# 16 Economic Partnership Agreements as central pillar of a Comprehensive Africa-Europe Alliance

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Trade is undoubtedly playing a major role in shaping the world today from an economic and political point of view. Many countries, especially emerging markets in the developing world, are increasingly looking towards strengthening international trade to achieve their development objectives and promote regional integration. By doing so, these countries are paving the way to benefiting from an ever-changing global economy. The United Nations' 2030 Agenda for Sustainable Development recognises international trade as an engine for inclusive economic growth and poverty reduction. Particularly the 17th Sustainable Development Goal recognizes trade as a cross-cutting means of implementing the entirety of the 2030 agenda. For the European Union (EU) with its Single Market, intra-continental and overseas trade and investment have been instrumental to growth and prosperity over the last few decades. It has created jobs and generated income for people, giving businesses and consumers access to a wide range of high-quality goods and services at more competitive prices.

The EU has been committed to economic and political integration not only within Europe, but with other parts of the world. Of all the regions of the world with developmental needs, the EU has taken a keener interest in the African continent in recent years. Africa is regarded by many development experts as "the continent of the future" by virtue of its immense potential (e.g. wealth of natural resources, a young population, a rising middle class) for economic growth. Because of its proximity to Europe, Africa can be a privileged partner if both sides manage to transform current challenges into win-win solutions.

Over the years, African countries have collectively made notable progress in improving key development indicators, and several have now achieved the status of a middle-income economy. For Africa to achieve its full potential however, it needs to greatly improve on its current socio-economic status. Trade policy will be crucial for tapping on the region's potential and Europe can support these efforts with its large, highly demanding market and investment flows.

Whilst assistance from the EU to Africa in the past has mainly come through development aid, the focus of EU policies has recently shifted towards trade and investment. This move has been fuelled by the understanding that the massive investments, necessary to achieve the sustainable development goals, can only be set free if the private sector is at the centre of the efforts. It has also been encouraged by results worldwide, wherein a significant increase in developing country participation in global value chains has coincided with an equally sharp decline in extreme poverty. In this way, trade has helped increase the number and quality of jobs in developing countries, stimulated economic growth, and driven productivity increases.

## Economic Partnership Agreements: instruments of development

The insight that open trade and regional integration would help developing countries to leverage global production networks for their development was already behind the paradigm shift in the EU's relations with the African, Caribbean and Pacific (ACP) group of countries that occurred in 2000 with the signature of the Cotonou Agreement. The agreement phased out the WTO incompatible Lomé regime[1] for ACP countries and foresaw the negotiation of six[2] asymmetrically reciprocal Economic Partnership Agreements (EPAs) based on pre-existing economic communities in the ACP region.

However, almost 20 years down the road, the negotiations have delivered limited results in Africa: while 14 African countries are currently applying an EPA, only one out of five African EPAs has really been implemented on a regional level.[3] Moreover, all African EPAs are goods-only agreements reflecting a business model of the past. Services, investment or public procurement, all essential in today's trade and investment reality, are merely tabled for future discussions.

1 Under Lomé, the EU had granted ACP countries non-reciprocal preferential market access for goods With the creation of the WTO, this regime had come under increased pressure: Under the GATT 1979 Enabling Clause, tariff discrimination in favor of developing countries was allowed. The Lomé framework, however, discriminated among developing countries (ACP and non-ACP).

2 In 2007, the five countries of the East African Community broke away from the East and Southern Africa ACP region to sign a separate interim EPA with the EU, thus creating a seventh regional group.

3 Southern African Development Community.

Recently the tide has turned: by signing up to the African Continental Free Trade Area (CFTA), one of the flagship projects of the African Union's Agenda 2063, most African countries have made a strong political commitment to bringing down tariff and non-tariff barriers to trade. Moreover, CFTA signatories also committed to address issues like trade in services, investment, intellectual property rights and competition, which many of them had considered rich-country interests until recently. This, combined with the new focus on investment climate and business environment in EU-Africa relations, seems to have brought deeper disciplines and rules back to the table in EPAs as well. The Parties to the Eastern and Southern Africa EPA, for instance, are currently exploring the possibility of broadening the scope of the agreement.

EPAs reduce barriers to regional and international trade. Building on existing regional communities established by African countries themselves, EPAs promote regional integration on the African continent through reducing tariff and non-tariff barriers to regional trade. In this way, they are building blocks to continental free trade:

- EPA-members need to give the same preferences they grant to the EU also to each other. If implemented properly, they will make their member countries more attractive to both domestic and foreign investors as companies choosing to set up a production plant in a member country can export to the entire region and the EU market without tariffs or quotas;
- They promote lower production costs in Africa by reducing the cost of imported inputs, which are needed to make final products, such as machinery;
- Combined with flexible rules of origin, which give exporters the freedom to source inputs from elsewhere, including from other African countries, without losing preferential access to the EU, they promote the development of regional value chains and the insertion into global value chains;
- Finally, EPAs stabilize the access to the EU market for producers in African countries. While many countries on the continent already enjoy preferential market access under the General System of preferences (GSP),[4] this scheme is reviewed regularly, with a tendency to decrease the number of eligible countries.

EPAs also grant the assurances necessary for countries to become part of 21st century value chains by preparing the ground for rules and disciplines necessary to attract investment in value-adding sectors. The rendez-vous clauses in the African EPAs foresee the extension of the agreements to issues such as trade in services, investment, competition and intellectual property protection.

4 Including both GSP+ and Everything but Arms (EBA)

These are key to build investor's trust, attract Foreign Direct Investment (FDI) and promote further integration into global value chains for the following reasons:

- Technology transfer is facilitated by assurances that foreign knowledge owners will be treated fairly, and their intellectual property rights will be respected;
- Foreign investments in physical infrastructure, staff training and the development of long-term business relationships are facilitated by rules that safeguard property, rights of establishment and fair competition;
- Companies whose value chain extends over several countries need assurances on business-related capital flows (e.g. FDI, profit repatriation) to operate effectively;
- Coordinating international production facilities also requires the continuous two-way flow of goods, people and ideas. Thus, access to world class services (e.g. freight transport, telecoms, banking, logistics) and assurances on the short-term movement of managers and technicians is important for global value chains.

Finally, as asymmetric agreements, EPAs respect the differences in economic development between the EU and its ACP counterparts – while the EU opens its market fully to ACP imports, the ACP Parties reduce their tariffs gradually over many years. Moreover, sensitive product categories, often some agricultural products, are not covered by EPAs and the agreements make it possible for ACP countries to protect certain established or infant industries if they are threatened by sudden import surges from the EU. Provisions on labour rights and environmental issues as well as the link between EPAs and the respect of human rights and democratic principles, rule of law and good governance set out in the Cotonou Agreement promote development, growth and investment that is sustainable and inclusive. This is even more important at a time when other actors heavily investing in the region prefer sometimes to ignore these principles.

## New EU-Africa Alliance: implementing an enhanced partnership

Of course, EPAs are not a miracle cure and they must be combined with smart domestic policy reforms aimed at improving the business environment and enabling the population to reap the benefits and explore the opportunities opened up by them. In this context, the European Commission's recent communication announcing a new Africa-Europe Alliance for Sustainable

Investment and Jobs does the right thing in taking a comprehensive approach for the enhanced partnership between our two continents, focusing on four key areas:

- Boosting strategic investment for job creation and strengthening the role of the private sector;
- Investing in people by investing in education and skills;
- Strengthening business environment and investment climate and
- Tapping the full potential of economic integration and trade.

Now words need to be turned into action by leveraging all EU policies towards Africa to achieve these ambitious goals. This requires a multi-stakeholder approach and as a first step, silos within the European Commission need to be broken down. Especially Trade and Development policies need to work closely together and better use the tools at their disposal – particularly EPAs, the External Investment Plan and the political dialogues thereunder – in a more coordinated way. The negotiation of the Post-Cotonou Agreement, which will govern EU-ACP relations after 2020, provides the first major opportunity to do so. As the goal to negotiate EPAs was first enshrined in the Cotonou Agreement in 2000, this successor agreement provides a golden opportunity to bring new momentum into the implementation and deepening of these agreements. But the difference to 2000 is that these agreements now form part of a broader set of interrelated goals and tools all working in the same direction: bringing the EU-Africa Partnership to the next level and promoting inclusive growth and sustainable development on the continent by creating the right framework for private investment and entrepreneurship. Our common goal should be that in 20 years' time we can look back and say that 2019 was the beginning of a successful transformation in EU-Africa relations, a first chapter in our joint success story.

## About the author

Luisa Santos is Director for International Relations at BusinessEurope and Chair of BusinessEurope's Brexit Task Force. She was a member of the TTIP Advisory Group and is now a member of the Expert Group on EU trade agreements. Her principal experience is in trade and the textiles sector, having acted first as the chief representative for the Portuguese textile industry in Brussels, later as Trade and Industry Manager for Euratex, the European Apparel and Textile Confederation. She was also the manager responsible for international partnerships – including a joint venture in India – for a leading Portuguese textiles company. Her academic background is in law and management.