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EU-Africa Trade Arrangements at a Crossroads

Securing Africa's External Frontier

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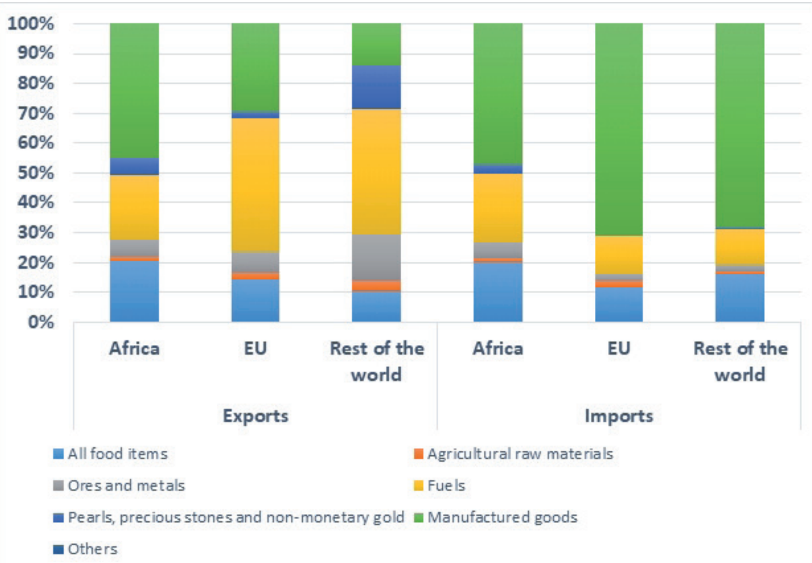
The EU is Africa's most important investor and trading partner but, in the sixty years of the post-colonial period, the role of Africa mainly as an exporter of commodities to the EU has remained constant. The EU's trade arrangements and underlying incentives are neither pro-poor nor pro-development. At best, they can be said to be ambivalent towards African economic integration and the forward-looking Agenda 2063.

The termination since 2008 of the trade-related provisions of the Cotonou Partnership Agreement (CPA) that governed the EU's trade relations with most African countries, coupled with the lack of progress in the Economic Partnership Agreements (EPA) negotiations, has resulted in drift and uncertainty. The effect is a missed opportunity for mutually beneficial arrangements on emerging trade-related challenges including the ongoing digitalisation of commerce and production processes, green growth, and building back from the Covid-19 pandemic.

In this Global Governance Spotlight, we call for a new direction. The existing highly asymmetrical trade relationship is unsustainable and detrimental to intra-African trade. To overcome this situation, the EU's approach must strengthen rather than weaken the African economic integration project, underpinned by forward-looking complementary initiatives that prioritise investment in sustainability and resilience and facilitate technological leapfrogging.

Figure 1: Composition of Africa's exports and imports by destination and origin respectively – Average (2016-18)



Source: Authors' calculations based on UNCTADStat; accessed on 3 September 2020

Comparing trade patterns

The EU largely trades with itself. Intra-EU exports and imports account for 63.8% and 59% of total EU's exports and imports, respectively. The picture for Africa's trade is almost the exact opposite. Africa trades relatively little with itself (intra-African exports and imports representing 16.4% and 13.3% of Africa's total exports and imports, respectively). The EU is by far Africa's main trading partner (accounting for 33.1% and 31.6% of Africa's total exports and imports, respectively).

Turning to the composition of trade, the bulk of the EU's exports is manufactured goods regardless of destination. The EU's imports from Africa are made up mainly of fuels (40.7%) and other primary commodities (ores, metals and pearls, precious stones and non-monetary gold together accounting for 14.2% of the total) as well as food items (15.7%). Africa on the other hand has its imports strongly dominated by manufactured goods while its exports are highly concentrated in low value-added products, a reflection of the poor industrial base of its economy which has not changed for decades.

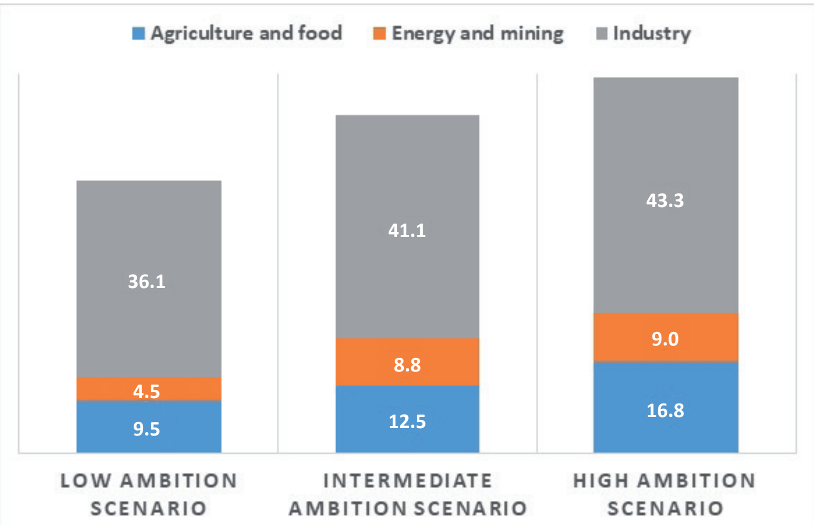
It is worth noting that intra-African trade tends to be more diversified and with relatively higher value-added content than Africa's exports to trading partners outside the continent as shown in Figure 1.

It will be clear from the comparison of EU and African trade that it is essentially a tale of two patterns. The first is a pattern of commodity concentration in Africa's exports to the EU and the rest of the world. The second is a pattern of higher degree of diversification when Africa trades with itself. It is this second pattern that provides a viable pathway for Africa's economic integration and transformation aspirations that will also entail more meaningful engagement with the EU and the rest of the world.

Greater gain from intra-African trade reform than from EPAs

The rationale behind the Economic Partnership Agreements (EPAs) was supposedly to comply with WTO rules of reciprocity and non-discrimination. The EPAs were further expected to promote diversification and growth among the African, Caribbean and Pacific (ACP) countries which would be able to import cheaper inputs from the EU to support value-addition, diversification, industrialisation and economic growth.

Figure 2: Change in intra-African exports by main sectors by 2040, following the reduction of intra-African tariffs in goods (various ambition scenarios), as compared to the baseline without tariff reduction, in US$ billion



Source: ECA (forthcoming): An empirical Assessment of the African Continental Free Trade Area Modalities on Goods

Already benefiting from trade preferences offered by the EU, African and other countries in the ACP group had little more to gain in the EU market under the EPAs. On the other hand, the EU which faced relatively high tariffs when exporting to these countries would expect to see a substantial improvement in its market access.

This was demonstrated by an empirical study by Mevel et al. (2015). While Africa would benefit from EPAs, the gains would essentially be concentrated in a few agricultural products (e.g. rice, milk and dairy products, sugar and meat) for those countries not eligible for Everything but Arms (EBA). By contrast, the increase in EU's exports to Africa would be considerably larger and better distributed across economic sectors, with the highest growth in industrial products. Moreover, the expected increase in African exports to the EU would come at the expense of some intra-African trade. Further analysis by Mevel et al. (2016) reached a similar conclusion in relation to the Euro-Mediterranean Partnership (EUROMED) that covered North African countries.

To be sure, the EPAs are not only about trade but also cover investment, development, and financial compensation to offset the negative impacts. But still, Africa remains wary of agreements containing reciprocity obligations even if they include transitional periods, a degree of asymmetry, and options for the protection of sensitive sectors. This explains why, after 18 years, the EPA negotiations have not been a complete success.

African countries expect greater gains from intra-African trade reforms. The African Continental Free Trade Area (AfCFTA), if successfully implemented, will boost trade and facilitate industrialisation. Indeed, successive analyses by the Economic Commission for Africa demonstrate that the current share of intra-African trade could more than double following ambitious AfCFTA reforms. Most of the gains will accrue to industrial sectors (see Figure 2). Moreover, Mevel et al. (2015) found that having the AfCFTA in place before the EPAs are fully implemented would ensure that the gains from EPAs for both Africa and the EU could still materialise later and without having negative effects on intra-African trade and its industrialisation potential.

As such, the sequencing of trade reforms and negotiation of new trade deals do matter for Africa. AfCFTA implementation must be prioritised over reciprocal trade deals. In time, this approach will ensure substantial benefits for all. The AfCFTA further provides a platform for Africa to engage as one entity – in contrast to the fragmented EPAs and EUROMED process – thus preserving trade policy coherence in Africa.

Pulling Africa's integration effort apart

The effect of the EU's fragmented trade arrangements with Africa has been detrimental to Africa's integration. To illustrate, while EPAs were supposed to help advance Africa's regional integration agenda, in practice they have often provided incentives, unintended though they may be, for many African countries to act contrary to their commitments at the level of the Regional Economic Communities (RECs) of which they are members. For example, although the Economic Community of West African States (ECOWAS) is a REC that has achieved the status of a customs union, and therefore its 15 member states implementing common external trade regimes, Côte d'Ivoire and Ghana concluded their own separate EPAs with the EU, thereby undermining ECOWAS's, and indirectly the continent's, integration programme. Similarly, only Kenya and Rwanda have signed the regional EPA between the East African Community (EAC) and the EU, putting EAC's internal cohesion under strain. In the case of the South African Development Community (SADC), the only of its kind on the continent where a semblance of an existing REC has signed an EPA with the EU, in actual fact a new entity called the SADC EPA group concluded the agreement with the EU. The SADC EPA group contains only six of the 16 SADC member states. Finally, although the African Union recognises only eight RECs, the EPA negotiations have caused the emergence of a legally non-existent entity called the Eastern and Southern Africa (ESA) group of countries, throwing the AU integration process into the air.

It was against this background that African countries met in Kigali, Rwanda, on that historic day of 21 March 2018 and adopted their latest and most ambitious instrument of continental integration, the AfCFTA, which they ratified and brought into force in record time, in May 2019. In committing themselves, through the AfCFTA Agreement, to work towards the creation of "a single market for goods [and] services … to deepen the economic integration of the African continent" and to "lay the foundation for the establishment of a Continental Customs Union at a later stage", African countries were not thinking about North or South, East or West; they meant Africa as one. But, of course, for such an ambitious integration programme to succeed, all African countries would need to progressively align their external trade policies and merge their respective customs territories into a single Africa-wide customs territory.

In October 2018, negotiations were launched for an agreement to replace the CPA, which was slated to expire on 29 February 2020. However, the negotiations for a new agreement took longer than anticipated, thereby necessitating adoption of transitional measures. As a result, the ACP-EU Committee of Ambassadors, at its meeting of 17 December 2019, decided: "The application of the provisions of the ACP-EU Partnership Agreement shall be extended until 31 December 2020, or until the entry into force of the new Agreement or until the provisional application between the Union and the ACP States of the new Agreement, whichever comes first."

Inevitably, the negotiations involved only four of the five African regions, i.e. excluding North Africa. A continent that, barely six months earlier, had adopted a binding international agreement to work towards a single market through the AfCFTA, was thus confronted with the reality of having to negotiate a new economic treaty with an important external partner, yet again as a divided continent. The AU Assembly started well when it affirmed, in July 2018, "the importance of speaking with one voice and acting as one to effectively promote Africa's interests on the global stage and, in particular, ensure that Africa's partnership with the EU fully supports and facilitates the process of regional and continental integration and development". However, the continental leadership was divided on the vital question of whether the post-Cotonou negotiations should be conducted at the level of Africa speaking as one, presumably coordinated by the AU, or as part of the ACP configuration, which excludes North Africa. At its Addis Ababa meeting of November 2018, the Assembly blinked, deciding that the post-Cotonou negotiations proceed within the ACP-EU framework as per the CPA, and reducing the role of the AUC to providing "technical support to the African Members of the ACP negotiating team, as may be requested."

What is the offshoot of all this? First, damaging as they are, EPAs will remain the only instrument of cooperation on matters of trade between the EU and Africa excluding the North for the next two decades or more. Second, because only a few countries and a small grouping in one region have signed EPAs with the EU, for most African countries trade with the EU will continue to be governed by the EU Generalised Scheme of Preferences (GSP) and the EBA. And, finally, North African countries will continue to trade under their own country-specific association agreements. Considering the importance of the EU as a trading partner for Africa, EPAs are effectively forcing African countries to make a choice between pursuing African integration as per the AfCFTA Agreement or collecting whatever short-term benefits may be available from EPAs at the expense of the Pan-African vision. The answer should be clear. The EU should work towards changing the perverse incentives that work against Africa's integration efforts.

Policy recommendations

In this Global Governance spotlight, we have reviewed the trading patterns of the EU and Africa from a comparative perspective. We noted a tale of two patterns with commodity concentration in Africa's exports to the EU and the rest of the world but better diversification when Africa trades with itself. Africa's trade reform agenda centred on the AfCFTA is aimed at building upon its intra-African trade potential as a pathway towards economic integration, transformation and more meaningful engagement with the EU and the rest of the world.

Two policy recommendations follow from this:

- There is a need for proper sequencing of trade liberalisation with the EU and other advanced industrial countries, which should come only after the AfCFTA is fully in place. This will ensure that, while the gains from the EPAs for both Africa and the EU would still materialise later, the negative effects of displacing intra-African trade and its industrialisation potential are mitigated.

- Africa's economic integration efforts are being put at risk through the fragmented approach taken by the EU and others in negotiating reciprocal trade deals with African countries. The threat of loss of preferential access to the markets of these rich countries is a powerful incentive for individual African countries to prioritise short-term gains over regional and continental economic integration commitments. While elements of asymmetry, including transition periods and protection of sensitive sectors, are typical provisions in these agreements, there is a better way. Africa's collective interest lies in its ability to engage with the rest of the world speaking in one continental voice, employing such tools as a Pan-African rules of origin cumulation system (Luke and Suominen, 2019). This would ultimately have the potential to increase Africa's preference utilisation rate in rich country markets, boost intra-African trade, and ensure better trade policy coherence in line with the aspirations of Agenda 2063.

African integration is in the interest of the EU and the rest of the world. Lower intra-African tariffs, reduced non-tariff barriers, improved trade facilitation, and integrated markets create a large, prosperous, peaceful and more dynamic environment for trade and investment opportunities for Africa's partners as well as for African small and medium enterprises to grow. These elements are more important than ever in the wake of the Covid-19 pandemic and the demographic imperative in Africa to increase the number and quality of jobs. This is a pro-poor and pro-development agenda that provides a viable framework for win-win outcomes from shared interests in green growth, enhanced resilience to climate and health risks, and harvesting the benefits of digital technologies for mutual gain.

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Links to key sources and further readings

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