

BEYOND THE ECONOMIC PARTNERSHIP AGREEMENTS: A NEW U.S.-EUROPEAN APPROACH TO TRADE AND DEVELOPMENT IN SUB-SAHARAN AFRICA

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The United States and European Union are at a critical turning point in their trade and development policies with sub-Saharan Africa. The vehicles for large-scale international policy change, including the Doha Development Round and developed country agricultural reform, have, at least temporarily, ground to a halt. The deadline for meeting the Millennium Development Goals is fast approaching, yet sub-Saharan Africa continues to suffer from seemingly intractable poverty on a massive scale.

Setting sub-Saharan Africa on a different course will require creating the conditions for sustainable, regionally-focused, market-led development. Too often, however, international policies have fallen short of their potential to help move Africa in this direction. With the overlapping crises of food insecurity, climate change, and global financial instability, the need for viable solutions is now more pressing than ever. Improving regional markets and strengthening Africa's agricultural sector will help lessen sub-Saharan Africa's extreme vulnerability in increasingly volatile global markets and could buffer farmers from the impact of climate change.² International trade and development policies should be better framed and coordinated to respond to these challenges.

There is both an urgent need and real potential for a positive shift in trade and development policy with sub-Saharan Africa. In Europe, the

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² The Intergovernmental Panel on Climate Change estimates that between 75 and 250 million people in Africa will be exposed to increased water stress by 2020, and, in some countries, yields from rain-fed agriculture could be cut in half.

European Commission (EC) is determining how to move forward with the Economic Partnership Agreements (EPAs). On the U.S. front, Congress and the Executive Branch are embarking on a comprehensive review of trade preference programs, including the African Growth and Opportunity Act (AGOA). On both sides of the Atlantic, significant political will and resources are being put behind initiatives to promote food security, and there is an increased focus being placed on how to promote regional integration and development of markets in sub-Saharan Africa. In sub-Saharan Africa, economic and political leaders are supporting a movement to develop trade and transport corridors, or "Development Corridors," that criss-cross the continent and hold the potential to increase economic opportunities, spur sustainable development, and strengthen regional trade links.

This essay will address several questions and present recommendations for moving forward. What are the global implications of the EPAs? What lessons can be learned from trade and development policies of the past? Can the African "Development Corridors" provide an alternative, Africa-led framework for North-South cooperation? What are some concrete recommendations for a new, comprehensive approach to EU and U.S. trade and development policy with sub-Saharan Africa that go well beyond the EPAs and the limited policies of the past?

Setting the stage—global implications of the EPAs

It is important to remember that the EPAs were born out of a vision for the African, Caribbean, and Pacific (ACP) countries that actually tracked closely with the objectives of the Doha Round and were intended to represent a comprehensive approach to trade with developing countries that would promote local and regional trade as well as trade

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with Europe. If pressed, however, most European negotiators would admit that the EPAs as they continue to be conceived are less than ideal.

According to studies, the EPAs will actually cause trade diversion rather than trade creation and complicate rather than facilitate regional trade. The “sensitive product” exemption under the EPAs, which allows ACP countries to exclude up to 20 percent of trade from liberalization, has effectively enabled countries to protect all products they currently produce while liberalizing and reducing tariffs on everything imported.³ Not only could this limit regional trade and lock countries into trade patterns that currently contain very little value-added trade, but developing countries also face losing tariff revenues upon which they rely heavily. EU producers, meanwhile, could divert trade away from lower-cost, more competitive third-country producers, including those from the United States. The International Food Policy Research Institute’s (IFPRI) analysis shows that some U.S. exports would decrease significantly, as would exports from Central and South America, China, Japan, Thailand, and others.⁴ The EPAs also contain a notorious “most favored nation (MFN) clause” that will result in the ACP countries giving the EU the best trade access afforded to any other trading partner going forward.

Under U.S. law, in order to be eligible for preferential access to the U.S. market, countries must comply with a number of standards set by Congress, including one requiring that beneficiary developing countries do not grant preferential access to their own markets that has or is likely to have a “significant adverse effect” on the United

States.⁵ As the U.S. Congress prepares to consider how to expand preference programs and create additional benefits for sub-Saharan Africa, the EPAs could undermine the possibility of creating new opportunities and jeopardize current preferential access to the U.S. market under AGOA and the U.S. Generalized System of Preferences (GSP) program.

Analysis shows the implications the EPAs would have for regional economic integration in sub-Saharan Africa. The “sensitive product” exemptions do not overlap between countries and within regions, resulting in a situation where over half—and in some regions up to 92 percent—of the products likely to be excluded as sensitive would not overlap with any of the exclusions of any other country in the same region. Increasing and diversifying regional trade would, as a result, become much more difficult.⁶

This adverse effect on regional trade represents one of the EPAs’ most serious shortcomings. Much of the potential for market development in Africa lies in increasing African countries’ ability to trade with—and through—their neighbors. Strengthening regional trade, which requires both building strategic infrastructure and lowering regional trade barriers, will allow African producers to grow their markets, diversify product lines and realize economies of scale. This is a necessary step on the path to full liberalization with industrialized countries and the wider world. For their part, developed country trading partners should target assistance to support African regional integration efforts.

Despite Europe’s assertions that no alternatives to the EPAs existed when the agreements were proposed, several viable alternatives exist, which could be staged or pursued simultaneously. Over

³ See for example Patrick Messerlin and Clair Delpuech (2007). “EPAs: A Plan A+,” November 2007

⁴ Antoine Bouet, David Laborde, and Simon Mervel (2007). “Searching for an Alternative to Economic Partnership Agreements.” IFPRI Brief [48] December 2007.

⁵ United States Trade Act of 1974, Title V: 19 U.S.C. 502 (2)(C).

⁶ See Bouet, Laborde, and Mervel,

the longer term, ACP trade could be liberalized multilaterally on a MFN basis, which would satisfy the goals of both World Trade Organization (WTO) compliance and regional integration in sub-Saharan Africa.⁷ In the immediate term, Europe could extend additional preferential benefits to the non-Less Developed Countries (LDC) ACP countries as part of a group of similarly situated small and vulnerable economies.⁸ Depending upon how these preferences were established, the EC could either invoke the authority of the enabling clause or apply for a separate waiver for the program similar to the one granted for the AGOA program. An enhanced preferential arrangement would also avoid trade diversion and revenue loss. If lessons learned in the past are taken into account and market access is better coupled with strong commitments to build capacity and support regional integration, preferences' effect would become more predictable and their benefits more widespread.

The current European Trade Commissioner, Catherine Ashton, has signaled a new willingness to show flexibility in the next phase of the EPA negotiations, opening a window of opportunity for Europe and the ACP countries to present strong alternative proposals for a new framework for collaboration. More broadly, U.S. interest in trade preference programs, capacity building, food security, and Africa's increasing focus on the development corridors present opportunities to increase Africa's participation in global markets and strengthen regional integration. If brought together, all of these elements have the potential to chart a new course for sub-Saharan Africa.

⁷ See for example Patrick Messerlin and Clair Delpuech (2007). "EPAs: A Plan A+," November 2007.

⁸ The WTO Appellate Body has ruled that preference programs, a deviation from the MFN principle underpinning the WTO, are permissible as long as the preferences are made available to all "similarly situated" countries that share "development, financial and trade needs." WTO Appellate Body Report on EC-India Panel on EC-Preferential Tariffs, April 7, 1994.

The author's recommendations, building on the lessons of the past, include the following elements.

Recommendations

1. Make access to international markets as simple and expansive as possible

Open international markets across sectors, including agriculture, will be critical if sub-Saharan African economies are to grow and diversify. Unilateral preference programs already govern a substantial portion of EU and U.S. trade with sub-Saharan Africa, and improving these programs so that they are more comprehensive, simpler to use, and more reliable, is a logical next step. Europe has already shown leadership with Everything But Arms (EBA), its comprehensive program for the LDCs. For the sub-Saharan African countries that are not classified as LDCs, enhanced preferential market access could also be the answer. As U.S. experience with AGOA has shown, extending preferential market access to African LDCs and non-LDCs alike has broad support and can act as a catalyst to promoting regional integration. This option could also be accomplished consistent with the rules of the WTO.

Preferences work best if all developed countries fully open their markets to the poorest, most vulnerable countries. U.S. preference programs need to be expanded to include all products from sub-Saharan Africa, including agriculture. U.S., European, and other programs should contain the most simple, transparent rules of origin possible, and all preferences should remain in place long enough for real investment to take place.

Until regional markets in sub-Saharan Africa are strengthened, preferential market access should be pursued in order to avoid costly trade diversion and loss of tariff revenue. A comprehensive duty-free, quota-free program that contains transparent, simple rules of origin would

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work best for the poorest and most vulnerable economies, including those in sub-Saharan Africa with severe economic challenges that fall outside of the traditional LDC definition.⁹

Preferences are just the beginning, however, and the recommendations that follow build upon this foundation. Multilateral liberalization and better regional market access can be pursued on a parallel track, and immediate focus needs to be shifted to addressing the underlying causes of Africa's low levels of trade and nearly non-existent value-added production.

2. Couple market access with capacity building focused on strengthening regional markets in sub-Saharan Africa

Up until now, developed country trade policies toward sub-Saharan Africa have focused primarily on one piece of the complex puzzle of sustainable development: granting access to international markets on the assumption that the ability to trade and take advantage of these markets would follow. Strengthening sub-Saharan Africa's regional markets has not yet received the focus that other African development issues have, despite the power of these markets and regional systems to move goods, services, people, and information.

Weak capacity in areas like customs, transport, storage, quality control and certification, water facilities, telecommunications, and electricity and power services limit the ability of many producers to trade. Infrastructure networks are underdeveloped or non-existent, and regional institutions, while numerous, are weak when it comes to implementing agreements.

⁹ See Kimberley Ann Elliott (2009). "Trade Policies for the Poor: Who's Setting the Pace? Will the U.S. Catch Up?" Center for Global Development Working Paper, September 2009.

The number of landlocked countries in sub-Saharan Africa adds to the urgency of significant new investment in infrastructure and capacity.¹⁰ Where transport routes do exist to connect landlocked countries to ports, poor conditions and numerous checkpoints hamper trade and run up costs. Agricultural producers are hit hardest, since transport costs are relatively higher for many farm products, including cotton, fruits, and vegetables. An additional day's delay due to transport and customs issues can cause exports of time-sensitive agricultural goods to decrease by seven percent.¹¹

Despite the importance of capacity building, U.S. and EU efforts have been *ad hoc*, bilateral instead of regional, and insufficiently tied to demand on the ground. Business needs, while a driver of economic activity, are often overlooked. No mechanism to incorporate broad-based local business demand exists, resulting in a system in which the interests of few have often prevailed.

The capacity building aspect of any trade policy, including the EPAs, is therefore critical and should be placed front and center.¹² Although European institutions generally integrate trade and development functions well, the EPAs do not go far enough to lock in additional capacity-building resources and deliver on their goal of

¹⁰ Transport costs can account for up to one-third of GDP and can represent much of export value for many landlocked countries. In Rwanda, for example, transport costs account for up to 40 percent of the value of coffee exports. See "Land Transport for Exports: The Effects of Cost, Time and Uncertainty in sub-Saharan Africa." U.S. International Trade Commission, 2009.

¹¹ *Id.* While the costs of transport delays are significant, the benefits of reducing transport times can be immediate and transformative. Mali and Senegal signed a border cooperation agreement that reduced the number of checkpoints from twenty-five to four, and transport time quickly went from seven to ten days to just one or two. World Bank Group (2008). *Doing Business in Landlocked Countries 2009*, Washington, DC: IBRD/World Bank Group, 2008.

¹² See Bouet, Laborde and Mervel

being a powerful instrument for development.¹³ A real opportunity exists to make capacity building the starting point with the EPAs, creating a new model going forward. Once African regional markets are stronger, more robust market access will also be possible.

U.S. trade policies with sub-Saharan Africa, including AGOA, have also not adequately incorporated capacity building. Stronger links between trade and development policy are needed, and coordination on trade and development within and among the U.S. Congressional committees and Executive Branch agencies could be improved across the board.

More substantial, better coordinated capacity-building initiatives could help foster functioning regional markets, opening up opportunities for Africa's farmers and businesses along the entire supply chain and helping Africa meet the challenges of food security and climate change. Better regional markets would also create meaningful opportunities for developed country businesses in the short and long term. Prioritizing agricultural development and building around a common framework, as discussed below, will increase chances of success.

3. Create opportunities for African agriculture

Agriculture is the most significant industry in sub-Saharan Africa, with around 500 million people or between 70 and 80 percent of the subcontinent's population dependent on farming for their livelihoods. Most farmers have little access to markets and are extremely vulnerable in the face of crises.

¹³ See Overseas Development Institute and the European Centre for Development Policy Management, "The New EPAs: Comparative Analysis of Their Content and the Challenges for 2008," March 2008.

Without agricultural development, broad-based growth and poverty alleviation in Africa will not be possible. Poverty reduction will not succeed without focusing on increasing productivity for Africa's many smallholder farmers and connecting these farmers to functioning markets. International trade and development policies could be a tremendous catalyst for positive change instead of the impediment to agricultural growth they have often been in the past.

Preferential market access for African agriculture comes at virtually no cost to U.S. or European producers, yet the benefits of increased access for African agriculture are great. Europe's relaxation of its sugar program for LDCs through EBA has already shown the immediate job-creating potential of such a change in policy. The EPAs, on the other hand, could stall local and regional agricultural development because of the trade diversion they cause, limiting opportunities for farmers to build regional trade ties and achieve economies of scale.

As a new way forward is explored and greater emphasis placed on building regional trade ties, other policies that impact African agriculture must also be part of the solution. Although full-scale reassessment of developed country domestic support policies is not likely to happen soon, opportunities exist to streamline Sanitary and Phytosanitary (SPS) procedures and increase training to help African producers meet SPS rules. Comprehensive approaches that address all steps in getting products to market will help ensure that farmers can take advantage of opportunities to trade.

4. Support African initiatives, including the development corridors

While European and U.S. trade and development policies undoubtedly have a significant role to play in increasing Africa's low share of international

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trade,¹⁴ international policies will have a limited impact unless they complement the Africans' own initiatives to build regional markets and address needs and barriers on the ground. The main constraints on trade, including intra-African trade barriers and weak infrastructure, are within sub-Saharan Africa, not in international markets.¹⁵ Policy change internationally has to be met with internal policy change, and African political will is a critical driver.

The only real solution is to meet the Africans halfway. Given the size of the continent and the scale of the infrastructure and capacity gaps, a comprehensive framework around which to align developed country and African interventions would help achieve more significant results and economies of scale. The Africans have such a framework, which is built around trade and transport corridors that link mineral investments to ports through trunk infrastructure and, in many cases, could generate true sustainable development, similar to corridors that spurred development in ancient Rome, industrializing Europe, and the 20th century United States.¹⁶

These development corridors hold tremendous potential and while they have the backing of the Africans, they will require additional resources to modernize infrastructure and build capacity to

¹⁴ Over the long run, open global trade would have a significant impact on developing country income. One estimate predicts possible gains of around \$200 billion per year. See Cline, William (2004). *Trade Policy and Global Poverty*. Washington, DC: Center for Global Development.

¹⁵ Weak infrastructure and intra-regional trade barriers particularly impact agricultural trade, as do low technology, poor skills, high internal taxes, and continued dependence on a small number of commodities, high transport costs, the spread of HIV/AIDs and pricing and marketing policies that penalize small farmers. See Moss, Todd and Alicia Bannon (2009). "Africa and the Battle over Agricultural Protectionism." Washington, DC: Center for Global Development.

¹⁶ There are 26 official corridors as identified by the New Economic Partnership for African Development (NEPAD), and they criss-cross the continent.

connect remote rural areas to markets. Given the importance of agriculture to sub-Saharan Africa's future, as discussed above, particular attention will need to be placed on linking poor farmers with commercial markets. The development corridors provide the framework for building regional integration, increasing value-added production and achieving greater economic diversification. Ros Thomas, an expert in African spatial development and a former senior official at the African Development Bank, estimates that trade could expand by \$250 billion over the next 15 years if the corridors receive adequate support.¹⁷

By supporting the development corridors, donors could better prioritize and leverage their investments, and the common framework the corridors provide would bring stakeholders together in a targeted and systemic way. As major donors, Europe and the United States could take the lead, working closely with the Africans, the private sector, and public-private partnerships. Through the development corridors, barriers to trade on the ground, including infrastructure deficiencies, transport links, storage, and local and regional trade policies, could be systematically identified and addressed, creating the force for change that could open up opportunities within sub-Saharan Africa and between African markets and the rest of the world.

5. Coordinate U.S. and European policies

European and U.S. processes that integrate trade policy with development goals in sub-Saharan Africa should be part of a new transatlantic leadership. Coordination between the United

¹⁷ See Rosalind Thomas (2008). "Trade Corridors in Africa—Connecting Markets: Development Corridors and SDIs—an African Private Sector-Led Growth Strategy." Presentation to the Paul Nitze School of Advanced International Studies, Johns Hopkins University, Washington, DC, October 2008.

States and Europe should increase wherever possible, including on food security initiatives and dialogues on regional integration. Within the U.S. government and the EC, dialogues that bring diverse expertise to the table on all sides, like the U.S. Trade and Investment Framework Agreements (TIFAs), are good models that should be prioritized, strengthened, and more extensively used.

Working across government agencies is also important. For example, the United States could comprehensively promote sustainable development and regional markets in sub-Saharan Africa by coordinating resources and programs across agencies, including the U.S. Department of Agriculture, the U.S. Agency for International Development, the U.S. Department of State, the Millennium Challenge Corporation, the U.S. Export-Import Bank, the U.S. Overseas Private Insurance Corporation, the U.S. Trade and Development Agency, and others.

6. Continue to work multilaterally

Even with Doha stalled, Europe and the United States could together craft a package that would complement an eventual Doha deal and help African countries see the benefits of working multilaterally. A package that includes duty-free quota-free preferences, aid for trade/trade capacity building, and trade facilitation would have a significant impact and give the African countries a stake in the multilateral process. Doing this now would show sub-Saharan Africa that trade can have a positive impact, and extra market access would become a meaningful development tool instead of a difficult trade-off.

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