

TRADE LIBERALISATION UNDER EPAs AND AFRICAN EXTERNAL DEBTs - THE NEED TO LOOK AT INTERLINKAGES

***Dr. Peter Custers
(XminusY Solidarity Fund, The Netherlands)***

1. Criticisms regarding the trade liberalisation agenda being pursued by the European Commission vis-à-vis ACP countries is growing fast. Under the pressure of the expanding international controversy around EPAs, the Economic Partnership Agreements which are currently being negotiated under the Cotonou agreement signed in 2000, the European Parliament is preparing the adoption of a new resolution on EPAs. In the report which Development Committee President Luisa Morgantini (GUE/NGL) has drafted, the risks that trade liberalisation will lead to further impoverishment are clearly stated, as are the revenue losses which ACP countries are bound to suffer in case of implementation of the European Commission's trade liberalisation agenda. Morgantini's report advocates the forging of an alliance between the European Union and ACP-countries in favour of a revision of Article XXIV of the GATT agreement, so as to ensure that *non-reciprocal* EPAs will be allowed by enabling the 'special and differential treatment' of developing countries. Morgantini argues that the EU should use its 'powerful position in the WTO' so as to push for greater flexibility.

2. Below, I suggest to look forward, beyond the formation of an EU-ACP alliance in favour of non-reciprocity in trade relations between the EU and ACP countries. *First*, there is a need for a deeper realisation amongst policy-makers, that trade liberalisation and the *aggravation* of Third World debt are closely interrelated phenomena. Pushing trade liberalisation means that the solution to the enormously large debt problem of South countries is further complicated, becomes a 'fata morgana', and that gains from debt relief measures remain largely illusory. *Second*, there is a need to realise, from the side of civil society organisations involved in campaign work on EPAs, that the struggle to stop implementation of the EU's trade liberalisation agenda via EPAs cannot be won without taking into account the wider context of international policymaking beyond the EU and the WTO. For the international financial institutions which are mainly responsible for 'debt management', the World Bank and the IMF, do play an active role in pushing for trade liberalisation via various 'trade capacity building'-exercises and other exercises they are engaged in.

3. Historically, the issues of *trade* and growing external indebtedness of Southern economies have been interlinked from the very start, as is well recognized in the literature on debt. Thus for African countries the starting point for taking recourse to lending by the international financial institutions lies mostly in the late 1970s or the beginning of the 1980s. The beginning of external indebtedness was generally rooted in the crisis over falling income from exports which raw materials exporting countries faced. In the wake of the fourfold rise in oil prices of 1973-1974, international prices of other raw materials initially saw a rise too. However, whereas the historic price rise for crude oil was to be 'permanent' – even if the *volatility* of international oil prices has been another characteristic phenomenon throughout the last thirty years -, international prices of minerals and other raw materials instead fell dramatically after a temporary rise in the mid-seventies. Since – as advised by the WB-IMF – many countries heavily relied on taxation income from exports, the falling international prices in the late 1970s immediately affected the income position of those Southern countries which were dependent on raw materials exports.

4. Now, as to the relationship between trade *liberalisation* and income losses for African countries: this issue has been worded well in the briefing paper which Christian Aid brought out in June of 2005. The briefing paper was based on a study commissioned to an expert in econometrics. First, the evidence regarding the impact of trade liberalisation on imports and exports were collected for 32,

mostly African countries. Here the overall evidence was that imports tend to rise faster than exports, and that countries tend to be flooded with cheap imports, whereas the scope for increased exports turned out to be limited for the countries researched. According to Christian Aid's briefing, trade liberalisation has cost the 22 African countries included in the modelling exercise more than US 170 Billion Dollars over 20 years. If the model is applied to all of Sub Saharan Africa, the loss is **272 Billion** Dollars! The staggering truth, so the briefing states, is that this amount would have been sufficient to wipe clean the debt of every country in the region! Christian Aid's briefing cites sector-wise examples to further illustrate the disastrous consequences of trade liberalisation, and it illustrates the impact on poverty through calculations for individual African countries.

5. Christian Aid's report does not specifically discuss the question of the European Union's trade liberalisation agenda, nor does the briefing refer to future trade liberalisation. It is instead concerned with the effects of the limited trade liberalisation which has taken place *in the past*. Regarding the *future* impact of the 90 percent trade liberalisation, which the European Union wishes to impose on ACP-countries over a period of 10 to 12 year, some studies have also been made. Noteworthy amongst others is a study carried out by the Maastricht based ECDPM, which argues that 5 countries will loose no less than 70 percent of their present income from tariffs on imports. Even the World Bank, which itself actively advocates in favour of trade liberalisation (see below), argues that ACP-countries on average stand to loose 10 to 20 percent of governmental income through trade liberalisation under EPAs. With the African continent continuing to be heavily indebted even if the debt relief package agreed on by the G 8 is implemented, there obviously is reason to fear that implementation of EPAs as currently envisaged by the European Commission will *severely aggravate* the external debt problem of African and other ACP countries.

6. How do the international financial institutions, the World Bank and the International Monetary Fund, contribute towards continuation and aggravation of debt enslavement through trade liberalisation? This issue, to my knowledge, has been researched best by Aldo Calieri and Mariama Williams, and highlighted in their paper 'Capacity of International Institutions to Support Trade Liberalisation in Low-Income and Vulnerable Countries' (Commonwealth Foundation). The paper speaks of an expanding trade focus by the Bretton Woods Institutions (BWIs). This is reflected among others in the setting up of the Integrated Framework (IF), which is described as an inter-agency initiative for trade-related technical assistance led by the World Bank. Officially the IF aims at 'mainstreaming' trade in the so called poverty reduction strategy papers. Another mechanism is described as an *ex-ante* mechanism: here no formal conditions regarding trade liberalisation are attached to loans granted by the BWI, but a country's trade and investment policies are assessed first, via reports drawn up regarding candidate borrowers (CPIAs, Country Policy and Institutional Assessments), *before* countries receive grants or loans. A country with tariffs below 10 percent gets the highest rating!

7. Two conclusions seem to follow from the above brief review regarding the relationship between trade liberalisation and debt, and regarding the policy of the international financial institutions with regard to trade liberalisation. The first is that the history of the trade liberalisation which has been carried out since the 1980s brings out the fact that debt relief measures are bound to remain ineffectual, as long as the insistence on ever larger trade liberalisation continues. Trade liberalisation has many negative consequences, including the serious danger of *de-industrialisation*, as many countries in Africa have already experienced. But trade liberalisation also bears the risk of aggravating the external debt problem of African/ACP countries. Thus, a halt to trade liberalisation is of equal importance from the perspective of solving the outstanding problem of African/ACP countries' external debt. Without a halt to trade liberalisation, the solution to the external debt problem is bound to remain elusive.

8. Second - the European Union should not only be pressurized into forming an alliance with ACP-countries *against* imposition of trade liberalisation on the latter countries, and in favour of non-reciprocity. This objective as stated in the Morgantini report is important in itself, and should be pursued by state- and non-state actors in Africa/ACP-regions and Europe alike. At the same time,

however, European countries which have an important say in the Bretton Woods institutions, should use their influence in these institutions in support of African/ACP countries, so as *to stop* these institutions from using ‘trade capacity building’, *ex-ante* country assessments (before the issuing of loans) and other mechanisms, towards promotion of trade liberalisation by African/ACP countries. For even if the European Commission agrees to non-reciprocity and succeeds in changing WTO rules, towards enabling the European Union to grant ACP-countries special concessions, there still is the considerable danger that pressure on these countries to liberalise their international trade by the BWIs will continue. There is, to use Calieri and Williams’ words, a need for ‘symmetrical respect’ by the BWIs of space potentially granted under changed WTO-rules.

Dr. Peter Custers - Email: antimil@hotmail.com , Website: www.petercusters.nl

Resources:

Aldo Calieri/Mariama Williams, ‘Capacity of International Financial Institutions to Support Trade Liberalisation in Low-Income and Vulnerable Countries’ (Common Wealth Foundation, London, United Kingdom);

Aldo Calieri/Mariama Williams, ‘Trade Liberalisation and the Role of International Financial Institutions’ (Commonwealth Foundation, London, United Kingdom);

Christian Aid, ‘The Economics of Failure. The Real Cost of ‘Free Trade for Poor Countries’ (London, United Kingdom, June 2005);

Egor Kraev, Ph.D, ‘Estimating GDP Effects of Trade Liberalisation on Developing Countries’ (Centre for Development, Policy and Research, School of Oriental and African Studies, London, UK, June 21, 2005);

Luisa Morgantini, ‘Draft Report on the Development Impact of Economic Partnership Agreements (EPAs)’ (Committee on Development, The European Parliament, January 2006);

Jeff Powell, ‘Cornering the Market: The World Bank’s Trade Capacity Building’ (Bretton Wods Project, London, UK);

Stefan Szepesi, ‘Coercion or Engagement? Economics and Institutions in ACP-EU Trade Negotiations’ (ECDPM Discussion Paper 56, Maastricht, The Netherlands, 2004);

United Nations Conference on Trade and Development, ‘The Least Developed Countries Report 2002. Escaping the Poverty Trap’ (United Nations, New York/Geneva, 2002).