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EU-Africa Trade Relations: The Political Economy of Economic Partnership Agreements

By Peter Draper

A circular logo with the text "JAN TUMLIR" at the top and "POLICY ESSAYS" at the bottom, separated by two small black dots on either side. The text is in a blue, serif font.

JAN TUMLIR
POLICY ESSAYS

About Jan Tumlir: The late Jan Tumlir was a leading scholar of trade policy, with a distinctive constitutional, classical-liberal defence of free trade drawn from his reading of law and economics. A Czech by origin, Jan Tumlir emigrated to the West in the 1940s and in 1967 became the Director of Economic Research and Analysis at the General Agreement on Tariffs and Trade (GATT). He supervised the economic research of the GATT for almost two decades, and was known as the GATT’s “resident philosopher”. Tumlir emphasised the structural nature of protectionism as the outgrowth of overactive government at home. He strongly advocated a rule-based international economic order pillared on free trade and constitutional democracy.

- Read more about Jan Tumlir at www.ecipe.org/tumlir

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Executive Summary

- African, Caribbean, and Pacific States have been negotiating Economic Partnership Agreements (EPAs) with the European Union for five years, in an attempt to replace longstanding preference arrangements with reciprocal agreements. These negotiations are fraught with problems, notably for African states. Much of the received wisdom in “civil society” is negative about EPAs and skeptical of EU intentions in pursuing them, further complicating matters. Of particular concern has been the breadth and depth of the EU’s proposed agenda.

- Yet sober analysis of African development challenges points clearly to the need for African states to adopt a broad agenda, backed up with appropriate resources. From an African perspective the policy case hinges on two interconnected challenges: overcoming supply-side constraints, and addressing market access constraints. The former requires investment in infrastructure and market-buttressing supportive regulatory frameworks. The latter requires goods trade liberalization, notably with respect to manufactured goods. Hence the broad EPA agenda favoured by the European Union finds support, particularly the inclusion of core infrastructure services, investment protection, and competition policy. Intellectual property rights, trade and environment, and government procurement do not easily fall within this frame.

- Governance and governance capacities in Africa are central to the adoption of this agenda. These challenges are so severe as to require tailoring the negotiating framework to African capacities both to negotiate and implement negotiated outcomes. Hence it is proposed that the EU should tailor and sequence the negotiating agenda rather than insist on pursuing it all at the same time. Furthermore, the degree of dependency on aid in the continent means that substantial aid for trade, targeted at adoption of regulations and supporting institutions, will be necessary for a long time to come. Efforts to promote greater efficacy of aid disbursements must continue, albeit with the long-term objective of phasing out aid flows altogether.

- Within a tailored and sequence negotiating approach the goods agenda is clearly the most critical owing to

the imminent expiration of the ACP waiver. Four scenarios regarding how this problem could be dealt with are suggested, with the conclusion being that the most likely amongst a range of difficult options is a combination of the EU not renewing the waiver for a limited period whilst graduating those countries (non-LDC states) that do not benefit from access to EBA preferences to the EU’s GSP-plus scheme and simultaneously reconfiguring the scheme to take account of their market access concerns. However, it is not apparent that sufficient political consensus in the European Union exists to pursue this path, hence the negotiations will remain uncertain for some time to come. Furthermore, this option is still inferior to negotiated reciprocity which should remain the cardinal goal of ACP states, including LDCs, albeit this needs to be carefully designed with fragile tariff-dependent revenue bases in mind.

- Contrary to conventional wisdom the paper is skeptical of EPAs’ potential to build regional economic integration, and argues for considerable caution in using them to pursue this objective. Hence the EU’s conscious effort to “externalize” its own model of regional integration using EPAs needs to be tempered. This fits with the broader project of reducing the regulatory burden and reinforces the need for a tailored, sequenced approach.

- This broad framework is applied to the SADC EPA, which is found to exhibit unique peculiarities owing to the EU’s relations with South Africa. Of particular concern is the EU’s proposal to “differentiate” its market access offer on goods for South Africa. This is found to run counter to the EU’s stated goal of using EPAs to build regional economic integration as it would require members of the Southern African Customs Union to establish internal border controls in order to police rules of origin. Yet South Africa’s approach to the negotiations is also found wanting in that the country is blocking adoption of the regulatory agenda, particularly services, whilst this would affect its customs union partners most negatively. In order to overcome this impasse it is proposed that the EU soften its goods market access stance in return for South Africa agreeing to negotiate regulatory issues. Failing this the EU should urgently consider graduating the non-LDC SADC EPA states (Botswana, Namibia, and Swaziland) to GSP plus in the interim renewing their preferences in the absence of the waiver.

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ACRONYMS

BLNS	Botswana, Lesotho, Namibia, Swaziland
CET	Common external tariff
CPA	Cotonou Partnership Agreement
EAC	East African Community
EBA	Everything but arms
EC	European Commission
EDF	European Development Fund
EPAs	Economic Partnership Agreements
ESA	Eastern and Southern Africa
FDI	Foreign direct investment
IPAs	Investment protection agreements
IPR	Intellectual property rights
LDCs	Least developed countries
MAT	Mozambique, Angola, and Tanzania
MNC	Multinational corporation
RECs	Regional economic communities
SACU	Southern African Customs Union
SADC	Southern African Development Community
TDCA	Trade, Development, and Cooperation Agreement
TRIPS	Trade related intellectual property rights (Agreement)
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
WTO	World Trade Organization

Introduction¹

THE PAST FIVE years have seen the European Union (EU) and its former colonies in the African, Caribbean, and Pacific (ACP) group locking horns in potentially far-reaching trade and development negotiations. Called “Economic partnership agreements” (EPAs), these are ordered in a series of regional processes with the EU playing “hub” to six ACP regional “spokes,” four of which are in Africa. EPAs are intended to replace the EU’s longstanding preferential access regime for ACP states, governed in its latest incarnation by the Cotonou partnership agreement (previously the Lomé accords). Historically this market access arrangement has been accompanied by a substantial aid envelope.

So what is on the agenda? Just about everything comprising a modern reciprocal trade negotiation: trade in goods (agricultural and industrial); services; intellectual property rights; customs regimes; government procurement; investment regulations and protections; and competition policy. This agenda’s breadth is one of the most significant sources of tension. The other source is the future of the EU’s development assistance package for the ACP, and the extent to which it will be linked with EPA outcomes.

Many African policy-makers, business representatives, and Western development-focused NGOs argue that the EPA agenda is too broad and intrusive for African countries. Some go further in arguing that the trade liberalization implicit in it would be harmful to African development. My central task in this paper is to critically tackle these perceptions and associated negotiating stances. As will become clear I am in favour of a broad and liberalizing agenda for Africa, under certain conditions.

The paper also criticizes aspects of the European Union’s (EU), or more accurately the European Commission’s (EC), negotiating stances. The purpose here is not to engage in “Commission-bashing” – a popular pastime in much of what passes for “civil society” – rather to highlight inconsistencies and problematic approaches as I see them. I hope that these will be viewed as constructive. I should also add that, as an African and outsider to European processes, it is often very difficult to penetrate the “fog of war” that surrounds these fraught negotiations. So whilst I recognize that Commission positions are constrained in all manner of ways by the plethora of interests emanating from member states and its internal co-ordination challenges, I take these for granted and do not dwell on them. Having said that, I do proffer my un-

derstanding of certain Commission positions at several points in the text. I take a similar approach regarding my understanding of certain “African” positions.

The paper proceeds as follows. Section 2 puts forward a political economy case for a broad EPA agenda. This could be considered a trade policy perspective, as distinct from a trade negotiations perspective, which is put forward in section 3 and used to refine the policy case. The essential argument is that, whilst a broad agenda is appropriate, excepting intellectual property rights, government procurement and environment, the details are important and, when the agenda is considered in its totality, for most African governments it is overwhelming. Therefore the case is made for a sequenced negotiating agenda, securing goods market access first, then progressively reviewing and negotiating the regulatory issues.

In a paper of this kind it is not possible to elaborate on country level detail, hence the discussion is framed in broad, general terms. It is important to note that sub-Saharan Africa, the subject of much of this discussion, consists of a host of countries of varying economic, political, and cultural hues. Nonetheless, I am of the view that there is sufficient commonality of economic structure and governance conditions, underpinned by colonial histories and legacies, to warrant tackling the discussion at this level.

To some extent this problem is mitigated through the analysis contained in Section 4, dealing with the Southern African Development Community’s (SADC) EPA negotiations. This is proffered as a “case-study” of EPA negotiations, albeit a special one in that – and for reasons outlined there – it includes South Africa. For a host of reasons these negotiations have only just commenced. This lack of progress amidst enormous complexity centres substantially on European perceptions of South Africa and the latter’s regional role. Those perceptions in particular are undermining the region’s oldest and arguably most successful regional integration project to date. But the other mutual suspicions and concerns addressed in this paper are also to be found.

I conclude with some suggestions for how the EU could recalibrate its approach to the SADC EPA group, and how South Africa could reciprocate in its own interest with respect to the negotiating agenda, in order for the two to build a viable regional integration project. I also restate my general conclusions regarding the broad EPA agenda for Africa and how this could be sequenced.

EPAs and African Development Challenges: Policy Perspectives

HERE I FOCUS on the economic needs of sub-Saharan African countries and consider how EPAs could play a role in meeting those needs. The purpose is to identify, from a trade policy perspective, the key negotiating areas in light of Western Europe's potential to address sub-Saharan African development challenges. Section 3 then deals with the negotiating process and briefly discusses negotiating issues identified here. North Africa is not considered, as those countries already have agreements with the EU (the Euromed agreements) and are not signatories to the Cotonou Partnership Agreement (CPA).

Governance

GOVERNANCE INCAPACITIES IN sub-Saharan Africa are central to the sub-continent's underdevelopment. Herbst² argues persuasively that Africa's crisis is best understood as a generalized crisis of the state. This arises from a context where African states are geographically large whilst populations are predominantly rural and dispersed, and institutions are characterized by pervasive weakness. This confluence renders internal political control tenuous; hence rulers are primarily concerned with maintaining that control. This naturally limits the extent to which they are prepared to cede control to others, internal or external; whilst in some cases old-fashioned authoritarian instincts compound this dynamic. So the state apparatus barely controls national borders, never mind a concerted development process. These incapacities result in chronic problems in managing trade flows, as reflected for example in deficient border administrations. Hence the **trade facilitation agenda** is critical at national, regional, and multilateral levels.

AGGRAVATING THIS PERNICIOUS situation many poor African countries (i.e. most), particularly the least developed ones (LDCs), are saddled with significant debt burdens. Owing to the pervasive state weakness cited above they battle to efficiently spend their scarce funds, let alone donor funds. Yet much of their spare cash goes towards debt servicing, not investment in institutions and the building of productive assets.³ The efficacy of the G8's debt relief agenda remains to be seen, and moreover it does not cover all of sub-Saharan Africa.

Therefore, from the narrow perspective of this paper, the broadly defined "**Aid for trade**" agenda is important, and given that the EU and its member states are the sub-continent's largest donors, could be an integral part of the EPA negotiations. This agenda, correctly constructed, managed, and coordinated with existing development assistance, could in principle address the supply-side constraints outlined next.

Supply-side Constraints

SUB-SAHARAN AFRICA FACES chronic supply-side deficiencies. These undermine competitiveness – a crucial weakness in a rapidly globalizing, dynamic, and increasingly intertwined world.⁴ International trade and investment flows are on an absolute order of magnitude never seen before; even if in relative terms the global economy may not be as integrated as it was by the end of the nineteenth century. This integration affords those countries plugged into mobile flows of trade and investment the opportunity to leverage external resources for domestic development. The key issue for developing countries in general but Africa in particular is how to access external resources on a sustainable basis, and in a manner that meets domestic development needs.

Unfortunately, Africa attracts marginal FDI flows compared to the rest of the developing world, consistently in the region of 2 to 3 % of total outward flows.⁵ These flows are proportionate to Africa's relative economic weight in the global economy. And they are concentrated – the top ten recipients consistently account for more than three quarters of FDI flows into the continent.⁶ Concentration in FDI destinations is matched on the source-end as only three countries (France, the UK, and the US) accounted for 70 % of FDI inflows in the period 1980 – 2000⁷, although this has changed in recent years with the advent of China's dramatic African safari.

FDI INFLOWS INTO Africa are predominantly resource-seeking, reinforcing commodity-dependent export profiles. UNCTAD argues that this lends FDIs into Africa a peculiarly enclave character, whereby predominantly greenfields and capital-intensive investment are delinked from the domestic economy and consequently profits are not reinvested.⁸ They argue that this holds a further danger of state capture by powerful multinational corporation (MNC) interests geared towards resource-extraction at the possible expense of domestic

manufacturing interests, thereby undermining diversification strategies.⁹

UNCTAD's sister organization UNIDO nuances this picture somewhat.¹⁰ They distinguish between two groups of European investors in Africa: large, long-established companies and smaller, newer entrants. UNIDO acknowledges the dangers associated with the first group, as highlighted by UNCTAD, but points out that the latter group is growing rapidly, with investments spread evenly between services and manufacturing, whilst its impacts are generally beneficial.¹¹ And concerning the large established companies engaged primarily in resource extraction, African countries need to generate export revenues – in the first instance to service external debt but more broadly to finance the range of imports required to build their economies. Hence MNC investment is necessary, albeit its rougher edges may require some polishing.

THIS PATTERN IS very different to the one that has taken shape in East Asia, especially China, for which the bulk of developing country FDI flows are destined. That investment is both market-seeking and efficiency-seeking, and more broadly spread, thereby entrenching the region's emergence as a twenty-first century economic powerhouse.

The fact that most foreign investment in Africa is resource-seeking, and therefore does not directly improve the diversification of African economies, poses obvious challenges to regional integration in Southern Africa. This is because the latter implicitly assumes that the countries concerned produce a wide enough range of products to make intra-regional trade and investment viable. At present this is generally not the case, with the exception of South Africa in its region. And unfortunately the severe supply-side constraints in both agriculture and manufacturing in most African economies will necessarily mute the response to initiatives that seek to both take integration further and do so more rapidly.

Furthermore supporting infrastructure – physical, financial, institutional, technological – in most sub-Saharan African states is woefully inadequate. Partly this reflects resource shortages, ie money devoted to infrastructure development. It also reflects historical legacies as Western colonial powers generally constructed infrastructure to service primary product export needs, not to build local markets. However, in all too many cases it reflects decades of damaging neglect and maladminis-

tration.¹² In this light EPAs could encourage European investment **in core infrastructure services** (transport, energy, finance, telecommunications), in turn necessitating some attention to regulations governing those sectors. The “**Aid for trade**” agenda could also play a role, in financing infrastructure needs, building African state capacities to manage large-scale investments and establish appropriate regulatory structures.

SUCH LARGE-SCALE INVESTMENT requires a degree of risk mitigation in light of the tendency of foreign investors to attach a significant risk premium to Africa, as the continent is generally perceived as a basket case. Therefore EPAs should also include **investment protection agreements** (IPAs) to reassure foreign investors concerning possible expropriations.

Furthermore, as most Sub-Saharan African markets are small, even small MNCs can quickly dominate market segments. Hence host governments need to guard against possible market concentration and associated negative side effects. This requires **competition policy and institutions** to regulate firms, foreign and domestic, in domestic markets. In principle EPAs could play a role in this. It also points to the urgency of diversifying investment sources.

Taking all the above into account, it is clear that major supply-side problems exist in sub-Saharan African countries; and that the international community has a crucial role to play in addressing these problems. EPAs, in principle, could be harnessed towards this end.

Trade Constraints

DEVELOPING COUNTRIES AS a group continue to rely on exports of commodities to developed country markets in order to generate the requisite foreign exchange for importing advanced manufactures. This broad categorization conceals significant regional variations. A WTO Secretariat report¹³ noted that the contribution of commodities to the aggregate basket of exports from developing countries declined “dramatically” from 1955, when they accounted for more than 90 %, to below 30 % at the end of the 1990s. They note further that this decline accelerated “sharply” from the mid-1980s, roughly coinciding with the onset of extensive unilateral trade liberalization in the developing world. They attributed this positive story to the decline of the contribution of fuels on the one hand, but more importantly to the rise of office and telecom equipment exports

from East Asia. China's recent growth has undoubtedly strengthened the latter trend.

Yet Africa and the Middle East continued to rely on commodity exports for more than two-thirds of their total exports; whereas Latin America substantially reduced its reliance, although at 40 percent it was still high; whilst developing Asia's share stood at approximately 15 percent. Furthermore, the report notes that a handful of countries drove this overall transformation within each region. Overall, developing country success in world trade is concentrated to a few, principally East Asian, high performers.

Commodity-dependence presents two challenges. First, there is what economists refer to as the "resource curse." Essentially, this entails a combination of declining commodity prices over time, thereby worsening the effected countries' terms of trade; whilst at the same time locking scarce resources into commodity production at the expense of more skill-intensive avenues with greater linkages into domestic economies – such as manufacturing.¹⁴ Second, on the flip side as commodity prices rise, currently driven substantially by China's inexorable demand for resources¹⁵, then there is a risk of "Dutch disease." This entails windfall gains in export

Table 1: Eastern and Southern Africa's World Trade by Major Market (2003-2005 average)¹⁷

Reporting country	Imports by "world"	EU	NAFTA	China	Japan	SA	Country total
1 Lesotho	496,371	5.1 %	94.4 %	0.0 %	0.1 %	0.0 %*	99.7 %
2 Congo, Dem. Rep.	1,268,471	71.8 %	16.1 %	8.4 %	0.7 %	0.4 %	97.4 %
3 Mauritius	1,735,850	74.0 %	16.3 %	0.3 %	0.6 %	1.1 %	92.3 %
4 Madagascar	1,179,459	52.1 %	36.1 %	1.0 %	2.7 %	0.2 %	92.0 %
5 Namibia	1,432,826	65.6 %	16.2 %	4.2 %	1.7 %	3.4 %*	91.2 %
6 Botswana	3,215,510	83.1 %	3.5 %	0.1 %	0.9 %	3.6 %*	91.2 %
7 Angola	16,043,695	11.9 %	43.6 %	32.6 %	0.3 %	1.4 %	89.7 %
8 Sudan	4,296,273	4.5 %	1.3 %	51.4 %	32.4 %	0.0 %	89.6 %
9 Libya	22,022,940	83.2 %	3.5 %	2.4 %	0.0 %	0.0 %	89.2 %
10 Seychelles	,362,333	72.8 %	3.2 %	0.0 %	8.7 %	0.9 %	85.7 %
11 Mozambique	1,503,422	76.4 %	0.8 %	3.6 %	1.2 %	2.4 %	84.5 %
12 Comoros	29,926	51.2 %	24.0 %	0.0 %	6.0 %	0.4 %	81.6 %
13 Ethiopia	544,484	49.7 %	10.4 %	6.9 %	12.6 %	0.4 %	80.0 %
14 Burundi	51,653	66.1 %	9.9 %	1.6 %	0.6 %	0.7 %	78.9 %
15 Uganda	431,907	62.3 %	7.8 %	2.6 %	2.0 %	1.2 %	75.9 %
16 Zimbabwe	1,657,471	28.0 %	4.8 %	9.1 %	7.8 %	24.7 %	74.4 %
17 Malawi	,479,018	37.3 %	18.7 %	0.1 %	4.9 %	12.6 %	73.7 %
18 South Africa	44,986,439	40.0 %	14.6 %	6.4 %	10.7 %	n/a	71.7 %
19 Egypt, Arab Rep.	9,587,412	48.8 %	19.2 %	2.0 %	0.9 %	0.3 %	71.2 %
20 Tanzania	992,929	36.2 %	8.3 %	9.4 %	9.0 %	3.1 %	66.0 %
21 Eritrea	12,508	50.6 %	6.3 %	4.1 %	2.9 %	0.7 %	64.6 %
22 Kenya	2,351,014	39.2 %	14.5 %	0.6 %	1.3 %	1.4 %	57.0 %
23 Swaziland	753,298	20.1 %	30.2 %	2.5 %	0.9 %	0.0 %*	53.8 %
24 Zambia	1,289,278	16.5 %	2.4 %	14.2 %	6.8 %	13.1 %	52.9 %
25 Rwanda	212,291	16.1 %	2.9 %	6.5 %	0.1 %	0.2 %	25.8 %
26 Djibouti	25,754	12.0 %	2.4 %	0.9 %	0.2 %	0.2 %	15.7 %
Group total	116,962,532	46.1 %	16.1 %	9.8 %	6.0 %	1.3 %	79.2 %

Source: COMTRADE, values in thousands of US dollars

Note: Countries ranked in descending order according to final column (i.e. the share in total world imports from each country attributable to the EU, NAFTA, China, and Japan). There is some doubt regarding the figures for South Africa's imports from the BLNS countries. It is not clear how COMTRADE records intra-SACU trade; I do know that South Africa Customs and Excise does not publish intra-SACU data, and that COMTRADE relies on governments reporting to the United Nations.

earnings propping up vulnerable exchange rates leading to overvaluation, which in turn curtails exports.

Yet, unavoidably, commodities continue to account for the bulk of export earnings in most African countries. The sub-continent is by and large incorporated into the global economy as an exporter of commodities based substantially on preferential access to developed country markets, primarily the European Union via the CPA, and importer of manufactures and services.¹⁶ This reflects both colonial histories and comparative advantages. Domestic markets remain small, dispersed, primarily subsistence-based, and this will likely change relatively slowly over time.

WHILST PREFERENCES IN principle ensure market access for Sub-Saharan African products, frequently better than their developing country competitors, they are probably not sustainable in the long-term. In the specific case of trade with Europe, which accounts for the bulk of African exports (see Table 1 for a breakdown of Southern and Eastern African export destinations), this most certainly is a problem, given that the CPA's **commodity protocols** expire at the end of 2007.

Sub-Saharan Africa, even concerning the so-called "big-states"¹⁸, but with the significant South African exception, is cursed with small markets. This renders domestic market diversification strategies, notably through import-substitution, difficult if not impossible – assuming it was desirable. Conventional wisdom, and much of "progressive civil society," avers that building regional markets through regional economic communities (RECs) offers a solution. Partly this seems to be rooted in the notion that **regional economic integration** will promote economies of scale amongst tiny markets and as such could be considered an extension of the infant industry argument. The notion of building institutional strength in negotiations with external actors is also important. And this resonates with deep-seated notions of African solidarity, lending integration processes political support that is often not supported in substance. Nevertheless, building regional economic integration is one of the EC's main stated objectives for negotiating EPAs; an objective reciprocated on the African side.

But import substitution will not promote economic efficiency in Sub-Saharan Africa. And the faster key competitors in Asia and Latin America advance their efficiency, the further Africa will be left behind. Therefore, consistent **trade liberalization** with a view to promoting economic efficiency is a crucial instrument

in African development strategies. In the context of EPA negotiations this necessarily requires offering market access to European producers, in exchange for market access concessions on the European side.

Taking account of the patterns of Africa's insertion into global trade and FDI flows identified here, as well as the challenges in improving intra-regional trade and investment, how could EPAs be constructed to render them part of the solution?

What Kind of EPA?

Policy Issues Restated

ISSUES NOT COVERED in the trade policy discussion in section 2, but of interest to the EU, include: intellectual property rights (IPR); Government procurement; trade and the environment. In my view these issues do not belong in a developmental trade agenda, at least seen from an African perspective. This is not to say they are unimportant (who could deny the importance of climate change for Africa?), rather that they are tenuously linked to a developmental trade agenda.

If the EU pursues these issues via EPAs, they will add to African states' regulatory burden arising from what is potentially on the table – a problem I return to below. Therefore, recognizing that African states simply don't have the resources or institutional capacities to cover the whole regulatory agenda, some prioritization amongst the regulatory issues has to be made, and these seem to me the least appropriate amongst those "available." Next I briefly outline my perspective on why each issue should not be included on the agenda at this time. This discussion is filtered through an African prism, because ultimately African countries would have to harmonize their regulations and institutions towards EU norms, rather than the reverse.

Intellectual property rights (IPRs) is largely a developed country issue. The fundamental purpose of the WTO's TRIPs¹⁹ agreement is to protect innovators – hardly any of which are to be found in Africa. Whilst there is a case to be made that protecting foreign investors' intellectual property rights could encourage investment, it is difficult to see how this applies in the African context. The investment that does take place, as noted above, is primarily resource-seeking. Ironically the IPR agenda may be of more offensive interest to African states insofar as they have indigenous knowledge

to protect. Furthermore, African markets are small, peripheral, and don't attract cutting edge imports or investment. Hence the protections to be found in TRIPs should be adequate.

Transparency in government procurement as a principle must be supported. To the extent that EPAs could entrench this principle, it would have the added benefit of promoting good governance. However, it is not clear when transparency turns to market access. When it does, things become murkier and politically sensitive. Furthermore, whilst I certainly favour cheaper and more efficient government services and open competition in their provision, the practice of using government procurement to build domestic economic capabilities is well-established worldwide. Hence this issue is highly contentious in the WTO context. And given the regulatory challenges posed by the other regulatory issues supported in this paper, including government procurement would both overload and unnecessarily politicize the agenda.

Tighter environment regulations, whilst desirable, should in my view not be linked to the trade agenda in the absence of coherence between WTO disciplines and multilateral environmental agreements. That process is underway in the WTO, which in my view is the appropriate forum for the discussion.

The issues I concluded should be on the list for EPA negotiations, in the order in which they were identified, are:

- Trade facilitation
- Aid for trade
- Core infrastructure services
- Investment protection
- Competition policy
- Commodity protocols
- Regional economic integration
- Trade liberalization

The list is long and, if pursued diligently, could take many years to deliver even if the parties agreed on the agenda. A central problem, at least in the context of the SADC EPA, is that the parties don't. Worse, they do not agree on the substance of the issues. That reflects different understandings of the proper content of each negotiating issue and how each policy area could contribute to African development; and divergent economic interests.

Clearly the details, especially regarding the many

regulatory issues within the broad agenda, are important. Unfortunately space constraints prevent a thorough treatment of this issue. Instead, I briefly discuss each, highlighting potential pitfalls as I proceed, in order to properly anchor the discussion on the SADC EPA in section 5. I begin with the matter of the ACP waiver, which leads into a discussion on the goods agenda as this is of the most immediate importance to African countries.

The Matter of the Waiver

WORLD TRADE ORGANIZATION (WTO) rules do not permit market access discrimination in favour of countries grouped on the basis of historical or geographical relationships, beyond those enshrined in the original General Agreement on Tariffs and Trade (1947). Hence historically countries seeking to extend preferential access to their market for exclusive groupings of developing countries were required to seek a waiver from WTO rules. The EU was obliged to do this for its ACP preferential regime, owing to the long-running "bananas dispute" in terms of which it plans to replace those preferences with reciprocal trade arrangements, i.e. EPAs. WTO members granted the EU its "waiver" on November 14th, 2001 after a difficult negotiation in which the EU had to placate Latin American banana producers and Southeast Asian canned tuna producers. The waiver expires at the end of 2007; hence the urgency for non least-developed (LDC) ACP states to conclude EPAs in order to avoid expiration of their current preferential access to the EU market. By contrast, the EU's "Everything but Arms" (EBA) preference arrangement for LDCs is permitted, as it discriminates on the basis of an accepted development category.

What would happen on 1st January, 2008 when the waiver expires, if there is not a full set of EPAs in place (which seems rather likely)? Clearly LDC ACP states would have access to EBA preferences, albeit the rules of origin are reportedly more restrictive. So they will continue to enjoy preferential market access. Non-LDC ACP states would potentially be worse off as they would not have access to EBA. Concerning these countries the EU would face a number of options, four of which are discussed below:

1. Cut off the grouping concerned without a penny.
2. Extend Cotonou without a WTO waiver.

3. Seek another WTO waiver.
4. Give up on EPAs and graduate non-LDC ACP countries to either GSP plus or GSP (LDCs would continue to benefit from EBA).

OPTION 1, WHILST a theoretical possibility, is an extreme one and therefore unlikely. First, the EU has invested much political capital in the ACP which plays out in a number of arenas. Most notable is the WTO. In the Doha round the ACP group has argued strongly for consideration of its vulnerable position should preferences be “eroded” through multilateral tariff liberalization and quota expansion in agriculture. Naturally this suits the EU position, particularly on market access in the agriculture negotiations. I have described this situation as a “Faustain bargain,” an epithet captured in the following quotation from Alec Erwin, ²⁰ South Africa’s former Trade Minister ²¹:

After the good work of unifying African positions during the Doha meeting the complexities of agriculture began to worm into this fragile structure. The worm wound its way into the whole African, Caribbean and Pacific (ACP) group of countries and the Least Developed Countries (LDC). The worm was the dependence on preferences. The agricultural economies of these countries were either tied into historic monoculture or into the ability to sell products at the artificially high prices established by EU Common Agricultural Policy (CAP). The dismantling of this system of preferences – a perverse new dimension to the imperial relationship – posed real threats that no sensible government with a weak economic base could take lightly. The agricultural protectionists lost no time in mobilizing this vulnerability.

Clearly from the multilateral trade bargaining perspective the ACP retains some utility for the EU. In the EU’s defence some countries have benefited from preferential access to the EU market, and as discussed above the consequences of preference erosion could be serious. Therefore the EU has a responsibility to ensure an orderly transition, one, which in my experience is taken seriously. Related to this, there are influential constituencies in several EU member states, particularly the United Kingdom, which would strongly resist this option. Hence a strong European civil society lobby has

mobilized to assist the ACP in getting the best deal possible, albeit their views on what that might constitute may not accord with those expressed in this paper.

OPTION 2 IS more interesting, and more likely than option 1. It could be deployed tactically should the EPA process reach critical mass, but without the possibility of being concluded in time to implement agreements by the end of 2007. Countries, which may oppose this know that securing their interests through dispute settlement could take many years. Furthermore, the United States implemented its African Growth and Opportunities Act (AGOA) without recourse to a waiver. When it formally requested one, in February 2005, the process stalled owing to opposition from China, India, Pakistan, and Brazil, and the AGOA waiver has still not been adopted – yet the scheme remains in place. So a cynical approach could be to proceed without a waiver and to ride out any ensuing challenges whilst concluding EPAs.

Assuming that the EC does take its responsibilities to the ACP seriously, this is a feasible option. However, it may compromise the Commission’s standing in the WTO, with uncertain consequences for an institution in need of momentum and legitimacy. Similarly, it could have implications for the EU’s bilateral free trade agenda, in the sense that it would set a precedent. It also depends on ACP, and African, states grasping the nettle and negotiating meaningful agreements along the lines advocated in this paper. Furthermore, from a negotiating perspective the EU has little incentive to telegraph this action (or more accurately inaction) in advance as it would lose the leverage it currently enjoys through the waiver’s imminent expiration.

OPTION 3 MEANS making deals with other WTO members in order to secure preferential access for non-LDC ACP states. Latin American banana producers and South-east Asian canned tuna producers may well raise objections again, and could be joined by others. Given that the coverage would be a subset of the entire ACP group it is possible that fewer trade-offs would be required. The question is whether the EU is prepared to undertake such negotiations all over again, and whether it is prepared to grant concessions demanded of it. That depends on the political value the EU attaches to maintaining preferential access for non-LDC ACP states. In the expanded EU, including Eastern European states with no colonial history and their own claim on EU development funds, the ACP’s political stock is clearly diminish-

ing. Furthermore, and as is clear in the case of AGOA, the WTO membership seems to be taking a dim view of these waivers. Hence the non-LDC ACP states cannot afford to take this process for granted.

OPTION 4 is technically quite feasible. At some point the EU may tire of trying to conclude EPAs with states that do not want to sign up to its agenda. It seems unlikely that GSP would be the preferred route, given the better market access conditions available under GSP-plus.²² Interestingly, the Appellate Body's ruling in respect of India's 2002 challenge to the EU's GSP-plus scheme provides legal cover for discriminating amongst groups of developing countries, provided objective criteria are used and no countries qualifying under those criteria are excluded.²³ Significantly, it apparently also obviates the need to obtain a waiver.²⁴

Consequently some commentators have called for the EU to simply graduate non-LDC ACP states to GSP-plus and drop EPAs.²⁵ But it is possible that some countries may not qualify for it by virtue of not ratifying the required conventions.²⁶ In addition, ACP states joining this scheme would join 15 other states currently enjoying its benefits; therefore some preference erosion would occur. Hence this option could run foul of the CPA, article 37(6), which requires that no ACP state be left worse off in terms of its EU market access once the waiver expires. This implies that GSP-plus market access coverage would have to be extended.

One reason the EU may not opt for option 4, at least not now, has to do with negotiating dynamics. If it were to extend GSP-plus access unilaterally, it would lose its negotiating leverage with the non-LDC ACP states. It would also forego reciprocal market access, although any gains achieved under EPAs are likely to be of marginal commercial significance (hence the EU's continued interest in negotiations with South Africa). More importantly, it would forego the regulatory agenda, which holds both commercial and systemic implications: the former in terms of investment opportunities foregone; the latter in terms of feedback into the WTO discussions on regulatory issues. As I argue below this would not only be a loss to the EU, but for ACP states too.

If the EU did not oblige, it is theoretically possible for some ACP states to mount a legal challenge, but it is not clear how this would work. Which international institution would the case be brought to (the jurisdiction problem)? What if the EU simply calls their bluff – what

legal force does this article carry? Besides, this provision reportedly applies to market access arrangements, not maintaining preference margins – an important distinction.²⁷ Therefore the non-LDC ACP states cannot take it for granted that the EU will look after their interests.

Consequently many uncertainties remain concerning the matter of the waiver and continued non-LDC ACP countries' preferential access to the EU market. Therefore, from a negotiating perspective reciprocity remains firmly on the agenda. Next I set out an economic case for keeping it there.

The Goods Agenda

IN MY VIEW the reciprocal **trade liberalization** agenda is important. If pursued unilaterally this approach would mitigate the pernicious economic and political effects associated with trade divergence and regional relocation of industry. The pace and depth should vary from country to country, depending on domestic social and political constraints. It will inevitably come with social costs, as inefficient production is displaced and (hopefully) replaced with more sustainable and competitive economic activity. In the African context much of this may be in agriculture, rather than industry, which reinforces the necessity for developed countries to reform their agricultural subsidization regimes. Crucially, it has to be domestically owned and managed rather than be seen to be externally imposed; otherwise it will engender resistance²⁸ – a condition unfortunately observed in the breach on the continent with its history of “structural adjustment.” And this necessarily requires development of effective, domestically owned and managed, institutional frameworks as a prerequisite for trade liberalization.²⁹

EPAs are not about unilateral liberalization. Yet they could produce a substantially positive outcome with respect to goods trade if reciprocity is observed. Europe produces a host of productivity-enhancing and consumer goods Africa requires on which it makes no economic sense to impose duties. Yet a tariff liberalization package must be sensitive to fragile tariff-dependent government revenues, and the need to shield agricultural producers from subsidized EU products. There may also be a case for maintaining tariffs to develop domestic industries.³⁰ But these caveats don't undermine the broader liberalizing logic. Besides, properly designed tariff reductions (obviously not elimination) could in principle lead to revenue increases depending on the responsiveness of

imports to reduced charges. For all ACP states such tariff offers must take cognizance of the need to comply with GATT Article 24, by which the agreed EPA must cover “substantially all trade.” Unlike the Doha Round, there is no formula to be applied here, and a number of options are on the table relating to overall coverage of trade and the phasing in of commitments.

OF COURSE MOST sub-Saharan African states are LDCs and hence not obliged to offer reciprocal access to their markets, owing to the fact that they already enjoy duty-free, quota-free access to the EU market under the EBA scheme. Hence they can adopt a more flexible approach to tariff liberalization, avoiding it entirely if they so wish. Again, this caveat does not undermine the broader economic case for import liberalization. And many LDCs are members of regional groupings that include non-LDCs to which EBA flexibility does not apply. Clearly if the integrity of those regional groupings (assuming there is integrity to begin with) is to be maintained, then LDCs within them will be obliged to offer reciprocity or establish and/or maintain internal border controls to police different rules of origin.

On the export front those wishing to take advantage of EU preference schemes still encounter restrictive rules of origin³¹; whilst those rules of origin are in the process of being revised towards a uniform value-added approach. Whilst this change may be administratively more convenient it presents great dangers to LDCs and poor ACP countries in general for two broad reasons. First, they may not be able to meet new thresholds if set too high, whereas their more developed competitors would be relatively better placed³²; and second the calculation of value-added goods is vulnerable to exchange rate fluctuations to which poor countries are more vulnerable³³. In relation to the value-added approach, current rules of origin under Cotonou and the GSP may well be friendlier to developing countries. Therefore, reciprocity with negotiated rules of origin may be a better option for them.

So even LDCs need to seriously consider their import interests and associated tariff offers. Furthermore, as discussed above non-LDCs are most in need of a secure post-Cotonou goods trade arrangement with the EU, given that once the waiver expires at the end of this year so will their preferential access. To its credit the Commission has offered to extend EBA-like access to them – with the exception of South Africa (a central member of the SADC EPA group) – conditioned on

concluding a WTO-compatible EPA.³⁴

For capacity-strapped states the process of identifying their negotiating interests is difficult to manage. But there are three further complications. First, reciprocal trade negotiations encourage a mercantilist mindset in which negotiators focus primarily, sometimes exclusively, on export gains. In this framework trade policies are not pursued in their own right – rather they are viewed through the prism of “concessions” to be bargained away in return for reciprocal concessions by trading partners. This necessarily displaces the focus to negotiations rather than countries’ deciding what is in their own best interest. This is not an African problem – more likely Africans learned this from Europeans. But it does circumscribe the economic policy case for trade liberalization.

Second, tariff liberalization generates winners and losers, even if the economy-wide impact is beneficial over the longer-term. Hence a political economy approach is necessary, taking into account the balance of benefits to key domestic stakeholders. In the developed world and in advanced developing countries, welfare systems are, to a greater or lesser extent, capable of compensating and retooling the losers. These conditions are absent in Africa, with the possible exception of South Africa. That points to the need for development partners to step in, in this case the EU, with an appropriately designed and sustainable aid-for-trade package. That in turn brings the spotlight back to the **Aid for Trade** agenda. A far-sighted view on the EU’s part would recognize that this might be a small price to pay for politically stable, reforming, and ultimately expanding economies that will become larger markets for European exports and investment.

THIRD, MOST, IF not all, African states are negotiating as members of a regional group. I criticize this below. Here, it is important to note that each member state must coordinate its tariff offer with its negotiating partners; prior to negotiating with the EU *and* in the process of negotiating with the EU. This greatly increases the complexity involved, and further drains scarce resources.

There is no consensus on precisely what percentage of African goods trade must be liberalized for EPAs to be deemed WTO compatible, a situation reflective of the lack of consensus in the WTO on how to discipline regional trade agreements. And different groupings will have their own peculiar combinations of sensitive sectors. Therefore the overall structure of each EPA is like-

ly to differ with respect to the architecture of agreed tariff concessions, although it is likely that overall the matrix of concessions will converge towards EU norms, ie 90 percent of all trade.

Taking account of the large agenda outlined above, it is imperative that securing ACP states' market access should be the top priority. Therefore in the inevitable sequencing of negotiations the goods agenda has to receive primary attention. But beyond securing historical relationships and the "feel good" factor, what is required to convince European investors and governments to increase their African footprint? Specifically, can a business case be made for significantly increased European FDI into the continent, beyond resource extraction? In my view it hinges on significant regulatory upgrading in African states, in addition to economic liberalization.

The Regulatory Agenda

CENTRAL TO THE debate over the appropriateness or otherwise of the regulatory agenda is the issue of "policy space." One way of looking at this is to adopt an historical perspective, along the lines of that proffered in Professor Chang's influential book titled *Kicking away the ladder*.³⁵ The argument is beguilingly simple. Essentially he contends that developed countries used a host of protectionist instruments in order to develop and, having climbed up the ladder of development now use the WTO and other trade instruments (such as EPAs) to prevent developing countries from following suit. This is the conspiracy theorist's view of developed country approaches to trade negotiations and the institutions, notably the WTO, that underpin them – and it retains considerable force in African civil society. From this flows the view that countries need to safeguard their policy space in order to preserve development options, which in turn forms part of a larger backlash against the so-called "Washington consensus" and a revival of support for state-centred views on development processes.

Unfortunately space constraints prevent a detailed critique of this perspective. The reader will have discerned, however, that I am sceptical of it in general and particularly as it applies to the African context. Nonetheless, and in general, I do believe that the regulatory agenda should not intrude unduly into African states' policy space. But what might "unduly" mean in different contexts? Essentially, the economics and content issues must be related to the capacity of African states both to negotiate EPAs but more importantly to imple-

ment negotiated outcomes. This should determine the overall scope of negotiations and commitments, and the manner in which they are sequenced. Unfortunately, the continent suffers from a generalized political and technical crisis of the state. Therefore, the overarching goal for African negotiators should be to establish a realistic (implementable), and modernizing regulatory agenda that extends and locks in regulatory reforms, without unduly foreclosing policy options, backed up by requisite resources or an "aid for trade" agenda. Next I take each regulatory issue identified above and briefly discuss them from this standpoint.

IT IS WIDELY recognized that **trade facilitation** is an important agenda for African states. This is most conclusively demonstrated in the World Bank's "Doing business" reports, a snapshot of which is reflected in table 1. It is clear from this table that regulatory capacities in Africa, in the sphere of customs and associated border agencies, are either excessively cumbersome, understaffed or (more likely) both. That points to the urgency of a trade facilitation agenda in light of the fact that regulatory procedures are becoming more complex. There are a number of forces driving this complexity. Of greatest importance is the decades-old shift to just-in-time production and supply-chain management in a world of globalized production networks, from which, as I argued in Section 2, Africa is largely marginalized. In order to break into them African countries urgently need to build appropriate regulatory systems and capacity in the field of border management of goods flows. And this imperative is made all the more urgent by the initiatives emanating principally from the United States as part of its "War on terror".³⁶ In the WTO this has given rise to the trade facilitation negotiations, which are broadly supported by the Africa group. Assuming a successful conclusion to the Doha round, support for trade facilitation will be conditioned on delivery of appropriate development assistance, including its forms (areas targeted for support) and amount. These negotiations are potentially pioneering the way for the broader aid for trade agenda in the WTO in that commitments will be explicitly linked to delivery of development assistance. This approach could perhaps serve as a model for other regulatory negotiations in the EPA context.

OF COURSE FACILITATING trade goes well beyond customs procedures. One area where African countries stand to gain unambiguous benefits is in liberalizing

Table 2: Trade Facilitation Imperatives

Region or Economy	Documents for export (number)	Time for export (days)	Cost to export (US\$ per container)	Documents for import (number)	Time for import (days)	Cost to import (US\$ per container)
East Asia & Pacific	6.9	23.9	884.8	9.3	25.9	1,037.10
Europe & Central Asia	7.4	29.2	1,450.20	10	37.1	1,589.30
Latin America & Caribbean	7.3	22.2	1,067.50	9.5	27.9	1,225.50
Middle East & North Africa	7.1	27.1	923.9	10.3	35.4	1,182.80
OECD	4.8	10.5	811	5.9	12.2	882.6
South Asia	8.1	34.4	1,236.00	12.5	41.5	1,494.90
Sub-Saharan Africa	8.2	40	1,561.10	12.2	51.5	1,946.90

Source: World Bank (2006) Doing Business, www.doingbusiness.org/ExploreTopics/TradingAcrossBorders/

core infrastructure services: finance, telecommunications, energy, and transport.³⁷ These services plug into all aspects of the economy, including export sectors in manufacturing and agriculture. Indeed, if manufacturing and agriculture are to thrive in a globally competitive environment, then producers in these sectors must have access to low-cost, cutting edge services inputs. Yet in Sub-Saharan Africa these sectors are poorly serviced by local suppliers, let alone state enterprises, with little prospect of dynamic growth in the future. In this context, it does not make sense for governments to protect these crucial input sectors with a view to building domestic capability. This could take a long time; and such an approach would act as a significant drag on economic activity in general, hampering export diversification. Therefore partnership with foreign enterprises is necessary: it makes sense for these sectors to be liberalized, with a view to attracting FDIs into them. This should preferably be done unilaterally; otherwise the risk is that dominant suppliers from, in this case, the EU, will quickly capture small markets. And it needs to be preceded by establishment of robust regulatory institutions to ensure competitive pricing and access to the networks. Building this regulatory capacity quickly will require an aid for trade package, encompassing policy formulation, technical capacity, and financial support for staffing.

FURTHERMORE, IN ORDER to encourage FDI to flow into these service sectors a degree of **investor protection** is required. Investor Protection Agreements are important regulatory components of a broader global inte-

gration strategy and complement efforts to promote domestic investment. They require a host of policy measures associated with good governance which in turn should encourage domestic investment.³⁸ Unfortunately in Sub-Saharan Africa private sector development is in its infancy compared to other regions in the developing world, and often suffers from government neglect. In some cases, such as Zimbabwe, it is or has also been the target of government ire – hardly a recipe for development success.³⁹ Hence IPAs could be seen as part of a broader domestic reform agenda,

designed to lock in good governance practices.

There are some dangers though. One is that more rights may be given to foreign investors than to domestic investors, as has been the case in South Africa.⁴⁰ This can happen when for instance foreign investors have recourse to international arbitration tribunals that have the potential to be weighted towards investor interests, particularly where dispute settlement processes are opaque, as can be the case with the operation of tribunals, and could be compounded by investor-state dispute settlement systems if not carefully designed. Furthermore, it is generally acknowledged that IPAs do not of themselves promote FDI; and some argue that host-nations should reserve the right to “strategically manage” investors in order to build infant industries.⁴¹

Interestingly, the EC’s investment template has not been agreed upon by member states, whilst the draft currently being considered apparently does not envisage strong investor protections, favouring a market access approach instead.⁴² This is largely owing to the fact that member states have their own networks of bilateral investment treaties. Furthermore, I remain sceptical of both the advisability and capacity of African states to effectively conduct the kind of industrial policy approach sought by some groups, on the basis of which foreign investors would be regulated “strategically.” Nonetheless, in my view a degree of caution is necessary owing to the potential for powerful external companies to abuse market dominant positions.

YET THAT IS an issue best addressed by **competition policy**. This is a huge and complex policy area that

cannot be comprehensively addressed here. However, Szepesi⁴³ notes that competition provisions in EU trade agreements have been relatively flexible, and depend primarily on the status of competition legislation in partner countries. He identifies three broad categories of partners in this regard: those with legislation in place or under negotiation when their broader agreements were concluded (Mexico, Chile, and South Africa); those with no legislation (Jordan, Morocco, the Palestinian Authority and Tunisia); those also with no legislation but more flexible provisions (Lebanon and Algeria). It is only in the case of the second group under their Euro-med arrangements that they explicitly agreed to import EC competition legislation, in Szepesi's view in order to "lock-in" regulatory reform. Otherwise, on the basis of Szepesi's analysis one is left with the impression that EU agreements pertaining to competition policy do not conform to a template approach but are flexibly applied according to the relevant partners' preferences. This leaves open the question of the approach African countries, most of which do not have competition legislation, may take and of course the extent to which such approaches would be informed by regional imperatives. In principle though extending EU-style legislation and enforcement to the operations of EU member state countries to Africa should not be unduly problematic; but African countries would clearly have to scrutinize the fine-print from the standpoint of their national interests.

Aid for Trade

From the foregoing three broad areas of potential support have been identified: building supply-side capacities, developing regulatory capacity, and compensating losers from liberalization. An additional issue, not discussed above, is technical assistance to build negotiating capacities. This is more contentious owing to the dubious politics of one's negotiating partner underwriting your formulation of negotiating positions. However, given that the EC underwrites so much of Africa's development via its development assistance in general,⁴⁴ it probably doesn't make much sense to exclude it from the agenda.

It is appropriate at this stage to raise some questions about the role aid could play in promoting African development. Bauer, for example, argued that aid inflows, presently the dominant source of external financing for many African countries, are not without problems.⁴⁵

He identified four: first, in his view the assumption that poor countries cannot develop in the absence of Western largesse is condescending and undermines domestic initiative. Second, he argued that aid can create a vicious circle of dependence (on Western largesse), thereby defeating its own objectives. Third, he pointed out that large inflows of aid can generate a "Dutch disease" effect of exchange rate appreciation, thereby undermining domestic (and most likely nascent) industrial development. Fourth, he was concerned that channelling aid through governments' accords rulers extended powers of patronage. Central to this was his concern that in many poor countries governance is part of the development problem; hence aid might only reinforce this problem.

DONORS HAVE THEIR OWN CONCERNS. First, some face fiscal constraints and may not be in a position to increase aid flows, as African states and many NGOs argue is required. Second, they have abiding concerns about the effectiveness of aid outlays, the flip-side of which is the capacity of recipients to absorb (increased) expenditures. African countries for their part face the additional challenge of coherence between the stated goal of increasing aid, which requires expansionary fiscal policies, and inflation-containment policies advocated by the International Monetary Fund which require fiscal restraint.⁴⁶ Third, donors are generally concerned about lack of progress on the governance agenda, particularly in Africa. When combined with questions about the impact several decades of aid outlays have had on Africa it gives rise to a necessarily healthy scepticism about the efficacy of the aid agenda.

Yet it is clear to me, given high if varying levels of aid dependence across the sub-continent, that in the short to medium term African countries have few other options available to improve the living conditions of their populations. Therefore, as de Renzio⁴⁷ notes, the key medium-term issue is to ensure that aid (whether increased or not) is channelled effectively, builds absorptive capacities, and promotes good governance. In his view this gives rise to two dilemmas. First, donors are accountable to their taxpayers whilst simultaneously being accountable to recipients institutions and beneficiaries as required under the Paris Declaration.⁴⁸ Second, donors' relatively short-term outlook gives rise to a tendency to support short-term projects with clear deliverables, whereas recipients' needs are generally medium to long term and institutional.

Arising from this discussion it is legitimate to ask whether a process can be designed whereby aid disbursements over the long term create the capacities needed to make further aid unnecessary? A tall order perhaps; nonetheless a pressing imperative. Assuming it could, the challenge of channelling it to the most appropriate recipients remains. In short, there does not seem to be an objective method of determining aid allocations; rather donors seem to follow their own criteria and preferences.⁴⁹ Besides political calculations (which inevitably have a role to play) Anderson⁵⁰ identifies two principles: “poverty-efficiency”, whereby aid is allocated to countries with higher poverty levels and/or greater effectiveness in using aid for poverty reduction; and “equal opportunity” whereby countries with unfair disadvantages (e.g. geography) that impede poverty reduction would be allocated proportionally more aid.

It is not clear to me which of these principles applies to the EC and its member states development assistance approaches. Nonetheless, I remain of the view that aid flows, using the aid for trade framework, are an indispensable part of Africa’s medium-term future.

SO MUCH FOR the broader debate over the efficacy of aid. What can be said about the development assistance process with regard to EPAs? The EC has identified three priorities for its disbursements⁵¹: promoting peace, stability, and democracy; sustaining economic growth especially through regional economic integration; and human resource development. In light of the governance agenda outlined above these objectives are, in my view, appropriate albeit there is a question mark over the regional integration project (see below). The primary tension concerns divergent expectations on the part of donors and recipients over “complementarity” (does this agenda add value to existing mechanisms) and “additionality” (will new money be made available).⁵² And the EC is reluctant to formally link the aid and trade components of EPAs, at the same time as rejecting formal linkages between liberalization commitments and delivery of aid.⁵³ The EC is reportedly wary of committing to “undefined development targets,” whilst the ACP are wary of committing to liberalization in the absence of hard commitments on delivery of aid.⁵⁴

WE SHOULD ALSO note the long-standing complaints of aid recipients about the EC’s allegedly poor track record in delivering on its assistance promises.⁵⁵ And it is not clear where additional funding might come from, given

that the EC would have to turn to member states to fulfil any pledges made,⁵⁶ in light of the fact that in real terms EDF resources have steadily declined over the decades.⁵⁷ Apparently compounding this is a lack of coordination between the two Commission Directorates responsible for aid and trade respectively. In the words of Dame Billie Miller, then chair of the ACP Parliament group:

“When our negotiators sit down with trade ... they say quite properly they do not have a remit or a mandate to negotiate development issues and I need to talk to the [directorate for] development. But the development directorate told the ACP countries they could not negotiate in trade deals.”⁵⁸

NATURALLY THE COMMISSION has a different view. In a joint letter to the Financial Times, Commissioners Mandelson (Trade) and Michel (Development) state that: “The EU has always said that the negotiations on EPAs would move hand in hand with agreements on funding. This balance is crucial and it is why I have resisted a process that makes one aspect dependent on the other”.⁵⁹ They also point to the substantially increased sums being made available under EDF 10, and the possibility of an additional aid for trade package agreed to during the 2005 Hong Kong WTO Ministerial meeting.

Finally, there is the issue of who will channel the aid, or the balance between bilateral and regional assistance. The latter is framed in terms of the goal of using EPAs to build regional economic integration – to which I now turn.

Regional Economic Integration: Whose Model?

ONE OF THE EU’S main stated objectives for EPAs is to use them as instruments to build regional economic integration in ACP countries. This broad objective of building “south-south” economic integration is shared with a range of actors, from the multilateral finance institutions to ACP member states. Concerning Africa, for example, there are ambitious plans to establish an “African Economic Community” by 2028, whilst currently there are fourteen regional economic communities (RECs). Hence, at a broad political level, the EU’s thinking is aligned with that of its negotiating partners.

However, this broad coincidence of views breaks down under closer scrutiny. First, I tackle the economics of African economic integration. Then I address its

politics. And I end by considering the EC's actions in relation to the unfolding process of building RECs in sub-Saharan Africa. It seems to us that, whilst the goal of greater economic integration is appropriate, the form it takes and the means for getting there require much more serious consideration.

FIRST, AFRICAN COUNTRIES, at least in Eastern and Southern Africa, trade overwhelmingly with developed countries, a fact brought out quite starkly in Table 1. Within this, the bulk of regional exports are undifferentiated commodities that are not needed in regional supply-chains owing to the serious underdevelopment of manufacturing industry – with the notable exception of South Africa, to a lesser extent Kenya and (until fairly recently) Zimbabwe. Indeed it is quite striking how unimportant South Africa is to the region as an export destination, excepting Zimbabwe, Zambia, and Malawi.⁶⁰ Thus the basis for meaningful exchange so crucial to constructing RECs would not seem to exist.⁶¹

More theoretically, proponents of the “New Economic Geography” advance strong arguments against promoting south – south economic integration schemes amongst poor developing countries.⁶² The theory predicts that, whilst all countries in such schemes have a comparative disadvantage in manufacturing relative to the global economy, there will be one with less of a disadvantage than the others. Hence industrial activity will tend to relocate to the relatively advantaged country at the expense of the others. This effect will be aggravated by agglomeration economics, which promote industrial concentration in the relatively advantaged country (consider South Africa and Kenya in Southern and Eastern Africa respectively). Furthermore, as tariff levels decline overall within the REC so those countries suffering from industrial relocation will also experience trade diversion effects – importing relatively expensive goods from the growing industrial centre rather than more efficient global producers, thereby lowering their overall welfare. Meanwhile, the favoured country will gain as regional industry relocates to its soil and real wages rise as a result. Clearly these effects would generate substantial political tensions over time,⁶³ which in turn would undermine integration processes. These are serious considerations.

CONSIDERABLE BENEFITS MAY be derived from economic integration in as far as it promotes the building or upgrading of trade-supporting infrastructure across the re-

gion. Thus, on the **trade facilitation front**, deepened regional integration is critical for a highly fragmented continent like Africa, which has more landlocked countries than any other continent. This points to a more limited agenda, tailored to regional capacities. External actors have a critical role to play in supporting development of institutions such as customs authorities and infrastructure systems through an **aid for trade agenda**. These initiatives may have the added benefit of promoting regional value-chains and integrated production, thereby developing economies of scale to compete globally. The downside, however, will be the agglomeration forces noted above.

THE LOGIC OF north – south economic integration is much more compelling: it reinforces comparative advantages, promotes income convergence, and over time should also promote knowledge transfers from developed to developing countries.⁶⁴ This is a strong theoretical argument in support of EPAs.

Yet it is questionable whether vulnerable economies could cope with the competition from efficient northern producers if the agreements are not sensitive to development needs. Furthermore, as discussed above, if they do not have appropriate institutions in place to manage ensuing liberalization, the ultimate effect could be further dislocation.⁶⁵ And if liberalization is only partial, as seems probable, then it is unlikely that production shifts will actually occur. The end result therefore may be to increase profit margins for the more powerful actors in supply-chains – most likely EU companies – without the efficiency enhancing effects associated with meaningful liberalization.⁶⁶ So ACP states must carefully consider their room for manoeuvre in such negotiations and their state of preparedness in light of the economic impact negotiated outcomes may have.

In my view, to the extent that RECs are actually likely to work in Sub-Saharan Africa,⁶⁷ it is likely that over a period of time a small set of regional leaders will emerge around which regional economies will increasingly concentrate. The key question then is how those regional leaders can be supported and boosted, with a long-term view to pulling their regions up with them. Here the UN's Millennium Development Report proffers some interesting, if controversial, proposals, for thinking strategically about the **aid for trade** agenda: doubling official development assistance and targeting it on a core group of states most likely to use the funds effectively and by extension most likely to succeed.⁶⁸ Un-

doubtedly major northern trading partners in the EU and US, but also Japan and China have a key role to play in this – should it materialize.

Concerning the politics of building African RECs, the most important issue to confront is that of deepening political commitment to regional economic integration. In light of the relative “youth” of states in the region it is perhaps not surprising to find that leaders in many countries are reluctant to yield their prerogatives. After all, regional integration involves pooling sovereignty – in Africa’s case it is newly acquired.⁶⁹ Part of this political commitment should involve rationalizing the RECs, given the well-known problem of overlapping memberships (see Table 3) and conflicting integration processes.⁷⁰ These are problems home-brewed in Africa,

requiring Africans to resolve them. Unfortunately the necessary leadership seems to be in short supply.

CONFUSINGLY EPA NEGOTIATIONS configurations are not coterminous with existing RECs (see Table 3). This places further stress on a delicate situation in which institutional capacities are already overstretched, and consequently threatens to divide the region even further. It also makes it difficult for constituent countries to agree on common negotiating positions, given that their tariff schedules and domestic regulations are generally not harmonized.⁷¹ And it raises substantial legal uncertainties as the negotiating groupings do not have formal legal status, unlike the RECs that constitute them. So it is not clear exactly with whom the EC will sign (an)

Table 3: Membership of Regional Organizations in Southern and Eastern Africa

	ESA – EU EPA	SADC – EU EPA	SADC	COMESA	IOC	EAC	IGAD	SACU
Angola		X	X					
Botswana		X	X					X
Burundi	X			XFTA		X		
Comoros	X			X	X			
Djibouti	X			XFTA			X	
DRC	X		X	X				
Egypt				XFTA				
Eritrea	X			X			X	
Ethiopia	X			X			X	
Kenya	X			XFTA		X	X	
Lesotho		X	X					X
Madagascar	X		X	XFTA	X			
Malawi	X		X	XFTA				
Mauritius	X		X	XFTA	X			
Mozambique		X	X					
Namibia		X	X					X
Rwanda	X			XFTA		X		
Seychelles	X			X	X			
South Africa			X					X
Sudan	X			XFTA			X	
Swaziland		X	X	X				X
Tanzania		X	X			X		
Uganda	X			X		X	X	
Zambia	X		X	XFTA				
Zimbabwe	X		X	XFTA				
Aim	EPA 2008	EPA 2008	CU 2010	CU 2008		CU 2004		

Note: Countries in bold are non-LDCs. ‘CU’ = customs union

agreement(s) and how it/they would be administered.

Aggravating this situation is that European Development Funds (EDF 10 specifically) will apparently not be allocated to RECs in the next five year period tranche (2008-2013) but rather to groupings negotiating EPAs.⁷² In the case of Southern and Eastern Africa, as Table 3 shows, this places considerable pressure on countries to consolidate their memberships if they are to access those regional resources; it also places pressure on the Secretariats to justify their existence, given that it may not be they who will allocate funding. Whilst it is always a good thing for organizations to justify their existence, especially in a region as confused as Southern and Eastern Africa, this nonetheless raises questions about who exactly is driving the regional agenda. In this light there are persistent concerns that the EU, in promoting the regional economic integration agenda, has its own model in mind for Africa.⁷³ Whilst this may be a useful long-term aspiration, its current practical utility to a continent facing so many development challenges and a generalized crisis of the state is, at the very least, questionable.

The Negotiating “Spirit”: Policy and Process in Collision?

THE CURRENT IMPASSE is captured in the title of a useful monograph: “Alternative (to) EPAs”.⁷⁴ The authors identify two broad possible EPA constructs:⁷⁵

1. “Alternative EPAs” – “proposals which diverge from the EU-favoured position on EPAs, but which remain within the framework of a reciprocal free trade agreement in conformity with WTO rules, possibly revised under the Doha Round”;

2. “Alternatives to EPAs” or “proposals that seek to break away from the concept of reciprocity as envisaged in EPAs.”

From the foregoing argument it should be clear that I favour the first option, although I agree with the authors that a revision of GATT Article 24 rules to allow for more flexibilities in RTA agreements is highly unlikely. I also agree with Bilal and Rampa’s assessment⁷⁶ that a combination of greater flexibility with a tailored aid for trade package formally linked to liberalization commitments has the greatest potential to deliver genuine development outcomes. And if the Doha round does conclude with a similarly structured trade facilitation

agreement, then their concerns that such an outcome would be “stiffly” resisted in the WTO would be substantially allayed;⁷⁷ whilst I agree that such a package would be the most politically palatable scenario for arguably the majority of ACP states.

THIS SHOULD BE the broad approach: metaphorically speaking, African EPAs should be Toyotas, rather than Lexus’s. And therein lies the rub(ber): from an African perspective the EU seems to be insisting on a Lexus in the face of widespread African opposition, whilst resisting the aid for trade agenda. “Reciprocity” is perceived as an imposition, in keeping with a long line of previous “impositions” in the form of structural adjustment and donor conditionalities. Aggravating this is a seemingly self-serving discourse within which EC negotiators propound on what African countries need (which may well be correct) and how the EU is best placed to deliver such, whilst refusing to dismantle their systems of agricultural protection (albeit African countries benefit from them)⁷⁸ Unfortunately this discourse, in combination with the perception of EPAs as an instrument of imposition, does not go down well in Africa where colonial memories bubble close to the surface. In Sub-Saharan Africa’s case this dynamic is compounded by the perceived lack of autonomy countries have over their trade strategies owing to donor dependence. The fact that the EU and its member states are the largest donors by some margin, whilst the EC emits confusing signals, renders the EPA negotiating process even more problematic.

COMPOUNDING THIS NEGATIVE negotiating dynamic is the fact that the EU holds almost all the cards: market power (access to the common market); financial power (development assistance); and negotiating muscle. On the other side of the negotiating table the sharpness with which under-development is experienced is a crucial ingredient in understanding Sub-Saharan Africa’s approach to development strategy in general and trade strategy in particular. This underpins a generally negative approach to trade liberalization.

So it is scarcely surprising that Africa is embracing China with such enthusiasm. The Chinese state does not “lecture” African leaders on their development priorities. It does not insist (nor could it) on democracy and good governance (and unfortunately may promote the reverse). It provides pots of money freely and quickly, albeit opaquely. And its state-owned companies have

netted a treasure trove of African resources as they venture where Europeans fear to tread. Last year's China – Africa summit in Beijing, in which African leaders literally queued up to greet Chinese President Hu Jintao in a nauseating display of fealty, rammed the message home to Europe's political elite.

THEREFORE, AT THE end of this year – notwithstanding Mr Mugabe's likely baleful presence – Europe will probably host African leaders in the first Euro – Africa summit in several years. Clearly Europe's diplomatic leadership has recognized the threat China poses to their long-established dominance of African commodity supplies. If they wish to match this on the trade and aid fronts, they would be well advised to pay closer attention to the EPA negotiations. But if the EU is serious about African development, which I believe to be the case, then patience is the critical watchword.

Yet Africans must recognize that they too have to change, especially with regard to governance. Clearly, some African governments are complicit in their countries' own under-development; whilst overall there is a long way to go. Until recently the signs that better governance, or at least the semblance of electoral democracy, could take hold in Sub-Saharan Africa were relatively encouraging. Unfortunately there have been significant reversals recently, notably Ethiopia and more recently Nigeria. And one need not look further than the obvious culprit in my region: Zimbabwe. It will take a long time to get Sub-Saharan Africa onto a sustainable development path, and even then it is likely to be a patchy process. Donor money is ultimately sourced from taxpayers, who are entitled to having their money prudently managed. So it is scarcely surprising that the EC, and the member states that are significant donors, continue to accord governance conditions high priority in their design and disbursement of development assistance.

And Africans must realize that there are significant political constraints in the EU. Whilst it is true that the EU is clearly the dominant partner it, too, needs a successful outcome to these negotiations and will have to be willing to compromise in order to get it.

Finally, for EPAs to be truly developmental EU negotiators should properly tailor and sequence the broad agenda to African capacities. That means concluding the core goods market access deal first, before the end of 2007. Then the complex regulatory agenda should be tackled piecemeal, possibly via revision clauses, in tandem with a targeted resource package. In principle the

EU's recent concession to non-LDC ACP states makes this outcome substantially easier.

The SADC EPA

SO FAR I have dealt with the general framework for EPA negotiations and some of its intricacies from the standpoint of how, in my view, EPAs should be harnessed to support African development. Now I apply this framework to the case of the Southern African Development Community (SADC) EPA negotiations. As will become apparent, all the difficulties highlighted in the analysis above are to be found in this negotiation. I tackle these in three sections: configuration issues, extending to goods market access; the regulatory agenda; and the implications of both for regional economic integration in Southern Africa.

Configuration Conundrums

SOUTHERN AND EASTERN Africa is divided into two EPA negotiations groups not corresponding to Regional Economic Community (REC) boundaries, complicated by the fact that several countries in the region are members of two or more of the "available" RECs (see table 3). In light of the EU's strong desire to negotiate EPAs with coherent RECs, the region unfortunately presents serious complications. This problem is not of the EU's creation, but it is questionable what role the EU is playing in rectifying the situation.⁷⁹ Hence the SADC EPA group currently consists of 8 out of the 14 SADC countries: those of the Southern African Customs Union (SACU) – Botswana, Lesotho, Namibia, Swaziland (BLNS), and South Africa;⁸⁰ plus Mozambique, Angola, and Tanzania (MAT). The remainder are negotiating under the rubric of the Eastern and Southern Africa grouping – which has its own complications.

A number of problems arise from this configuration. First, South Africa has its own trade arrangement with the EU, called the Trade, Development, and Cooperation Agreement (TDCA). According to a recent analysis, it is not a particularly good deal relative to the treatment the EU accords to other developing countries.⁸¹ Furthermore, it de jure excludes its customs union partners, although de facto they are subject to it as most of their trade transits South Africa. This bizarre circumstance arose because the EU, in its mandate to negotiate the TDCA with South Africa, excluded South Africa's

SACU partners. They apparently did so because the BLNS are full ACP members whereas South Africa, owing to its apartheid past and comparably higher level of development,⁸² is not. Regional critics of South Africa argue that South Africa did not push strongly enough for the BLNS to be included in the TDCA. Either way, this is an old wound that seemingly will not heal, and which the EPA process has reignited.

SECOND, SACU – being a customs union – shares an external tariff. This means it is obliged to negotiate all external goods arrangements as a group and to make a common tariff offer. Obviously the TDCA predicament undermines this legal requirement and drives a wedge through the heart of the customs union. It also raises the troubling political issue why South Africa, a new country on the global stage and one deserving of every consideration given its Apartheid past, major development challenges, and central role in the region, was singled out for differential treatment. This reflects many EU member states’ conception of South Africa as a powerful regional hub, perhaps on a par with EU member states.⁸³ This conception resonates strongly in Mediterranean countries and those EU states with strong interests in continued agricultural protection.

As the BLNS were excluded from TDCA negotiations, they understandably want to place their own defensive concerns with respect to goods imports on the table. An analysis by Stevens and Kennan demonstrates that the TDCA does not take account of potential BLNS defensive interests, given that the products they are likely to want to protect are slated for substantial liberalization under the TDCA.⁸⁴ Furthermore, SACU contains a revenue-sharing component whereby South Africa effectively massively subsidizes its partners (Botswana being the least dependent), and the revenue pool is based on tariff collections. This gives the BLNS an incentive to avoid tariff reductions. Together with South Africa’s newfound reluctance to undergo tariff liberalization, the result is a strong defensive constituency.⁸⁵ But the EU officially does not want to countenance tariff increases in the EPA, fearing that this would open Pandora’s box. And some BLNS countries, by preparing unrealistic defensive lists, have reportedly not helped their case.⁸⁶ Hence it is not clear whether or how BLNS defensive concerns could be accommodated.

An additional complication is the presence within the customs union of one LDC: Lesotho. Technically it is not obliged to offer reciprocity, but by virtue of the fact

that it is completely surrounded by South Africa may de facto be obliged to. If it wants to prevent liberalized EU imports from entering its territory it will have to maintain border controls, thereby undermining regional integration. Aggravating this problematic situation is the fact that the EU plans to “differentiate” its tariff offer to South Africa. Depending on what the final content of this offer is, it may oblige Lesotho and South Africa to maintain border controls to police different rules of origin regimes and prevent trade reflection. This logic could also extend to Botswana and Namibia, if the EU’s recent offer to non-LDCs of “EBA-type” market access is realized. This could have the perverse effect of the EU gaining better market access to SACU markets than the members of the customs union have to each other. And as if this weren’t bad enough, the TDCA has its own liberalization schedule and associated rules of origin, whereas the BLNS (and MAT) are entitled to expect their own. If, as seems likely, the TDCA forms the basis of a SADC EPA, then differential sequencing of tariff reduction commitments within SACU may be an issue.

Consequently formulating tariff offers and the associated rules of origin is complex. Logically SACU, under the SADC EPA group umbrella, sought to remedy this problem by requesting the EU to accord South Africa the same market access conditions as the BLNS. This perhaps optimistically included a request for South Africa to be accorded EBA-type access. That would undeniably build SACU as a regional integration arrangement, simultaneously correcting an historic EU blunder and meeting a key stated EC EPA goal. However, it runs aground on the shoals of intra-EU member state politics and interests.

Nonetheless it is worth exploring further. Olympio et al.⁸⁷ argue persuasively that at most 15 product groups may pose a competitive threat to EU producers with most of these being agricultural; and that South Africa’s capacity to respond to new market openings in the EU is in any event minimal. The most serious problems reside in four product categories: sugar, beef, oranges, and fish. South Africa does not have a fisheries accord with the EU, and is unlikely to sign up to one soon, if at all. And the EU is in the process of unilaterally reforming the other sectors under pressure from trading partners, notably with respect to sugar, which is where the most serious political problems arise. In addition to domestic political concerns the EU is also interested in parcelling out market access opportunities amongst its trading partners as its domestic production

of these commodities declines, and therefore argues that South Africa should not be accorded the lions share – an argument for continued differentiation. Finally, BLNS exports of these items have been conducted independently of South Africa for the last three decades under the Lomé and Cotonou accords; therefore differential treatment for South Africa is not only feasible but is the established norm.⁸⁸ Unfortunately, from the time the SADC EPA group submitted its proposal to the EU in March 2006, it took the EU a year to garner an official response. Unsurprisingly, the EU Council has ruled out EBA treatment for South Africa,⁸⁹ and will differentiate its tariff and rules of origin offers.

Yet if the EU's logic is strictly applied, European countries should be accorded differential access to the SACU market based on their level of development.⁹⁰ Notwithstanding the absurdity of their position EU member states are unmoved. It is likely therefore that a SADC EPA will contain differentiation for South Africa in some form with respect to sugar, beef and citrus – possibly more.

As for the MAT countries, they are not SACU members and their tariff regimes differ substantially between them, never mind SACU. Furthermore, they are LDCs and hence not obliged to reciprocate, unless they wish to conclude an EPA. And in Tanzania's case, it is a member of a different customs union: the East African Community (EAC).⁹¹ This bizarre situation is reminiscent of Mercosur in which members have a plethora of their own trade deals independent of their customs union partners. One can only wonder about the EAC's future, and reserve substantial sympathy for exasperated EC negotiators when confronted with this confusion.

Regulatory Riddles

THE SADC GROUP is reluctant to negotiate regulatory issues for four apparent reasons: fear of conceding market access; possible closure of "policy space"; in South Africa's case an in-principle objection to extending regulatory commitments beyond those pertaining in the WTO; and stated lack of common policies or regulations amongst them. In South Africa's case it already has competition policy institutions that function well, and a network of bilateral investment treaties, hence its stake in the broader regulatory agenda is definitely smaller.

Concerning services SADC (the original one with 14 members) has a longstanding if inconclusive process in place to conclude a liberalization package, and through

various protocols there is a substantial degree of regulatory harmonization on paper. Furthermore, some SADC EPA members, notably South Africa, would prefer to harmonize regulations within SACU prior to doing so with respect to an external partner as a matter of principle. Some observers worry that according primacy to regional regulatory harmonization would lock the region into South Africa's high-cost growth model. Others have concluded that South Africa is exploiting the impasse to its advantage. South African negotiators argue that the EC's desire to conclude a regulatory package with South Africa first will entrench regional divisions; whilst the EC's suggestion that development assistance be linked to adoption of the regulatory agenda is a further complication.⁹²

In short, suspicions abound and the SADC EPA group will struggle to negotiate regulatory issues with the EC unless the latter is prepared to sign separate deals with each member state. Yet the regulatory agenda should be pursued, albeit cautiously in some areas, with a view to deepening and locking in domestic and regional reforms. Commitment to negotiate may also unlock the market access puzzle. Furthermore, given the parlous state of the Doha round and hence questionable future of the WTO as an instrument of rule making, I am also sceptical of the position that these issues should only be negotiated in the WTO. First prize would be for regional governments' to unilaterally reform and upgrade their regulations, but given weak capacities and a poor track record this is unlikely. Hence EPAs are a good second-best alternative, albeit the details need to be closely monitored⁹³ and the negotiations appropriately sequenced to African capacities.

South Africa, the EU, and Southern African Regional Integration

WHAT IMPLICATIONS DOES all this hold for the regional integration project? Given SACU's record of longevity, its relative importance to all member states, the fact that it already represents an effectively functioning regional trading arrangement, and that it contains the regions' economic powerhouse in South Africa, it is probable that if a "variable geometry" regional framework does emerge in Southern Africa, SACU will be at the core.

UNDERPINNING THIS is the role that South Africa plays in regional trade. South Africa has the largest and most sophisticated economy in the region, accounting for

about 60 % of all intra-SADC trade and about 70 % of its GDP. It offers a wide range of benefits to the sub-region as most of the countries can procure from it goods and services that previously have been difficult and expensive to procure from abroad. The region is an important destination for South Africa's value-added exports thereby giving it a strong stake in the regional institutional terrain. It also offers these countries a relatively large, diversified market for their exports and significant sources of funding through its regional development banks.⁹⁴ And the fact that South Africa is prepared to underwrite the BLNS countries via the revenue sharing formula, imperfect though it is, is attractive to cash-strapped and donor-dependent states in the region.

HOWEVER, THE PERSISTENT trade imbalance between South Africa and the rest of the region is a major political challenge. And, as shown in Table 2, South Africa's importance as a trade partner to countries in the region – with the exception of Zimbabwe, Zambia, and Malawi – is still dwarfed by the EU, the North American Free Trade Area and China.⁹⁵ In other words, although South Africa is the premier economy in the region, external actors are more important in the trade and, with the exception of the BLNS, aid spheres. Over time this may change, particularly if industrial and broader economic development takes hold in the region, but for the foreseeable future this fact points to a sharp limitation on South Africa's regional influence. It is offset to some extent by South Africa's outward investment into the region, which is clearly playing a critical role in driving economic integration, sometimes despite formal institutional integration arrangements. However, states in the region are generally suspicious of South Africa's intentions and hence unwilling to join an arrangement – SACU – which may create dependencies on South Africa, especially financial (via the revenue-sharing arrangement).

Against possible attempts to “force regional integration” into an EU design, an expanded SACU would consolidate the regional institutional architecture around South Africa, the dominant regional economic power, rather than an EU-inspired design. Expanding SACU would give South Africa and regional exporters' duty free access to each other's markets whilst affording a degree of external protection via a (hopefully liberalized) common external tariff (CET).⁹⁶

However, whilst appealing to proponents of regional political solidarity this argument does not necessar-

ily make economic sense. Its downside is that the region risks becoming locked into South Africa's high cost growth model – a situation that arguably already characterizes the BLNS economies and is a major incentive for them to introduce external competition into their markets including from the EU. In this light SACU's inbuilt compensation mechanism to offset potential industrial relocation to South Africa and ameliorate the ill effects of the CET is important, although this mechanism is as useful as the South African Treasury's pockets are deep. Concerning the EPA negotiations it is important to note that SACU does not depend on EU aid to the extent that other countries and regions on the continent do. This is primarily owing to South Africa's financial support for SACU – a function of its relative economic muscle – and consequent dominant role in Southern African regional economic integration. This lends the SADC EPA a uniqueness not found in any other EPA negotiating group, whilst simultaneously mitigating a major source of tension to be found in those other groups.

Towards a Successful Conclusion?

IN ORDER TO unlock the problems with this negotiation one bargain is central: the EU agreeing to lessen its proposed differentiation of South African goods access to its market; in exchange for South Africa agreeing to negotiate regulatory issues. An EU decision to accord South Africa generous market access would go a long way towards building its political credibility in Southern Africa whilst exposing itself to minimal economic damage, and is therefore in its own political interest. Convincing key member states remains, however, a major political challenge. Furthermore, it is not obvious that those member states have a big stake in maintaining strong political relations with Southern Africa. Consequently the SADC EPA negotiations could end up like the Mercosur – EU negotiations (i.e. dead) with one significant difference: South Africa already has its deal. The question is whether it is enough.

In this light, and for all the reasons outlined above, a South African decision to negotiate regulatory issues would patently be in its own economic self-interest. Like the EC South Africa faces its own domestic political constraints, notably from the labour movement and civil society activists. Nonetheless, such a signal would undoubtedly help those EU member states that want a successful outcome to make their case within the EU, although given EU internal dynamics a successful con-

clusion is obviously not guaranteed. Nonetheless, a win-win bargain is possible. And the protagonists have no time to lose.

Yet positions remain polarized and the prospects for such a bargain unfolding in the tight timeframe required seem unlikely. Not for the first time in trade negotiations sound policy perspectives are being held hostage to mercantilist negotiating logic. So where will this end up? Most likely the MAT countries will part company from SACU and, most likely in the case of Angola, not sign an EPA at all. There has been longstanding speculation that Mozambique will join SACU, but that doesn't seem imminent, whereas Tanzania logically should join its EAC partners in the ESA EPA group. That would leave SACU, and South Africa, to slug it out with the EU in what some commentators call a "rerun of the TDCA."

Conclusion

THIS PAPER SETS out the case for a broad EPA negotiating agenda for Sub-Saharan Africa, suitably tailored to African implementation capacities and sequenced accordingly. Within this reciprocity, particularly in goods, negotiations, so widely derided by many civil society commentators, are supported notwithstanding substantial "wobble room" with respect to the imminent expiration of the ACP waiver. Furthermore, I am in support of explicitly targeting the EU's aid envelope to negotiating outcomes, with the overall result being support to build governance, regulatory and supply-side capacities in order to overcome market access constraints.

This logic was applied to the SADC EPA negotiating group case study, where most of the dynamics – with the exception of EU aid – are to be found. I argued that in order to unlock this negotiation South Africa needs to commit to the regulatory agenda, or at least the services component, in its own economic self-interest. In return the EU needs to stop treating South Africa as a major competitive threat and, in the interests of building regional economic integration, minimize its differential treatment of South African goods.

Finally, I remain optimistic that EPAs could be important development instruments for the ACP group, if correctly harnessed along the lines outlined above. Not to seize this moment would be a significant opportunity foregone; whilst those most negatively affected would be the ACP countries. As usual, it is the poor that will suffer most.

Endnotes

1. I am grateful to Roderick Abbott, Fredrik Erixon, and an anonymous reviewer for useful insights and comments received on an earlier draft.
2. Herbst (2000).
3. See UNCTAD's 2004 LDC report for a thoughtful overview of these problems and how they relate to LDC trading regimes, UNCTAD (2004).
4. For more detail from a South African business perspective, see Games, Dianna (2003).
5. UNCTAD (2005a).
6. UNCTAD (2005b).
7. *Ibid*, P9.
8. *Ibid*.
9. There is also the possibility that large-scale profit repatriation could undermine the balance of payments.
10. UNIDO (2006).
11. *Ibid*, p xii. "Northern" MNCs in general are found to pay higher wages and export more (albeit predominantly natural resources).
12. For an insight into these kinds of problems in the Southern African context, see *SADC Barometer* (2003).
13. WTO (2002).
14. Bonaglia & Fukasuku (2003).
15. See Hale, David (2005); see also Draper, Peter (2004).
16. Of course this aggregate picture requires some nuancing. For example, Kenya is emerging as a regional manufacturing hub for East Africa, exporting increasingly substantial quantities of manufactures to its neighbours. South Africa does not readily fit this bill either.
17. Generating an accurate figure for the whole world's imports from the countries in Table 2, in a way that is consistent across all of them (i.e. from the same reporting data source), is difficult. The following caveats must therefore be borne in mind when interpreting the figures. First, the aggregate figure for "world" imports from these countries is almost certainly lower than the real figure. Cross checking with alternative sources for South Africa's total exports to the world, for example, confirms this. The principle reason for this under-reporting is poorly recorded imports by many other developing countries, including those in Africa. Yet the data for these African countries' exports is no more reliable, but imports recorded by the EU, NAFTA, China, and Japan, are. As such, their shares in total world imports from these African countries are overstated, implying higher geographic concentration than is actually the case. However, this problem applies to all countries in the table, as the same source and methods were used for all of them. Thus the overall pattern or profile is broadly representative.
18. For an interesting political perspective on why big African states tend towards failure, see Ottaway, Herbst & Mills, G (2004).
19. Trade-Related Intellectual Property Rights.
20. Statement to South Africa's National Assembly, September 26th, 2003, p 9.
21. Although South Africa rhetorically supports the Africa group in its primary objective of maintaining preference margins. Ironically, South Africa benefits quite extensively from preferential access to the US, EU, and Japanese markets through GSP arrangements. I thank Chris Stevens for the latter observation.
22. ODI (2007). Their calculations are that 267 exported items would face tariff increases of more than 10 percent ad valorem and/or the imposition of new or increased specific or compound duties, amounting to a revenue transfer to European treasuries of approximately 156 million EUR per year. This would most likely result in relocation of production away from ACP states for some products, particularly of agricultural or processed agricultural goods.
23. See UNCTAD (2005c).
24. *Ibid*, p 4.
25. The ODI paper notes that this may not prevent the erosion of their preferences given that GSP plus is set to be revised and probably expanded in geographical coverage by the end of 2008. Nonetheless, they note that GSP plus access would substantially mitigate the costs associated with loss of Cotonou preferences and hence would be a better option for the ACP.
26. A recent Oxfam report argues that most ACP states have signed up to these conventions and meet the requirement of "vulnerability" in order to qualify for GSP plus access. Oxfam (2007).
27. South Centre (2007).
28. For an insightful review of these issues see Bhagwati (2004).

29. See World Bank (2001), pp 142-149 for a discussion of trade liberalization in this respect.
30. African markets are extremely small hence I am not convinced of this, but the notion retains strong political support in the continent.
31. Naumann E (2005). This applies particularly to clothing and textiles which are subject to a double-transformation rule thereby preventing third country sourcing; and the fisheries sector where only specified products, wholly obtained and caught in either home country or EU vessels qualify for the preference.
32. Stevens, C (2006).
33. Naumann, op cit, p 5.
34. It is clear that this conditionality will extend to services and other aspects of the regulatory agenda. It is not clear what quota arrangements will apply to agricultural goods, although the Commission has stated that sugar will be subject to a transitional regime to expire in 2015 and has noted that rice and bananas will be subject to transitional arrangements too. Nor is it clear whether non-LDCs will sign up to the regulatory agenda.
35. Chang (2002).
36. This has given rise to a host of security issues pertaining to customs' management of trade flows. See for example Khumalo (2005).
37. See the excellent survey of African infrastructure needs in the *Financial Times* (2006).
38. For a detailed exposition of such measures see World Bank (2004).
39. For a useful overview of these problems and potential solutions, see Global Coalition for Africa (2001/2).
40. See Peterson (2006).
41. Christian Aid (2006), p 10.
42. Vis-Dunbar (2007), p 4.
43. Szepesi (2004a).
44. According to the EU's Director General of Development, Stefano Manservisi, Europe (member states and the EC) disburse approximately 55 percent of global development assistance, a proportion he expects to increase in light of declining contributions elsewhere versus European commitments to increase ODA disbursements to 0,7 percent of GDP. This would see current levels of approximately 40 billion EUR increase to approximately 60 billion EUR by 2015. This is taken from remarks he made at a roundtable at the South African Institute of International Affairs, Johannesburg, South Africa, March 27th, 2007. According to the homepage of the EU Strategy for Africa, available at www.europe-cares.org/africa/, of this approximately US\$14 billion went to sub-Saharan Africa, a figure, which is set to increase to US\$24 billion by 2010.
45. Bauer (2000), chapter 5.
46. McKinley (2007).
47. Renzio (2007).
48. OECD (2005). This requires that recipient countries should take ownership of the development assistance being offered to them by identifying their own priorities.
49. The following discussion is based on Anderson (2007).
50. Ibid.
51. Manservisi (2007), op cit.
52. In addition to the programme funds for the 10th EDF, amounting to 22 billion EUR, 2 billion EUR has apparently been made available to support aid for trade projects. Whilst it is difficult to find any references to this on the EC development website, this was confirmed to the author in private discussions with South African and EC officials.
53. Bounds (2006).
54. *Bridges Weekly Trade News Digest* (2006).
55. Beattie (2006).
56. Fleming (2006).
57. Silva & Grynberg (nd).
58. Beattie (2006), op cit.
59. Mandelson & Michel (2006).
60. Unfortunately time constraints prevent a detailed country-specific analysis.
61. A caveat is necessary here. Nobody knows how much informal and unrecorded trade takes place across national borders. Partly this is because borders are not firmly under control, whilst there is also an undeniable element of corruption at play.
62. For an exposition of this logic see World Bank (2000), pp 51-61.
63. This process was a substantial factor behind the unravelling of the original East African Community, as Kenya attracted manufacturing investment and relocation at the expense of Uganda and Tanzania. It also partly explains why South Africa continues to "compensate" its customs union partners for their membership of SACU.
64. The accession of relatively poor countries into the

- European Union in various waves provides strong evidence of such convergence effects.
65. For a very perceptive analysis outlining the opportunities and dangers for Africa posed by EPAs see Szepesi S (2004b).
 66. I thank Chris Stevens for this insight.
 67. All the available empirical evidence points in the opposite direction: levels of intra-regional trade remain very low in all major RECs in Africa, not exceeding 10 percent in any case.
 68. Millenium Project (2005).
 69. For an exposition of this argument see Mbeki M (2004)..
 70. See Draper, Halleson & Alves (2007).
 71. Although COMESA does seem to be converging with the EAC in respect of common tariff bands: 0, 10, and 25 percent.
 72. This was neither confirmed nor denied by Mr Manservisi at the SAIIA roundtable referred to above.
 73. Mr Manservisi stated that the EU is “consciously projecting” its model, but not exporting it. It is not clear to me what the difference may be.
 74. Bilal & Rampa (2006).
 75. Ibid, p 108.
 76. Ibid, p 109.
 77. Ibid.
 78. The author has personal experience of this, having traded views with a number of senior DG Trade diplomats on a variety of platforms, in addition to hosting many discussions on EPAs in which senior EU officials (from DG Trade and DG Development) have been closely involved.
 79. There is widespread anecdotal evidence, some from very senior sources, of EU pressure on various countries to leave this or that grouping and join another group. As the EC provides the bulk of donor funds to support the RECs, it is in a position of substantial leverage. Unfortunately this feeds the negative perceptions of EU motivations prevalent in civil society and some governments.
 80. Until recently South Africa was an observer.
 81. François et al (2005), pp 1545-1565.
 82. From discussions with several representatives on the 133 committee it is my considered opinion that South Africa is regarded as a major competitive threat, on a par with the BRICs. This is a strange view, not in accordance with economic reality.
 83. This is affirmed by the EU’s recent offer to establish a strategic partnership with South Africa, similar to what it has extended to Brazil and India for example. South Africa’s regional partners are excluded – a circumstance that has contributed to regional tensions.
 84. Stevens & Kennan (2006).
 85. Draper & Sally (2006).
 86. Discussions with several officials involved in SADC EPA group negotiations.
 87. Olympio, Robinson & Cocks (2006).
 88. Stevens & Kennan (2006), op cit, p 86.
 89. According to a senior EC official involved in the March 2007 Gaborone meeting between the SADC EPA group and the EU, the EU may be prepared to consider according South Africa EBA access provided it signs up to the regulatory agenda. South African negotiators regard this as an inappropriate exchange of concessions.
 90. Less for Spain, more for Lithuania, for example?
 91. The other founder members are Kenya and Uganda; Rwanda and Burundi acceded in 2006.
 92. Discussions with officials involved in the March 2007 Gaborone meeting, subsequently confirmed by DG (Development) Manservisi at a SAIIA roundtable, March 27th. He draws a distinction between “conditionality” and a “factual” linkage between negotiated outcomes and development support, arguing that only once the package is in place can funds to support implementation be allocated.
 93. Some also argue that if the EU’s primary concern is African development, then it should not link regulatory reforms to market access for its companies. As discussed above I think market access is a mutually beneficial objective.
 94. The Southern African Development Bank and the Industrial Development Corporation.
 95. I take it for granted that the BLNS depend on South Africa for imports, although the extent of their export linkages with South Africa is less clear.
 96. The SACU CET is complex and still retains significant tariff peaks, compared to other countries and groupings in the region.

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