The risks and dangers of liberalisation of services in Africa under EPAs

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The European Union (EU) is negotiating with African, Caribbean and Pacific (ACP) countries for a new free trade agreement: the Economic Partnership Agreements (EPAs). The liberalisation of services and therefore opening the market for foreign investors is part of these negotiations. But experience shows that the liberalisation of services can have a negative impact on poverty eradication. With the EPA negotiations, the EU is pushing African countries to even legally bind themselves to this unfavourable path of development, giving European multinationals more opportunities to make profits.

Improvement of services for development

Improving services is considered by the EU and other donors to play a very important role in the development of Africa's people and economy: better health and water services, for example, more telephones and electricity systems at affordable prices. More efficient banks, new insurance systems, improved transport, better quality retail services (e.g., supermarkets) and a more developed tourism or music industry are all seen to contribute to economic, social and cultural development. The services sector contributes more and more to employment and economic income (GDP) in Africa compared to agriculture and industrial production.

Another argument often used by the EU is that improved services increase the efficiency of developing countries. For instance, better telephones and other telecommunications like e-mail and internet make it easier to trade, and are essential in speeding up bank transactions. This should improve developing countries' economies and their exports.

Investment of multinationals in Africa to replace aid

In Sub-Saharan Africa, services are generally public or small-scale and have not developed beyond the national level. Some services have been informal for a long time, such as small corner shops. But during the last decade several services, including public services such as water distribution, were sold off to foreign for-profit companies through privatisation programmes and liberalisation of investment. This was based on the argument that not enough aid was available to improve (public) services, while foreign service companies did have the money and know-how to do so. Many of these companies are based in Europe and have become profitable multinationals, by first growing in home countries and then investing and operating in countries around the world. Examples of European multinationals operating in Africa are banks like BNP Paris Bas or Barclays, supermarkets like Carrefour and Casino, water distribution and waste management companies like Suez.

Risks and dangers of liberalisation of services

Experience with liberalisation and commercialisation of services has shown that it does not automatically guarantee investment in sectors that the countries themselves see as their priority, e.g., telecom. Moreover, commercial corporations tend to operate strictly according to profit-making rationales. This has disadvantaged the poor because multinationals tend to focus on the richest clients and regions, often resulting in limited access for the poor to banks and credit, and even to essential services on which the poor rely to survive. Most African countries lack the necessary regulations and redistributive policy frameworks to ensure that foreign services benefit the population as a whole. For instance, unregulated foreign supermarkets can pressurise suppliers and marginalise small farmers. By relying on foreign investors to boost services provision, there is less space for African service companies to develop while they form the most value added sector of the economy.

Now, the EU and other donors want to further discipline developing countries' governments on how they treat foreign service providers. They argue that these companies need guarantees of stability and profitability in order to trade and invest more in the services sector in Africa. Such disciplining of governments and the liberalisation of more service markets is done through trade and investment agreements, as explained below. They increase the risk of insufficient regulations to benefit the poor, while allowing full foreign take-overs and undermining the development of a domestic services industry.

How agreements on trade in services limit what governments can regulate

The World Trade Organisation (WTO) has a General Agreement on Trade in Services (GATS), which includes investment in services, and which has been renegotiated among the 149 WTO members since 2000. GATS allows countries to choose which services sectors to liberalise. Once countries agree to open up some sectors, GATS rules require that governments do not impose certain restrictions upon foreign operations such as limitations to foreign ownership. Another GATS discipline is that rules for foreign services providers are the same as for domestic services companies. GATS allows some exceptions. However it is difficult to reverse liberalisation under GATS. After the WTO negotiations broke down in July 2006, it is not clear whether the WTO will achieve further liberalisation.

As a result of the EPA negotiations African countries might need to open up more services sectors than they have done so far under GATS. The EU has been aggressively pushing the 6 ACP regions, which will form 6 EPAs, to negotiate liberalisation of services. The EU argues that EPAs will create open regional service markets, constituted by the same rules in each of the EPA regions and will attract more investment and thus further ACP economic development. But negotiating services in EPAs with the EU means, according to GATS rules, that African and other ACP countries need to liberalise a large ("substantial") part of the services sectors to European services providers. Even though the ACP can liberalise less than the EU has to do, the Pacific EPA negotiations indicate that most ACP services sectors will be liberalised under several or all EPAs. Moreover, the EPA rules on services are likely to be very similar to GATS disciplines, restricting governments in the regulation of their own services sector.

Controversies in negotiating services liberalisation in Africa

The EU is pushing services liberalisation because EU companies are the world's major exporters of services and major investors around the world. The EU's many large service multinationals need to expand beyond the European markets to continue their profit growth. This includes fully taking over service companies in other countries, and operating without restrictions. EPA negotiations will allow these profitable conditions for Europe's multinationals and give them preferential access to ACP services markets.

While the ACP are in principle not obliged to start negotiations on services liberalisation, the EU and some ACP regions have started discussing the issue sometimes in controversial circumstances. Parliamentarians and the public have been poorly informed and scarcely involved in these negotiations. Some ACP governments hope to attract more investment, or to export services provided by individuals such as nurses or low skilled labour because of their remittances. However, ACP countries are exporting in total so few services (1.5% of world exports in 2000) that liberalisation will make the ACP a net importer of services, which can create further debt.

Because it is so complex to reap the benefits and avoid the negative aspects of services liberalisation, and because of lack of data and assessments about the likely impact of liberalisation, African governments have been stating (April 2006) that they:

> *"underscore the absolute need for a carefully managed sequencing of services liberalisation in line with establishment of strong regulatory frameworks. We therefore shall not make services commitments in the EPAs that go beyond our WTO commitments and we urge our EU partners not to push our countries to do so."*

The way forward

Developing countries have already made the following proposals in order to promote equitable and sustainable development in relation to trade agreements in services:

- The unique situation in each country needs to dictate the pace and the path of liberalisation most suitable to the circumstances.
- Benefits from privatisation and liberalisation are not automatic; the appropriate preconditions need to be established through appropriate regulations, entrepreneurial and technological capacity building and complementary policies.
- Governments should have flexibility to introduce measures and regulations to redress any unexpected problems that may occur when undertaking liberalisation commitments.
- Adjustment costs to liberalisation need to be taken into account.
- Priority should be given to ensuring universal access to essential services.

Since these proposals mean altering the direction in which the EU is pushing the African countries to negotiate services liberalisation, it is high time that the negotiations become transparent to parliamentarians, stakeholders who will feel the effects, and the public. Impact assessments are urgently needed to explore the likely effects of liberalisation and non-liberalisation under EPAs. They should not be based exclusively on economic costs and benefits, but should also use social and environmental criteria based on internationally accepted standards for the protection of political, social, cultural, environmental, labour and other human rights. Such assessments should take place with input coming from all the different stakeholders.

There is little time left to democratise the EPA negotiations on services and stop the EU from pushing the negotiations against equitable development, since the EPA negotiations are due to be finalised in 2007. However, the African countries still have the option to refuse to negotiate an EPA that includes GATS-like liberalisation of services. They can negotiate liberalisation only among the African countries in the region on their own terms. Another option is, before signing any (free) trade agreement, to first strengthen services providers in Africa by special policies and programmes including technical and financial assistance to operators and regulators, and to keep the possibility to select the appropriate foreign service providers rather than opening up the door to any service multinational – provided there are enough mechanisms to avoid corruption.

Civil society and parliaments can raise their voices about the problems involved in negotiating services liberalisation in EPAs from September 2006 onwards. An official review of the negotiations is taking place and civil society in ACP and EU countries is organising a new campaign against the current direction of the negotiations. The EU and African negotiators should be reminded that rushing services liberalisation during the remaining short EPA negotiation period will undermine equitable and sustainable development, as well as democracy, since governments and parliaments will be restricted in the way they are able to regulate and develop their countries' services sectors.

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