

## **The future of regional economic integration in the context of European– African trade relations – overcoming paradoxical patterns**

### **Summary Report**

*The expert dialogue was held under Chatham House Rule: "When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed."*

The meeting diverted from the traditional conference format differentiating between speakers and audience. Every participant played a role as both a knowledge donor and knowledge beneficiary and actively engaged in a stimulating, open and productive discussion. The Rosa Luxemburg Stiftung and its organising partners contributed to framing the broad thematic areas and specific issues for discussion. Conceptually, the conference was based on creating a deeper understanding of ongoing changes in world trade relations and their impact on Africa's regional economic integration and structural transformation.

The conference brought together participants from the European Union Parliament, East African Legislative Assembly, East African Community (EAC) Secretariat and Members from national Parliaments in the five EAC Partner states. Participants were also drawn from civil society, trade unions, academia and across the EAC and Southern Africa Development Community (SADC) region, Europe and the United States.

The meeting was structured around four sessions: a) State of play of the Economic Partnership Agreements (EPA) between African Caribbean and Pacific Countries (ACP-Countries) and the European Union (EU); b) "One size does not fit all"-approach: chances, opportunities of, and impediments to regional integration in East Africa, c) Different perspectives on sustainable development: an approximation, d) discussion of strategic options.

### **Setting the stage: bridging diverse perspectives**

The landscape of global trade is undergoing serious changes which have been caused or accelerated to a large extent by the financial crisis of 2008 and its continued unraveling impacts on trade. Changes of global production patterns led to the emergence of production networks around the world. Global value chains (GVCs) have essentially changed the traditional concept of complete manufacturing processes being undertaken in a single location. Furthermore, the expansion of services in line with the emergence of new actors and the nation-state being challenged in redefining its role in shaping framework conditions also contributed to the changing spectrum of global trade. But most importantly

in the last decade, the rise of mega-regionals i.e. the Transatlantic Trade and Investment Partnership (TTIP) and the Trans Pacific Partnership (TPP) start to have consequences for the international trading system particularly in the WTO-framework.

With the Cotonou Agreement and the adoption of the Agenda 2030 for Sustainable Development the international community aims for more policy coordination and a more normative approach with regard to non-trade issues, such as sustainability, decent work conditions amongst others. However, there is still lack of understanding on all sides how trade and trade regulations might impact on long-term development aspirations of underdeveloped regions. Though points were made of how African countries might use GVCs to become integrated into the world economy without necessarily developing the full range of upward production capabilities. Arguments arose that Africa is at the lower end of these GVCs and is seriously endangered to be replaced by competitors from regions or countries. That is why the development impetus has to be on the creation of regional value circles instead of externally controlled GVCs.

Recollecting the aspirations of the Lagos Plan of Action, regional integration has been regarded for a long time already as an imperative in order to break the legacy of colonialism, and to build more effective, and more competitive blocks by taking stock on comparative advantages within the regions. Although, Regional Economic Communities (RECs) such as the Common Market for East and Southern Africa (COMESA), the Southern Africa Development Community (SADC), the Economic Community for West African States (ECOWAS), and the EAC are meant to serve as building blocks to regional integration the process still lacks consensus on vision, strategy, framework, and particularly political commitment. In addition, civil strife, armed conflicts, governance deficits, but also worsening terms of trade, and de-industrialization continue to inhibit these aspirations. Reflections were made on the assurance that EPAs would be instruments for development and supporting the existing regional integration initiatives in the ACP-States and not compromise them. Meeting participants echoed that the EPAs-processes have so far only been market access negotiations negating the development objectives that have been set out. In fact, they argued that EPAs had further fragmented ACP-States with various negotiating configurations forming or breaking up regional entities. It was argued that in this perspective, the EPAs or any other trade relationship should respond to and consolidate regional integration efforts, structural transformation with regard to long-term sustainable development, including decent employment, and value addition.

### **State of play of the EAC-EU-EPA**

In October 2014 the EAC and the EU concluded the EPA negotiations. Given the fact that the negotiations on the content of an EPA had been concluded, the process of ratification of the document by the national parliaments of the EAC-member-states seemed to be a mere formal procedure. As the deadline grew closer, Tanzania objected to signing the agreement citing the impact of BREXIT in addition to other concerns particularly over protection of local industries. In a twist of events, Kenya and Rwanda signed the comprehensive EPA in Brussels on September 1<sup>st</sup> 2016 in the hindsight of the introduction of Market Access Regulation MAR 1528/2007 and Regulation 1076/2016 intended to withdraw preferences from countries which had not concluded an EPA by October 1<sup>st</sup> 2016. In this case Kenya, the only non-LDC in EAC would have (eventually) lost her preferential access to the EU market.

However, following the extension of the deadline to the 1<sup>st</sup> of February 2017 by the European Parliament (EP) Uganda and Tanzania decided to postpone the decision whether to sign or not to sign by four months. Thus the EAC-EU-EPA is still pending and given the growing demands to renegotiate several parts of the agreement it is quite unclear currently whether it is going to be signed at all.

Different views were raised with regard to tangible, intangible and visible elements of the EPAs. Should an EPA be appreciated as it strengthens predictability to investors/private sector and fosters non-unilateral approaches? In addition, the EAC-EU-EPA in comparison to other EU trade arrangements offers longer liberalization phases, less-stringent Rules of Origin, duty and quota free provisions that are nonexistent in other trade agreements that the EU has concluded. But the manners the EU Commission has chosen in negotiating trade agreements with partnering countries was preventing a careful and deeper analysis of the possible impacts of the EPA across all sectors. What has been done in this regard by research institutions and civil society actors shows so far the need to design mitigation measures to combat predicted revenue losses and to encourage investment in technological and institutional capacity building for sustainable development and regional integration both in the short and long term. These insights have been related several times to the negotiators and decision makers.

Regarding the consequences of BREXIT, it might substantially reduce the value of the market access offered by the EPA, especially for countries who have the UK as their main European export destination. Some experts disputed the importance of duty free quota free market access citing that despite five successive Lome Conventions the share of Africa's trade to the EU did not improve due to mainly a lack of investment in supply side measures coupled with stringent Sanitary and Phyto-Sanitary (SPS) measures, and preference erosion – as the EU continues to sign Free Trade Agreements (FTAs) with other regions among others.

Notable for the EPAs, concerns were raised that the Rendezvous Clause commits the EAC to negotiate and conclude within five years negotiations on services, investment, government procurement, trade and sustainable development, intellectual property rights and competition policy. This unprecedented commitment (which forms part of the ratified agreement) is neither required by the Cotonou Agreement nor for WTO-compatibility.

### **Chances, opportunities of, and impediments to regional integration in East Africa**

African countries are facing the daunting challenges of creating more vibrant and dynamic economies to address unemployment, particularly as regards Africa's young and growing population. However, Africa's intra-regional trade has consistently remained marginal in relation with its inter-continental trade. Though efforts have been made for a Continental Free Trade Area (CFTA), many initiatives and decades of experimentation with integration in Africa have not brought about any significant levels in Regional Economic Communities and intra-African trade. Governments have fragmented and incoherent stances on trade and development across the African continent and hence their own ability is very limited to forge ahead and design policies that can address the fundamental issues of developmental transformations to respond to needs of Africa's populace. To change this, harmonizing laws and regulations still is a prerequisite to liberalizing regional markets and – as long as fragmentation, barriers and different levels of commitment towards regionalization

amongst countries are existing – might negatively affect economies of individual countries in case the EPAs were being implemented. However, given these facts the new debate about CFTA as a response to TIPP and TPP lacks seriousness because it is by far out of touch with reality.

In the recent past Africa has concluded various Bilateral Investment Treaties (BITs) as a prerequisite for opening up to investment from countries like China and Turkey. For African countries the expectation was that these treaties would result into increased investment flows accompanied by technology and skills transfer, increased employment and structural transformation. Up to now these BITs did not live up to the high expectations associated with them.

Re-thinking Africa's regional integration model should focus on addressing the challenges to production, which is at the heart of structural transformation, building value chains within the region and critically reflect on the impact of the current model that is based on liberalising tariffs in the first place. A shift from capital to the people as the beneficiaries and implementers of any trade arrangement is overdue. In addition, providing finance to small and medium enterprises and start-ups to operate nationally and regionally should become a business case for the financial sector and the responsibility of the State. Participants agreed that structural transformation is central to meeting the numerous operational deficits the continent is facing. Reference was made to the Agenda 2063 of the African Union which has made commitments to facilitate structural transformation. However, these aspirations must be backed up with institutional and capacity building, people-centered development, identifying offensive and defensive interests if they are to be met. But the core issue is political will and long-term commitment to these ambitious aims.

### **Sustainable development and trade agreements**

The Agenda 2030 for Sustainable Development (adopted by the UN-Assembly in 2015) is seen as a challenge and a great chance at the same time. This is especially due to the fact that this time the adjustments are not only with the so-called underdeveloped countries but also with the affluent countries in the North-West who are particularly responsible for the current dramatic global environmental and social situation. As trade can have serious effects on the economy, employment, decent work, social cohesion, and the environment, including policy development and regulatory aspects policy coordination is crucial. Although the EU is obliged to mainstreaming sustainability with its economic, social and environmental aspects in all relevant policies as a basic objective set out in the Treaty on the European Union, both as regards the EU's internal policies and external action, implementation still lacks behind.

However, the EU proposal on Clauses regarding Trade, Environment and Sustainable Development (TESD) in its trade agreements includes commitments to develop measures on environmental issues, social issues as well as labour standards that the ACP-Countries for example are not ready for. The EU through this proposal is also adding more pressure to the ACP-States adding that EU Parliament will not ratify trade agreements without provisions on TESP included. However, some argued that as long as sustainable development is not mainstreamed within trade agreements but annexed as a non-binding measure to the treaty, implications for the EAC might be not far-reaching enough. Different perspectives were exchanged as to the core agency implementing sustainable development,

while some turned to the mandated international bodies such as the International Labour Organisation (ILO) as being responsible to address sustainable development, others referred to the effect on trade agreements on the constitutional functioning of societies including setting and developing standards, market access, and financial market regulations.

## **Perspectives**

Under the current dispensation that the dead-line for the ratification of the EAC-EU-EPA has been shifted to February 2017 and the fact that in only four years the current (Cotonou) Agreement between the EU and the ACP-Countries will expire there are a whole number of short, mid and long term challenges.

In the short term civil society activists and trade experts will aim at starting a new campaign in order to prevent the EAC-member-states that have not yet done so from signing the EPA. To achieve this would, however, require triggering a true mass mobilization that could put sufficient pressure on the respective governments. To support this campaigning some research institutions like in particular the South Centre and SEATINI have provided useful analytical materials. However, evidence based decision making requires further studies in/compilation of the different interests and possible impacts of EPA on different sectors of society, such as business, trading, rural or urban areas, and the region. This is not to say that current political decision-making is lacking analytical insights. To the contrary, politicians often take decisions despite that they could know very well the possible negative consequences.

The mid-term perspective depends mainly on the fate of the current EPA. If the agreement is to be put into force, trade experts, civil society and parliamentarians will have to focus on the negotiations of the issues which have been deposited in the Rendezvous Clause. In case the current EPA is not been set into force due to non-ratification by all EAC-members, re-negotiations of the current draft might start soon. However there might also be a period of non-communication on trade issues between the EU and the EAC.

In the long term the ACP-Countries will have to negotiate a post-Cotonou Agreement. Since the current accord will fate-out in 2020 the first preparations for this important process will have to start in two to three years. It would be important for a post-Cotonou-agreement to put economic issues (and trade in particular) into an overall context of sustainable development, social minimum standards and regional integration. Civil society activists, parliamentarians and researchers from Europe and Africa and from other angles of the world will have to play a crucial role to achieve this noble objective.

In regard to the developments in the Multilateral Trading System, the proliferation of Mega Regional Trade Agreements (MRTAs), may open-up new areas such as the Singapore issues which developing countries so far rejected at the WTO. There was agreement that this could ultimately weaken the multilateral trading system at this time when the Doha Round remains in limbo with the risk of detriment to protect developing countries against binding rules created outside the WTO.

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