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ISSN: 1607 - 2375

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Issue No 1, August 2000

Regionalism and a post-Lomé Convention Trade Regime

by
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WHAT IS THE LOMÉ CONVENTION?

The Lomé Convention, adopted in 1975, is an international agreement between 15 member states of the European Union and 71 African, Caribbean and Pacific (ACP) countries with a joint population of 650 million. It constitutes a comprehensive development cooperation regime, embodying provisions on trade relations, commodity stabilisation measures, development aid, technical cooperation and investment and private sector promotion. The convention and its terms have come up for review and renegotiation every five years and the current incarnation, Lomé Convention IV *bis* (1995-2000) expired in February 2000. The parties are therefore challenged to develop a new and different framework for cooperation which is compatible with the rules of the multilateral trading system as codified in the General Agreement on Trade and Tariffs (GATT) and subsequently in the rules of the World Trade Organisation (WTO). To this end the European Union has proposed a philosophical and substantive shift which replaces the non-reciprocal trade preferences of Lomé Convention with regionally-structured free trade agreements. Existing trade barriers in ACP countries would have to be lifted on 'substantially all trade' within a reasonable period of time (10-12 years), thus gradually opening ACP markets to European products.

THE GLOBAL CONTEXT

The tectonic shifts on the international stage have major implications for the future of EU-ACP relations. There are five factors in the global context which are worth noting:

- 1) The demise of the Eastern bloc and the changed political landscape in Eastern Europe and the Soviet Union have reshaped the European geo-strategic theatre. The EU's eastward enlargement imperatives will diminish the development aid pool from which

ACP countries have historically benefited.

- 2) Nascent and uneven processes of democratisation among ACP countries are complicated by political instability which constrains economic and social development. Poor macroeconomic management in most instances points to institutional weaknesses and lack of accountable systems of governance. A debilitating debt

overhang further erodes poor countries' revenue bases.

- 3) The globalisation of trade and financial systems, accelerated by breathtaking advances in information and communications technology is an important component of globalisation's edifice and in the emergence of a fractured international order. ACP countries in general and sub-Saharan Africa in particular stand to be excluded from the benefits that presumably flow from deepening global integration. The liberalisation of trade, whatever its impact on world growth, could further marginalise regions which are unable to adjust their economies to conform with the new liberal trade orthodoxy.
- 4) The world's population is growing so fast that it faces a classical Malthusian dilemma of numbers of people exceeding the earth's ability to sustain them. From 2 billion in 1930, the world's population now stands at 6 billion with the majority concentrated in developing countries and among the poorest nations. This throws up profound challenges and enormous risks in the management of poverty, the environment, food security, political stability and migratory pressures.
- 5) A crisis of legitimacy affects the very notion of official development assistance, and the downward trend among key donors' aid programmes attests to this. Official development assistance from the developed OECD countries has been flattening out at some 0,33 per cent of GNP. Indicative of 'donor fatigue', this decline set in at the beginning of the 1990s and in 1997 the figure stood at 0,22 per cent, well short of the 0,7 per cent these selfsame countries set themselves 30 years ago.

THE EU OFFER AND REGIONALISM

Based on these realities and on a history of ambiguous and mixed results in the implementation of the letter and spirit of the Lomé Convention, the EU has proposed a new set of rationalised instruments which ought to

define a restructured framework in EU-ACP relations. Relevant in this regard are the following.

- A key principle in the framework is that of 'differentiation'. On the basis of being sensitive to the rather heterogenous nature of the ACP family, differentiation is aimed at fine-tuning EU developmental and aid priorities and procedures, tailoring these to a country's level of development and to national and regional dynamics in the ACP. Differentiation could 'split' the ACP group into discrete geographic areas and/or 'level of development categories' for purposes of improved economic and trade cooperation. Regional integration is viewed as a prerequisite for ACP countries' gradual and harmonious integration into the global economy and in paving the way for incremental and transitional liberalisation in a manner that takes into account national and regional peculiarities and the social and economic constraints that come with these.
- An essential building block in this logic is negotiating Regional Economic Partnership Agreements (REPAs) with ACP regions or countries to replace existing non-reciprocal trade preferences following an eight year transition period from 2000 to 2008. REPAs will necessitate a new kind of political dialogue which shifts the nature of the discourse from trade preferences to economic partnership. REPAs, it is anticipated, will better confront problems of exclusion (globalisation's downside) through promotion of sustained economic growth, increased competitiveness, the creation of productive jobs, better access to social services, in particular health, education and training. They are also intended to improve the involvement of women in economic, political and social life and encourage economic, regulatory and institutional reforms to improve the investment climate in ACP countries, and to enable private sector development.

- The partnership dimension of REPAs will impose important disciplines on the ACP since they will have to be more proactive and bear greater responsibility. The EU does not recommend which modalities should govern regional integration or what shape or form they should take. It is left to the ACP partners to examine all the permutations which are possible and then determine which groupings could negotiate trade arrangements with the EU which are also compatible with WTO rules. Free trade areas are seen as the most effective and flexible way of reconciling the demand for WTO-compatibility with the ACP need to maintain market access at current levels.

THE ACP RESPONSE

The ACP group has been more reactive than proactive to the EU proposals, reflecting perhaps their deteriorating domestic and unfavourable international environments. Its reaction centres around the following issues:

- The principal objective of the ACP is the preservation and, if possible, the improvement of the Lomé Convention benefits. Preferential access is seen as an important means of fostering the growth of the ACP economies. Indeed, the system of non-reciprocal trade preferences should be broadened, increased and maintained for a sufficiently long period to prevent any disruptive effects on ACP economies. The power asymmetries between the two parties must be recognised. Free trade must be synonymous with fair trade. The poor countries in the ACP could be vulnerable to and become endangered by unqualified reciprocity.
- REPAs present the ACP with threshold problems of great magnitude. ACP solidarity is a fundamental principle which should not be compromised. Regionalisation must not be used as a veneer for the disintegration of the ACP group which has organisational and

institutional significance beyond the Convention. It is imprudent for the EU to view ACP solidarity as illusory and weakened by the gravitational field of globalisation.

- WTO compatibility must be kept in perspective. The application of its rules must be on the basis of flexibility so as to encourage basic objectives of development. This is an area where joint EU-ACP action is desirable. Arrangements are necessary which will protect individual and clusters of ACP countries which are exposed to economic instability as a result of liberalised markets. Larger volumes of investment are needed to complement trade and industrial policies in support of diversification and infrastructural development.
- The ACP is seriously concerned about the debilitating debt burden, the decline in official development assistance in real terms and anaemic levels of foreign direct investment flows. A new Lomé Convention framework must take account of these realities, and should include a commitment by the EU to actively promote and support additional debt relief measures, including rescheduling of debt owed to multilateral financial institutions and EU member states. A new form of political dialogue is therefore necessary which is not tarnished by intimations of political dictation or tainted by notions of conditionality.
- A successor agreement must recognise the centrality of women in the development process. It should create a framework for action to integrate economic, cultural and social policies which are mutually reinforcing to enable the inclusion of gender concerns early in the project cycle.
- The Convention has suffered from language which is opaque and a structure which is byzantine. This is particularly the case with arrangements for financial and technical cooperation. The new framework must have simpler language, a clearer and more logical structure and principles and procedures which are unambiguous. The instruments must also be

more flexible to enable a more efficient disbursement of assistance.

CONCLUSION

For the EU, the current Lomé Convention architecture is not an appropriate framework for assisting the ACP face the challenges of the new millennium. Neither Lomé's Convention trade preferences nor its system of development cooperation are entirely suited to a fast changing global context. International trade liberalisation, as well as regionalisation of trade flows, has made many of the preferences nugatory and given WTO rules, almost impossible to defend. There are clear and unequivocal indications that ACP countries will in future enjoy less privileged access to the development cooperation resources of the EU.

Nonetheless, given the nature of the relationship and its long history, EU-ACP relations will continue to be special. The ACP holds many of the world's poorest countries. They are most vulnerable and exposed to the turbulent post-Cold War economic and political environment. Lest they slide into deeper marginalisation, their accommodation in the altered global context is important, and despite the prevailing orthodoxy they will require at least some degree of protection and stabilisation. The EU, as a leading actor in development cooperation and with the experience gained from the Lomé Convention regime, still has an important role to play in bridging the gap in North-South relations.

POLICY CONSIDERATIONS

1. ACP governments should accept that trade preferences as an instrument of economic development have limited value, especially in view of the gradual elimination of tariffs on a global scale. *They should rather concentrate in their negotiations with the EU on soliciting genuine and significant political and financial commitment to develop the supply capacity of ACP countries.*

Lowering the bureaucratic cost of trading and the cost of transport (through scale infrastructural development) would have a more salutary effect on trade development and economic growth.

2. Despite this, trade preferences are still important for the economic diversification and development of many ACP countries. *For this reason, ACP countries should persuade the EU to support a 10 year waiver of the existing Lomé Convention regime in the WTO and also lobby and cooperate in the WTO to obtain this waiver.* This will also obviate the need to start immediately with complicated negotiations in the uncharted territory of reciprocal trade agreements.
3. With regard to REPAs, not only do the net economic losses offset net economic gains, at least in the short term. The as yet fragile regional integration processes under way in the ACP will not benefit from REPAs. For these reasons and in view of the EU declared support for regional integration initiatives among the ACP, *ACP governments should request greater resources and improved mechanisms to assist in the institutional development of ACP as well as in achieving regional economic development goals and projects.*
4. The EU should concentrate on assisting ACP countries in becoming competitive and effective producers in an increasingly open global trade environment. *The EU should not therefore unilaterally impose or insist on the REPA concept in its negotiations with the ACP.*
5. Debt relief is a necessary condition for freeing revenue for development projects especially in those Highly Indebted Poor Countries in the ACP. *The EU must show firm resolve in expediting efforts in this direction with a view to assisting with building better institutional capacity for channelling debt relief benefits into socially and economically productive areas.*

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Further Reading

1. A post-Lomé Convention trade regime: introducing reciprocity in the trade relations between the EU and SADC , IGD *Occasional Paper No 21*, 1999
2. Regionalism and a Post-Lomé Convention Trade Regime: implications for southern Africa. IGD *Occasional Paper No 24*, 2000.