EU Aid for Trade: Mitigating global trade injustices?

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Abstract

Does the EU’s Aid for Trade (AfT) initiative contribute to global justice? Complementing work that considers distributive justice, in this paper we adopt the central tenets of the republican theory of non-domination as a regulative ideal for justice in international relations. We evaluate the extent to which the EU’s AfT initiative results from reduced political domination in international trade negotiations, and if that then mitigates economic dependency between European and African states. We first provide a qualitative account of the processes that led to the establishment and subsequent development of AfT. We then consider the extent to which the AfT has promoted the reliance of African states on European FDI relative to FDI from other regions (including and especially from within Africa itself) using subnational, project-level, data. Our findings suggest that EU AfT does not reinforce dominating forms of dependency in the international arena, at least when measured by the source of the FDI that it attracts, while AfT is itself an outcome of somewhat less dominating power relations in trade negotiations between wealthier and poorer states.

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**Introduction**

Trade can serve as an instrument for growth but may also increase inequality, if not exploitation, between rich and poor countries (Therien 1999). This argument has its roots in the “dependencia” school of the 1960s and 1970s (Walleri 1978) but has been reinvigorated in “neo-dependency” and neo-colonial critiques (Langan 2018). Significant attention has also been paid to how the institutional framework that regulates global trade enables richer states to dominate developing countries (Stiglitz 2002). Inherent power asymmetries between states can further reinforce inequities by influencing the ‘rules of the game’ in favour of developed countries’ interests (Langan and Scott 2014).

Aid for Trade (AfT) has been presented as a mitigator of the unfair consequences of global trade (OECD 2007; Hoekman and Prowse 2005; Hynes and Holden 2016). A broad moniker, AfT encompasses economic infrastructure which might facilitate trade or trade-related production, training on customs or other trade-related regulatory issues, or industry-specific trade development measures (Brazys 2013). Lam (2008: 273) says Aid for Trade is ‘increasingly … seen as the missing link that will help to make trade a true engine of growth for poorer countries’. According to Luke and Bernal (2011: 352) AfT ‘gives concrete expression to the objective of securing greater developing country participation in international trade’, while Makan (2012: 106) holds that ‘the value-added of the AfT agenda lies in the processes it has triggered and opportunities for coordination have been related between … actors on the demand-side (recipients) and the supply-side (donors)’. Furthermore, donors, such as the European Union (EU), have embraced the AfT agenda and have given it a central place in its development cooperation framework (Council of the EU 2007a, 2017). The EU sees AfT as ‘supporting demand-driven reforms of trade-related policies as well as removing supply-side constraints related to productive capacities, economic infrastructure and trade-related adjustment, AfT is crucial for developing countries in order to implement and benefit from trade agreements’ (Council of the EU 2007b).
However, critics hold that AfT does not deliver what it promises in terms of distributive justice (Garrett and Wanner 2017). Several non-governmental organizations (NGOs) have pointed to the fact that there is little information available as to whether AfT alleviates poverty. According to Langan and Scott (2014: 151) AfT is a strategic move by donors which serves to entice leaders to sign bad trade deals that ‘entrench(ed) power relations via the construction of common-sense acceptance of “pro-poor” liberalisation’. The motivation behind AfT is therefore assumed to be tied to domestic economic interests rather than development concerns (Langan 2016; Brazys 2013). In addition, critics have pointed to the fact that AfT does little to remedy the ‘inequities of the rules themselves’ (Langan and Scott 2014: 153). As a result of asymmetries in the decision-making process itself, Langan (2018: 61) goes so far as to characterize aid (for trade) as a neo-colonial project that acts ‘as a subsidy for foreign corporate involvement.’ Hence, it remains unclear whether the Aid for Trade agenda has been a positive development in the international trade regime.

We recognize that AfT is only one facet of a multi-pronged foreign economic policy. However, given that AfT accounts for roughly 30% of global Official Development Assistance (ODA) (OECD 2019), it is an important facet. Any broader effort to understand the extent to which foreign economic policy contributes to a less dominating global trade regime must assess AfT on its own merits.

Accordingly, in this paper, we attempt to compliment distributive justice investigations of AfT by using an alternative conceptualization of justice. The normative framework that we employ is the republican ideal of non-domination, most forcefully elaborated by Pettit (2012). According to Pettit, justice is relational in that it concerns how agents stand with regards to one another. Stated briefly, justice is approximated the less agents are subject to the arbitrary will of other agents, but

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2 There are studies which find moderate impact of AfT on aspects like employment generation (Gnangnon, 2019).

3 For instance, Stephen Twigg of the International Development Committee notes “A strategy heavily weighted towards trade alone can actively disadvantage the most marginalized groups” available at: https://www.reuters.com/article/us-britain-eu-aid/worlds-poorest-risk-losing-out-as-brexit-britain-pushes-aid-for-trade-idUSKBN1K71S9
instead must interact with one another in ways that allow them to each assert their justifiable interests. This is the ideal of non-domination and, according to republican thinkers, should be the goal of both domestic and international politics (Pettit 2012, Eriksen 2016, Bellamy 2019).

There are two primary sites where relations of (non-)domination can be identified: decision-making procedures and the outcomes of those procedures for the affected parties. Theoretically, if decision-making procedures are non-dominating such that relevant agents are accorded a fair say in the decision-making process, then the outcomes should not lead to dominating outcomes for those affected. In practice, however, there may be real power asymmetries that undermine the capacity of formal procedures to produce non-dominating outcomes. For this reason, to convincingly assess the extent to which forms of political cooperation are (non-)dominating, it is necessary to analyse both decision-making procedures and their outcomes.

Importantly, we do not propose a comprehensive normative evaluation of AfT. As a result of our focus on political relations of domination, we are unable to investigate highly pertinent questions, like whether AfT initiatives contribute to global distributive justice by alleviating poverty. Furthermore, we accept that the AfT has not marked a change in the rules governing the global trade regime. Instead, what we hope to investigate are merits of the related critiques that the AfT is a result of decision-making processes that are unfairly skewed towards the interest of powerful states and that its effects are to reinforce neo-colonial economic dependencies between the EU and African states.

In relation to the first critique, we find that the AfT is indeed a modest concession to developing countries in the context of the highly dominating decision-making processes characterizing global trade negotiations. Our findings, however, add nuance to this point. In particular, we demonstrate that the creation of the AfT and its subsequent development is the result of the ability of African states to reduce (though by no means eliminate) domination in the decision-
making process by asserting their (collective) agency. Concerning the second critique, by demonstrating that AfT has not resulted in disproportionate inflows of Foreign Direct Investment from the EU relative to Africa and the rest of the world, we find a significant (though by no means conclusive) reason to be sceptical that AfT furthers domination as a form of economic neo-colonialism.

We first elaborate on the idea of non-domination itself. We then evaluate the AfT initiative – in terms of its origins, development, and outcomes – using the value of non-domination as a benchmark in two parts. First, we examine the extent to which the AfT agenda is a result of dominating decision-making processes between developing states in Africa and their wealthier counterparts in the settings of the World Trade Organization (WTO) and the ECOWAS Economic Partnership Agreement (EPA) regional negotiations. Second, we investigate if an observable economic outcome of the EU’s AfT initiatives is (in)consistent with a dominating neo-colonial narrative. In order to do this, we draw on Langan’s (2018) critique of aid as a handout to foreign commercial interests and take advantage of localized, project-level, information on both AfT and foreign direct investment (FDI). This enables us to employ a spatial-temporal approach to determine if local EU AfT attracts FDI to the same locality and if that attraction differs based on the source country of the FDI. We conclude by summarising our findings, putting them into context and reflecting on the limits of this study.

Non-Domination: A Procedural and Outcome Measure of International Justice

For republican theory, non-domination is the fundamental political value (Pettit 2012; Bellamy 2019). It holds that the primary normative purpose of political cooperation, whether domestic or international, is to prevent against arbitrary interference by an external will. Interference, on this view, is arbitrary when one agent has the capacity to act upon another in a way that does not track the expressed will of the agent that is acted upon. In effect, the dominating actor
is an agent with the *power* to act on another for its own self-interested purposes. Republican non-domination is a negative consequentialist theory in that it sees justice as consisting in minimising the evil of domination in human relations (Pettit 2012; Nadeau 2003). Non-domination between agents is approximated when they meet on terms where neither is at the mercy of the other. This requires that there is a balance of power between the agents.

A central way of achieving this balance is through the establishment of rule-based contexts where agents have formal and informal mechanisms available to them that are designed to ensure they are capable of effectively asserting their own interests. Formally, this may involve veto points, majority or supermajority decision-making rules, as well as access to contestatory institutions like courts and ombudsmen (Petit 1999). Informally, an institutional environment where free association is upheld will provide the conditions for coalitions of the weak to emerge, which can serve to rebalance power within the institutional context (Pettit 2010). However, formal and informal checks and balances that allow agents to meet each other on fair terms in theory may not always amount to non-dominating outcomes in practice. Powerful actors may find alternative means of exerting their influence in ways that undermine the equalising effects of the institutional context. There is also a possibility of unintended consequences, where a policy designed to be non-dominating turns out to be the reverse. From the perspective of measuring the extent of (non-)domination in any form of political cooperation, therefore, triangulation is required. Both the formal and informal dimensions of the institutional context, as well as the outcomes of the decision-making process must be assessed.

Non-domination as an ideal of political cooperation would appear to be especially pertinent to the question of trade justice in international relations. A basic assumption is that powerful states politically dominate weaker states by establishing decision-making procedures that skew trade negotiations in their favour. When this happens, the ‘level playing field’ of interaction between two sovereign equals disappears (Kapstein 1999: 181). The observable outcomes of this political
trade domination can themselves be dominating, leading to (neo-colonial) forms of dependency, wherein a country is disproportionally and disadvantageously reliant on markets or capital from a particular economy (Walleri 1978). Dependency is not in and of itself a form of domination. Indeed, in an increasingly globalised world, interdependence between states is the norm and can be mutually advantageous for cooperating partners. Dependency, however, becomes a form of domination when it is asymmetrical and where this asymmetry is politically constructed through the use of power. Dependency of this nature, by limiting the options available to the dependent, endows the dependee with the asymmetrical power to subject the dependent to its arbitrary will. Dependence is dominating when it avoidably contributes to keeping one agent under the thumb of another.

A common argument regarding globalisation is that while increased levels of trade between states has been a key driver of economic growth, its benefits have been skewed in favour of richer states (Stiglitz 2002). International institutions governing global trade have long faced criticism as fostering domination of the developed global north over the developing global south (Onwuka 1989; Kapstein 1999) and prioritising trade liberalisation above concerns for human rights, the environment, and redistributive equality (Føllesdal 2016). According to Wilkinson (2018: 427) ‘Trade negotiations remain the preserve of the most significant economic states’. Such critiques have also been made towards particular trading partners, including the European Union, especially from its African, Caribbean and Pacific (ACP) counterparts (Moulds 2015).

For this reason, it becomes worthy to investigate new forms of trade governance that claim to depart from the prevailing norms of domination. AfT has been identified by its advocates as one such step in the direction towards a more just global trade regime. However, detractors have also claimed that AfT is primarily another way of perpetuating colonial relations between the EU and the global south (Langan 2016). According to Ypi (2013: 174), the essence of ‘what’s wrong with colonialism’ is ‘its violation of standards of equality and reciprocity in setting up common political
relations’. In effect, the colonial critique of international trade has to do with relations of domination, both in terms of decision-making institutions and social and economic outcomes. What is special in the colonial critique of international trade, however, is that contemporary agreements have been used to perpetuate rather than break historical patterns of economic dependency.

We next evaluate the extent to which AfT contributes to reducing domination within the global trade regime. First, we look at the decision-making process in two trade arenas, the WTO and the Economic Partnership Agreement negotiations between the EU and West Africa (ECOWAS EPA). In each instance, we unpack how the AfT initiative unfolded and analyse the extent to which the process leading to the establishment of the AfT agenda in the WTO and its subsequent employment in the ECOWAS EPA are indicative of (non-)domination. Second, we use spatial-temporal techniques to analyse if AfT projects have helped to reduce dependency on EU Foreign Direct Investment (FDI), instead helping African states increase foreign direct investment (FDI) to each other. This investigation focuses on 6 sub-Saharan African countries (Burundi, Nigeria, Zambia, Senegal, Sierra Leone and Uganda) due to data limitation. This data availability also drives our qualitative case selections. Three of these six countries are members of ECOWAS, including Nigeria which accounts for over half of the population and nearly two-thirds the GDP of the group. All six of these states are also members of the WTO.

**Non-domination in the WTO?**

The multilateral global trade regime orbits around the WTO. However, the success of the WTO in enhancing trade justice is contested. According to Stiglitz (2002) the ‘the IMF, World Bank and WTO…set the rules of the game…in ways that…have served the interests of the more advanced industrialized countries … rather than those of the developing world’ (in Føllesdal 2016). One prominent critique of the WTO is that the most important decisions are made by the most
powerful states in the ‘green room’, away from the influence of less powerful states (Schott and Watal 2000).

However, the launch of the Doha Development Agenda negotiations marked the start of an emerging consensus for putting trade at the service of development. Without significant market power, developing countries have used their veto power in the WTO to resist any initiative that does not deliver development. The consensus-based decision-making system in the WTO has served to mediate the power asymmetries that exist between developed and developing countries, at least to the extent that less powerful countries have access to some of the key formal tools of non-domination: contestation and veto (Murray-Evans 2019; Wilkinson 2017). Yet, to move beyond this minimal requirement of contestation, actors must be able to assert agency vis-a-vis more powerful states and global institutions. This could be done by a key informal tool of non-domination, namely by forming coalitions of the weak. The WTO system allows for alliances between different groups of countries, including the African group, the Least Developed Countries group and the ACP group. These groups often speak with one voice in WTO negotiations, using one country as the coordinator and negotiation team. Forming such coalitions have at times proven a successful strategy. In the Singapore Ministerial conference in 1996 the group of 77 resisted the EU and the US’ demand for including standards for environmental protection and labour rights in the WTO (Vigrestad 2018). Another well-known example is 20 developing countries successfully requesting an amendment on Trade-Related Intellectual Property Rights (TRIPS) to allow for access to essential medicines (Lafont 2018). As part of the Doha-round in the WTO, the Aid for Trade initiative was agreed upon as a way of making the institution more development friendly. It was formally launched in 2005 at the Hong Kong Ministerial of the WTO (WTO 2005). The initiative’s aim was to help developing countries take better advantage of global trade inter alia by alleviating supply-side constraints and build trade-related infrastructure (Luke and Bernal 2011).
At first sight, the AfT initiative can be interpreted as a victory for developing states. Not only does it appear to be a result of an improved balance of power within the WTO itself but, precisely because of this improvement, the institutional sub-context through which the AfT is administered appears to have been established along non-dominating lines. On the first point, the African group in the WTO has made clear that its influence reigned in the establishment of AfT:

The African ownership of this initiative is paramount. The genesis for this initiative derives from Africa and its political leadership at the highest level. (African Group in WTO 2006)

On the second point, we find that the institutional arrangement of the AfT embodies procedures that help to ensure the empowerment of developing states. For example, at the Hong Kong Ministerial, WTO members agreed to establish a taskforce that would provide recommendations on how to operationalise AfT and investigate further into how AfT funds could best contribute to pro-poor development. This body was made up of 13 WTO members, 5 developed countries and 7 developing countries, including the coordinators of the ACP and the African groups in WTO. While donors saw the opportunity to re-label already pledged ODA funds as AfT, developing countries insisted on the need for all AfT funding to be new and not recycled. Point C of the task force’s report recommended the following:

Additional, predictable, sustainable and effective financing is fundamental for fulfilling the Aid-for-Trade mandate. (AfT Task Force 2006)

Likewise, the importance of financing for the adjustment costs of trade liberalisation was reiterated in the Khartoum declaration (ACP 2006: 16):

… We further call for additional finance and appropriate financial instruments that are necessary for assisting in addressing adjustment costs

Donors also confirm that projects conducted under the AfT initiative have influenced the way they work with recipients, precisely because of the role of developing nations in the process.
Gareth Thomas, former United Kingdom Minister for Development, described the pilot AfT project ‘the North-South Corridor’ in East and Southern Africa in the following way:

It was also a breakthrough for our ways of working as donors; grounded in a true African-led process (Thomas 2009).

The process leading to the establishment and development of the AfT initiative shows that developing countries were able to collaborate to influence the politics of a major WTO effort. In doing so they have relied on the argument that global trade must serve development purposes. Most notably, the AfT initiative is evidence of developing states’ influence on global trade governance that goes beyond the right to veto, illustrating a shift in the direction of less dominating trade relations.

Yet the existence of power-mediating structures within the WTO does not by any means imply an end to domination in global trade negotiations. The is especially true when we consider, as many scholars have pointed out, how the difficulty in concluding the Doha-round of negotiations has led wealthier states to seek bilateral and regional trade agreements with developing countries, conventionally known as Preferential Trade Agreements (PTAs) (Hartman 2013).

**From WTO to Regional Trade Agreements: Regaining control of the trade agenda?**

According to Wilkinson (2017) the current weakening of trade multilateralism is falling most heavily on developing countries. Many argue that in PTA negotiations ‘traditional’ factors like market size and asymmetric bargaining power matter more than in the multilateral setting (Meunier and Nicolaidis 2006; Hurt 2003). As Wilkinson (2017: 1133) describes, the stalemate in the WTO ‘better enables the industrialized states to regain control of a trade agenda’. The breakdown of trade multilateralism has enabled developed states to pursue their interests more effectively through PTAs where ‘negotiations usually involve classic structural conditions of weak states trying to negotiate with the strong’ (Lee 2012). Thus, the growing power of developing
countries creates a dilemma. Their resistance in the WTO leads developed countries to bypass the multilateral system and provides room for their interests to win through in PTA negotiations where the potential for institutional domination is more acute. For instance, Hurt (2003) documented how ACP trade negotiators were unsuccessful in opposing a move from non-reciprocity which was maintained under the ACP-EU Lomé Convention to liberalisation and trade reciprocity in the EU-ACP Cotonou Agreement. This trend appears to continue, as African states are facing increased demands for trade liberalisation in the on-going post-Cotonou negotiations.

Following the collapse of the Doha-negotiations, AfT has figured increasingly in PTA negotiations. One example is AfT’s prominent role in the negotiations of the Economic Partnership Agreement (EPA) between the EU and West Africa (ECOWAS EPA). The EPA involved trade liberalisation of goods and services in conformity with the trade rules of the WTO. Trade liberalisation creates adjustment costs resulting from lost tariff revenues and investments in infrastructure. One of the central points of contention in the negotiations was the extent to which the EU would provide funds to compensate West Africa for these adjustments in the ECOWAS EPA (Langan and Price 2015; Meyn 2012; Makan 2012). While the EU insisted that trade liberalisation and financing were two separate issues, West African negotiators clearly voiced a demand for long-term financing of the EPA as a pre-condition for entering the agreement (Meyn 2012).

Negotiations of the ECOWAS EPA commenced in 2006 but did not meet the initial 2007 deadline. The EU’s initial unwillingness to make concessions rested on their ‘conviction that West Africa would ultimately prefer to sign the proposed EPA over falling back on the EBA regime’ (Weinhardt 207: 290). Yet, as negotiations progressed, West Africa, led by the ECOWAS and UEMOA Commissions, resisted the EU’s proposal. ECOWAS developed an EPA Development programme (conventionally known as PAPED from the French acronym), a plan for translating market opening to social and sustainable development for the region, through a broad participatory
approach (TNI 2010; ECOWAS 2010). ECOWAS envisaged to finance PAPED through AfT monies. PAPED justified the need for development funds accompanying the EPA in order to mitigate the negative impacts of the EPA. For the West African negotiators these funds were a condition for moving forward in the negotiations:

Dr Obideyi [Director of trade of ECOWAS] said … the differences between the partners had been reduced to … the funding arrangement … a key point in the negotiation process with the ECOWAS Heads of State (Modern Ghana 2011)

Civil Society organisations, which had been active in voicing their opinions during the negotiations spoke out in support of the West African negotiators:4

We support … that a proper and binding PAPED is a PRE-CONDITION for an ECOWAS EPA and hold West African officials to this commitment (West African Civil Society Platform 2011)

In April 2010 ECOWAS requested €9.5 billion of AfT and private sector development assistance (PSD) from the EU to finance PAPED (ECOWAS 2010). Nigeria was fronting the argument that the EPA would lead to negative effects, i.e. revenue loss and deindustrialization, in the region which would have to be compensated for by the EU through AfT support to the PAPED. The negative effects following from agricultural subsidies within the EU was also voiced regularly (ECDPM 2014). The eventual EU pledge of €6.5 billion to fund the PAPED represented a breakthrough for the West African negotiators:

The EU currently estimates that funds available for PAPED related activities from all of its financing instruments over the next five years amount to at least 6.5 billion Euros.

Total aid for trade to West Africa from all donors can be projected to exceed 12 billion

4 see also Del Felice 2012; Langan and Price 2015; Siles-Brügge 2014; Trommer 2011 for accounts of civil society influence on the negotiations. While CSOs were largely supportive of the West African negotiators plea for PAPED, several organisations also voiced concerns regarding whether the PAPED would be the right means for achieving sustainable development in West Africa (Langan and Price 2015).
US dollars in the same period. Thus the EU expects to be in a position to support the PAPED to a very substantial extent (Council of the EU 2010)

However, it was still uncertain whether the funds that the EU pledged in May 2010 were merely a restatement of funds that were already pledged under the European Development Fund (EDF), something that had been a key source of tension during the negotiations. The EU’s statement was not enough to make West African negotiators sign the ECOWAS EPA at that stage. However, in March 2014 the EU made a new commitment to fund the PAPED for the coming period 2015-2020:

Support to the PAPED … has already exceeded the Council's commitment of 6.5 billion euros and reached more than 8.2 billion euros in funding …the EU stands committed to again provide at least 6.5 billion euros for activities linked to the PAPED in West Africa for the 2015-2020 period from all its financing instruments, those of its Member States and the EIB. (Council of the EU 2014)

With this move, West African negotiators were sufficiently satisfied with the level of funding of the PAPED to sign the agreement (European Commission 2014b). West African negotiators thus managed to get its Nigerian members on board (ECDPM 2014):

On the basis of the consensual results … (particularly on the market access offer, the EPA Development Programme (EPADP) and the text of the Agreement), the Heads of State and Government endorse the Economic Partnership Agreement negotiated which has taken due account of the technical concerns raised (ECOWAS 2014: 3)

While the question of funding for PAPED was only one of several points of contention during the final stages of the ECOWAS EPA negotiations, it serves as an illustration of how African negotiators have been able to contest the programme of trade liberalisation proposed by wealthier states to get concessions from the EU (See also Heron 2014; Hurt et al. 2013). In the absence of
formal vetoes under these PTA negotiations, African states were nevertheless capable of reducing the power imbalance by forming a negotiating coalition. In doing so, West African negotiators used the argument that EPAs would have unfavourable consequences for West African states and AfT and PSD funding was necessary to be able to manage a sustainable implementation of the EPA (ECOWAS 2010). The pre-existence of AfT, a concession already won using veto rights and coalition building in the WTO, provided African states with a ready-made African-led vehicle which could go some way towards delivering their demands. Eventually, the EU changed its position on keeping funding and trade-negotiations separate issues and decided to provide funding to the PAPED. In this case, West African states appealed to arguments regarding the need for financial instruments in order to compensate for the unwanted consequences of trade liberalisation and to build capacity for enhancing competitiveness.

Notwithstanding the Western African states’ ability to gain concessions from the EU, the ECOWAS EPA is not yet in force, due to Nigeria’s refusal to sign the agreement. While all EU member states and 15 West African states have signed the agreement, which was finalised in 2014, Nigeria’s refusal to do so exemplifies the continued ability of an individual African country (albeit one of the more powerful) to resist the EU’s policies. Nigerian President Buhari (2016) justified Nigeria’s position in the European Parliament in February 2016 by stating its dissatisfaction with the EU’s unwillingness to meet concerns related to negative impacts of the EPAs on Nigeria’s industrialisation programme:

urging our European Union partners to also address our own concerns to allow for Economic Partnership Agreement that are mutually beneficial and contribute to the prosperity of our people.

So far the analysis suggests that African states have been able to gain concessions on AfT in the context of WTO as well as the regional EPA negotiations. Whereas the ‘rules of the game’ in global trade have not changed, African agency has influenced trade negotiations in ways moving
beyond their right to veto. In particular, affected stakeholders have made use of forming ‘coalitions of the weak’ to contest and resist the EU’s policies, incentivising the EU to come back with an improved offer. As a result of African states’ collective agency, the capacity of the EU to dominate poorer states has been reduced, improving outcomes for the latter. In the next section, we aim to assess the character of that improvement in a more refined way. In particular, we attempt to understand whether AfT has led to a reduction in neo-colonial economic dependencies of African countries on the EU. We propose to measure this on the basis of an observable outcome of the AfT process, namely the extent to which AfT efforts have or have not shaped the influx of Foreign Direct Investment to Africa.

**EU Aid for Trade as a tool for increasing economic justice?**

The EU has, from the outset, linked AfT closely to private sector cooperation and the use of *blending mechanisms*\(^5\) to make AfT boost foreign direct investment:

> It is the private sector that produces and distributes tradeable goods and services… Any Aid-for-Trade mechanism should therefore fully appreciate the role of the private sector to ensure getting real results on the ground… (European Communities and its Member states 2006)

Although, the EU’s linkage of aid to the private sector is traceable from the outset (see European Commission 1996), the link between AfT and FDI was firmly established in the 2007 EU strategy on Aid for Trade (Council of the EU 2007a) and subsequently strengthened (European Commission 2014). In the recently updated aid for trade strategy, the EU seeks to ‘Use ODA strategically as a catalyst to mobilise other public and private financial flows’ (Council of the EU 2017). In sum, the

\(^5\) Blending mechanism refer to the use of public finance (i.e. AfT) to leverage private finance through blending the two together.
EU’s interpretation of AfT is linked to the belief that aid in combination with private sector cooperation will increase benefits for developing countries. In particular, AfT is presented as a tool by which to improve the investment climate in developing countries and thereby spur FDI while the challenge and risks that blending mechanism involve are hardly discussed.

One such risk is that EU AfT serves to primarily or disproportionately support European FDI, thus reinforcing neo-colonial economic dependencies. The cross-country literature has long found that aid attracts FDI, including in Africa (Amusa et al. 2016) and especially when targeted at infrastructure (Donubauer et al. 2016). In particular, AfT targeted at infrastructure, policy regulation and building productive capacity is found to have positive links with greenfield FDI (Lee & Ries 2016; Ly-My & Lee 2019). However, Selaya and Sunesen (2012) find that the composition of aid matters for its overall effect and Kimura and Todo (2010) have also argued that aid can have a ‘vanguard effect’ where aid from a particular donor country attracts FDI from the host but not other source countries. Indeed, drawing on Woddis (1967), Langan (2018, p. 64) argues that aid initiatives may have parallels to neo-colonial practices: ‘Aid was not necessarily a benefit to local peoples, but rather helped to perpetuate colonial patterns of trade that facilitated capital accumulation in the donor country’.

The broader international relations literature has further examined the assumption that donors use aid to their own economic benefit (Berthelemy and Tichit 2004). Some have explicitly proposed that aid is primarily used in the interest of donors to promote their own trade ties developing countries, cementing dependence (Brazys 2013; Hoeffler and Outram 2011; Langan 2018). Accordingly, our first hypothesis rests on the assumption that AfT is intended to disproportionately promote the commercial interests of the sending country.

\[ \text{H1: European AfT attracts more European FDI than non-European FDI.} \]
The alternative hypothesis (two) is that European AfT does not perpetuate patterns of neo-colonial dependency but, instead, attracts as much or more FDI from non-European sources, in particular from other African countries, compared to European sources. This latter effect would be evidence of European AfT reducing economic domination by encouraging a diversification of FDI sources, especially if those sources are other African countries.

\[ H2: \text{European AfT attracts as much or more non-European FDI (especially from Africa) than European FDI.} \]

**Data and Methods**

To analyse the impact of AfT on FDI, we construct a panel of 1580 Afrobarometer sites in the six countries mentioned above from 2003 to 2017. Using Afrobarometer sites allows us to use aggregated site-levels controls, and we control for several potential confounders of FDI including the local corruption environment, urban/rural status, and demographic characteristics. The “Aid Information Management System” (AIMS) in our sample countries have been used by AidData to construct geo-referenced, project-level, aid datasets covering nearly all donors (Peratsakis et al. 2012; AidData (2016a; 2016b; 2016c; 2016d; 2017a; 2017b)). This aid data is used to construct the primary explanatory variable. Following the logic of the spatial-temporal approach of Knutsen et al. (2017), we take advantage of the temporal nature of the data to assess if a given Afrobarometer site had an “active”, “inactive” or no AfT project in a given year. “Active” is coded “1” for site \(i\), time \(t\), if an AfT project had begun at that site by that year. “Inactive” sites are coded “1” when no AfT project had yet begun at site \(i\), time \(t\), but where an AfT project would begin later in the sample. Sites where no AfT project occurred over the course of the sample are coded “0” for both active and inactive.

In addition to this simple coding, we also take advantage of the fact that our project-level aid data has information on the type of Aid for Trade project. As mentioned above, AfT falls into three broad categories: infrastructure, regulatory assistance and industry development. Several
studies have investigated these differing aspects of AfT, finding that some types of AfT might be more effective in facilitating exports than others (Vigil and Wagner 2012). Beyond this, AfT has been critiqued for being overly broad, with many projects classified as such only being tangentially related to trade or export activities (Brazys 2013). Accordingly, we use project information to classify our AfT into infrastructure, regulatory and industry projects. We then create a second construction of the “Active” variable wherein the variable is assigned “1” once a site has at least two of the three types of AfT. Sites with multiple AfT projects are more likely to indicate an intent of promoting export-related activity in the area.

This active/inactive distinction allows for a difference-in-difference comparison wherein we can compare “active” AfT sites not only to all sample locations, but also only those locations that would have both FDI and AfT during the sample period. This latter comparison helps to mitigate any endogenous selection effects that may occur at sites hosting both AfT and FDI. In other words, there may be other observable and unobservable characteristics that attract both AfT and FDI. By comparing the impact of AfT on FDI of “active” sites to “inactive” sites we can alleviate these selection effects.

Our primary outcome variable is a binary indicator that equals “1” if there is a new greenfield or expansion FDI project at site $i$, time $t$. These data are sourced from the Financial Times fDi markets database. Like the AidData, this data contains spatial and temporal information on both the timing and location of the FDI projects. This data includes 704 projects located at the city-level in the six study countries from 2003 to 2017. We use project events as the basis of the outcome measure as this data is verified and cross-referenced in the original fDi Markets methodology, whereas other information on project size is largely estimated and potentially biased.
EU, and only African source country FDI projects, respectively. FDI from other African source countries accounts for 176 of the 704 (25%) FDI projects in our data.\(^6\)

Our models use country-year fixed effects with site-clustered standard errors that account for exogenous site-level shocks. The country-year fixed effects control for unobserved country-year phenomena which might otherwise influence FDI locating such as a new trade arrangement (Osnago et al. 2017), a change in government or regime (Morrissey and Udomkerdmongkol 2012), or armed conflict or unrest (Driffield et al. 2013).

Our treatment area must be large enough accommodate the precision of the data but small enough to avoid unnecessary noise. The analysis employs precision code “3” in the AidData, which is the “district” or “administrative 2” level. Likewise, the FDI data relies on city-level locations which should be to roughly 25km. Most studies using this approach have settled on 50km as the ideal distance for evaluation (Knutsen et al. 2017) and, given our use of “district-level” AidData, this seems appropriate. A final issue is that local FDI is likely to cluster, following well-established studies of economic geography (Shatz and Venabels 2000). Accordingly, we include a measure of the cumulative stock of FDI in our models. However, of note is the fact that our data is temporally truncated at 2003. This means our variable on the existing FDI stock as this variable will be “0” in 2003 at all sites. Accordingly, in the robustness checks, we also allow for a “burn in” for existing FDI of 2 years and evaluate our model on the data between 2005 and 2017. Full information on data sources and summary statistics is available in Supplementary Appendix Table 1.

Results

The results are presented in Table 1. For ease of interpretation we present odds ratios in lieu of coefficients from our logistic regression models, noting that a value greater than one means an increased likelihood of the outcome, while a value less than one means a decreased likelihood. However, the difference-in-differences reported are differences in the logit coefficients. We also

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\(^6\) Full details of FDI source countries can be found in Appendix table 8.
only present the results on our key variables of interest and the difference-in-difference. Full results on the controls variables are available in the supplemental online appendix in Appendix Table 7.

There are several interesting features of our results. First, when considering our treatment variable as any local EU AfT project (models 1-3), we see no statistically significant difference between active and inactive sites for either EU (model 1) or non-EU (model 2) FDI, and a negative and significant difference-in-difference in African FDI (model 3). However, it is interesting to note that the odd-ratios are greater than 1 and statistically significant for both “active” and “inactive” in all three models. This suggests that single types of EU AfT projects head to Afrobarometer sites, which are multiple times more likely to receive FDI than Afrobarometer sites which never receive AfT. Indeed, the magnitude of the positive and significant coefficients on active and inactive in the African model (3) suggests that both active and inactive sites that get any EU AfT are more likely to have African FDI nearby than EU or other non-EU FDI.

Table 1: EU, Non-EU and African FDI

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>(1) EU Any</th>
<th>(2) non-EU Any</th>
<th>(3) Africa Any</th>
<th>(4) EU Multi</th>
<th>(5) non-EU Multi</th>
<th>(6) Africa Multi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active</td>
<td>3.918***</td>
<td>4.423***</td>
<td>5.155***</td>
<td>2.102***</td>
<td>1.620***</td>
<td>1.603***</td>
</tr>
<tr>
<td></td>
<td>(0.568)</td>
<td>(0.757)</td>
<td>(0.981)</td>
<td>(0.209)</td>
<td>(0.146)</td>
<td>(0.162)</td>
</tr>
<tr>
<td>Inactive</td>
<td>4.399***</td>
<td>4.733***</td>
<td>10.40***</td>
<td>0.0393***</td>
<td>0.438***</td>
<td>0.604*</td>
</tr>
<tr>
<td></td>
<td>(0.545)</td>
<td>(0.752)</td>
<td>(1.762)</td>
<td>(0.0391)</td>
<td>(0.0864)</td>
<td>(0.176)</td>
</tr>
<tr>
<td>FDI Stock</td>
<td>16.16***</td>
<td>14.68***</td>
<td>21.56***</td>
<td>18.97***</td>
<td>15.88***</td>
<td>27.68***</td>
</tr>
<tr>
<td></td>
<td>(1.326)</td>
<td>(0.902)</td>
<td>(1.739)</td>
<td>(1.519)</td>
<td>(0.935)</td>
<td>(2.435)</td>
</tr>
</tbody>
</table>

Observations 18,751 21,913 18,054 18,751 21,913 18,054
Controls/Constant YES YES YES YES YES YES
Country-Year Dummies YES YES YES YES YES YES
Difference in difference -0.116 -0.0677 -0.702*** 3.978*** 1.308*** 0.976***
Chi2 active-inactive=0 0.689 0.303 27.09 15.93 38.12 9.543
p value 0.406 0.582 0.000 0.000 0.000 0.002

However, when changing our treatment to indicate Afrobarometer sites as “active” only when receiving multiple types of AfT projects (models 4-6) we see positive and statistically significant differences between active and inactive sites in attracting FDI in all three cases. Moreover, as indicated by the odds-ratios less than 1 on the “inactive” variables, these sites were
substantially and significantly less likely to receive FDI compared to non-AfT sites prior to receiving the multiple types of AfT. This can be interpreted to mean that sites that received multiple types of EU AfT projects were comparatively disadvantaged in terms of attracting FDI vis-à-vis sites which never received AfT.

In terms of our hypotheses 1 and 2, we see that the impact of AfT on EU, non-EU FDI and African, in broad strokes, is substantively similar when considering sites with multiple types of AfT. In all instances, the presence of multiple types of EU AfT projects leads the site from being less likely to more likely to attract FDI, compared to non-AfT sites. However, there is some divergence in the magnitude of this effect. Whereas an inactive site goes from being roughly 25 times less likely to attract FDI to just over 2 times more likely to receive EU FDI, for non-EU FDI the change is only from about 2.3 times less likely to 1.6 times more likely and for African FDI is from 1.6 times less likely to 1.6 times more likely. In other words, multiple active AfT projects makes sites that were much less likely to receive EU FDI projects about as likely to receive EU, non-EU, or African FDI projects. Thus, the comparative difference stems more from the previous absence of EU FDI when the sites were “inactive”, rather than an asymmetrical presence when once the sites became “active”. Accordingly, we interpret these results as being consistent with hypothesis 2, that EU AfT attracts EU, non-EU, and African FDI at similar rates. As a result, at least when measured in terms of the distribution of FDI, AfT is not worsening a dominating cycle of neo-colonial dependencies.

**Robustness**

We submit our core results to several robustness checks and extensions. Specifically, we use different distances for our spatial joins, counts of FDI projects as outcome variable, lagged timing of AfT projects, omission of two years of data to “burn in” the FDI stock, and finally, models to address the possibility of spatial autocorrelation. As we find minimal substantive difference between all non-EU and African FDI in the models above, in the robustness checks we simply
compare EU and all non-EU FDI. We fully discuss the findings and present results tables available in the supplemental online appendix, but our main results are substantively unchanged by any of these approaches.

**Conclusion**

Our analysis suggests that African states have made use of veto rights and coalition-building in the multilateral trade environment to create AfT as an African-led initiative, while they have effectively relied on coalition-building in regional PTA negotiations to gain concessions by invoking AfT as a vehicle for realising their demands. While many scholars argue that the move from multilateralism to PTA negotiations falls most heavily on developing countries, we have used the case of the negotiations of the ECOWAS EPA to illustrate that African agency has moved beyond reliance on the right to veto in the multilateral setting, and has been able to succeed in having at least some of their negotiating demands met by leveraging AfT funds from the EU (Siles-Brügge 2014).

Beyond demonstrating that AfT and its use as a vehicle for African development are outcomes of negotiating contexts where African states have been capable of reducing power imbalances in international trade talks, our analysis also suggests that the EU’s AfT initiative does not exacerbate dominating forms of economic dependence by Africa on the EU. Were EU AfT to primarily attract EU FDI, then one might argue that it served to entrench neo-colonial structures of dependence by effectively acting ‘as a subsidy for foreign corporate involvement’ (Langan 2018, p. 61) by EU-based enterprises. However, our findings suggest that European AfT appears to promote European, non-European, and intra-African FDI. While we find some evidence that the comparative magnitude of this effect is larger for European FDI, the finding stems from the fact that these “inactive” AfT sites were much less likely to attract EU FDI compared to non-EU or African FDI compared to sites that never received any EU AfT. However, after receiving multiple
active EU AfT projects, these sites were more likely to attract EU, non-EU and African FDI at comparable rates, again compared to sites which never received EU AfT.

While our findings point in a positive normative direction for AfT, in terms of both the decision-making process that led to it and one of its important outcomes, we do not wish to overstate these implications. For starters, AfT is only one branch of multi-faceted bilateral and multilateral foreign economic relations between the EU (member states) and their African counterparts. Whilst AfT may not further dominating forms of economic dependence, this does not mean that other aspects of trade, investment, development or finance policy may not exacerbate such forms of domination. Indeed, Langan’s (2013, p. 94) broad critique of AfT is that it is simply a “sweetener” to get countries to sign otherwise bad trade deals, and indeed AfT appears to be used as compensation for the fact that ACP countries do not get their first preference of differentiated trade preferences. Moreover, our analysis can say nothing regarding how AfT impacts questions of *intra*-country justice. Even where EU AfT promotes FDI from other African countries, this may simply serve to boost existing political and economic elites in a form of ‘neo-colonial co-optation’ (Langan 2018, p. 81). To understand FDI behaviour at this level of analysis, one would need a more detailed investigation of the particular individuals and interests behind the FDI and such an effort would be a useful extension of this work. Likewise, our work says nothing on the normative implications of *distributive* justice for *individuals*. The FDI spurred by AfT may have inconsequential or even adverse effects on local individuals. A study investigating these impact would be an important compliment to the work here.

Clearly, if the international trade regime were being redesigned in accord with the ideal of non-domination, it would look very different than it does today. However, as a negative consequentialist theory that recognises degrees of domination, the republican ideal of non-domination provides us with a normative benchmark for being able to recognise potentially significant improvements in trade relations in an otherwise highly dominating international
context. In this regard, our findings suggest that the AfT and its deployment has been seen by African states as a significant concession in trade talks. The ability to extract “sweeteners” is indicative of less dominating circumstances than a situation where the attempt to extract such concessions fails. Furthermore, while economic dependence as measured by the source of FDI is just one indicator of the overall success of AfT, it is nevertheless an indication of an outcome that points in the direction of reduced domination.
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