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INSIDE

Terror, New Africa Initiative and SA

America no longer stands in 'splendid isolation'. What role should SA and other states be playing in this new alignment of forces?

The SA government has unequivocally aligned itself with the US against terrorism following the attacks on 11 September. However, its domestic position is complicated. Its influential and vocal Muslim community and the ANC's liberation struggle ties with countries characterised by the US as 'terrorist' or 'rogue' reflect the divisions within SA society. In addition, there is a strong anti-American feeling among certain sectors, coloured partly by the US role in the Arab-Israeli conflict. More recently of course, SA extradited Khalfan Khamis Mohamed, the Tanzanian convicted of the East African bombings, to the US, although the Constitutional Court subsequently ruled that this was unconstitutional.

SA's own problems with urban terrorism and its difficulty in successfully penetrating domestic militant Islamic organisations such as Pagad and Qibla, make the call to join a global coalition even more relevant.

What does this new coalition mean for the region and Africa?

On the one hand the attacks on the US could propel the New Africa Initiative (NAI) and SADC onto a higher global platform. The US now needs progressive democratic allies in the developing world to consolidate its security interests and Washington may now re-examine the nature of its global engagement. Yet on the other hand, like its Cold War alliances, the US desire to find allies in the war against terrorism may be achieved at the expense of good governance, human rights and the rule of law - issues that began dominating 'international relations speak' in the 1990s. The decision of the US to lift sanctions against Pakistan is a case in point.

In the short- to medium-term, however, it is more conceivable that the NAI will not benefit from a significant increase in flows of aid. Rather, it is likely that the G-8 will divert both funding and attention to combating terrorism.

In addition, states such as Sudan and Libya may come under heightened pressure from the US to 'change their ways', given their previous record of support for terrorism. Libya's rising profile in Africa, its initial role in the establishment of the African Union and its burgeoning relations with a number of African states, not least Zimbabwe, might inhibit the continent-wide drive for investment and aid – even to those countries that have uncompromisingly allied themselves to the US.

Although not committing troops SA has undertaken to assist in intelligence gathering and sharing, especially on links between SA terrorist organisations and global terrorist networks. Moreover, SA may adopt a more flexible stance on extradition – notwithstanding the recent Constitutional Court ruling. It may also include the adoption of harsher anti-terrorist measures as witnessed by the announcement of Safety and Security Minister **Steve Tshwete** that the Anti-Terrorism Bill will be re-introduced. The fight against terrorism is a global one, but its ramifications may impinge on those very civil liberties which both the US and SA cherish.

Insofar as SA participates in the world-wide intelligence network to contain terrorism it will no doubt be the beneficiary of Western assistance. The success of such a global coalition, will be dependent on the extent to which it evolves into a global partnership among states. Participating and identifying with its broad aims should be the focus of all democratic societies – namely that global disparities or marginalisation should not be addressed violently, but through negotiation and positive engagement.

For those who choose to join this coalition it provides, importantly, in the context of the South, an opportunity to influence US actions.

BRIEFS

SADC and HIV/Aids

The 14-country SADC, with less than 5% of the world's population, is home to more than 50% of those living with HIV/Aids and 60% of Aids fatalities. Southern Africa has the highest incidence of HIV in the world. One in four adults in Swaziland, Zimbabwe and Lesotho are infected with HIV, whereas one in five is infected in South Africa, Zambia and Namibia, and one in six in Malawi. Collective action against the HIV/Aids pandemic was one of the main items on the Blantyre SADC Summit in August, where SADC leaders agreed that the pandemic has 'turned back the clock on development' and is reaching emergency proportions. SADC identified access to affordable drugs as one of the main priorities in its programme for the next year.

Meetings postponed

The upcoming US-Africa Ministerial Meeting that was due for October has been postponed indefinitely due to the recent terrorist attacks in the US. The meeting was supposed to cement further support for the New Africa Initiative. The IMF and World Bank have likewise cancelled their annual meetings, which were due for 29–30 September 2001 in Washington. The UN has postponed its annual General Assembly debates and the UN Special Session on Children originally due for 19–21 September. The Commonwealth Summit, scheduled for 6-9 October, has also been postponed.

Mugabe and Brisbane

In a break with African solidarity Mugabe is increasingly facing regional resistance against his domestic policies.

The bombings of New York and Washington served to eclipse the outcome and ensuing debate on the Commonwealth and SADC initiatives on Zimbabwe. Both initiatives were important milestones in the evolution of a common approach to regional conflict resolution. Although the outcomes may not be ideal, they have laid the foundation for moving forward on the crisis in Zimbabwe. Now, both organisations will have to exercise vigilance in the coming months to ensure that the agreements are honoured by all parties, and resolve in taking action if they are not.

In a move away from the 'solidarity syndrome' of the past, an African state (Nigeria) convened a meeting of eight Commonwealth countries to discuss the domestic affairs of another African state. Unfortunately, the meeting did not go far enough in explicitly tackling the crisis as a consequence of the decline in rule of law and good governance. The statement following the meeting merely reiterated what President **Robert Mugabe** has been saying for the last 18 months, that 'land is at the core of the crisis in Zimbabwe and cannot be separated from other issues of concern to the Commonwealth'. As an article in Zimbabwe's *Financial Gazette* stated:

> Land or no land, we are being misruled. We will continue being misruled (even in "our land") if we don't prioritise governance, the constitution and how we are governed as the very core of our problems.

For many civil society stakeholders in Zimbabwe that statement again obfuscated what lay at the heart of the crisis, thus potentially making it difficult for CHOGM in Brisbane to severely censure **Mugabe**.

The approach of the SADC Task Team on 10–11 September differed significantly.

SADC leaders met a broad cross-section of Zimbabwean society and adopted a more forceful position on the real cause of the crisis. By following this approach the task team laid the foundations of regional benchmarks for good governance and accountability, which are core features of the New Africa Initiative. More important, this approach may offer a glimpse into how SA and others intend to tackle and transform rogue and dysfunctional states.

Mugabe played his cards well at both meetings, by accepting the recommendations and agreeing to co-operate. However, the run-up to Brisbane has seen continued land invasions, violence and flouting of the rule of law. This illustrates the imperative of determined monitoring by SA and the region. The Zimbabwe Crisis Conference Co-ordinating Committee, a coalition of Zimbabwean civil society organisations, is actively campaigning for the Commonwealth to suspend Zimbabwe's membership. Although the mood among **Mugabe**'s neighbours has hardened this is unlikely to succeed.

The difficulty the Commonwealth faces is that unlike Pakistan's **Musharraf** two years ago, **Mugabe** remains an elected head of state. Strictly speaking what is happening in Zimbabwe does not fall within the ambit of the Commonwealth Ministerial Action Group (CMAG), even though the issue has been discussed at these meetings. This is why Zimbabwe as a member of the High Level Review Process examining the restructuring of the Commonwealth and due to report to Summit, has opposed a broadening of CMAG's mandate.

Importantly, for Brisbane – notwithstanding the Abuja communiqué (which does not even compel **Mugabe** to accept electoral monitors) – a new trend is emerging. SADC and Nigeria's actions weaken the commonly held presumption, that the Summit would have been characterised by a divide between the Western Commonwealth members' wanting stricter measures against Zimbabwe and the African members, who would rally around **Mugabe**. The postponement of the Summit could strengthen Mugabe's hand and raises the imperative for SADC and Nigeria to exert greater pressure regarding compliance.

SADC in particular has sent out a signal that it will not shirk its responsibilities as a regional body, even when the issues may be difficult and divisive. **Mugabe** may enjoy a further respite until Brisbane but the tide is turning against him in the region.

Election Watch

Presidential elections	Madagascar	Due November 2001
General elections	Zambia	Probably November 2001 (originally October 2001)
Presidential elections	Zimbabwe	March/April 2002
General elections	Lesotho	2002
General elections	Angola	2002/03 (President **Jose Eduardo dos Santos** announced that he will not stand in the next elections.)

The rand tumbles

Future prospects for the South African economy remain bleak with small pockets of hope

The integrated nature of the global economy means that the terrorist attack on the United States has far-reaching implications for both developed and developing economies. Economically, the greatest certainty is the unpredictability of future trends in financial markets given the possibility of war. As a result, investors have redirected capital flows to so-called 'safe haven' investments (including precious metals and oil stocks) in an effort to hedge themselves against global financial risk. Investment in emerging markets has been put on hold until the outlook for the global economy becomes clearer. In addition, consumer confidence in the US economy, which was already heading for a recession at the time of the attack, has suffered a severe blow.

Yet, the US economy is potentially the most resilient. Already the Federal Reserve's interest rate cut will be a growth stimulus, in addition to reconstruction and possible military expenditure. It is still too early to draw firm conclusions about the economic outlook since much depends on the possibility of a US retaliatory attack. The latter could lead to an upward spiralling of oil prices that would raise global inflationary pressures, notwithstanding OPEC's recent decision to guarantee oil supplies, thus reducing the threat of an oil price hike.

After the attack SA along with other emerging markets suffered a severe outflow of foreign capital as investors sought 'safe havens'. The rand, which depreciated by 7.9% against the US dollar from the beginning of the year, has fallen by a further 4.7% since the attack and reached record lows against both the pound and the dollar – in spite of the dollar's depreciation against the yen, the pound, the euro and the D-mark. Not all the pressure on the rand is a result of the crisis. Other factors such as delays in the privatisation process, the repatriation of profits and large dividend payments of SA firms listed abroad have contributed to current pressure on the rand. The South African Reserve Bank has indicated that it will not support the rand, implying that the rand will remain weak for the foreseeable future.

A contraction in the US economy, in particular a decline in consumption expenditure, will affect South Africa's exports to its largest trading partner directly. However, to the extent that it boosts exports and curbs imports, the rand's depreciation could well be a short-term rescue measure. In the longer term, declining global demand and higher inflation will erode the benefits of a weak currency.

The reserve bank followed the trend of several other central banks by cutting interest rates by 50 base points as a response to the crisis. Further interest rate cuts might follow towards the end of the year, potentially adding to the current inflationary pressure on the rand. A longer-term threat to the reserve bank inflation target (set between 3–6%) is an increase in oil prices if future developments impact on supply-capacity. In the short to medium term a mild decrease in oil prices is more likely due to reduced global demand.

ABSA has consequently lowered its growth projections for the SA economy in 2001 by 0.2%. SA could prove to be one of the more resilient emerging markets in contrast to states that are heavily reliant on US growth. Factors currently counting in SA's favour are:

- Its small external financing requirement (due to its current account surplus) relative to other emerging markets;
- An unspent capital budget of R9 billion which can be used to soften the impact of a global slump;
- A liquid domestic financial market;
- Good credit ratings and macro-economic fundamentals; and
- A modestly priced stock market that reduces the potential for downward adjustments.

Furthermore, it is expected that SA as a substantial supplier of military equipment could benefit from increased military spending in the West.

However, SA as an emerging market will remain vulnerable to global adverse political and economic developments related to US action.

Forecast figures	**2001**		**2002**	
	Pre-US attack	*Post-US attack*	*Pre-US attack*	*Post-US attack*
International economy				
Real US GDP growth	1.7%	0.6%	1.9%	1.3%
Real G-4 GDP growth	1.6%	0.8%	2.1%	1.6%
SA economy				
Real GDP growth	2.5%	2.3%	2.2%	2.4%
CPIX Inflation (year average)	6.5%	6.7%	5.7%	6.9%
Prime overdraft rates	12.5%	13.5%	12.5%	13.5%
USD/ ZAR (Q4 average)	R8.31	R8.60	R8.75	R9.05
EUR/ ZAR (Q4 average)	R7.40	R8.00	R8.31	R8.78

ABSA Group Economic Research

WTO: SA takes a minority position

South Africa is willing to chart its own way on a new WTO round, convinced of the benefits of free trade and the need to attract investment. But will Doha overcome the hurdles of Seattle?

South Africa faces a daunting task in finding a compromise between developing country aspirations and its own interests at the upcoming WTO Ministerial Conference in Doha, Qatar from 9–13 November 2001. SA favours broadening the agenda to include investment rules, competition policy and government procurement. This is the position of the developed world too, with the addition of environmental and labour standards – items that SA wants excluded because of their potential to become non-tariff barriers. Already, anti-dumping measures have increased significantly in recent years, becoming a 'substitute' for WTO-prohibited protectionist measures. It is feared that environmental and labour standards will be used in the same way.

Developing countries prefer the agenda to be restricted to 'unfinished business', including their difficulties in implementing the Uruguay Round, due to a lack of technical capacity and an inability to make the necessary tariff and subsidy reductions; an assessment of existing asymmetries in WTO agreements, such as remaining tariff peaks and escalation especially towards higher value added goods, which favour developed countries; and a review of developed countries' performance in meeting their obligations to open their markets to developing countries.

Since Seattle, in an attempt to avoid deadlock at Doha, the WTO has introduced a bottom-up approach, which seeks to canvass the stance of all members on whether to broaden the agenda or not. This 'reality check' reconfirmed existing divides, with the Africa group represented by Zimbabwe and the Least Developed Countries group refusing to entertain new issues at Doha.

SA's position, in stark contrast to its neighbours, is one driven by the recognition that competition policy and investment rules are critical in fostering development and attracting investment.

According to Trade and Industry Minister **Alec Erwin**, a broad agenda would permit SA (and other developing countries) to make trade-offs among issues. SA's strategic objectives at Doha would include:

- To contribute to structural change in the geographical location of global production, by reducing developed countries' protection of 'grandfather industries' such as steel, coal and textiles – sectors in which developing countries are more competitive.
- To establish disciplines that level the playing field and address imbalances in existing multilateral agreements;
- To extend and enhance existing special and differential treatment to developing countries re market access; and
- To extend disciplines to new forms and dimensions of trade in recognition of the increasingly integrated nature of the global economy.

It is the last objective, which defines SA's minority position in the developing world.

SA is lobbying for support from other like-minded countries in the developing world. Besides SACU, SADC, members of the Cairns Group (consisting predominantly of agriculture exporting nations in the southern hemisphere), Brazil, Egypt, India and Nigeria have been identified as possible allies. SA is actively urging other developing countries to participate in trade talks at Doha to reflect their concerns rather than to abstain from the negotiations altogether. The reasons for this are two-fold.

First, a recent study by the Tinbergen Institute (an economic research institute based in The Netherlands) suggests that developing countries would gain $155 billion a year from further trade liberalisation (representing three times the amount received annually in development aid). Second, a successful conference would strengthen the trading position of the developing world. A failed conference in contrast would highlight the weakness of the WTO as the regulator of world trade and spur on the negotiations of bilateral and regional trading agreements – introducing the possibility that bilateral agreements could be thrust upon developing countries by the industrialised world – due to their weaker negotiating power.

The likelihood of a new round depends ultimately on both developing and developed countries engaging in compromises and trade-offs, both before the ministerial meeting and after. Unfortunately, current indicators on the certainty of a new round are not overly positive. One can expect developed countries to exert increasing pressure on developing member countries in the weeks ahead. SA along with other leaders of the South will aim to rally the developing world to withstand these pressures without scuppering Doha.

Calendar

October - December 2001

1–3 October	SA State Visit to Japan	Tokyo
15 October	Start of Inter-Congolese National Reconciliation Dialogue	Addis Ababa
5–10 Nov	Conference on Stability, Security, Development and Co-operation in Africa	South Africa
12–16 Nov	International Telecommunication Union, ITU Telecom Exhibition – Africa 2001	South Africa
9–13 Nov	Fourth Ministerial Conference of the WTO	Doha, Qatar