

# POLITICAL ECONOMY OF TRADE WITH THE EUROPEAN UNION: SOUTH AFRICA'S PURSUIT OF NARROW SELF-INTEREST

Oscar van Heerden<sup>1</sup>

## Introduction

This paper explores how South Africa fits into the regional pattern of trade and what a Free Trade Agreement (FTA) with the European Union (EU) meant for South Africa's regional trading partners. The trade agreement provides an illustration of this facet of South Africa's foreign policy with a particular consideration for how this has affected SACU and the SADC region. It clearly demonstrates an instance when South Africa opted to negotiate with a major global economy without taking into consideration its SADC partners, choosing to "go it alone" instead. This is an interesting scenario as it demonstrates South Africa's potential to act in isolation – independently from its region. It puts into question South Africa's need to bring its region along with it to the negotiation table. At the same time, however the tensions that have emerged in the region, among SADC members, about this very position, have been difficult for South Africa to manage. As such this is a scenario of South Africa acting alone highlighting its pursuit of narrow national interests and the resulting repercussions for its regional partners. The primary research question in relation to this instance is the extent to which the SADC region was a constraint or an opportunity for South Africa during these Trade, Development and Cooperation Agreement (TDCA) negotiations.

The paper begins with a brief account of the reasons for the selection of this external relations example which is followed by a short description of the economic constraints of South Africa. A detailed synopsis of the main events relating to the South Africa/EU trade negotiations from 1995 to 2008 is then presented, before this process is analysed in relation to objectives and

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<sup>1</sup> Post-doctoral Fellow, South African National Research Chair: African Diplomacy and Foreign Policy, University of Johannesburg. E-mail: oscarvanheerden@icon.co.za

outcomes by the various stakeholders.

## History of EU/South Africa trade relations

To provide the economic context for this example, the South Africa–European Economic Community (EEC), and later the EU, trade flows are analysed for the period before the TDCA (1958–2000). A short description of the regional economic context is then provided. These provide the historic and economic contexts to the TDCA negotiations.

South Africa has a population of 46 million people and a GDP of \$570,2 billion. As the nineteenth largest economy in the world at the time of TDCA agreement, it is seen as the economic powerhouse of Africa (Burger 2006). The EU, on the other hand, has a population of 494 million people and a GDP of \$13 881 Trillion (Burger 2006). Since South Africa is the largest economy on the African continent and popularly seen as the gateway to Africa, and in light of its recent historical break (at the time) with the apartheid system, which left the socio-economic conditions in a terrible state, it makes sense why these two would want to engage in a free trade agreement. The Trade, Development and Cooperation Agreement (TDCA) which the two countries entered into, was established in January 2000.

In order to understand the trade negotiation context better, one must reflect on the historical patterns of trade flows between the parties. Such historic analysis must take into account the changes in the South African political landscape since 1994. The pivotal role of the transition to democracy is recognised by the South African Department of Foreign Affairs in its description of South Africa–EU relations:

The advent of a new democratic political dispensation in South Africa in 1994 marked the dawn of a new era in South Africa–EU relations. The legal framework that governs South Africa's relationship with the EU is the Trade, Development and Co-operation Agreement (TDCA), which is premised on political dialogue, trade and economic co-operation, and development co-operation (Burger 2006, 277-315).

However, while the new South African government took shape in 1994, the TDCA was only provisionally implemented on 1 January 2000 and came into force fully on 1 May 2004.

Table 1 presents the key events that were of major economic significance in South African foreign relations with the EU, prior to 1995:

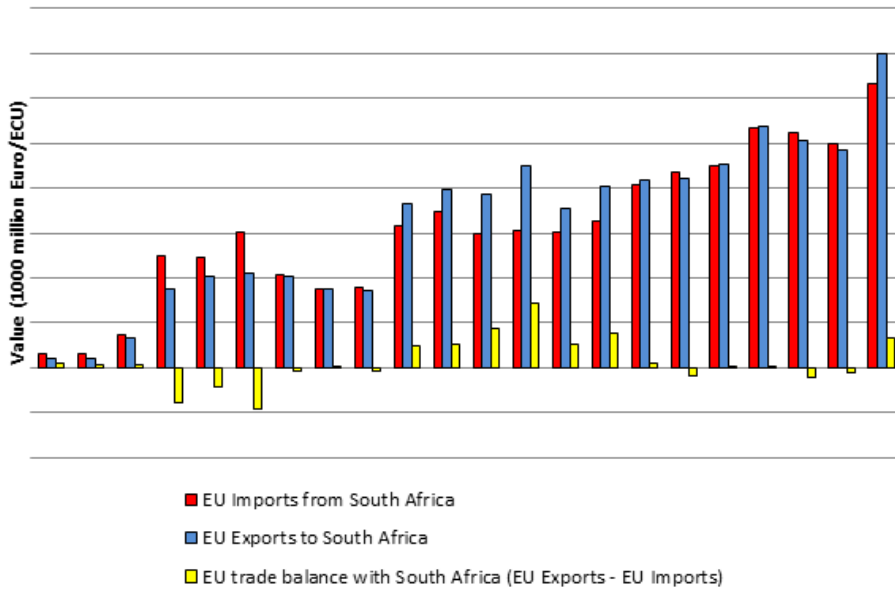
**Table 1: Key EU–South Africa economic events prior to 1995**

Date	Key event
17 August 1992	The Declaration and Treaty of SADC "Towards the Southern African Development Community", adopted in Windhoek, Namibia, by Heads of State or Government of Southern African States, calls upon all countries and people of southern Africa to develop a vision of a shared future, a future within a regional community.
Mar-93	Publication of "The restructuring of the South African Economy: A Normative Model Approach (NEM)"
Dec-93	Macro Economic Research group (MERG) growth plan final report published
Dec-93	Small International Monetary Fund (IMF) compensatory financing facility draft letter of intent accepted by the ANC
Jan-April-94	Reconstruction and Development Programme (RDP) is electoral manifesto of the ANC
Apr-94	South African transition to democracy with first democratic elections
1994	South African becomes a member of SADC
May-94	Inauguration of President Nelson Mandela
Soon after May-94	Offer from EU to develop a "new relationship that could contribute to economic growth and development and thus to the strengthening of democracy in South and Southern Africa"

As illustrated in table 1, the SADC regional structure was only established in 1992, and South Africa was not a member at the time. South Africa was focused on its domestic transition to democracy, and its economic focus was on the "Normative Model Approach" of the National Party government of 1993, which then led to the Reconstruction and Development Programme (RDP) part of the election manifesto of the African National Congress (ANC) in 1994.

Given that the TDCA focused primarily on trade between the two parties, it is important to also understand the historic patterns of the trade relations between the two parties. This provides the background trade context in which the TDCA was negotiated. As the agreement was only signed in 2000, the historical trade patterns between the two parties prior to this date are described. EU trade with South Africa during this period is represented in Figure 1.

Figure 1: EU trade with South Africa (1958–2000)



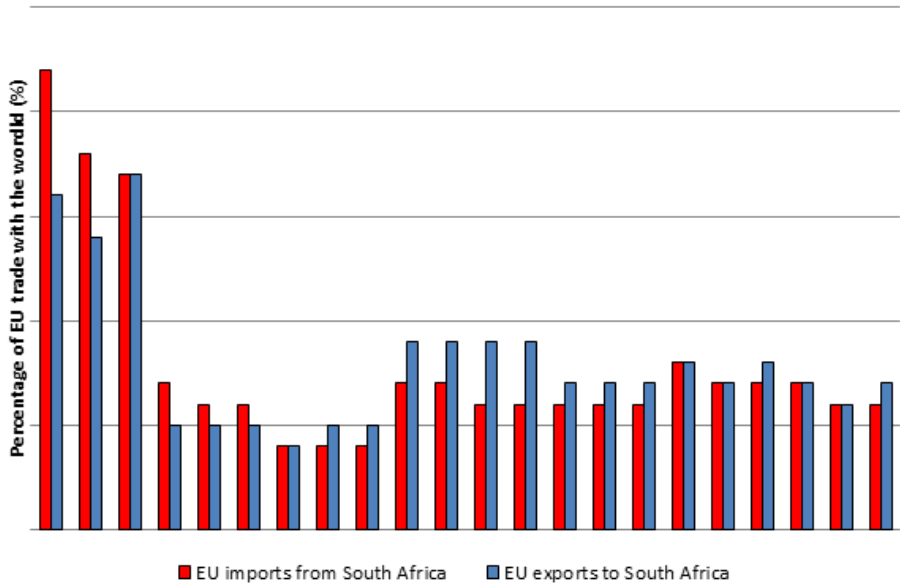
Source: South Africa Country data extracted from European Commission, Euro Stat<sup>2</sup>

During the period from 1958 to 1980 there was a trade deficit with the EU importing more to South Africa than it exported from this country. This pattern continued until 1988 which saw a trade surplus in EU trade with South Africa. From 1988 to 1994 there continued to be a trade surplus. This roughly coincided with the period of international sanctions against South Africa, which officially ended in 1991. From 1995 to 1999 EU exports to South Africa largely matched EU imports from South Africa, with slight trade deficits evident. In 2000 there was once again a trade surplus in EU trade with South Africa. The EU trade balance with South Africa has fluctuated and that the differences in relative value of imports and exports on a year-by-year basis have been relatively small.

The overall share of global trade that South Africa represents for the EU is particularly important as it shows South Africa's relative importance while removing the effect of inflation. This is presented in Figure 2.

<sup>2</sup> Note that data is for 1958, 1960, 1970 and then from 1981 annually.

Figure 2: EU trade with South Africa trade as percentage share of EU–global trade (1958–2000)



Source: South Africa Country data extracted from European Commission, Euro Stat<sup>3</sup>

In 1958, 1,6 per cent of all EU imports were from South Africa and 2,2 per cent of EU exports were to South Africa. By the early 1980s this had dropped substantially, with the percentage share of imports and exports being 0.3% and 0.4% respectively. The decline in EU imports from South Africa in the apartheid period of international sanctions against South Africa is evident in the late eighties and early nineties. It also clearly demonstrates that EU trade with South Africa is relatively minor from an EU perspective, contributing less than one percent of its global trade.

The same is not true from the South African perspective. For South Africa, the EU is a major trading partner, accounting for 42 per cent of South African imports and 33 per cent of its exports in 2001.<sup>4</sup> By way of comparison in 2001, South Africa accounted for 0.7 per cent of the EU imports and

<sup>3</sup> Note that data is for 1958, 1960, 1970 and then from 1981 annually.

<sup>4</sup> Trade data on the EU share of South Africa trade with the world in 2000 was not obtainable. As such 2001 has been used. Source: "EU Bilateral Trade and Trade with the World (ACP including South Africa)," DG Trade, Trade Statistics, European Commission, EuroStat, September 2006. Accessed March 11, 2011. <http://trade.ec.europa.eu/doclib/html/111465.htm>

0.6 per cent of exports to the world (European Commission, EuroStat). These numbers underscore the asymmetric nature of the partnership. Despite the quantitative differences, the importance of South Africa in relation to its domestic, regional and international positioning remains considerable.

It was only after the implementation of the EU–South Africa TDCA (in January 2000), that a recommendation to consider economic regional integration issues was put forward in SADC structures (in March 2001). This was followed by a SADC Memorandum of Understanding on Macro-Economic Convergence (in 2002). It was only in 2003 that SADC released the draft Regional Indicative Strategic Development Plan (RISDP) as a demonstration of its commitment to deepening the integration processes among its members. The RISDP is intended to

provide strategic direction in the design and formulation of SADC programmes, projects and activities in order to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged, through regional integration (Draper, Alves and Kalaba 2006).

So while the SADC was relatively new at the time of negotiating the EU–South Africa TDCA, and South Africa had only joined after its transition to democracy, it is a very important role player when consider the impact of the TDCA on the southern African region. As such it is important to reflect briefly on the trade dynamics between SADC member states. South Africa makes up the lion's share of SADC trade with the world. South African imports account for, on average, 78 per cent of the SADC imports from the world for the period 1999–2004.<sup>5</sup> South African exports were an average of 72 per cent of the SADC exports during the same period.<sup>6</sup>

South Africa is also the dominant player in SACU. This is evident when considering SADC trade data with the world in 2003. South Africa accounted for 75 per cent of the exports and 70 per cent of imports. Other SACU members had a much smaller share of the trade flows.<sup>7</sup> South Africa

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5 Own calculations from data extracted from: SADC Trade Development Programme (Online), SADC trade Database: "SADC 2007 SADC HS4 trade", developed by the Australian Agency for International Development (AusAID) and Trade and Industrial Policy Strategies (TIPS). Accessed March 11, 2011. <http://data.sadctrade.org/st/TableViewer/tableView.aspx>.

6 Own calculations from data extracted from: SADC Trade Development Programme (Online), SADC trade Database: "SADC 2007 SADC HS4 trade", developed by the Australian Agency for International Development (AusAID) and Trade and Industrial Policy Strategies (TIPS). Accessed March 11, 2011. <http://data.sadctrade.org/st/TableViewer/tableView.aspx>.

7 Own calculations from data extracted from: SADC Trade Development Programme (Online),

is the dominant player in both SADC and SACU and its membership in both bodies is the source of some regional tensions.

## Key events in the South Africa/EU TDCA process

The following table presents the key events that were of major economic significance in South African foreign relations with the EU, from 1995 to 2008.

**Table 2: Key EU–South African relevant economic events from 1995 to 2008**

Date	Key event
Soon after May 1994	Offer from EU to develop a "new relationship that could contribute to economic growth and development and thus to the strengthening of democracy in South and Southern Africa" (Davies 2000)
1996	So-called butterfly strategy developed by the South African Department of Trade and Industry prioritised development of relationships with the developing world: Africa (the body of the butterfly), in the Indian Ocean rim and Asia including China (one of the wings) and Latin America and the Atlantic (the other wing)
1996	The SADC Protocol on Trade was signed in Maseru, Lesotho
March 1996	Mandate given by the EU Council to seek exclusion of a long list of products (making up 46% of South Africa's current agricultural exports to the EU)
June 1996	Growth Employment and Redistribution: A Macro-economic strategy (GEAR) report proposes an accelerated programme of privatisation, deregulation and fiscal restraint. It targets a 6,1% growth rate and the creation of 409 000 jobs per annum by the year 2000.
1997	European commission Green Paper on relations between the EU and ACP countries on the eve of the twenty-first century: challenges and opportunities for a new partnership
1997	South Africa admitted to the Lomé Convention with extremely restricted conditions
End of 1997	South Africa presents a detailed trade offer to the EU
Early 1998	EU presents a detailed trade offer to South Africa

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SADC trade Database: "SADC 2007 SADC HS4 trade", developed by the Australian Agency for International Development (AusAID) and Trade and Industrial Policy Strategies (TIPS). Accessed March 11, 2011. <http://data.sadctrade.org/st/TableViewer/tableView.aspx>.

Date	Key event
<b>June 1998</b>	South Africa's qualified membership of the Lomé Convention comes into effect
<b>29 Jan 1999</b>	South African and EU Commission agreement on text in Davos Switzerland
<b>24 March 1999</b>	Heads of government of the EU give approval for a TDCA
<b>26 October 1999</b>	COSATU submission on EU-RSA Trade and Development Cooperation Agreement, presented to a joint sitting of the portfolio committees on trade and industry, foreign affairs, agriculture and land affairs, and the NCOP select committee on economic affairs
<b>2000</b>	Expiry of Lomé IV convention (EU-ACP)
<b>January 2000</b>	Implementation of SA-EU TDCA
<b>April 2000</b>	Africa – EU summit held in Cairo
<b>1 September 2000</b>	Implementation phase of the SADC Protocol on Trade which encompasses the establishment of a Free Trade Area by 2008 (Burger 2002, 146).
<b>2000/2001</b>	The establishment, through Trade and Investment South Africa (TISA) of the Department of Trade and Industry, of "trade and investment promotion offices on the continent for the purpose of facilitating trade and investment between South Africa and the continent .... [African] offices are located in Egypt, Nigeria, Ghana, Uganda, Kenya, Ethiopia, Tanzania, Zimbabwe [and] Mauritius" (Burger 2002, 144).
<b>March 2001</b>	Review Report approved by the SADC Heads of State and Government at the Extraordinary Summit held in Windhoek, Namibia, which recommended, among other things, the formulation of a Regional Indicative Strategic Development Plan (RISDP)
<b>August 2001</b>	Amended Declaration and Treaty of SADC, signed in Blantyre
<b>September 2001</b>	Conclusion of the new Southern African Customs Union (SACU) Agreement, in which the International Trade and Economic Development Division of the Department of trade and Industry (ITED) played a pivotal role (Burger 2003, 159).
<b>2001/2002</b>	The South African Department of Trade and Investment is "mandated the task of providing support services to the establishment of NEPAD" (Burger 2003, 157).
<b>February 2002</b>	Wine and Spirits agreement between South Africa and the European Community signed (Burger 2003, 159).
<b>2002</b>	SADC Memorandum of Understanding on Macro Economic Convergence



Date	Key event
March 2003	Draft Regional Indicative Strategic Plan released by SADC secretariat
July 2004	New SACU agreement comes into force (Burger 2007, 169).
August 2004	SADC secretariat finalising the mid-term review on the implementation of the SADC Protocol on trade
Mid 2005	All SADC countries (with the exception of Angola, the DRC and Madagascar) were implementing the SADC Trade Protocol (Burger 2007, 169).
August 2005	SACU concluded a Free Trade Agreement with European Free Trade Area (FTA) States (Burger 2007, 170).
August 2005	South Africa and the EU signed the Enlargement Protocol, which provides for South Africa to extend the TDCA preferences to 10 new member states and vice versa (Burger 2007, 170).
March 2006	SADC proposal for a way forward vis-à-vis the EU, a framework in which the revised TDCA is to play a key role
Mid 2006	Substantial progress on harmonising documentation, and procedures, and in preparing the Memorandum of Understanding (MoU) on Cooperation and Mutual Assistance among Customs Administrators in SADC countries (Burger 2007, 169).
December 2007	EU Africa summit held in Lisbon

In economic terms the most significant event in the above sequence was arguably the shift in macroeconomic policy from the RDP policy document to GEAR. Another important event was the fact that South Africa had wanted to attain full membership of the Lomé Convention through which it would have qualified for various forms of developmental assistance and aid. However South Africa was not, at first, admitted to this agreement, and when it was later, this was only with qualified membership. The reason was that South Africa plays a dominant role in trade between the African Caribbean Pacific (ACP) countries and the EU. Southern African Customs Union (SACU) countries (other than South Africa), together with the ACP countries were signatories to Lomé. For the EU, taking into consideration the economic plight of many of the Lomé signatories and their low economic base, a blanket approach and concessions from the EU would greatly advantage the South African economy. This has implications for the impact of the TDCA on the regions, which are examined later in this chapter.

Finally the above sequence of events clearly shows that South Africa's involvement in, and membership of SADC, ran in parallel to the TDCA negotiation process.

## The South Africa/EU TDCA

A Free Trade Agreement (FTA) signed in 2000 between South Africa and the EU committed South Africa to grant duty-free access to 86 per cent of EU imports over a period of 12 years, while the EU committed to liberalise 95 per cent of South Africa's imports over a ten-year period (Southern African Development Community Cooperation in Standardisation). It was expected that the TDCA would help to restructure the South African economy and stimulate long term economic growth (Southern African Development Community Cooperation in Standardisation). Rob Davies, South Africa's deputy Minister of Trade and Industry, reflected that the main objectives of the TDCA were to address "the problem that South Africa had the worst possible terms of access into the EU market".<sup>8</sup> He also indicated that the agreement covered "trade and related issues, co-operation in economic, social and political fields".<sup>9</sup> The agreement also provided "a legal framework for ongoing EU financial assistance on grants and loans for development co-operation, which [amounted] to R900 million per year". (Southern African Development Community Cooperation in Standardisation). The main provisions of the FTA were agreements on:

- An asymmetric timetable;
- Identification and protection of sensitive products;
- The integration of South Africa into the global economy;
- The introduction of the "rules of origin" doctrine;
- Cooperation in diverse fields.

Each is explained briefly below.

An asymmetric timetable was agreed upon by both parties in the agreement. This meant that while the trade agreements were reciprocal, each party had different timeframes for achieving the targeted objectives. Generous timelines were specified for both parties to ensure mutual benefit within the time frame agreed upon. Given the massive restructuring agenda of South Africa, the EU agreed that it would open up its markets faster than

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8 Interview with Rob Davies, Deputy Minister of Trade and Industry, Pretoria, conducted early 2009.

9 Interview with Rob Davies, Deputy Minister of Trade and Industry, Pretoria, conducted early 2009.

would South Africa.

The identification of certain sensitive products was deemed necessary by both parties to agree on the protection of key sectors. This was done especially where there were seen to be undue impact on South Africa's neighbouring trade partners. Thus, some products were excluded from the agreement in order to protect vulnerable sectors on both sides. These were mainly agricultural products. From the South African side, products which are of interest for those neighbouring countries within SACU were also excluded. South Africa wanted products from the motor vehicle industry, textiles and clothing to be excluded while the EU wanted mainly agricultural products to fall within this ambit (Southern African Development Community Cooperation in Standardisation). This was of particular importance for both parties since there was a tacit understanding that if the parties did not confine these sensitive products to the periphery of the trade agreement, endless problems would have been encountered by the negotiating teams.

The agreement also wanted to ensure the integration of South Africa into the world economy. This is made explicit in the following extract on the aims of the FTA:

The creation of the FTA aims to end South Africa's economic isolation following the Apartheid regime by helping to promote economic growth. In this respect, the free trade agreement fully complies with the rules of the World Trade Organisation (WTO), the key organisation of the world economy (Southern African Development Community Cooperation in Standardisation).

In addition to the above, the provisions of the TDCA extend to cooperation in fields as diverse as:

- Social cooperation, where both parties committed to initiating dialogue on this subject in order to tackle questions relating to the social problems of a society coming out of an era of apartheid. They both guaranteed basic social rights such as the freedom of association;
- Co-operation to protect the environment;
- Cultural cooperation;
- Co-operation in the fight against drugs and money laundering; and
- Co-operation in the field of health and, in particular, the fight against AIDS (Southern African Development Community Cooperation in Standardisation).

The above was particularly important for the EU since most countries were in agreement that given the history of South Africa, it needed help beyond the economic front. Apartheid had left the country with many social and political woes and hence an economic package in the absence of tackling these components would be a futile exercise.

## Analysis of the South Africa/EU TDCA process

With the above understanding of the main events that have transpired in the EU–South African TDCA, of the South African economic context at this time, and of the substance of the TDCA, it is now possible to provide an analytical interpretation of them. This analysis is conducted in order to reflect on the interplay between South Africa's foreign policy behaviour at the regional and international levels in this economic example. This section examines the South African government objectives, and the outcomes of these both domestically and regionally in relation to the EU TDCA.

An examination of the ACP trade data shows that South Africa dominates not only intra trade among the signatories but also trade with other countries in the world, and is clearly not in the same economic position as the other ACP countries.<sup>10</sup> This makes it clear why the EU decided to only allow South Africa qualified membership into the Lomé Convention. When asking the question why the EU did not accept South Africa as a full member of Lomé, one must look at a number of reasons. According to Hill (2001), European motives were clearly a mixture of the internal and the external. He argues that internally, ministers were always aware of the perceived threat that South Africa posed to both European farmers and industrial workers, by virtue of its semi-developed position. He continues that, externally, the EU's motives were rather more statesmanlike and less obviously self-interested. The EU's interests lay not only in seeing South Africa recover politically and blossom economically, but also in seeing it become the engine of growth in the whole of southern Africa, a region that has been blighted by war, poverty and disease since the 1970s. The EU wished to see regional integration develop in southern Africa, and this would not have happened if South Africa had acceded to the trade and aid chapters of Lomé (Hill 2001). Given the relatively small economies of the ACP economies, with preferential stipulations from the EU a necessity when dealing with such economies, a useful and constructive engagement with an economy such as South Africa would simply not

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10 Data on ACP trade separates South Africa from the other African countries in recognition of how significantly the South African data skews the overall analysis.

have been possible.

South Africa was in a very difficult position preceding the trade negotiations with the EU. On the one hand, it had to be seen to want to redress the huge imbalances created by the apartheid regime and improve the lives of ordinary South Africans. This almost certainly meant more state intervention in the economy, possibly a programme of nationalisation of key sectors in the economy and a heavy emphasis on social welfare. On the other hand, South Africa faced the realities of the global market, which among other issues would entail an opening of the domestic market and the liberalising of the economy to attract foreign direct investment. The latter, some argue, flows against the former objective. It was constraints such as these that shaped South Africa's approach and policy objectives as it entered into trade negotiations with the EU.

The South African government projects itself as having SADC as the "centrepiece" of its foreign economic policy (Hill 2001). This projection of its foreign economic policy is clearly evident when tracking how the South African government has described its trade relations with Africa and the SADC since 2000 in its yearbook.<sup>11</sup> The descriptions of African relations in these documents are revealing of how South Africa would like to be seen to be acting in its economic relations:

**Table 3: Yearbook descriptions of South Africa's economic trade relations with EU and the SADC 2001–2008**

Year book	Description of SADC trade relations	Description of EU trade relations
2001/02	<p>"Africa forms the focus of South Africa's global economic strategy, within which the government pursues a strong developmental agenda partnerships with countries on the continent are therefore considered vital and strategic" (Burger 2002, 144).</p> <p>"The centerpiece of South Africa's foreign policy is the SADC... South Africa's interests and objective in the southern African region and guided by strong linkages between the domestic and regional economy" (Burger 2002, 145).</p>	<p>"Relations with Europe, with the EU as the pivot, are economically crucial...The historic TDCA between South Africa and the EU...is a key component of South Africa's trade policy since the EU is the countries largest trade and investment partner, accounting for about 40% of South Africa's total world trade" (Burger 2002, 147).</p>

<sup>11</sup> No yearbooks were produced and published publicly in the period 1995–1999. The yearbooks start from 2001/02 and are published annually thereafter.

Year book	Description of SADC trade relations	Description of EU trade relations
2002/03	<p>As above and (with specific reference to African and SADC as key market for SA goods):</p> <p>"Africa is an important market for South African exports" (Burger 2003, 156).</p> <p>"As the market for a large proportion of South Africa's high value-added exports, the growth of these domestic industries is inextricably linked to the growth of the region's economies" (Burger 2003, 157).</p> <p>Mention is made of the trade imbalances with the rest of Africa, as being largely "offset by South Africa's investment in the continent, aimed at infrastructural projects designed to enhance the productive capacities of African economies" (Burger 2003, 156).</p> <p>"In southern Africa, South Africa seeks to restructure regional arrangements promoting industrialization. The department supports the process whereby interested manufacturing platforms are the basis for an integrated regional industrial strategy. This entails using southern Africa as an integral part of supply chains for globally competitive manufacturing processes. Through a combination of sectoral cooperation, policy co-ordination, and trade integration, South Africa's regional policy aims to achieve a dynamic regional economy capable of competing effectively in the global economy" (Burger 2003, 157).</p>	<p>Largely as above with specific reference to the TDCA, and.</p> <p>"The long awaited wine and spirits agreement between South Africa and the European Community was signed in February 2002, concluding the TDCA, and firmly establishing South African wines and spirits exports in its major market" (Burger 2003, 159).</p>
2003/04	<p>As above and:</p> <p>"South Africa's economy is inextricably linked to that of the southern African region and its own success is linked to economic recovery of the continent through NEPAD. The development challenges must be viewed in light of the mutually beneficial economic and developmental impact of South Africa and Africa's self-enforcing and economic existence" (Burger 2004, 169).</p>	As above

Year book	Description of SADC trade relations	Description of EU trade relations
2004/05	<p>As above and a description of the work of the International Trade and Economic Development (ITED) division of the Department of Trade and Industry which has a global economic strategy which “was formulated in light of the country’s relations with SADC, the rest of Africa, NEPAD and economic relations with the developed and developing trading partners in the North and South” (Burger 2005, 160).</p> <p>And:</p> <p>“Since attaining democracy in 1994 South Africa has put regional integration by SADC member states at the top of its foreign economic agenda. This approach comes from the belief in the economic benefits that can be brought to all member states by closer economic cooperation in the region.”</p>	<p>As above with:</p> <p>“Trade relations with Europe, particularly the EU a pivotal to South Africa’s economic development. The TDCA with the EU forms a substantial element of South Africa’s reconstruction and development” (Burger 2005, 163).</p>
2005/06	As above.	As above.
2006/07	<p>As above, and:</p> <p>“Addressing development challenges will be mutually beneficial to South Africa and the rest of Africa”.</p> <p>Mention is made of the SACU free Trade Agreement with the European Free Trade Area EFTA (of August 2005)</p>	<p>As above and</p> <p>“In August 2005, South Africa and the EU signed an enlargement Protocol, which provides for South African to extend the TDCA preferences to the 10 new members states and vice versa” (Burger 2007, 170).</p>
2007/08	<p>Largely as above and:</p> <p>“To complement the SADC and SACU processes, South Africa pursues a bilateral strategy for engagement with countries in the southern African region. This strategy is underpinned by the objective of achieving economic growth and development in the region through outward investment, infrastructure development and trade liberalization” (Burger 2008, 148).</p>	As above

This table shows the chronological development of the increasing sophistication of South Africa’s projection of its relations with SADC which is the “centre piece” of its foreign policy, and the EU relations which are the “pivot”, and “economically crucial”. The descriptions relating to Africa and

SADC show that over time, South Africa's projection of its role in Africa becomes more sophisticated, shifting from seeing Africa as a market to having its development challenges as critical to its own success.

The relations with EU are largely already in place by 2000, with only the wine and spirits agreement being delayed until 2002. So while there was planned talk of a parallel process in reality to EU engagement preceded the SADC and SACU processes with South Africa concluding these bilaterally, before bringing SADC along with it, as this regional structure matured.

It is clear the government talk has been of having SADC and southern African region as the centrepiece of its economic foreign policy. However the extent to which this has been enacted and become a reality is far less clear. This tension, between vision or intention and concrete actualisation of trade relations, is described by Qobo, when he explains that talking about the SADC region "is very tricky".<sup>12</sup> He elaborates that when the government engaged in its relationships with SADC in the early nineteen nineties, there were a set of assumptions about SADC being at the heart of the foreign economic policy, where "our destinies in South Africa are primed to the destinies in SADC".<sup>13</sup> However, "what has not happened is to define precisely what we seek to achieve in the region for South Africa".<sup>14</sup>

The shift to emphasising trade *and* development is evident in the discussion with Qobo, from the Department of Trade and Industry. He explains that there has been some "high level thinking where we try and shift emphasis to what we call *developmental regionalism*"<sup>15</sup> (my emphasis). This is also evident when he explained the role of the International Trade and Economic Development (ITED) division of the DTI:

The focus on trade policy development as a cross cutting area and South Africa's attitude to trade, transcends the conventional textbook trade view. We are aware of the unique role we play in the broader continent, so any component of our work is developmental.<sup>16</sup>

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12 Interview with Mzukizi Qobo, Department of Trade and Industry, Pretoria, responsible for trade policy development, conducted early 2009.

13 Interview with Mzukizi Qobo, Department of Trade and Industry, Pretoria, responsible for trade policy development, conducted early 2009.

14 Interview with Mzukizi Qobo, Department of Trade and Industry, Pretoria, responsible for trade policy development, conducted early 2009.

15 Interview with Mzukizi Qobo, Department of Trade and Industry, Pretoria, responsible for trade policy development, conducted early 2009.

16 Interview with Mzukizi Qobo, Department of Trade and Industry, Pretoria, responsible for trade policy development, conducted early 2009.



He went on to explain that trade policy forms an integral part of their overall foreign policy of South Africa:

We are conscious of the fact that you cannot “dis-embed” trade policy from the broader foreign policy objective. One example is when you look at the foreign missions operations abroad you will immediately notice that you will have [representatives] from DTI as well as from DFA. So there is a conscious understanding of the interrelatedness of the two roles of trade and foreign policy.<sup>17</sup>

This shows that South Africa seeks to project a developmental trade policy agenda towards SADC. It used the same approach in its EU negotiations, positioning the TDCA as an agreement of both trade and development.

## Domestic outcomes

In January 1999 there was agreement on the text of an EU South African agreement. The heads of government of the EU soon (March 1999) gave formal approval for the TDCA. In October 1999 the South African domestic concerns about the TDCA process and content were officially documented by the broad-based South African labour federation, the Congress of South African Trade Unions (COSATU). COSATU raised various concerns about the broad consultations undertaken by the South African government. These processes it felt were inadequate for COSATU to input substantively and continuously into the negotiation process.

Within this context of domestic concerns about the TDCA process, the South African government therefore deemed it important that they stress the developmental character of the agreement, in order for them to be in a position to effectively address the socio-economic imbalances of the broader South African population. Notwithstanding this government positioning of the TDCA at the time of the negotiations, the extent to which the TDCA was actually developmental in its final outcomes has been questioned domestically. Vickers argues that “we should stop talking about the TDCA as a developmental agreement. It was a hard-nosed bruising trade negotiation...We fought hard and learnt a lot of lessons.”<sup>18</sup> Davies also expresses the outcomes of the TDCA for South Africa, in terms of economic gains, and not developmental

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<sup>17</sup> Interview with Mzukizi Qobo, Department of Trade and Industry, Pretoria, responsible for trade policy development, conducted early 2009.

<sup>18</sup> Interview with Brendan Vickers, senior researcher on multilateral trade, Institute for Global Dialogue, February 2009.

ones:

I think by and large we [South Africa] secured a reasonable outcome in terms of access into the EU markets, access by the EU producers into the South African market, while not undermining our most sensitive sectors.<sup>19</sup>

This sentiment is also voiced by Qobo who describes the main objectives of the TDCA, from the South African perspective, as being “to expand trade between the EU and South Africa”.<sup>20</sup> Davies makes a similar point about how the commercial interests of the EU over-ride their developmental imperatives. He explains that

when you meet with the developed world to negotiate a trade agreement, on the one side they put all their best intentions to try and help; and on the other, they put... just look at it as a straight fight between commercial interests. And [the latter] is what it is ultimately about. They have commercial interests and they will pursue their commercial interests. And their commercial interests will be a limitation as to what they are prepared to grant you for other [developmental] reasons. That's just the reality – and that was evident in the TDCA negotiations as well.<sup>21</sup>

At the time of the TDCA agreement, the South African public saw media reports on South Africa's role in championing a pro-Africa trade agreement, through support for the cancellation of African debt, engagement with the G8 on farm subsidies in the agricultural sector.

## Regional outcomes

Substantial tension existed for South Africa in managing the perceptions with regional neighbours. SADC was not yet mature and in a position to negotiate directly with the EU and simultaneously South Africa was not seen as qualifying to be part of the Lomé convention. These regional tensions are clear articulated by Qobo who explains that there was a combination of historic mistrust and concern about South Africa's dominant role in the region, and resentment at South Africa's exceptional status and relative economic

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<sup>19</sup> Interview with Rob Davies, Deputy Minister of Trade and Industry, Pretoria, conducted early 2009.

<sup>20</sup> Interview with Mzukizi Qobo, Department of Trade and Industry, responsible for trade policy development, conducted early 2009.

<sup>21</sup> Interview with Rob Davies, Deputy Minister of Trade and Industry, Pretoria, conducted early 2009.

prosperity in the region.<sup>22</sup> He explained that historically (during the Union of South Africa and during apartheid), the southern African regional countries were regarded as extensions of South Africa. The foreign policy role was very “overt” and “dominant”.<sup>23</sup> This historical fear was coupled with a new found hope that South Africa holds the key to embracing a new regional policy approach – one that is positive, and in contrast to this historical past. Qobo explained that at the same time, “there has always been resentment [from the southern African countries, about] the level of economic growth that South Africa has enjoyed, and the diversity of its structural capacities”.<sup>24</sup>

It is clear that from the perspective of the other countries in the region, as well as from the EU, South Africa was seen as different, or set apart from, the rest of the region. It was seen as “an African country that is different from its neighbours”.<sup>25</sup> There was a major tension in how much more commercially productive and competitive South Africa is in relation to its neighbours. The dominance of South Africa in SADC is stressed by Draper et al., when they argue that South Africa is not an “ordinary” SADC member state, as it “dominates the region economically (accounting for about 60 per cent of SADC total trade and about 70 per cent of SADC GDP), rendering it indispensable for any regional economic integration process” (Draper, Alves and Kalaba 2006).

Brendan Vickers describes this tension between South Africa and the other SADC member as a “long-standing tension” and attributes this to the conflicts created by South Africa negotiating alone with the EU, while simultaneously being part of SACU.<sup>26</sup> He explains that as a result of South Africa’s membership in SACU, “whatever common external tariff was agreed in the [TDCA] negotiation, would automatically apply to the lesser developed members of the customs union [SACU]”.<sup>27</sup> Qobo corroborates, that the major tension facing the region with regard to the TDCA, was the impact that reducing trade tariffs would have on other SACU members. He explained that

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22 Interview with Mzukizi Qobo, Department of Trade and Industry, responsible for trade policy development, conducted early 2009.

23 Interview with Mzukizi Qobo, Department of Trade and Industry, responsible for trade policy development, conducted early 2009.

24 Interview with Mzukizi Qobo, Department of Trade and Industry, responsible for trade policy development, conducted early 2009.

25 Interview with Mzukizi Qobo, Department of Trade and Industry, responsible for trade policy development, conducted early 2009.

26 Interview with Brendan Vickers, senior researcher on multilateral trade, Institute for Global Dialogue, February 2009.

27 Interview with Brendan Vickers, senior researcher on multilateral trade, Institute for Global Dialogue, February 2009.

reducing trade tariffs in the TDCA would increase imports from the EU into the region, thereby reducing the SACU tariff revenue, on which a number of SACU members depend.<sup>28</sup>

Vickers elaborates that there are contesting narratives that have emerged from the regions response to the TDCA purpose, and postulates that “only insiders” would have a true understanding of what actually transpired.<sup>29</sup> On the one hand, it is reported that South Africa put forward its position as being part of SACU, and not wanting to or being able to “leave our neighbours behind”; and it was the EU that argued for an agreement with South Africa, given that the other SADC and SACU members were included in the Cotonou Agreement, from which South Africa was excluded.<sup>30</sup> On the other hand a “conspiracy theory” is put forward that South Africa negotiated in isolation, as it wanted to “break up SACU, because they [South Africa] don't need SACU any more”.<sup>31</sup> This sentiment is further supported by Grant, who argues that as an economic powerhouse in the South, South Africa found it difficult to satisfy its own trade needs and that of the region but it attempted to satisfy this objective as far as possible. As Grant stipulates, negotiating the TDCA for South Africa meant the exclusion of the SACU countries with detrimental consequences for the Botswana Lesotho Namibia and Swaziland (BLNS) countries. She indicates that,

even though South Africa was a member of SACU at the time of entering into negotiations with the EU, it chose to do so alone and not to include the BLNS 4 countries. The Agreement has had a large impact on the BLNS who are effectively de facto parties to the TDCA. Because of the common external tariff in SACU, the BLNS will be forced to reduce their tariffs on imports from the EU at the rate agreed by South Africa in the TDCA (Grant 2006).

She further states that because of the above, this was expected to have an impact on tariff revenue for the BLNS and it has been estimated that this could be around a 21 per cent decrease (Greenberg 2000 apud Grant 2006). Botswana has been estimated to lose around 10 per cent of its total national

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28 Interview with Mzukizi Qobo, Department of Trade and Industry, responsible for trade policy development, conducted early 2009.

29 Interview with Brendan Vickers, senior researcher on multilateral trade, Institute for Global Dialogue, February 2009.

30 Interview with Brendan Vickers, senior researcher on multilateral trade, Institute for Global Dialogue, February 2009.

31 Interview with Brendan Vickers, senior researcher on multilateral trade, Institute for Global Dialogue, February 2009.

income as a result of the TDCA (Sandrey 2005 apud Grant 2006).

In opposition to this general view, the extent to which there was regional tension caused directly by the TDCA was down-played by Davis, when he argues that at the time of the TDCA negotiation, there was no agreement in place with SACU to negotiate together and explains that although the other SACU members were affected by the TDCA outcomes, there was some consultation with them. In his view the tensions with regard to the way the BLNS countries were affected by the TDCA was “not such a major factor”.<sup>32</sup>

SADC members were however clearly weary of South Africa, due to its historic role in the region, as well as its exceptional economic and competitive status. As a result, several SADC members hold overlapping and competing membership of regional bodies. These bring with them, their own set of complexities. These challenges and the explicit impact on relationships with the EU are made clear by Kalaba et al., in this extract:

Deepening integration in SADC remains a highly challenging and contentious process, hence member states are cautious in their approach. On the one hand member states have made commitments of deeper regional integration through various steps, from free trade area to common markets, as stipulated in the Regional Indicative Strategic Development Plan (RISDP) document. On the other hand, members remain committed to multiple and overlapping memberships to other regions despite obvious incompatibilities. Instead of seeking solutions to the existing problems, more complexities to the problem are added. The recent addition is in the form of the ongoing Economic Partnership Agreement with the European Union. All these are taking place concomitant with the need to harmonise domestic policies of those regional groupings to which they are members (Kalaba et al. 2006).

Dicks who reflected on this issue by explaining that “we have to accept that the levels of economic activity and growth [between south Africa and rest of SADC] are at different levels, and that South Africa is an “exception from the rest”.<sup>33</sup> He pointed out that this exceptional status has some negative implications for South Africa. It is not able to benefit from duty free and quota free access to European markets, as it is in a different economic position to

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32 Interview with Rob Davies, Deputy Minister of Trade and Industry, Pretoria, conducted early 2009.

33 Interview with Rudi Dicks, executive director of the National Labour Education and Development Institute, and former Policy Specialist on Labour Market Trade and Economic Affairs, COSATU, conducted in 2008 and early 2009.

other SADC countries for example.<sup>34</sup>

In the 2001/02 yearbook, trade relations with SADC are described in relation to South Africa's trade surplus, and the trade imbalance in the region: "Although a sizable share of South Africa's exports is destined from SACU and other SADC countries, South Africa imports relatively little from the region" (Burger 2002).

**Table 4: South African trade with SADC (2000) (Burger 2002)**

2000: Billions of rands	South African exports to	South African imports from	Total trade value	Trade balance
SADC	15	2.6	17.6	12.4

In contrast, the 2001/02 yearbook described trade with Europe (with the EU as the pivot) in quantitative terms:

Europe is the largest source of investment for South Africa and accounts for almost half of South Africa's total foreign trade. Seven of South Africa's ten top trading partners are European countries (Burger 2002).

The actual trade figures for 2000 are then presented in some detail. These are tabulated below:

**Table 5: South African trade with European countries (2000) (Burger 2002)**

2000: Billions of rands	South African exports to	South African imports from	Total trade value	Trade balance
Britain	18.9	16.1	35	2.8
Germany	16.4	24.8	41.2	-8.4
France	3.9	7.8	11.7	-3.9
Switzerland	3.7	4.4	8.1	-0.7
Belgium	6.4	2.9	9.3	3.5
Sweden	1	2.9	3.9	-1.9
Denmark			1.3	
Italy			3	

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<sup>34</sup> Interview with Rudi Dicks, executive director of the National Labour Education and Development Institute, and former Policy Specialist on Labour Market Trade and Economic Affairs, COSATU, conducted in 2008 and early 2009.

Central and Eastern Europe			2.5	
Total of reported European trade (in 2001/02) yearbook	50.3	58.9	116	-8.6

From this it is clear that, although SADC may be called the “centrepiece” of South Africa’s foreign economic policy, it is quantitatively eclipsed by the amount of trade with merely a selection of European countries. Total trade with Germany alone is more than double the total trade that South Africa has with 14 SADC countries. The significant trade surplus with SADC countries further diminishes its “centrepiece” position.

In the 2007/08 yearbook, trade relations with SADC are described thus:

Since the attaining democracy in 1994, South Africa has but regional integration at the top of its foreign economic agenda. South Africa has pursued a policy combining sectoral co-operation, policy coordination and trade integration to forge a dynamic regional economy capable of competing effectively in the global economy (Burger 2009, 148).

**Table 6: South African trade with SADC (2006) (Burger 2009)**

2000: Billions of rands	South African exports to	South African imports from	Total trade value	Trade balance
SADC	35,849	10,440	46,289	25,409

The overall trade ratio between South Africa and SADC had diminished from the year 2000 levels of 7:1 to 3:1.

The 2007/08 yearbook described trade with Europe again as:

Trade relations with Europe, particularly with the EU, are pivotal to South Africa’s economic development. The TDCA with the EU forms a substantial element of South Africa’s reconstruction and development.

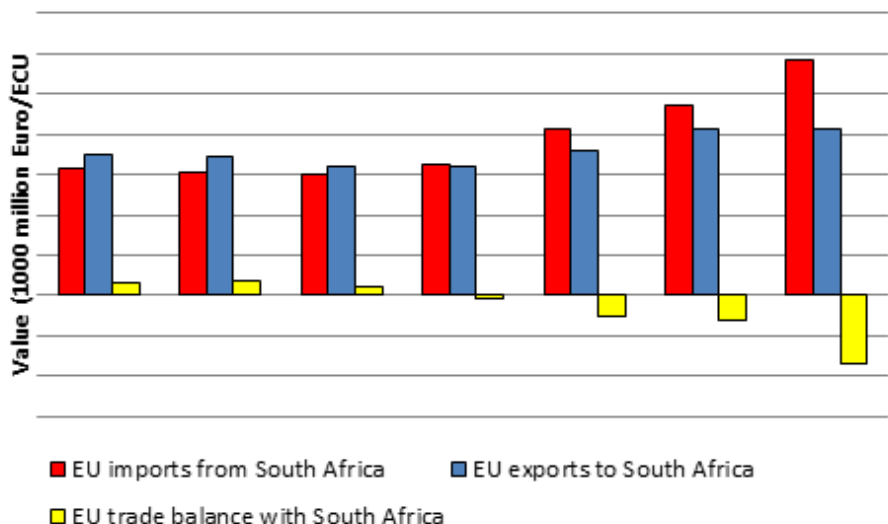
The trade figures for 2006 are presented in relation to Europe and the EU:

Table 7: South African trade with Europe and the EU (2006) (Burger 2009)

2006: Billions of rands	South African exports to	South African imports from	Total trade value	Trade balance
Europe	139,574	168,198	307,772	-28,624
EU (as part of the above)	126,373	161,053	287,426	-34,680

Figures 3 and 4 present EU trade with South Africa in value terms, and as a percentage of EU trade with the world:

Figure 3: EU trade with South Africa (2000-2006)



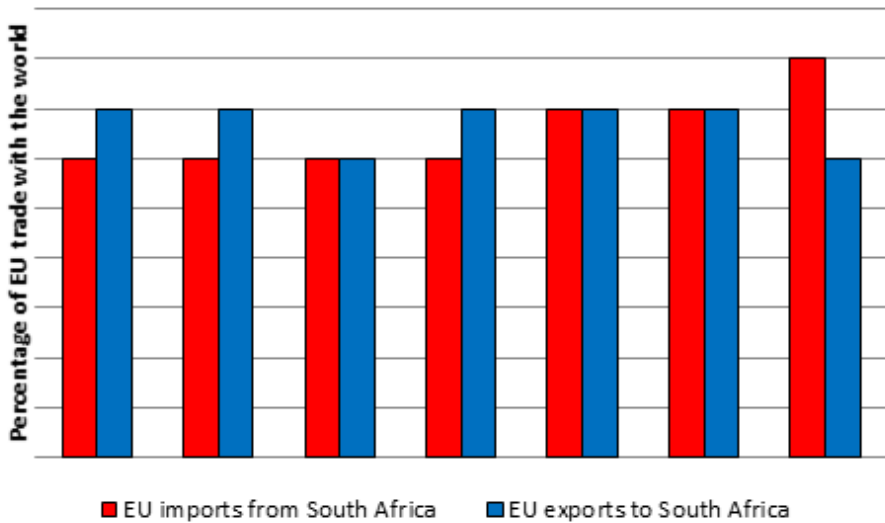
Source: South Africa Country data extracted from European Commission, Euro Stat<sup>35</sup>

The value of EU trade with South Africa has increased following the TDCA and the percentage of EU trade with South Africa has been within the 0.6% range, with increased for 0.7% in 2004-2006. However, the projection of SADC as the centerpiece of South Africa's policy, seems not be actualised when considering the actual trade patterns. The EU has far more prominence in the trade data, than SADC does. In this regard, South Africa does not seem to be providing to the region in terms of a trade.

35 Note that data is for 1958, 1960, 1970 and then from 1981 annually.



Figure 4: EU trade with South Africa as percentage share of EU–global trade (2000–2006)



Source: South Africa Country data extracted from European Commission, Euro Stat<sup>36</sup>

## Conclusion

From the historic context and process tracing analysis presented in this chapter, it is important to bear in mind that the EU–SA TDCA was the first bilateral agreement that South Africa negotiated post apartheid. It is clear that SADC was in its infancy at the time of the EU TDCA negotiations and as such the main reason for South Africa negotiating on its own, and not as a SADC member. Given the point in time at which the TDCA took place a bilateral agreement with the EU was inevitable. This benefited South Africa (over its neighbours), but as SADC structures have matured, and South Africa increases its provision to these regional integration processes the region is set to benefit.

The South African government policy towards the SADC region and Africa in general is increasingly developmental regionalism. South Africa takes on its role as representing the region and Africa in general in global forums, and there has been a clear shift in the projection of its foreign policy from Africa being viewed as potential market for South African commercial

<sup>36</sup> Note that data is for 1958, 1960, 1970 and then from 1981 annually.

activity, towards South Africa as supporting and driving investments in infrastructure and development in the region, and continent more broadly. The emergence of the ITED division of the DTI shows this growing institutional capacity to support its trade and development agenda. The Economic Free Trade Agreement (EPA) and SACU FTA have taken place on the back of the experience gleaned and capacity developed through the TDCA process.

As for the issue of dualism as it relates to trade negotiations, this will remain an obstacle for as long as the “neo-mercantilist” world view remains intact. Nations will always put their domestic priorities above those of the regional partners unless they begin to put into practice an alternative view of how they might survive economically within this globalised market economy.

Will the TDCA ultimately result in the growth patterns needed by the South African economy in order to create the much needed job opportunities? Only time will tell. There are many different views on what South Africa could have done differently during this negotiation process but be that as it may, the South African government is resolute that the TDCA with the EU has produced the required results and that it will continue to do so in the immediate future. South Africa is also very much satisfied with its standing within the international arena at this point in history. It has been welcomed into almost all the necessary international organisations and has already demonstrated in many respects that it can fulfil a leadership role if and when required to do so, as we have seen with the chairpersonship of the World Bank and the IMF, as well as the current rotating seat in the United Nations Security Council.

Finally, the twin track approach adopted by the EU Commission (even though it met huge resistance from certain quarters at times) did finally pay off. The Director General for Development would have wanted to see greater concessions made for South Africa but in general a better deal came out of these negotiations than have been initially anticipated. Even though, the same cannot be said for the region as such. As for South Africa and the socio-political advances attained, the EU can only but be satisfied that not only has there been sufficient progress but that their ultimate aim of wanting to position South Africa as a leading power on the continent has come to fruition. SADC however, one must conclude, was a constraining factor for South Africa during these trade negotiations. Only time will tell whether further economic integration in the region, will ultimately lead to the desired economic outcomes.

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## ABSTRACT

In the years between 1995 and 2008 South Africa was engaged in trade negotiations with the European Union (EU), which were seen as platform for addressing the trade imbalances in favour of the EU. In 2002, a Free Trade Agreement (FTA) was signed between South Africa and the EU. Despite its membership to the Southern Africa Development Community (SADC), South Africa engaged on the negotiations on its own which led to trade and political tensions with other countries within the community. By going alone South Africa was clearly indicating an appetite to vigorously pursue its interests at the expense of regional partners. It is argued that the exclusion, at an early stage of the negotiations, of other regional countries within SADC was counterproductive and had the potential to harm the regional trade relations. In addition, the change of approach at later stage that brought in the regional approach to the negotiations improved the regional trade relations within SADC.

## KEYWORDS

South Africa; European Union; Trade.

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