Master Thesis

The regional economic and political effects of the EU-ACP Economic Partnership Agreements (EPA) in the ECOWAS and SADC countries

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Introduction

The Europe-Africa relationship is very old and outdates the European Union itself. It began in the late 15th Century when the first Europeans travelled to Africa and established commercial relations with the local populations. Contrary to common belief, these first commercial relations were not disruptive or unbalanced in favour of European traders (Thornton, 1998 p.53). Many products such as iron, cloth and other manufactured textiles where exchanged and sold. This showed that this trade relation was not about necessary and essential products between two deficient economies but between two well-functioning and established economies.

The commercial relationship changed in the 19th Century when many European nations started the colonialization of Africa. European imperialism, through the conference of Berlin in 1885, marked the start of the brutal colonial period on the African continent (Davis, 1973). Colonialism created dependencies between Europe and Africa which accentuated the power imbalances. Many of the current problems that affect the EU – Africa relationship today can be traced back to the colonial times (Jones & Weinhardt, 2015; Sartre, 2001a; 2001b; Ogar, 2019).

In the beginning of the 20th Century the decolonization process in Africa slowly started to occur. The Suez crisis and the Bandung conference strengthened this momentum and by the 1990s all African states regained independence. With this colonial background, the European Community was created in 1957 with the Treaty of Rome. At that time, some of its MS still had colonies and important interests in Africa (e.g. France) and, therefore, were interested in keeping a close relationship (Dimier & McGeever, 2006). This interconnectedness between Europe and Africa made it necessary for both actors to seek a close partnership.

This led to the EU-ACP framework created under the Yaoundé and Lomé Conventions and then later continued under the Cotonou Agreement.

EU-ACP relationship

In 1975, the Lomé Convention was signed. It governed, until 2000, the relations between the African, Caribbean and Pacific Group of States (ACP) and the EU. Following the realisation that the Lomé Convention did not give the expected results and that three international trade disputes at the GATT and WTO level were initiated, the EU was brought to change its trade relationship with the ACP countries (Read, 2001). Hence, the Cotonou agreement followed in 2000. This agreement was less specific than the Lomé Convention and just provided a general framework of cooperation (Arts, 2003). Furthermore, it set a termination of the non-reciprocal preferential trade regime that was present in the Lomé Convention. By 2008 all ACP countries would cease to be subject to these non-reciprocal trade benefits and would therefore have to start negotiations as singular countries or regions to agree on an EPA agreement with the EU (European Commission, 2002).

In this context, the first EPA, as envisioned by the Cotonou agreement, entered into force in 2008 between the EU and the Caribbean countries (CARIFORUM and the Dominican Republic) (Vickers, 2011). Contrary to what was expected, this was the only agreement that governed trade between a very small part of the ACP countries and the EU until 2011 when the Pacific EPA began its implementation phase.

Finally, in 2012 the first EPA between the EU and an African regional economic community, the Eastern and Southern Africa (ESA), entered into force. This was the first "region to region" EPA on the African continent. Following this agreement, three bilateral EPAs between the EU and single African states were created, one of which was the EU West Africa EPA agreement negotiated with the ECOWAS countries plus Mauritania in 2014. However, due to different interests, the EPA only entered into provisional application in 2016 in Ghana and the Ivory Coast.

Since then, the SADC EPA, which came into force in 2016, was the second "region to region" EPA. The signatories of the SADC EU EPA agreement are South Africa, Botswana, Lesotho, Mozambique, Namibia and Eswatini. Currently, only seven EPAs are being implemented out of which just four are regional EPAs (European Commission, 2017; European Commission, 2019a).

An important goal of the EU in its external relations with third countries is the support of regional integration and regional developments (Krapohl & Van Huut, 2020). In Africa, the EU has undertaken this aim since the Lomé II Convention. Therefore, the EU ACP EPA agreements are supposed to strengthen regional integration and cooperation in Africa (Piebalgs, 2013).

However, the block of countries with which the EU has negotiated these EPA agreements often do not coincide with the already existing regional economic communities (RECs) present on the African continent, as recognised by the African Union.

The Economic Community of West African States (ECOWAS) was created in 1975 with the aim of promoting regional economic cooperation and integration. The ECOWAS countries are all included in the EPA negotiations with West Africa (plus Mauritania), however, this EPA agreement never fully entered into force due to Nigeria's refusal of signing the West Africa EPA agreement. However, in 2016, a so called "stepping-stone EPA agreement" entered into provisional application only in Ghana and the Ivory Coast.

Similarly, this is the case in the SADC region. SADC was formally created in 1992 with the aim of strengthening political and economic cooperation to overcome the post-colonial period and to loosen their ties to apartheid South Africa (Mapuva, 2014). Once Apartheid in South Africa ended, it joined the SADC countries and became one of its leading members. To date, SADC includes 16 countries but only seven are included in the SADC EPA negotiations. Since 2016, the SADC EPA agreement has been implemented by the Southern African Customs Union (SACU) which is composed of South Africa, Botswana, Namibia, Lesotho and Eswatini. Mozambique started implementing the agreement in 2018 and Angola has yet to implement the agreement. The other countries which are part of the SADC community have been agglomerated under different regional EPA agreements.

This incompatibility between ACP EPA and REC member states leads to the main research question of this study.

What have been the consequences of the Economic Partnership Agreements for the integration processes in the ECOWAS and SADC regions?

Furthermore, the author has decided to formulate four more sub-questions:

1. *What have been the consequences regarding trade and investment flows?*

2. *How have these consequences affected the integration processes?*

3. *Do the EPAs lead to conflicts of interest between the member states of ECOWAS and SADC?*

4. *Do the EPAs contain incentives for more regional integration?*

In this study, the author will argue that the EPAs have increased the importance of extra-regional exports to Europe and other EPA African countries. At the same time, the EPAs have strengthened the political discourse and cooperation between regional EPA partners but hindered cooperation with non- EPA regional countries. As a consequence, the economic integration objectives of SADC and ECOWAS have become more difficult to achieve.

Literature review

Regionalism in Africa

SADC

Different scholars have debated about regionalist processes in Africa (Simon 2002, Bach 2003, Bøås 2003, Iheduru 2003, Sandberg & Sabel 2003, Söderbaum & Taylor 2003, Lee 2003).

Morten Bøås (2003) argued that the majority of African states have weak government structures. Furthermore, state fragmentation has led to an increase in the importance of the private and informal sectors as the driving forces of economic development and regionalisation through the creation of transnational (trading) networks. He found out that often the political figures are at the same time important economic players taking part in transnational networks. Although these transnational networks could enhance the regionalisation process due to the increased interdependencies they create among countries, they could also oppose further regionalisation due to the opportunities that maintaining a frontier creates (e.g. illicit trade, trade deflection or stronger bargaining power for political goals) (Bøås, 2003; Bach, 2003).

In the case of the SADC group, there has been a strong surge in cooperation culminating in various initiatives supported by different international actors (such as the World Bank, World Customs Organisations and the Swedish International Development Cooperation Agency). In this sense, special developments initiatives (SDIs) have captured the attention of many NRA scholars because of their clear aim to link the region together by building up the infrastructure and attracting investments. Probably, the most ambitious and therefore also the most analysed SDI has been the Maputo Development Corridor (Simon, 2002; Söderbaum & Taylor, 2003; Lee, 2003).

Nonetheless, regional developments can also be negative for some societies and countries (McLean, 2003; Mulaudzi, 2009; Good & Hughes, 2002). The work of Good & Hughes (2002) showed how the Southern African Customs Union (SACU) proved to be very positive for the car manufacturing sector of Botswana. However, due to its success, South Africa, which originally had been in favour of more industrial development in its neighbouring states, started to become more protective of its own car industry. In the end, it began to put pressure on both private actors involved in the Botswanan car manufacturing sector and on the Botswanan government. As a consequence, the most important car manufacturers relocated their production to South Africa (Mulaudzi, 2009; Good & Hughes, 2002).

Finally, it is paramount to understand that the economic situation of the SADC countries is very different. South Africa has undoubtably the strongest and most resilient economy of the region. Therefore, it has a dominant position within SADC and the SACU. Furthermore, it attracts large amounts of foreign direct investments and foreign trade partners (e.g. EU and US). At the same time, however, it is very much reliant on its intra SACU exports. The SADC regional trade on the other hand has been stagnating due to underdeveloped economies and infrastructures, non-tariff barriers and little product diversification (Vickers, 2011). This means that South Africa has much to gain from regionalisation. Furthermore, as the most advanced economy, it has also been identified as the "gateway [for] foreign investment" to the region (Amos, 2010). This position of dominance gives South Africa a strong political bargaining power within SADC (Amos, 2010; Lee, 2003).

According to Vickers (2011), it was mostly the interests of South Africa and the EU that have influenced the final EU-SADC EPA agreement. To a certain extent, this could have jeopardized the SADC regional project since it marked the division of the SADC countries in four different EPA agreements with the EU (Vickers 2011). Stephen Hurt (2012) analysed the strategy of the EU from a neo-liberal and open regionalism perspective and found evidence that showed how the EU was trying to promote regional cooperation in SADC with the aim of strengthening the process of globalisation. However, according to the SADC Regional Indicative Strategic Development Plan (RISDP), it is the process of globalisation itself that poses many opportunities and challenges, which can only be addressed through stronger regional cooperation (Mulaudzi, 2009).

West Africa (ECOWAS)

As mentioned above ECOWAS was established in 1975 as an intergovernmental organisation with the aim of improving economic cooperation among the ECOWAS countries. Bossuyit (2017) argues that until the mid-2000, ECOWAS was a purely intergovernmental organisation without formal powers to ensure and enforce compliance. Therefore, important institutional reforms were conducted which created the ECOWAS formal institutions (e.g. creation of an ECOWAS Commission, ECOWAS parliament and ECOWAS Court of Justice).

However, cooperation between these countries was difficult due to the unstable nature of their states and social cohesion (tribalism). The need of stability in the region transformed the ECOWAS into a key regional security actor which helped solve a number of regional conflicts before they escalated (Bossuyit, 2017; Lucia, 2018).

According to Okolo (1985), the main push that led to economic cooperation and the creation of ECOWAS, was dictated by the, at that time, most developed economies of the ECOWAS countries: Senegal, Ivory Coast, Nigeria and Ghana. These countries wanted to enhance their bargaining position towards extra regional actors (such as the EU) and multinational companies. Furthermore, Okolo (1985) already identified Nigeria (the biggest economy in the region) as the regional Hegemon trying to stabilise the region and establish its leadership in West Africa. Important to note is that Nigeria's main regional contestant has been France. Therefore, regional integration in West Africa has to be understood as a playing field between Nigeria acting as a counterweight to France's influence in the francophone west African countries (Okolo, 1985; Uche, 2001; Lucia, 2018).

Economic Partnership Agreements

In the academic literature, the question of where the EU draws its power from is highly debated. Duchêne (1972) has argued that the main source of power of the EU stems from its civilian power. This idea was the basis for Ian Manners (2002) concept of Normative Power Europe which understands EU power as a direct consequence of what the EU is rather then what it does (Manners, 2002). However, other scholars disagree and argue that it is the EU single market that determines EU power (Damro, 2012). Furthermore, Meunier and Nicolaïdis (2006) showed that the EU has also become a strong "power through trade" actor by using the prospect of EU market access to secure its interests in bilateral and multilateral negotiations.

However, Meunier and Nicolaïdis (2019) also argue that the EU's power through trade has faded over time. The EU is not as effective anymore as it was once because other "market powers" such as China have become important trading partners for other countries as well. Furthermore, the offensive trade and investment strategy of the Chinese government to not link its trade or investment deals to human rights, environmental or labour provisions has eroded the EU's main leverage force (Meunier, 2019). This meant that alternative trade partners have become at least as attractive as the EU.

Losing power and leverage would be especially troublesome for the EU regarding its interest in maintaining a special partnership with the ACP countries.

Nonetheless, the importance of having EU market access for African countries is still very important for their economies. This has been recognised in the past by the EU which has given unilateral trade preferences for ACP countries under the Cotonou agreement. However, Gammage (2017) has argued that this unilateral access to the EU market further accentuated the dependency relationship to Europe rather than actually help these countries develop their economies and compete on the world market.

Nonetheless, international trade is important for developing countries to ensure economic development and enhancing their productivity. Trade brings opportunities for developing countries to benefit from economies of scale, better allocation of resources, technologies and knowledge transfers and enhanced FDI flows (Balassa, 1989). In his study, Balassa (1989) found that protectionist countries which implemented import substitution strategies harmed their own exports and did not develop as quickly as countries which relied more on their exports. Naturally, however, export-oriented countries are more affected by external shocks because of their interdependence and interconnectedness with other partners. Finally, regional integration and cooperation between developing economies would also boost development since they could benefit from economies of scale and specialisation effects. Due to comparative advantages, trade between partners of different economic size and capacity would still be profitable for both countries.

This idea that trade will bring development is at the core of the regional economic communities (REC) in Africa. These RECs have been introduced through a top down approach and have been very ambitious from the start. However, Tavares and Tang (2011) argue that overlapping memberships and little regional cooperation in regional initiatives have undermined these regional integration processes. Nonetheless, in a case-study of Tanzania, Kweka and Mboya (2004) find that regional integration within SADC and EAC led to an increase in trade and that the benefits of more regional trade were experienced by the local population (Kweka & Mboya, 2005; Uexkull, 2012). However, the low degree of diversification and varying economic and political interests have become apparent and negatively affected the EPA negotiations (Tavares and Tang, 2011).

The EPA agreements have been tailored to the specific needs of the partners in question, however, the main elements of these agreements are always the same. The EU offers duty free and quota free (DFQF) access to its markets (except for South Africa which only enjoys 96,2% of DFQF EU market access) in exchange for a gradual liberalisation of the African markets to

EU products (European Commission, 2016b). All EPA agreements only cover the trade in goods (except for the CARIFORUM EPA which also includes trade in services) and have different provisions regarding the level of development aid (Schmieg, 2019). However, the structure and the main provisions are present in all agreements. First, as already mentioned, the EPA agreements provide for asymmetric liberalisation schedules.

Following WTO rules, FTA agreements have to liberalise substantially all trade but this definition has been interpreted differently by various countries. The EU usually negotiates FTA that liberalise around 80% – 90% of all trade (Gammage, 2017). The EPA agreements are no exception albeit including an asymmetric and progressive liberalisation plan over an agreed period of time. The EPA agreement negotiated with SADC foresees roughly 80% of trade liberalisation over a period of 20 years while the EPA agreement with West Africa expects the African partners to liberalise around 75% of their markets over the same period of time (Gammage, 2017; Lodge, 2019).

Lodge (2019) argues that West African countries managed to convince the EU in accepting a lower trade liberalisation plan mainly because most of them had already access to the EU market through the "Everything but arms" (EBA) initiative. Furthermore, the lengthy negotiations diminished the political confidence of the parties to sign the agreement. In the end, three countries (Mauritania, The Gambia and Nigeria) did not sign the agreement which stalled the implementation process of the WA EPA. To this day Nigeria, which is not an EBA beneficiary but benefits from duty free market access to the EU since the majority of its exports (crude oil) do not face any tariffs upon entering the EU, is the last country which still has not signed the EPA agreement (Hoppe, 2007). The first hypothesis of this study is therefore:

> H1. African countries which already have DFQF access to the EU and mostly rely on extra-regional exports, will not implement the EPA agreements since they will not benefit from intra-regional trade as much as their African counterparts.

As Balassa (1989) mentioned, more trade (international or regional trade) will always be beneficial in the long run. However, in the short term, liberalising the African markets would put many African companies under pressure due to new competition from the EU (Pearson, 2019). The removal of import tariffs would make these companies lose competitiveness towards foreign businesses, potentially making them the losers of globalisation. To mitigate this effect, the EPA agreements under study all have safeguard provisions in place (Art. 33 – 38 SADC EPA; Art. 24 – 25 Stepping stone EPAs with Ghana and the Ivory Coast) which can be activated by the parties if the foreign competition becomes a threat to the existence of the local production. Nonetheless, new and fierce competition from the EU will be inevitable. This leads to the second hypothesis. It is expected that:

> H2. African countries which do not have a diversified industry and heavily rely on it will be more hesitant to join the EPA agreement since they would fear foreign competition.

Furthermore, it is debated whether the EPA agreements will actually have a strong impact on trade since most ACP countries already enjoy unilateral duty-free access, under the GSP, GSP+ and EBA schemes, to the European market. Therefore, a free trade agreement such as the EPA is not expected to directly strengthen trade. Nonetheless, Kone (2008) argues that the EPAs are expected to generate more FDI investments directed to the partnering African countries. On this point, the EPA agreements have no real provisions in place that boost investments. All EPAs have rendezvous clauses which encourage the parties to continue negotiations also in the fields of investments. Nonetheless, all EPAs preambles under study recognised that the EPAs create a favourable environment for investments to occur. Actually, enhancing investments is also one of the main objectives of the SADC EPA agreement (Art. 1). These considerations introduce the third hypothesis of this study:

> H3. The inward FDI flows and stocks of the African EPA member states will rise since companies could benefit from DFQF EU market access.

Another important tool that is at the base of the EPA agreements is the Rules of Origin (ROO). This measure has been implemented with all other trade partners of the EU and is aimed at granting market access only to products which originate or have been produced locally. The ROO are designed so that no trade deflection occurs and that international companies only benefit from DFQF EU market access if the product has been produced in one of the EPA member countries. Furthermore, ROO also have the effect of protecting the local industry since it forces foreign investors to produce or buy the products locally (Gammage,2017).

According to Art. 6 of Regulation (EU) 2016/1076, all EPA and interim EPA agreements (therefore also the West Africa EPA, the stepping-stone EPAs and the SADC EPA) allow for bilateral, diagonal and a so-called extended "cumulation of origins" (European Union, 2016; Nauman, 2018). This means that ACP EPA member states can still benefit from DFQF EU market access if they use products which originate from the EU and its overseas countries and territories (bilateral cumulation of origin), South Africa (as it does not have full market access to the EU; diagonal cumulation of origin) or other ACP countries that have an EPA agreement with the EU in place (extended cumulation of origin). Therefore, products can be obtained from other members of the regional EPA states to have DFQF market access to the EU. According to Berends (2016), this will boost and incentivise regional trade (Berends, 2016; Busse et al. 2004).

Therefore, adhering to the EPA agreements would be better than keeping EBA preferences since EBA ROO are more stringent and do not allow for cumulation of origin (Gammage, 2017). This leads to the next hypothesis:

> H4. The EPA agreements will boost intra-African EPA regional trade due to trade creation through the cumulation of origin provision between ACP EPA member states.

Linked to this, also the fifth hypothesis has been formulated:

> H5. Due to trade diversion effects, Intra-regional trade between EPA member states and non-EPA member states will remain at the same level or fall.

As Balassa (1989) and Kweka and Mboya (2004) argue, regional economic cooperation is paramount for developing countries to improve and develop their economies. In fact, on the African continent, the rise of regional trade areas (RTA) has long attracted scholarly attention. According to Richard Baldwin (2006), each time that the integration between RTA members became deeper and more comprehensive, also the incentives for other non-RTA member countries to join these free trade areas grew. The EPA agreements represent a form of deeper cooperation between the EU and the African counterparts. The closer cooperation and the stronger interest in benefitting from the cumulation of origin provision, the more cooperation between EPA member states will be expected. Rendezvous clauses arguably force the negotiating partners to start talking about some of these issues since they have to find a common position. Hence the next hypothesis:

> H6. The implementation of the EPA agreement should incentivise political cooperation in regards to trade/economic policy between the African EPA member states.

Njinkeu (2019) mentions two important issues that African partners are faced with in the EPA adoption process. First, the loss of revenue on imports could be detrimental for some countries which heavily rely on them to develop their economy. Second, African countries know how important developing their industries is to become competitive and adding value to their production. In the long-term perspective, correct industrialisation policies would lead to economic development and protecting infant local industry becomes paramount to encourage value-added production (Njinkeu, 2019). As we will see later on, the EU has taken the problem of African countries of losing import tariff revenue seriously. The EPAs are to generate economic benefits which are going to compensate for the loss of tariff revenue. Nonetheless, in some cases, the EPAs have allowed some countries to keep higher tariffs. Still, the market liberalisations will in the short-term be very problematic for some countries. Hence the next hypothesis:

> H7. African countries which rely on import tariffs will be more reluctant to join the EPA agreement since these forms of income would cease existing.

Furthermore, Kone (2008) argues that trade diversion is going to affect the flow of goods to the rest of Africa redirecting it to the EU and away from other African countries. Nonetheless, due to the "cumulation of origin", the effect of trade diversion might be softened since intra-regional trade, through comparative advantages, would also boost exports to the EU. However, the EPAs will improve exports to the EU in the detriment of other non-EPA African member countries. From this the last hypothesis has been informed.

> H8. Extra-regional trade will rise for exports to Europe but fall due to trade diversion for exports to the rest of African countries which are not part of any of the EPA agreements.

Methods

Research Design

The West Africa and SADC regions have been selected as the two case studies to be compared and analysed because of their similarities in the heterogeneity of economic and political size and power. In both regions there is a potential regional hegemon (respectively Nigeria and South Africa). Furthermore, both regions are arguably the most advanced in terms of economic integration in Africa and both have the largest numbers of member countries. The difference lies within the application and implementation of the EPA agreements. The SADC EPA member countries have, as a block, agreed and implemented (with the exception of Angola) the EPA agreement while in West Africa the EPA agreement implementation at the regional level has been stalled by Nigeria. Therefore, a “stepping stone” EPA agreement has been implemented between the Ivory Coast, Ghana and the EU. This is a perfect opportunity to see whether the difference between these EPA agreements has had a supportive or negative impact on the regional integration process.

Based on empirical data, an overview of the main economic and political developments of the SADC and ECOWAS countries following the EPAs implementation with the EU will be provided. This research will be a comparative case study which will try to uncover the regional developments that have started to occur after the implementation of the EPAs with SADC, Ghana and Ivory Coast.

The focus of the study will be the study of the regional developments that have occurred as a consequence of the implementation of these agreements. More specifically, the analysis will explore the responses of state actors and businesses to the implementation of the EPA agreements.

The results could help understand the further implications that these will have on the SADC and ECOWAS regional projects. Furthermore, this study could show whether the EPA agreements have spurred similar or different regional developments in these two African regions.

Since the focus will be on the comparison of economic and political/institutional developments between the SADC and the West African region, following the implementation of the EPAs, this will be a comparative case study. A comparative case study grants the possibility of a deep analysis of the developments that have happened in Southern Africa and West Africa.

Therefore, analysing the SADC case and the West African case could provide two real-world perspective in the study of regionalism (Yin, 2014).

However, the downside of case studies is that they lack explanatory power since the findings are linked to that particular case (Lim, 2010). Therefore, theories cannot be proven or falsified. Nonetheless, the results could showcase new regionalist patterns in Africa which could enrich the academic field. Therefore, case studies are indispensable for creating more encompassing and comprehensive theories (Lim 2010).

Data collection and operationalisation

To analyse the economic consequences of the EU-SADC EPA and the stepping-stone EPA agreements, the author will use trade and investment statistics from the United Nations Conference on Trade and Developments (UNCTAD). The analysis will focus on the intra-regional and extra-regional trade developments and on the inward looking FDI flows and stocks. Then, the focus will shift on the political developments that have occurred after the implementation of the EPAs.

The EPAs are expected to have a direct effect on trade and investments between EPA countries and the EU. To check for trade creation, trade diversion and possible attempts of trade deflection effects, the author will create intra-regional and extra-regional trade and investment charts of the West Africa and SADC regions, using UNCTAD data. The intra-regional figures will show the trade developments between EPA and non-EPA members of the SADC and ECOWAS + Mauritania regions, while the extra-regional trading partners next to the EU are the USA, China and the rest of Africa (divided by EPA and non-EPA countries due to cumulation of origin).

In the analysis chapter, a descriptive analysis of the trade and investment statistics will be made. However, there are some drawbacks to descriptive analyses methods which have to be addressed. First, graphs created using absolute numbers (USD) can only indicate a positive or negative trend in terms of trade value, not trade volume. Therefore, price fluctuations (especially for weak mono-export economies) can influence the value of trade. Second, big regional economies can distort, by overrepresentation, the final graphs. Therefore, the author also has decided to include figures which show the percentage of trade by country/region on total trade, to check for changes in product destination and market importance. Separate analysis will be carried out on some countries' trade and investment data (Nigeria, South Africa and Angola). Nonetheless, it is important to remember that any result will have to be further researched to be confirmed since descriptive statistics provide no evidence for causality, only correlation. Finally, the statistical data could not be exact, therefore only general trends should be analysed.

The political and institutional developments analysis will focus on regional (ECOWAS and SADC level), sub-regional (SACU or UEMOA/WAMZ) and bilateral programmes. Furthermore, the author has conducted interviews with regional economic academics and employees of EU Delegations to West Africa and Southern Africa.

The study will focus on programmes concerning trade and investment facilitation projects, improving the business environment and strengthening the industrialisation processes within the SADC and ECOWAS region. These programmes should have the aim to attract foreign and domestic investment and to improve the competitiveness of the regions at the international level.

Data analysis

The trade and investment data analysis will focus on the period before and after the implementation of the EPA agreements (2000-2018) to check for new trends in both West Africa and Southern Africa. The intra-regional SADC trade figures only show data from 2010-2018 due to lack of earlier data.

The analysis for the political and institutional developments will depend on the region but generally are focused around the EPA implementation start. The political developments could show how the countries have responded to the EPA and the economic developments in the region and if these have strengthened or hindered the regional integration processes of the SADC and ECOWAS communities.

Analysis

SADC

The SADC region is very diverse and its member states show strong economic and political power imbalances. Due to these differences, in 1999 the EU negotiated a separate FTA with South Africa since these power differences could be detrimental to the sustainable development of the region. Still today, South Africa is the largest trading partner for the EU and its economy has become very diversified in comparison to the rest of the SADC countries (European Commission, 2020b). Therefore, South Africa has always had a special status in the ACP – EU relationship since it enjoyed less EU market access than its regional ACP neighbours. This difference continued also in the EPA negotiations since South Africa enjoys less DFQF EU market access than its regional SADC partners.

This has been done to protect European sectors which would have suffered from the South African competition. Nonetheless, this agreement still represents a better deal than what South African products previously faced under the bilateral EU – South Africa FTA. In regards to market liberalisation of the SADC EPA countries, all SACU states will have a common tariff towards European products (86.2%) while Mozambique, which joined the EPA in 2018, has been allowed to keep in place more tariffs towards EU products (74%) (European Commission, 2016).

As mentioned above, the SADC EPA agreement includes safeguards provisions (Art. 34 SADC EPA) that can be activated by the parties if the amount of imports rises to the extent that they threaten the existence of local production. Furthermore, infant African industries can also be supported and protected against foreign competition to allow them to become competitive (Art. 26 (2) and Art. 36 SADC EPA). To strengthen the regional integration process, the SADC EPA agreement also includes provisions that automatically extend any trade advantage given to the EU from any SADC EPA member state to the rest of the SADC EPA region (Art. 108 SADC EPA).

Under Regulation (EU) 2016/1076, cumulation of origin is allowed for SADC EPA countries. However, since South Africa does not have the same market access to the EU as the rest of the ACP EPA countries, special rules apply. This means that a product coming from any ACP EPA country to the EU (this also applies to the SACU customs union) but originating in South Africa, can only benefit from 100% DFQF market access if subsequent working or processing has occurred. Furthermore, one of the interviewees argued that "*EPA rules of origin […]*

actually allow a country like Botswana to get inputs not just from the parties of the SADC EPA but [from] all other ACPs countries and even countries that have preferential market access to the EU. […] theoretically, at least, you could even use inputs from Canada in Namibia."

Therefore, the potential to benefit from this type of global cumulation of origins is very high (Tralac, 2018).

Political developments

Over the years SADC has played a key political and economic role. Regarding the economic integration, SADC started to implement the free trade area agreement in 2008 (SADC, n.d.). This was an important achievement although the implementation of the free trade area arrangement has been problematic in some countries. Currently, only 12 out of 16 SADC states are implementing the agreement. With Angola and the Dem. Rep. of Congo not participating in the free trade area project, meaning that they still have tariffs in place (SADC, n.d.; Sandrey, 2013).

Next to the free trade area project, SADC aimed at the implementation of other ambitious projects in a very short period of time. In the time span of just 10 years, SADC wanted to establish a customs union, form a common market, make a monetary union and adopt a common currency (SADC, 2019). This plan of action resulted to be too ambitious and only the Free Trade Area has been implemented since.

The latest and most important agenda of SADC has been adopted in 2015. The SADC Industrialization Strategy and Roadmap 2015 – 2063 is a long-term strategy aimed at transforming SADC's economies to become competitive and grow in the future. To achieve this, SADC has identified three main pillars: strengthening the industrialisation process, increasing competitiveness and deepening regional integration. The strategy aims at eradicating poverty through trade liberalisation to boost the economy. The strategy couples trade liberalisation with important industrialisation policies to maximise the benefits (SADC, 2015). Therefore, both market integration and industrial development are very important for SADC. In the last few years, SADC has focused on increasing the competitiveness of its member states production and supply side capacities, promote the free movement of goods and services, achieve macroeconomic convergence, support monetary cooperation and encourage financial market integration (SADC, 2019). All in all, SADC is trying to deepen regional economic integration among its member states and not only, since it has supported the negotiations of the SADC-

COMESA-EAC Tripartite Free Trade Agreement and the African Continental Free Trade Agreement (Xinhua, 2020).

SADC started working on regional projects and programmes to strengthen industrial development and market integration. According to the SADC *Status of Integration in the SADC Region Report* (2019), there are differences between sectors, however "appropriate policy frameworks, protocols and decisions have been put in place, ratified and domesticated in key areas" (SADC, 2019 p. 10).

Furthermore, between 2015 and 2019, SADC has implemented the SADC Trade Related Facility programme which was aimed at supporting SADC countries to adhere to the SADC Protocol on Trade and/or the SADC EPA agreement (SADC, 2015). This programme has been financed by the European Development Fund to boost regional integration and economic development. In total 12 SADC countries benefitted from the programme including all SADC EPA members expect for South Africa and Angola (EEAS, 2018).

As mentioned above, SADC has not managed yet to create a customs union. However, the SADC EPA region (with the exception of Mozambique and Angola) form the SACU customs union. Until the implementation of the EPA agreement in 2016, this customs union was not properly functioning for imports from the EU since South Africa had a separate FTA in place with the EU. Meaning that EU exports to South Africa faced different tariffs than for the rest of the SACU countries (Berends, 2016). The EPA agreement has harmonised these tariffs for the whole SACU countries. Furthermore, the SADC EPA agreement established two institutions: the Joint Council (EU Council and Commission members-SADC EPA ministers) and the Trade and Development Committee (senior EU-SADC EPA civil servants) which are in general responsible for supervising and monitoring the correct implementation of the SADC EPA agreement (Tralac & Wesgro, 2018). So, cooperation between the SADC EPA group of states has become very important.

According to Hulse (2016), the SADC EPA negotiations sparked intra-regional tensions between SACU members. In fact, there have been differences in the way SACU tariff revenues are being allocated by member state. Some SACU countries rely heavily on the common revenues that are being generated by the common external tariff (Chidede, 2018). However, South Africa believes that it should receive more shares of this revenue since it is the biggest generating state. Since 2017, there have been reforms to restructure the way these tariff revenues are distributed. These reforms are still underway as the parties could not find an agreement yet (Shihepo, 2019).

Nonetheless, the economic benefits from the customs union and the economic cooperation within the SACU have been very beneficial for all SACU countries. South African companies have benefitted from intra-SACU trade and from regional value chains (such as in the automotive sector) (GoBotswana, 2014). On the other hand, the rest of the SACU countries have received important investments from South African firms.

The other two SADC EPA countries, Mozambique and Angola, did not directly implement the SADC EPA agreement. Angola has not joined it yet while Mozambique has joined the EPA and has started to apply it since 2018. Mozambique's uncertainties to join the agreement came mostly from the loss of tariff revenue on EU imports. Mozambique, just as other African countries, has been very reliant on this type of income to finance its fiscal policy. Furthermore, the enhanced competition that opening its market would mean for its own industries was another strong deterrent from joining the agreement. Therefore, the EU has agreed to allow Mozambique to maintain 26% of tariffs on all EU imports instead of the 14% offered to the other SADC EPA countries. Although Mozambique does not have a strong industrial sector, it could more easily protect its coming businesses from European competition (Kaufmann & Borowczak, 2019).

Angola is the last country which is not part of the SADC EPA. Angola is very reliant on its oil exports (more than 90%) which also accounts for more than one-third of its own GDP. The country has naturally been very susceptible to the volatile prices of oil. However, Angola has implemented policies to make its industries more competitive. It has implemented a reform plan with the help of the IMF and the World Bank. Nonetheless, Angola is still dependent on its oil exports (World Bank, 2019).

The reliance on crude oil exports has induced Angola to introduce protective policies towards Europe but also towards its African counterparts since it has refused to implement the SADC EPA agreement and the SADC free trade area agreement.

To make sure that Angola will not be reliant on its crude oil resources only, the government has decided to diversify its exports by transforming the hydrocarbon resources in Angola itself. The state-owned company Sonangol has worked together with an American company United Shine and built a crude oil refinery in Angola in 2019 (AfricaNews, 2019).

Similarly, ENI, an Italian oil and gas company, has entered in a joint venture with Sonangol to modernise and operate another important refinery in Luanda (ANGOP, 2019).

Economic analysis

In the following graph, the exports and imports of SADC EPA countries towards and from non-SADC EPA countries are represented. If we examine the intra-regional exports, it is evident that a positive trend has occurred since 2016. Also, the imports coming from non-SADC EPA countries have experienced a similar trend, albeit less pronounced. However, when comparing both regional imports and exports to total exports and imports, it is clear that the aforementioned developments have not had a significant effect on the destination of trade. Most trade of the SADC countries is conducted with extra-regional partners as can be seen by the relatively low percentage of total SADC EPA exports (10%) destined to non-SADC EPA countries and by the even lower total SADC EPA imports coming from non-SADC EPA countries (5%).

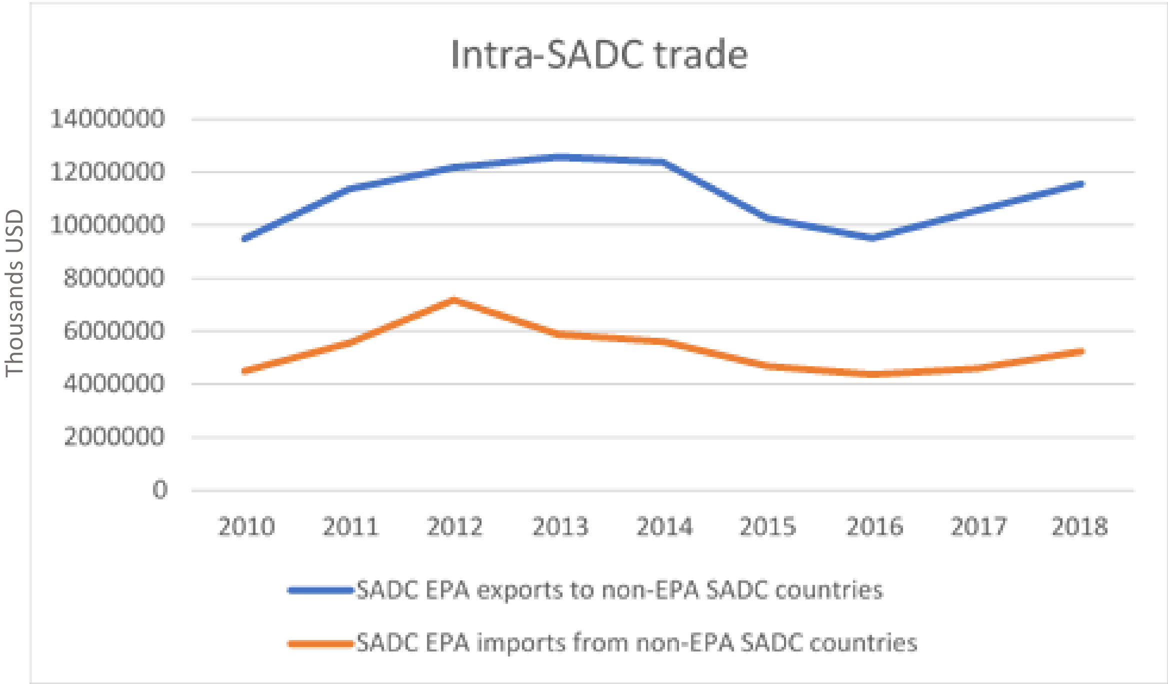

Figure 1 – *Intra-SADC trade* Source: UNCTAD

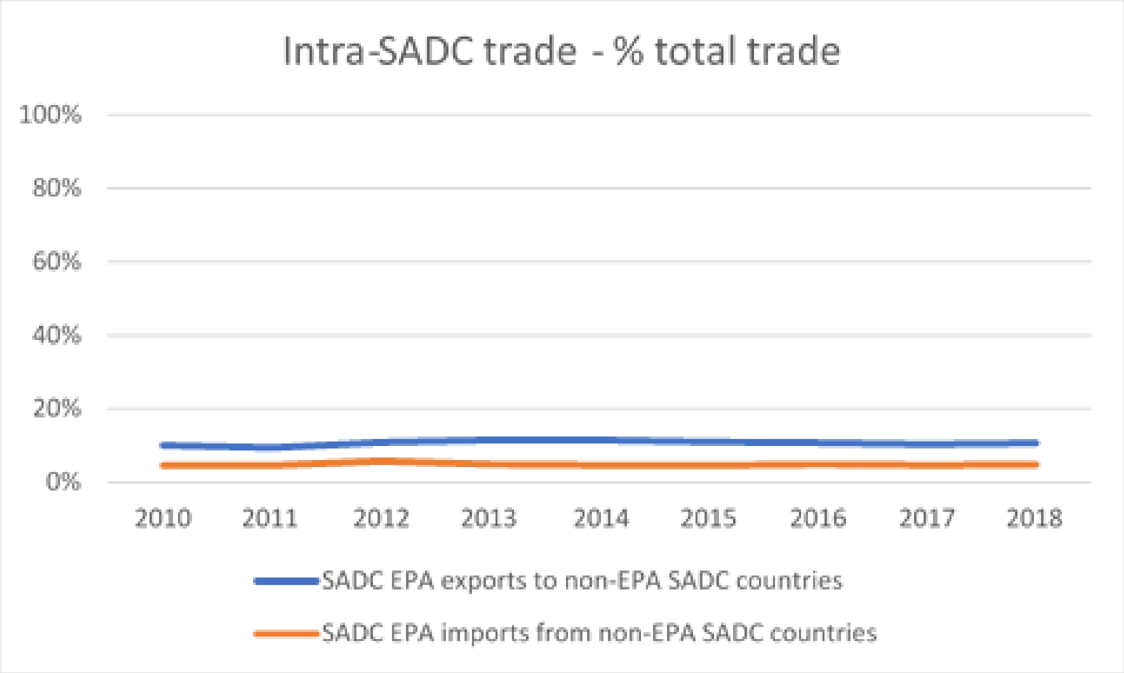

Figure 2 – *Intra-SADC trade - % total trade* Source: UNCTAD

Figure 3 shows the SADC EPA exports by partner country/region. It is interesting to see that the exports to the EU have fallen in 2011 but managed to rise again between 2016 – 2018 to almost the same level. A similar development is visible in the exports to non-EPA African countries albeit less forcefull.

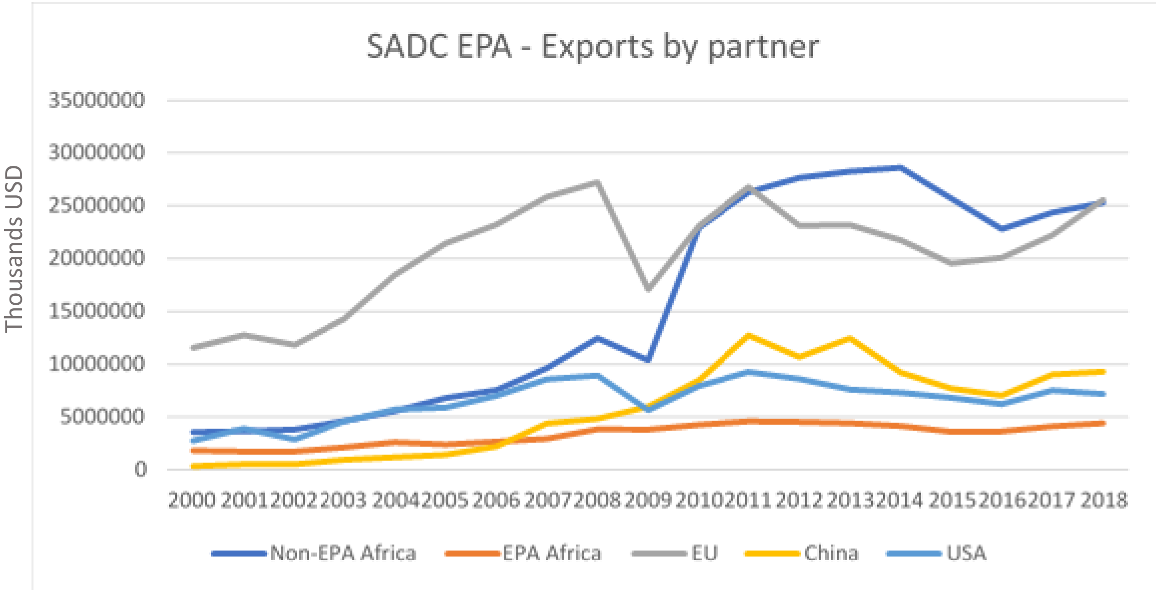

Figure 3 – *SADC EPA -Exports by partner* Source: UNCTAD

However, in terms of percentage of total exports, products destined for other non-EPA African countries have started to lose in importance. On the other hand, exports to EPA African countries have steadily risen, receiving new momentum in 2016 although only representing around 4% of total exports. The exports to China and the USA have stagnated and this can also be seen in the percentage of total exports destined for these countries.

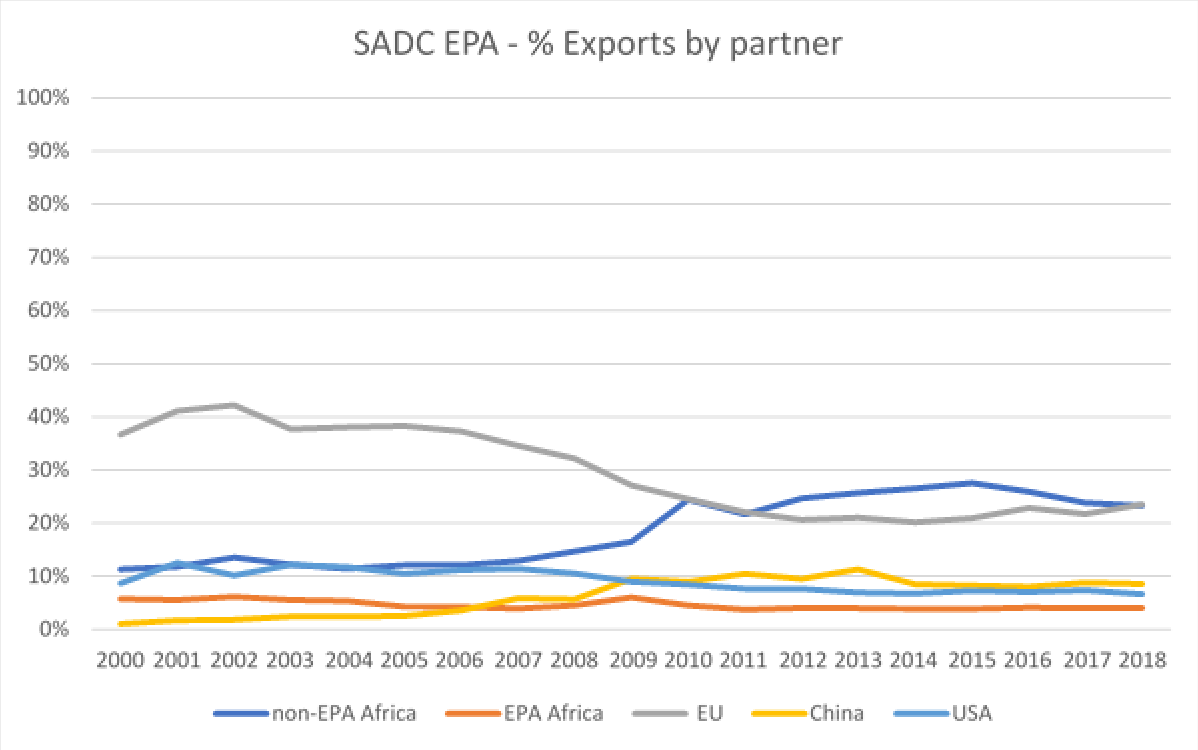

Figure 4 – *SADC EPA - % Exports by partner* Source: UNCTAD

In regards to the exports of non-SADC EPA countries, most products are destined for the Chinese market followed by exports to the EU and Africa. Only a small amount is planned to access the American market. Since the implementation of the SADC EPA agreement in 2016, the exports to Europe and Africa have both started to rise in a similar manner. Possibly, the implementation of the SADC EPA and the subsequent SADC trade facilitation programmes have boosted economic development in the region and enhanced productivity.

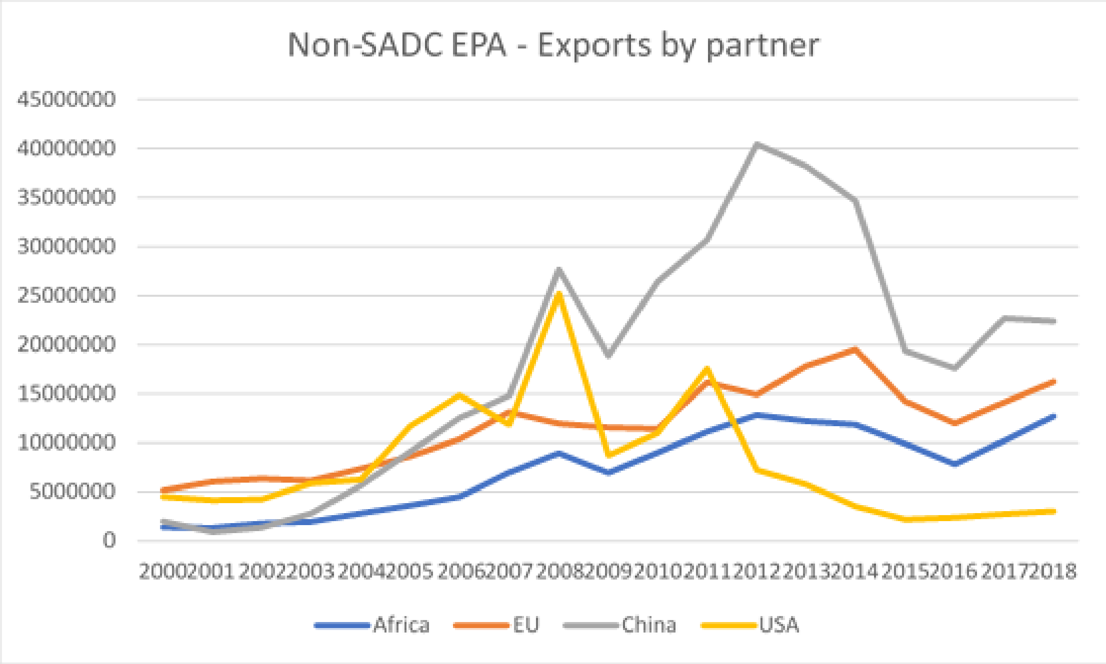

Figure 5 – *Non-SADC EPA – Exports by partner* Source: UNCTAD

Further evidence might be represented by Figure 6. Since 2016, exports to Africa have become slightly more prevalent at the expense of Chinese exports. European and American exports on the other hand have remained constant.

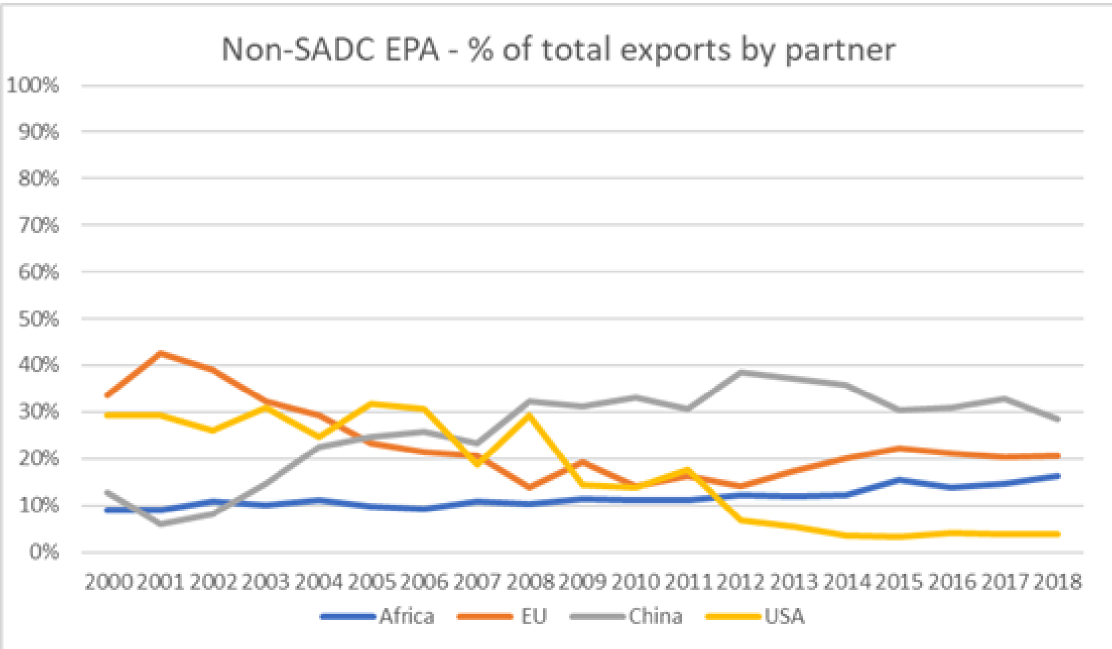

Figure 6 – *Non-SADC EPA - % of total exports by partner* Source: UNCTAD

In regards to the investment flows, figure 7, shows the FDI flows towards the whole SADC region. South Africa (SA) and Angola have been represented singularly since they would otherwise distort the graphs due to the important differences in the amount of FDI that they attract compared to the other SADC countries. In general, SADC EPA inward FDI flows have remained low. Interestingly this effect has occurred especially since 2016. On the other hand, FDI flows to South Africa have strongly increased again in 2018. Possibly, since it's the most advanced economy in the region, South Africa has attracted most of the FDI to the detriment of the rest of the SADC EPA countries. The inwards FDI flows for the non-SADC EPA region have on average diminished since 2012, however, since 2016 the FDI flows have stabilised themselves and have remained constant at roughly the same level.

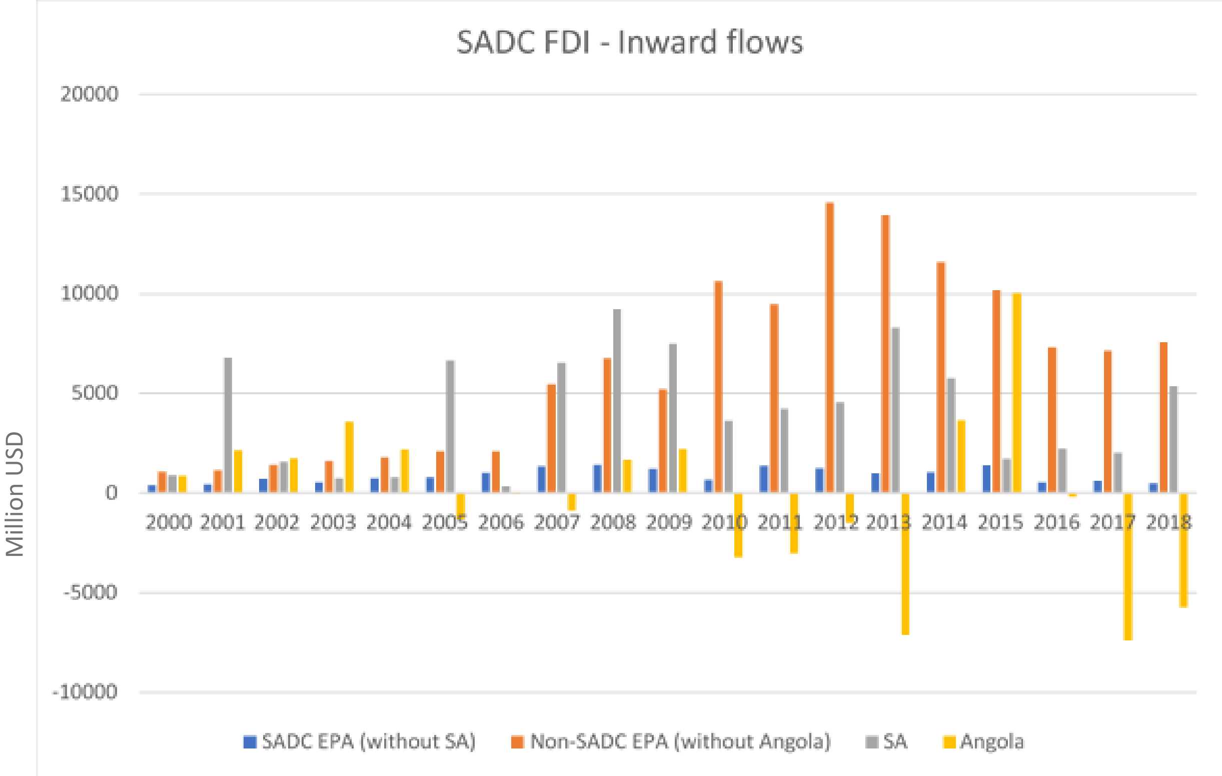

Figure 7 – *SADC FDI - Inward flows* Source: UNCTAD

Regarding the inward stocks in the SADC region, it is interesting to note that they have increased especially after 2016. This shows that foreign owned companies present in the SADC EPA region have continued to invest and grow after the implementation of the SADC EPA. Also the developments in South Africa have been similar. Since 2016, the inwards FDI stocks have increased although diminishing again in 2018. On the other hand, non-SADC EPA countries' FDI inward stocks have risen between 2013 and 2018. However Angola's inward FDI stocks have reduced over time especially since the implementation of the SADC EPA.

Possibly companies are not as confident in investing in Angola due to the uncertainty stemming from its protectionist policies.

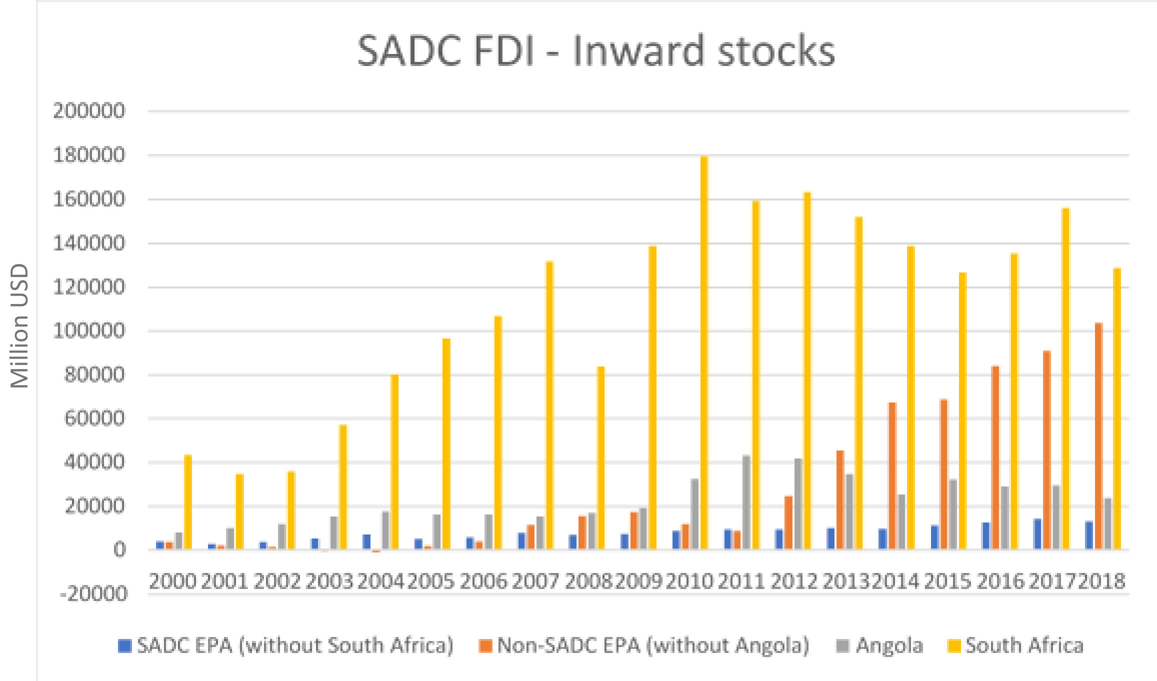

Figure 8 – *SADC FDI – Inward stocks* Source: UNCTAD

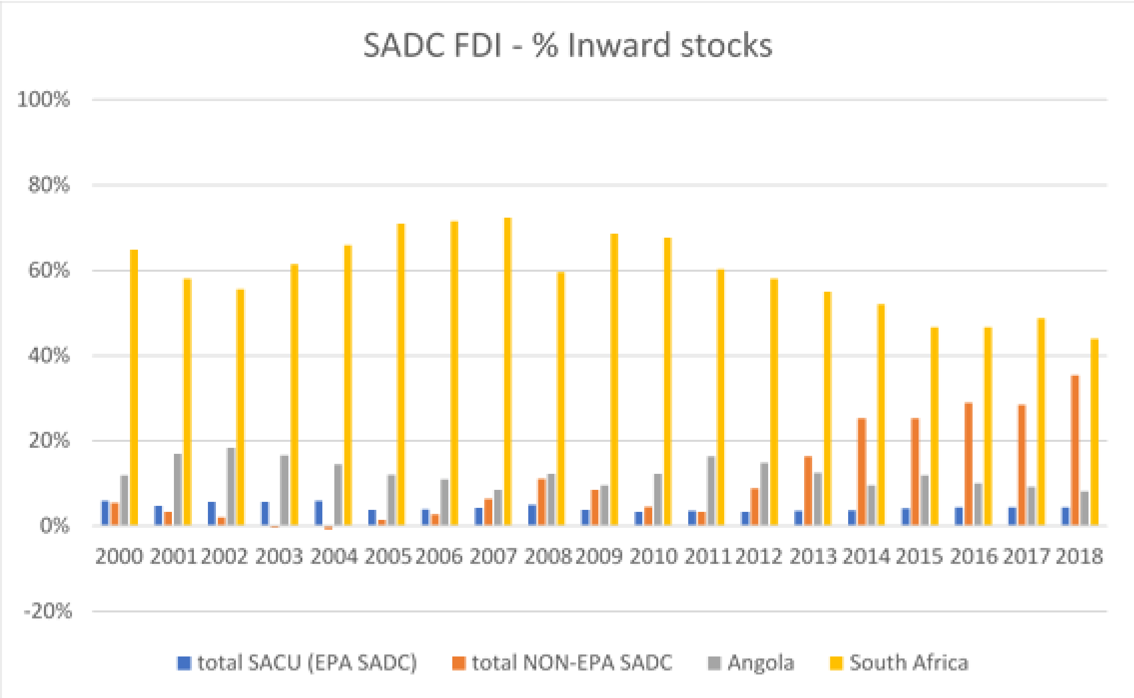

Figure 9 – *SADC FDI - % Inward stocks* Source: UNCTAD

West Africa

The EPA between the EU and West Africa has been negotiated with the ECOWAS countries plus Mauritania. It is noteworthy to point out that Mauritania was a member of ECOWAS up until the year 2000. The negotiations started in Brussels in 2002 as part of the larger EU ACP process (Adenikinju & Alaba, 2005). The need to liberalise and open up their economies made the West African countries worry about their long-term industrial development projects. According to Hulse (2016), the negotiations with the EU gave the ECOWAS the opportunity for more supranational cooperation by strengthening the legitimacy and authority of the ECOWAS Commission.

The West Africa EPA (WA EPA) provides asymmetrical market liberalisation of trade in goods. Contrary to the SADC EPA, the EU has offered to apply 100% DFQF market access to all West African states. On the other hand, West African states only have to liberalise 75% of their markets over a time period of 20 years.

The tariffs that will continue to apply after the WA EPA implementation to EU products, have been identified by using ECOWAS CET categories. In general, products that will remain protected are agricultural and fisheries produce, textile and fabrics, and construction items (e.g. cement).

Similar to the SADC EPA, also the WA EPA includes provisions to temporarily safeguard the parties' markets if the imports become dangerous for the development of the local industry (Art. 22 West Africa EPA).

However, the WA EPA agreement never entered into force because, as one of the interviewees put it, "*The decision by one of the countries negotiating the EPA to not sign is the reason why none of the other countries party to the negotiations were able to go ahead. It is not that they decided not to, it was that legally, the [EPA] text didn´t foresee that*.".

The countries which have opposed resistance to the WA EPA were Mauritania, The Gambia and Nigeria. The Gambia and Mauritania were more concerned of the loss of tariff revenue that implementing the WA EPA would cause since they rely on this form of income to finance their fiscal policies. On this point, the EU disagrees as it foresees that the revenue generated by the benefits of the WA EPA will outweigh the current tariff revenue income (European Commission, 2016a; 2018).

Furthermore, the EU is convinced that the long transition periods for market liberalisation give enough time for ACP countries to adapt to these changes (European Parliament, 2020).

In the end, both countries signed the agreement in 2018 while Nigeria is still opposed to the WA EPA (Foroyaa, 2015). President Buhari claimed in 2018 that by not accessing to the EPA agreement, Nigeria is protecting the development of national industries (Saharareporters, 2018).

However, for Ghana and the Ivory Coast ensuring the access to the European market is paramount for the development of their economies (TAC, 2004 pp. 22-33; Ianchovichina et. al., 2001; Unit, 2010). Therefore, the EU decided to propose a bilateral “stepping-stone” EPA agreement with Ghana and the Ivory Coast which entered into force in both countries in 2016 (European Commission, 2020a; European Parliament 2020). In theory, these interim EPA agreements “*could show a country like Nigeria that these [interim EPA] countries are moving ahead*” and so convincing sceptic countries of the benefits of the EPA agreements. However, the interviewee stated that this was not the main reason for these stepping stone EPA agreements to come into effect.

The two stepping stone EPA agreements in West Africa entered into force in 2016 after it became apparent that the regional West African EPA would have not been implemented. Until 2016, Ghana and the Ivory Coast had GSP access to the EU market (EU, 2018).

These stepping stone EPA agreements contain 100% DFQF access for Ghanaian and Ivorian products to the EU market. In exchange, Ghana has agreed to liberalise its EU imports by 80% (between 2020 – 2029) while Ivory Coast by 81% (between 2019 – 2029). The sectors which Ghana and the Ivory Coast protect are slightly different, however, both countries maintain tariffs on agriculture and other processed goods (such as tobacco and textiles). These tariffs should be in line with the ECOWAS CET tariffs. The European Commission (2017), points out that these tariffs have the role of protecting sensitive sectors but also maintain fiscal revenue for both African states.

Just as in the other agreements above, also the stepping stone EPAs have safeguards provisions which will enable the parties to increase tariffs on certain products, if these imports represent a threat to the local production. There are also two chapters on TBT and SPS to help both African partners to meet EU standards (European Commission, 2017).

Finally, the stepping stone EPAs are recognised as interim EPA agreements by Regulation (EU) 2016/1076 and therefore also benefit from cumulation of origin.

Political analysis

In terms of economic integration, ECOWAS already established a free trade area in 1979 only for agricultural products under the ECOWAS trade liberalisation scheme (ETLS). Later it was expanded to include industrial goods as well (UNECA, n.d.).

Just as the SADC free trade area agreement, the implementation of the ETLS has been applied differently from country to country. However, all members have applied it to different extents. A report by US AID (2009) shows that UEMOA countries seem to implement the ETLS scheme far better than the rest of the ECOWAS states. In total, around 64% of local ECOWAS products have been liberalised (USAID, 2009).

To solve these issues, ECOWAS has adopted (with the help of GIZ, a German development agency) a Community Strategic Framework (CSF 2016 – 2020). The CSF has defined the political priorities regarding regional integration of the ECOWAS. In general, the CSF aims at strengthening the socio-economic processes, forging and consolidating production, supporting trade and monetary union integration, enhancing political cohesion and sustaining industrial developments (ECOWAS, 2015).

Next to ECOWAS, there are two other major sub-regional organisations: UEMOA and WAMZ.

The West African monetary union (UEMOA) is the most advanced and well-established community. In terms of economic integration, it goes even further than the ECOWAS commitments themselves. In fact, UEMOA countries have a common currency (CFA; soon to be called “Eco”) and since 2000 they also have established a common external tariff.

WAMZ has been created as a consequence of the ECOWAS treaty revision of 1991 in which all member states supported the creation of a second monetary zone in west Africa, with the aim of merging it with UEMOA in the future (Harvey and Crushing, 2015). However, the ambitious targets of creating a common currency (to be called “Eco”) have not been met yet because of the failure to meet convergence criteria as defined by West African Monetary Institute (WAMI) (Harvey and Crushing, 2015; WAMI, 2002).

For now, only UAMOA has a common currency (the CFA, soon ECO). The weak monetary cooperation between WAMZ countries has been further accentuated by the Nigerian Central

Bank, which has restricted the use of foreign currency to buy certain Nigerian products (Taiwo Oyedele, 2015; Ohuocha, 2019). Finally, the change of currency in the UEMOA countries (from CFA to ECO), has been regarded by some observers to be France’s strategy to lower Nigeria’s influence in the region (Tralac, 2020).

Even though economic cooperation has been difficult, the ECOWAS countries managed to implement a common external tariff (CET) in 2015. To this date not all countries have been implementing it. Furthermore, since the implementation of the EPA agreement, the CET has been further hindered since Ghana and Ivory Coast have different tariffs on products coming from the EU (Berthelot, 2016; EY Tax Insights, n.d.).

Similarly to Angola, Nigeria is also a country that is very reliant on its oil exports and they too have relied on protectionist policies to strengthen and develop their industries.

Nigeria is one of the least interested countries in strengthening intra-regional developments as it can be seen by the controversial decision to close the border to goods coming in the country by land. Only products which come by water or by plane can be imported into the country. This has had a strong impact on regional trade especially for Benin which did export a lot of agricultural products to Nigeria (Orjinmo, 2019). Nigeria´s argument is that they want to improve their productive capacity and that they should substitute imports through their own production (Folarin, 2019).

However, Nigeria’s policy position might be changing since it has signed the African continental FTA in 2019 meaning that they might rethink their protectionist policies.

On the other hand, the political cooperation between Ghana and the Ivory Coast has greatly improved since the implementation of the stepping stone EPA agreements. In 2017, both countries signed a Strategic Partnership Agreement which strengthened cooperation in economic and political fields. Especially interesting has been the decision to cooperate closely in the Cocoa economy which is largely dominated by these two countries (~66% of World production). In this respect, in 2019, Ghana and the Ivory Coast decided to set a fixed price for Cocoa in the 2020/21 season to ensure price stability and boost economic development (Terazono, 2019).

Economic analysis

Figure 10 and 11 show the trade developments between Ghana and the Ivory Coast on the one hand and the rest of the West African region on the other.

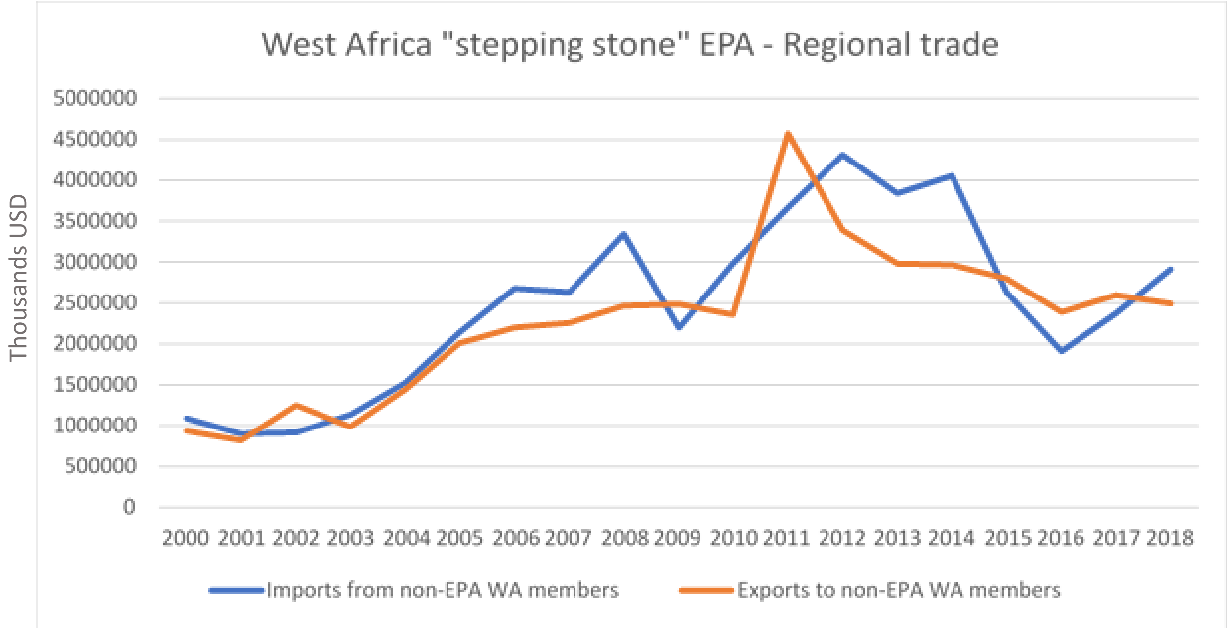

Figure 10 – *West Africa "stepping stone" EPA – Regional trade* Source: UNCTAD

In general, trade in absolute numbers has experienced a positive trend from 2000 till 2010. After that, regional trade has stagnated. It is interesting to note that after 2016, when the EPA was implemented, exports have continued to stagnate while the imports have started to increase again. This could possibly indicate that the increase in intra-regional imports happened in order to satisfy the increased production needs of Ghana and the Ivory Coast for their exports destined to the EU.

Although intra-regional trade increased, Figure 11 shows that intra-regional trade actually became less important throughout the years. Exports to extra-regional partners of the "stepping stone" EPA countries grew faster than intra-regional exports. However, since 2016, the imports from the neighbouring non-EPA West African neighbours have started to increase again compared to imports from other countries.

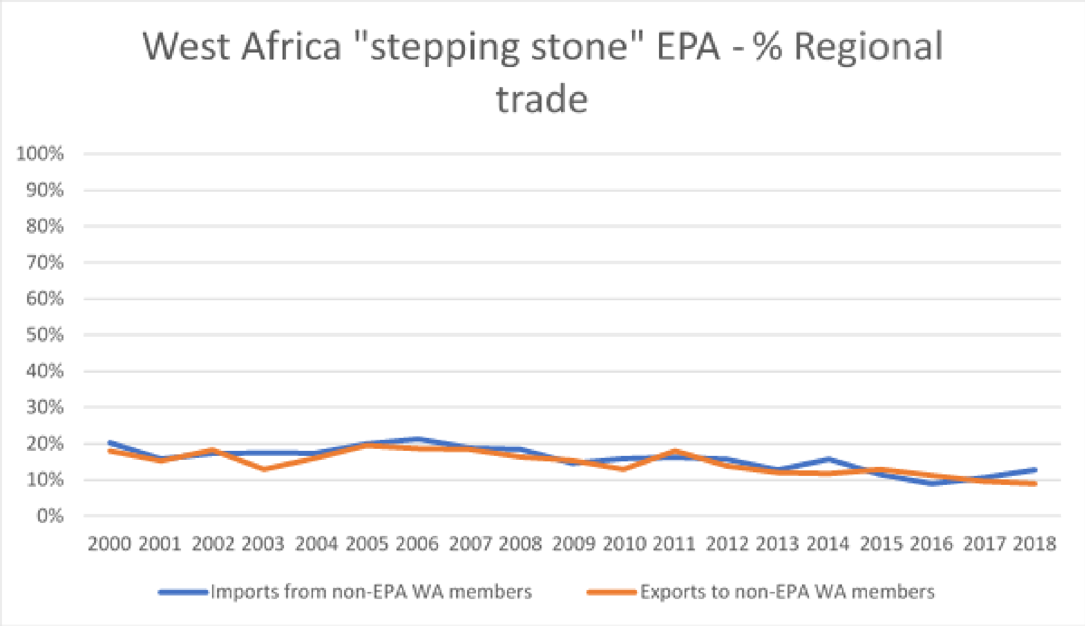

Figure 11 – *West Africa "stepping stone" EPA – % Regional trade* Source: UNCTAD

Figure 12 shows the extra-regional exports of the West African "stepping stone" EPA members by partner countries. Notably, the exports towards the EU have steadily decreased over time and settled around 30% of total exports. Since the EPA implementation in 2016, the exports have remained roughly at the same level although an increase is visible between 2017 and 2018.

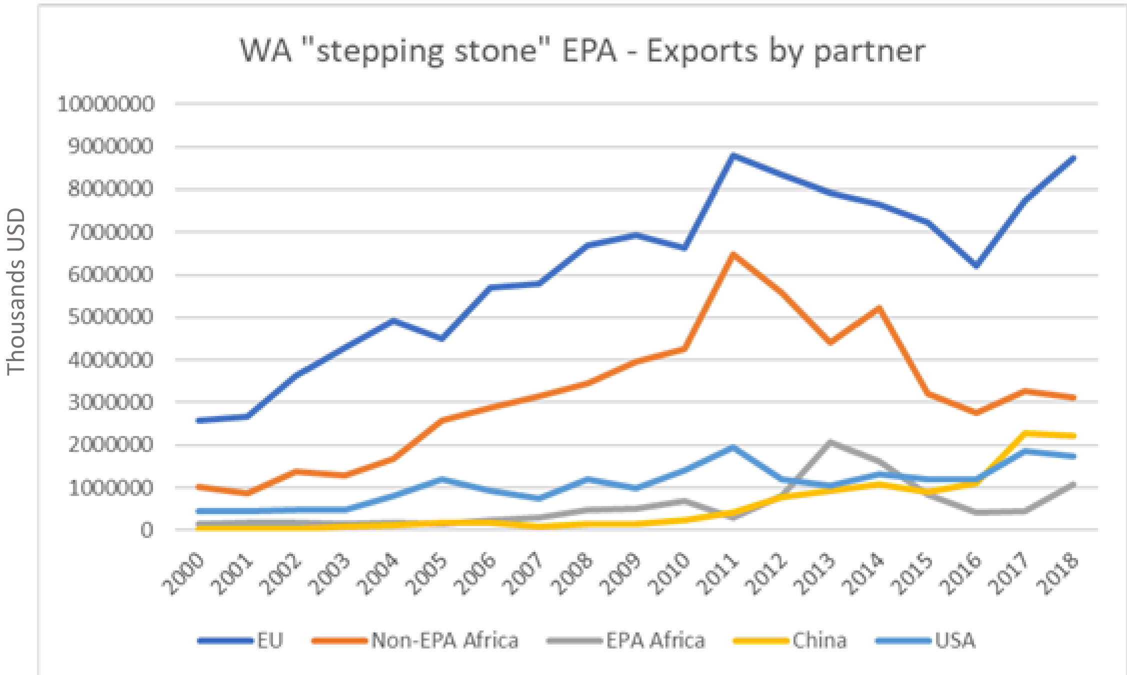

Figure 12 – *WA "stepping stone" EPA – Exports by partner* Source: UNCTAD

The exports to the non-EPA African countries, which do not benefit from cumulation of origins, have seen a steady increase until 2010. However, since then, the exports have fallen.

This negative trend continued also after the implementation of the "stepping stone" EPA agreement in 2016. On the other hand, exports to EPA African countries show a positive trend since 2016.

It is interesting that the positive trend of the exports to China and USA have been curbed between 2017 and 2018. As an export partner, China has suddenly stopped growing with the same pace as it used to in relation to the other countries. Possibly, this change was due to the interim EPA agreement. Products which were initially destined to the Chinese market have been diverted to satisfy the European market demand.

In Figure 13, the percentage of exports that are destined to a specific partner are shown over total exports. Since 2016, we can see that the EU as an export destination has become more relevant in comparison to other countries. Furthermore, the exports destined to non-EPA African partners continued to stagnate also after the implementation of the EPA agreement. Since 2016, exports to non-EPA African countries have experienced a constant negative effect. On the other hand, the value of exports to EPA African countries have started to increase again since the start of the implementation phase.

Finally, also here it is noteworthy to see that exports destined to both China and USA have suddenly stopped growing since 2016, thus reinforcing the claim that there has been diversion of trade from the USA and China towards the EU.

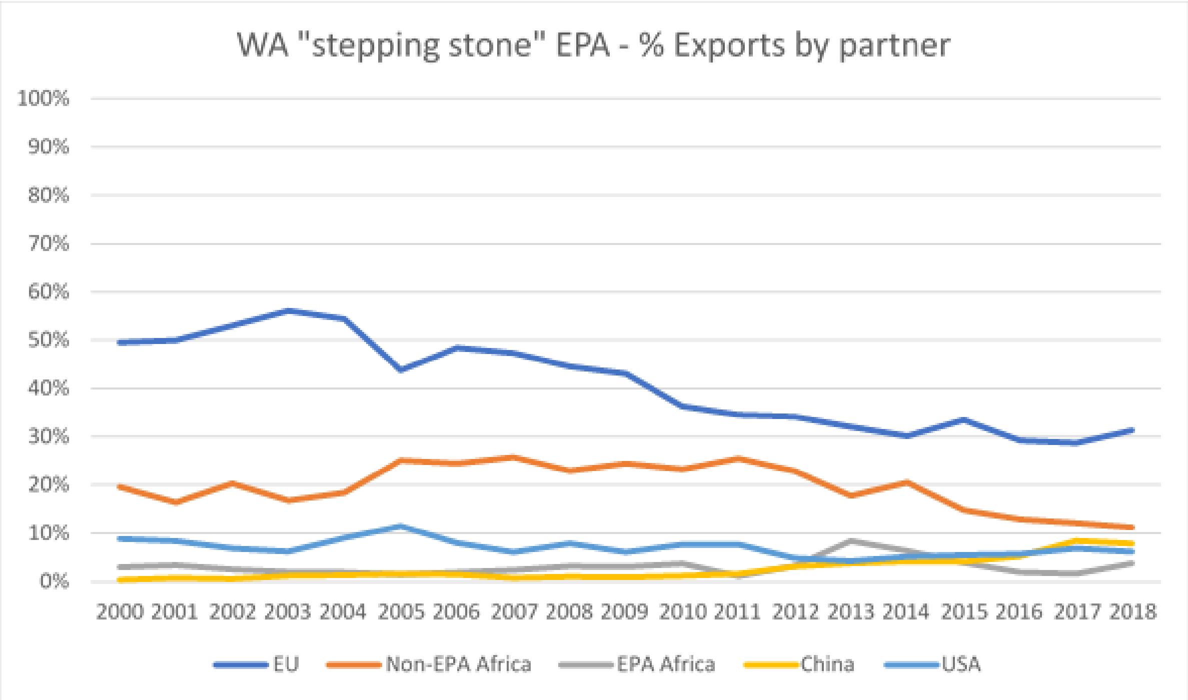

Figure 13 – *WA "stepping stone" EPA - % Exports by partner* Source: UNCTAD

In Figure 14 the exports of non-EPA West African states (without Nigeria) are being represented by partner country. Nigeria will be analysed separately since its exports are significantly higher in terms of value than the rest of the region. If included, Nigerian exports would have distorted the final graph.

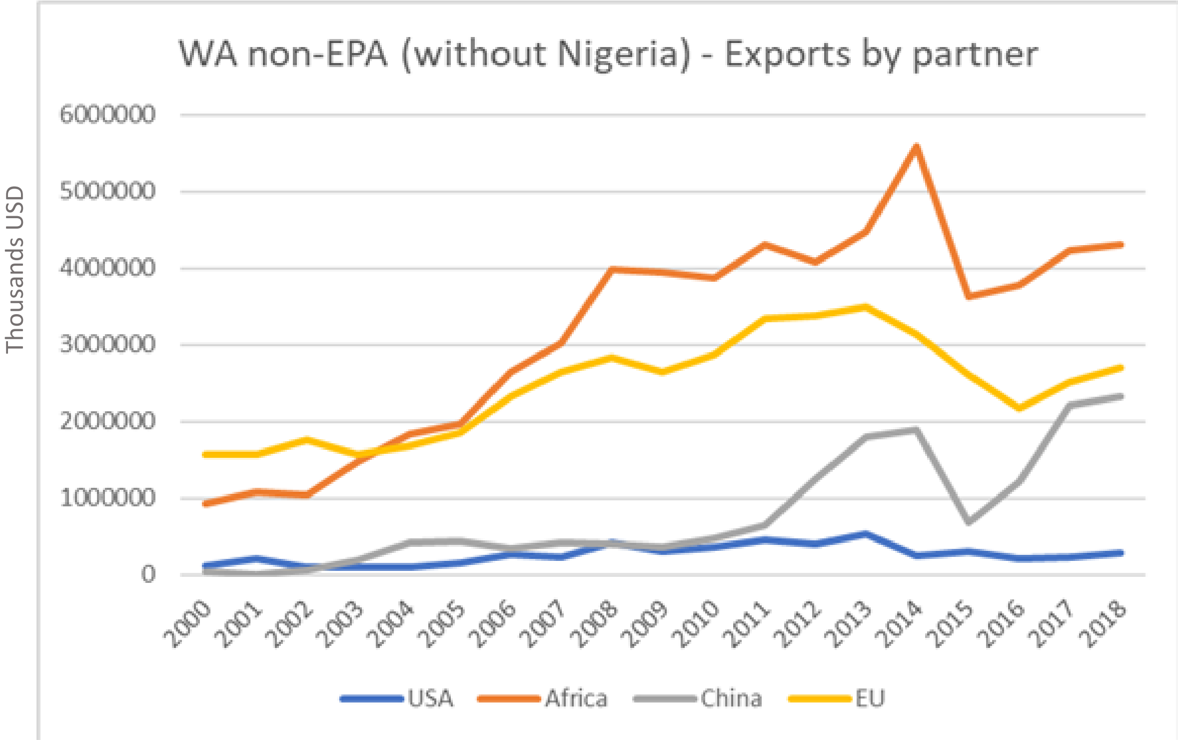

Figure 14 – *Non-WA EPA (without Nigeria) – Exports by partner* Source: UNCTAD

It is interesting to see that also here exports to the EU have increased after the implementation of the EPA agreement. In theory, through diversion of trade, non-FTA members should experience a fall in exports to the members of the agreements. However, non-EPA WA countries already enjoy DFQF market access to the EU through GSP and EBA preferences.

Furthermore, it is interesting to see that the exports to other African countries has constantly increased since 2016. The same is true for exports to China. On the contrary, the exports to the USA have continued to stagnate.

Considering Figure 15, it becomes clear that the importance of trade with other African countries and the EU has continued to decrease even after the implementation of the EPA agreement in 2016. On the contrary exports to China have quickly started to climb. However, there is a slight decrease in this positive trend visible since 2016. Finally, no particular effect can be seen in the exports to the USA.

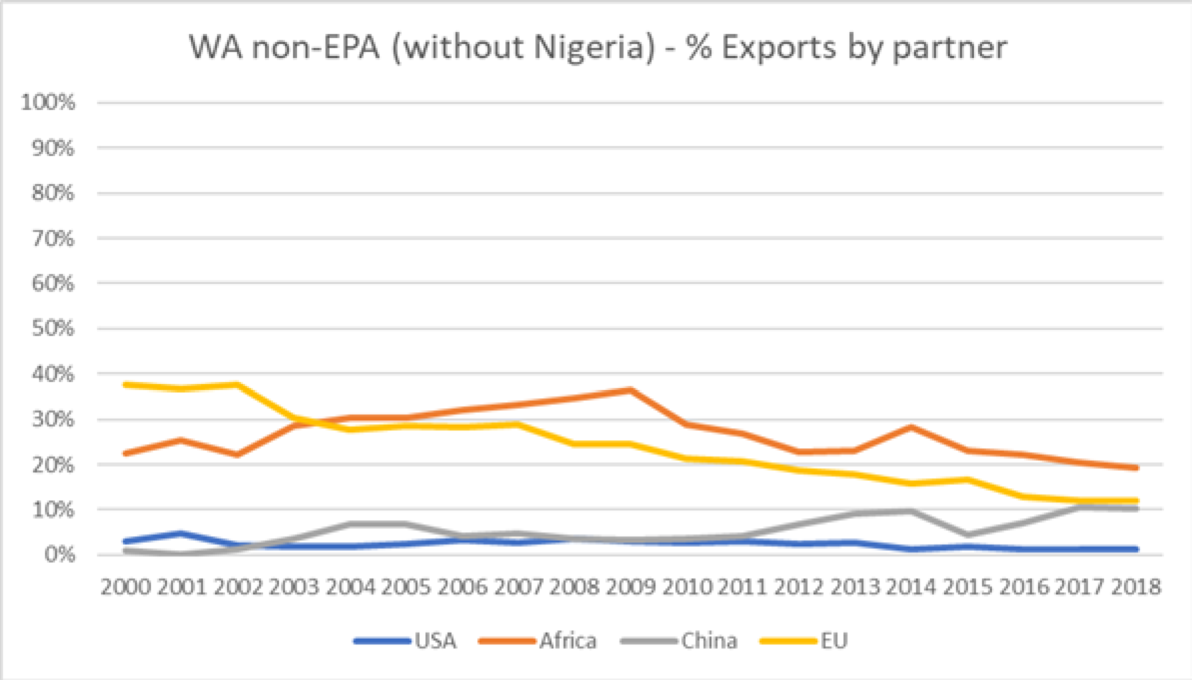

Figure 15 – *WA non-EPA (without Nigeria) - % Exports by partner* Source: UNCTAD

Before analysing the main trends of the Nigerian exports, it is important to remember that Nigeria mostly exports crude oil. Price fluctuations will very strongly impact the value of the exports. Therefore, the author has decided to analyse only the percentages of export by destination.

Figure 16 shows that exports to Europe have increased after 2016. However, rather than a consequence of the interim EPA, it is most probably correlated to the decrease in interest in Nigerian crude oil by the American markets. Interestingly exports destined to other African countries have continued to stagnate. Most probably this is due to the impossibility of African countries to refine the oil and thus Nigeria is very dependent on foreign partners. This also points out that (in the short-term) Nigeria has little to gain from intra-regional trade. Finally, although becoming more important, exports destined to China have still remained relatively low.

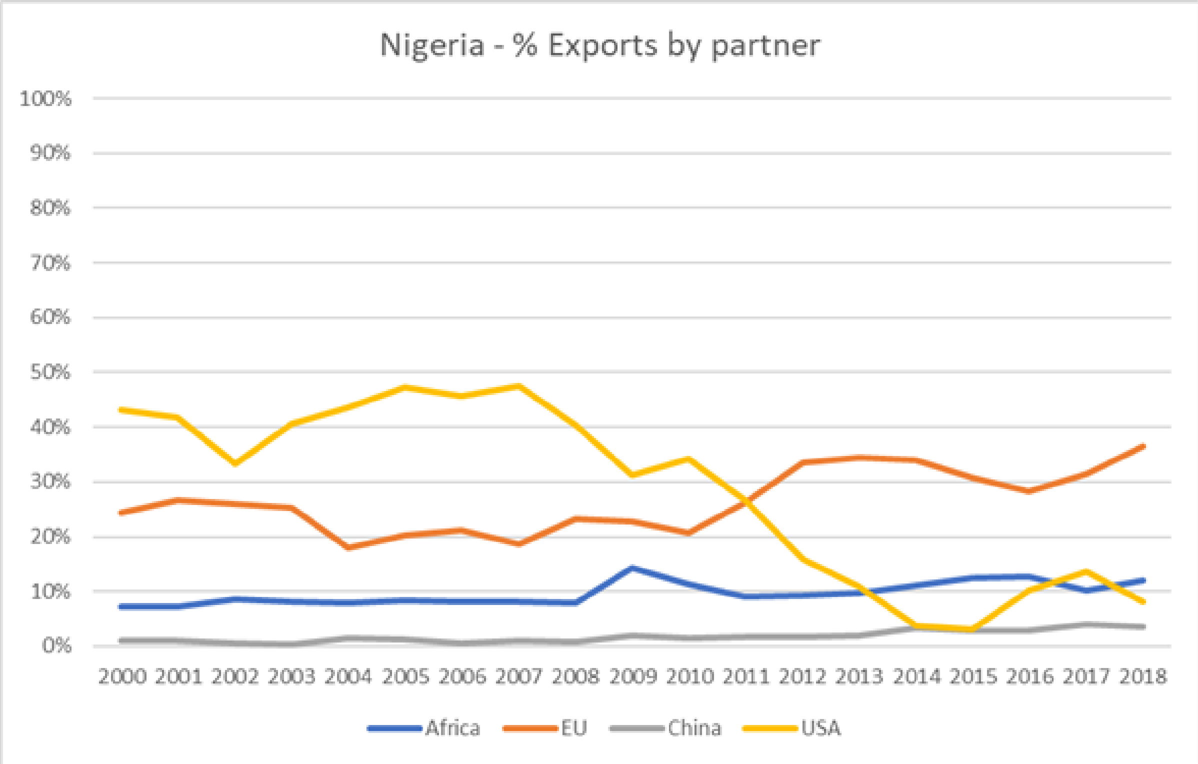

Figure 16 – *Nigeria - % Exports by partner* Source: UNCTAD

In the next paragraph the author will analyse both FDI flows and stocks directed to the members and non-members of the West African EPA. Since FDI flows and stocks for non-EPA WA members are strongly affected by Nigeria, it has been decided to divide them and represent them separately.

The FDI flows towards Ghana and the Ivory Coast have steadily increased over time and have remained very constant. Following the interim EPA implementation, the FDI flows in 2016 and 2017 received a strong boost compared to the previous years. FDI flows for non-EPA members have, however, decreased since 2011. Although there is an improvement again in 2016, this positive trend did not continue but rather stagnated in 2017 and 2018. Nigeria's FDI inward flows follow a similar pattern to the inward FDI flows of non-EPA members, however, FDI flows to Nigeria have further decreased after 2016.

If we compare the FDI flows to both regions, it is visible that more and more investments are directed towards stepping stone EPA members. Most probably, this development is connected to the fact that it is safer to invest in EPA countries because they will always benefit from DFQF EU market access and from the cumulation of origin to produce their products. Furthermore, the EPA agreements also include provisions to strengthen the investment flows (both "stepping stone" EPA Art. 74).

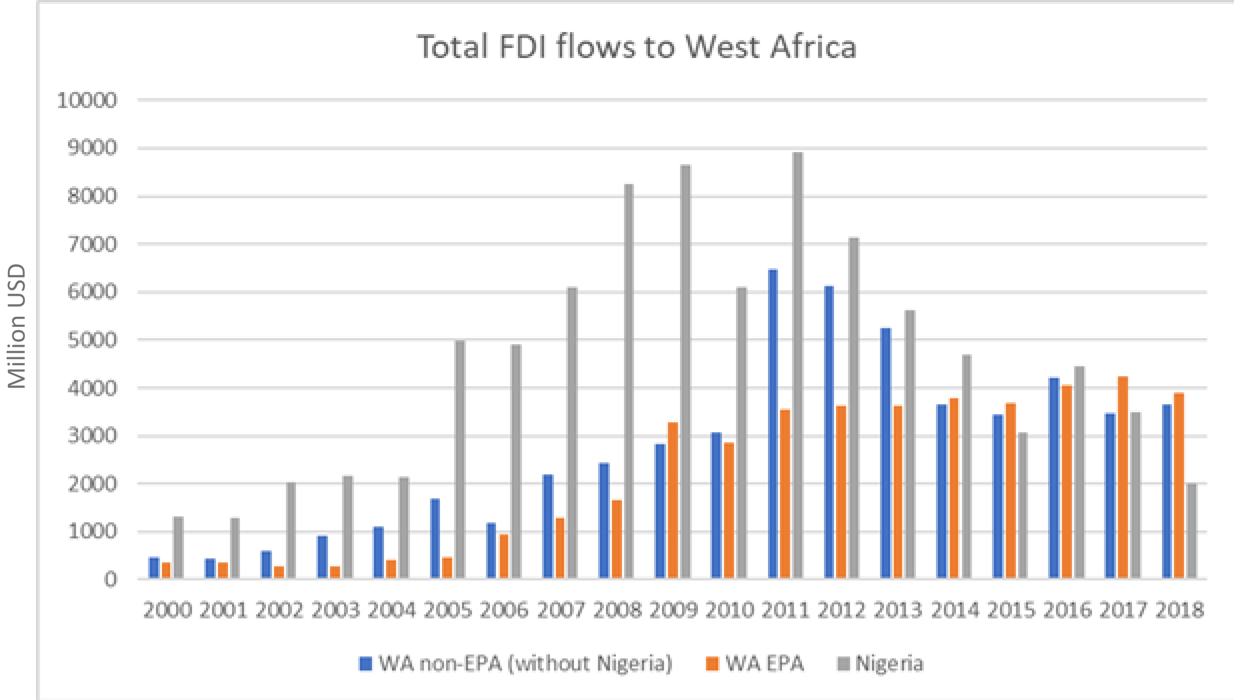

Figure 17 – West Africa, Total inward FDI flows Source: UNCTAD

In the next two graphs, the inward FDI stocks in WA countries are shown. From Figure 9, it is visible that foreign owned companies have constantly renewed their investments in the whole WA region for both EPA members and non-EPA members.

However, when looking at the percentages of inward FDI stocks on total inward FDI stocks in the region, it becomes interesting to see that on total inward FDI stocks, more and more foreign companies have become increasingly interested in (re-)investing in stepping stone EPA countries. The same developments can be seen in non-EPA countries, albeit with less impetuous. Only Nigeria's inward FDI stocks have slowed down compared to the rest of the region.

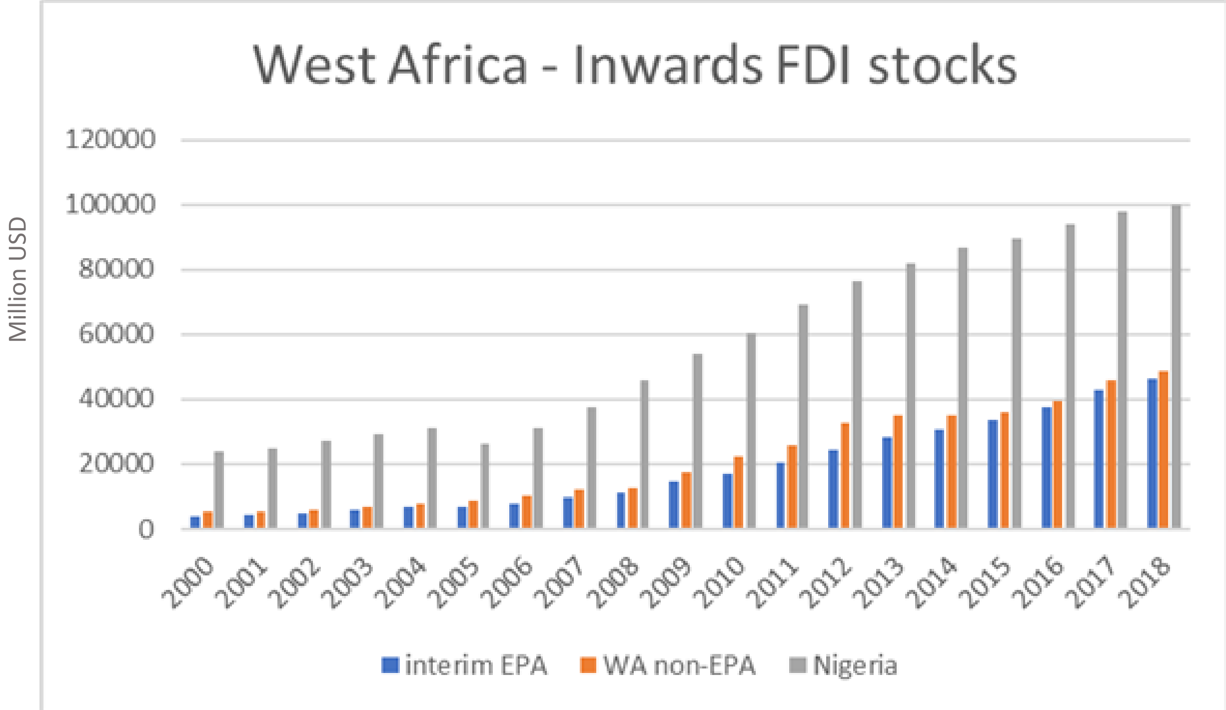

Figure 18 – *West Africa - Inwards FDI stocks* Source: UNCTAD

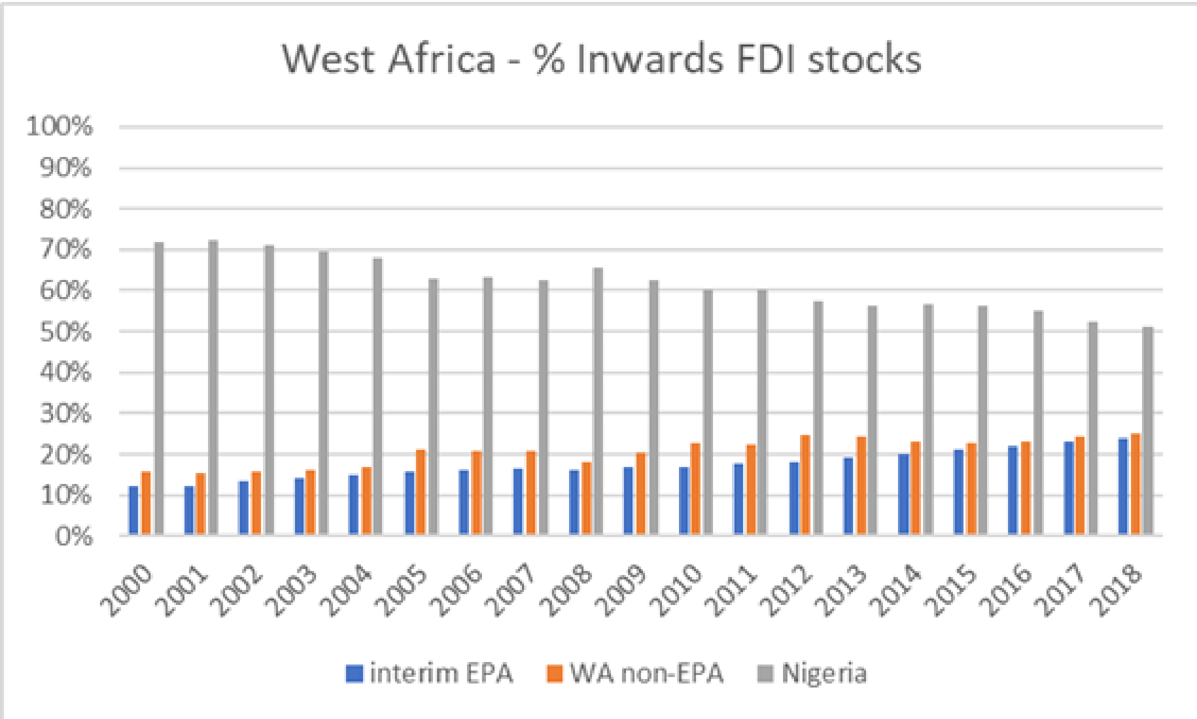

Figure 19 – *West Africa, % Inwards FDI stocks* Source: UNCTAD

Comparison

In the next section, a general comparison will be made between the SADC and the West African region to understand whether the hypotheses formulated in the literature review section can be confirmed or rejected.

Regarding the first hypothesis;

> H1. African countries which already have DFQF access to the EU and mostly rely on extra-regional exports, will not implement the EPA agreements since they will not benefit from intra-regional trade as much as their African counterparts.

In both SADC and ECOWAS there are two important countries which export mainly crude oil (Angola and Nigeria) and which have refused to implement the EPA agreement. Furthermore, both countries have implemented similar protectionist policies also towards their own regional partners. Nigeria has closed its borders to goods entering the country by land and Angola is hindering free intra-SADC regional trade. In both cases, the aim is to protect, stimulate and diversify inland production. In both regions, these countries have clearly showed low interest in intra-regional trade and have similarly opposed the implementation of the EPA agreements. The results show that this hypothesis has been confirmed.

In relation to the threat of competition coming from the EU upon entry into force of the EPA agreements, hypothesis two was formulated.

> H2. African countries which do not have a diversified industry and heavily rely on it will be more hesitant to join the EPA agreement since they would fear foreign competition.

Foreign competition for African countries is considered a threat to the sustainable development of their economies. In the negotiation of the SADC and West Africa EPAs, the degree of market liberalisation was problematic for a successful outcome.

Although the EPAs allow sensitive sectors to be protected and also include safeguard provisions to alleviate foreign competition, for some countries in West and Southern Africa this has not been enough. In West Africa, The Gambia, Mauritania and Nigeria have opposed the implementation of the EPA because of their concerns for their local industries. The same applies to Angola and Mozambique in the SADC EPA process. Some countries have been persuaded that adhering to the EPA would be beneficial also for their economies and that enough protection is granted. However, Angola and Nigeria are still clearly opposed and have implemented protectionist measures to shield their industries from foreign (intra- and extra regional) competition.

The cases of Nigeria and Angola, but also of The Gambia, Mauritania and Mozambique seem to suggest that hypothesis 2 can be confirmed.

H3. The inward FDI flows and stocks of the African EPA member states will rise since companies could benefit from DFQF EU market access.

Although the EPA agreements under study do not cover investment provisions, they expect investments to grow nonetheless. Figure 17 & 18 shows that the inward FDI flows and stocks towards the stepping stone EPA countries have constantly grown since 2007. After the implementation of the EPAs, it is visible that inward FDI stocks have risen at a faster rate than in the previous years. On the other hand, inward FDI flows and stocks towards SADC EPA countries have experienced a different development. Fig shows that inward FDI flows have actually gone down since the implementation of the EPA agreement except for South Africa. At the same time, the inward FDI stocks seem to not have been influenced by the implementation of the EPA agreement at all since they continued to stagnate. Albeit finding evidence in West Africa that this hypothesis might be correct, the developments in Southern Africa pose new questions. Therefore, hypothesis three cannot be confirmed and further research needs to be conducted.

H4. The EPA agreements will boost intra-African EPA regional trade due to trade creation through the cumulation of origin provision between ACP EPA member states.

Cumulation of origin is only possible between ACP countries which have concluded and are implementing an EPA agreement with the EU. Since the implementation of the EPA agreements under study, exports of both SADC EPA and the stepping stone EPA countries to other African EPA countries have significantly increased. This development is more visible in in West Africa than in Southern Africa as it can be seen by the sudden gains in export shares (Fig. 6 & 12).

Furthermore, the shares of total exports destined to other non-EPA African countries have decreased for both SADC EPA and stepping stone EPA countries. This could potentially show that the EPAs do re-orientate EPA members towards trade with other EPA countries and the

EU. However, in absolute terms exports to non-EPA countries either stagnated (stepping stone EPAs) or even increased (SADC EPA).

The evidence found shows that more trade between African EPA members has occurred after the implementation of the EPA agreement. It is, however, questionable whether these developments have happened as a consequence of the cumulation of origins provision. To test whether H4 is correct, more research would be needed.

> H5. Due to trade diversion effects, Intra-regional trade between EPA member states and non-EPA member states will remain at the same level or fall.

Intra-regional trade within SADC and West Africa (ECOWAS + Mauritania) has (in absolute numbers) increased since the SADC EPA and stepping stone EPAs have been implemented. This trend has been stronger for West Africa than for Southern Africa. However, Ghana's and Ivory Coast's shares of trade with the West African region has constantly declined in favour of extra-regional trade. This shows that, albeit intra-regional exports rising, the stepping stone EPA companies have focussed their exports towards extra-regional partners. On the other hand, the share of intra-regional trade on total trade of SADC EPA countries has continued to stagnate without experiencing any real changes. The results have shown that the share of trade within the region has as predicted declined or stagnated. Therefore, this hypothesis has been confirmed.

> H6. The implementation of the EPA agreement should incentivise political cooperation in regards to trade/economic policy between the African EPA member states.

Political cooperation has certainly continued both at the regional and the bilateral level. ECOWAS and SADC have continued with their implementation of their projects related to economic and political cooperation.

SADCs programmes have focused on technical projects aimed at facilitating trade and improving the implementation of the SADC free trade area and the SADC EPA agreement. On the other hand, ECOWAS focused more on continuing to push for formal and ambitious goals such as the introduction of the CET or the common currency.

On the bilateral setting, the EPA members of West and Southern Africa have started to work more closely together since the implementation of the EPA agreements. Most notably is the case of Ghana and the Ivory Coast and their cooperation in the Cocoa industry. In the case of Southern Africa, the SADC EPA members within the SACU have experienced important clashes, for example in reforms regarding the allocation of the tariff revenues. In light of the tariff liberalisation commitments of the EPA, these discussions will certainly continue.

The EPA agreements have definitely incentivised more political discourse between the EPA members. Meaning that hypothesis six can be confirmed.

> H7. African countries which rely on import tariffs will be more reluctant to join the EPA agreement since these forms of income would cease existing.

In general, in both regions tariff revenue is important for many countries to finance their fiscal policies. Although the EU argues that the economic development promoted by the EPAs will cover the losses of tariff liberalisation, many African countries in both regions have been hesitant to join the EPAs. In Southern Africa, Mozambique joined the SADC EPA only after having received concessions to lower the total amount of market liberalisation. In West Africa the countries which initially opposed resistance, inter alia, due to uncertainties regarding tariff revenue, were The Gambia and Mauritania. However, also some SACU countries like Namibia, Lesotho and Eswatini rely heavily on tariff revenue to finance government spending. Possibly, these countries have acceded to the SADC EPA because of pressures from South Africa within the SACU customs union. The hesitation of some countries both in Southern and West Africa show that hypothesis 7 can be confirmed.

> H8. Extra-regional trade will rise for exports to Europe but fall due to trade diversion for exports to the rest of African countries which are not part of any of the EPA agreements.

In both SADC EPA and the stepping stone EPA regions, exports to the EU have clearly risen. This effect has been more pronounced for the stepping-stone EPAs extra regional exports than for the SADC EPA exports. However, contrary to what was expected, exports from SADC EPA countries to other non-EPA African countries have continued to rise since the implementation of the EPA agreement. On the other hand, the stepping-stone EPA exports to non-EPA African countries have stagnated since the implementation.

It is interesting to note that, in both regions, the positive trends of exports destined to China and USA have been negatively affected by the implementation of the EPAs and have stagnated since. Possibly, this could show a diversion of trade occurring, diverting exports destined to China and the USA to Europe. Nonetheless, although there might be evidence that trade diversion between extra-regional partners has occurred, hypothesis 8 has to be rejected.

Conclusions

This study was aimed at analysing the effects of the EPA agreements on the regionalisation processes in West Africa and Southern Africa since the member states of the regional organisations ECOWAS and SADC did not fully coincide with the EPA blocks.

In regards to the economic regional processes, this study has shown that, in general, after the implementation of the EPAs, intra-regional trade within both regions has developed slightly differently. In SADC intra-regional trade has stagnated between SADC EPA members and non-EPA members while intra-regional trade between stepping stone EPA members and the rest of West Africa has increased, albeit more slowly compared to extra-regional trade.

On the other hand, exports of EPA members of the SADC EPA and stepping stone EPA agreements to other African EPA countries have increased. The positive incentive of the cumulation of origin makes trade between these countries viable to increase their exports to the EU. In fact, since the implementation of the EPA agreements, exports to the EU have significantly risen. Furthermore, in both the interim EPAs and SADC EPA, the exports directed to China and the USA have slowed down. This shows that a possible diversion of trade has happened in favour of exports to the EU.

Regarding FDI flows directed towards EPA members in West Africa, although already growing before 2016, it is safe to say that these have received a positive boost since the implementation of the EPA agreements. Furthermore, also the inward FDI investment stocks directed at West African EPA members further increased since 2016. However, in Southern Africa, the FDI inward flows and stocks did not grow for SADC EPA members (except for South Africa).

In regards to the integration processes, these have differed by region. In the regional EPA negotiations, the ECOWAS states (plus Mauritania) have negotiated as one, while SADC states have been separated in four different configurations. This meant that in the negotiation phases of the EPA agreements, ECOWAS was much more involved than SADC. Since 2016, ECOWAS has continued to push for more and further economic integration. However, these goals have been hindered by the member states themselves since they did not comply with the free trade area agreements and have showed signs of increasing protectionist measures towards their regional partners. On the other hand, SADCs economic integration agenda has diminished in ambition but has focused on supporting its member states to implement their commitments under SADC rules (e.g. free trade area) and SADC EPA agreement. Nonetheless, also some SADC countries have not complied with some of the regional commitments. Finally, it is interesting to note that the implementation of both EPA agreements have at the same time encouraged and discouraged political and economic cooperation. The EPA members engaged in political and economic partnerships (e.g. political debates in SACU and strategic partnership agreement between Ghana and the Ivory Coast), while some non-EPA countries (e.g. Nigeria and Angola) implemented more protectionist measures.

Linked to this, in both regions, there have been some countries which have opposed the implementation of the EPAs. The two most common problems that both West and Southern African states share is the fear of strong foreign competition and the loss of tariff revenue to finance their fiscal policies. In West Africa, the need to agree on the EPA as a block allowed the interests of some countries (e.g. Nigeria) to hinder the ratification and implementation. In the ECOWAS, many states did not fully comply with the free trade area agreement or the common external tariff. Since the implementation of the stepping stone EPA agreement, some countries have further strengthened their protectionist policies (e.g. Nigeria closing its borders).

A similar case in SADC is Angola which was not interested in the past to strengthen regional economic integration (by not implementing the free trade area agreement) and has since refused to join the SADC EPA agreement.

Conflicts of interests regarding the regional free trade areas and customs unions exist within both regions. In some cases, they have been further accentuated by the EPA negotiations and implementation. However, these conflicts can happen without any real strong consequence since intra-regional trade is low and EU market access is granted through GSP and EBA preferences.

Finally, in terms of economic integration, West African and SADC intra-regional trade has been positively affected by the EPAs. However, in comparison to total trade, EPA member states have reoriented themselves to focus more on exports destined to Europe. As a probable consequence of the cumulation of origin provisions, exports towards other African EPA countries have significantly risen since the stepping stone and SADC EPAs have been implemented.

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Appendix 1

The author has used UNCTAD Data to complete the graphs. For questions regarding the Excel Data spreadsheets please refer directly to the author or his supervisors.

Appendix 2

Interview Questions

Interview 1 – West Africa

1. What is, in your opinion, the purpose of the West Africa EPA agreement, considering that trade with the West African countries is not so important, in terms of volume, and that most of the West African countries already enjoy GSP or EBA market access to the EU.
2. Why has Nigeria not signed the EPA agreement yet? Is it afraid of losing influence in the region or does it have to do with other economic considerations?
3. What is the purpose of the stepping stone EPA agreements? Are they meant to show the benefits of implementing the EPA agreement?
4. Did the EPA negotiations bring the ECOWAS countries and Mauritania closer together?
5. Since FDI investments have increased in the region (also from China and the US), how does the EU shield itself from deflection of trade?

Interview 2 – SADC

1. How have the different EPA negotiations inside the SADC region impacted the intra-regional trade between these countries?
2. How important are extra-regional exports and market access for [SADC country]?
3. Could it be that SADC intra-regional trade links are halting the other EPA negotiations?
4. Are Asian markets becoming more important for [SADC country]?
5. How much are the SADC countries interested in keeping the SADC group alive? Both in economic and political terms.