Summary

This report considers the options for Kenya in its current trade negotiations with the European Union (EU). On the table are Economic Partnership Agreements (EPAs): bilateral trade deals between the EU and 77 former colonies in Africa, the Caribbean and the Pacific (the so-called ACP group). The EU sees EPAs as Free Trade Agreements where Kenya, along with the other ACP countries, would have to grant European companies preferential access to its markets in return for the continuation of its preferential market access into the EU.

EPAs will require ACP countries to liberalise most (if not all) of their economy over a very short period. Kenya has undertaken liberalisation programmes in the past and this experience should be taken into account before committing to more of the same. As EPAs will be negotiated regionally, they will have an impact on existing regional groupings in Africa. Kenya is a member of several groups – including COMESA and the East African Community. Kenya's approach to bilateral relations with the EU will have an impact – political as well as economic – on other African countries in the region. Further, the Government of Kenya is in the process of delivering its economic strategy. The degree to which EPAs will complement or undermine this strategy is a litmus test of whether the EU is prepared to genuinely support the ACP.

From the outset EPAs have been highly political: a process driven by the EU and about which the ACP has consistently expressed fundamental concerns. EPA negotiations have been very imbalanced, with the EU insisting on – and generally getting – its way at each stage.

The ACP is negotiating with great reluctance. They have been forced to the negotiating table: partly out of fear that they will lose market access to the EU if they do not agree to an EPA and partly because there is no alternative available at the moment. They are also concerned that refusing to sign may threaten future aid flows (the EU is, after all, the single largest donor to many ACP economies).

The trade liberalisation that Kenya underwent during the 1980s and 1990s as part of structural adjustment programmes, debt relief packages, membership of the WTO and regional groupings, had a very serious impact on the poorest people. Manufacturing sectors declined, most agricultural production went into free-fall and poverty and unemployment levels rose dramatically. Given that EPAs will force Kenya to liberalise still further, allowing market access to highly competitive European businesses, these past experiences serve to show what is at stake, and what the impacts on Kenya's future development are likely to be.

Kenya's future economic policy priorities are to:

- Rebuild its manufacturing base
- Build regional and international trade and diversify its exports
- Increase the competitiveness of its agricultural producers
- Support micro and small enterprises as the engines of growth and poverty reduction

Kenya faces major challenges in trying to turn its economy around, particularly:

- Supply-side constraints such as poor infrastructure, transport and high cost of inputs
- Unfair competition in key sectors.
- Improving market access
- Lack of resources and investment

To re-build its economy and tackle these challenges, Kenya needs to be able to protect key groups and sectors from competition both at home and on the regional East African markets which are vital to achieve this goal.

Rather than supporting Kenya's own economic needs, the liberalisation required in EPAs will:

- Pit Kenya's vulnerable new manufacturers, farmers and small business in direct competition with large-scale, highly efficient and often subsidised European challengers both at home and in regional markets
- Remove a number of important policy tools that Kenya has successfully used to support and promote local businesses
- Take away precious resources that could be invested in improving infrastructure
- Undermine regional integration

In return for these 'adjustment costs', EPAs do not guarantee Kenya additional resources or investment and there is very little to be gained in improved market access.

On the basis of this evidence, EPAs as they are currently being proposed would undermine every aspect of Kenya's sovereign policy plans. There is nothing to gain and everything to lose.

But Kenya has not agreed to sign an EPA and it does have options in the talks. It can work to change WTO rules to secure fundamental changes to the parameters of EPAs and it can demand that the EU provides the alternatives to EPAs, which have been promised under the terms of the Cotonou Agreement.

There will be a major review of EPAs in 2006. Both the EU and ACP member states need to use this opportunity to urgently stop the current free trade EPAs before Kenya, along with many of the world's poorest countries, are forced to negotiate away their future.