The geopolitics of EU trade policy and implications for East Africa

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Abstract

The global financial and economic realities of 2015 are expansively different from a decade ago especially after the added triple crises of energy, food and finance in 2007/2008. Additionally, the swift rise of the Brazil, Russia, India, China, South Africa (BRICS) and other emergent economies has consequently affected the way in which European Union (EU) trade policy operates today. The prediction that in just over two decades 90% of the world's growth will come outside the EU lays further emphasis on the new realities. The East African Community (EAC) provides undeniable evidence of the evolving EU trade policy and its implications are already present particularly after conclusion of the EAC–EU Economic Partnership Agreements in October 2014. In this paper, I explore the implications of the new EU trade direction on the policy and regulatory framework for East Africa and the likely consequences for growth and development.

Background

The African, Caribbean and Pacific (ACP) – European Union (EU) have enjoyed a remarkable relationship over time but in the last two decades the rapidly expanding global agenda has had a major ACP – EU relations. The significant alteration in relations has been brought about by the growing intensity of the relationship between individual ACP countries and emerging players such as China, India and Brazil (as well as Venezuela, in the Caribbean) among others. This budding relationship has also seen growing political engagement and strengthened economic and strategic ties between emerging economies and Africa and has in effect dented the privileged ACP-EU partnership. The spectacular economic growth and development of these emerging players over the last two decades definitely serves as a source of inspiration for African, Caribbean and Pacific countries but on the other hand throws a gauntlet at the feet of the EU.

The relationship between ACP countries and these emerging players is not new but what is striking is the ever-growing engagement of these emerging economies in individual ACP countries. This is changing the landscape for development, providing significant new opportunities for ACP countries in terms of trade, investment, increased development aid and technical assistance. While the EU is still by far the major trading partner with ACP countries, China, India and Brazil have substantially increased their share in recent years.

To understand these dynamics, we must consider the following questions; why is the EU striving to conclude an asymmetrical FTA with former colonies? Why has there been an attack on trade and trade related policy making in EAC States? It should be understood that the current increasing relationship between EAC and BRICS is moved by vested interests of the latter in the former's resources. This is subsequently driving the EU to tighten her relationship with the EAC in order not to "miss out" on her share of EAC's resources but also retain a geopolitical advantage over her rivals in all quadrants.

BRICS in Africa and the Shift in the South – South relations

As Chris Alden (2007) rightly notes, traditional Western Actors are finding that their once undisputed influence and dominance of Africa is being challenged by emerging economies. While South-South alliances have been once fundamentally ideological, political and radical since early cooperation, today observers note that the key elements may perhaps be described as policy "pragmatism" which perhaps is a spring-board for extra footing and more effective South-South development ties. South-South rhetoric is still alive and well today, the element and potential relations among developing countries have changed dramatically in a global economic context where global power is shifting East and South. Trade between BRICS countries has increased up to about 70 percent since the group was established in 2009.The economies of the five BRICS nations account for almost 30 percent of global Gross Domestic Product (GDP). BRICS presents an aggregate GDP exceeding $32 trillion. BRICS countries produce a third of the world's industrial products and half of all agricultural goods. They attracted 20.5 percent of total global direct investment in 2014, an increase of 3.5 percent over 5 years.

According to the African Union (AU) reports, the Brazil, Russia, India, China and South Africa are now Africa's principal trading partner with trade expected to reach more than US $500 billion by 2015, with China's trade alone taking up a 60% share. The BRICS are also becoming significant investors in Africa, especially in the manufacturing and service sectors. With respect to foreign direct investment, BRICS countries have strengthened their presence on the continent compared with traditional partners, such as the U.S. and Europe. In 2010, for example, the BRICS' share in Foreign Direct Investment (FDI) inward stock and FDI inflows to Africa reached 14 per cent and 25 per cent, respectively. The share of BRICS countries in the total value of African Greenfield projects reached 25 per cent in 2012 compared with 19 per cent in 2003. Trade between the BRICS and Africa rose to as much as US $340 billion in 2012 –10 times higher than the value recorded in 2002. Currently, the BRICS trade more with Africa than they do among themselves.

The stalling of Global Trade Talks

Despite the progress that has been achieved by the World Trade Organisation (WTO) in some areas like the adoption of the Trade Facilitation Agreement at the 9th WTO Ministerial Conference and the proclaimed "development package" of the 10th WTO Ministerial Conference, the reality is that global trade talks have stalled and the WTO is still faced with the immense challenge of achieving negotiation balance. Actually, critics argue that the negotiating arm of the WTO is virtually broken, especially given the fact that the Organisation is yet to achieve negotiation balance. In her Global Trade Strategy 2020, the EU reiterates that the Doha Round remains her top priority, however, the practice by the EU and U.S has proven diverse. After14 years of negotiations, the Doha Round has witnessed stalemates rising from major differences regarding failure to come up with amicable solutions in agriculture, market access for industrial goods, opening in the services sector especially between developed and developing countries.

The emergence of the G20 including Brazil, China, India, South Africa among others offset the ability of major powers to solely determine the WTO negotiation agenda in the organization's green room. This shift in the balance of power has created 'negotiations headache' in the 14 years of the Doha Development Round and thus so called developed countries have been pressed to seek other alternatives as they deemed the WTO "too slow" and 'too democratic". Consequently, the European Union and the United States have over the last decade aggressively entered into negotiations for bilateral and plurilateral trading arrangements including mega-regionals such as Trans-Atlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TTP)that are now set to define and tilt the global trade agenda. This phenomenon presents a new set of challenges for the WTO, the Doha Development Round and the future of multilateralism.

These unraveling geo-political standoffs present new challenges for 'developing' countries particularly those in Africa. The Nairobi MC 10 acted as a spring board to introduction of new issues and the abandoning of the "development" round of Doha (Donnan 2015). Thus, while the stalemate facing the WTO might have been ended by the Nairobi MC, abandoning of the Doha Round is likely to hurt the EAC more, given the fact that the round tackled issues critical to her development. Nonetheless, Donnan (2015) argues that the lack of a clear workplan on the conclusion of the Doha Round and conclusion of the Information Technology Agreement, and agreement to introduce new issues relevant to the 21st century is in line with the geopolitics of the trade policies of developed blocs like the EU. This is clarified in her 2020 Global Trade Strategy; *"What will make a bigger difference is market access for services and investment …., better agreements on and…….. unrestricted supply of raw materials and energy, and, not in the least, overcoming regulatory barriers including via the promotion of international standards".* Whatever visible effects of abandoning of the Doha Round in favor of key negotiations in areas more relevant to players like the EU, the EAC stands to be affected.

Alternative financing through emerging economies

According to the BRICS countries, the aftermath of the global financial crisis was pivotal in the five country cooperation as the countries have since 2008 worked closely to reduce their vulnerability to external financing. The outcome of the economic and financial crisis has seen the launch of a New Development Bank that combines features of the World Bank and International Monetary Fund (IMF). Additionally, China has proposed an Asian Infrastructure Investment Bank (AIIB) that could compete with the Asian Development Bank (ADB).

According to analysts, these initiatives represent the first serious institutional challenge to the global economic order established at Bretton Woods 70 years ago. The consciousness behind these institutions seems to counter advanced countries who have damaged their own credibility as responsible economic stakeholders in recent years and have failed to fully accommodate the rise of the new powers.

Increasingly, BRICS countries have become significant players in development aid to Africa. In addition to concessionary and soft loans, lines of credit and grants, the BRICs, and especially China, are providing project aid to expand and improve Africa's infrastructure. At the Forum on China-Africa Cooperation Summit held in Johannesburg, South Africa in 2015, China's President Xi Jinping pledged to fund $60 billion to ensure the success of the African Development Plan[1]. In addition to high-level military interactions, China has continued to provide significant amounts of tangible military assistance to Africa, from small-arms and officer training to aircraft and infrastructure development. These new possibilities for alternative financing for developed countries has caused serious ripples in global economic governance despite the EU being a major donor to Sub-Saharan Africa.

[1] In his speech, China's President Xi Jinping pledged that China will provide a total of $60 billion of funding support that includes $5 billon of grants in zero interest loans, and $35 billon in preferential facility and export credit loans and concessional loans. Accessed on: www.trtworld.com/asia/china-promises-to-give-60-billion-for-development-in-africa-12139

Objectives of EU geopolitics in East Africa

EPAs as a geopolitical tool

The EU and African, Caribbean and Pacific (ACP) States (to be more precise, her former colonies) embarked on a process of reforming their trade relationship to make it compatible to the WTO rules. In late 2002, the EU and ACP States started the process of negotiating new trade in ACP–EU relations given the ambitious liberalisation agenda entailed in the new proposed agreements also known as the Economic Partnership Agreements (EPAs) which would put an end to the trade regime in place under the preceding Lomé Conventions. The EPAs mark a new radical shift in EU trade policy as the EPAs demand reciprocity from some of the poorest countries and lock in many policy reforms undertaken under the World Bank/International Monetary Fund Structural Adjustment Programmes.

It is clear that some of the contentious Clauses in the EPAs were designed to wade off the influence of emerging countries in East Africa. Question is, why the EU will not conclude any trade and investment agreement without an MFN[2] Clause even when visible asymmetries exist. For the EAC, the Most Favoured Nation Clause (article 16) curves out Africa's resources and markets for the EU in line with EU's Global Europe Strategy and circumscribes the regions other external trade relations. Were East African countries have to enter into a better arrangement with other emerging developing countries such as China (8.2 percent of world merchandise exports), Brazil (1.14) and India (1.00) and with the MERCOSUR group (Argentina, Brazil, Paraguay and Uruguay, 1.53 percent), they would be obligated offer the same terms to the EU. The net effect of the clause is that the EAC will be undermining the prospects of south to south trade which it is aspiring, and struggling to promote. Furthermore, it makes it difficult for the EAC countries to get Duty Free Quota Free market access from other developing countries. In addition, the clause is contrary to the spirit of the WTO's Enabling Clause that promotes Special and Differential Treatment for developing countries and South- South cooperation.

21st Century Issues and the setting of global standards

The EU has been insistent for a multilateral agreement on the Singapore Issues i.e. government procurement, investment, trade facilitation, and competition policy. While most developing nations remain unconvinced of the necessity or value of negotiating multilateral rules on these issues, the EU maintains that they are fundamental to the sound functioning of global trade. It insists that all WTO members would benefit greatly from a multilateral framework for the issues. The EU 2020 Global Trade Strategy clearly states; "*What will make a bigger difference is market access for services and investment, opening public procurement, better agreements on and enforcement of protection of IPR, unrestricted supply of raw materials and energy, and, not in the least, overcoming regulatory barriers including via the promotion of international standards*". Consequently in the concluded EU- EAC EPA (Rendezvous Clause), the parties have agreed to negotiate (a) Trade in services; (b) Trade related issues namely: Competition policy, Investment and private sector development, Trade, environment and sustainable development; Intellectual property rights; (v) Transparency in public procurement; which developing countries including the EAC have vigorously rejected.

[2] MFN Clause is an agreement between two parties that each will extend to the other trading terms at least as good as those given to a third country. However the application of this principle has exceptions in the World Trade Organisation.

As already discussed earlier, the TTIP provides the EU a platform to circumvent the WTO and set new global standards particularly for the 21st century issues therefore the TTIP will feature unquestionably more elaborate and encompassing rules and regulations that the capacity and resource-constrained SSA countries will find hard to comply with. Sadly, all EAC countries have over the last decade struggled to reform their Intellectual Property (IP) legislation essentially to protect EU and US IP at the detriment of food sovereignty, industrialization and indigenous innovation. The ongoing trends to further tighten global rules can only be described as 'disastrous' to the EAC.

Conclusions

According to Herfkens (2014), much less consideration has been given to the impact of the TTIP on third countries and the global trading system. Therefore, the EAC should critically follow new global trade trends as poor non-members, currently enjoying preferences with the EU will see their preferential margins erode if the TTIP is concluded in its current text, as overall levels of protection are reduced. This is because preferential trade agreements (PTAs) like the TTIP discriminate against non-participants, as they may divert trade from cheaper non-member to more expensive member sources, and subsequently result into global trade diversion. This global trade diversion is likely to have negative consequences for GDP growth potential in low income countries. For example, it is expected that this could result into real GDP decline in Latin America (-2.8%) and Sub-Saharan Africa (-2.1%).

The highly concentrated nature of exports from Sub-Saharan Africa (SSA) implies that the erosion of preferences in a small set of specific product categories (textiles, clothing and footwear and specific agricultural products such as fish, bananas and sugar) can have important negative consequences for these countries. Analysts are concerned that more rigorous standards might be more difficult to comply with or even lock out SSA exporters. For example, more advanced intellectual property rules might affect the introduction and production of generic drugs and their supplies to SSA. The Bertelsmann report suggests that the poorer countries would suffer, particularly Africa, as their exports to Europe would be pushed out by goods from the United States. African countries will also be among the largest net losers from reduction in non-tariff barriers if the TTIP succeeds in creating "deep liberalization." Therefore the EAC should take a keen interest in studying the likely effects of such "Mega Regionals' on their economies and pursue all available flexibilities within the WTO to guard against the expected impacts of such agreements.

While the BRICS are opening up opportunities for Africa to diversify its trading partners in new markets and to forge new mutually beneficial partnerships, these opportunities come with major challenges. Observers in East Africa note that the recent attention on Africa by the BRICS is not solely based on a philanthropic goal to improve the economic well-being of Africans. Rather, BRICS countries are trying to maximize their own strategic economic and political interests by engaging with African countries. Therefore, African policymakers must also be strategic in dealing with BRICS countries just as they should be with other foreign partners. One issue that requires careful attention and management from African policymakers is natural resource exploitation contracts. There are growing concerns over the lack of transparency in the signing of these contracts with the BRICS. In some cases, BRICS countries seem unconcerned with corruption and may even be contributing to the survival unaccountable regimes. Therefore, African nations maintain and subject the BRICS to accepted accountability restraints in all cooperation especially with regard to the exploitation of natural resources.

It is therefore important that the EAC's relationship with the most aggressive trade and investment partners like the EU does not compromise her development prospects, but rather, compliments these prospects. On the other hand, the EAC has adopted a Vision 2050 and developed attendant 5 year development strategies to set the stage for regional socio-economic transformation and development. The Vision 2050 lays out a broad East Africa's perspectives in which the region optimizes the utility of its resources to narrow the gap in terms of social wellbeing and productivity. The initiatives further portray a future for East Africa of individual prosperity in cohesive societies, competitive economies, and strong interregional interaction. Therefore, the relationship between the EAC and the EU should build on the development pillars envisioned by the EAC Vision 2050 and should complement it.

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