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A China-SACU FTA: What's in it for SA?

China touts its free trade agreements as mutually beneficial, but is this yet another manifestation of the Chinese principle of 'aggressive competition'?

The primary reasons for China's eagerness to enter a free trade agreement (FTA) with the Southern African Customs Union (SACU), particularly SA, is to secure more predictable market access for its global exports and to obtain much-needed natural resources.

Between 2002 and 2003, steel and iron ore exports from SA to China rose by 173%, while exports of non-ferrous metals increased by 123%. In addition to boosting South-South trade, China is eager to reach an FTA with SA, owing to what the Chinese view as complementary economies. They aim to increase bilateral trade to $10 billion before 2010. Trade between the countries is set to reach around $5 billion at the end of 2004.

However, SA and the rest of SACU have legitimate concerns about the impact of an FTA with China. The concerns are twofold: firstly, that cheap Chinese products will flood SA's market, and secondly, that they will replace SA goods being exported to the BLNS states. Our ability to compete with China is hampered by its adoption of less stringent labour, trade and environmental standards, although China's entry into the WTO is forcing it to begin compliance.

The main opposition to a China-SACU FTA in SA arises from industry and the trade unions who fear that an inability to compete with the influx of Chinese manufactured goods, especially in clothing and textiles, may translate into the shedding of more jobs in those sectors and the further loss of market share. BLNS states will be most affected, as they were when SA signed the free trade agreement with the EU. In the short term an FTA with China could potentially result in a loss of tariff revenues and increased competition from Chinese imports. Both China and SA have accused each other of unfair trading practices. Some sectors in SA allege that China is dumping certain products in SA. For example, the Southern African Stainless Steel Development Association (SASSDA) has obtained an interim interdict to halt dumping activities by China. China in turn has alleged that unfair tariffs have been imposed on its goods.

SA trade experts caution SA policy makers on the reciprocity of an agreement with China and argue that such an agreement is laden with many pitfalls for the economy. SA trade unions, such as Cosatu must be consulted and involved in the negotiating process, as the forthcoming trade agreement could seriously undermine local industries, adversely affecting labour-intensive sectors. SA's domestic clothing and textiles sector employs more than 200,000 people directly and another 500,000 indirectly.

SA has a mandate to represent BLNS states under the agreement and preparations are underway for the first round of talks set for early October. China and SA are subsequently scheduled to meet every six to ten weeks leading to the signing of an accord. The negotiations are expected to last for a period of two years and if implemented could have far reaching consequences for the SA economy.

China has opposed SA's proposal for an asymmetrical reduction in trade tariffs. The Chinese delegation does not believe the SA economy needs to be protected from Chinese competitors.

However, certain sectors in the SA economy require more time to develop, such as the clothing, textile and leather industries, if they are to compete effectively with Chinese imports. In contrast, China advocates that SA

China-SACU continued:

industries do not require additional safeguards to cushion the effects of the FTA as both SA and China are developing countries. The Chinese argue that although the respective economies are different, they are similar in terms of their strengths and weaknesses. China also claims that its economy is not that strong and that equal opportunities exist for both countries. It asserts that SA trade figures recording a R9.89 billion deficit with China were incorrect. Instead, it maintains that imports and exports between the countries were evenly balanced and that the figures did not include Chinese imports from Hong Kong where many South African firms are located. Chinese figures for total bilateral trade in 2003 were estimated at $3.87 billion whereas the SA Department of Trade and Industry recorded a lower figure for the same year of $3.07 billion.

If the deal goes ahead, SACU would be the first regional grouping outside Asia to have an FTA with China. However, if SA and fellow SACU member states are to benefit at all from such an agreement, it is critical that they insist on asymmetrical implementation to address the pitfalls that such an agreement may introduce and they need to consult with and prepare their industries for the Chinese influx of goods.

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What to do about Swaziland?

The SACU-China FTA negotiations may hit choppy waters as Swaziland has maintained diplomatic ties with Taiwan since 1968. Swaziland has also supported Taiwan's bid to join the UN and other international organisations, provoking displeasure from Beijing. There are more than 20 Taiwanese investors in Swaziland, the majority of whom are garment manufacturers targeting the US market through the African Growth and Opportunity Act (AGOA). Prior to the implementation of AGOA in 2000, there were only three Taiwanese companies in Swaziland. The total value of Taiwanese investment in Swaziland is approximately $50 million.

Lesotho provides similar AGOA-based incentives for Taiwanese investors, and there are more than 30 Taiwanese manufacturing companies based in the country. Total Taiwanese capital invested in Lesotho is approximately $600 million, with Taiwanese companies employing around 20% of Lesotho's workforce. Lesotho, however, has no diplomatic relations with Taiwan.

It is to be expected that Beijing will exert pressure on SACU as the negotiations progress to urge the Swazi government to switch diplomatic ties to the PRC.

To leave or stay?

Regional integration schemes have a checkered past in Africa and many states are now forced to reassess the value of their choices in view of rising costs and trade negotiations with external partners.

Tanzania, the outgoing chair of the 13-member Southern African Development Community (SADC), may be having second thoughts about how it aligns itself regionally. Three years after Tanzania's withdrawal from the Common Market for Eastern and Southern Africa (Comesa) its business community is calling for a reevaluation of this decision.

In 2001, Tanzania withdrew from Comesa and chose to remain a member of SADC. Established in 1994, Comesa is one of the largest regional economic integration schemes in Africa. Its membership stretches from Egypt in the north to Zimbabwe in the south and includes some of the poorest countries in the world. Although its name suggests a common market, it is in fact a preferential trade area. Eleven of its 20 members have been operating a free trade agreement (FTA) since 2000.

SADC, in contrast, was established in 1992 to replace the Southern African Development Co-ordination Conference (SADCC) that had as its brief to reduce its members' dependence on apartheid South Africa's economy. Post-apartheid South Africa joined the organisation in 1994 and SADC has since broadened its regional integration agenda to include issues such as poverty eradication, malaria, security, HIV/Aids, crime and migration, although like Comesa, it is also pursuing greater economic and trade integration among its members.

Recent reports that the Confederation of Tanzania Industries (CTI) would be investigating the impact on local business of Tanzania's withdrawal from Comesa brings the underlying drivers of regional integration into sharp relief. The investigation stems from complaints from the business community that it has lost out on trade deals and that it has experienced increased tariff barriers since the country withdrew from Comesa. Tanzanian companies say they cannot increase their capacity because of restrictions imposed on goods from Tanzania, a loss in exports and preferential treatment that was given to them under Comesa. They add further that they have had to compromise on their prices in order to compete in the Comesa market. Tanzanian business also claims that the country has become nothing less than an instrument for South African investment.

The business community's about-turn on SADC is surprising in view of the reasons originally offered by President Benjamin Mkapa for Tanzania's withdrawal from Comesa. They included the high cost of maintaining its memberships to both Comesa and SADC and the disadvantage to the state fiscus of Comesa's decision to slash custom tariffs.

Tanzania is not the only country that is faced with the question of SADC or Comesa membership. The Seychelles withdrew from SADC in 2003 and chose to remain in Comesa

Regional integration continued:

citing financial difficulties in meeting its obligations to both organisations as the reason for this step. Other countries that have not yet made a choice between the two organisations include Angola, DRC, Malawi, Mauritius, Namibia, Swaziland, Zambia and Zimbabwe.

The developments in Tanzania vividly illustrate some of the problems faced by regional integration schemes in Africa. The first relates to the cost of overlapping membership and the obligations that multiple memberships necessitate; and the second to a lack of consultation between business and government over trade policy.

For instance, membership obligations for both organisations are substantial. Annual financial contributions in SADC range from $563,854 paid by Malawi to $832,109 paid by Angola and $1,997,761 paid by SA. Membership contributions to Comesa amount to a further $300,000 per year. Such amounts can cripple member countries' budgets especially when one considers that their gross domestic product (GDP) of these countries range from $8.97 billion (Angola) to $1.22 billion (Swaziland).

As pointed out by Fudzai Pamacheche, an economist at the SADC Secretariat, not only do multiple membership place a strain on budgets, it can also affect administrative human resources costs. Failure to pay membership fees on time or indeed at all also weakens the financial and resource capacities of the overseeing institutions of regional organisations.

However, the impact of overlapping membership ex-tends beyond budgetary costs. In Southern Africa, Comesa and SADC have recognised that their roles intersect. Although they have established a joint task force to minimise conflicting objectives, they have not managed to sidestep some of the serious concerns.

One of SADC's main goals is the implementation of the SADC Trade Protocol, which aims to reduce internal trade barriers by 85%, create a free trade area by 2008 and establish a SADC customs union with a common external tariff by 2010. All of these goals are in direct competition with Comesa's goals of a common market, common external tariff and free trade area by 2004. Important issues like a common external tariff have still not been resolved in SADC and not all members have started implementing the SADC trade protocol. To further complicate the issue some of the members of SADC are also part of the Southern African Customs Union, which was renegotiated in 2001 and which came into force this year.

SADC has already acted as a stumbling block for Comesa's FTA. For example, when Comesa decided to launch an FTA for its members in 2000, South Africa tried to dissuade SADC members that were also members of Comesa from joining the free trade agreement. It argued that the initiative undermined efforts by SADC to create its own free trade zone by 2008 and will interfere with reduction of tariffs in the time leading to the FTA. This partly informed Tanzania's decision to withdraw from Comesa.

However, as Tanzania's case has shown, merely withdrawing from one organisation is not enough. There is a great need to carefully interrogate the positive and negative effects of the choice of one regional organisation over the other. This relates specifically to the impact on business, which is supposed to be the main beneficiary of trade integration initiatives.

The existence of two regional integration groups with overlapping roles in the Southern Africa region has also made trade negotiations with groupings like the European Union (EU) difficult. Economic Partnership Agreement (EPA) negotiations between the SADC and the EU began on 8 July in Windhoek and have to be completed by mid-December this year. Southern and East African countries will not negotiate as existing regional groupings, but have formed two new groups. These only contribute to the existing complexity of overlapping membership of these states. Talitha Bertelsmann-Scott, associate researcher at the South African Institute of International Affairs, argues that the EPA negotiations are compelling Southern African states to decide as which regional entity they will be negotiating with the EU. Most countries with dual membership have decided to negotiate within the fold of Comesa. However, Angola, Mozambique and Tanzania are negotiating with the remaining SADC countries, including Botswana, Namibia, Lesotho and Swaziland which are also SACU members.

It is clear that regional integration schemes in Africa are at a crossroads and that member countries are experiencing increasing pressure both internally and externally to state their allegiance. However, despite the new external imperative to address the problem, past experience has shown that member countries have to give more thought to internal stakeholders than they have done previously if they wish to make regional integration a viable policy option on the continent.

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Members of SADC and Comesa in East and Southern Africa

Countries	SADC	COMESA	Countries	SADC	COMESA
Angola	X	X	Mauritius	X	X
Botswana	X		Mozambique	X	
Burundi		X	Namibia	X	X
Comoros		X	Rwanda		X
DRC	X	X	Seychelles		X
Djibouti		X	South Africa	X	
Egypt		X	Sudan		X
Eritrea		X	Swaziland	X	X
Ethiopia		X	Tanzania	X	
Kenya		X	Uganda		X
Lesotho	X		Zambia	X	X
Madagascar	X	X	Zimbabwe	X	X
Malawi	X	X			

Source: Various

Is Burundi ready for elections?

Burundi is preparing to hold elections in November 2004, however, there are growing concerns that the country is not sufficiently prepared.

It has been three years since the Arusha Peace and Reconciliation Agreement was signed in Tanzania in August 2000. Elections are due at the end of the transitional period, in November 2004, but the recent violent incidents raise the question: should the original timeframe for elections be adhered to at all costs?

At the time of the signing of the Accord, the peace deal brought renewed hope to the people of Burundi who had endured constant civil strife since independence in 1962. The Arusha Accord should be commended for enabling the reduction of tension and conflict in Burundi and for bringing the different militias into the peace process. However, concerns are growing about whether it will secure lasting peace.

Although the Accord is considered a home-grown solution, external involvement in the Burundi peace talks has been a hallmark of the process. Prominent African leaders such as Julius Nyerere, Nelson Mandela and Jacob Zuma have been actively involved throughout the process. However, a key problem with the nature of external engagement in Burundi has been the pressure exerted on the parties to hold elections.

Most observers agree that Burundi is not ready to host elections in November this year, despite South African efforts to get the various stakeholders to agree on the terms of powersharing.

The powersharing agreement proposes a 60-40 (Hutu:Tutsi) split in ethnic representation, with the position of president and vice president being shared between the two main ethnic groups regardless of who wins the elections. The problem with this kind of arrangement is perhaps that it responds too narrowly to the needs of particular personalities who do not necessarily enjoy popular support. The agreement therefore is more directed at obtaining international rather than domestic legitimacy and therein lies its potential weakness.

Burundi has been substantially impoverished by the conflict. All its human development and economic indicators have declined since 1993. For example, literacy rates among women have declined from 73% (1990) to 58% (2001) and for men during the same period from 52% to 43%. Its total GDP is estimated at only \$0.7bn and 58.4% of the population live below the poverty line of \$1 a day. Its population of around 7 million consists of three ethnic groups: the Hutu representing the majority (85%), the Tutsi (14%) and the minority Twa (1%). However, despite this dominance of two ethnic groups there are more than 30 political parties. This is a clear sign that ethnicity is not the only issue dictating political affiliation; instead it is often abused to promote self-interest, a struggle for power and political positions.

> **Pro and Anti Arusha Accord groupings**
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> The 'pro' Arusha Accord groupings are primarily the *Front pour la Démocratie au Burundi* (FRODEBU) (Hutu) and the *Union pour le Progress National* (UPRONA) (Tutsi). The *Forces Nationales de Liberation* (FNL), a breakaway grouping from the UPRONA and other hardline Tutsi groupings led by Charles Mukasi, is still fighting in Burundi and is opposed to the Arusha Accord.

Indeed some parties' existence, such as the *Forces nationals de liberation* (FNL), is dependent on maintaining the status quo and they will obviously fight any efforts to bring the conflict to an end. It is important for Pretoria to recognise these dynamics and not to overlook them, because peace can only be achieved if everyone involved sees greater benefit deriving from peace than from war. There are also justifiable fears that the majority might not honour the agreement after elections.

What can be done? Although the idea of having an election in Burundi in November is appealing and will be seen as a milestone in African attempts to bring peace to that country, a free and fair election is hardly practical at this point in time. An Electoral Commission was appointed only recently. Although international donor funding has been pledged towards its activities it has not yet been made available. Nor has a census been conducted or a voter registration process initiated. The restructuring of the security forces has also shown very little progress.

Extending the deadline of the Arusha Accord would give the government and the political parties more time to agree on the terms of the constitution, which is a matter of contention for some of the parties who have ratified the agreement, but have been excluded from regional initiatives such as the recent Burundi Summit in Tanzania. It will also provide refugees and internally displaced people with the opportunity to return to their homes.

Naturally, there is a price to pay should the elections be postponed. This will mean the extension of the peacekeeping efforts of the United Nations Mission in Burundi (UNMIB), the costs of which will accrue to the UN, although South Africa has footed the majority share of the bill until recently.

Of course the elections cannot be postponed indefinitely. A minimum six-month extension would allow the government and all parties sufficient time to implement the electoral legislation, reach greater consensus on the constitution and to achieve substantial progress with the integration of the various security forces, which is an important confidence-building measure. However, it should be made clear to all the parties involved that the peace efforts cannot be held hostage by any party and that the international community will not be prepared to drag out the process indefinately.

As the South African peace process demonstrated, there is a certain point where there is sufficient political will and broad-based support to move ahead, even if all the parties are not on board. In Burundi, unfortunately, this common consensus is not yet visible.

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