

EDITORIAL

Co-operation between the European Union and developing countries was for a long time presented as exemplary. Until recently, it was based on four distinct levels of trade preferences : agreements under the Lomé Convention which concerned around seventy African, Caribbean and Pacific countries (ACPs), the main « Generalised System of Preferences » (GSP) designed for the least developed countries and countries concerned by the Andean Pact, reciprocal agreements applying to Mediterranean countries and GSPs concerning other southern countries. At the top of the pyramid, the Lomé Convention offered ACP countries a « global » agreement including aid based on partnerships, a section on trade and a number of political arrangements.

However, recent developments raise concerns about the future of these economic relations. Current negotiations to renew the Lomé Convention will result in setting new levels of European aid for the coming years ; above all, they are moving towards the elimination of the current trade preferences, apparently to be replaced by agreements that are compatible with the World Trade Organisation's rules. At the same time, post-apartheid South Africa was refused the right to benefit from the Lomé Convention trade regime, in favour of a free trade agreement that is also presented as innovative in the field of North-South relations.

These two initiatives, which go against the European Union's traditional relations with developing countries, are certainly worth studying in more detail and this is the aim of the two articles in this issue of Dialogue. They particularly address the problem of the real significance and the final impact of these different agreements, whether they have already been adopted as is the case with the free trade agreement between the Union and South Africa or still under negotiation as in the case of the trade aspects of the Lomé Convention. In both cases, the analysis appears to show that the actual impact of the new policies will be far smaller than was initially hoped for and than the massive media publicity led everyone to believe !

The two articles are to a great extent inspired by a book on the economy of South Africa, to be published in January 2000, by *Editions Karthala*. Its author, Jean-Pierre CLING, recently spent five years in southern Africa (South Africa and Zimbabwe).

TOWARDS NEW TRADE RELATIONS BETWEEN THE EUROPEAN UNION AND ACP COUNTRIES

The Lomé Convention, binding the European Union to 71 African, Caribbean and Pacific (ACP) countries, expires at the end of February 2000. This Convention established a favourable trade regime for ACP countries. It also included an important section on development aid, which represents over half of all aid granted to third countries by the European Union, and another on political partnerships.

This article presents the trade aspects of negotiations that were started in 1998 in a view to renewing the Convention and which have not yet led to any concrete agreements.

Given the mixed results obtained by the trade regulations in force since 1975 and a wish to make the regulations compatible with the World Trade Organisation (WTO) rules, the European Union proposed that the ACP countries should abandon the current system of unilateral preference agreements and replace them by reciprocal preferences. Although this proposal was met with much reticence on the part of the ACP countries, a certain number of them are likely to accept the new framework. Failing this, trade relations with the remaining countries could lose their specific nature by melting into the multilateral system : certain countries could benefit from the

European Generalised System of Preferences¹, given that WTO rules allow Least Developed Countries (LDCs) - the majority of countries in the group - to continue to benefit from the current unilateral preferences, as long as the "non ACP LDCs" can also benefit from these preferences.

I. Why revise the trade regime ?

The trade regime established under the Lomé Convention is based on two types of unilateral preferences granted to ACP countries by the European Union : duty free access to the European market for the majority of their exports ; a system of four commodity protocols (sugar, beef and veal, bananas, rum), whereby the European Union purchases a set quota of products from certain ACP countries, based on European prices rather than the going world rate (these protocols were established for historical reasons to maintain trade flow in these products between the European countries and their former colonies).

This trade regime needs to be revised for two reasons : first, the unsatisfactory results obtained after twenty-five years of experience and second, the new multilateral context resulting from the establishment of the World Trade Organisation in 1994.

- The European Commission's "Green Paper on relations between the European Union and ACP countries on the eve of the 21st century", a working document drafted in preparation for the negotiations, underlined the mixed results obtained by the Convention (Commission, 1996). It noted that it had not been capable of checking the process of marginalisation of ACP countries in the world economy. Apart from some exceptions noted in the report (Botswana, Ivory Coast, Mauritius, Jamaica and Zimbabwe), ACP countries had not really taken advantage of the system of preferences introduced under the Lomé Convention, as shown by the continuing decline in their share of the European market which has been halved since 1975 (graph).

This process should be put in the context of the general economic stagnation in these countries over the long term - average GDP per capita in sub-Saharan Africa was no higher in 1998 than in 1970 - and their growing marginalisation in the world economy. All the studies on this question (IMF, 1999 and Yeats *et alia*, 1997), show that the decrease in their share in the world market can be explained partly by structural problems, related to specialisation in products where world demand is poor and partly to losses of market shares in most of the main products exported.

On this issue, the Green Paper noted : « the economic policies and internal structural conditions necessary for the development of economic and trading relations have been lacking in the majority of ACP countries ».

These problems of supply and overall competitiveness prevented companies in these countries from taking advantage of the preferences granted to them and from diversifying the products supplied, despite the added advantage to be gained *a priori* from the low level of their wage costs (Biggs *et alia*, 1996).

- The creation of the World Trade Organisation also makes it more difficult to continue the current system of unilateral preferences. Although the idea is sometimes put forward, it is not so much that the rules have changed but rather that they have become more restricting. Article 1 of GATT, which included the « most favoured nation » clause, already required that any unilateral advantage granted to one partner had to be extended to all the signatory countries. One exception, qualified as « special and differential treatment » concerned developing countries. However, developed countries were not authorised to grant more advantageous preferential treatment to certain developing countries than that granted in the scope of the Generalised System of Preferences. Whereas this rule was not always respected before the World Trade Organisation was set up, as there were no sanctions for offenders, the creation of the WTO's Dispute Settlement Body imposed more rigour, as seen when the European Union was found guilty concerning its import scheme for bananas. In order to comply with WTO regulations, the European Union was obliged to demand a waiver from member countries so as to maintain the current system of preferences resulting from the Lomé Convention. As the waiver expires in 2000, the EU will have to request its renewal, but there is no guarantee that this will be granted. In short, there is great uncertainty concerning the durability of the Convention in its present form.

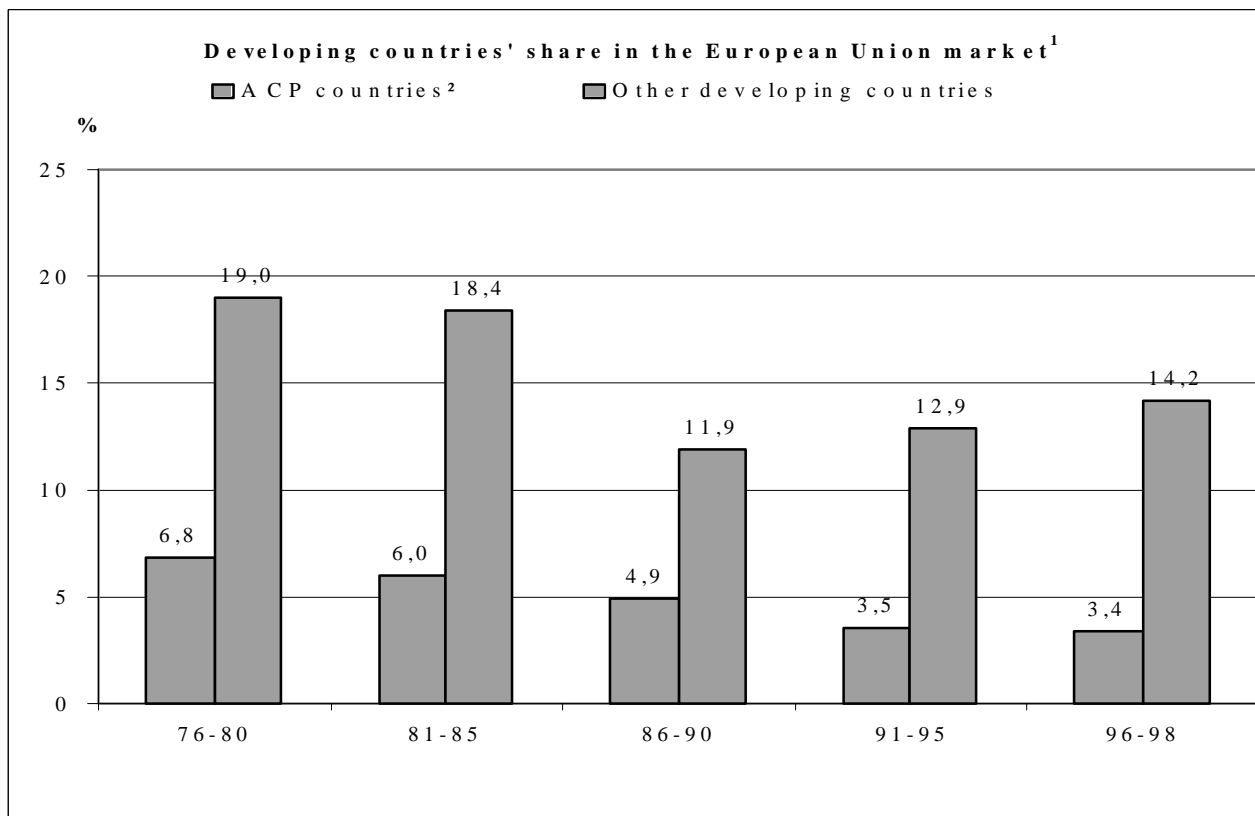
II. The European proposals

Work begun with the Green Paper was continued when the Commission presented a communiqué to the Council and the European Parliament in 1997. This was followed by the Commission being given a mandate for negotiation in 1998. The negotiating mandate aimed at preserving the specific nature of trade relations between the European Union and ACP countries whilst making them compatible with WTO rules. Contrary to the approach used in the current Convention whereby the ACP group is treated as a whole, the advocated plan differentiates between countries on a geographical basis taking into account their level of development.

The European Union proposes that ACP countries should sign asymmetrical free trade arrangements, referred to as « Regional Economic Partnership Agreements » (REPA). Reciprocal regional agreements of this kind are authorised by Article XXIV of GATT ; the European Union would be linked with customs unions comprising different ACP countries. Under this plan, sub-Saharan Africa would be divided into four zones : South, East, West and Central Africa (Nigeria is excluded from this breakdown in the current state of affairs). Two other REPAs could be signed with group member countries in the West Indies and the Pacific.

- Failing such agreements, countries that were not included in such schemes would join the European GSP. In principle, this alternative would be less favourable in terms of access to the European market and would mean that relations between the European Union and the ACP countries concerned would lose their contractual nature. It would also put them in direct competition with the other countries that benefit from this system, in particular with emerging countries in Asia and Latin America, except if a special, possibly improved, GSP could be reserved for them, based on their lowest level of development. This idea, particularly advocated by Stevens (1999) could be further explored when the European GSP is overhauled in 2004.

¹ The Generalised System of Preferences is a tariff system authorised by WTO rules, that consists in granting developing countries a unilateral reduction or elimination of customs duties.



1 : excluding intra-European trade

2 : excluding South Africa

Source : EUROSTAT

Whatever the case may be, Least Developed Countries (LDC) that do not participate in REPAs could maintain the benefit of the current unilateral preferences as this is allowed under the WTO's « enabling clause », as long as these are extended to the eight “non ACP LDCs” who currently benefit from the European GSP². It is anyway most probable that nearly all LDCs exports will be granted duty free access on the European market by 2005, following the implementation of the EU “LDCs Initiative” which will be launched in the next few months.

The European Union obviously prefers the REPA system, which has the advantage of bringing ACP countries into line with current European trade policy that consists in signing this sort of free trade agreement with its main trading partners. In this context, the free trade agreement reached between South Africa and the European Union (see the second article in this issue of Dialogue) is presented as a practical model of the European proposals.

The agreements are presented as the means of increasing the credibility of economic policies adopted by these countries, by encouraging them to sign precise commitments, not only in terms of tariffs but also market access and trade-related issues. They are also supposed to improve the competitiveness of businesses in these countries by subjecting them to fiercer competition in their home markets than would be the case if they simply honoured their commitments to multilateral liberalisation. Finally, the European Union presents its proposals as a means of supporting regional integration in these countries.

III. Reservations expressed by the ACP countries

Whereas the Commission went into the negotiations following much thought and discussion between the Member States, this was not the case on the ACP countries' side. They adopted what was essentially a defensive mandate (ECDPM, 1998) : whilst accepting the principle of differentiation between ACP countries and a better system for LDCs, it aimed at maintaining status quo to the greatest extent possible and avoiding any questioning of trade-related advantages granted by the European Union for a period of at least ten years (whereas the European mandate sought gradual elimination from 2005 onwards) ; finally, it demanded improved market access for products, particularly farm products, from ACP countries.

Criticisms of the European project to introduce reciprocal free trade areas between the European Union and groups of ACP countries are based on the advantages and also the feasibility of the project in the short term.

- First, doubts have been expressed as to whether it is in these countries' interests to carry out faster liberalisation in the scope of reciprocal free trade areas than that required by the WTO, and also regarding the opinion that this would favour their development and integration in the world economy. The results of research carried out by the European Commission to assess the impact of the possible introduction of REPAs with six groups of ACP countries were in fact unconvincing overall and depended to a great extent on the hypotheses used (in particular, whether the protocols were abolished or maintained). However, the studies clearly showed that LDCs have nothing to gain from this type of agreement (ECDPM, 1999).

² Afghanistan; Bangladesh; Bhutan; Cambodia; Laos; Maldives; Nepal; Yemen. Myanmar is also a LDC but it has been excluded from the EU GSP.

This is even more true in that sectors in which these countries have the strongest comparative advantage (agriculture and textiles) are still subject to numerous tariff and non-tariff barriers on the European market. Nonetheless, the Commission's mandate for post-Lomé does not allow for rapid liberalisation of the European market in these sectors, beyond the general commitments made by the WTO.

- Second, the regional groups identified as possible partners for negotiating free trade areas with the European Union are only just starting their trade integration processes. At present, only the eight West African countries in the West African Economic and Monetary Union, UEMOA (Benin, Burkina Faso, Ivory Coast, Guinea-Bissau, Mali, Niger, Senegal, Togo) seem set to introduce a customs union in 2000. This will mean that national decisions on trade policy will be transferred to the regional organisation which will then be able to negotiate directly with the EU. This is not the case in the remaining ACP countries where the process has made far less progress.
- Finally, as the South African leaders are prompt to point out, it is ironic that the EU- South Africa agreement should be presented as a model for future EU - ACP trade relations. First, South Africa was refused the benefit of the Convention's trade regime precisely because of its specific characteristics and exceptional level of development compared with the other ACP countries, and was only granted « qualified » membership to the Convention in 1998 (Davies, 1998). Second, the South-African experience has shown how difficult it is to negotiate a free trade agreement with the European Union, given the great diversity of the member States' offensive and defensive interests, but also the South African negotiators' lack of experience and institutional capacity. With stronger reason, doubts can be raised as to the capacity of the other 70 ACP countries to negotiate an agreement of this sort with such a strong partner, particularly as the negotiations would be held in parallel with multilateral negotiations due to start in principle in 2000, in which most ACP countries will already have great difficulty in participating fully.

IV. The trade regime issue : a false problem ?

Now that there appears to be a consensus on the need to transform the current trade regime, even if an agreement is still to be found to define its successor during the first years of the next century, it is probably time to place the debate in a wider perspective by relativising the stakes of the current discussions.

Firstly, the erosion of tariff preferences since the signature of the first Lomé Convention is bound to continue. Given the current level of most customs duties applied by the European Union, the advantages offered by duty free access to the European market have become largely insignificant.

This is also true with respect to the ACP countries : considering the extremely long period likely to be required for implementing the projects - they would apparently be finalised in 2020 at the earliest - the timetable for the post-Lomé agreement is likely to be very similar to the one decided by the WTO for multilateral dismantling of tariff barriers. If this is the case, the ACP countries' announced commitment in favour of free trade is, above all, a political message designed to ensure acceptance, for a few more years, of the principle whereby the unilateral system of preferences retains its « exceptional » nature with respect to WTO rules (Thomas, 1997).

Secondly, it should not be forgotten that 39 of the 71 ACP countries are LDCs for which, as we have seen, there is no problem in maintaining the unilateral preferences. If we look at African countries alone, only about 10 countries (Ivory Coast, Kenya, Mauritius and Nigeria to mention the most significant) out of 48 are in principle concerned by REPA projects (excluding South Africa and its neighbouring countries that have already signed a reciprocal free trade agreement with the European Union).

Beyond the negotiations in progress, the problems of access to the European market should not be considered only in the bilateral framework of post-Lomé negotiations ; increased access to the market can also be sought in a multilateral framework in which the ACP countries' objectives match those of other regions of the world. Any positive solutions found in this wider framework would of course have the disadvantage of having to be shared with all the other exporting countries concerned, and may in this respect be more difficult to obtain. It is nonetheless important to underline this point at a time when a new cycle of multilateral negotiations is about to begin, in which most ACP countries are not present.

Finally, it is somewhat simplistic to address only questions of tariff barriers and goods. The ACP countries must also add non-tariff barriers and other products (services) to the list of their concerns, as is the case in the multilateral discussions.

V. Conclusion

One of the vital merits of the Lomé Convention was to combine aid and trade (Bocquet, 1998). This works in two ways : first through two juxtaposed sections each dealing with one of the aspects ; second, with the existence of a preferential trade regime which strengthens the impact of aid granted by the European Development Fund. This is a feature of European strategy which traditionally consists in viewing aid and trade as complementary and not as substitutable, contrary to the American position symbolised by the famous slogan « Trade, not Aid ».

For the reasons given in this text, this regime is set to disappear, at least in global terms. Although there are still a large number of uncertainties regarding the economic impact of the new trade regime offered to them, the ACP countries hope that if they accept the upholding of special trade relations with the EU in the form of reciprocal preferences this will be in return for continuing massive aid for their development.

Should these new relations actually be adopted, the juxtaposition in a future Convention of the two sections of trade and development aid would no longer be justified as in the past, except for historical reasons. Taken to extremes, this would imply up to a point that the EU has the right to demand preferential access to ACP countries' markets, given the support that it grants them in financial and trade terms, and that this access would be a means of making European public opinion accept the continuation of this aid, in a context of growing lassitude on such matters (Solignac-Lecomte, 1999).

If this implied principle is not accepted, the coming years could be devoted to seeking new relations between the different aspects of aid and trade, in a view to reconciling the need for solidarity, which was the starting point for the Lomé Convention, and the need for compatibility with our international commitments. There can be no doubt that, as in the past, the main objective of this Convention is to contribute to strengthening supply capacity in these countries and improving their prospects for economic and social development.

THE FREE TRADE AGREEMENT BETWEEN THE EUROPEAN UNION AND SOUTH AFRICA

In October, the European Union and South Africa signed a free trade agreement which allows for the gradual elimination of customs duties on nearly all bilateral imports as of 1st January 2000.

Up until the last minute, there were great difficulties in reaching an agreement (when writing these lines, disagreements on wines and spirits may still jeopardise its enforcement on the due date), but this is partly because during the negotiations the parties expressed the wish to cover a wider scope than usual. It is indeed the first agreement signed by the European Union that includes practically all agricultural products.

Signing a free trade agreement with the world's leading exporter, which is its leading trade partner and the country's largest investor, is bound to have a significant impact for South Africa, although this is difficult to measure accurately. The South Africans see the agreement above all as a means of strengthening the credibility of their economic policy and of accelerating processes that were launched at the end of apartheid, designed to open and restructure the economy. The process of regional integration is also likely to gain momentum.

I. A very ambitious agreement

At the end of the apartheid regime in 1994, South Africa expressed its wish to join the Lomé Convention. This would have given its exporters duty free access to the European market without anything in return, as is the case for ACP countries (see the article on the Lomé Convention in this issue of Dialogue). The demand was rejected for two reasons : first, because these preferences were incompatible with the rules of the World Trade Organisation, created that year, which had led the European Union to propose a new trade regime to ACP countries ; second, because of the country's level of development and economic weight (South African exports to the European Union represent nearly 50% of exports from all the other ACP countries together), as there was a fear that full membership might totally disrupt the workings of the current regime.

The European Union's and South Africa's participation in regional agreements

In the past few decades, there has been a large increase in the numbers of regional trade agreements on all the continents. The European Union has widely participated in this phenomenon which has also concerned South Africa.

The European Union is multiplying free trade agreements with its partners

In recent few years, the European Union has adopted an active policy aimed at signing free trade agreements. To begin with, the policy concerned its closest partners in geographical terms :

- Western European countries that had voted against joining the Union, such as Norway (European Economic Area) ;
- Mediterranean non-Community countries (MNC countries)
- Central and East European countries (partnership agreements, prior to accession to the European Union).

More recently, the policy has been extended to include partners farther afield, with the signing of the agreement with South Africa and launching of negotiations with Mexico. Planned negotiations with Mercosur have not yet begun.

These agreements are not restricted to the elimination of customs duties on exchanges of goods (in fact, mainly industrial products up until the agreement with South Africa). A global approach has been adopted, aimed at reducing other trade obstacles and addressing issues of competition policies, handling of foreign investment, the attribution of public procurement contracts, etc.

South Africa and regionalism in Southern Africa

South Africa is a party to two regional trade agreements.

The **South African Customs Union (SACU)** was created in 1910 (hence, the eldest customs union in the world) and has been operating in its present form since 1970. Apart from South Africa, its groups four neighbouring countries, Botswana, Lesotho, Namibia and Swaziland, commonly known as the BLNS countries. The three latter countries have also joined South Africa in a **Common Monetary Area (CMA)**.

The **Southern African Development Community** was created in 1992 to promote economic integration in Southern Africa. The organisation groups all the countries in Southern Africa, except Madagascar. As Tanzania has belonged to the organisation from the start and the Democratic Republic of Congo joined it in 1997, it goes beyond the strictly geographical boundaries usually attributed to the sub-continent. Eleven SADC countries (Angola, the Democratic Republic of Congo and the Seychelles are not part of this project) signed a trade protocol in 1996 aimed at setting up a new regional free trade area. The project does not call into question the running of the SACU which would become part of a far wider trade area.

Following this refusal, the European Union offered South Africa limited membership of the Convention, to be backed up with a free trade agreement. Negotiations on trade, development and co-operation were formally opened in Brussels in June 1995 and were concluded in 1999. Both the European and the South African negotiators insisted on the wide scope to be covered by the agreement, which to a great extent explains the difficulties encountered during the negotiations.

- On the one hand, South Africa demanded that the European market should be open to its agricultural products (this is obviously in conflict with the common agricultural policy) and on the other, the European Union insisted that the agreement should not be limited to exchanges of goods but should also cover services (transport, insurance, financial services, etc.) and trade-related issues such as public procurement and designations of origin. However, only very meagre results were obtained on this last subject, due to reservations on the part of the South Africans who wished to keep their freedom to manoeuvre in the prospect of future multilateral

negotiations. In fact, differences of opinion on questions of traditional designations were so strong (in particular, the European Union demanded that South Africa change the designation of its ports and sheries) that they nearly caused the agreement to fail.

- In compliance with what are considered to be the World Trade Organisation's rules on regional agreements - in fact, the WTO mentions «substantially all trade » without mentioning an exact figure - the agreement covers approximately 90% of trade between the two countries and respects the maximum period for the dismantling of tariff barriers, fixed at ten years for most products and twelve years for certain sensitive products as of the coming into force of the treaty in 2000, meaning that the free trade area will be fully operational in 2012 at the latest. This agreement is asymmetrical both in terms of the level of opening and the time schedule, in order to take into account the two partners' different levels of development :

- the European Union agrees to eliminate customs duties on a list of products covering 95% of its imports from South Africa over a period of ten years. This overall percentage includes total liberalisation for industrial products but only 67% for agricultural products. Amongst the latter, 12% are subject to quotas. This is the case in particular for wine, for which a duty free import quota of 32 million litres has been fixed. Apart from the fact that Europe wanted to protect a certain number of « sensitive » agricultural products (maize, tinned fruit, etc.), from fear of the South African producers' competitiveness, this low percentage is also explained by the fact that fish products are excluded from the agreement. South Africa refused to grant fishing rights to European ships, which would have been unavoidable had there been an agreement covering this sector ;

- South Africa agrees to the same thing for 86% of its imports of European products, over a period of twelve years (89% of industrial products and 81% of agricultural products). Private cars, which are one of the main products exported by the European Union, are excluded from the agreement at present, together with chemical products and textiles. These exclusions are motivated by a concern to protect either dynamic sectors that are not yet sufficiently competitive on an international level (car industry and, to a lesser extent, chemical products), or on the contrary, sectors in crisis such as textiles, where it is a question of gaining time before inevitable restructuring.

- As indicated by its name, the agreement is not limited to trade but also covers questions related to co-operation and aid to development. The chapter devoted to co-operation between the two partners consists of a list of general declarations of intent concerning co-operation in different sectors of business (industry, information technology, energy, mining, transport, tourism, agriculture, services) and regarding the promotion and protection of investments, aid to trade development, aid to micro-business and SMEs, support for the process of economic empowerment for historically disadvantaged groups and support for the protection and promotion of workers rights and trade unions.

This framework agreement is completed and detailed in a European Council regulation fixing the detailed guidelines for European co-operation with South Africa for the period 2000-2002 under the European Programme for Reconstruction and Development (EPRD) (European Commission, 1999). Co-operation is focused in three main areas : support aimed at integrating the South African economy into the world economy and trade ; the fight against poverty by improving living conditions and providing basic social services ; support for « good governance », which covers issues such as democratisation, the protection of human rights, sound public management, the strengthening of local authorities, the participation of private interests in the development process, etc. Implicitly, the signature of the bilateral agreement guarantees that, as of 2000, South Africa will receive an equivalent amount of aid to that granted under the current EPRD (around 125 million euros of donations per year for 1996-1999) which, added to bilateral aid provided by the Member States, makes Europe by far the country's largest backer.

II. A modest direct impact on South African exports overall

The European Union is South Africa's largest trading partner : 39% of South Africa's exports, mainly raw materials and semi-finished products, are sent to the European market and 40% of imports, mainly transport materials and capital equipment, come from the EU. On the contrary, trade with the country represents only a marginal share of European trade (approximately 1.5% of exports and of imports). Whereas the agreement's impact on trade will be minimal on the European side, it would be normal to assume that this will not be the case on the South African side.

- The short term impact of the liberalisation of customs duties on bilateral trade will mainly depend on three effects, under the hypothesis of infinitely elastic supply :

- first, the higher the current levels of customs duty, the higher the future increase in trade will be. But the customs duties applied to South African products on the European market before the agreement was signed were very much lower than those applied to European products on the South African market. This is mainly due to the fact that about three quarters of South African products exported to the European market are already duty free or benefit from very low rates under the Generalised System of Preferences (GSP). The total elimination of these duties on the greater part of bilateral trade will therefore be of more benefit to European than to South African exporters, all else being equal ;

- second, the elimination of customs duties will lead to a reduction in import prices compared with domestic prices, resulting in what is commonly called « trade creation » ; comparative elasticity of European and South African import demand will therefore play an important role in this respect ; it is thought to be far higher in the case of the European Union than in the case of South Africa, whose imports are generally considered not to be very elastic to price changes ;

- finally, the increase in competitiveness of European products compared with those of other importers will in principle lead to an increase in their market shares, with the same effect going in favour of South African products on the European market ; the comparative elasticity of substitution will have to be estimated to measure the significance of this phenomenon, known as the « diversion effect ».

According to a study by UNCTAD based on a partial equilibrium model (Jachia and Teljeur, 1998), the first effect will play the most dominant role, so that the impact of the agreement is likely to be more significant for European exports than for South African ones. Additional South African imports from the European Union should be between 2% and 12% with a far from insignificant diversion effect playing to the detriment of Japanese and American products. On the contrary, it is estimated that South African exports to the European market will grow by only about 1.5% (excluding the diversion effect that was not calculated by the UNCTAD study in this

direction). The direct impact will probably be very limited for manufactured goods (excluding textiles) but more significant for agricultural products. According to the study, given the share that the EU represents in South African foreign trade and the diversion effect linked to the increase in European products in total imports, South African imports will rise by 1 to 4%, whereas the effect on exports will be negligible. The result will be a widening of South Africa's trade deficit with Europe and of its total trade deficit.

III. Long term effects are difficult to measure

Given the limited impact to be expected from this agreement concerning the development of exports in the short term, it is legitimate to wonder why the South African leaders were interested in signing this type of agreement with the European Union. Their motivations can be summarised in two main points :

- By signing an agreement to fix the framework of its relations with the European Union with respect to trade, development and co-operation for the coming years, South Africa resolutely chose to increase its ties with Europe. By deciding to give preference to its relations with the European Union, it implicitly put the development of South-South relations back into second place, whether it be with the other countries in sub-Saharan Africa (except south African countries as we will see later) or with its Latin-American or Asian partners, as advocated in the country's « butterfly » strategy whereby it sought to make the most of its geographical location half-way between the South-American cone and the Asian continent. This choice in favour of realism confirms that little progress had been made in the latter path. Similarly, closer ties with Europe are to the detriment of the United States which continues to pay court to South Africa and make important investments in the country although, contrary to Europe, it has not yet offered them a real partnership.

In this context, it is clear that the country can reap significant benefits from the agreement in terms of the credibility of its economic policy, particularly in the field of trade. This objective is sought by most developing countries when they sign agreements of this nature with developed countries, but is particularly crucial in the case of South Africa, which has suffered from a lack of confidence abroad with respect to its government, with doubts often being raised as to the irreversibility of the reforms it has undertaken, both in domestic and foreign affairs. Establishing contractual trading relations with the world's leading market is also a long term guarantee concerning the development of markets for South African products (whereas the GSP can be withdrawn or changed unilaterally at any time by the European Union).

In the same vein, certain studies consider that the trade-related advantages of a North-South free trade agreement are in fact of secondary importance compared with the effects in terms of direct investments (Winters, 1996). According to them, the preferential access granted to the developed country's market will stimulate direct investment in the developing country on the part of the developed country, with the aim of exporting to the latter.

- The South African government also considers that the dismantling of tariffs provided for under this agreement may stimulate the necessary restructuring of its industry and thus give support to the strategy of modernisation that it has implemented since 1994. In this respect, the free trade agreement may increase the outlets for South African products in the long term, on the condition that they are competitive, whilst also improving effective allocation of domestic resources. Following this rationale, the limited direct effects of the agreement on export growth are of secondary importance in that the long term effect cannot be measured at present as it depends on the success of the restructuring currently in progress, that is in turn influenced by the liberalisation of trade. The conclusions of an assessment of this agreement made on behalf of the European Commission are coherent with this rationale that tends to minimise the stakes involved in the opening of the European market in the short term, compared with those of the restructuring of the economy (IDS et al, 1997).

IV. Impact on the region

It is also important to take into account the effects of the agreement on South Africa's neighbours, particularly BLNS countries (Botswana, Lesotho, Namibia, Swaziland), which are de facto partners to the agreement as they belong to a customs union with South Africa, the Southern Africa Customs Union (SACU).

* The most important and most direct effect will be in terms of tax. BLNS countries will face a drop in customs income collected at the borders of their customs union with South Africa. This fall in income will be significant (IDS and BIDPA, 1998) : about half the budget resources of Lesotho and Swaziland come from customs duties, mainly collected by South Africa and redistributed to the member states on a scale of allocation that is favourable to them.

A simple calculation shows that the elimination of nearly all customs duties collected on imports of European products will lead to a decrease of nearly 20% in the two countries' tax revenues, all else being equal, which represents an external shock amounting to as much as 10% of GDP in the case of Lesotho. These countries will be obliged to restructure their tax systems in order to compensate for losses of customs revenues, but restructuring will not be sufficient. This is why the above-mentioned framework programme for co-operation with South Africa allows for « particular attention to be paid to providing support for the efforts in restructuring in the region resulting from the creation of the free trade area in the framework of the agreement on trade, development and co-operation, especially within the Southern African Customs Union » (Commission, *ibidem*).

- Effects on trade will be far more modest. Generally speaking, all the countries in the region will be subject to increased competition from South Africa on the European market. This effect must, however, be put into perspective as the structures for exports to Europe overlap very little between South Africa and the other countries in Southern Africa. In addition, any agreement of this type signed between the European Union and other partners produces comparable effects. For practical reasons, the preferential access granted to European products on the South African market will be extended to all the countries in the SACU. However, this represents a relatively small risk for exporters from Southern Africa and for producers in BLNS countries, with a few exceptions². On the contrary, these countries will benefit from decreases in domestic prices as a result of the lowering of customs tariffs.

² Only a few products such as red meat produced in Botswana and Namibia and refrigerators produced in Swaziland risk competition from European products. South Africa put refrigerators on its list of products to be excluded from the agreement in order to protect Swaziland's production.

- Paradoxically, far from putting a brake on the process of regional integration, the agreement will in fact help it accelerate. It is impossible for South Africa to dismantle tariff barriers at a quicker pace with respect to Europe than with respect to the other countries in the region, for obvious political reasons, but also due to commitments that the country has made in the trade protocol signed with most of the Southern African Development Community (SADC) countries. This protocol stipulates that any trade preference granted by a signatory country to a third country will automatically be extended to all its regional partners (known as the « most favoured nation » rule). It is therefore most likely that the project for a regional free trade area will be launched by these countries in 2000, almost at the same time as the bilateral EU-RSA agreement.

V. Conclusion

By signing a free trade agreement with the European Union, the new South African government has marked its conversion to a export-growth model and its break from the policy of import substitution followed until the beginning of the 1990s.

Whilst agreeing to multilateral liberalisation in the scope of the World Trade Organisation, the government also wanted to follow the path of « open » regionalism with its main trading partner, capable of strengthening the impact of this liberalisation.

This agreement is a major challenge for South Africa, for at least three reasons. First, it implies that the current restructuring of the economy will be a success and that the country will be capable of managing the inherent realignment costs under satisfactory conditions. Second, it is based on the hope of a flow of direct investment attracted by the duty free access to the European market that it allows. Finally, it anticipates that the opening of the market will lead to increased international specialisation, thereby reducing the share of primary products in exports. The future will tell whether the determined approach adopted in signing the agreement will pay off in the long term. The challenge is crucial for South Africa and its region, but also for the future of European policy aimed at promoting regional agreements with its main trading partners, particularly as this innovative agreement is designed to be a reference in this field.

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