market shows that *reciprocal recognition of rules and standards* is easier to achieve. This could work to the advantage of third countries, whose products would at least no longer have to satisfy different standards and procedures for the EU and US markets (however demanding these may be).

TTIP could also prove advantageous for third countries in the field of liberalisation of trade in services. The danger of trade diversion is much smaller here, because services markets are protected not through tariffs, but by regulatory measures such as restrictions on recognition of professional qualifications or requirements for the establishment of service companies. In many fields, trade preferences for services therefore presuppose reciprocal recognition or simplification of rules. The scope of this process could also be expanded to include third countries. However, where the labour market is affected, the political will to consider even small concessions to third countries is liable to be extremely limited, whether in the United States or the European Union.

The European Union and the United States together receive one third of sub-Saharan Africa's exports. TTIP will therefore definitely affect Africa, though the details will depend on the outcome of the negotiations. In all probability tariffs will not be completely abolished, even if this remains an objective. WTO Director-General Pascal Lamy points out in the World Trade Report 2011 that the highest tariffs are generally not lowered in free trade agreements. For precisely that reason, the positive effects of TTIP projected by econometric approaches are likely to be exaggerated. The European Union, for example, assumes that TTIP will bring economic gains amounting to €214 billion annually.

The Challenge of Implementing the EU-ACP Economic Partnership Agreement

The countries of sub-Saharan Africa also face trade-related changes ensuing from the Economic Partnership Agreements (EPAs) concluded in 2014 between the European Union and three African regions: the Economic Community of West African States (ECOWAS), the Southern African Development Community (SADC), and the East African Community (EAC). All three provide for a reciprocal but asymmetrical liberalisation of trade in goods. The European Union already completely opened its own markets for goods from these regions in 2008. The African regions will only have to open their markets gradually during a transitional phase after the agreements come into effect: to a figure of 75 percent (ECOWAS) or about 80 percent (the other two regions). Numerous agricultural products will remain permanently excluded from the liberalisation. Under the agreement, the European Union is also abolishing its agricultural export subsidies to the EPA regions.

Experience with the EPA in force since 2008 between the European Union and Caribbean states supplies indications for the African regions. Few new trade flows have arisen between the European Union and the Caribbean, principally because of the *dominant effects of internal factors* such as input costs, infrastructure conditions and non-tariff impediments to market access. *External factors*, first and foremost the international economic crisis, also played a role. The importance of other factors is also underlined by the modest experience with one-sided preferential market access that the European Union granted the ACP states under the Cotonou Agreement. Preferred status for ACP did nothing to prevent Asian countries significantly expanding their exports to the European Union during the same period *without* preferences. Nonetheless, any improvement to this system, for example in relation to product coverage (United States) and rules of origin, could offer new opportunities. The United States has catching-up to do here, after the European Union has already taken steps in this direction with the EPA.

To some extent EPAs remain politically contested. Not everyone regarded the trade talks with the European Union as a normalisation of hitherto post-colonial relations, instead fearing that the partial liberalisation towards the European Union would harm their internal economies. That cannot be confirmed by the experience of the Caribbean economies, where additional imports overwhelmingly affected products that did not fall under the EPA liberalisation and certain imports in fact had productivity-stimulating effects. Exceptions from liberalisation in sensitive areas and long, gradual transitional periods also play a role in ensuring that displacement by EU imports is unlikely (although not unthinkable).

Fundamentally, however, it is conceivable. While the EPAs include a series of precautions for dealing with negative effects, such as flexible protective mechanisms, policy space for industrial development, and impact monitoring, these can only fulfil their purpose if impacts on local labour markets and small businesses are actually subjected to systematic scrutiny. Tracking the economic and social consequences of altered trade flows demands sophisticated systems, and the mechanisms provided in the EPAs are not yet fully developed. Stakeholders in the regions should play an important role in monitoring, because they are likely to enjoy rapid access to relevant information.

The effects of the EPAs on ongoing integration within the region also need to be closely observed. To date the agreements have played a positive role in certain respects. It is unlikely that ECOWAS would have agreed its common external tariff in October 2013 without the pressure created by the EPA to develop new joint liberalisation proposals by 2014. Discussion on the Tripartite Free Trade Area that brings together EAC, COMESA (Common Market for Eastern and Southern Africa) and SADC in south-eastern Africa started in 2008, after the EPA talks made it obvious that the problems caused by overlapping membership in multiple regional organisations could only be resolved by integration between these regions progressing faster than their external opening.

All the EPAs contain a clear commitment to regional integration and offer many opportunities to advance integration within the respective African partner regions. There remains, nonetheless, a danger that the EPA could lead to imports from the European Union displacing those from other sources in the region outside the regional integration groupings. Such a trade diversion to the benefit of the European Union would be extremely undesirable under the aspect of sustainable development, and would contradict the goals of the agreement. For that reason most EPAs contain a *regional integration clause*, stating that any market opening towards the European Union should also apply to other trading partners within the respective integration community.

However, experience with the CARIFORUM EPA shows that certain countries neglect to implement this clause, fearing regional competition more than imports from the European Union. African countries also hold similar concerns vis-à-vis their integration partners. It must therefore be expected that implementation of regional integration clauses in Africa will be associated with similar difficulties. And anyway, the clause only solves part of the problem. While it can prevent the European Union benefiting from trade diversion *within* the integration community (for example SADC), it fails to address the possibility of exports from neighbouring integration communities being diverted to the benefit of the European Union. Integration processes in the wider region (in other words *between* integration communities, such as the COMESA-EAC-SADC Tripartite), could suffer through the EPAs. Now this danger is neither especially large nor acute, because transitional periods and generous exceptions provide only a gradual liberalisation towards the European Union, and imports from there are growing only slowly. Moreover, imports from the European Union will not generally be competing with products from the region. Nonetheless, mechanisms should be developed to rule out the possibility of the European Union benefiting to the detriment of regional partners. As well as the monitoring described above, this will require most of all political will on the part of African states to deepen integration between the regions. In fact there is a need for regional integration clauses between the integration communities. This would be an especially obvious move for the COMESA-EAC-SADC Tripartite.

The areas of cooperation under the EPAs, such as customs administration, sanitary and phytosanitary measures, and technical barriers to trade, also present a certain danger of the European Union benefiting to the detriment of other African partners. The agreements provide for intensified cooperation with the European Union on these issues, which contain great positive development potential because they often affect decisive internal conditions for production and export. One potential undesirable side-effect of cooperation between individual EPA regions and the European Union would be if countries and regions orientated their norms and standards more strongly on the European Union and neglected their connections with other African regions. The institutional cooperation and development support provided under the EPAs should therefore never forget that co-operation must also be supra-regional and insights gained be made available to all the regions, in order to contribute at the same time to the intra-African integration process.

Regional Integration in Africa

There are several regional integration communities in Africa, which studies by the African Union show to be active to very different degrees. Trade has developed especially dynamically in two regions. Trade within COMESA rose from $1.4 billion in 2000 to $11.3 billion in 2013, representing an approximately eightfold increase, while the figure for the EAC increased more than sixfold within the same period, from $0.4 to 2.7 billion. Intra-exports as a proportion of total exports almost doubled for COMESA, from 4.8 to 9.4 percent, and increased in the EAC from 17.7 to 19.5 percent (all data from the United Nations Conference on Trade and Development, UNCTAD). A slight increase in intra-trade is found for sub-Saharan Africa as a whole, although not within each and every integration community.

Alongside the fundamental development problems – inadequate infrastructure, limited human capacities, scarce financial and other resources, difficulties accessing financing – intra-African trade is also impeded by the following specific factors:

1. *Overlapping memberships in multiple regional organisations.* Most countries belong to two or more integration communities. During the EPA talks this already created the problem of countries having to decide which regional configuration they wished to negotiate in. In the long term deeper integration will be required to resolve the contradictions produced by overlapping memberships.

2. *Differences in political interest in integration.* As the AU has noted, certain countries fear the political and economic power of stronger partners, and African integration consequently suffers from delays in implementing agreements and unwillingness to relinquish aspects of sovereignty.

3. *Strong regional protectionism.* According to the AU, certain states impose tariffs averaging 13.3 percent on imports from other African countries. That is higher than the continent's average overall external protection, which is 8.7 percent. This not only fails to promote intra-African trade, but in fact discriminates against it in comparison to trade with countries outside Africa. The reason for this apparently counterintuitive situation is probably that while strong economic interest in trade with other regions and the influence of the World Bank and IWF lead to tariff reductions on a most-favoured-nation basis (i.e. applicable to all), these relate less to products that are largely traded within the region. This makes it especially problematic if the tariff concessions granted to the European Union in the scope of the EPAs are not extended to other African regions.

Although Africa's intra-regional trade has exhibited average growth rates of 15 percent over the past decade, intra-African trade has grown even faster. Two important lessons can be drawn from this: intra-African trade possesses considerable potential – but this cannot necessarily be tapped within the respective integration communities. In this context, and in view of the discussion about multiple membership initiated by the EPAs, EAC, COMESA and SADC set up the Tripartite Free Trade Area, which is scheduled to launch in June 2015. The twenty-six member states of the Tripartite account for 57 percent of the population of the African Union and 58 percent of its GDP. The Tripartite is a significant element on the way to the planned African Continental Free Trade Area (CFTA). The AU decided in 2012 to realise the CFTA through a series of steps: implementation of the Tripartite FTA by 2014, parallel completion of free trade areas in the other regions, consolidation of all the regional communities into a continental free trade area in 2015/16, culminating in official inauguration of the CFTA in 2017. The possibility to modify the completion date in line with actual progress is explicitly mentioned, and has transpired to be necessary as developments have lagged behind the schedule.

As well as growth in African trade outside the integration communities and the resolution of the problem of dual membership, sub-Saharan Africa possesses a third essential economic interest in closer integration of African trade. This is the outstanding prominence of finished goods in intra-African trade (2013: 40 percent; compared to 13 percent in Africa's global trade, which is dominated by fuels with 53 percent, followed by agricultural products (13 percent), and ores and metals (11 percent). It is above all the manufacture of finished goods that generates value and attractive jobs in African countries, and thus makes an important contribution to sustainable development. This aspect has been woefully neglected by the short-sighted discussion about the difficulties of regional integration in a context of competing production structures. Although African economies compete in global markets with their exports of unprocessed commodities such as crude oil and raw coffee beans, competition with manufactured products plays a much larger role in regional markets. And that means there is also potential for trade-stimulating effects of regional integration.

Proposals and Recommendations

The multilateral, bilateral and regional developments outlined above would suggest that initiatives to strengthen sustainable development using foreign trade instruments need to act at multiple levels.

1. *TTIP with precautions:* the United States and European Union should adopt measures to ensure that the positive effects of TTIP on third countries are maximised and the negative minimised:

- Transparency in the negotiations and informing third countries about outcomes at an early stage would allow them to quickly identify possible consequences and prepare themselves.
- Reciprocal recognition of regulations, norms and standards should be extended as far as possible to third countries.
- Development aid should be used to assist the developing countries and LDCs to improve their competitiveness in sectors affected by trade diversion. This includes strengthening quality infrastructure in order to enable them to fulfil stricter technical, sanitary and phytosanitary norms and standards.

2. *Joint improvements to benefit the LDCs:* In order to underline their commitment to the multilateral system – especially in the context of their far-reaching bilateral talks – the United States and European Union should complement the conclusion of the TTIP by implementing the WTO development decisions of 2005: duty-free and quota-free access to markets for LDCs (this affects only the United States, as the European Union has already done), abolition of export subsidies and comparable instruments, and reductions in cotton subsidies.

3. *Strengthen the generalized systems of trade preferences for developing countries in the European Union and the United States:* Potential for improvement exists in rules of origin and additional incentives for trade in products with higher social and environmental standards. Another option would be new preferences for the increasingly important service sector, extending beyond the concessions that have been discussed in the scope of the multilateral WTO talks but have yet to be implemented in a binding form.

4. *Development-positive implementation of the EPAs by the European Union and its partner regions:* Further discussions about the point of EPAs in the individual regions are simply a waste of time and energy. The talks concluded in 2014 and the agreements are now

reality; it is abundantly clear that there are no alternatives. Attention should now focus on instruments that can ensure that the EPAs have a positive effect on poverty-reduction, sustainable development and regional integration:

- Expansion of monitoring systems to accompany implementation agreements and enable problems to be identified and tackled at an early stage;
- Discussion of the implications for regional trade, implementation of regional integration clauses, and where possible the extension of such clauses to the whole of sub-Saharan Africa;
- Development support to enable partner countries to benefit fully from the opportunities granted by the agreement.

5. *Progress on African integration*: Heightened competition under conditions of globalisation, ongoing loss of trade preferences (of already limited effectiveness), and positive experience with the value-creating contribution of regional integration are all relevant motivations to carry through decisions to deepen regional integration already adopted by African governments. Their earnest implementation must be pursued energetically.

6. *Responsibility of African governments for their own development path and good governance*: While unilateral trade preferences and free trade agreements can create a more favourable framework for foreign trade, African governments themselves determine many of the conditions for success within that framework, and frequently the more important ones. These include rule of law with transparent and democratic legislation and procedures, legal security enabling long-term planning, and freedom from corruption to open up equal opportunities for all.

SWP
Stiftung Wissenschaft und Politik
German Institute for International and Security Affairs

Ludwigkirchplatz 3−4
10719 Berlin
Telephone +49 30 880 07-0
Fax +49 30 880 07-100
www.swp-berlin.org
swp@swp-berlin.org

ISSN 1861-1761

Translation by Meredith Dale

(English version of SWP-Aktuell 35/2015)