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Current Trade Negotiations and Southern Africa

The Biannual SADC-EU Ministerial Conference took place in Vienna, Austria at the beginning of November. Issues discussed ranged from debt servicing and the banning of landmines to regional stability and economic integration. The trade relationship between SADC member states, especially between South Africa and the other SADC members; and SADC's relationship with the European Union, again came under scrutiny as stake-holders continuously seek new avenues to ensure the development of Southern Africa.

During a recent conference held at the South African Institute of International Affairs (SAIIA) on *Mercosur/Mercosul* (a South American regional common market organisation) *and the Southern African Development Community* (SADC): *Regional Integration in the South*, Professor Tony Hawkins argued that free trade agreements between the North and the South could hold huge benefits for the developing world. In a North-South relationship the South gains access to an admittedly more competitive Northern market, while simultaneously benefiting from an inflow of cheaper and/or better quality intermediate goods and capital equipment which will stimulate competition in the import-competing sector of the domestic economy. It is to be hoped that such an arrangement will result in a North-South flow of inward foreign direct investment (FDI), including relocation of activities, especially labour- and resource-intensive manufacturing.

Currently a number of trade negotiations are in progress between Southern Africa and its major trading partners, namely the European Union (EU) and South Africa. (Although South Africa cannot be labelled as a Northern, developed country, and is a member-state of SADC, its economy is significantly larger than the combined strength of the rest of the SADC members.) One would expect — from Professor Hawkins' analysis — that these negotiations should be welcomed by Southern Africa as a number of benefits would await them. However, this is not always the case. Even in the event of a positive attitude towards the negotiations certain stumbling blocks exist in reaching agreement.

The SADC Free Trade Protocol

Two years after signing the SADC's trade protocol in Maseru, South Africa has finally made a tariff liberalisation offer to its neighbours. In August 1996, the SADC Heads of State or Government committed themselves to creating a free trade area (FTA) in Southern Africa within eight years of implementation. However, only four of the SADC countries have ratified the protocol. For many months it seemed as if political instability in many of the Southern African countries would divert attention away from economic integration in the region. South Africa was one of the countries that had not ratified the protocol.

In September 1998, South Africa finally made its offer to the region. It is a comprehensive proposition on behalf of all the Southern African Customs Union (SACU) countries, which, apart from South Africa, includes Botswana, Lesotho, Namibia and Swaziland (BLNS). However, South African trade accounts for the bulk of SACU trade, and the offer is therefore essentially a South African one. It is expected that South Africa will have liberalised the bulk of its trade with SADC within five years. Only a small number of highly sensitive products will remain protected by tariffs. The Department of Trade and Industry has expressed hope that the protocol will be implemented by June 1999.

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The SA-EU FTA Negotiations

Negotiations between the European Union and South Africa surrounding the establishment of an FTA have been in progress since 1994. Although initially all parties involved hoped for a swift finalisation of the negotiations, talks are now being held hostage by the outstanding co-operation agreements on wines and spirits, and the fishing industry. If agreement is reached it would allow almost 95% of all traded products between South Africa — and by implication SACU — and the EU to be traded without paying tariffs. Although 80% of South African products already enter the European market tariff-free, South Africa should be able to benefit from the agreement by cheaper, higher quality European products circulating on the South African market and from the transfer of FDI.

Fears have been expressed that sensitive industries in SACU — and the rest of SADC — would suffer due to the beneficial treatment of European products. Also, SACU countries will lose out on fiscal revenue, as the customs union trades predominantly with the EU. Without tariffs being imposed on European products, the smaller SACU states, like Lesotho and Swaziland, could lose a large chunk of their fiscal revenue. (In the case of Lesotho and Swaziland, SACU revenue amounts to some 50% and 46% respectively of government revenue.)

Renegotiating the Southern African Customs Union

In a world that is rapidly moving towards global free trade it is, arguably, poor economic thinking to be fiscally dependent on a customs pool. In December 1994, a revision process of the SACU was initiated since all members — South Africa, Botswana, Lesotho, Swaziland and Namibia — have agreed that the current revenue sharing formula is no longer viable. Due to the lack of consensus, however, there is no new deal in place. Although there seems to be clarity on a new set of institutions and policies to underpin the formula and it is accepted that the BLNS states should receive compensation from South Africa for the effects of industrial polarisation and fiscal disruption, the scale of the compensation has yet to be agreed upon.

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The Lomé Negotiations

Seventy-one countries in Africa, the Caribbean and the Pacific (ACP) are currently renegotiating their market access to and aid packages from the European Union. This relationship was previously regulated by the Lomé Convention that granted the ACP beneficial, non-reciprocal access to the European market. However, the Convention expires at the turn of this century. Despite many mechanisms aimed at aiding the developing world, the ACP have not been able to take full advantage of the Lomé Convention.

New strands of thinking have emerged in Europe on aid and trade benefits which have persuaded the commission to re-evaluate the current relationship between the EU and the ACP. It has been proposed that regional FTA's be established between the EU and the ACP, and that aid mechanisms should also be restructured so that only countries showing signs of true democratisation be rewarded.

Stumbling-Blocks

For many months it seemed as if the only set of negotiations making any progress was that between South Africa and the EU, giving rise to speculation that developing countries were not up to sophisticated trade negotiations. Yet, recently the South African and European negotiators have been unable to reach a deal. Instead, the SADC free trade process seems to be back on track and although it is too early to make an assessment of the Lomé negotiations, it would appear as if they are progressing smoothly.

South Africa has put talks with the EU on ice, given Europe's insistence on the suspension of South Africa's right to use the words 'port' and 'sherry' on fortified wines. Even the terms 'grand cru' and 'vin sec' are under threat. The EU tried to force South Africa into a concession on these issues by withholding an increased agricultural offer. High-levelled political talks are currently taking place behind the scenes in an effort to restore the negotiations. It is, however, difficult to see a way out of the current stalemate as the Chief EU negotiator, Philip Lowe, insists on seeing South Africa abandoning the terms, whereas Pretoria is adamant that no concessions will be made in this regard. (The most recent reports hint at a compromise deal reached by Minister Erwin and Commissioner Pinheiro, but the details will be kept secret until approved by the EU member-states.)

Foreign investment analysts are not impressed by such delays. As one put it recently, "Investors are not impressed by the failure to conclude an agreement with the EU over such trivia as the naming of port and sherry. After all, the agreement is more important to South Africa than to the EU".

Progress on the SADC free trade talks is not without its stumbling blocks. South Africa cannot lower tariffs unilaterally without a formal agreement with SADC countries, as this would result in a violation of the World Trade Organisation (WTO) rules. In the absence of an agreement it would appear as if South Africa is making concessions to a number of countries without extending them to all WTO members. In order to be considered non-discriminatory under Article 24 of the WTO rules, the WTO has to be notified of any regional agreement. South Africa, therefore, has to enter into negotiations with the other SADC countries in order to establish their response to the SACU offer. However, it is unlikely that Angola, Lesotho and the Democratic Republic of Congo (DRC) would be able to enter into negotiations on trade issues given the current concerns about security and political stability.

But this is not where Southern Africa's trade negotiation difficulties end. As members of the Lomé Convention, all SADC member states are involved in the renegotiation of the Convention. Some European countries have indicated that they would like to place a new set of conditions on ACP countries before they can qualify for development aid or trade preferences. These conditionalities include the establishment of customs unions amongst neighbouring ACP countries. Although Europe makes a sound economic argument by proposing regional integration amongst developing countries, the ACP countries view this as a form of unacceptable prescription. Superimposed regionalism would break down efforts among developing countries to integrate in their own way and at their own pace.

Panacea

Many analysts warn against viewing trade liberalisation as the panacea for all Southern Africa's problems. At the close of the *Mercosur/I and SADC* conference, Sean Cleary pointed out that the feasibility of a Southern African regional market demanded greater focus on regional development. Investment in the training of workers in technical, entrepreneurial, commercial, managerial and policy competencies is essential. In addition, government transparency and accountability is a *sine qua non.* The International Monetary Fund (IMF) and World Bank, and the governments that set their agendas, must act on the realisation that these goals will not be met unless the debt burden of Southern Africa is greatly lightened. Finally, he argued that the Bretton Woods institutions, the Group of Seven Industrialised Countries (G-7) and other Organisation for Economic Co-operation and Development (OECD) countries should acknowledge the need for African countries to pursue sustainable growth paths, by investing in infrastructure and capacity-building. Business can help by providing resources to assist governments overcome their weakness; by preparing project studies for evaluation and approval by donor agencies and international lenders; and by joining actively in the policy debate.

Conclusion

Once implemented, all the agreements should benefit the SADC member states in the way in which Tony Hawkins outlined. Adequate mechanisms need to be in place to ensure that the agreements are properly implemented. Protective measures should exist in order to ensure that infant, fragile industries are not destroyed.