EXECUTIVE SUMMARY

Southern Africa (more specifically: SADC, the Southern African Development Community) is not the only region in the world where the inequities of the global trade and financial systems play themselves out but it is one of the more pronounced. Trade with the region is skewed in favour of Europe (and North America and Japan) and the debt crisis continues to keep many countries in the region in unsustainable positions of bondage. NiZA is publishing this brochure on the twin issues of trade and debt, specifically in view of the fact that the socio-political problems in many parts of the region have intensified of late. This is in no small part due to the odds that have been stacked heavily against them, precisely in terms of trade and debt. It is time these issues are pushed once again further up the political agenda. NiZA finds it very useful at this point in time to have all these and other views represented in a single publication. NiZA hopes to offer some new ideas for policy makers and other interested parties to reconsider current trade and debt policies, in order to avoid more damage to this region.

The picture of the SADC region is extremely mixed but most of its member states share a few characteristics. Poverty is widespread. There is an HIV/AIDS crisis of monumental proportions, the economic impact of which has not even begun to be measured. Most governments in the region (with the exception of South Africa and Botswana) have limited and decreasing capacity - and in some cases little political will - to cater to the needs of the civilian population. Most governments rely rather more heavily than is good for them on foreign assistance. And many of them face similar trade and debt issues.

SADC

On 1 April 1980 in Lusaka, Zambia, nine governments (Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe) founded the Southern African Development Coordination Conference (SADCC), the predecessor of SADC. The new organisation identified infrastructure sectors such as transport and communication, industry, trade, energy, agriculture and manpower development as priority areas. All members were involved in the implementation of all SADCC projects, with each having the responsibility of coordinating and promoting a particular sector. SADCC provided a regional forum through which member states identified and created new markets and mobilised additional development aid for both national and SADCC- wide projects. In the late 1980's the emphasis shifted towards the co-ordination of sectoral plans and programmes. There was also a shift from infrastructure to the promotion of investment and production. These moves were a step towards reducing external dependence and laying the foundation for genuine integration.

On 17 August 1992 SADCC was transformed into SADC in Windhoek, Namibia. Increased regional integration would provide a stronger collective, better able to address problems of national development and challenges associated with the ever changing regional and global environment. SADC was designed to fulfil specific social, economic and political objectives, including

- Development and economic growth.
- Alleviating poverty.
- Promoting and defending peace and security.

- Promoting and maximizing productive employment.
- Achieving sustainable utilisation of natural resources.
- Effective protection of the environment.

SADC SUCCESS AND CHALLENGES

Has SADC worked? The record is mixed. First off, there have been important political break-throughs, including the establishment of the SADC Organ on Politics, Defence and Security in 1996, the SADC Parliamentary Forum in 1997 and the SADC Electoral Commissions Forum in 1998. On the commercial front, mention must be made of the Trade Protocol, approved in 1996. It entered into force on January 25, 2000. Its main objective is to further liberalise intra-regional trade in goods and services. Progress has also been made in the transport and communication sector in the region, positive growth in a number of member states, with some countries such as Mozambique, Botswana and Mauritius having economic growth rates above 5% and an increase in regional trade.

However, these successes do not reflect the full potential benefits that can derive from the integration process. There are more challenges that need to be confronted for the regional body to realise fully its stated economic and political objectives. For SADC, it is important to work towards the improvement of the macro-economic fundamentals and related rules and regulations in member states, i.e. measures in the area of traffic, border crossing procedures, quality and standards of goods, customs and investment procedures, so as to facilitate effective trade within the region. Harmonization of fiscal, monetary and exchange rate policies and other national rules and regulations between member states should be given high priority in pursuit of the Trade Protocol's objectives. Of particular concern is Customs, one of the most important border control instruments that regulate the movement of goods and services.
On the supply side, capacities need to be built in such key areas as the requisite technological, human skills, product-quality upgrading and investment. Skills upgrading and training; quality control services; product standards, development and diversification; testing and packaging are other areas that needs strong national and regional institutional support.

EU-SADC TRADE

The trade agreements that exist between principally the European Union (EU) and SADC distort trade inside the region. The Cotonou Agreement extends the traditional framework for trade relations with the EU that were established under the 1975 Lomé Convention. It provides complete duty free access for most of the products from of export interest to Southern African countries. It also provides quota restricted duty free access for a range of export products deemed ‘sensitive’ by the EU (e.g. beef, sugar, seedless grapes). The system of non-reciprocal trade preferences has been renewed for 8 years under the Cotonou Agreement and will now run until 31 August 2007. The system is of particular importance to Southern African countries, where large scale exports have been developed in products where the Cotonou Agreement provides significant tariff advantages, compared to other developing countries. However, the Cotonou Agreement completely excludes from duty free access many of the products falling under the Common Agricultural Policy (CAP). This last extends to more than 1,000 product lines.

The successor arrangement to Cotonou is being negotiated between September 2002 and December 2007. Negotiations were officially launched in Brussels on 27 September 2002. The options open to Southern Africa involve:

- Negotiating reciprocal trade arrangement (which the EU calls 'Economic Partnership Agreements', EPAs). These will involve the establishment of a free trade area arrangement that is compatible with the regime of the World Trade Organisation (WTO), within a 10 to 12 year period.
- Returning to the Generalised System of Preferences, based on the level of development of the country concerned.
- Some yet to be defined 'alternative' trade agreement.

The European Commission strongly favours the conclusion of EPAs, preferably negotiated at a regional level with groups of ACP countries. There is strong and continuing pressure on ACP countries to accept this approach.

SADC INTEGRATION AT RISK

But there are major spanners in the works. The first is the existence of a free trade agreement between the EU and South Africa, drawing in all members of the so-called South African Customs Union (SACU), i.e. Botswana, Lesotho, Namibia and Swaziland. There are concerns in the region that EU goods exported duty free to South Africa could find their way into neighbouring SADC markets on a duty free basis disguised as South African goods. Particular concern exists with regard to the exports of agricultural and processed food product, given the impact of over €40 billion in support to the European agricultural sector under the Common Agricultural Policy (CAP). Moreover, and crucially, the existence of the SADC free trade area alongside the EU-South Africa trade agreement will make it very difficult to see how SADC as a whole can negotiate an economic partnership with the EU between 2002 and 2008. The reason is simple: there already is a reciprocal preferential trade agreement in place between the EU and SADC's largest member.

As far as the other SADC members are concerned, Botswana, Lesotho, Namibia and Swaziland face more acute dilemmas than the others. First, they will be confronted with the introduction of free trade with the EU far faster than any other ACP country - as early as 2012. This is a direct result of them being linked to the EU-South Africa free trade agreement. Second, they are faced with a free trade area agreement that was never designed with their economic structures and levels of development in mind. Third, and again, as a result of the EU-South Africa agreement, they are subjected to a greater degree of free trade in their relations with the EU than will be the case for other ACP countries. Fourth, they are subjected to free trade with the EU without any corresponding improvement in market access to the EU. Fifth, they are excluded from any direct consultations on how the free trade area should be implemented. And finally, they are facing serious fiscal revenue losses as a result of the elimination of tariffs on trade with the EU.

The second problem hindering regional integration is the fact that six countries (Tanzania, Zambia, Malawi, DRC, Mozambique and Angola) are LDCs that enjoy rights to non-reciprocal trade preferences and full duty free access to the EU market for all their original exports, except arms and ammunitions. So there is no need for them to negotiate any new arrangements; they are already in place. The upshot of all this is that only three countries, Zimbabwe, the Seychelles and Mauritius, need to negotiate the future basis for their trade relations with the EU beyond 2008. The Seychelles is only interested in securing duty free access for its canned tuna exports and has little or no industry which could be threatened by EU exports under conditions of free trade. Mauritius has an interest in subsidised EU agricultural exports because it can feed into its own food and drink industry, which is targeting regional markets.

Mauritius also has an interest in keeping competing EU food and drink products out of the markets it seeks to serve. Zimbabwe, with its heavy dependence on agriculture and agro-processing, could face potentially devastating competition under any free trade area that is introduced while the CAP continues to massively distort competition.

Essentially, there are three integration processes on the way simultaneously: one that is foisted upon the region by the EU, one that is slowly but surely taking place as a function of the formal agreements the SADC members states have entered into, and finally, integration at grassroots level. Each of them offer different challenges and risks - but also opportunities.

THE SADC DEBT CRISIS

Of all the member states, only Botswana and Namibia can be said to have a manageable debt situation. Most of the others are in deep trouble and have been for some time. Zambia, Malawi, Tanzania and Mozambique owe the larger portions of their debts to the IMF, the World Bank and members of the Paris Club, the informal group of bilateral creditors, including 19 OECD countries (the rich industrialised nations) that jointly negotiate the rescheduling of debts. All four have been induced into the Highly Indebted Poor Countries (HIPC) initiative. This is basically a framework designed to provide special assistance to heavily indebted poor countries that are pursuing IMF and World Bank supported structural adjustment programmes. The overall objective of the HIPC initiative is to achieve debt sustainability on a case-by-case, focusing on the totality of a county's debt. The objective would be to enable 'eligible countries' to exit from their debt problem, particularly the rescheduling, because they would now be able to meet their debt obligations without undue resource strains when the debts fall due.

Still, Zambia, Malawi, Tanzania and Mozambique spend more on debt servicing than on health care for their own people. All spend disproportionate amounts of their export earnings on debt servicing. All are also awaiting the moment when, within the HIPC framework, they will have reached the so-called 'completion point', defined by World Bank/IMF as the moment when a country has implemented 'a set of key, pre-defined social and structural reforms and maintained good macro-economic performance.' Broadly speaking, the requirements fall into three categories:

- Macro-economic performance (read: Structural Adjustment).
- Structural reforms (the old ones: privatisation, good budget management, tax reform, good governance including an anti-corruption strategy).
- Social policies (including health and education policies, and additional measures in the realm of actual poverty reduction).

In addition there is the obligation to prepare a so-called Poverty Reduction Strategy Paper, PRSP, a document that must showcase how national governments intend to reduce poverty in their countries. Some of the social requirements come with specific targets relating to financial inputs and staff allocation, e.g. school enrolment figures.

Three SADC countries (Democratic Republic of Congo, Zimbabwe and Angola) are excluded from HIPC because they have been engaged in wars or are for other reasons deemed to be politically unfit for inclusion. All except Zimbabwe are highly in debt, all suffered or continue to suffer the problems associated with misallocation of financial and other resources by their governments. In the DRC and Angola, the IMF has re-entered with so-called Staff-monitored

programs, while the relationship between Zimbabwe and the IMF appears strained for an indefinite period of time. South Africa, finally, is waging another struggle. It is attempting to undo the wrongs of the past but it finds itself seriously constrained by the legacy of apartheid, including the $25.6 billion inherited in illegitimate foreign debt which roughly equalled the initial investment required for the Reconstruction and Development Programme that was shelved for lack of sufficient finances. Apartheid debt cancellation is one form of reparation that will allow greater room for national spending on job creation, housing, health care, education, and the provision of water and electricity to the poor. Since the international (business) community that profited so much from the existence of apartheid has refused to take debt cancellation into consideration, reparations are now actively sought through the courts. Claims against some Swiss, German, British, Dutch, and American banks and corporations have already been filed in New York. Other foreign and South African banks and businesses that prefer to ignore apartheid's victims call for justice will be similarly challenged.

ASSESSMENT OF OFFICIAL DEBT MANAGEMENT

HIPC and PRSP are mediocre interventions. Results from these initiatives will continue to be partial and in some cases irrelevant to the debt situations prevailing in the region. It should be accepted that debt and poverty can not be resolved using the current blunt instruments. Sustainable solutions to these crises demand drastic and radical changes. These solutions demand questioning the current power relations between the South and North. They also entail a critical examination of what is called 'partners' in development. The pressure group Jubilee 2000 is among those that have offered alternatives to the current non-performing debt management system. These include linking debt relief to the Millennium Development Goals (MDGs), determined by an independent review panel with representatives of both creditor and debt nations. As World Bank and IMF themselves acknowledge, this would likely be complete debt cancellation plus increased foreign assistance. But both institutions reject this proposal on the spurious grounds that 'there are no reliable estimates of the cost of scaling up debt relief to achieve the MDGs.' These calculations have in fact been made - or continue to be made - within the UNDP. In the meantime, the debt crisis is not a single step nearer to being resolved, according to Jubilee and other pressure groups, mainly due to Bank and Fund intransigence.

WAYS OUT

Several ways out of the crises bedevilling the region have been formulated. We take a look at two: one from on high (Nepad) and one from below (civil society). Nepad has been presented as the boldest step yet in advancing Africa's development. Nepad has set itself the following aims: eradicating poverty, sustainable economic growth, more and better education and health care, reduced mother and child mortality and less harm to the environment. An impressive array of Committees and Task Force has been put into place, designed to flesh out the plans.

It is interesting to see how Nepad recognises the need to end bad governance, corruption, mismanagement and the resultant violent conflicts throughout the continent as one of the most important conditions for any economic take-off while at the same time remaining rather mute of the issues of debt cancellation and unfair trade. Precisely solving these twin issues could go some way towards footing the Nepad implementation bill, set at US$64 billion. Some of this money is to be sourced locally but under the current circumstances and in the current

world order most of the billions must come from donors. They have not been forthcoming, as became apparent in June 2002 at the G8 summit in Canada, where a paltry US$ 6 billion was available.

Many criticisms have been levelled at Nepad, the most persistent being that it is a neo-liberal package that will neither lift Africa out of poverty nor reverse the marginalisation of the continent. Nepad represents the adoption, by African governments, of the policies that have been championed by the IMF and the World Bank. These two institutions and the World Trade Organisations (WTO), represent the interests of the United States and other OECD states and corporations. In the view of radical pressure groups, many of whom made their pressure felt at the World Summit in Johannesburg, South Africa, in August 2002, Nepad represents the continuation of the programmes and initiatives aimed at consolidating the interests of global corporations. This includes the ones that are based in South Africa and rapidly expanding their businesses across the continent (South African Breweries, energy giant Eskom, Engen and others come to mind). Governments do little more than promote and protect these interests, in their view, and this also explains why Nepad has been received with acclaim by many governments and corporations based in the North. Resistance to the neo-liberal agenda is also what drives the civil society in South Africa. They include the Social Movement Indaba, whose rallying cry is very clear: 'Our World is Not for Sale.' Its demands set a radically different agenda. They include:

- An end to the policies of privatisation of basic services.
- Debt cancellation for the countries of the South.
- Redistribution of land in favour of poor farmers and the landless.
- A change in the systems that keep women in social and economic bondage.
- An end to the imposition of genetically modified food on the farmers, land and biodiversity of the world.
- Affordable health services for all people, including treatment for HIV/AIDS.
- A clean environment, safe energy and sufficient water for all.
- Reparations to all who have suffered economic, social and environmental damage.
- An end to the implementation of NEPAD.

As the international bodies, most prominently the IMF, World Bank and the WTO pursue agendas that run counter to these demands, the logical outcome has been for civil society to call for these institutions to be shut down.