

"The most remarkable rejection of free trade you've never heard of"* By Rick Rowden.

*Africans are insisting on actual economic development which is leaving European trade negotiators exasperated. Rick Rowden explains why their stand is historic and right. This article was published in The Mint (Issue 1, Spring 2017). * In one of the most under-reported major stories coming out of Africa, the dominant idea that "free trade" is the best development strategy for poor countries is being given its most thorough trouncing in decades.

By rejecting proposed free trade deals with the European Union (EU), one of Africa's largest oil producers, Nigeria, and one of the continent's fastest growing economies, Tanzania, have poked the eye of the entire EU - not to mention Thatcher, Reagan, the Bretton Woods institutions and nearly every free market economist from New Delhi to New York. And yet this incredible story has received very little press coverage outside the continent.

Both countries have dug their heels in by consistently refusing to sign on to proposed deals known as Economic Partnership Agreements (EPAs) which have been in the works for well over a decade. Although most exporters from African countries already have preferential duty-free access into the EU market, the new EPAs would gradually give similar tariff-free access to EU exports into African markets.

While Nigeria has opposed the EPA for the Economic Community of West African States for many years, Tanzania's new government under John Magafuli surprised many last summer with a last-minute decision to back away from the EPA for the East African Community (EAC) region.

Both countries have recently adopted ambitious plans for industrialisation. And the presidents, trade ministries and national manufacturing associations of both countries have all made it clear they are rejecting the EPAs with the EU explicitly because of concerns that the rules and restrictions within the proposed agreements would undermine their new industrialization strategies.

Resistance

For example, when Nigeria's president, Muhammadu Buhari, addressed a special session of the European Parliament last year, he reiterated concerns that the rules of the EPA would work against the goals of Nigeria's industrialisation strategy. In Tanzania, its parliament passed a unanimous resolution last November calling for the country to not sign the EPA for the EAC region for the same reason.

This sustained resistance by both countries has effectively led to a standstill in the finalisation of EPAs for their respective regions in Africa, and exasperated the Europeans after more than a decade of

negotiations. Their stand marks one of the most important displays of defiance seen in Africa since the campaigns for national independence from colonialism in the 1950s and 1970s.

At least two members of the European Parliament's trade committee, Maria Arena of Belgium and Julie Ward of the UK, have come out in support of Tanzania's position, arguing the proposed EPA would be harmful to its prospects for industrialisation. Nigeria and Tanzania have raised many arguments for why they believe the proposed EPAs would undermine their future efforts at industrialisation, but according to Arena: "The EU is not responding to those concerns and has declared that it is impossible to reopen the negotiations."

Arena underscored her view that the EPAs are trade liberalization agreements - not development agreements - and added, "Nigeria and Tanzania have legitimate concerns regarding the consequences for the development of their countries." She believes the EU should be willing to address those concerns by reopening the discussions on the contentious issues "instead of pressuring them to sign on." A common problem in disputes over trade and development policy issues is that one side is talking about trade while the other is talking about development. Whereas trade negotiators usually focus on promoting exports in the short term, development economists think about how to transform agricultural economies into manufacturing ones over the long term, usually over several decades.

This explains in the large part why Africa and Europe have spent the past 15 years talking across one another. While the Europeans were claiming the proposed agreements would help Africa to export more of what it currently produces today (agricultural and mineral commodities), the Africans have been worried about how the agreements would restrict what they might otherwise be able to produce in future decades (manufactured goods).

For now, it seems, the long-term developmental perspective is carrying the day in Nigeria and Tanzania. And this marks a profound turning point for Africa specifically, and for the dominance of the "free trade" development strategy generally. Among the main concerns being raised by Nigeria and Tanzania is that the EPAs call for African countries to lower nearly 80% of their protective trade tariffs on imports from the EU over a 25-year period, with nearly 60% of the tariffs eliminated upon finalisation of the agreements.

The short-term view emphasised by the EU looks at how this will enable African countries to import needed industrial inputs or capital goods from the EU that, in theory, will improve capacity and productivity. But the EU neglects the long-term developmental view, which asks what types of trade protection might African economies need in the future when attempting to build higher value-added manufacturing industries that do not yet exist today but might exist in ten or 20 years?

For example, while the EU is right to argue that low tariffs today help Africa to import needed EU pharmaceuticals, what about tomorrow or in ten years when African countries want to start building their own domestic pharmaceutical manufacturing industries? The "standstill clauses" in the proposed EPAs would all but block African countries from being allowed to raise any protective trade tariffs for such industries, as needed, in future decades.

Tanzania and Nigeria are expressly concerned that the low tariffs would lead to the destruction of local industries by large imports of cheaper EU-manufactured goods. For example, the president of the Manufacturers Association of Nigeria (MAN), Frank Jacobs, said: "The EPA in its present form will stifle existing manufacturing industries as they will become uncompetitive because cheaper finished goods from European countries would flood the nation's markets."

Others are worried about how the tariff liberalisation rules would impact small farmers in African economies. Would future floods of cheap, heavily subsidised EU produce wipe them out? Tanzania's president, John Magufuli, raised concerns about this, worried that imports of cheaper, subsidised EU agricultural produce into Tanzania would negatively impact its small farmers, a sector that currently contributes the most to employment and GDP in the country.

While the EU says the EPAs provide for "safeguards" that allow tariffs to be raised temporarily in the case of huge import surges, opponents note that similar safeguards provided for in the World Trade Organization (WTO) rules have proven very complex and difficult to invoke, underscored by the fact that only one country has ever tried to utilize them in over 20 years of WTO rules.

Many in Africa question why the EU should be allowed to use agricultural subsidies under the EU's Common Agricultural Policy in the first place, when EPA rules would prohibit African countries from doing so. In fact, the EU has refused to negotiate on its own agricultural subsidies in both the EPA negotiations and in the WTO.

A particularly important concern is about how the tariff reductions could lead to huge losses in regular tax revenues for many African economies. How would this lost revenue be made up? According to various analyses done by the South Centre, Alternatives Agroécologiques et Solidaires and others using data from Eurostat and the International Trade Centre, the EAC region could lose as much as €3.6 billion in foregone tariff revenues over the next 25 years.

Concerns have also been raised about how EPAs would limit the use of export taxes on raw materials. This would deny African countries a standard industrial policy tool long-considered by industrialised countries as vital in the creation of incentives to keep raw materials at home for use by domestic manufacturers.

Raw

One reason the EU may be pushing for this is related to its 2008 Raw Materials Initiative, and its updated 2015 trade policy. They clearly show it intends to use trade deals like the EPAs to force open developing countries so that EU investors can more easily access raw materials in developing countries and export them to the EU for use in high-tech manufacturing.

According to Tanzania's permanent secretary at its Ministry of Foreign Affairs, Dr Aziz Mlima, this EPA rule would deprive Tanzania's domestic manufacturers of being able to use such natural resources in the future, and would leave the country as little more than "a source of raw materials for European industries." In fact, Tanzania established a ban on exports of vital mineral sands last August, which is permitted under WTO rules, but wouldn't be allowed under the proposed EPA.

However, a European Commission spokesperson told The Mint that countries would still be allowed to use export taxes on raw materials. Yet the details of the EPAs state that doing so would first require notification to the EU; would provide for only limited product coverage for a limited period of time; and would be subject to review by the EPA council.

There is also a problem with the rules that require African countries to, within five years of enacting the EPAs, expand the negotiating agenda into a host of controversial "new issues," such as liberalisation of government procurement, competition policy and foreign investment - all areas that most developing countries have collectively refused to allow onto the WTO agenda for the past 20 years. These types of far-reaching liberalization reforms could undermine African efforts at industrialisation by outlawing the use of various industrial policies and government programmes that are designed to favour building up domestic industries over time.

Lastly, a key concern raised by Nigeria and Tanzania is that the rules of the EPAs would undermine their ongoing efforts with neighbours to expand regional trade within Africa, particularly in the Tripartite Free Trade Area and the Continental Free Trade Area.

Although a European Commission spokesperson told The Mint, "There is absolutely no negative interference between EPAs and African trade integration projects," the concern is that, EU goods could end up flowing into African economies at lower tariff rates than those faced by goods from neighbouring African regions, giving EU exporters a competitive advantage over African exporters.

Former Tanzanian president, Benjamin Mkapa, is among those who fear that locking in old North-South trade flows under the EPAs would destabilize recent efforts at building new South-South regional trade ties. For

example, data shows that African countries today export far more of their manufactured goods to neighboring African economies than they do to others beyond the continent, including the EU. Pointing to such data, Mkapa says that inter-African trade is far more important for the region's aspirations to industrialise. "The EU market plays almost no role in this," he concludes.

On nearly every issue raised by Nigeria and Tanzania, the EU has neglected to assuage adequately their concerns. The EU continually points to the benefits EPAs would offer to Africa's current primary commodity exporters in the short term, while saying nothing about the concerns about how the agreements would impact Africa's ability to industrialise in the long term.

So, rather than go along with any more blind faith in "free trade" theory, Nigeria and Tanzania are taking a different path. They are looking to the historical record of what the industrialized countries did in practice when they were first building their manufacturing sectors - which was not "free trade". In fact, the history of industrialisation from the UK, Germany and the US to Japan, Korea and China suggests that countries should only lower their trade barriers once their domestic industries have become competitive in world markets.

MAN's Jacobs clearly underscored this finer point about the appropriate timing, pacing and sequencing for trade liberalisation when he said Nigeria does not need an EPA now "until it has been adequately industrialised and is able to trade industrial goods competitively."

After more than three decades of African countries faithfully going along with the "free trade" model of development advocated by donor aid agencies and trade negotiators in the industrialised countries, the fact that Nigeria and Tanzania are today saying no to that model is as astonishing as it is historic.