South African Foreign Policy MONITOR
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INSIDE

BRIEFS

SAIIA Automotive Industry Study

The international automotive industry employs over 34 million people worldwide. In SA the industry contributes 5.4% (1999) to overall GDP. There have been a number of investments in SA by transnational corporations such as BMW, VW and Daimler-Chrysler in the latter half of the 1990s to boost the integration of the automotive industry into global production networks. SAIIA is currently completing a study on *Rationalising investment in the automotive industry in SA: Lessons from Brazil and Mexico*.

Mexico and Brazil are respectively the 9th and 12th largest light vehicle producers globally with production of 1,934,927 and 1,671,093 units. SA is ranked 19th. Both South American countries started from the current low SA base of 357,364 units. Mexico, the largest, exports vehicles globally, with the US accounting for ¾ of its exports. The country has negotiated 23 beneficial trade agreements.

Some of the lessons for SA relate specifically to the importance of a business/government partnership, and a re-orientation of training and capacity-building in the SMMEs sector servicing the industry.

The study will be published in January 2002. Inquiries to SAIIA at Tel: (+27-11) 339-2021 or Fax: (+27-11) 339-2154.

NOTICE

The next issue of the SAIIA Foreign Policy Monitor will appear in February 2002.

The Gamble Pays Off at Doha

Developing countries make significant gains at Doha - but negotiations have just begun.

WTO members adopted a set of ministerial declarations on 14 November, opening the way for a new round of international trade negotiations. Who were the net winners and losers?

Developing countries were extremely active in shaping the outcome of the meeting. The Africa Group (led by Kenya, Tanzania and Nigeria) together with the African, Caribbean and Pacific (ACP) Group clearly articulated their top priorities—agriculture, implementation-related issues, intellectual property rights (TRIPS) and health.

The exclusive nature of informal talks between key WTO members in the so-called Green Room has been cited as one of the main causes for the failure of Seattle. In Doha, the Green Room convened with much more balanced representation and included five Sub-Saharan African countries (**Botswana, Kenya, SA, Tanzania** and **Zambia**) and smaller Latin American countries such as Nicaragua and Guatemala.

Significant progress on developmental conerns was made in the ministerial declarations, including:

- Increased WTO technical assistance to developing countries (to build expertise in international trade law). The declaration instructs the WTO to develop a plan to ensure that states receive long-term funding for technical assistance.
- A commitment to launch negotiations on implementation issues such as clarifying and strengthening anti-dumping rules.
- Free market access to developed states for products originating from least developed countries (LDCs).
- A commitment to phase out all forms of agricultural export subsidies and substantial reductions in trade-distorting domestic support. (This is a major advancement since the developed world spends about US$350 billion annually protecting its farmers, more than the combined GDP of sub-Saharan Africa.)
- Reduction of tariff peaks and escalations and non-tariff barriers on industrial products for all sectors. (Tariff peaks and escalation occur as one moves up the value chain. This acts as a disincentive for developing countries to diversify their exports towards higher value-added products);
- Increased flexibility of WTO rules regulating intellectual property rights (TRIPS) to give developing countries access to more affordable medicine. LDCs were also given an extension of non-compliance with TRIPS until 2016.
- Reaffirmation of the commitment made by developed countries to promote and encourage technology transfers to LDCs.
- A commitment to negotiate on a uniform international system of notification and registration of geographical origins for wines and spirits. This is important to SA in view of its dispute with the EU regarding 'sherry' and 'port'.

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Dialogue and disarmament: A Rwandan perspective

Both tracks of the Lusaka Agreement have begun, but unless the ex-FAR and Interahamwe are disarmed and repatriated Rwanda will not leave the Congo.

Rwanda's overriding objective in the DRC has been and continues to be security of its borders, which can only occur by eliminating the threat posed by the ex-FAR and *Interahamwe* fighting from bases there. Yet, disarming them will be one of the most difficult tasks MONUC must undertake.

The UN is ready to proceed with Phase III of MONUC's deployment in eastern DRC: the disarming, demobilisation, repatriation, reintegration of all armed groups; the handing over of mass killers and perpetrators of crimes against humanity; and the disarming of all Congolese civilians who are illegally armed.

But MONUC's mandate provides only for *voluntary* disarmament.

Senior Rwandan government officials are harsh in their condemnation of the international community's inaction since the genocide, in failing to deal effectively with the *genocidaires* in eastern Congo. It's a case of double standards, says one. The US can pursue bin Laden in Afghanistan, but the international community calls on Rwanda to withdraw from the Congo, although *genocidaires* continue to operate from there. Furthermore, they say, the international community applies sanctions against UNITA and those doing business with it, but does not impose the same on those supporting the ex-FAR, many of whom have been integrated into **Kabila's** army.

Phase III of MONUC must resolve the matter of the *genocidaires* and the inter-Congolese dialogue must lead to the establishment of a 'normal state', as one Rwandan government official puts it. Otherwise, as another Rwandan official said, the international community have 'underrated the will and determination of Rwandans. We have learnt to fend for ourselves.'

However, although Rwanda's presence in the DRC has brought it greater security domestically, it has made its relations, particularly with some donor countries, more difficult. This has been compounded by **Kabila** junior's charm offensive among key Western leaders since he assumed power in January 2001. On the African front, relations with erstwhile ally **Museveni**, notwithstanding the London meeting, will not regain their former intimacy any time soon. In the Congo, however, the formerly Ugandan-backed MLC of **Jean-Claude Bemba** has joined forces with the Rwandan-backed RCD-Goma, and Kigali is talking to Luanda.

Kabila's role in the breakdown of the talks in Addis is regarded in Rwandan circles as indicative of his bad faith: 'Kinshasa is not ready for negotiations and the stalling of the dialogue is an attempt to write off the rebels.' Many see the breakdown as part of an orchestrated plan to clear the way for a French-sponsored alternative. In addition, Kabila's recent appointment of new governors of provinces controlled by the rebels, is perceived by the opposition and Kigali as a bout of muscle-flexing before the dialogue resumes in SA.

Arguably, many of the belligerents stand to benefit from the status quo which allow them to maintain their various illicit financial interests or to continue operating (eg. ex FAR). The Rwandan-backed rebels may also not favour speedy progress at the dialogue, unless Rwanda's security concerns are addressed.

What should the international community do at this juncture?

First, it should encourage ongoing co-ordination between the inter-Congolese facilitator and MONUC so that both processes proceed in parallel. Second, MONUC should prepare for an alternative scenario should voluntary disarmament fail.

Dialogue and disarmament must succeed. If they fail, 'We [Rwanda] showed them what we would do in May this year [when insurgents from the Congo were decisively defeated by the Rwandan army]'.

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- Approval for the EC to grant preferential market access to ACP countries under the Lome Convention. The latter will be replaced in 2008 by free trade agreements between the EC and ACP countries under the Cotonou Agreement.

Invariably not all expectations were fulfilled. For example, SA's requests for credit on unilateral liberalisation (that exceeds WTO requirements) and use of currently prohibited subsidies for domestic development were not adequately addressed. Furthermore, the commitment to eliminate agricultural subsidies carried the proviso "...without prejudging the outcome of the negotiations." This does not necessarily translate into a firm commitment to eliminate all export subsidies within a specified timeframe.

As was expected the outcome of Doha reflected a greater balance and trade-off between the concerns of the developing world and the demands of the developed world. As the new round of negotiations begins its will be important to maintain strong alliances with partners with similar interests. The developing world is as diverse as are the disparities within the developed world on issues of national interest. New alliances cutting across the North –South divide will emerge alongside the existing 'brotherhood' of developing countries.

In for the long haul?

SA needs to cultivate a more engaged trade policy with the Middle East.

The Middle East's extensive reliance on a single export commodity – oil – for its economic survival, environmental constraints and a lack of industrial development and manufacturing capacity, presents a golden opportunity for Pretoria to strengthen its ties with the region.

The Department of Trade and Industry has identified **Saudi Arabia, Iran, the United Arab Emirates, Kuwait**, and **Israel** as economically strategic countries in the Middle East in its soon-to-be-released *Global Economic Strategy document*. The region offers huge export opportunities to SA producers due to its reliance on imports, especially food products, (it imports 80% of its consumption), combined with its extensive financial revenues derived from oil exports.

Judging by the constant advertisements by Middle Eastern companies offering employment to South Africans, the region needs expertise in health, education and managerial and technological skills training. In addition there is a sustained need for imported technology; water conservation and desert beneficiation techniques; and economic diversification to move away from single commodity dependency. The region is also characterised by intense political and religious rivalries and an arms build-up, particularly in Israel, Iran, and Iraq. This presents South Africa with a sizeable, but controversial market for military hardware.

Despite these apparent opportunities, SA faces various obstacles for fruitful economic engagement with the region. With the exception of Israel, a highly developed country and a WTO member, and Kuwait, which is currently engaged in liberalising its economy, trade with the Middle East is hampered by huge tariff barriers; customs and excise impediments; lack of protection for intellectual property rights; and legal and regulatory frameworks that favour local over foreign investors.

SA's failure to understand the Middle Eastern business culture has been cited as one of the biggest impediments to making inroads in the region's market. Market access is also hindered by the strategic economic dependency imposed by the US on countries like Saudi Arabia and Kuwait, in order to protect its oil interests. The already strong market presence of the US, Japan and the EU in the region is one of the reasons for SA's current trade deficit with the Middle East. SA still has to carve a bigger niche for itself, despite the overall growth in total trade in recent years.

Saudi Arabia, one of the region's most influential states and the strongest member of the Gulf Co-operation Council (GCC), has applied to join the WTO. It will have to lower its high customs tariffs and liberalise its economy to gain entry. This is a positive development for Saudi-SA trade relations as accession could translate into improved market access for SA.

After Saudi Arabia, Iran is SA's second largest trading partner in the region. Since the lifting of the oil embargo, Iran has been SA's major supplier of crude oil. At present, SA imports about 43% of its crude oil requirements from Iran, a drop of 20% as SA seeks alternative markets. Nevertheless, 70% of SA's oil requirements are supplied by the Middle East.

Although SA's trade with the Middle East is likely to remain focused on oil, due to market access constraints, there is a growing awareness in the Middle East of the quality and pricing of SA products and services. The Kuwait government recently reversed a decision to award a US$3 billion arms contract, which was previously awarded to an American company. SA defence companies are actively soliciting contracts, hence Defence Minister **Mosiuoa Lekota's** visit to Kuwait in the second week of November 2001.

The business opportunties in the Middle East highlights the need for Pretoria to develop a coherent and comprehensive strategy on the region, which not only focuses on economics but includes political engagement. On the economic front, Pretoria needs to focus on strengthening trade ties through the conclusion of more trade agreements. On the political front it has the potential to play a constructive role in the Israel/Palestine conflict and to encourage their neighbours to adopt a more positive interaction on this issue.

South Africa's trade with selected Middle East countries (R million)

Country	1998		1999		2000	
	Imports	Exports	Imports	Exports	Imports	Exports
Saudi Arabia	2,183.0	620.8	6,029.1	931.1	14,136.0	1,001.6
Iran	3,216.9	347.6	4,009.5	276.7	8,133.4	500.3
Kuwait	2,438.2	120.4	1,045.0	136.3	970.2	127.5
Israel	990.9	1,923.6	1,004.3	2,828.7	1,505.2	3,551.7
UAE	744.5	768.3	602.1	878.4	903.9	1,693.6

Trans-Atlantic ties

SA aspires to sign a FTA with Mercosur to further South-South co-operation

A free trade agreement (FTA) between SA and the Common Market of the South (Mercosur) was first mooted in March 2000, during preparatory talks on economic co-operation between the former Brazilian Minister of Foreign Affairs, **Luiz Lampreia** and Minister **Alec Erwin**. Mercosur consists **of Brazil, Argentina, Uruguay and Paraguay**, with **Chile** and **Bolivia** as associate members. President **Mbeki**, during a meeting in Brazil with his Mercosur counterparts, provided further impetus to this initiative by signing a framework agreement between SA and the Southern Cone on 15 December 2000. Although trade between SA and Mercosur has not reached a stage where it could be considered as optimal or significant, the bid to develop a FTA with Mercosur aims to make SA internationally more competitive, promote ties with like-minded countries and provide wider market access for SA goods.

Possible areas of co-operation were identified as the automotive sector; agriculture; chemicals and plastics; metals; textiles and clothing. The automotive industry seems to be the lead sector in the negotiations, as an agreement in this area would probably be completed before the signing of a SA-Mercosur FTA.

The December signing was followed by a Brazilian/Mercosur delegation visit to SA in May 2001, where similar areas of co-operation were identified. The first step in negotiations about negotiations took place from 9 - 15 October 2001 at the Mercosur Common Market Group (CGM) meeting in Montevideo, Uruguay. The CGM 'discussed avenues for exchanging information and data, trade facilitation, the type of agreement that is going to be negotiated (with SA) and areas of technical co-operation'.

The CMG is made up of the executive body of Mercosur and is co-ordinated by the Ministers of Foreign Affairs of the member countries. Its brief is to suggest measures for the application of the Mercosur free trade program, the co-ordination of macro-economic policies, the negotiation of agreements with third parties, and overseeing the work programme that assures movement towards the constitution of a common market. The next CMG meeting is scheduled for March 2002 in South Africa, where business, government, labour and civil society will be invited to participate in the discussion towards the formation of a FTA.

Although no timeline has been set for the completion of the agreement, it is hoped that negotiations would be concluded by the end of 2003. Mercosur's FTAs with Europe and the Americas will come into force in 2004 and 2005, respectively. The conclusion of trade talks before the completion of these two regional trade agreements would grant SA business and investors time to adapt to the business environment of the Americas before facing further competition from the north.

The prospective SA-Mercosur FTA demonstrates that there are gains to be made through regionalism at this level. It would assist in establishing collective self-reliance through economic and technological co-operation, by expanding trade and in creating better fluidity amongst regions in the finance, industry, science, technology and agriculture sectors.

SA has weighed up the domestic and regional consequences of its proposed FTA with Mercosur. While trade between SADC and Mercosur has variously been described as 'inconsequential' and 'investment' ties negligible, it is hoped that the SA-Mercosur agreement would pave the way for other SADC members to join in future.

SA Trade with Mercosur
(in Rands '000)

Year	*Exports*	*Imports*
1998	2,143,759	2,634,316
1999	1,705,450	2,678,036
2000	2,434,408	3,663,167

Source: *Department of Trade and Industry*