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The SA–EU TDCA: A Business Perspective

The most dramatic manifestation of South Africa's commitment to establish economic and political credibility in the global economic arena is the recently signed Trade, Development and Co-operation Agreement (TDCA) between the 15 member states of the European Union (EU) and South Africa.

During the protracted negotiation process, which lasted over four years, optimistic predictions of the benefits that such a deal will provide have been matched by concern, expressed by both business and labour, on the potential dangers of such an agreement. Extensive research has recently been completed assessing the reaction of both these interested parties to the agreement, which came into effect on 1 January 2000. This update articulates the responses of one of these parties — business — to the perceived implications of the SA–EU TDCA. These responses derive from the interviewing of over sixty representatives from the business community from July to September, 1999.

From the disparate array of responses, this update articulates the varying perceptions held by the business community by grouping the replies in four distinct but by no means separate categories:

- details and clarity;
- the broader context;
- the inexperience of the SA negotiating team; and
- tariff liberalisation.

1. Details and clarity

The TDCA has been plagued by uncertainty on matters such as wine and spirits, fishing and agriculture, as well as on the date of ratification and implementation. However, the most consistent concern amongst the business community relates to the apparent lack of clarity in the text. The clarification of issues such as dispute resolution, safeguards, quotas, and anti-competitive laws which South African firms might face, is vital. Business is also looking for increased efficiency in customs regulations.

At the root of the ambiguity over issues relating to dispute resolution procedures, the operation of safeguards and the implementation of anti-competitive action by the EU, is the Co-operation Council which is set up under Article 97 of the TDCA. Its role is to 'ensure the proper functioning and implementation of the Agreement and the dialogue between parties' (Article 97, 1a); and 'seek appropriate methods of forestalling problems which might arise in areas covered by the agreement' (1c). It has the power to take decisions in respect of all manners covered by this Agreement. (section 3).

The council is referred to under most articles, but, according to a leading negotiator from business, 'there is no indication of how it will be formed, who will be on it, [or] what kind of procedure they will follow'. Therefore, there is a great deal of confusion over how disputes over safeguards, or anti-competitive practices (that might well arise from EU decisions to impose environmental or labour standards), or general disputes, will be resolved. An example of this uncertainty is illustrated by the subsidies provided by the EU's Common Agricultural Policy (CAP) for exports. Leading representatives from South African agriculture question how the Council will adjudicate to safeguard the industry from such subsidies. A source from the Department of Agriculture highlights these concerns when declaring that, 'as far as I am aware, the safeguard clause has not been tackled on a technical level'.

The issue of customs regulations and how these will be implemented and enforced is another major area of concern for business. The lack of transparency in this sector and enforcement issues led one business leader to state, 'Forget Rules of Origin. They do not apply. They are not policed at all.' The tobacco industry has also raised fears concerning the inefficiency of the customs service, with a spokesperson pleading 'let's just sort out the customs service first'.

With the deal signed, there is still confusion over the issue of quotas for agricultural produce. In some instances the detail has yet to be confirmed by the two parties (notably over the issue of wine). In addition, the South African authorities have yet to decide how the quotas will be allocated. As a result, business leaders complain of the lack of time they have to prepare export drives in order to exploit the market opportunities open to them.

2. The broader context

A recurrent issue raised by the business community is that the Agreement between South Africa and the EU should not be seen in isolation. External factors, such as the latest round of trade liberalisation talks in the World Trade Organisation (WTO), the expansion of the EU, the reform of the CAP, the free trade agenda set for the Southern African Development Community (SADC), and the re-negotiation of the Southern African Customs Union (SACU), also have to be considered in any analysis of the Agreement's impact. Likewise, internal issues such as how far the agreement has penetrated the echelons of the business community, how it relates to the macro-industrial policy of South Africa, and the perceptions and implications of crime and AIDS on the international business community, must be taken into account. Of these issues, the dominant themes from the interviews were the WTO, SADC, and the lack of an industrial policy in South Africa.

WTO

The impact of the SA–EU TDCA is also linked to the current round of multilateral trade liberalisation talks, which started in Seattle in November 1999. Some business observers expected issues raised by the TDCA to be challenged during WTO negotiations. A chief negotiator for business welcomed the prospect of South Africa's challenging the use of geographically traditional expressions, such as 'port' and 'sherry'. Furthermore, the same observer expects that the improved tariff and market access that the EU deal allows South African companies, 'will *only* give a window of opportunity of a few years'. After that the WTO rate of liberalisation will overtake it. There are also a number of firms in South Africa who are likely to remain largely unaffected by the SA–EU TDCA, but are wary of WTO objectives.

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SADC

The detrimental implications of the TDCA for South Africa are dwarfed by the potential impact of a SADC Free Trade Agreement. A leading member of a Johannesburg organisation representing a multitude of businesses proclaimed that, 'if the SADC agreement comes in, it is going to be a lot worse for us than anything else'. A spokesperson for the Rembrandt Group supports such a view, opining that, 'we see a big menace in SADC'. Those South African industries most affected by the Agreement, clothing and textiles, stress the impact that bilateral deals have had on the sector. The bilateral deal with Malawi has been blamed for the destruction of the SA blanket industry.

South African industrial policy

The SA–EU TDCA highlighted to most businesses in South Africa the lack of a governmental macro-industrial policy. Representatives of both labour and business proclaimed that, 'We are starting to have a trade policy of tariff liberalisation before we have an industrial policy.' The lack of such a policy has split business community thinking. Some advocate that a lack of government interference benefits the economy by allowing market-led competition, whilst others bemoan the lack of forethought before negotiations were conducted.

3. The South African negotiating team

Some sections of the business community, especially those close to the decision-making process, were critical of the way government handled the process of negotiating. Hindered by a lack of experience in negotiating bilateral and multilateral agreements, both business and the government had to learn the ways of the global economy in a very short time. A leading figure in the business community in the Western Cape commented that it is all new and that, 'conceptually, free trade had not been on the agenda for the last twenty years'. Such leaders of business have scrutinised the negotiation process, commenting on the initial inexperience of the negotiators, the occasional lack of communication between government departments, the involvement of business in the process, the distaste for horse-trading within the Agreement, the problems that small business is likely to face, and the feeling that the deal could have been far worse.

Elements within certain industrial sectors were also angered by the new government's pursuit of full Lomé status, even though such an avenue was evidently not possible to business leaders in South Africa at the time. One representative stated that the new government was, 'new, innocent, and thought they knew better... we lost between two and three years in the negotiating process, which from a business point of view was very frustrating'. Other commentators now claim that the deal would probably have been better, 'if it had been agreed sooner because of the goodwill'. The lack of experience of the South African negotiators in the government was also a concern for business. According to a business representative, one of the chief negotiators for South Africa 'knew nothing of negotiations of any kind'. This lack of experience was coupled with inferior capacity, in both human and physical resources, compared to the EU. Two further criticisms accompanied the negotiations; 'too much time being spent squabbling over stupid issues like port and sherry', and government's frequent agreeing to compromises without first obtaining approval from business.

4. Alternatives to free trade?

A leading business analyst argues that the 'euphoria around neo-liberal thinking has definitely been part of the re-thinking within the ... ruling party, and GEAR is a manifestation of that'. Such a retrospective examination of the SA–EU TDCA inevitably asks how and why South Africa converted to the cause of free trade so rapidly. The business community's response to this ideological shift is largely supportive, yet in the research conducted some sections of the business community ponder the reasons for such a change and consider the prospects of an alternative approach. Most concur with the statement made by a leading South African academic that 'the reason for the change in policy was that there was no other path to proceed along'. However, this did not stop some business leaders appreciating the potential problems that accompany trade liberalisation, and, in attempting to negate some of the detrimental impacts of the agreement, they combined with labour representatives to present a stronger lobbying front.

The alternatives

The end of apartheid coincided with the end of the Cold War, and with it the effective death of a system of economic ideas that challenged the 'free-market'. Both the ANC's policy of nationalisation, based on Keynesian economic thinking (enshrined in the 1955 Freedom Charter), and the economic status quo in South Africa, of protectionism and import-substitution, were victims of the changing times. A majority of representatives from business accepted the changing climate, with some actively seeking further liberalisation of the market. One observer stated that there really was little chance of an alternative path (from trade liberalisation), with the IMF and World Bank sending large teams to South Africa as soon as the policies of apartheid began to be dismantled. He notes that in the higher echelons of the ANC, 'they were... very quickly brought into the worldview of an IMF or World Bank way of thinking'. The acceptance of accelerated trade liberalisation was however challenged by many in business, with Leslie Boyd of Anglo American famously remarking that the government was 'holier than GATT' in reducing tariffs at a faster rate than suggested by the WTO.

Identifying winners and losers

Some leaders in the business community have speculated on the effects of accelerated tariff liberalisation and attempted an assessment of who is likely to benefit from the agreement and who is likely to be worse off. Almost unanimously, the view is that uncompetitive industries that relied on protection in the old South Africa will lose out — such as textiles, clothing, and the automobile industry. When such a threat is posed, business has frequently joined with labour to lobby the government to gain concessions during the negotiation process. The tobacco industry managed effectively to lobby the government in order to ensure that their industry was protected from the EU on an asymmetrical basis. The triple peril of domestic tax rises, the SA–EU TDCA and SADC FTA, led the industry to believe that there would be a likely loss of 40,000 jobs in Mpumalanga — a province already experiencing high unemployment and where the tobacco industry is important.

Conclusion

The TDCA with the EU is, 'part and parcel of South Africa becoming a normal state'. The research conducted here samples the business community's response to this, and summarises the various comments made within the community to the agreement. Thus far, the discourse that surrounds the analysis of the agreement has focused almost solely on the trade part of the deal, and the impact and implications this has for business. However, there is plenty of scope to focus on both the developmental aspect of the Treaty and the way in which civil society in South and southern Africa is likely to be affected by such 'developmental' features.