

# Southern African integration: the impact of EC policies

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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 paper is concerned with the trade policy that the European Community (EC) should adopt when an acceptable government is installed in Pretoria, and the implications of each option for intraregional trade in Southern Africa<sup>1</sup>.

Africa is very important for the South African economy, and the reverse is true for its neighbours in the southern part of the continent. Despite the complications caused by apartheid, Africa is the second most important export market for South Africa in terms of overall value. In qualitative terms it is even more important because it absorbs a large proportion of South Africa's exports of manufactures, many of which are more suited to African conditions than to the OECD, where they are not necessarily competitive.

Africa is South Africa's second most important market; its most important market is Europe. All South African trade data have to be treated with considerable caution, but it is estimated that in 1990 the EC accounted for 27% of total merchandise exports, while Africa (outside the Southern African Customs Union – SACU) took 7% (with Japan at 6.5% and the United States at 4%).<sup>2</sup> These overall figures alone would suggest that the regime applying to trade between the EC and a post-apartheid South Africa would be important under all circumstances. But the relevance of the EC for the region as a whole is increased because it is also the major trade partner of the rest of Africa and a significant source of external finance (most of it aid).

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<sup>1</sup> Sheila Page and Christopher Stevens, *Trading with South Africa: the Policy Options for the EC*, ODI Special Report (London: Overseas Development Institute, 1992), p. 24.

<sup>2</sup> 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 paper.

This paper argues that the decisions taken by South Africa and the EC in establishing a post-apartheid trade regime may have important implications for regional integration in Southern Africa. Of the range of policy options available, some would support trade between South Africa and its neighbours whilst others would erect artificial barriers. As a major player with 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).

### **Should South Africa receive preferences**

It has been suggested that South Africa does not need trade preferences 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 the 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 since 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 industrialising 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 will 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.<sup>3</sup> 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.<sup>4</sup> However, preferences would be much more important for products which South Africa does export to the EC but which fall outside the 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 Common Agricultural Policy – CAP) and on labour-intensive manufactures; and, parallel to this, the construction of an intricate set of concessions on some products\for some countries.

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%; those from Colombia enter duty free. In the case of grapes, EC imports from South Africa pay 18% 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%. Hence, while South Africa is at a relative disadvantage compared to Cyprus, which pays 1%, this is not too severe. However, for mandarins, clementines and satsumas the MFN tariff is 20%; Cyprus pays only 5.1%, Israel and Jordan 8% and Turkey 0%. Hence, there is a powerful disincentive to South Africa's diversifying its range of citrus exports.

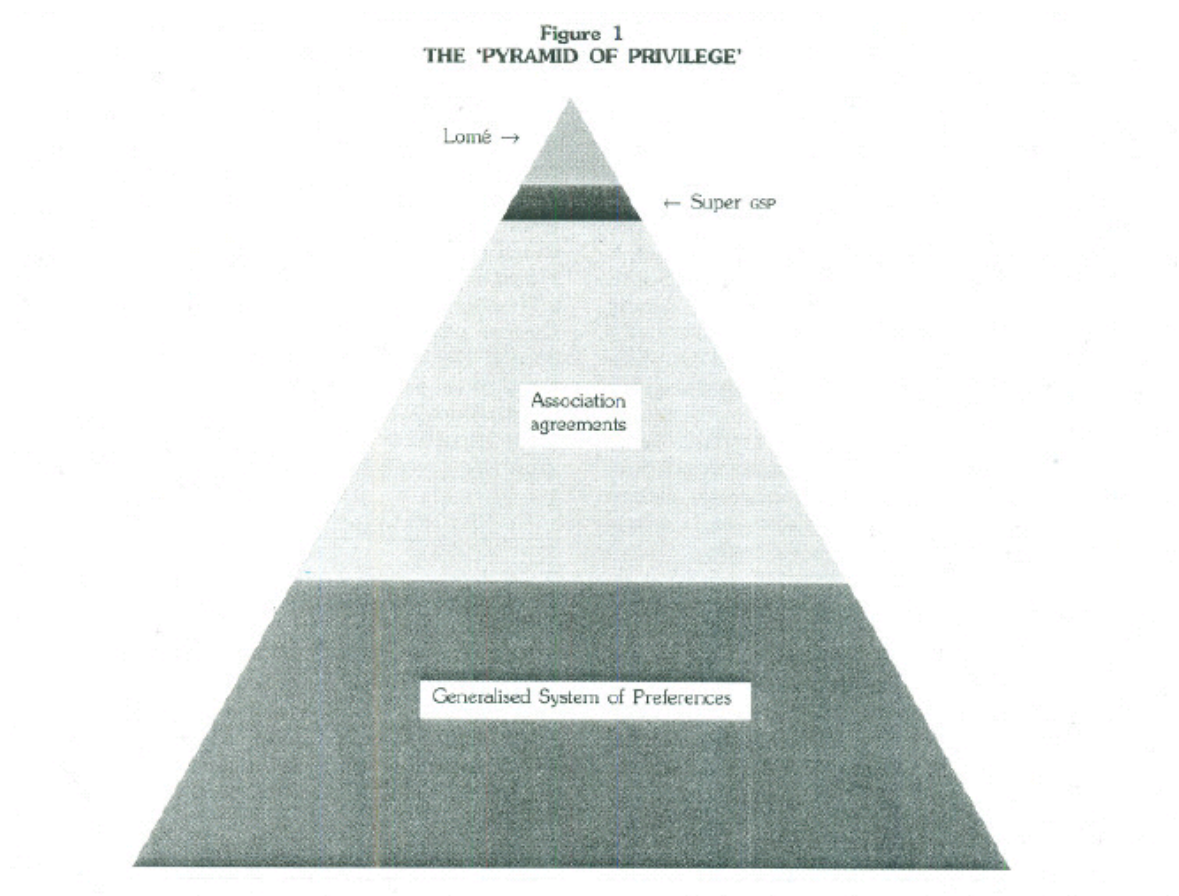
## **Legacies of the past**

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<sup>3</sup> Page and Stevens, *Trading with South Africa*, ix.

<sup>4</sup> Real GDP *per capita* in 1989 purchasing power parity dollars, according to UNDP estimates.

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 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'.



At the apex of the hierarchy sits the Lomé Convention, which covers developing countries of a wide range of incomes from \$380 (Zaire) to \$11,293 (Bahamas).<sup>5</sup> At the base is the Generalised System of Preferences (GSP), which is the lowest common denominator of the EC's hierarchy. Whilst 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

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<sup>5</sup> See note 4 above.

many commodities, provided access terms that were as favourable as those under the Lomé Convention. Then, in 1990, the Community agreed to extend on a temporary basis this superior tranche of the GSP (labelled 'Super GSP' in Figure 1) to four countries of the Andean Pact – Bolivia, Colombia, Ecuador and Peru – partly as a result of US pressure to join in an antinarcotics 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 pragmatic 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<sup>6</sup> is in the Super GSP tranche near the apex of the hierarchy, whilst India (\$910) is at the base. Turkey (\$4,002) is in the Mediterranean tranche, whilst 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 twenty-nine states which have a human development index ranking (on UNDP definition) higher than South Africa receive trade preferences from the EC, and of these seventeen 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. A large tick in a cell indicates that the model is particularly well suited to the requirement; a smaller tick 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

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<sup>6</sup> 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.

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 on a take-it-or-leave-it basis. An association agreement, by contrast, may be expected to be the slowest to negotiate because it would be a one-off, tailor-made agreement. Each provision would have to be negotiated from scratch.

**Table 1**  
**SOUTH AFRICA'S REQUIREMENTS FROM A PREFERENCE AGREEMENT**

	Lomé	Super GSP	Association Agreement	GSP
Speed of negotiation	✓	✓		✓
Depth of preferences	✓	✓	✓	
Coverage of <i>existing</i> exports	✓		✓	
Coverage of <i>future</i> exports	✓			
Compatibility with regional trade	✓	✓		✓

The Super GSP and Lomé would seem to be in the middle. Being relatively deep preferences they may provoke more opposition and contention, but being established packages there will not be a 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 (whilst 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 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 8-digit items within a particular commodity group; in a few 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 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.

**Table 2**  
**THE PREFERENTIAL OPTIONS:**  
**SOUTH AFRICA'S MOST IMPORTANT ELIGIBLE EXPORTS**

CN code	Product	South African Exports to EC (a)	EC tariffs under:				
			MFN	GSP	Super GSP	Lomé	Med.
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 (I)
08061015	Fresh table grapes (1 November-14 July)	66,719	18	-	-	-	0-7.2
08051035	Fresh Navels etc. (16 May-15 October)	65,998	4	-	-	0.8	0.8-1.6
08082033	Fresh pears (1 April-15 July)	44,965	5 + M	-	-	2.5 + M	0 (I)
94019090	Seat parts	25,967	5.6	0	0	0	0
08044090	Fresh or dried avocados (1 June-30 November)	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 August-31 December)	20,532	14 + M	-	-	7 + M	0 (I)
08044010	Fresh or dried avocados (1 December-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 January-31 March)	10,616	10 + M	-	-	5 + M	0 (I)
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 (I)
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.



*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.*

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.<sup>7</sup>

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 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. Not only are ACP states exempt at present 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 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

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<sup>7</sup> See, for example, Matthew McQueen and Christopher Stevens, 'Trade Preferences and Lomé IV: Non-traditional ACP Exports to the EC', in *Development Policy Review*, Vol. 7, 239-260 (London: Sage, 1989).

flexibility for sensitive agricultural products, although here again the Lomé Convention tends to be the most flexible.

### **Implications for other developing countries**

The regional implications of these options are considered in detail in the next section but, 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 trading parties. However, there remain a significant number of commodities in which South Africa currently faces discrimination compared with most of its competitors.

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 South Africa's discrimination 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 in which competition with other developing countries appears most likely, and 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 underway 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, as noted above, to argue that it should be as flexible as possible. 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 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 competitive advantage whilst if it is given an upper-tranche regime other competitors (indicated in the table by italics) will be disadvantaged.

**Table 3**  
**THE CRITICAL CURRENT EXPORTS**

Commodity (a)	<i>Principal LDC competitors (b)</i>	Dominant regimes (c)	Other preferential regimes (d)
Coal (2701)	<i>Colombia, China</i>	MFN+ NTB	Lomé
Fresh apples (080810)	<i>Chile, Argentina</i>	GSP	Association/Lomé
Citrus fruit (0805)	Morocco, Israel, <i>Argentina</i> , Cyprus, <i>Brazil</i> , Turkey, <i>Uruguay</i> , Tunisia	Association	Lomé
Grapes (0806)	Turkey, <i>Chile</i> , Israel, Cyprus	Association	-
Pears (080820)	<i>Argentina, Chile</i>	GSP	Association/Lomé
Avocados (080440)	Israel, <i>Mexico</i> , Kenya	Association	Lomé
Uncoated kraft (4804)	Brazil	GSP	-
Seat parts (940190)	Turkey, China, Argentina, Thailand	GSP	-
Synthetic filament (5402)	Turkey, <i>Taiwan</i> , Israel, <i>South Korea, Mexico</i> , <i>Indonesia</i>	MFN	Super GSP/Association/Lomé

Ferro-silicon manganese (720230)	<i>Brazil</i>	MFN	Lomé/Association
Hake (030378)	<i>Chile, Argentina, Uruguay</i>	MFN	Super GSP/Lomé/Association
Cuttlefish (030749)	<i>Thailand, India, Morocco</i> , Tunisia, Mauritania, Senegal	GSP	Super GSP/Lomé/Association
Other Fish (030379)	<i>Morocco, Argentina, Chile</i> , Mauritania, Somalia, Bangladesh, <i>Taiwan</i> , Panama, Senegal, <i>Thailand</i>	Association/Lomé	Super GSP
Canned pineapple (200820)	<i>Thailand, Kenya, Philippines, Indonesia, Malaysia</i>	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, <i>Thailand, Morocco</i> , Turkey	Super GSP/Lomé	Association
Pineapple juice (200940)	<i>Thailand, Kenya, Brazil, Philippines, Israel</i> , Côte d'Ivoire	GSP	Lomé
Other fruit (0810)	<i>Chile</i> , Madagascar, <i>Israel, Thailand, Malaysia</i> , 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.

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 the Super GSP are the principal 'deep preference' 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).

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 have prevented some of the countries listed in the table taking full advantage of the preferences notionally on offer.

### **The implications for intra-regional trade**

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 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. A tick 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 cross means that the trade option is relatively poorly related to SADC's interests.

**Table 4**  
**PROS AND CONS FOR SADC**

	GSP	Super GSP	Lomé
Competition	✓		
Involvement in negotiations	×	?	✓
Support for regional trade	?	?	✓
Aid contracts	×	×	✓
Political co-operation	×	×	✓

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. On trade, the Lomé Convention is a two-way street: while it might increase competition for SADC in some areas it would also provide support for regional trade. The GSP and Super GSP might be compatible with regional trade co-operation, but only if there were special, additional moves to assure this.

#### Cumulation under the rules of origin

One unique advantage of the Lomé Convention is 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 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%-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 co-operation 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 made 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.<sup>8</sup> 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

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<sup>8</sup> Page and Stevens, *Trading with South Africa*.

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 goods for cumulation purposes.

#### Aid contracts

The Lomé Convention would also provide a tangible support for regional trade through aid procurement. 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.

Not only does the Lomé Convention contain a substantial aid budget but it also permits companies from ACP states to tender for contracts financed in this way. Uniquely among the aid programmes supported by the EC member states, the Lomé Convention even allows recipient states to give certain preference to tenders from ACP firms. The normal arrangement when awarding aid contracts is that the successful bidder is the one supplying the lowest cost tender of acceptable quality. Under the Lomé Convention it is permitted to award a contract to a firm that is not the lowest cost bidder provided that the premium is not too large and that the supplier is from an ACP state. This provision was designed precisely to foster trade between ACP states.

Thus far many of the apparently 'ACP-procured' goods and services financed under Lomé aid contracts have involved simply a European (or other OECD) firm establishing an office in an ACP state. But given its substantial industrial base, it is possible that South Africa could make substantial use of these provisions for intra-ACP procurement and allow the Lomé Convention provisions to operate in the way in which they were originally intended. To the



extent that South African supplies might well be cheaper than those from Europe, the net result could be not only a reinforcement of intra-regional trade but also an improvement in the cost effectiveness of the aid received by African states.

### **Institutional collaboration**

The Lomé Convention, unlike any of the other trade options, also includes an extensive set of institutional arrangements. The ACP states act together in the joint Council of Ministers, Committee of Ambassadors and parliamentary groups. Although the ACP group is more often characterised by differences between sub-regional and other groups that it is by unanimity, there is little doubt that the exercise of joint negotiation with the EC has fostered a greater degree of collaboration between its disparate members than would otherwise have been the case. If South Africa becomes a signatory of the Lomé Convention it will be a party to this collaboration.

The process will start with the negotiations over South Africa's accession. In contrast to the other options, the ACP will be *de jure* and *de facto* parties to any such negotiations. Whilst 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 formalised.

The first Lomé Convention was signed by forty-four ACP states in 1975; there are now sixty-nine. 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 organisations such as the OAU 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 to 363. 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 stabilisation) could be deferred therefore 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 paper has not considered the impact of the preferential alternatives on producers in the EC.

However, this has been done elsewhere and suggests 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.<sup>9</sup> 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.

## **Alternatives to preferences**

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<sup>9</sup> Not least in a presentation by Dr Volkmar Köhler MP, former German Minister of Development Co-operation, to the conference on 'A Changing South Africa' convened by the RIIA and the South African Institute of International Affairs (June 1992).

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 to 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', i.e. the exporter must not sell below a pre-determined 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 duties of R. 41.6 million (Ecu 13 million). The full or partial reduction of EC import tariffs would result in a transfer from the European Community 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 organisations 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.

Another, 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 multi-racial 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 sub-sector. 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.

## Conclusions

Does South Africa need trade preferences? It is clear that they 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.

But the pursuit of useful trade preferences is likely to be tough. Deep trade preferences are desirable, but they are by no means assured. Standard GSP treatment would be easier to achieve but would provide few benefits to South Africa. As South Africa faces a political battle to achieve Lomé membership, would it not be well advised to seek one of the other options? The precedent of the Super GSP for the Andean Pact countries has been specifically put forward. The analysis in this paper 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 most other developing countries. However, there will be some potential negative effects of Lomé, primarily for Asian and Latin American states.

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 provide 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.

The ACP would be better served in the trade area by South Africa's being accepted into the ACP than by its being accorded Super GSP treatment. 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. The argument of this paper, therefore, is that the goal of South African integration would be best served by South Africa's joining the ACP in the Lomé 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. The task facing South African negotiators in securing deep preferences is a formidable one. 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 the ACP group and formally to apply. The ANC has been reluctant to take any step that could be misinterpreted as suggesting a normalisation of economic relations with the apartheid regime. It is important to note, therefore, that there are precedents from Zimbabwe and Namibia for entering into informal discussions with the EC well in advance of any transfer of power. The ANC might consider whether to take advantage of the window of opportunity that now exists to begin a dialogue with the ACP and the EC on the basis that *if* there is a satisfactory political change in South Africa *then* the country would seek Lomé membership.