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# The European Union (EU)-African, Caribbean and Pacific (ACP) Strategic Economic Partnership Agreement (EPA): Weakening or Deepening African Development

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**Abstract:** The European Union (EU)-African, Caribbean and Pacific (ACP) Economic Partnership Agreement (EPA) is a package put together to accelerate the integration of ACP into the global market economy. Africa with a large attractive market value is faced with the challenge of development. While admitting that networking and partnering with international organizations and donor agencies appeared to be a possible way of recovering from such challenges, the study argued instructively that Africa countries lacked the capacity to effectively compete such as to attract the needed benefits to her continent from the Agreement. Using the dependency theory, attempt was made to analyze and identify the consequences of the Agreement as it pertains to the strengthening or weakening of African developmental process. Major constraints that currently affect the continent which will certainly make the Agreement implementation to be skewed in favor of the EU countries were also identified. It concluded by asserting that Africa will pay the prize by becoming dumping ground for EU finished products.

**Key words:** Dependency, development, tariffs, imports, liberalization, competition

## INTRODUCTION

The Economic Partnership Agreement (EPA) constitutes a scheme which seeks to create a Free Trade Area (FTA) between the European Union (EU) and the African, Caribbean and Pacific (ACP) countries. It required ACP countries to eliminate tariffs on 90% of EU exports within a period of 10-12 years and open up their economy. This of course is harmful to government finances; induce falling outputs, profits, investments and savings. Attempt by the ACP (particularly Economic Community of West African States (ECOWAS) to ask for some time to deepen its regional integration before eliminating tariffs on EU imports were rebuffed by the EU thus heightening tension on the original intention behind the agreement.

Despite this and other bottlenecks such as introduced by International Monetary Fund (IMF) some African leaders still believe greatly that quality development can only be gotten by networking, collaborating and being subservient to foreign institutions, agencies and donors. The objectives of this study includes to identify the issues that will arise from the adoption of the elements of the EPA, identify the constraints that will (or have) militated against African countries and prevented her from deriving much benefit from the agreement and previous ones and locate the possible consequences even if the constraints are undermined.

**Conceptual clarifications:** The EU is an economic and political union of twenty seven member states located primarily in Europe (Wikipedia, 2009). It covers a total land area of 4,324,782 km$^2$ (n a$^{-1}$) and 1,669,807 m$^2$ and an estimated population of 499,794,855 (n a$^{-1}$) as at 2009. The establishment of EU dates back to 1952 when Belgium, France, (West) Germany, Italy, Luxembourg and the Netherlands joined together to create a common market for coal, iron and steel products called European Coal and Steel Community (ECSC). Since then the Union has grown in size through the ascension of new countries and new policy areas has been added to the EUs institution. The success of this integration forum made it possible for the 6 countries to sign the Treaties of Rome in 1957 that created the European Economic Community (EEC). The major aim was to facilitate trade and cooperation in many additional areas. The European Communities eventually came into operation in 1967 which had as its parts the ECSC, EEC and EURATOM (European Atomic Energy Community). The success

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recorded further led to the increase in its membership. The total membership as at 2009 was twenty seven. The countries were Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and United Kingdom. The EU was formally established when the Maastricht Treaty of February 7, 1992 came into force on November 1, 1993. It had been preceded by other treaties such as Paris Treaty of April 18, 1951 and the Rome Treaty of March 25, 1957 (Rourke and Boyer, 2002).

It had since developed a single market through standardized systems of laws which apply in all member states, ensuring the freedom of movement of people, goods, services and capital. It maintains common policies on trade, agriculture, fisheries and regional development. It has also networked with other international organizations and groups such as ECOWAS, Southern African Development Commission (SADC) and Africa, Caribbean and Pacific Countries to make life meaningful for citizens of member states.

The African, Caribbean and Pacific Countries (ACP) are currently made up of 79 members 48 Africa, 16 Caribbean and 15 Pacific. It was created by the Georgetown Agreement in 1975. The objective included the pursuit of sustainable development and poverty reduction within its member states as well as their greater integration in the world economy. All members except Cuba are signatories to the Cotonou Agreement with the EU (Wikipedia, 2010). The ACP countries are therefore potentially large market coverage for the EU. EPA aims at 10-12 years elimination of tariff on 90% of EU export to ACP. The main elements of the EPAs can be summarized and conceptualized as follows:

- Phasing of removal of all trade preferences that were established between the EU and the ACP countries since 1975
- Ensuring the progressive removal of trade barriers between the partners. Thus, the ACP countries will progressively open their markets to European products
- Strengthening the integration between the ACP and EU. That is to deepen their regional integration process and increase access for European companies to ACP markets
- Promoting the economic liberalization of ACP economies
- Ensuring the sustainable development of the ACP states, their smooth and gradual integration in the world markets and eradication of poverty
- Enhancing the sustainable growth through increase in production and supply capacities of the ACP countries
- Promoting the structural processing and economic diversification of the ACP states while supporting regional integration
- Ensuring that the states respect their political options and development priorities, thereby promoting their sustainable development and contributing to the eradication of poverty in the ACP states
- Creating suitable conditions for investment growth and the mobilization of private sector initiatives in order to improve the supply capacity of ACP states (Akande, 2008)

**Theoretical framework:** The theoretical framework applied in this research is the dependency theory. It posits that economic foundation of society is a necessary prerequisite for a proper understanding of social policies and development particularly in third world. The argument in this theory is that increased participation of third world societies in the world economy would disintegrate their economies by widening the gap between the rich and the poor in the international system due to structural differences. Through foreign trade, foreign investments, external loans and aids and groupings, the industrialized countries would be directly linked with a fortunate minority. This linkage would in turn lead not only to economic dependence of the third world on the industrialized societies but also the transfer of resources (both human and material). The implication is the distortion in the development process in the third world resulting in a peculiar socio-economic condition that Andre Gunder Frank referred to as development of underdevelopment (Akpotor, 2000). Hence, the doctrine behind the dependency theory is a measure of magnitude of the number of persons or nation that have to be supported by others. When applied to people, they are those falling within the ages of 0-15 and 65 and above. They are economically unproductive hence not included in the labour force. In many developing countries, the number of people belonging to this group account for half of the total population and hence posing a heavy burden to the economies since they do not contribute to production, they have to be fed, clothed and educated.

This concept is very apt in the research topic under discussion. The economically weaker nations largely depend on stronger ones for their socio-economic survival. Neocolonialism is the consequence of the above linkage through which Western capitalist are able to assume indirect influence on the African states and facilitate continued relations of imperialist exploitation of

the peripheral states. This further sustains a culture of political subservience, economic dependence and cultural pollution in international politics. The dependency theory conceptualizes the inhibition which sovereign states experience in taking decisions on international issues and how economically weaker states are tied to the apron string of the stronger nations because of the economic, cultural and ideological bankruptcy of the weaker nations (Akpotor, 2000). Santos (1993) had also described dependency succinctly as:

> A situation in which a certain group of countries have their economy conditioned by the development and expansion of another economy to which the former is subject. The relation of interdependence between two or more economies and between these and world trade assumes the form of dependence when some countries (the dominant) can expand and give impulse to their own development while other countries (the dependent) can only develop as a reflection of the expansion… This permits them to impose conditions of exploitation and extract part of the domestically produced surplus

**Political economy issues in the agreement and implications:** The removal of tariffs on imports from EU will certainly reduce the revenue base of most African countries. Many countries hitherto depended on revenue from tariffs and other sources. EU is well aware of this and as part of its self centeredness, selfishness and intention to further pauperize African countries has advocated this measure. For Nigeria, the EU is the largest source of imports, supplying about 40% of total imports. The implication is the loss of a significant chunk from tariff revenue from the adoption of EPAs (Akande, 2008). A further consequence is the difficulty/inability to implement national budgets since most targets and objectives are tied to funds generated from such outlets. From the above, it can be deduced that the diversification drive of the economy would have been hampered; just as the implementation of such vital programmes as the National Economic Empowerment Development Strategy (NEEDS), Millennium Development Goals (MDGs), Vision 20-2020 and the 7-Point Agenda would be seriously affected. The inability and non implementation of these programmes can possibly generate consequences such as political upheavals, deindustrialization and poverty which have made Nigeria fall back to the EU for support and assistance and thus sustaining the apron string. EU is aware of the non competitiveness of African industries. The manufacturing sector is highly import dependent with an average import content of 55% (Akande, 2008). Production for instance in Nigeria is never competitive basically due to infrastructural deficiencies such as power supply, road network, telecommunications, transport and other utilities. Within this framework, it is only certain that the high cost component of Nigeria manufactured exports in the international market cannot command competitiveness. Rather than develop concrete measures that can lift and accelerate development in ACP countries, the EPA have gone ahead to ask for the opening of ACP countries markets for European products knowing very well that the strong infrastructural base required for such is lacking in ACP countries. The consequence of this is the stultification of ACP countries industrialization process and the emergence of ACP countries as dumping ground for EU subsidized goods. Studies revealed that poultry products from EU to Sub-Saharan African countries doubled from US$ 11 million to US$ 26 million in 2000. The products sold for 25-30% below production cost in a country like Ghana due to the huge production and export subsidy in EU and other developed countries. This tendency goes with increased dependence on EU imports, stifling of new trades and job loose for Ghana poultry farmers as well as its attendant multiplier effects. Abandoned poultry farms being common sight in Ghana due to unfair business competition occasioned by cheap EU imports are not strange.

Arising from the poor industrial base and non competitiveness of African industries, coupled with the liberalization of ACP countries economy, the dependency on EU is further strengthened. Industrialization is a vehicle for technological development and verse versa. It has the potentials for increased returns on investment. Furthermore, the agreement impinges on the sovereign right of African countries to take decisions over their future economic development. This aspect is undermined by the EU which emphasizes liberalization. The EU liberalization agenda certainly limits the capacity of African countries/governments (Nigeria inclusive) from setting up and pursuing its domestic policies. In addition, the opportunity for regulating the excesses of European companies/corporation effectively is denied. Meanwhile, South Korea and other Asian tigers have demonstrated that a government's ability to set its own domestic priorities on investment right can lead to a country's economic development and greatness.

The EU has tried to use its powerful position in the EPA negotiations to increase market access for its products. This is even against the backdrop that the EPA might accelerate the collapse of the modern West African manufacturing sector, export and discourage the development of processing and manufacturing capacity in ACP countries as reported by EU commission. Opening

the domestic market to foreign competition will lead to forcing local firms to quickly become efficient and competitive or go out of business. In Nigeria and other Africa countries the second is most likely due to lack of access to loans, jobs and other reasons to be discovered later. The widening unfavorable trade balance between Uganda and EU could be attributed to the continued exportation of unprocessed agricultural products (mainly coffee) which form the bulk of Uganda's export. As at 2008, Uganda had experienced a trade deficit of US$ 2.8 billions up from US$ 1.06 billions in 2004; revealing a drop of US$ 1.7 billions (Agency Reporter, 2010).

Agriculture is another fundamental area where competition would have been experienced. For example, agriculture accounts for about 40% of Nigeria total GDP, over 50% of non oil GDP revenue and employs over 45% of the labor force (CBN, 2006). Most African countries are known to have comparative advantage in the production of primary products. It also generates over 80% of the non oil export earnings in Nigeria; provides cheap food for citizens and raw materials for certain industries. Though largely subsistence, it is a critical sector on which economic growth and poverty reduction as well as rural development are dependent.

Despite the above, there are noticeable challenges that certainly militate against the effective international competitive ability/prospects of African agricultural products in the international market. They include low productivity, limited capitalization, small size of land holdings and declining soil fertility. Others are out migration of labour, labour cost, use of outdated and primitive implements as against sophisticated mechanized ones used in advanced countries, inadequate infrastructure in rural areas, insufficient irrigation systems, inadequate distribution of fertilizers, high production cost and transportation, lack of technical capacity to meet product quality and packaging requirements (Akande, 2008). Difficulty in accessing loan facilities for example in Nigeria coupled with lack of subsidy also critically affect African capacity. Under this circumstance, trading arrangements with EU can only suffocate the already stressed local producers and make competitiveness of primary product export for which ACP countries are known a mirage.

However, strategies and programmes such as the First National Development Plan (1962-68), Second National Development Plan (1970-74), Third National Development Plan (1975-80) and Fourth National Development Plan (1981-85), the adoption Indigenization Policy, Austerity Measure, Structural Adjustment Programme (SAP), Operation Feed the Nation (OFN), Green Revolution, the establishment of the Directorate for Food, Road and Rural Infrastructures (DFRRI), Nigerian Agricultural Credit Bank (NACB), the NAPEP General Micro Credit Scheme and the Farmers Empowerment Programme, NEEDS, MDGs, Vision 20-2020 and 7-Point Agenda are among several other programmes developed in the past (and present) to address the problems in the economic and agricultural sectors in Nigeria with little or no impact (Obadan, 2003; Odion, 2009). In South Africa, a relatively robust social welfare system and a Comprehensive Agricultural Support Programme, amongst others are also in place.

**Constraints/inhibiting factors:** There are certainly constraints that militate against Africa countries that have prevented her from taking full advantage of the agreement. Issues such as war, conflicts, natural disaster, mono economy, low industrialization, poor infrastructural base are common features of ACP countries. As opined by Shima cited in Apam (2009):

> African countries are characterized by persistent crises, including civil wars and communal crises which usually devastate the entire communities of able bodied men and women who are highly prized developmental tools

The above explains why development has eluded countries such as Liberia, Sierra Leone, Guinea Bissau, Rwanda, Burundi, Sudan, Ethiopia, Eritrea and Nigeria. In Nigeria, the crisis of infrastructure has forced many factories, industries and businesses to close shops and failed the international competitiveness test required for the execution of the EPA agreements. Michelin, the tyre manufacturer had shut down its factories in the country while its counterpart, Dunlop had been forced to scale down operations in the country. The textile industry is not spared the harrowing experience with the attendant job losses. Cadbury retrenched 300 workers while Peugeot Automobile Nigeria (PAN) sent 565 of its 753 workers home and placed others on half salary. Others like Unilever and PZ have threatened to shut down production due to poor power supply. Yet, many businesses have had to run on generators/plants and the cumulative effect is the high cost of local industrial output. Kenya had experienced economic stagnation. The economic situation in Kenya has been worsened by declining donors inflow; slow economic reforms; natural factors such as drought, famine and poor agricultural outputs; fall in commodities pricing in the international market; corruption in public service etc (Sampson, 2007).

Aids to the LDC (of which ACP belongs) has in effect stalled since 2003 despite the G8 Agreement at the 2005 Gleneagles Summit to double aids to Africa by 2010 (UN,

2007). Even the promise by twenty seven rich volunteer countries at the Monterrey Conference of March 2002 and further reaffirmed at the Johannesburg Summit in September 2002 to donate 0.7% of their national income to assist poorest countries of the world in eradicating global poverty have not been adhered to. Five years after (2007) only five countries (Sweden, Denmark, Norway, Netherlands and Luxemburg) have fulfilled their promises while others were at different stages of implementation. About 6 of the volunteers (United States, Japan, Canada, Australia, Switzerland and New Zealand) were yet to develop a schedule to give the 0.7% aid (Sampson, 2007).

Unfair trade terms occasioned by the lack of suspension of the controversial agricultural subsidies have made export commodities from third world countries uncompetitive in the international market. Foreign Direct Investment (FDI) to third world remains below 5% of global flow while debt forgiveness promises remained largely unmet. Selfish national interest remains the driving force behind the foreign policy decisions of many rich countries (of which the EU is no exception).

Proliferation of economic agreements (e.g., ECOWAS and SADC integration process), political upheavals in Sudan and instability/ coup d' such as the worrisome situation in Guinea, Guinea Bissau and Niger; unfavorable interest rates, lack of subsidy, macro economic crises, debt burden and various forms of external economic programmes implemented on the advice of Bretton Woods Group are notable reasons why Africa cannot take full advantage of the EPA. Others are low productivity, poor human capital development as well as the structural inequality between the EU members and Africa states (Bundu, 1997; Sampson, 2007; Muo, 2007).

## CONCLUSION

The study has x-rayed the EU-ACP Economic Partnership Agreement. Issues and constraints were also examined. These constitute the challenges that militate against African countries from deriving much benefit from the agreement. For example, the removal of tariff on EU export will reduce the revenue base of African countries and thus render the developmental efforts and initiatives of such governments unachievable while the non competitiveness of African industries/commodities in the international market and the over reliance on primary product export potentially will turn Africa market into dumping ground for foreign goods as well as expand the frontiers of poverty in Africa. The EU-ACP agreement portends great danger for Africa particularly with the refusal of EU to allow ECOWAS consolidate on regional integration process before full implementation of the 90% tariff removal on EU exports. It therefore does not exonerate/exclude itself from the propagation of dependence(cy) for which such past agreements were known. The conclusion is that the agreement is skewed more to weakening Africa developmental process than strengthening it. It is therefore important that the EU adopt other strategies to help Africa shore up its profile for competitiveness sake. Though international collaboration is required in the process of developing Africa, it must be devoid of peculiarities that will sustain African underdevelopment. Five areas where developed economies (EU countries inclusive) could assist Africa are Aids (without strings), fair trade, Foreign Direct Investments (FDI), debt forgiveness and technological skills transfer. Forums such as the ECOWAS, SADC and AU are important platforms for Africa to restate the need for a firm financial commitment from the EU on funding EPA development programmes. There is also the need for African economies to diversify their means of livelihood. Over dependence on commodity exports as is the case in most Africa countries make them highly vulnerable to external shocks outside their control.

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