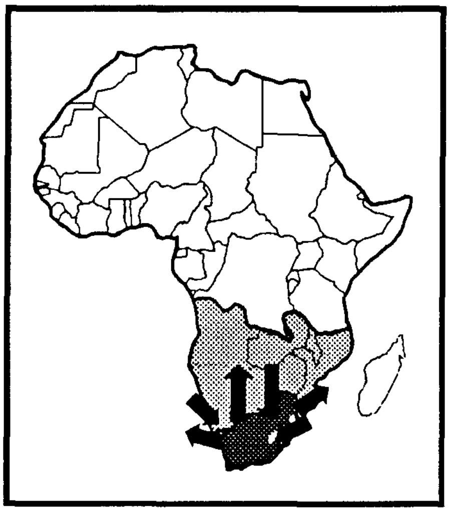
TRADE POLICY DOSSIER



EC–SA Trade Implications

DOSSIER C: EC-SA TRADE RELATIONS

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- European – Southern African Partnership. Address by **NELSON MANDELA** to AWEPA/AEI Conference on Development & Democratisation
- A Democratic South Africa and the EC: Towards a New Relationship; **A HIRSCH ,1993**

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SOUTH AFRICA AND THE REST OF THE WORLD

EUROPE

(Based a paper presented by Sheila Page, a research fellow at the Overseas Development Institute , and general discussion by delegates)

As South Africa gradually normalises its relations with the rest of the world, it will have to make several careful choices to ensure that it secures the best possible trade deal in a fast-changing world.

There are several aspects to this. Because of sanctions it has very few bilateral trading arrangements, but the few that do exist will have to be re-negotiated in terms of changes in multilateral trade fora such as the General Agreeement on Tariffs and Trade (GATT) and its possible admission to the Lomé Convention between the European Commission (EC) and the former colonies in Africa, the Caribbean and Pacific (ACP).

South Africa should, however, not expect too much from the EC, or from its possible change in status from a developed to a developing country once democratic rule is in place.

The EC is undergoing a wide-ranging changes which, combined with recession, tend to make it intensely self-absorbed with little time or patience for hand-outs to developing countries.

The changes include growing membership and the transition from a customs union to a common market, all of which create severe internal pressures and tensions. These developments are being carefully monitored by the ACP states, which are concerned that they are deflecting attention away from them.

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TOP TWENTY TRADERS WITH SA - 1992
(SA's Top Twenty Export destinations)

RANK SA EXPORTS		SA EXPORTS (R billion)	SA IMPORTS (R billion)	TOTAL TRADE	RANK TOTAL TRADE
2	USA	4.8	7.1	11.9	1
5	Germany	3	8.6	11.6	2
3	U Kingdom	4.5	5.4	9.9	3
4	Japan	3.7	5.6	9.3	4
1	Switzerland	5.4	1.2	6.6	5
6	Taiwan	2.1	1.8	3.9	6
9	Italy	1.6	1.8	3.4	7
8	Netherlands	1.9	1.2	3.1	8
13	France	1	2.1	3.1	9
7	Belgium	2	1.1	3.1	9
10	Zimbabwe	1.6	0.8	2.4	11
11	Hong Kong	1.5	0.8	2.3	12
14	South Korea	0.9	0.7	1.6	13
15	Spain	0.9	0.4	1.3	14
16	Israel	1.0	0.3	1.3	15
12	Zambia	1.1	0.04	1.1	16
17	Malawi	0.7	0.13	0.8	20 +
18	Mozambique	0.7	0.05	0.7	20 +
19	CIS	0.6	0.07	0.7	20 +
20	Norway	0.5	0.03	0.5	20 +

South Africa could have an advantage because of the sympathy element and the fact that the best time to get privileges and access to any trading regime is soon after a major political change. This is when a country is most likely to be further up on the international agenda and when it is most likely to need special assistance and special access. What form this would take place should be determined quickly, during the transition period, when there could be major problems, which might or might not be caused by trade but would certainly require assistance.

But while there are advantages to be gained from pressing the EC hard for special access, they are not as great as they might seem and might well be not worth the trouble fighting for.

The EC countries do not have most favoured nation GATT trade with many countries. MFN is the lowest level of preference within the GATT system and ensures that a tariff reduction to any one country is offered to all other countries that are GATT members. The countries with which the EC has MFN trade include South Africa, the US, Australia and New Zealand.

Most of EC trade takes place within the EC on the basis of complete freedom of movement within the EC, with a few exceptions such as the UK.

There is also a range of reciprocal trade agreements with countries in Europe outside the community.

The EC has preferential trade agreements with the former colonies in the African-Caribbean-Pacific or ACP group through the Lomé Convetion, which provides for free entry for nearly all goods to the EC but not the other way around. There is a similar, but separate, set of arrangements with some of the North African countries, Turkey and Israel, which are on a strictly bilateral basis.

Then there are the purely concessional arrangements, again preferential, but these are not even negotiated. The main one is the generalised system of preferences (GSP), and is usually granted to developing countries.

GSP grants only preferential access, which normally means lower but not zero tariffs, and is subject to quantitative restrictions. For the least developed countries, there is Super GSP, which is a cross between GSP and Lomé status in that it offers unlimited access, with some exceptions, and lower tariffs. For political reasons, it has been extended temporarily to the Eastern European countries before they get associate status, and for a fixed period subject to renewal to the Andean Pact countries of South America and to Central America.

If South Africa changes its status to that of a developing country, it would be eligible for GSP. Any special arrangement other than that would depend on how convincing an argument South Africa made, andwould have to be measured against how much extra the EC would give South Africa over and above what it would get under GSP anyway.

It is unlikely that South Africa could claim to be a least developed country eligible for Super GSP. Because it is not on the EC border, it could not claim, like Bulgaria, that there would be mass migration unless special assistance was given. It could probably get something the basis of sympathy or on the basis of internal disruption.

How important is the EC to South Africa? About a third of South Africa's exports go to the EC. Most of the exports are made up of gold, coal, platinum and diamonds. None of these face any significant tariffs, except for a few per cent on platinum, or non tariff barriers, except for coal, where for political reasons in Europe there are no preferences. So there is no advantage from any form of preference for about 60 per cent of the EC's imports from South Africa.

The EC is not currently a major market for South African manufacturers. This is because the EC tends to have one of the lowest shares of imports of manufactures from all areas outside Europe, and because few South African manufacturers are internationally competitive at present.

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An ODI study last year indicated that of 37 exports valued at more than $25 million, only 12 would gain from a preference regime.

This, however, is based on South Africa's existing trade structure at a time when it is planning to change its trade structure drastically over the next few years. So what matters is not only preferences for existing exports, but preferences for new exports.

But if one examines the development of the NICs, which have not had the preferences that the ACP states have had, it is difficult to argue that preferences are essential for rapid export growth. The NICs found that it was their exports into the US and Japan that increased most rapidly, and this was because these countries were more open to manufactured imports.

For the next generation of NICs - for example, Malaysia, Thailand, Mauritius and Colombia - it was also much easier to get into the US market than the EC market.

An aspect of the Lomé Convention that South Africa should consider is that it allows ACP states to accumulate production so that the value added rules and the rules of origin apply to the final product which has been partially made in one ACP country, and partially made in another.

In terms of regional strategies, this could be a powerful argument for South Africa having the same status as its neighbours so that they could plan their production together. But there are two arguments against this. First, this has been virtually unused by the ACP countries so far, and, secondly, ODI research has not yet unearthed anyone in the region who might want to implement such a scheme with South Africa. However, there is evidence that "regional processing" could become important in the near future.

South Africa should also consider whether, by gaining GSP or ACP status, itwill damage the economies of the other countries now receiving these preferences. Those countries which already have any form of preferential access to the EC could lose whatever margin they now have over South Africa.

South Africa's membership would, in principle, have to be approved by other ACP states, but the EC has been known to act unilaterally in the past.

The countries that would be affected by preferences for South Africa include Chile, Argentine, Brazil, Colombia, Mexico, Zimbabwe, Kenya, Mauritius and Cote d'Ivoire, as well as some South East Asian countries. These are all fruit, vegetable and flower exporters.

Clothing and textile exporters who would be affected included Zimbabwe, Mauritius and Kenya among the ACP countries, the North African countries with special access, the same Latin American countries, China, some South East Asian countries and India.

India is a particularly sensitive case because, despite its poverty and ex-colonial status, it has not been allowed into the ACP because it is considered too big. If South Africa, another large ex-colony, tried to join ACP, it could raise all sorts of sensitivities. It will, however, be very difficult for any country to make a case for South Africa being wildly out of line with other GSP countries. It is not in terms of income per capita nor in terms of its trading structure.

SA may appear to have everything tc gain by seeking these preferences. But it could face a considerable loss in terms of antagonising other southern hemisphere countries by doing so. It also has to seriously consider whether it wants to go the route of looking for preferences that fit in, on the manufacturing side, with the EC or US trade preferences.

Or does South Africa want to follow the NIC route of having an industrial strategy and using any preference that came its way, but not particularly having those at the forefront of the way it planned its trade or international negotiating strategy?

This is an important question because this is 1993 and not 1973, when the UK joined the EC and brought with it the last major additions to the ACP, the ex-British colonies. Preferences are out of fashion this year, and are probably going to get more and more out of fashion.

The EC is moving towards more reciprocity from the GSP countries and, in the negotiations on the Uruguay Round, the mood has been towards limiting the duration and extent of the preferences given to developing countries, and demanding more reciprocity. So it is possible that any preferences made avilable for South Africa will be of a limited duration.

EC trade preferences and a post-apartheid South Africa

CHRISTOPHER STEVENS, JANE KENNAN
AND RICHARD KETLEY

During the late 1980s the EC member states found themselves divided against each other over policy (notably on sanctions) towards the apartheid regime in South Africa. Will they find themselves equally divided over policy towards a post-apartheid regime in relation, this time, not to negative but to positive discrimination? As events unfold in South Africa most attention has been given, naturally enough, to the redistribution of political and economic power between the main sections of society, but the international community must also consider how it should react if and when the domestic issues are resolved.

This article is concerned with the trade policy that the EC should adopt when an acceptable government is installed in Pretoria. The choice is by no means clear-cut. South Africa's long isolation, its distorted economy, its uncertain prospects and its large size relative to its neighbours are all complicating factors. Moreover, the range of existing EC trade policies is so intricate that confusions and misunderstandings abound about the implications of the various options, both for South Africa and for third parties. As a major trade partner of all countries of Africa, the EC has a responsibility to ensure, at the least, that whatever actions it takes do not raise barriers between African states and, at best, that they facilitate the process of integration, albeit in a small way.

In the nature of the case, much of the analysis is focused on the South African economy and its exports. But the decisions on trade regime will be taken by European ministers. It is with the implications—for South Africa and for third parties—of the options facing them that this article is concerned.

Should South Africa receive preferences?

This article examines three widely heard propositions to identify the evidence available to support or contradict them. They are, first, that South Africa should neither seek nor receive trade preferences; second, that if it does seek them, the best deal would be a tailor-made bilateral agreement with the EC; third, that if an off-the-peg package is selected, of those available the Lomé

Convention presents special difficulties that rule it out of further consideration, while the EC's trade regime with the Andean Pact countries presents a more appropriate model.

The proposition that trade preferences are not appropriate for South Africa has been voiced from two points of view: that the country does not need them, and that it does not merit them. One reason for arguing that South Africa should not seek preferences is that its future, even after the shift to a democratic regime, lies in the developed world. South Africa is classified as a developed country within GATT and, in order to encourage foreign investment, it should take no action suggesting that it is a developing country. There seems to be little of substance to support this view as developing country classification would involve few obvious negative consequences, may well be required to gain access to concessional funds, and clearly has not hindered the growth of, for example, the Asian industrializing countries.

More cogently, it can be argued that, because of the commodity composition of its exports, South Africa would benefit much less from trade preferences than do many developing countries. Under the spur of sanctions and its natural resource base South Africa has developed exports of goods which are relatively lightly restricted in international trade and has a relatively broad geographical dispersion of markets. By definition, if there is no protectionism in major markets on a particular good, there is no scope for favoured exporters to be given preferences; and to the extent that any one market (such as the EC) has a small share of the total, the effects of each preference agreement will be muted.

The counter-argument is that while only a relatively small proportion of South Africa's exports would benefit, there are sufficient goods that would do so for the pursuit of preferences to make sound commercial sense even though it would not 'solve' major economic problems. This is particularly true because South Africa faces serious discrimination on many of its agricultural exports, which are relatively labour-intensive and which, therefore, a post-apartheid government may wish to encourage.

There is considerable uncertainty about the details of South Africa's exports (which successive governments have taken pains to obscure, to reduce vulnerability to sanctions) but it is possible to identify in broad terms the relative importance of exports on which preferences might be available.[1] Only half of South Africa's ten most important exports to the EC face most favoured nation (MFN) tariffs, and for some of these the tariffs are relatively light. Taking into account this concentration on lightly controlled products and the relative unimportance of the EC as a market, one estimate is that less than one-fifth of South Africa's current exports would benefit substantially from preferences.[2] However, preferences would be much more important for products which South Africa does export to the EC but which fall outside the

[1] Further guidance on the statistical pitfalls when analysing South African trade are available in Sheila Page and Christopher Stevens, *Trading with South Africa: the policy options for the EC*; ODI Special Report (London: Overseas Development Institute, 1992), which also contains more details of some of the figures cited in this article.

[2] Ibid., p. ix.

top ten. Fresh and processed fruits and vegetables, fish products and manufactures such as clothing and leather goods could benefit.

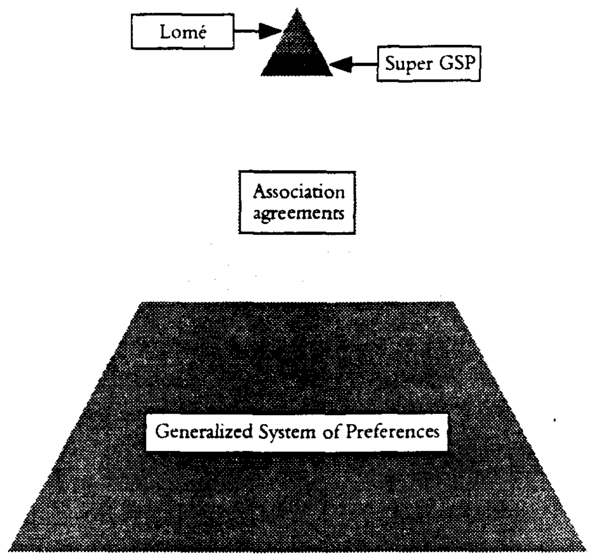
Much has changed in world trade policy since South Africa slipped into isolation three decades ago. Two of the changes relevant to the present discussion are the growth of European protectionism on agriculture (under the CAP) and on labour-intensive manufactures, and, parallel to this, the construction of an intricate set of concessions on some products for some countries. These trends are not unconnected with the changing pattern of geographical trade evident from figures on total EC imports (i.e. the imports of member states from both within and without the Community). Comparing 1990 with 1960, the share of developing countries as a whole in total EC imports has fallen from 26 per cent to 13 per cent, and that of the main 'MFN traders' (USA, Canada, Japan, Australia, New Zealand) from 20 per cent to 13 per cent; these falls reflect, in part, the growth of intra-EC trade. The EFTA and Mediterranean regions, by contrast, which have been principal beneficiaries of the EC's selective preferences, had much the same share of EC imports in 1990 as in 1960 (9–10 per cent for EFTA and 4 per cent for the Mediterranean). Although, as explained below, the African, Caribbean and Pacific (ACP) group have on paper the most favourable trade regime for developing countries, it can be argued that the non-EC Mediterranean has the best combination of relatively generous trade preferences and substantial supply capacity.

The result is that on many agricultural products South Africa trades at a disadvantage to its competitors even when sanctions are discounted. For example, South African exports of cut flowers to the EC pay a tariff of 20 per cent; those from Colombia enter duty free. In the case of grapes, EC imports from South Africa pay 18 per cent duty while from Turkey the rate is zero. These commercial barriers will remain even when sanctions have been removed. Moreover, the relative discrimination is likely to become more severe. There has been a tendency over recent years for European consumers to buy an increasingly exotic range of fruits and vegetables. Some of these carry much higher MFN tariffs than do the more traditional imports. Take the case of citrus fruits. Most varieties of orange pay an MFN tariff of only 4 per cent. Hence, while South Africa is at a relative disadvantage compared to Cyprus, which pays 1 per cent, this is not too severe. However, for mandarins, clementines and satsumas the MFN tariff is 20 per cent; Cyprus pays only 5.1 per cent, Israel and Jordan 8 per cent and Turkey 0 per cent. Hence there is a powerful disincentive to South Africa diversifying its range of citrus exports.

The available options

A case can be made, therefore, that South Africa should seek some form of trade preference, but which? The EC has built up an exceedingly complex and opaque hierarchy of trade preferences over the past two decades. It is difficult to argue that poverty was ever the sole factor determining a developing country's position in the hierarchy, but recent changes indicate that it is not

Figure 1: The 'pyramid of privilege'



necessarily even a major factor. The principal bands in the hierarchy are presented in Figure 1. The height of each band in the figure is scaled according to the share of the countries represented in each category in EC imports from all the states covered by the 'pyramid'. All of the preferential options are subject to review. The standard Generalized System of Preferences (GSP) is in the process of being revised and its superior tranche ('Super GSP') is time-limited. The Lomé Convention provides the greatest certainty, but even it will expire at the end of the decade and may, or may not, be renewed. Nonetheless, it is unlikely that there will be major alterations to the hierarchy for the rest of this decade. Hence the present system probably represents accurately the range of options applicable to South Africa in the immediate post-apartheid period.

At the apex of the hierarchy sits the Lomé Convention, which covers developing countries of a wide range of annual per capita incomes, from \$380 (Zaïre) to \$11,293 (Bahamas).[3] At the base is the GSP, which is the lowest common denominator of the EC's hierarchy. While it is available to almost all developing countries, it is of interest only to those that are not catered for more specifically through one of the higher-level schemes. Until recently the middle of the hierarchy was occupied by the Mediterranean states which have bilateral association agreements with the EC. But during the mid-1980s the EC began to accord to countries on the UN's list of least developed states an improved GSP which, on many commodities, provided access terms that were as favourable as those under the Lomé Convention. Then, in 1990, the Community agreed to extend this Super GSP on a temporary basis to four countries of the Andean Pact—Bolivia, Colombia, Ecuador and Peru—partly

[3] Here and below, income figures refer to real GDP per capita in 1989 purchasing power parity dollars, according to UNDP estimates.

Table 1. South Africa's requirements from a preference agreement

	Lomé	Super GSP	Association agreement	GSP
Speed of negotiation	?	?		*
Depth of preferences	?	?	?	
Coverage of *existing* exports	?		?	
Coverage of *future* exports	?			
Compatibility with regional trade	*	?		?

as a result of US pressure to join in an anti-narcotics drive and partly because of Spanish desires to improve policies towards Latin America. Finally, in 1991, the EC accorded to the countries of Central America, again on a temporary basis, Super GSP treatment for their agricultural, but not their industrial, exports.

In consequence of this ad hoc tinkering with the hierarchy to provide assistance where deemed appropriate in the circumstances of the day, there are numerous anomalies in which richer countries are accorded more favourable preferences than poorer ones. Colombia, for example, with an income of $4,068, is in the Super GSP tranche near the apex of the hierarchy, while India ($910) is at the base. Turkey ($4,002) is in the Mediterranean tranche, while the Philippines ($2,269) is in the GSP. The Dominican Republic ($2,537) is now a member of the Lomé Convention, but Vietnam ($1,000) benefits only from the standard GSP. Some 29 states which have a human development index ranking (on UNDP definition) higher than South Africa receive trade preferences from the EC, and of these 17 are to be found in the upper levels of the 'pyramid of privilege'.

South Africa's requirements

Which of these four models—Lomé, Super GSP, bilateral association agreement and standard GSP—would provide the most appropriate solution to the trade problems of a post-apartheid South Africa? Table 1 provides a matrix that relates five of South Africa's requirements to the provisions of each of these models. An asterisk in a cell indicates that the model is particularly well suited to the requirement; a question mark indicates that the model responds adequately to South Africa's need; a blank means that the model is poorly suited to this requirement.

A major requirement is that any trade deal be negotiated quickly. A post-apartheid government in South Africa will need to take positive steps to foster confidence in the international business and financial communities. A speedy agreement on the regime that will apply to trade with the EC will contribute to this process. By contrast, if there is a question mark over the status of South

Africa in the European market for a period of time it will tend to make uncertainty worse.

Of the four principal options, the GSP would probably be the quickest to approve and a tailor-made bilateral association agreement would be the slowest. The GSP is likely to be speedy both because it involves a relatively small degree of preference (and would tend, therefore, to provoke less resistance both inside and outside the EC) and because it is not negotiated. A major difference between the GSP and other trade policies with developing countries is that it is an autonomous act by the EC, which is normally presented as a take-it-or-leave-it offer. An association agreement, by contrast, may be expected to be the slowest to negotiate because it would be a one-off, tailor-made agreement, in which each provision would have to be negotiated from scratch.

The Super GSP and Lomé would seem to fall between the other two options. Being relatively deep preferences, they may provoke more opposition and contention, but being established packages they would avoid the need to go through all of South Africa's exports and potential exports commodity by commodity. Because it is at the apex of the pyramid Lomé may provoke the greater resistance of the two, particularly since, as explained below, a number of the more important provisions for South Africa would require special negotiation.

A second South African requirement is that the preferences be as deep as possible. On this count the standard GSP is clearly the weakest option. All of the alternatives provide more substantial preferences. Many of South Africa's competitors on agricultural products benefit already from the Super GSP, an association agreement or the Lomé Convention. An EC decision to offer South Africa only standard GSP would reduce but not eliminate the relative disadvantage under which it currently trades. The depth of preferences has to be linked to the product coverage of the alternative schemes. Apart from the standard GSP, there is much similarity between the depth of preferences provided on those industrial and non-sensitive agricultural products that are covered (while on sensitive CAP commodities there is so much variation that it is hard to make a comparison between the schemes save on a product-by-product basis). Where the schemes differ most greatly is in their product coverage.

In Table 2 the coverage of the Lomé Convention, a typical Mediterranean agreement, Super GSP and standard GSP are plotted against South Africa's twenty most important export commodities which face greater than zero MFN tariffs in the EC. In most cases this information is presented at the greatest level of trade disaggregation as EC tariffs vary markedly between some eight-digit items within a particular commodity group; in some cases, however, it has been possible to aggregate items. It is clear that the Lomé Convention and a Mediterranean-style agreement cover the bulk of South Africa's most important exports, while the Super GSP (even in its Andean Pact form, which covers both agricultural and industrial products) and the standard GSP have much poorer coverage. As noted, South Africa has a relatively small proportion of products

Table [illegible] The preferential options: South Africa's most important eligible exports

CN[c] code	Product	South African exports to EC[a]	EC tariffs under MFN	GSP	Super GSP	Lomé	Typical Mediterranean
27011	Coal	839,311	0 Q	–	–	b	
72024190	Ferro-chromium (> 6% carbon)	176,310	8 (0 TQ)	–	–	0	0
08081099	Fresh apples (1 April–31 July)	114,698	6+M	–	–	3+M	0 (T)
08061015	Fresh table grapes (1 Nov.–14 July)	66,719	18	–	–	–	0–7.2
08051035	Fresh navels etc. (16 May–15 Oct.)	65,998	4	–	–	0.8	0.8–1.6
08082033	Fresh pears (1 April–15 July)	44,965	5+M	–	–	2.5+M	0 (T)
94019090	Seat parts	25,967	5.6	0	0	0	0
08044090	Fresh or dried avocados (1 June–30 Nov.)	24,838	8	6	0	0	0–5.1
72023000	Ferro-silicon manganese	23,007	5.5 Q	–	–	0	0
5402	Synthetic yarn	22,853	9 Q	9 Q	0 Q	0	0 Q
03037810	Frozen hake	22,284	15	–	0	0	0
08081091	Fresh apples (1 Aug.–31 Dec.)	20,532	14+M	–	–	7+M	0 (T)
08044010	Fresh or dried avocados (1 Dec.–31 May)	12,253	4	3.5	0	0	0–5.1
5205	Cotton yarn	11,958	6 Q	–	0 Q	0	0 Q
08082031	Fresh pears (1 Jan.–31 March)	10,616	10+M	–	–	5+M	0 (T)
48041119	Unbleached kraftliner	10,129	6	0	0	0	0
72171290	Wire	9,493	5.3	0	0	0	0
08062092	Sultanas	8,308	3	–		0	0 (T)
44182000	Wood doors	8,170	6	0	0	0	0
28092000	Phosphoric acid	8,167	11	0	0	0	0

Notes:
[a] 1990, Ecu '000.
[b] Special concessions on the complex system of quotas.
[c] Combined Nomenclature refers to the Harmonized Nomenclature for classifying traded goods which is the system that has been used by all OECD states since 1988.

Key: T = Turkey; Q = quota; TQ = tariff quota; M = subject to minimum levy.
A dash (–) in a column indicates that there is no preference over the MFN rate.

Sources: *Tariff Schedules of the EC (TARIC)*, Comext.

which face serious MFN tariffs in the EC market, but there are sufficient exceptions to make a preference arrangement worthwhile. The total value of South Africa's exports to the EC in 1990 of the products listed in Table 2 was over ecu 1.5 billion.

It is also clear from the table that the depth of the preferences is greater for the Lomé Convention and Mediterranean-style agreements than for the others, but that neither covers all products. One major item that is included under a typical Mediterranean agreement but not under Lomé is grapes. Another difference is that while apples and pears are covered under Lomé they are constrained by a very small quota of 1,000 tonnes for each. In fact, ACP exports in 1990 (at 1,751 tonnes) exceeded the quota for apples and (at 821 tonnes) absorbed the greater part of that for pears. Provision exists within the Lomé Convention for these quotas to be increased through negotiation. This could happen either as part of the talks concerning enlargement of the ACP to include South Africa, or during the 'mid-term review' of Lomé IV in 1995. There also exists provision for the range of sensitive agricultural commodities to be extended under Article 168(2)(b), for example to grapes. There is no reason to suppose that the negotiations on sensitive agricultural products would be more or less difficult within the framework of the Lomé Convention than under a bespoke Mediterranean-style agreement.[4]

By contrast, Lomé's coverage extends to coal, a significant South African export. There are also substantial preferences on clothing/textiles. At present, given the apparently uncompetitive nature of much of the South African industry, these are of only hypothetical interest. However, as a post-apartheid government may foster diversification into clothing exports as part of an employment-creating strategy, it is worth noting that the Lomé regime is unique among the EC's preference agreements in this respect. Not only are ACP states at present exempt from formal controls on exports of originating clothing/textiles (although there have been a few 'voluntary' export restraints), but the Lomé Convention specifically rules out control along the lines of the Multifibre Arrangement (subject to an underlying 'safeguard clause' that applies to the whole Convention and has never been used). Article 169(1) states unequivocally that 'The Community shall not apply to imports of products originating in the ACP States any quantitative restrictions or measures having equivalent effect'; the sole exceptions to this provision are some CAP products.

Given the uncertainty over the nature of South Africa's future exports, illustrated by clothing/textiles, it is important that any agreement reached with the EC is sufficiently flexible to provide preferences on goods that the country may export competitively in the future, even though it does not do so now. The fourth line in Table 1, therefore, plots the four options in terms of their coverage of potential future exports. Only the Lomé Convention has complete

[4] There is also provision for negotiations on two products that South Africa does not export to the EC because the import barriers are too high, but might be able to export with preferences: sugar and beef. However, these are such sensitive commodities that it appears most unlikely that South Africa could negotiate concessions under any regime.

flexibility, at least for manufactured goods, with its commitment to offer unrestricted access to all industrial products meeting the rules of origin. None of the agreements provides major flexibility for sensitive agricultural products, although here again the Lomé Convention tends to be the most flexible.

Potential support for regional cooperation

The regional impact in Southern Africa of EC policy is of particular concern given the Community's obligations to the region under the Lomé Convention and South Africa's need to normalize relations with its neighbours. The question of the effect of these alternative preference schemes on the competitive position of the Southern African states needs to be considered in the broader context of the trade impact on all developing countries, which is the subject of the next section. However, an additional consideration is that the EC should avoid erecting artificial barriers between the Southern African states and, indeed, should if at all possible adopt an arrangement that encourages trade between them.

The Lomé Convention has unique advantages in this area, in particular its provisions on what is known as 'regional cumulation'. This would encourage countries in the region to collaborate in producing goods for eventual export to the EC. All trade preference schemes incorporate rules of origin to determine where a good was produced and, therefore, whether it is eligible for preferences. These are frequently contentious. One of the criticisms levelled at EC schemes is that the rules are unduly onerous, so that poor countries are unable to take advantage in practice of preferences that appear on paper to be generous. The Lomé Convention's origin rules are more favourable than those in other agreements in several respects. In the context of intra-regional trade the most important is that they include particularly liberal provisions on 'regional cumulation'. These allow two or more ACP/EC states to undertake different parts of the production of a good so that when these processes are aggregated the finished product meets the Lomé rules of origin even though the amount of working in any of these states individually is insufficient to enable it to do so.

For example, the rules of origin on fish caught in the high seas are particularly severe. Fish exported from Angola, for example, receives Lomé preferences only if it is caught from boats that are accepted by the EC as Angolan or belonging to another Lomé state (whether ACP or EC). To be an 'Angolan' boat a vessel must be registered or recorded in Angola, sail under the Angolan flag, be at least 50 per cent owned by Angolan nationals or by a company with its head office in Angola with Angolan management, and be sailed by a crew at least half of whom are Angolan citizens. For countries without a maritime tradition these rules are extremely difficult to meet, as they are for poor countries given the high capital cost of modern fishing boats. But under the cumulation provisions of the Lomé rules of origin it is possible for these criteria to be fulfilled by capital and personnel drawn from more than one ACP/EC state. If South Africa were to become a party to the Lomé

Convention there would be scope for cooperation between the country's fishing fleet and other ACP states that have difficulty meeting the rules of origin.

Another example is provided by woven clothing. Under the Lomé origin rules, exports of woven clothing receive preferences only if they are from cloth produced within the EC/ACP group; the only non-originating imported raw material that is allowed is yarn. This has hindered ACP exports of woven (as opposed to knitted) clothing.[5] If South Africa were in the Lomé Convention its textile industry (assuming that it becomes internationally competitive) could supply inputs to the clothing firms of other ACP states.

South African membership of the Lomé Convention might foster intraregional trade; would one of the other options erect barriers to such trade? No Mediterranean-style agreement provides an option for cumulation with other bilaterally associated states. Of course, the EC is not bound to follow slavishly an existing model; it could agree to special rules permitting cumulation between South Africa and its neighbours. But this seems an unlikely and difficult process as such rules (which are likely to be detailed and technical) would have to be drafted from scratch. There do exist provisions under the GSP and Super GSP for regional cumulation, but these are less satisfactory than those under Lomé in two important respects. First, Lomé is unique among the EC's trade agreements with developing countries in allowing both EC and beneficiary states (in this case the ACP) to participate in cumulation. Under the GSP it is only possible to have cumulation between developing countries, which must also apply the same rules of origin to trade among themselves of the goods in question, a requirement that so far only ASEAN has been able to fulfil. Second, and more importantly, under the GSP rules each collaborating country must export to its neighbour a good that fulfils the rules of origin. It is not possible, for example, for Botswana to export to South Africa a good that half meets the rules of origin for it to be finished in South Africa—the Botswanan exports would have to fulfil the rules of origin fully before they could be classified as a Botswanan good for cumulation purposes.

Implications for other developing countries

A post-apartheid South Africa inside the Lomé Convention *could* supply material to the clothing industries of other ACP states; but would this displace existing or potential exports from Zimbabwe? More broadly, which developing countries would be adversely affected by the extension of preferences to South Africa, and would the range of affected states and commodities differ between the alternative preference schemes? As noted above, a number of South Africa's most important exports currently face MFN tariffs that are either zero or very low, limiting both the potential gains to the country from preferences and, by the same token, the potential costs to other

[5] Matthew McQueen and Christopher Stevens, 'Trade preferences and Lomé IV: non-traditional ACP exports to the EC', *Development Policy Review*, 7 (1989), pp. 239–60.

trading parties. However, there remain a significant number of commodities in which South Africa currently faces discrimination compared with most of its competitors.

General effects

It is an inherent characteristic of selective trade preferences that their extension to new exporting states may reduce their value to existing beneficiaries. Any extension of preferences to South Africa will reduce the level of advantage currently enjoyed by its competitors, while elevation to the upper tranches of the pyramid of privilege could give South Africa an advantage over some. As a broad rule of thumb it may be assumed that the greater the number of products on which discrimination against South Africa is removed, the greater the likelihood of increased competition for third parties. Those third parties most seriously affected will be the ones which export a large number of competitive products and/or which currently benefit from particularly deep preferences over South Africa.

Table 3 presents a list of the commodities which are significant South African exports and in which competition with other developing countries appears most likely, together with the states involved. The commodities are those which are currently exported by South Africa to the EC and on which it faces discrimination compared with some developing country suppliers. There are eighteen such commodities, many of them CAP products. The table does not take account of potential future exports. A number of very large mineral beneficiation projects are either under way or at a final decision stage. The changes to economic policy that may be expected post-apartheid may result in new competitive exports. Given the distortions and secrecy engendered by sanctions, identifying current exports is a contentious exercise; forecasting future exports is even more problematic. Fortunately it is not an essential exercise for determining the most appropriate trade regime after apartheid, save to argue that it should be as flexible as possible. As noted above, all of the trade options are of relatively short duration. Lomé IV expires at the end of the decade (before any substantial beneficiated mineral exports will come on stream), while the existing Super GSP arrangements are of four years' duration. Hence, although some new exports may have emerged and some traditionals may have grown, there is unlikely to be any substantial change in the pattern of South Africa's exports before the EC has the opportunity to renegotiate any deal agreed in the near future.

For each commodity listed, Table 3 identifies South Africa's principal developing country competitors in the EC and the regimes under which most EC imports from developing countries take place. In three cases—uncoated kraft, seat parts and iron bars and rods—all of South Africa's developing country competitors trade on GSP terms, which are as liberal as those available under any of the other preferential regimes. Hence, the only choice is whether to put South Africa on an equal footing with its competitors or to retain the

Table 3. The critical current exports

Commodity[a]	Principal LDC competitors[b]	Dominant regimes[c]	Other preferential regimes[d]
Coal (2701)	*Colombia*, *China*	MFN + NTB	Lomé
Fresh apples (080810)	*Chile*, *Argentina*	GSP	Association/Lomé
Citrus fruit (0805)	Morocco, Israel, *Argentina*, Cyprus, *Brazil*, Turkey, *Uruguay*, Tunisia	Association	Lomé
Grapes (0806)	Turkey, *Chile*, Israel, Cyprus	Association	–
Pears (080820)	*Argentina*, *Chile*	GSP	Association/Lomé
Avocados (080440)	Israel, *Mexico*, Kenya	Association	Lomé
Uncoated kraft (4804)	Brazil	GSP	–
Seat parts (940190)	Turkey, China, Argentina, Thailand	GSP	
Synthetic filament (5402)	Turkey, *Taiwan*, Israel, *South Korea*, *Mexico*, *Indonesia*	MFN	Super GSP/Association/Lomé
Ferro-silicon manganese (720230)	*Brazil*	MFN	Lomé/Association
Hake (030378)	*Chile*, *Argentina*, *Uruguay*	MFN	Super GSP/Lomé/Association
Cuttlefish (030749)	*Thailand*, *India*, Morocco, Tunisia, Mauritania, Senegal	GSP	Super GSP/Lomé/Association
Other fish (030379)	Morocco, *Argentina*, *Chile*, Mauritania, Somalia, Bangladesh, *Taiwan*, Panama, Senegal, *Thailand*	Association/Lomé	Super GSP
Canned pineapple (200820)	*Thailand*, Kenya, *Philippines*, *Indonesia*, *Malaysia*	GSP	Super GSP/Lomé/Association
Iron/non-alloy steel bars and rods (7213)	Turkey, Argentina, Egypt, Brazil, Trinidad, Venezuela, India	GSP	–
Fresh flowers (060310)	Israel, Colombia, Kenya, *Thailand*, Morocco, Turkey	Super GSP/Lomé	Association
Pineapple juice (200940)	*Thailand*, Kenya, *Brazil*, *Philippines*, *Israel*, Côte d'Ivoire	GSP	Lomé
Other fruit (0810)	*Chile*, Madagascar, *Israel*, *Thailand*, *Malaysia*, Colombia	GSP	Super GSP/Lomé

Notes:

[a] Commodities for which EC preferences exist and in which South African exports to the EC in 1990 exceeded ecu 2 million and were more than 10% of the level of the first or second most important developing country exporter to the EC. Commodities are listed in declining order by value of South African exports to the EC in 1990. The number in brackets is the CN code for more accurate identification of the product.

[b] Developing countries with exports to the EC in 1990 in excess of 10% of the value of South African exports to the EC. Countries are listed in declining order by value of exports to the EC. Countries in italics would have less favourable access to the EC than South Africa if it were accorded one of the higher-level preference agreements listed.

[c] The trade regime under which the most important developing country exporters to the EC trade.

[d] This column indicates whether there are higher-level preferences under one of the agreements not represented in the 'dominant regimes' column.

present system of discrimination. In the other fifteen cases there is a range of preferential accords such that if South Africa is granted low-level preferences some of its competitors will still enjoy a comparative advantage, while if it is given an upper-tranche regime other competitors (indicated in the table by italics) will be disadvantaged. The number of products in which South Africa would have an advantage over some of its competitors varies according to the regime it is accorded. The number is seven if it were granted Super GSP treatment, twelve if it had an association agreement, and fourteen if it were a member of the Lomé Convention.

As the Lomé Convention and an Andean Pact-style Super GSP have been suggested as the principal alternatives, it is helpful to identify the main differences in terms of potential competition. There are seven products in which there is a difference between the potential impact on third parties of Super GSP and Lomé treatment for South Africa. They are coal, fresh apples, citrus fruit, pears, avocados, ferro-silicon manganese and pineapple juice. The countries that would be affected (in the sense that they would trade on similar terms if South Africa had Super GSP but would be at a disadvantage with Lomé) are Argentina, Brazil and Chile (which would be affected on three products), Thailand (two products) and Colombia, China, Israel, Mexico, Philippines and Uruguay (one product each).

The extent to which the change in competitive positions will feed through into a loss of export revenue for South Africa's competitors is difficult to predict because most of the problem commodities face regulated markets in the EC. In the case of fresh deciduous fruit, for example, the CAP operates a system of minimum import prices which limits the scope for South Africa to increase its market share by undercutting its rivals. In the case of minerals, trade is controlled by a small number of companies, many of which have interests in several exporting countries. Exports of textiles from all the countries listed in Table 3 as competing with South Africa on this product are subject to quotas either inside or outside the Multifibre Arrangement. And in the case of fish, the onerous rules of origin noted above have prevented some of the countries listed in the table taking full advantage of the preferences notionally on offer.

Effects on the ACP and Southern Africa

The potential negative consequences for ACP states, and especially South Africa's neighbours in the Southern African Development Community (SADC), are of particular concern, not least because South Africa will have to win the support of the ACP if it is to succeed in any application to join Lomé. The pros and cons of three of the preferential options for SADC are plotted in Table 4. This covers the GSP, the Super GSP and the Lomé Convention. A Mediterranean-style association agreement has not been included on the assumption that it is ruled out of contention by the likely onerous negotiating process, the absence of regional cumulation provisions and the fact that it is not obviously superior for South Africa to the Lomé Convention. Each of these

Table 4. Pros and cons for SADC

	GSP	Super GSP	Lomé
Competition	*		
Involvement in negotiations	–	?	*
Support for regional trade	?	?	*
Aid contracts	–	–	*
Political cooperation	–	–	*

three options is considered in terms of the likely competition that will result for SADC countries, their involvement in the negotiations to ensure that their interests are taken into account, the support that the regimes will give for regional trade, the possibilities that will result for aid contracts within the region and the extent to which the trade preferences will support political co-operation. An asterisk indicates a positive correlation between the scheme and SADC's interests; a question mark denotes that it may be possible to satisfy SADC's interests; a dash means that the trade option is relatively poorly related to SADC's interests.

Clearly, standard GSP will result in less competition for South Africa's neighbours than will the other options. On most of the other criteria, however, the Lomé Convention provides a more attractive alternative. If South Africa attempts to negotiate membership of the Lomé Convention all of the ACP states will be *de jure* parties to the negotiations. If, by contrast, the EC accords South Africa standard GSP treatment there is unlikely to be any significant formal. and very limited informal, involvement of the ACP states. The EC does 'consult' the ACP on extensions to the GSP but such 'consultations' have always been extremely perfunctory. It is possible that more serious consultation would occur if Super GSP were under consideration. As this is a restricted form of agreement the EC might wish to take fuller note of the views of other developing countries, including the ACP. However, as the GSP is an autonomous act by the EC no other parties (including South Africa) would have any formal role in negotiations; indeed, there would be no 'negotiations' in the full sense of the term. It is noteworthy that the ACP did raise objections to the provision of Super GSP treatment to the Andean Pact countries but failed to influence the EC's decision.

In addition to its provisions for regional cumulation noted above, the Lomé Convention would provide a tangible support for regional trade as all ACP states may tender for aid contracts finance under the Convention. As there are no aid provisions for either the GSP or the Super GSP, this possibility does not arise. Similarly, the absence of any political dimension to the GSP and Super GSP rules out the possibilities that exist under Lomé for fostering political cooperation among the parties.

Alternatives to preferences

Trade preferences will have a modest impact and may affect adversely other developing countries (albeit in a similarly restricted fashion). Are there other ways in which the EC can provide the limited assistance available to it that are economically or politically superior? The most obvious instrument for comparison is financial aid. Would it be politically easier and less damaging to the multilateral trade system for the EC simply to provide more aid instead of trade preferences? And would the impact on South Africa be the same?

The link between trade and aid is particularly germane because of the nature of the product markets in which preferences would be most valuable to South Africa in the short term. The objective of trade protection is artificially to restrict supply on the protected market and thus raise the price. If they do not result in a significant increase in supply, selective trade preferences tend to confer on the beneficiaries part of the economic rent that results from this artificial restriction. This is particularly true in the case of South Africa's exports falling within the purview of the CAP. EC imports of deciduous fruits, for example, are subject to 'minimum import prices': that is, the exporter must not sell below a predetermined price or else the EC imposes a levy to ensure that the minimum is respected. Even countries that receive preferences in the form of full or partial reductions in tariffs have to respect the minimum import price. It does not follow, therefore, that the extension of tariff-cutting preferences to South Africa would result in any fall in the price of its exports on the EC market (or, indeed, in any increased competition for market share with other suppliers). The EC market price of South African exports would fall only if it were currently above the minimum *and* the exporter's strategy were to increase market share by cutting prices.

It is perfectly possible, therefore, that trade preferences would result primarily in South African exporters retaining a larger share of the final value of their exports rather than an increase in volume of sales. In 1990, for example, South African exports to the EC of deciduous fruits paid customs dues of R41.6 million (ecu 13 million). The full or partial reduction of EC import tariffs would result in a transfer from the EC budget (which would receive lower import duties) to South African exporters.

If the net effect of trade preferences is a static transfer of revenue from the EC budget to South Africa rather than a dynamic growth in trade, why not handle the whole thing as aid? There are two factors to consider. The first is that the impact in South Africa of the two measures is likely to be different. Despite the use of non-governmental organizations and efforts to involve the private sector, aid remains heavily a government-to-government affair. An increase in EC aid would tend to swell the revenue of the South African government; trade preferences (unless offset by South African export taxes) would tend to increase the revenue of exporters.

The second, perhaps more immediately practical, difference between the two concerns the scale of the likely transfers. The revenue to be derived from trade preferences is often larger than can be obtained from aid. It is not sensible to attempt a quantification of Lomé-style trade preferences; given the large uncertainties over the scale of present exports and the competitiveness of South African producers the results would almost certainly be spurious. Moreover, the volume of aid that South Africa might receive is also imponderable, especially as the comparison is between revenue from trade preferences and the amount of additional aid that might be obtained by forgoing them, rather than the total amount of aid. Nonetheless, it may be helpful to provide some illustrative figures of the possible scale of flows.

South Africa is at present a particularly favoured beneficiary of EC aid. There is a special line in the EC budget for the Community's Special Programme for Victims of Apartheid which was established within the framework of European Political Cooperation in September 1985. The aid is intended for 'positive measures' in support of multiracial development and has increased rapidly so that by 1992 it was running at ecu 80 million per year. This makes South Africa the largest recipient of EC aid in Africa. It is most unlikely that the country will be such a favoured recipient after the change to an internationally acceptable regime. Aid within the Lomé Convention is divided between countries according to an undisclosed formula that takes account both of population and of development level, and tends to favour smaller, less developed countries. A point of comparison is Zimbabwe, which has a national aid programme under Lomé IV of ecu 88 million. If this is adjusted for the difference in population size of the two countries it implies a potential aid allocation for South Africa of around ecu 300 million, or ecu 60 million per year. But South Africa must expect to receive less per capita because of its size and relative wealth. The allocation in Lomé IV for Nigeria, Africa's most populous country, is only ecu 260 million for the five years (or ecu 52 million per year). It is unlikely that the country could achieve a larger aid budget under any of the alternative arrangements to Lomé membership.

If the total annual EC aid allocation to South Africa is in the broad range of ecu 50 million, the potential gains of ecu 13 million for the deciduous fruit industry appear quite respectable. South African negotiators would have to achieve an increase in their aid allocation of about one-quarter (and maintain this premium every year) in return for forgoing trade preferences simply to cover the additional revenue that could be earned by one economic subsector. Add in the less easily quantifiable static gains by other sectors and even modest dynamic gains and it becomes clear that even if preferences have only static effects aid is unlikely to reach the volumes necessary for it to be an acceptable *alternative*, as opposed to an appropriate additional support.

The negotiating procedures

While South Africa presents the EC with particular problems (because of its size and undoubted competitive strengths in some areas), there are plenty of precedents for admitting new members to existing arrangements, and for extending deep preferences to middle-income states. The procedures concerned with the Lomé Convention are the most formalized.

The first Lomé Convention was signed by 44 ACP states in 1975; there are now 69 signatories. Most of the new entrants were small, newly independent states that could be absorbed without major difficulty. But there have been some 'difficult cases'. Both the EC and ACP assumed that Zimbabwe would join following the transition to majority rule, but its size and competitiveness made the negotiations difficult. Angola and Mozambique declined to join at first and their relations with the EC were troubled during the period they were outside. EC regional aid in Southern Africa faced particular disruption while Angola and Mozambique drew their assistance from a different budget, a point to be noted by SADC and South Africa. Most recently, Haiti and the Dominican Republic were admitted to Lomé IV even though they had not been recent colonies of an EC member state and were not integrated into one of the main regional organizations such as the Organization for African Unity or Caricom. In an effort to ensure that the accession of Haiti and, especially, the Dominican Republic could not be used as a precedent for other Latin American countries, the text of Lomé IV contains wording to the effect that South Africa is eligible for membership under normal geographical criteria. Annex I of Lomé IV confirms that 'the geographical area of the Convention must remain restricted to the countries of Africa, the Caribbean and the Pacific'.

The principal legal (as opposed to political) grounds on which South African membership could be denied relate to the structure of its economy rather than its geographical location. The criteria and procedures for enlarging the parties to Lomé IV are covered by articles 356–63. Article 363(1) refers to a 'request for accession to this Convention submitted by a State whose *economic structure and production are comparable with those of the ACP States*' (emphasis added). If such a state applies for membership the application must be approved by the EC–ACP Council of Ministers. The article also raises the possibility that not all of the rights and obligations associated with membership need be made available at the same time. Any especially difficult parts of South Africa's application (such as a claim for access to the Stabex fund for commodity earnings stabilization) could therefore be deferred if the parties so decided.

There seem to be three salient features of the situation. First, South Africa must apply. Lomé IV contains the unusual precedent of previewing the membership of Namibia, the independence of which occurred after the Convention was signed, but the normal position is that a state wishing to join Lomé must take the initiative. Second, if South Africa were to apply a decision would be taken jointly by the EC and the ACP. This analysis has suggested that there are some sound commercial reasons why the ACP might welcome a South African application, but there are also many fears in Africa that the country is too competitive, too large and too politically dominant for comfort. This article has not considered the impact of the preferential alternatives on producers in the EC. However, this has been studied elsewhere and the results suggest that while the level of potential competition from Lomé membership is small in absolute terms it is also sufficiently large to provoke howls of anguish from producer interests in a wide range of EC states.[6] The third conclusion, therefore, is that South Africa has a major political task in persuading the ACP and then the EC to accept its application.

Implications for the EC

This article has dealt only with the trade relationship between the EC and a post-apartheid South Africa; it has referred to aid and political links only in passing. But the Lomé Convention has strong aid and institutional cooperation dimensions; association agreements typically contain a financial protocol; and aid is available to GSP and Super GSP beneficiaries under the non-associates and food aid programmes. Clearly, these non-trade factors have to be taken into account. But it is the decisions on trade that are likely to cause the greatest divisions within the EC. Member states not satisfied with the level of Community aid can always use their bilateral programmes to make good any shortfall, but all states will have to live with whatever is agreed on trade.

It is clear that trade preferences are not central to the solution of South Africa's economic problems; they are, at best, a helpful adjunct to the domestic, economic and political reforms required to remove the major distortions. This would be true even if a substantial proportion of the country's exports faced heavy protective barriers and was concentrated on the European market. The fundamental justification for South Africa to seek preferences must be that its economic problems are so great that it should not overlook any avenue of support (especially one that would benefit in particular labour-intensive production). From an EC perspective, trade preferences are one of only a very few ways in which assistance can be given and will probably be additional, rather than an alternative, to other forms of assistance.

Previous intra-EC negotiations on extending preferences indicate that the subject is a contentious one. EC Commission attempts during the Lomé III and IV negotiations to extend preferences on sensitive agricultural products, for example, won support from the United Kingdom, the Netherlands and Germany, but foundered on opposition from the Mediterranean states. An analysis of the South African exports that would benefit from the preference options suggests that there are no major EC interests at stake.[7] But there is a range of minor concerns which, on past form, will be sufficient to provoke resistance to deep preferences from some member states. Even though most of South Africa's fruits would continue to face minimum import prices under any regime, for example, France, Italy and Spain may feel threatened.

In consequence, the negotiation of useful trade preferences is likely to be tough. Deep trade preferences are desirable for South Africa, but they are by no means assured. Standard GSP treatment would be easier to achieve but would provide few benefits to South Africa. As the EC and South Africa face a political battle to achieve Lomé membership, would they not be well advised

[6] Page and Stevens, 'Trading with South Africa'. [7] Ibid., table 14.

to seek one of the other options? The precedent of the Super GSP for the Andean Pact countries has been specifically put forward.[8]

The analysis in this article suggests that there are no major, objective grounds for arguing that either Super GSP or an association agreement present fewer trade challenges to the EC, to the ACP or to other developing countries. On the contrary, the ACP would be better served in the trade area by South Africa being accepted into the ACP than by its being accorded Super GSP treatment (although the position for Latin America is probably the reverse). On almost all of the products in which South Africa currently competes with the ACP the provisions of the Super GSP or a typical association agreement are as generous as those under Lomé. And, in the case of Lomé, the potential costs of increased competition for the ACP can be set against the advantages that they will be involved directly in the accession negotiations and that the Convention may provide some stimulus to intra-Southern African trade. With the Super GSP and an association agreement there are no such offsetting gains.

For Latin American and Asian countries that benefit only from the standard GSP any deep preference may result in potential competition. There are a number of products, such as fresh apples, pears and pineapple juice, in which neither Super GSP nor an association agreement provides deep preferences but which are covered by Lomé. Hence, the Lomé Convention would be the worst of the three, but the differences between them are not great. The three countries most 'at risk' appear to be Argentina, Brazil and Chile.

For the EC the major potential trade problem of the Lomé Convention, as opposed to the other deep preference options, is its all-embracing nature. It might appear at first sight that the EC would have more control through the Super GSP or an association agreement in tailoring preferences to protect either European or other developing country interests. In fact, however, this is unlikely to be the case in the short term. On many of the products of most interest to South Africa the Lomé Convention does not provide carte blanche. Rather, there are specific quotas or other restrictions and it would be necessary to negotiate special provisions for South Africa even within the context of its membership of the Convention.

In the final analysis, political considerations are likely to weigh more than economic factors in determining the trade regime that will apply between the EC and a post-apartheid South Africa. Although the final decision will be taken by the EC, the next step lies with South Africa. The country needs to present its case with as much force and skill as possible. Its chances of success are likely to be greater if a decision of principle on the type of regime to apply can be taken before the domestic issues are fully resolved and 'the South Africa dossier' moves off the desks of foreign ministers and heads of government in Europe and into the in-trays of agriculture and industry ministers. If Lomé membership is the objective, South Africa must take the initiative both to seek the support of

[8] Not least in a presentation by Dr Volkmar Köhler MP, former German Minister of Development Cooperation, to the conference on 'A changing South Africa' convened by the RIIA and the South African Institute of International Affairs (June 1992).

the ACP group and formally to apply. The ANC has been reluctant to take . step that could be misinterpreted as suggesting a normalization of econoı relations with the apartheid regime. It is important to note, therefore, that th are precedents from Zimbabwe and Namibia for entering into inforı discussions with the EC well in advance of any transfer of power. The AN might consider whether to take advantage of the window of opportunity t now exists to begin a dialogue with the ACP and the EC on the basis tha there is a satisfactory political change in South Africa, *then* the country wo seek Lomé membership.

EC-SOUTH AFRICAN RELATIONS: FROM PARIAH TO PARTNER?

South African Institute of International Affairs,

BP Centre, Cape Town, 13 October 1993.

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When I received the invitation to talk to the SAIIA on the topic of European Community relations with South Africa, my immediate response was to ask "why should there be a relationship"? This thought was provoked by an article written by a well-known southern African academic commentator, Christopher Coker, writing in the Royal Institute of International Affairs journal, International Affairs in 1991. Coker argued strongly that southern Africa in general will cease to be of any significant policy relevance for the West by the end of this century. To paraphrase, without apartheid as the rallying call, the region and South Africa itself, looses its significance economically, strategically and morally. Simply, the realization of non-racial democracy signifies the end of the problem for the European Community. From pariah to oblivion.

Such an interpretation cannot be dismissed entirely, particularly as the EC has become preoccupied with political and economic issues somewhat closer to home - the reunification of Germany, east European democratization and market economies, the war in the former Yugoslavia. However, I do not agree with Coker's pessimism. In the remainder of this talk I will attempt to demonstrate that the European Community has not only maintained an interest in South and southern Africa, since the middle of 1993 this interest has been given an increased commitment. The 1990s have witnessed the transition in EC relations from South Africa as "pariah" to South Africa as "partner". Nor do you necessarily have to take my word alone. Sir Leon Brittan, Vice-President of the

European Commission and Commissioner responsible for external economic relations (including those with South Africa) made the following comments in June of this year:

> Is the EC, or the Us or, the West in general now turning Eastwards, to the detriment of North/South cooperation? Is the African continent as a whole on its way to being forgotten? And once multi-party democracy has been achieved, will questions be asked as to why we should help a relatively rich country like South Africa, once the moral imperative of dismantling apartheid is no longer there?
>
> The message from the EC on this point is clear: we have been in the forefront to assist South Africa, and we will continue to do so throughout its difficult transition and beyond.

Political rhetoric is, of course, relatively inexpensive, even in the European Community. However, the views of the Commission have been reinforced by two separate documents: the Development Council guidelines; and the June 1993 EPC statement on future relations with South Africa.

To appreciate fully the changed nature of Community relations with South Africa, it is necessary to remind ourselves of the "abnormal" relations that existed from 1977-91. In fact, the EC has never had "normal" relations with the Republic. In 1977 the first exclusively EC policy vis-à-vis South Africa, the "Code of Conduct for EC firms with subsidiaries operating in South Africa" was introduced. It was designed to improve representation and remuneration levels for black workers and negate the workplace effects of apartheid legislation. The Code was modified once, in 1985, but continued as part of EC policy until June of this year when it was announced that the formal reporting required under the Code would be abolished.

The negative sanctions adopted in 1985-86 effected trade, scientific, military , cultural and sporting relations. For example:

a) the export of Krugerrands was prohibited;

b) imports of certain iron and steel products were banned;

c) a voluntary ban on new investments was imposed;

d) military attachés were withdrawn and military, nuclear and technological collaboration halted. (Holland, 1988)

In addition, the EC introduced what it deemed "positive" measures in the form of assistance through the "Special Programme for the victims of apartheid". By 1993 all the EC sanctions had been removed and the Code abolished: in contrast, the positive measures remain in place and have been expanded, as I will describe to you in one moment.

Within the context of these sanctions, other aspects of trade were maintained with the Community; for example, whereas in 1984 the last year before sanctions, the EC collectively imported 8,825m Ecu worth of South African goods, four years later this had climbed to 12,515m Ecu. Nonetheless, the relationship was abnormal politically and punctuated with periodic diplomatic declarations by the Community denouncing some aspect of South African Government policy. In fact, from the mid-1980s through to 1990, the EC issued more demarchés on South Africa than for any other international topic!

What then might a "normal" EC-South African relationship look like? Current Community thinking on this issue can be broken down into ~~five~~ three basic elements. I use the word "thinking" advisably: Community policy is still emerging and will respond to events. The Community position I am outlining reflects the "best outcome" scenario. Clearly if the election process is jeopardized, the Community's attitude will change accordingly. The three basic elements that are apparent are:

1) Overall development policy and the new Special Programme and involvement in the election process;

2) the institutional representation of the EC in South Africa (via the Observer group, Coordination Office and by 1994 an EC Commission Delegation); and,

3) the shape of the new relationship: its regional and trade consequences and the question of Lomé.

Let me briefly outline the Community's views on each of these questions (see Commission, 1993 for further details).

<u>1) Development Policy and the new Special programme.</u>

When the EC's Special Programme was first introduced in 1985 it was allocated 10m Ecu (R38m) for legal aid, humanitarian and social projects and education and training. It was at the time an explicitly political initiative and provoked the South African Government into considering curbing external funding of anti-apartheid groups. The new Programme has been in place since 1991 and is much broader in its scope and has received significant annual funding increases each year, a significant indication of the EC's strong commitment to development issues in South Africa. By 1993 90m Ecu (R341m) per annum was allocated for development projects. This makes the Special Programme the EC's largest single programmable development initiative in Africa. The EC is also the largest international donor of external assistance to South Africa: the figures for 1992 show the EC the leading donor with 80m Ecu (R303m) compared with 60m Ecu for the USA (R228) and 40m Ecu for Sweden (R152). Bilateral European assistance from the UK, Germany, Denmark, Italy and the Netherlands added almost a further 60m Ecu (R220). Under the Special Programme between 1986-92 536 separate projects have been sponsored at a cumulative cost of over 259m Ecu (R950). This level of commitment will be maintained, if not increased, in 1994.

The objectives of the new Special Programme are to establish a coherent ,sector-based coordinated development programme that will be sustainable in the long term and lead to a consensus on the nature of South Africa's development problems. The Programme is involved in five distinct areas:

- education and training (the largest sector with 83m Ecu (R315m) committed 1991-93);
- rural and agricultural development (36m Ecu (R136m);
- good governance and democratization (13m Ecu (R50m));
- health (7.7m Ecu (R29m)); and,
- community development (7.2m Ecu (R27m)).

Briefly, here are some examples of the types of projects covered under these categories.

Education and training takes approximately 45% of EC funds. While the programme covers education from the pre-primary level upwards, the bulk of funds are devoted to tertiary support. In 1993 the EC has provided 7,000 black students with bursaries (worth some 20m Ecu - R75m). Rural and agricultural development supports local micro-projects such as the supply of water and sanitation and is responsive to the development as determined by individual local communities. Funds allocated for good governance and democratization are devoted to issues such as conflict resolution, human rights and the viability of a pluralistic print media. A major aspect of the health programme is funding for preventative primary health care. And assistance for community development concentrates on homeless youths and general urban and community renewal projects.

Obviously the sums involved are by themselves inadequate. However, the purpose of Community funding is to establish a development framework that will lend itself to long term development. In that sense EC involvement is instrumental and significant.

An additional area covered by the EC's democratization programme is the election process. This has become an area of concerted EC activity during 1993-94. The EC has committed funds to voter education projects, registration programmes and the training of election monitors. The EC will make a significant contribution to the international election monitoring team in April 1994.

2.The institutional representation of the EC in South Africa

Obviously during the "abnormal" phase of relations the EC excluded any direct links, at least within South Africa. Interestingly, the South African mission attached to the EC in Brussels has been in operation since ????. Representation was carried out on behalf of the EC by the country holding the Community presidency (which rotates between the Twelve on a six monthly basis). Or occasionally (and usually signifying a new crisis) through a visiting EC "Troika" (3-5 member state Foreign Ministers acting on behalf of the Community's foreign policy). This intermediary arrangement was modified in February 1991 when the EC established a Programme Coordination Office in Pretoria which became responsible for the new Special Programme projects noted above. This is currently a small scale operation. However, in June 1993 it was confirmed that once a TEC was in place a full EC Commission Delegation would open in South Africa, hopefully sometime in 1994. Such a Delegation would be emblematic of a normalization of relations; indeed, possibly of a privileged relationship as EC Delegations are not situated in all third countries (including my own country of New Zealand which is currently cross-accredited from the Delegation in Canberra!). Following examples elsewhere in the world, normalization would also allow for a comprehensive and strong political dialogue to be established. This would cover questions of regional security, human rights and non-proliferation. This process may take the form of annual bilateral meetings between the Twelve, or a Troika, and the South African Government.

Further evidence of institutionalization was apparent in October 1992 with the establishment of the EC Observers Mission to South Africa (ECOMSA). This fifteen person group has the task to observe and assist the peace process and works closely with the other international observer missions already in existence and the National Peace Accord structures. This innovation is also indicative of the EC's continued desire to become an active international actor, despite the debilitating experiences of the Gulf War and the war in the former Yugoslavia.

So, a continued development commitment and an institutionalization of relations are two clear and relatively uncontroversial aspects of the EC's new approach. The remaining two issues - regional issues and future trading relations - are more complex, problematic and at yet, indeterminate.

3.The shape of the new relationship regionally, bilaterally or within Lomé

First, irrespective of the type of formal relationship chosen for a trade regime between the EC and South Africa, the new framework will have to be complementary with the EC's relations with the regional SADC states. Past Community policy has treated the region as a whole; future policy will retain this principle as a guiding criterion. Thus the kinds of preferences negotiated, quotas, development assistance will be regionally balanced.

Second, one of the founding ideas and objectives of the EC is to promote the concept of regional integration. Consequently, not only will the EC strive to create regional compatibility, the EC would assist in creating a form of regional integration that linked South Africa within the SADC concept.

However, the central question for the immediate future is the kind of bilateral relationship between the EC and South Africa that will be established in 1994 to normalize trading relations. This key decision has yet to be taken and the EC and South Africa are currently in discussions. What is clear at this stage is that the EC is not attempting to impose a format upon South Africa; but nor is the EC completely compliant. The initial step is South Africa's responsibility, in particular whether South Africa wishes to be classified as a developed OECD country or as some kind of developing country. Once this is determined then the options for bilateral economic relations are simplified.

The options at the beginning of 1993 were as follows:

1) the standard "Most Favoured Nation" (MFN) status within the GATT framework;
2) the Generalized System of Preferences (GSP);
3) full Lomé status.
4) "associate" Lomé status;

5) a non-reciprocal association agreement; or,

6) a reciprocal association agreement;

Which of these is the most likely to be adopted and what are the implications for each option (see, Goodison 1992; Stevens, Kennan and Ketley, 1993).

Beginning with the least likely outcomes, MFN status has the virtue of being the simplest option for the EC as it requires no change in current GATT relations, classifying South Africa as a developed country as has been the case since the 1950s. However, this approach would simply reassert the economic _status quo_; do nothing to address South Africa's development needs; fail to stimulate European investment; and continue to hinder the intra-regional production of exports to the EC.

The effects of changing to a GSP system are difficult to assess, especially as the EC is currently revising its approach. Essentially, like the MFN, it provides few advantages beyond South Africa's existing position and would be chosen only if other more preferential options prove impossible to negotiate.

Much has been speculated about the third possibility, namely full Lomé status for South Africa. This option seems increasingly unlikely despite specific trade advantages that such a framework would offer. Indeed, Lomé would probably offer the greatest trade preferences to the Republic and South African membership would also assist regional cooperation by placing the Republic on the same economic trading plateau with the EC as the SADC states. The argument against membership focuses once again on South Africa's imprecise developed/developing classification. South Africa's GDP would put it well above the other now 70 Lomé states; the commodities for which trade preferences are available would give South Africa an advantage over other Lomé states as well as possibly meet with resistance from certain member states who produce similar agricultural products as South Africa. The Sysmin and Stabex Lomé schemes could not financially accommodate South Africa, and perhaps most crucially of all, to gain accession to the Lomé Convention South Africa would need the unanimous assent of all the other 70 signatories as well as the EC's agreement. It is far from certain that all other Lomé countries would be willing to allow South Africa to join. The parallel with South Africa within SADC is instructive: the size and strength of the South African economy would create an unequal imbalanced relationship. In addition, within the Community itself there is growing criticism of the entire Lomé framework and a suggestion that its global approach should be abandoned for more regionally specific arrangements separating out the various components of the ACP states. Adding the South African economy into an already under-funded and financially strained Lomé might precipitate the early death of Lomé.

Because Lomé offers the greatest economic advantages, a fourth option that was floated in early 1993 was for an associated status. No other such status exists and no one has really specified what such a relationship would amount to, or how it might differ from full membership or a bilateral association agreement. Consequently, the option seems unlikely to be considered seriously.

Thus we are left with the option of a specific bilateral agreement that offers reciprocal terms. The EC's internal economic difficulties make a non-reciprocal arrangement highly unlikely (and indeed questionable under GATT rules). This would take the form of a free trade agreement geared specifically to South Africa's needs: the negative side for South Africa might be the requirement to dismantle certain protectionist measures in exchange for EC market access. The Commission's External Economic affairs directorate has argued strongly for such a line in keeping with the EC's commitment to trade liberalization and competition. Negotiating such an agreement could be time consuming. Yet this appears to be the most likely cption, particularly as the EC has already negotiated similar agreements with comparable states, most notably with Lain America, particularly Brazil. The implications here are that beyond the existing Special Programme, further development aid would not be forthcoming: the emphasis on EC policy would be on promoting economic cooperation, industrial cooperation and trade and investment promotion. Thus despite the probable negative consequences for regional integration, such an approach seems the most likely at the moment, despite the greater development and preferential advantages under Lomé.

The question of what type of relationship is not of importance just for South Africa: it is also of significance within the Community, especially the Commission. Through out 1993 there has been an internal bureaucratic battle between three directorates within the Commission as to how South Africa should be treated: who wins the bureaucratic battle will have an important agenda-setting role in shaping the future economic relationship. The protagonists are Sir Leon Brittan, Commissioner responsible for External Economic Relations (and a promoter of normal trade liberalization); Hans van den Broek, the Commissioner responsible for External Political Relations; and Manual Marin, Commissioner for Development (responsible currently for the Special Programme and for Lomé). Thus as was the case during the sanctions period, South Africa's future could be determined by internal EC disputes over competences and authority as much as by the real needs of the country.

While I suggest that the normalization of relations is imminent, this will not by itself be an adequate panacea leading to nirvana. Negotiating a normal bilateral association agreement will be difficult, disputes will surface, as they do in all trade relations between the EC and third countries. South Africa should not anticipate any linger post-apartheid sentimentality on the part of the Community. South Africa will be treated as fairly or as harshly as any other comparable third country - particularly where goods are of a sensitive nature given Europe's own economic recession. From the Community perspective, EC interests are, quite naturally, paramount. To conclude I would like to return to my opening theme and quote from Sir Leon Brittan who offered a "sober look at the reality of today's South Africa". He warned against a number of myths about the future South Africa: first of

> inflated expectations ... concerning the role of the international community in the reconstruction of South Africa's economy and social tissue ... How much can the EC realistically achieve in terms of its development contribution to South Africa in the coming years? I don't have a ready answer, but I wish to caution against unlimited hopes and demands in this respect, at a time of worldwide recession and endless multiplication of emergencies around the globe.

Second, Sir Leon cautioned against the expectation of renewed massive foreign investment from Europe. Even were the important, if intangible, "country risk" factor reduced to an acceptable level,

> the prospects of a fair return on the investment will remain the decisive factor for any private investor's choice... Every investor has a huge range of investment options today. Few will risk investing in South Africa unless there is security ... and a favourable and competitive business environment and confidence.

Sir Leon gave a clear indication of the Commission's position by calling for South Africa

> to start phasing out all of the outdated protectionist apparatus ... the deliberate pursuit of import-substitution policies is fundamentally at odds with the very principles on which the multilateral trading system is based ... protection is not the right answer. South Africa will stay longer in the economic doldrums unless it trades more.

Thus the normalization of relations between the EC and South Africa goes beyond the removal of sanctions and the establishment of a political dialogue: it incorporates a fundamental realignment in South Africa's international perspective with mainstream liberal market economics. Without any such adaptation, Community - South African relations mat find themselves in an unsatisfactory state of limbo for the remainder of this century, if not longer.

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EC/Eastern Europe Trade Relations:
Lessons and implications for South Africa

The Eastern European countries, like South Africa, are in a political and economic transition. The transitional character of these societies has created the need to redefine trade relationships with EC, and the world for that matter, and to give increasing attention to the critical role of trade, or more specifically exports as a medium for economic development.

In Eastern Europe, most observers are unanimous that reconstruction of these countries into market-based economies is closely dependent on their ability to form close relationships with the EC. Similarly, for South Africa, trade relations with the EC are very important. Firstly, the European market is currently South Africa's most important market constituting an estimated 40% of South Africa's total trade and 20% of the country's total exports. There is a view that quota and duty-free access to EC market could have a beneficial impact on investment, exports and employment.

Neither South Africa nor Eastern Europe were part of the hierarchy of trade preferences granted by the EC. However, while some progress has already been made with regard to market access for Eastern European countries, through association agreements, no trade concessions have been granted to South Africa yet. Under scrutiny are three likely options for South Africa: firstly, a tailor-made bilateral trade agreement with the EC; secondly, a total package deal such as Lomé Convention; and finally, a special arrangement for Southern Africa, including South Africa, based on the Lomé Convention.

EC assistance in the form of market access and aid measures to the CEECs is informed by a mixture of political and economic factors. The EC wishes to encourage change in Eastern Europe on the grounds that such change would improve the long-term security and stability of Europe. There is a firm believe that economic progress in the CEECs will be beneficial to the EC as economic adversity in these countries could be a strain on Western Europe owing, principally, to close geographical proximity. Such progress, it is believed, can only be achieved by a transition to a market economy and a pluralist democracy congruent with the Western European model.

Relations with Southern Africa remains important for the EC. With South Africa being the most powerful country in the region, its importance for the EC must not be under-estimated. It is clear that the pressure for EC assistance towards Southern Africa is not as great as in the case of the CEECs, but nevertheless remains important. In particular, the EC is keen to encourage the integration of South Africa into the Southern African Development Community (SADC).

EASTERN EUROPE

The Central and Eastern European Countries (CEECs) including the Czech and Slovak Republics, Hungary, Poland, Albania, Bulgaria, Romania and Yugoslavia differ in various ways; in their institutional ties with the West, the level of marketisation or different levels in their economic reforms, their profile of exports and imports, and different foreign trade regimes. Countries such as Poland and Hungary are more comparable to South Africa, in terms of industrial structure than Bulgaria or Romania. However, as far as trade flows to the EC are concerned, South Africa is more comparable to the latter countries.

One of the most important challenges facing Eastern European countries is their full integration into the multilateral trade system that will depend, amongst other factors, on further progress in their own reforms as well as increased and more secure access to western markets.

While most Eastern European countries are GATT members, their economic systems did not allow them fully to meet the GATT requirements on reciprocity, non-discrimination and transparency and in the absence of the market, caused adoption of special safeguards by other members to guard against possible dumping by state-trading organisations.

EC AND CEEC TRADE FLOWS

Eastern European countries have a legacy of poor integration into the markets of the West. In 1988, at least two-thirds of trade of these countries took place within the socialist bloc through the Council for Mutual Economic Assistance (CMEA). With the disappearance of the CMEA arrangements and the transition to market economies, the pattern of trade of Eastern Europe is changing substantially.

The collapse of the CMEA trading system has had several repercussions.
Firstly, it has hit the exports of all Eastern European states, especially Czechoslovakia and Bulgaria, which had the highest share of their trade with socialist partners.
Secondly, the commodity compositions of exports to the CMEA and Western markets are significantly different. Most exports to the EC are classified sensitive products - these are iron and steel, farm products, chemicals, textiles, clothing and footwear.
Thirdly, partly as a result of the collapse of the CMEA, a large proportion of Central and Eastern European exports go to the EC. For example, close to 50% of the total exports of the Visegrad countries (the Czech and Slovak Federal Republic, Hungary and Poland) goes to the EC.

South Africa exports predominantly primary commodities to the EC. Approximately 70% of South Africa's export earnings comes from mining, of which gold accounts for about one-half. Other export items include metal ores and metal products (24%), diamonds (9%), food and livestock (7%), coal (5%) and chemicals (4%). South Africa's major exports to the EC in value terms, in 1992, were mineral products just over 3 billion, followed by base metals with a value close to R 2 billion, precious and semi-precious stones and vegetable products.

In comparing the commodity composition of exports of SA and CEECs to the EC it is clear that both export predominantly primary products to the latter. South Africa's principle exports to the EC are primary products such as gold, coal, platinum and diamonds. The principal exports of the CEECs to the EC include primary products but these are predominantly, in decreasing importance, food and agricultural products, clothing and textiles and iron and steel.

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EC TRADE REGIME

The EC has a complex hierarchy of trade preferences towards different country's depending on a host of historical, political, geographical and economic factors.

EC Trade Regime Towards the CEECs

Prior to the association agreements the **CEECs** generally faced more barriers (tariff and non-tariff) than did developing and Mediterranean countries from the EC. After being near the base of the EC hierarchy of trade preferences, current changes in Eastern Europe, however, have led to a change of the EC stance towards the CEECs.

During the past three years industrial countries have taken a number of steps to improve access of Eastern Europe to their markets. The EC had moved towards free trade by applying the GSP scheme and removing and suspending most of its quotas on imports of industrial products - with the important exceptions of textiles, steel and coal - from East European countries.

Major changes in EC relations with Eastern Europe have occurred since 1988. The EC entered in separate Cooperation Agreements with Bulgaria, Czechoslovakia, Hungary, Poland and Rumania. The EC accorded Hungary and Poland GSP status in Jan 1990. This was extended in October to Bulgaria and Czechoslovakia. In Jan 1991, the more limited version previously granted to Romania was upgraded to be on par with those of the others.

Trade association agreements with these countries were to provide for a move to freer trade between EC and these countries in most manufactured products. These agreements are asymmetric in the sense that trade liberalisation and the removal of obstacles will be reciprocal but timetables will differ. These agreements involve a ten year programme in which quotas and tariffs on Czechoslovakian, Hungarian and Polish goods are to be progressively removed in the first five years, and these countries remove their barriers on goods from the EC in the following five years.

Owing to increasing pressure on the EC to provide more serious concessions and to shorten the time-frame of EC market access than the current ones allow, a recent agreement reached at the Copenhagen summit of the EC on 21-22 June stated that duties will be abolished on industrial, mainly chemical products after two years rather than 4, and on products such as footwear, glassware, electrical goods after 3 years rather than five. Duties for textile products will be abolished after five years rather than six. Steel duties are also likely to be abolished earlier. Moreover, a 10% increase in agricultural quotas is to take place six month earlier than planned, as is the 60% cut in duties or levies within these quotas.

Despite the association agreements a number of problems remain.

Firstly, protection limits remain in force on **CEEC** exports of so-called 'sensitive' goods which often represent the sole means for these countries to compensate for sharp falls in formerly staple exports to the old Soviet bloc.

Secondly, the EC's trade surplus with the five core countries in the region (now six following the break-up of Czechoslovakia) rose Ecu2.5bu last year from Ecu1.4bn in 1991. During the previous years, up to 1990, the EC ran a deficit with the region. However, this may not be directly as a result of the association agreements, rather reflecting the increased imports by **CEECs** as a result of liberalisation of their economies.

Thirdly, the rules of origin contained in the agreements impose a local content requirement of 60% for **CEECs**. Only goods which originate in the **CEEC** qualify for any improvement in access under these agreements. It is important to note that imported material from the EC is exempted from the local content requirement. However, the EC differentiates between two groups in Eastern Europe. It treats the Visegrad group (Czechoslovakia, Hungary and Poland) on the one hand, and Bulgaria and Romania on the other, as separate economic areas, discouraging (re)- integration through trade among these former members of the now-defunct CMEA. For example, an intermediate import from Romania into Poland does not qualify for rules of origin.

TABLE 1

COMMODITY COMPOSITION OF MAJOR EXPORTS TO THE EC FROM POLAND, CZECHOSLOVAKIA, HUNGARY AND SOUTH AFRICA

1990 (% OF TOTAL)

POLAND	
Food and agricultural products:	21.0
Textiles and clothing:	11.3
Iron and Steel:	8.9
Other products	58.9
CZECHOSLOVAKIA	
Food and agricultural products:	7.6
Textiles and clothing:	10.7
Iron and Steel:	15.2
Other products	66.5
HUNGARY	
Food and agricultural products:	23.8
Textiles and clothing:	15.7
Iron and Steel:	8.3
Other products	52.5
SOUTH AFRICAN TO THE EC FOR 1992 (% OF TOTAL)	
Mineral Products	20.7
Food and agricultural products:	16.3
Base Metals	12.3
Precious and semi-precious stones:	15.2
Other products	40.6

SOURCE: European Economy, No 52 1993
SA MONTHLY BULLETIN OF TRADE STATISTICS

EC's Trade Regime Towards South Africa

South Africa currently enjoys most favoured nation status (MFN) with the EC, which ensures that a tariff reduction to any one country is offered to all other countries that are **GATT** members. SA's exclusion from the EC's web of trade preferences stems from its apartheid regime, sanctions and the formal classification of the country as a developed economy by the **GATT** when it is in fact a middle-income developing country. However, the move towards a democratic regime in South Africa against a background of deep-rooted socio-economic problems gives it a legitimate claim for external encouragement and assistance' from the EC.

The extension of trade preferences to the **CEECs** represents a competitive disadvantage for South Africa, since the **CEECs** were once a group that were competing in the EC without trade preferences.

The current debate with regard to trade preferences for South

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SOUTH AFRICAN-EXPORTS TO EC MEMBER STATES
JAN-DEC 1992

R(OOO)	Denmark	Ireland	UK	Luxembourg	Belgium	Netherlands	Germany	France	Portugal	Spain	Greece	Italy
01 Live Animals	188	227	59362	179	16	26018	34748	27174	23324	107321	3038	88085
02 Vegetable Products	573	679	707158	3138	344	43993	221728	50281	10727	18747	8444	43561
03 Animal Fats			1269		73	517	3146	742		113		3592
04 Prepared Foodstuffs	6916	10366	219703	16	36608	100777	208889	34449	26942	60934	2311	9965
05 Mineral Products	28125	19460	294259		324314	776377	353311	265990	161944	447122	73600	553325
06 Chemical Products	291	1957	172537	15	57595	290586	125090	57673	5640	13260	3691	69865
07 Plastics	228	2390	47179	138	5698	19206	21103	4546	1994	2120	2241	3001
08 Hides and Skins	15		28285		3698	919	27910	19651	1460	17013	3600	192567
09 Wood & wood prod	650	929	62888	2	6708	12371	19763	7203	1340	7455	2760	15090
10 Pulps	17	311	181934	0.7	7043	7405	84438	63583	2438	51853	13642	159302
11 Textiles	202	2760	302499	199	42642	51619	198753	111280	12894	22495	2648	93655
12 Footwear, Headgear, etc	10	9	19070		423	1323	3241	2883	150	409	264	353
13 Stone, plaster, cement	80	1521	22841		9376	5149	20545	10910	1817	11986	3389	26536
14 Precious & semi-precious stones	163	171022	692270	8	703061	234	57717	6333	32	482	34	2910
15 Base Metals	435	11608	243619	1751	211836	462533	364831	148653	35932	151353	51306	279175
16 Machinery & appliances	1746	3958	183518	82	79398	40447	260495	51425	4252	44748	2536	49383
17 Vehicles and others	829	357	103465	64	137642	35452	459774	29633	11375	32788	2985	28823
18 Optical, photographic, etc	357	1140	21549		1308	3326	33487	7405	456	317	273	1497
20 Miscellaneous manufactures	193	709	108278		7065	2458	23105	18683	561	2103	161	2353
21 Art & antiques	114	24	5599	10	472	228	733	269	97	650	3	214
22 Other classified goods	0.5	60231	1047409		3260	47249	485010	88376	5	1	8	33135
TOTAL	41132.5	289658	4524691	5602.7	1638580	1928187	3007817	1007142	303380	993270	176934	1656387

SOUTH AFRICAN IMPORTS FROM EC MEMBER STATES
JAN – DEC 1992

R(000)	Denmark	Ireland	UK	Luxembourg	Belgium	Netherlands	Germany	France	Portugal	Spain	Greece	Italy
01 Live Animals	4934	18616	22083		30323	23359	33946	50395	2644	2716	72	2175
02 Vegetable Products	7376	389	75526		38049	31298	65405	75053	977	10344	146	23396
03 Animal Fats	5	15	9732		610	20129	8792	325	1275	1523	232	903
04 Prepared Foodstuffs	3062	6561	234599		9092	25300	19230	22942	8327	3287	700	15248
05 Mineral Products	348	2703	30735		14556	8054	29442	15693	390	3140	833	11719
06 Chemical Products	43989	81306	1000371	559	323305	371853	1115647	333304	5133	63744	2855	146509
07 Plastics	2197	5173	297868	11653	124311	90654	421771	128206	1552	26810	592	107786
08 Hides and Skins	9	6	20489		173	2232	17217	2797	267	987	94	29100
09 Wood & wood products	93	1	9740	21	648	1096	10071	20005	32754	1911	2	4478
10 Pulps	1084	1290	351531	66	20481	27079	234476	61144	152	15800	468	40413
11 Textiles	791	2290	166231	3031	43151	54030	252483	45857	24371	15515	5010	102528
12 Footwear, Headgear, etc	18	13	10422		1190	1472	3440	2817	3953	1211	1035	22767
13 Stone, plaster, cement	489	2049	90747	873	11326	8272	117169	53273	3933	25074	1578	100036
14 Precious & semi-precious stones	0.4	17117	61493	2	136097	142	7803	1386	1572	228	3	1967
15 Base Metals	2719	8011	299327	17558	71307	45960	497079	117069	9063	28167	1544	117422
16 Machinery & appliances	40017	42078	1800486	8021	240629	400906	3317267	723411	9886	81383	3076	818287
17 Vehicles and others		53	467216	1267	10755	35895	1906308	299259	405	64086	646	187265
18 Optical, photographic, etc		14002	318550	2507	54910	89409	433311	70957	1908	6941	203	70645
20 Miscellaneous manufactures		2460	64532		5611	5568	63066	21493	1403	6859	296	36623
21 Art & antiques			12214	9	645	2522	288	1381	1	1	6	145
22 Other classified goods		193	37047		959	2944	33821	5712	131	847	98	3483
TOTAL	107131.4	204326	5380939	45567	1138128	1224815	8554086	2052479	110097	360574	19489	1842895

TOTAL SOUTH AFRICAN/EC TRADE

R(OOO)	SA Exports	SA Imports	SA Nett Exports
01 Live Animals	385991	191265	194726
02 Vegetable Products	1452563	327960	1124603
03 Animal Fats	9453	43542	-34089
04 Prepared Foodstuffs	717877	348350	369527
05 Mineral Products	3297828	117613	3180215
06 Chemical Products	798201	3488575	-2690374
07 Plastics	109845	1218574	-1108729
08 Hides and Skins	295117	73371	221746
09 Wood & wood prod	137160	80820	56340
10 Pulps	571697	753965	-182268
11 Textiles	841645	715287	126358
12 Footwear, Headgear, etc	28135	48337	-20202
13 Stone, plaster, cement	114152	414820	-300668
14 Precious & semi-precious stones	1634266	227810	1406456
15 Base Metals	1963031	1215226	747805
16 Machinery & appliances	721991	7485447	-6763456
17 Vehicles and others	843180	2975731	-2132551
18 Optical, photographic, etc	71116	1079840	-1008724
20 Miscellaneous manufactures	165671	212601	-46930
21 Art & antiques	8415	17215	-8800
22 Other classified goods	1764684	85638	1679046
TOTAL	15932018	21121987	-5189969

Source for all three tables: RSA Monthly Abstract of Trade Statistics, January-December 1992.
Note: For all three tables 'un-classified' trade includes gold, arms and oil.

Africa has mainly focused on the possibility of South Africa becoming part of Lomé. However, there exists a doubt in various quarters whether this would be a feasible option. Another option, many policy-makers argue, is a bilateral association agreement with the EC outside of Lomé. There is some uncertainty regarding the future of Lomé in the light of the gradual evolution of EC trade policy. For example, there is some suggestion that the EC is moving from a differentiated trade regime to regionally specific regimes.

However, were South Africa to be admitted to the EC's hierarchy of trade preference three important factors need to be taken into consideration: firstly, a limited number of non-primary products from South Africa are considered to be competitive in the European market. These are processed agricultural products, engineering goods and some clothing items; secondly, sugar, beef and wine are products in which South Africa competes in other export markets, but which are largely excluded from the EC market by the high level of CAP protection; finally, three of South Africa's major commodity exports enter the EC without any major barriers: these are gold, diamonds and platinum. In fact, there is no advantage for any form of preference for about 60% of the EC's imports from South Africa.

Where the **CEECs** will gain immediately in tariff-free access and the elimination of TQs over GSP-beneficiaries is in the standard products, mainly non-ferrous metals (such as copper and aluminium) chemicals, fibreboard and plywood. They will gain through the immediate abolition of TQs for semi-sensitive and sensitive products i.e. iron and steel products, footwear and non-MFA textiles.

In the case of South Africa, products most likely to benefit from a preferential trade regime (such as Lomé) are deciduous fruits and new fruits, vegetable and flower products; paper products such as uncoated craft paper and paper board; leather products; engineering products such as catalytic converters; and, at least in the short-run, some chemicals. South African coal, in particular, faces important barriers to the EC *(Page and Stevens, 1992)*.

If South Africa became a far more significant exporter of manufactured products to the EC it could face substantial competition from the **CEECs**. Countries such as the Czech Republic, Poland and Hungary currently export a range of manufactures such as chemicals and other semi-manufactures, and light manufactures such as clothing and footwear. The importance of manufactured exports relative to primary exports from both South Africa and countries such as Poland and Hungary, to the EC is increasing.

Both SA and the **CEECs** are experiencing considerable restructuring of their industries and competition is likely to develop in the long term more in manufactured products. At this stage it seems that **CEECs** will not pose a competitive threat to South Africa in the short-term, though this could happen in the long term.

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AID

The orientation of Western aid is to facilitate the reforms in the CEECs and to assist in reintegrating their economies in the world economy. There are mainly three types of aid measures: easier market access for industrial products, technical assistance for economic restructuring and financial assistance for macroeconomic stabilisation.

Aid, on the part of the EC, has met with limited success in Eastern Europe. An aid programme, initially for Poland and Hungary but extended to other CEECs, was established in 1989 by the group of 24 OECD countries called PHARE (Poland and Hungary: aid for economic reconstruction). The main aim of PHARE was to assist the process of reform to a market economy. Some of the criticisms against this programme are the following: **firstly**, slow disbursement of funds; **secondly**, heavy reliance on costly consultants from northern EC states and **thirdly**, problems of bureaucratic procedures and a lack of qualified specialist know-how.

The ability of CEECs to increase their exports depends, to a large extent, on import-intensive investment requirements. Increasingly donor countries and multilateral institutions who provide concessional finance or aid to recipient countries are concerned with the latter countries' abilities to service their debt by encouraging export capacity. Financial and technical assistance could have very beneficial effects on the CEECs long-term trade prospects.

■ **Trade Finance**

Current calls for trade finance to the CEECs are related to the need to prevent a breakdown of intra-regional trade which is causing severe adjustment problems for Eastern European countries. As the former Soviet Union (FSU) shifts a significant share of imports of manufactured goods away from traditional suppliers in Eastern Europe, it is causing great concern to the latter. Intra-regional trade is also being discouraged because of the lack of convertible currency amongst these countries. Firms in the former CMEA region will prefer to export their goods and services outside the region rather than within the region, because they know that buyers in the region are less likely to be able to pay in convertible currency.

The other important form of assistance is through the provision of export credit facilities which, among other things, plays a very important role in allowing firms that lack finance to import to facilitate exports by, for example, the purchase of the modern technology. Part of the problem, however, is that it will be very difficult for CEECs to attract private-sector trade credits against a background of debt rescheduling.

■ **Technical Assistance**

The emphasis on technical assistance to CEECs stems from the fact that these countries are undergoing a transition from planned to market economies. Such far-reaching changes requires a fundamental restructuring of institutions such as the financial services, marketing, legal system, etc, as well as the development of new institutions such as to facilitate trade and currency convertibility. For example, more detailed industrial research in individual CEECs show that institutions to assist export promotion are badly needed owing to the lack of culture of exporting to Western markets.

South Africa, by contrast, does not require some of the technical assistance that is quite critical to the success of the CEECs. It has highly developed financial services, marketing skills and various other institutions that are pivotal to export success. Clearly, South Africa has a different set of problems which are related more to a small white elite that controls such institutions. Hence it is not surprising that a large proportion of EC aid to South Africa is devoted to training and development of the disenfranchised majority.

The EC has an established grant finance programme of assistance to South Africa. The country currently receives an estimated 90 million ECU, which finances anti-apartheid and development programmes through NGOs. It is important to note that South Africa is a recipient of the EC's largest single programmable development initiative in Africa. Moreover, the EC is also the largest international donor of external assistance to South Africa. It is unlikely that the EC will be willing to allocate much more than that to South Africa, particularly in the light of rising demands from Eastern Europe.

LESSONS FOR SOUTH AFRICA

In general there are many lessons to be learnt for South Africa from EC relations with the CEECs. First and foremost, South African policy -makers must show an appreciation of the limitations of EC's trade preferences such as a prolonged time-tabling of the liberalisation process on the part of the EC, coupled with limited concessions for sensitive products, the ready use of contingent protection measures such as anti-dumping, and constraints imposed by the rules of origin.

The EC has through the rules of origin clause discouraged integration in the CEECs. In South Africa, by contrast, policy makers are emphasising suitable rules of origin in order to encourage the integration of South Africa into Southern Africa. South African accession to Lomé, for example, would encourage trade creation among ACP countries through intra-regional cumulation through rules of origin.

The nature of preferential trade on the part of the EC both towards ACP countries and CEECs show that products in which these countries have a competitive advantage are precisely the ones where preferential trade is not as generous as the ones where they have a limited comparative advantage.

It seems that from the experience of CEECs, if South Africa were to be granted certain trade concessions from the EC, it would have to reciprocate this by liberalising its own market. Market access is a form of aid which the EC grants by influencing the economic policies of recipient countries. The EC encourages liberalisation both because it is a target market for EC exports and because it underpins the political and economic motives that informs its aid programme.

An important mixture of political and economic factors informs EC's external assistance. In particular, the political urgency that underlies the EC's attempts to make concession with CEECs, is not as great in its relationship with South Africa.

Market access as a form of aid is important, but should not override other important forms of assistance such as financial and technical aid. However, the kind of institutions that act as a conduit for external assistance are quite critical to the success of aid programmes.

Finally CEECs are competing with South Africa on three levels: trade; direct investment and aid flows. In the long-term, preferential access to Western European markets, combined with the advantage of physical proximity could give CEECs a strong comparative advantage over South Africa both as a location for direct investment from EC firms as well as a competitor for products for EC markets.

"The challenge for South Africa is to win an advantageous package of arrangement which will encourage growth and redistribution in South Africa and within the Southern Africa region." ☐ **R.C.**

(This is a shortened version of a paper to be published shortly as a TPMP Working Paper)

Opening address to the AWEPA/AEI Conference on Development and Democratisation: European-Southern African Partnership

Nelson Mandela, President of the ANC

Mr Chairman, honourable guests, and friends

It gives me a great deal of pleasure for me today to address a conference which clearly marks the transition of Southern Africa from a region subjected to cynical destabilisation by the apartheid regime, to a region moving rapidly towards democracy and, we believe, rapid social and economic development.

Organisations like AWEPA stood by the disempowered in the region, mobilising democratic forces against apartheid at a time when many Western governments preferred too look the other way. Without the support of our friends in the European parliament, and in the parliaments of Europe, and in the churches, trade unions, and other organisations which worked tirelessly to embarrass, weaken, and ultimately isolate the cruel Nationalist regime in South Africa, the struggle for freedom would have been drawn out much longer.

The struggle for freedom has reached a turning point, but we are not yet at the final bend. The achievement of political freedom, of democracy in our country, is only the first step towards the final and absolute eradication of apartheid.

Apartheid wreaked havoc on our society, which was already damaged by a vicious form of colonialism. Colonial South Africa was marked by a widespread system of racial slavery, and deeply wounded by war upon war of conquest and dispossession. Chattel slavery gave way to wage slavery on the mines and the farms, and then the system of discrimination was extended to every facet of society, from the right to vote to the right to travel in a racially exclusive ambulance, from the right to learn, to the right to buy land or own a business.

It would be foolish to underestimate the deep effects of years of oppression on our society. The commitment made on several occasions by the European Community to support for the complete eradication of apartheid is no small commitment. And that is why the theme of this workshop is so appropriate: 'Development and Democratisation'.

Development and democracy are twins that must succeed together in our region, or both fail. Without democracy we cannot get development. Totalitarian regimes like apartheid create islands of privilege for those in control and their supporters, but the sea of discontent that surrounds them will inevitably surge over them. In other words, without democracy, effective development will not take place, and soon enough the society concerned will be unable to reproduce itself.

Democratic societies create the conditions for the social and economic development of all of their citizens, but if they cannot deliver the goods, the democracy will weaken.

In Southern Africa we are moving rapidly towards democracy, but our democracy will be fragile unless we can deliver tangible social and economic benefits, and deliver them quickly.

There is no doubt that the end of apartheid will yield its own dividends. The energies of people oppressed and destabilised for many years will be released, and will produce its own magic. I have no doubt that there is an enormous well of talent in our country and in our region that, when tapped, will bring forth a new dynamism. In the successful small farmers of Zimbabwe, and the fiercely competitive taxi owners in South Africa (for example), we find a desire for a better life underpinned by a zeal for self-improvement. In rural cooperatives and urban stokvels we find abundant evidence of the power of collective action even in our most deprived communities. But desire, zeal, and commitment will not be enough to overcome the fearsome legacy of three hundred years of colonialism, and forty five years of systematic discrimination and oppression.

This is why we are asking our partners against apartheid in organisations like AWEPA to become our partners in the struggle for social and economic development in Southern Africa. Europe can play a very important role in the development and democratisation process in Southern Africa. In the first place, our European friends can help us ensure that a democratic election is accomplished in South Africa, and that democracy is seen to be done. Two of our immediate concerns are the process of voter education in South Africa and the function of monitoring the election.

Most South Africans have never voted in a formal election, and none have ever participated in a democratic election. We need to help our citizens understand the electoral process, and to understand the system of representative democracy. at a regional and national level. In this respect, voter education programmes can help pave the way towards democracy.

But voter need to believe that they will be allowed to exercise their freedom of choice in an environment free of coercion. For this reason we need an extensive election monitoring system which is supported by neutral outsiders that can assure all parties that they are able to help ensure that a free and fair election takes place.

In both voter education and election monitoring, the European Community and its individual members can make an invaluable contribution.

But the election is just the first step towards democracy. the next step entails social and economic development. We must ensure that as soon as the election is over, if not sooner, that mechanisms are in place to enable our poorest and most angry communities to make social and economic progress. I am not only talking about providing fresh water and electricity to poor communities; I am also talking about generating activities which help build new institutions of social cohesion and development at the grassroots of our society.

In the past schemes like the European Community's Special Programme Against Apartheid have begun to help us rebuild communities torn apart by apartheid. We have only begun this task. Economic and institutional development at the grassroots level will be the key to nurturing democracy in our society. We hope that our friends in AWEPA and similar organisations can help us ensure that successful forms of cooperation between the European Community and South Africa, such as the Special Programme, are continued and strengthened during our phase of building democracy.

But assistance, whether economic or technical, will not be enough. We must ensure that Southern Africa develops the capacity to look after itself in all respects in the long run. The key to long-term development and democratisation is self-sustaining economic growth. For our region, one of the critical components of long term economic growth will be our deeper involvement in international markets for trade and investment.

At present South Africa is one of a relatively small number of countries which have extensive trading relations with Europe but no special trading arrangements. Currently, forty percent of our imports come from Europe and, excluding gold, thirty percent of our exports go to Europe. If South Africa is to grow and develop, the volume of trade between South Africa and Europe must rise and will rise. We would benefit from exporting more and more to Europe, and Europe would benefit too, not only through access to an efficient, reliable supplier, but because South Africa imports more capital goods and intermediate products from the EC than from any other region, and the EC will undoubtedly get a major dividend out of our development.

We hope that the European Community will see its way clear to removing unnecessary obstacle that might exist in the way of trade between our two regions. We also hope that the EC will facilitate the economic integration of our region by admitting products which have components from all Southern African countries, including South Africa, admission to Europe on the equivalent terms to items that qualify in terms of the rules of origin provisions of the Lomé Convention. If South Africa is treated, for trading purposes, differentially from our neighbours, who are all members of the Lomé Convention, regional integration in Southern Africa will be seriously inhibited, and regional growth will be slowed down.

However our new trading relations with Europe are institutionalised, whether it is directly through the Lomé Convention or through an institution more loosely tied to Lomé, we hope that it will facilitate greater trade between our two regions, Southern Africa and the European Community, as regions.

So, we have now only begun to set out on the journey towards the total eradication of apartheid from our region of Southern Africa. We have just begun to create a democracy, and to put in place the developmental processes that will ensure its growth. The path is long, but we can see it very clearly now. Our final objective of a just and equitable society is visible, and we are certain that it is attainable. One of the most important ingredients for success will undoubtedly deepened cooperation and partnership between Southern Africa and the European Community, and this must be accomplished in the near future. I am certain that those of us assembled in this hall today can and will make a critical contribution to progress in European/Southern African cooperation. I hope that this conference will be but one step out of many initiatives to strengthen our ties.

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Presentation to the Conference of the
Club de Bruxelles on
Future Cooperation between the European Community
and Southern Africa,
Brussels, 14-15 October, 1993

A Democratic South Africa and the EC: Towards a New Relationship

Alan Hirsch,
School of Economics, University of Cape Town

1. Why are relations with Europe of *key* importance to South Africa?

a) Europe is South Africa's most important trading and investment partner. Europe has always been South Africa's most important source of capital goods, which is linked to the fact that Europe has always been responsible for a majority of FDI in South Africa. It is also a significant source for consumer goods and intermediates. [Total imports from Europe according to South African sources (excluding secret items) amounted to R21 billion in 1992, or fully 40% of South Africa's imports. If the South African economy begins to grow again, imports from Europe are likely rise very significantly.]

South African exports to the EC amounted to R16 billion in 1992 (25 % of exports). Adding in gold and including Switzerland in the EC would take that up to about R35 billion (50% of exports). [Gold sales will to continue to decline for the reasons already mentioned. We would like to ensure that we are able to make up some of the loss in gold exports with exports of other products which would include agricultural products and, increasingly, manufactures.]

b) Europe is playing a key role in South and Southern Africa as regards developmental assistance, through the Special Programme against Apartheid, and through Lomé. The Special Programme, at ECU 90 million, is the largest single instance of EC programme aid, and South Africa's most important source of aid. The Lomé programmes are key for Southern Africa.

c) South Africa has strong cultural ties with Europe, through language, and in many other ways. South Africa also is host to a very large number of European citizens; notably citizens of Portugal and Britain.

For these reasons, a strong and quick signal of strengthening ties of partnership and cooperation between Europe, South Africa, and its neighbours (i.e., those in SADC), can play a crucial role in giving greater stability to the transition process in the region.

2. What would we South Africans like to see in a new arrangement with Europe?

In general, we would like to see a consolidation of existing relations, but also a widening of these relations, and a harmonisation of relations between Europe and the region.

Specifically:

a) Trade and investment:

i) Clearly the GATT is the key to growing world trade, and the ANC sees its strengthening as essential if world economic growth is to resume with vigour in the 1990s. We hope the EC will contribute to the strengthening of the GATT.

ii) But we also desire a special relationship with Europe, one which will support our endeavour to become a growing, outward looking country and region. South Africa is developed in certain key respects: financial, telecommunications, and physical infrastructure for example; but it is a developing country too, in that 5/6 of our population lives under conditions resembling the inhabitants of poor developing countries. We are placed 70th on the UNDP scale of human development. Current estimates of unemployment range above 45%. Also, our region is underdeveloped, and our economy is integrally linked to those of our neighbours through permeable borders for goods and labour.

* For these reasons we need to know that Europe will not close its borders to our labour absorbing economic activities;

* and that the nature of our links with Europe will facilitate regional integration in Southern Africa through harmonising relations between ourselves and our neighbours, on the one hand, and the EC on the other hand.

-> the obvious way to achieve this would be to extend the core market access provisions of Lomé IV, including the cumulation provisions of the Lomé rules of origin, to South Africa, for the duration of the Convention. This could be accomplished within, or in parallel to the Lomé Convention.

b) Aid

-> We would expect, as far as aid is concerned, that the new arrangement provide for the extension of the Special Programme against Apartheid into the phase of building democracy. The EC has already indicated that it sees the extension of the Special Programme as an element of its recently renewed commitment to the complete eradication of Apartheid. We also understand that the EC is planning to continue the orientation of the programme towards institution building through non-governmental organisations. There is therefore already a great deal of agreement about this aspect of our new relationship, and it should not be hard to incorporate it into an arrangement.

-> our desire to strengthen private sector economic development opens the way for other forms of cooperation with the EC, such as finding ways of encouraging FDI in South and Southern Africa (including partnerships with black South Africans, previously kept out of the market), and providing technical assistance for emerging businesses.

c) cultural ties

We would also expect a new arrangement to strengthen cultural ties between our two regions.

3. How do we reach such an agreement?

-> It will be appropriate to begin more detailed discussions after the Transitional Executive Council (TEC) sub-council on foreign affairs and establishes a framework for negotiations. Relations with the EC will undoubtedly be a high priority for the TEC.

-> As soon after the April 27th election as possible, strengthened relations should be formalised.

-> We are hoping for the full engagement of our neighbours in the process of negotiations, as well as extensive consultations with other members of the ACP group. It would be inappropriate to come to a new agreement with Europe designed to assist the Southern African region without the full engagement of the other countries of Southern Africa in the process. Whether or not the new arrangement is structured within the Lomé Convention or parallel to it, it will affect it,and we feel we should consult with members of the ACP group in the course of our negotiations.

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Clearly the GATT is the key to growing world trade, and the ANC sees its strengthening as essential if world economic growth is to resume with vigour in the 1990s. We hope the EC will contribute to the strengthening of the GATT.

But we also desire a special relationship with Europe, one which will support our endeavour to become a growing, outward looking country and region. South Africa is developed in certain key respects: financial, telecommunications, and physical infrastructure for example; but it is a developing country too, in that 5/6 of our population lives under conditions resembling the inhabitants of poor developing countries. We are placed 70th on the UNDP scale of human development. Current estimates of unemployment range above 45%. Also, our region is underdeveloped, and our economy is integrally linked to those of our neighbours through permeable borders for goods and labour.

For these reasons we need to know that Europe will not close its borders to products of our labour absorbing economic activities. Also, the nature of our links with Europe should facilitate regional integration in Southern Africa through harmonising relations between ourselves and our neighbours, on the one hand, and the EC on the other hand.

One obvious way to achieve this would be to extend the core market access provisions of Lomé IV, including the cumulation provisions of the Lomé rules of origin, to South Africa, for the duration of the Convention. This could be accomplished within, or in parallel to the Lomé Convention.

We expect, as far as aid is concerned, that a new arrangement will provide for the extension of the Special Programme against Apartheid into the phase of building democracy. The EC has already indicated that it sees the extension of the Special Programme as an element of its recently renewed commitment to the complete eradication of Apartheid. We also understand that the EC is planning to continue the orientation of the Programme towards institution building through non-governmental organisations. There is therefore already a great deal of agreement about this aspect of our new relationship, and it should not be hard to incorporate it into an arrangement.

Our desire to strengthen private sector economic development opens the way for other forms of cooperation with the EC, such as finding ways of encouraging FDI in South and Southern Africa (including partnerships with black South Africans, previously kept out of the market), and providing technical assistance for emerging businesses.

We would also expect a new arrangement to strengthen cultural ties between our two regions.

3. How do we reach such an agreement?

It will be appropriate to begin more detailed discussions after the Transitional Executive Council (TEC) sub-council on Foreign Affairs and establishes a framework for negotiations. Relations with the EC will undoubtedly be a high priority for the TEC.

As soon after the April 27th election as possible, strengthened relations should be formalised.

We are hoping for the full engagement of our neighbours (in SADC) in the process of negotiations, as well as extensive consultations with other members of the ACP group (i.e. other partners with Europe in the Lomé Convention). It would be inappropriate to come to a new agreement with Europe designed to assist the Southern African region without the full engagement of the other countries of Southern Africa in the process. Whether or not the new arrangement is structured within the Lomé Convention or parallel to it, it will affect it, and we feel we should consult with members of the ACP group in the course of our negotiations.