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The WTO and Southern Africa's External Trade Relations

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ABBREVIATIONS

AGOA	African Growth and Opportunities Act
ANC	African National Congress
AU	African Union
BLNS	Botswana, Lesotho, Namibia and Swaziland
Comesa	Common Market for Eastern and Southern Africa
DTI	Department of Trade and Industry
EAC	East African Community
EPA	Economic Partnership Agreement
FTA	free trade agreement
LDC	less-developed country
NAMA	non-agricultural market access
Nepad	New Partnership for Africa's Development
REC	regional economic community
SACU	Southern African Customs Union
SADC	Southern African Development Community
WTO	World Trade Organisation

1. INTRODUCTION

Uncertainties and complexities abound about how the international trade talks in the Doha Round and beyond will pan out. The odds against a successful conclusion are high, yet a surprise deal could still be clinched, provided all the key players from developed and middle-income developing countries provide the requisite leadership.

Apart from Doha, a lot is at stake for African countries in regional and bilateral trade relations with key trading partners, notably the US, the EU and China. For Southern Africa and South Africa, the outcome of the Economic Partnership Agreement (EPA) talks with the EU and the future of the African Growth and Opportunities Act (AGOA) and/or the Trade Investment and Development Cooperation Agreement recently concluded by the Southern African Customs Union (SACU) and the US are particularly important.

Further, the direction and pace of regional integration in East and Southern Africa pose more questions than answers. How will the SACU/SADC/Comesa/EAC¹ and the new EPA configurations shape out in the near future?

To gain some clarity on these uncertainties and complexities, SAIIA embarked on a futures thinking exercise employing, among others, scenario planning techniques. The exercise commenced as a series of strategic conversations about the key questions (uncertainties) around Doha and regional integration, and culminated in 'stories' about possible, probable and plausible futures for the multilateral trade talks and Southern Africa's trade relations. The exercise also involved generating options for getting to 'preferred' futures, as well as constructing a 'roadmap' with milestones of how different futures could be achieved.

It is hoped that these trade agreement and regional integration scenarios will assist policymakers in their strategic prioritisations over the coming years. It is also intended that the scenarios will assist SAIIA's Development through Trade team in developing its research priorities.

The report is structured as follows. First we outline the rationale for and methodologies employed in the scenario planning approach. Then we develop

¹ The latter three groupings are Southern African Development Community (SADC); Common Market for Eastern and Southern Africa (Comesa); East African Community (EAC).

four scenarios for the Doha Round; followed by four scenarios each for regional futures and the region's trade relations with external trading partners, respectively. Using the scenarios generated, we outlined preferred futures and offer some thoughts for how the region and South Africa could get to those futures, and conclude with some suggested milestones along those paths.

2. FUTURES AND THE STRUCTURE OF A STRATEGIC CONVERSATION

Working with the future requires a particular mindset, and the points below provide some characteristics and attributes of the future that are worth noting.

- The only space in time on which humans can have an impact is the future.
- There is not one future, but many possible futures, including those that are (most) probable, as well as preferable futures.
- The future cannot be predicted (or foretold), only understood.
- The future is not predetermined or ordained.
- The future is influenced by our actions.
- A preferred future can to a large extent be produced if we act purposefully in co-operation with others, and with insight, understanding and wisdom.

The faster change occurs, the more – and better – foresight is needed to develop some understanding and knowledge about the future.

Scenario development/planning is one of the best ways of making sense of the future. It is a thinking tool designed to stimulate interesting strategic conversations. In this case, its objective, among others, is to help decision makers understand the driving forces and to identify the critical uncertainties in the trade agreement environment, and then to explore how these might unfold in the long term to shape the environment against which these decision makers will have to determine the policies and strategies of their respective institutions/organisations.

Scenarios are holistic and schematic stories about what could happen in the future: they explain how things could pan out. They are an excellent tool for ordering perceptions and clarifying the future, but it is essential to keep in mind that they are not predictions.

Strategic conversation about plausible futures is not only a result of developing scenarios, it is also suitable as a mechanism for generating strategic options

and high-level decisions regarding the future. A conversation about the future is usually started by surfacing unspoken assumptions and challenging people to think about opportunities and issues that might emerge.

SAIIA's strategic conversation and scenario-planning workshop was conducted in the following way:²

- The scope and context of the exercise were identified: This was provided by a discussion leader for each of the topics: 'Prospects for the Doha Round and beyond' and 'Southern Africa's trade relations with key external partners', respectively. The scope and context should address the big challenges and important trends, as well as identify the strategic issues that will affect the future outcome(s). Their identification is meant to set out the central concerns, ask the right questions, establish the boundaries of the discussion and reveal the assumptions underlying it.
- The stakeholders were identified that could have a material influence on the future (this was not a separate step in the SAIIA process, but was subsumed under driving forces – see next point).
- The driving forces were identified, i.e. the key certainties, also known as the rules of the game.
- The key uncertainties were identified.
- The impact and outcomes of the uncertainties were evaluated using a chart.³
- The most uncertain, highest impact factors were selected to form the scenario dimensions, i.e. the matrix that is also known as the gameboard.⁴
- The future trade agreement scenarios were broadly described: 'Tell the stories of the future'.
- Strategic options of how to get to the preferred futures were generated, which could become policy considerations in the future.

² The workshop was held at the Balalaika Hotel, Sandton, South Africa on 27 November 2007; for participants, see Appendix.

³ Due to time constraints, this was done by the group for the second session on 'Southern Africa's trade relations with key external partners' only.

⁴ Due to time constraints, only initial gameboards for the second session on 'Southern Africa's trade relations with key external partners' were generated by the group. The 'Prospects for the Doha Round and beyond' gameboard was created afterwards.

- A ‘backcasting’ exercise was conducted for equally plausible, highly uncertain futures and this content was used to create a roadmap of the future.

A strategic conversation is both a starting point for a journey in long-term planning and a ‘road test’ for existing priorities, strategies and approaches. It incorporates and encompasses existing projects, initiatives and operational plans. It is an inclusive process that elicits debate and creative thinking among those responsible for decision making.

It emphasises the use of existing knowledge and expertise rather than extensive new research or analysis, while encouraging participants to acknowledge and embrace complexity and future uncertainty, instead of simply making ‘best guess’ forecasts. In addition, each participant contributes to building a shared context within which strategic decisions are made. By structuring it and by using scenario planning techniques, the strategic conversation leads to ideas and insights that can embody SAIIA’s research agenda in the future.

3. SCOPE: PROSPECTS FOR THE DOHA ROUND AND BEYOND

The political agenda now, with the Doha Round, is completely different to what it was in 2001 when the Round was launched. The actors, the negotiating modalities and the political landscape have all changed. In 2001 there was a post-9/11 sense of global unity. The world currently (2007–08) is much more divided and polarised, and this impacts on the Round. The agenda is also complex and ambitious, with nine broad issues on it,⁵ and there are now 151 countries each with a veto right, so that consensus is not easy to reach.

The big sticking point is agricultural subsidies. There is also still uncertainty about the level of commitment to non-agricultural market access (NAMA) and the tariff reduction coefficient to apply, but it seems that the majority of African countries will not have to cut tariffs. South Africa is a critical exception, as it liberalised substantially under the Uruguay Round, although it will have to undertake further effective cuts the size and magnitude of which have not

⁵ Interestingly, Peter Kleen argues that the agenda is narrower than the Uruguay Round, although the issues are in some senses more intractable. He counts 15 issues covered in the Uruguay Round, whereas the agenda for the Doha Round was narrowed from 12 to nine after the Cancun Ministerial Meeting in 2003 (Kleen P, ‘So alike and yet so different: A comparison of the Uruguay Round and the Doha Round’, ECIPE, *Jan Tumlir Policy Essays*, 2, March 2008, p.9).

been agreed to. The degree of flexibility South Africa can get is therefore a critical question. This is subject to a host of factors, the broad contours of which were explored at the SAIIA workshop. For example, elections are due in the US, India and Brazil in 2008 (not to mention a change in the South African political climate with the election of a virtually new African National Congress [ANC] leadership) and new governments may have a more protectionist stance in terms of the Doha Round. The US, and how it positions itself, could have a significant impact on how the Round turns out. Yet a deal is arguably ultimately in everyone's interests.

4. KEY CERTAINTIES: RULES OF THE GAME FOR THE DOHA ROUND AND BEYOND

Key certainties, also sometimes called 'driving forces'⁶ and 'rules of the game', are those underlying and impacting factors that set the pattern of events and determine outcomes in the trade agreement environment, i.e. they are the forces that make things happen. They can be political forces, social trends, economic realities and trends, technological drivers, a regulatory environment, etc. These 'rules of the game' can change over time and are sometimes 'rewritten' by institutions seeking to gain competitive advantage.

From discussions at the SAIIA workshop, a number of 'rules of the game' were identified. For purposes of analytical clarity, these are grouped broadly into two categories (a technique retained throughout this report): actors and issues:

Actors:

- Developed countries drew up the rules of the game in the past.
- Business in developed countries, especially in the US and EU, pushed government in the Uruguay Round, but, owing to the apparently lower level of ambition in the Doha Round, it is not actively engaged in the latter.
- Global power dynamics are shifting as big developing countries emerge onto the global stage.
- Issue-based coalitions have emerged on a range of fronts.

⁶ Driving forces can also be uncertain: see 'Key uncertainties'.

- Leadership comes at a price (Brazil, Argentina, China and South Africa, for example, will all have to make sacrifices).
- China also imports and must not be looked at only defensively, but it does not need a Doha Round outcome right now.
- Although South Africa is 'lumped' with larger economies, it is in a very specific geopolitical situation that impacts on how it is viewed in the World Trade Organisation (WTO).
- South Africa cannot be singled out because of its coalitions; the flip side of which is that coalitions among like-minded countries are a key feature of the WTO.
- South Africa has shifted to a less liberal stance.
- There are major gaps in trading interests between South Africa and Africa.
- There is no homogeneity in Africa.
- Africa as a bloc is not marginalised in the WTO.

Issues:

- If the round collapses, the 'old' rules will continue to apply.
- The broad outlines for this round are in place.
- Developed countries are feeling frustrated; this encourages a push towards 'plurilaterals' (i.e. a subset of the WTO membership forging deals on their own).
- Bilateral deals shift attention away from the WTO.
- Tariff reductions cause structural shifts (and costs) to domestic economies.
- South Africa has to get flexibility on NAMA, otherwise there may be no deal.
- South Africa can only get flexibility if it convinces the big players that its SACU partners cannot be treated in the same way owing to their severe development challenges.
- South Africa must be able to deal with both the opening of markets and the 'aid for trade' issues.
- The WTO is not a development agency, but the final deal will have to reflect development sensitivities.
- Market access in agriculture is the most important issue for African countries. Agricultural subsidies are the biggest constraint and cannot be addressed in bilateral trade agreements.

- The reality is that currency ‘manipulation’ is a trade barrier.

5. KEY UNCERTAINTIES FOR THE DOHA ROUND AND BEYOND

Actors:

1. How will the shifting global power dynamics play out? Will this affect whether the Doha Round is concluded or not?^{*7}
2. Can all the disparate interests hang together?
3. Will the EU and the US come to the party?
4. What outcome would China like to see?
5. Will there be a developed vs developing countries split such as in the United Nations.*
6. Will the consensus-based decision-making approach remain?^{**}
7. Can the WTO move beyond a ‘mercantilist’ approach?
8. When does the window of opportunity close?
9. Is it now or never for a successful round?^{**}

Issues:

1. What are the threats to global economic growth?
2. What is the impact of currency misalignments (refer also to ‘rules of the game’)*
3. Will ‘plurilaterals’ fill the vacuum?^{**}
4. Will the current modalities be challenged if the Round goes into hibernation?*
5. What is the role of dispute settlement as a conflict resolution tool, especially if the Round fails?
6. Will the WTO occupy its place as the primary instrument of trade negotiations in the future, i.e. will it be able to deliver the things it has a mandate on, e.g. market access, say 10 years from now?
7. Is the WTO a suitable forum in which to negotiate broader economic objectives?

⁷ For the significance of sentences marked with single or double asterisks, see section 6, below.

8. Do developing countries really want agricultural access? Why don't they just use dispute-resolution mechanisms?
9. Will there be agricultural subsidy flexibility?
10. Is 'development' a WTO competence? (Refer also to 'rules of the game'.)

6. SCENARIOS AND THE SCENARIO GAMEBOARD

Scenarios are stories about plausible, alternative futures; they are *not* predictions. They are more about exploring an emerging landscape with sketches and outlines, and not about exhaustive descriptions of all possible outcomes. Scenarios should be multifaceted and holistic – a synthesis that encapsulates important aspects of the future; and, most importantly, they should 'hang together', i.e. have an internal logic to them.

Those key uncertainties that we have the least knowledge about (the most uncertain ones) and that pose the greatest possible impact are usually those that will shape the most helpful and realistic scenarios. In this case, the key uncertainties used to plot the scenario axes are:

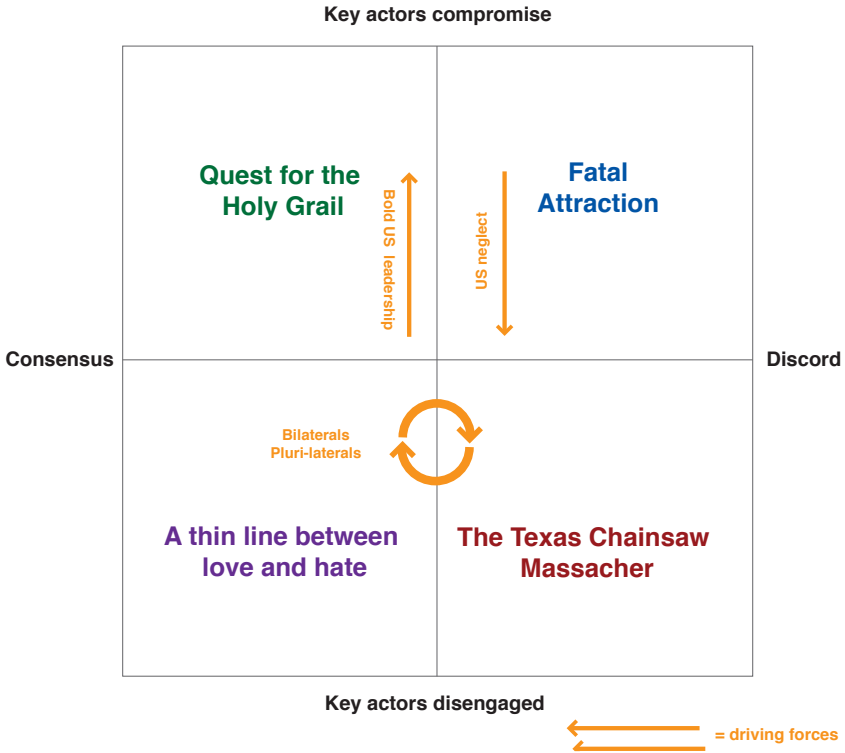
the shifting global power dynamics (marked *), extrapolated as *key actors compromise vs key actors disengage*;

and

is it now or never for a successful round (marked **), extrapolated as *consensus vs discord*.

Expressing them as opposite extremes provides the framework for four possible scenarios, as shown in Figure 1.

Figure 1: Four possible scenarios: The Doha Round



The descriptions of the scenarios are as follows:

QUEST FOR THE HOLY GRAIL: Key actors compromise, and there is consensus.

The G4, the so-called ‘big beasts’⁸ (the US, EU, India and Brazil), co-operate and agree on an ambitious package. The other nations also buy in and hard-nosed negotiators can hardly believe that a 151-nation compromise is possible. Best of all is the package – it covers all the key issues: market access, rules, agriculture and everything else. During 2008 it seemed like a complicated dance – a messy disco where every country was doing its own thing and not particularly enjoying it. But, leading up to and during 2010 the dynamics changed and the

⁸ We are indebted here to Dr Razeen Sally, who as far as we are aware was the first to use this term.

party evolved into a barn dance where co-ordinated line dancing was the main event.

You may ask yourself, how did this happen; how was that most unobtainable goal, that of the 'Holy Grail', achieved? As with all such issues, it was a combination of factors that panned out. The US played a huge role, but ultimately everybody synchronised simultaneously behind closed doors. The Chinese, for example, maintained their middle-of-the-road stance and never once rocked the boat. (They did not need to – it was not their round.) The combination of a global recession and a new US leader prompted a new attitude, and signs of pragmatic leadership started to emerge that other nations could follow. There was also the realisation that the WTO system was just too important to let it slip, especially not on the US's watch, and so agreement came about.

A THIN LINE BETWEEN LOVE AND HATE: There is consensus, but key actors disengage.

This is the story of Doha lite. The big actors (the G4) want out, but they also want to save face. They have been wasting their time and believe that they will continue to do so, but they do not want to ruin the party. The result is consensus and agreement over a commercially light package. It even has strings attached – that the agreement is on condition that everyone thinks very hard about ever doing a round again. The round is 'saved', but it will end here, and the minimalist package has little depth, even though it covers all the areas.

The nations may have consented, but they feel alienated and some most certainly feel that they have been 'done in'. The US just never managed to acknowledge the new global power shifts, never mind accommodating some of the new leadership candidates. Perhaps it was expecting too much of the US in the first place, especially given that the new president had to concentrate every effort on the recession and domestic economic stimulus policies.

THE TEXAS CHAINSAW MASSACRE: There is discord, and the key actors disengage.

Like the movie, this one is messy... The Doha Round collapses in acrimony and all the nations pull out. There isn't even much news coverage about it due to other issues of the day: the US invading Iran, global financial meltdown and soaring US unemployment rates. The G4 'big beasts' were unable to agree

on anything, never mind a substantive package. As a result, none of the other nations plays ball. With the Doha Round having collapsed, there is now talk of the WTO returning to its original state – perhaps not a bad thing, considering. As for development goals, they get picked up in the bilaterals and plurilaterals where possible, and if the actors are able to steer the negotiations in that direction.

So how did this happen? Most analysts blame neo-protectionism, but some concentrate on the role of the US specifically: the fact that the US ‘opted out’ and concentrated on domestic issues just when visionary, pragmatic global leadership was needed. Not that one can blame it – there just was not enough incentive for it, or, for that matter, for the other actors.

FATAL ATTRACTION: There is discord, but the key actors compromise.

The outcome here is similar to that of ‘A thin line between love and hate’, i.e. consensus on a package, but the process and how it came about are different. Instead of agreeing on a minimalist package, and each country going its own way afterwards, the inner core reached agreement and then ‘corralled’ (coerced is too strong a word) the outer core into a compromise – not that the latter are happy about it. The old-timers reckon that some parts of the process were reminiscent of the Uruguay Round.

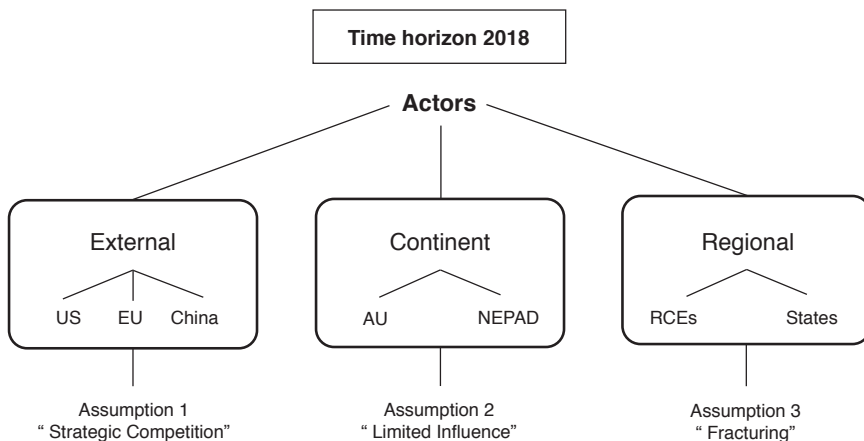
Some bold moves by the US initiated the process, and the rest had no choice but to follow, albeit kicking and screaming. With the Middle East imploding, a global financial crisis looming and, some say, in reaction to the proliferating bilaterals, the US decided to play hardball, and it worked. Now it is just a matter of trying to build up relationships again. Perhaps the UN is an appropriate forum ...

We now turn to Southern Africa, and its position with regard to broad trends in trade relations.

7. SCOPE: TRAJECTORY OF SOUTHERN AFRICA'S TRADE RELATIONS

The concept map in Figure 2 was used to frame the discussion on Southern Africa.

Figure 2: Southern African concept map



AU = African Union; Nepad = New Partnership for Africa's Development; REC = regional economic community; FDI = foreign direct investment

This generated a set of rules of the game and key uncertainties, which are discussed in the next two sections.

8. KEY CERTAINTIES: RULES OF THE GAME FOR THE TRAJECTORY OF SOUTHERN AFRICA'S TRADE RELATIONS

Actors:

- Different players have different agendas.
- SADC and Comesa will have to talk to each other.
- There is a need to track and monitor what other players (competing countries) are up to, because they can easily erode the market access that has been secured.

- There will be a multitude of repercussions from the substantial regulatory reform demanded by the EU; in other words, 'Global Europe' (the European Commission's trade strategy) will have an effect.
- The growth of China and India changes the dynamic for African trade policy.
- In SACU, South Africa has always taken the lead in negotiations.

Issues:

- A multilateral process is better at guaranteeing a level playing field.
- Private standards in Europe will increasingly impact on market access.
- The Singapore issues will not go away, and they are not just developed country issues.
- The benefits of bilaterals are not fully realised: market access is useless if you cannot trade; market access is also eroded by non-tariff barriers to trade, rules of origin, sanitary and phyto-sanitary standards, etc. (this rule of the game is strongly linked to some of the uncertainties listed below).
- Bilateral trade agreements impact on sensitive industries immediately, whereas WTO agreements do not necessarily (the bound vs applied issue).
- There is no uniform bilateral trade agreement, and a comprehensive policy environment in the region is lacking.
- As time goes by, there is a diminishing return on bilaterals.

9. KEY UNCERTAINTIES FOR SOUTHERN AFRICA'S TRADE RELATIONS WITH KEY EXTERNAL PARTNERS

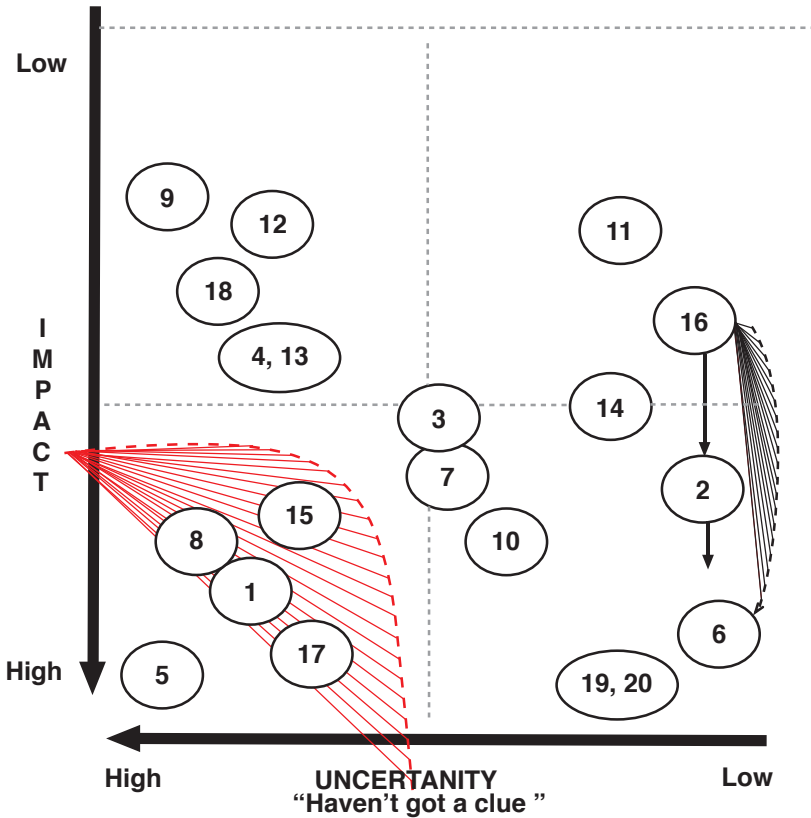
1. What is the future of South Africa's trade policy, given the new ANC president?
2. How will South Africa deal with Singapore issues (especially if Doha does not conclude)?
3. Do the countries in the region have common objectives in terms of what they want (business, labour, government)?
4. How effective are regional integration organisations?
5. Will SADC/SACU survive the EPAs (with regard to the trade integration side)?

6. Does SACU have the necessary negotiating ability in terms of institutional capacity?
7. Does SACU have a clear idea of what it wants, politically and economically?
8. Can SACU move beyond its current formula of revenue sharing?
9. Can SADC live up to its expectations?
10. Can countries in the region realise the benefits that bilateral trade agreements offer, i.e. can they industrialise? (But the assumption is that an enabling environment is more important than trade agreements.)
11. Will intra-African trade strengthen?
12. Will a myriad of bilaterals hamper economic progress?
13. In the longer-term future, will the AU have more influence on the regional integration agenda?
14. Is the US interested in doing business with Southern Africa as a region?
15. Will AGOA be extended and in what form? What implications will the new US Bill for less-developed countries (LDCs) have for AGOA beneficiaries?
16. How will African countries respond to Global Europe?
17. How will sustainability/carbon issues affect trade agreements (especially from the consumer-driven side)?
18. What will the impact of China be on the aid provided by the EU and US?
19. For how long will the commodity boom, driven by Chinese needs, continue?
20. Is the capacity there to manage the resources created by the commodity boom?

10. IMPACT/UNCERTAINTY CHART

All the relevant key uncertainties (the 20 listed above) were plotted on an 'impact/uncertainty chart' in order to prioritise those that we have the least knowledge about (those that are least predictable) and that will have the greatest impact. It is important to remember that 'high uncertainty' does not equal 'high improbability'.

Figure 3: Impact/uncertainty chart



11. SCENARIOS AND THE SCENARIO GAMEBOARD

Those key uncertainties that are the least predictable and that pose the greatest possible impact – those that will shape the most helpful and realistic scenarios – are in the bottom left-hand corner of the chart in Figure 3, marked off with the red dotted line. Two sets of scenarios were generated from these key uncertainties as follows.

11.1 The first set of scenarios: Intra-Southern African trade relations

The first set of scenarios, dealing with intra-Southern African trade relations, were generated using the following key uncertainties:

8. Can SACU move beyond its current formula of revenue sharing?
together with
5. Will SADC/SACU survive the EPAs (with regard to the trade integration side)?
and
1. What is the future of South Africa's trade policy, given the new ANC president?

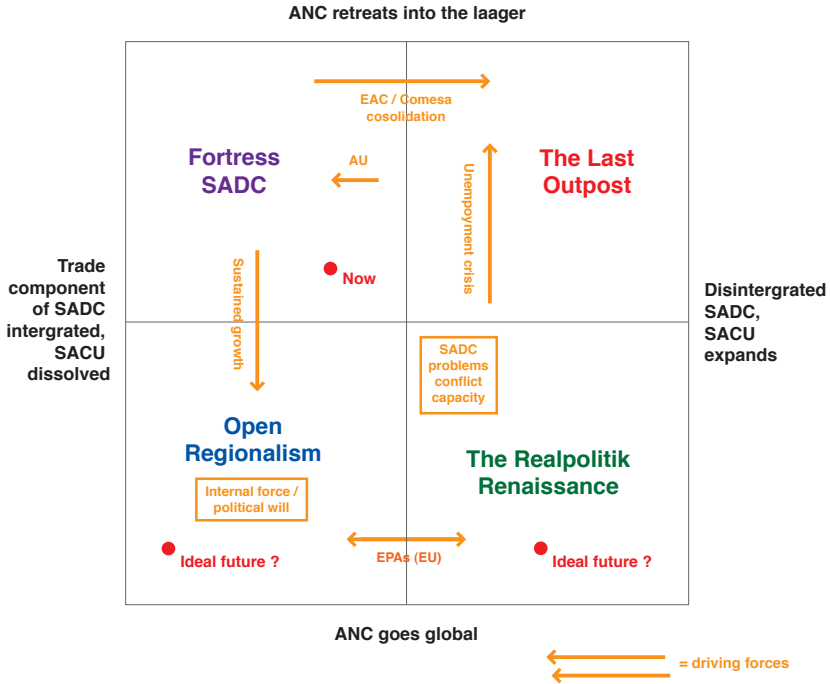
They were then expressed as opposite extremes to provide the framework for four possible scenarios (Figure 4).

Referring to the scenario gameboard, several observations can be made about the driving forces:

- There is the process of unwinding (it is to be hoped) the current proliferation of trade arrangements in Southern and East Africa.⁹ To the extent that the EAC consolidates and potentially expands, possibly at the expense of Comesa, SADC in particular will be squeezed. Currently it seems that the EAC is consolidating reasonably well, although the longer Kenya's political turmoil continues, the more likely it is that its achievements will be unwound.
- Offsetting this pressure is the fact that SADC is recognised by the AU as a building block of the vaunted African Economic Community, whereas SACU is not. A significant wild card in this process is the EU and its process of consolidating trade relationships with the region under the rubric of EPAs. Currently, that process has split both SACU and SADC; but if the current impasse within SACU is resolved, then the EPA has the potential to

⁹ For an analysis of this problem from the perspective of SACU, see Draper P, D Halleson & P Alves, 'SACU, regional integration, and the overlap issue in Southern Africa: From spaghetti to cannelloni?', *SAlIA Trade Policy Report*, no. 15, January 2007.

Figure 4: Four possible scenarios for intra-Southern African trade relations



solidify SACU as a coherent economic bloc, possibly at SADC’s expense (as a trade integration vehicle).

- South Africa’s economic fortunes are of cardinal importance to the direction its trade policy takes. Low economic growth and continued high unemployment are likely to propel the ANC to ‘retreat into the laager’, whereas high growth and sustained employment creation should have the opposite effect.

The scenarios in detail work as follows.

FORTRESS SADC: The ANC retreats into the laager and the trade component of SADC is integrated, while SACU is dissolved.

Under its new leadership, the ANC hunkers down politically and economically – it learnt a lesson or two from the old National Party regime (not that it

is the only government to do so). In these financially volatile times, the French have really battened down the hatches and the US is making loud protectionist noises. South Africa's image as a lucrative emerging market investment destination suffered a bit in the eyes of London's young fund managers, but ultimately the reality of fighting poverty and unemployment is deemed more important. Interestingly enough, business also seems willing to tough it out after the new minister of trade and industry negotiated a stimulus package designed to fuel domestic fixed investment and fight unemployment.

What really astonishes the pundits is the speed with which regional integration occurs. Everybody expected South Africa to put its foot down about SACU (not least because of the EPA mess and the revenue-sharing issues that were getting out of hand), but eventually Botswana broke out. This paved the way for dissolving SACU, and SADC stepped up. It would probably have carried on going nowhere if it weren't for Thabo Mbeki's AU-inspired visionary leadership. Like Al Gore, he seems to have found his true calling. The economic benefits and costs for a regional free trade area were clearly spelled out to member states, and over the course of three years and four crucial gatherings the hard choices were made. It was an easy sell to Zimbabwe (its new rulers needing all the help they could get), while Zambia and Malawi were eventually just plain pragmatic. Now it seems all sorts of other regional integration initiatives are being tackled.

THE LAST OUTPOST: The ANC retreats into the laager, SADC disintegrates and SACU expands.

It was just a matter of time, and when days are dark, friends are few. The ANC abandons its policy of opening up the South African economy and trying to become globally competitive, because it was just impossible to do so, given the protracted recession. The slump truly kicked in only after the 2010 World Cup (where Bafana-Bafana didn't even reach the final eight). Now government is hanging on by its teeth and worried about political instability because of the increasing unemployment.

Leading up to this isolationist era, some government ministers were debating the merits of increased public works programmes, while others were mooted Southern African economic integration – this would, of course, be in South Africa's interest. It took a technocrat or two to figure out that SADC was going

nowhere (and certainly not heading towards any type of customs union), while Comesa was consolidating, and that the perfect vehicle was SACU. It has been around for a long time, it reflected the reality of South Africa being the dominant economic power, and all it needed was a bit of institutional capacity building and economic 'arm-twisting'. The EU and South Africa settled their differences; and after judicious application of the carrot and stick to persuade Mozambique and Zimbabwe to join, expansion really kicked in. Services, trade facilitation, investment, competition, intellectual property rights, etc. are all there – now if someone could just persuade the EU to make some foreign direct investments and do some trading....

THE REALPOLITIK RENAISSANCE: The ANC goes global, SADC disintegrates and SACU expands.

The global economy – because of globalisation, of course – is decoupled from the recession in the US, and South Africa turns a quick corner after some Eskom infrastructure wobbles and inflation worries. The commodities super cycle underpins strong business confidence, and consumer spending returns in a big way. The new president strikes up an unexpected friendship with his Singaporean counterpart and an era of 'Realpolitik' kicks in.

SADC is beset by problems, conflict and a total lack of capacity, and as is to be expected, nothing happens on the African regional integration front. So, after burying the hatchet with the EU, South Africa takes the lead by revving up SACU. It can actually afford to do this, and decision making is motivated by long-term economic criteria. Countries like Zambia and Malawi weigh up the benefits, while experts harmonise the regulation of issues such as competition, investment and property rights, taking the carcass of SADC protocols as their basis. Most of the work occurred behind the scenes and then it was all agreed at the 2011 Maputo Treaty. Best of all is the reciprocal 'Realpolitik' from the Europeans – there is a juicy EPA waiting in the wings....

OPEN REGIONALISM: The ANC goes global, the trade component of SADC is integrated, while SACU is dissolved.

Happiness is the 6% economic growth rate and the ANC's commitment to make South Africa globally competitive while pursuing investor friendly macroeconomic policies. Big business is smiling, the Chinese are paying top dollar

for commodities and the tax base is of such a nature that those that cannot be employed can at least be supported by social grants.

Under these circumstances, with things ticking over nicely, all eyes turn towards regional integration and the RECs. SACU is a limping dog because of the disastrous 2008 EU EPA outcome, and South Africa is refusing to play the revenue-sharing hand-out game. SADC, therefore, gets a kick-start, and what a difference it makes! Pride is abandoned and there is some behind-the-scenes assistance from the Europeans to build capacity in what is essentially a fine vehicle for regional integration.

The whole exercise is sweetened by European development funds and the enlightened EPA that accompanies them. It isn't long before Thabo Mbeki, now based in New York with the UN, delivers a rousing speech about how economic integration and growth has contributed to sub-Saharan Africa finally being on track to meet most of its Millennium Development Goals. At least Zimbabwe's soil is still fertile, because climate change is playing havoc with South Africa's farmlands....

11.2 The second set of scenarios: External trade relations

The second set of scenarios, dealing largely with Southern African trade relations with the US and EU, were generated using the following key uncertainties:

15. Will AGOA be extended and in what form? What implications will the new US Bill for LDCs have for AGOA beneficiaries?

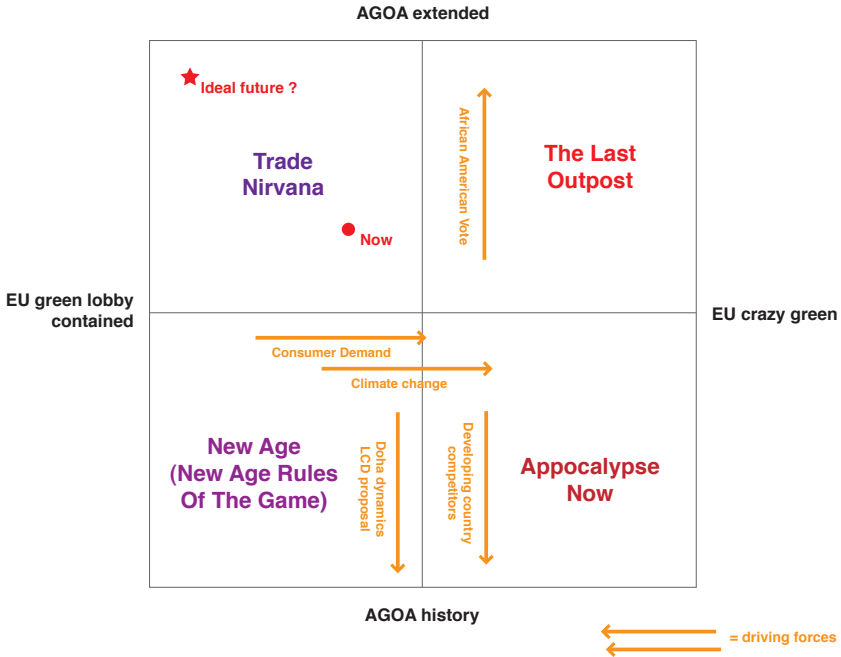
and

17. How will sustainability/carbon issues affect trade agreements (especially from the consumer-driven side)?

They were then expressed as opposite extremes to provide the framework for four possible scenarios (Figure 5).

Referring to the scenario gameboard, several observations can be made about the driving forces:

Figure 5: Four possible scenarios for Southern African trade relations with the US and EU



- Concerning AGOA, a major driving force working in Southern Africa’s (and the subcontinent’s) favour is the growing importance of the African-American vote in US politics. This likely will intensify under a Barack Obama presidency, but when it comes to US trade relations with Africa, there is bipartisan support for ‘doing the right thing’. Hence the politics work in favour of an AGOA extension on favourable terms to Southern Africa.
- Offsetting this are dynamics in the Doha Round, specifically around the extension by developed countries to LDCs (33 out of 50 are in Africa) of ‘duty-free, quota-free’ market access. This would bring two major textiles exporters into the frame: Bangladesh and Cambodia. Given that textiles are the major beneficiary under AGOA owing to its liberal sourcing rules for LDCs, this would present countries like Lesotho with a major challenge. The question is whether the US Congress can carve out sufficient space for

Lesotho and other African countries to retain their current margins of preference in the US market.

- Related to this, non-LDC developing country exporters, especially in Asia, pose major competitive challenges to African LDC exporters. Vietnam, in particular, is fast becoming the new investment destination of choice for export-oriented textiles manufacturing.
- Concerning the environment lobby, there is growing pressure in Europe (especially), and in developed countries more generally, to impose import restrictions ('border tax adjustments') on countries that do not practise environmentally safe production processes. This pressure is fed by developed country consumer lobbies acutely aware of the dynamics around climate change. As the impacts of climate change are increasingly felt, this pressure will increase. This poses major challenges to the WTO, although the Doha Round has largely excluded this issue from the organisation's ambit for now. Hence African exporters face inexorable pressure to upgrade their production standards and green their export processes. This is a tall order for countries struggling to develop, never mind compete in developed country markets.

The scenarios in detail work as follows.

COMING TO AMERICA: AGOA is extended and the EU goes crazy green.

Thank heavens the Americans seem to have a conscience and AGOA is still very much on the agenda. Some experts weren't too optimistic, given the credit crunch in the US and Barack Obama's protectionist policies. Luckily the public anti-globalisation sentiment can accommodate a bit of 'trade rather than aid' rhetoric from the White House. African countries seem better off than some others, especially those in South-East Asia. Mention China, and most Americans get the jitters.

Now it is up to AGOA beneficiaries to make the most of it, because EU market access is closing down faster than you can say 'foodmile'. Despite the EPAs and attempted 'rational' policies, everybody from Tesco to Toys-R-Us wants carbon-footprinted, eco-efficient, sustainable goods. It's becoming difficult to sell anything else, never mind the price. At least the South African Department of Trade and Industry (DTI) is switched on and has proposed some tax breaks

and incentives for US-bound exports. Now all we need to do is ramp up production ...

APOCALYPSE NOW: EU goes crazy green and AGOA is history.

Obama promised the voters jobs, not cheaper T-shirts, and he puts his money where his mouth is. The strangest of all is that there wasn't even decent Republican support for extending AGOA. The US is really starting to behave like an empire in decline, and isolationism is the 'in' thing. There certainly still is a market for imported goods (especially value-for-money goods), but these gaps are filled in a flash by competitive fast-off-the-mark economies like Vietnam. As usual, it seems that Africa gets left behind in the trade game.

To make matters worse, the EU implements some overarching extreme green policies that completely hamper the EPAs. These are trade barriers on steroids. One minute the development-through-trade lobbyists are gearing for a fight, and the next they were overrun by tree huggers. And as for typically African imports like avocados and cut flowers, the climate in Spain and France is more than warm enough to supply these (organically, of course). So it's back to the mines for the Africans ...

NEW AGE (NEW RULES OF THE GAME): AGOA is history and the EU green lobby is contained.

Opposition to the EU green lobby comes from the most unexpected quarter(s). When it comes to trade with Africa, it ultimately becomes a matter of principle, and sanity prevails (at a cost, though...). It takes years and many consultants to 'prove' that carbon miles can be offset and that economic growth (through trade) is going to contribute more to global sustainability than knee-jerk reactions. African agriculture and manufacturing are still in for a tough time because of competition. Even though organic farming exports are showing triple-digit growth and nearly half of the manufacturing sector has been carbon audited, innovations in countries like India, Brazil and Argentina are all vying for those coveted markets.

Meanwhile the US, once the great promoter of free trade, does a complete u-turn. The North American Free Trade Agreement is renegotiated, a hard-line position is taken in the WTO, and AGOA is allowed to fade away – no matter

what the pro-African lobbyists have to say about it. Those businesses that rely on getting product into the US undergo an extreme makeover ...

TRADE NIRVANA: EU green lobby contained and AGOA extended.

The going can't get much better than this. Barack Obama makes sure that Africa is on the agenda; not only is AGOA extended, but the trade policy technocrats even guarantee some additional market access at the 'expense' of some Asian LDCs. Despite the Doha principles, it seems that Africa gets special treatment. Admittedly, the US is fretting about the amount of Chinese investment into Africa, so it wants to offset it by incentivising and stimulating trade with the US. Who are we to complain?

Best of all are developments in the EU. Greening, eco-friendliness and sustainability are all matters of choice. So those that want a clear conscience can cough up. Trade policy is made, and negotiated, separately from environmental policies, and Africa is even benefitting from the new Common Agricultural Policy proposals. So it's business as usual, with African products finding a market and niche in the EU. Now, as long as conditions don't change too much, and if we could only become more competitive ...

12. OPTIONS FOR GETTING TO PREFERRED FUTURES

Two preferable futures were identified; one for the Doha Round prospects, namely 'Quest for the Holy Grail' (Figure 1), and one for the trajectory of Southern Africa's trade relations, namely 'Trade Nirvana' (Figure 5). Options for how to get to these preferred futures were then generated, and events that would help lead to them were identified. (Options are actions and decisions that *could* be taken, or events that *could* take place. Where such decisions *are* taken and if the events *do* take place define how the future is then made.)

Options to get to 'Quest for the Holy Grail' (Figure 1), where the key Doha actors compromise and there is consensus, include the following:

- John McCain (a Republican) becomes the next US president, OR the new Democratic president (Barack Obama) adopts an 'internationalist' (as opposed to protectionist) leadership style.
- Political pressure to reassert the US's multilateral credentials is applied.
- The US is not hampered by a more protectionist Congress.

- The force to re-engage multilaterally is stronger (this also depends on the economy).
- The sub-prime crisis drives the adoption of financial regulation, which underscores developing country arguments that they need space to regulate their economies rather than tie their hands too tightly in the WTO.
- ‘Decoupling’ strengthens the hand of countries like Brazil, India and China and makes the multilateral system more likely to work.
- There is a more generous market access package on agriculture. (It is currently assumed that high food prices will bring downward pressure on applied tariffs and that continued high food prices could bring unilateral reform back into focus, but this is a driving force that needs to be carefully monitored.)
- Consequently, developing countries, including South Africa, are more cooperative on NAMA.

Options to get to ‘Trade Nirvana’ (Figure 5), where AGOA is extended and the EU green lobby is contained, include the following:

- Bipartisan consensus in the US Congress about AGOA is continued.
- An ‘Africa-friendly’ McDermott Bill (extending ‘duty-free, quota-free’ market access to LDCs) is passed.
- There is no WTO challenge to AGOA.
- If he becomes the next president of the US, Barack Obama carves out a special relationship with Africa.
- The EU is more likely to allow genetically modified organisms and food with high foodmiles into its market, given the current high food prices.
- Green non-tariff barriers are taken into the WTO and ‘contained’ from a developing country perspective.
- ‘Africa-friendly’ intra-European alliances (for whatever reason) are developed.
- Other countervailing alliances in the WTO are developed.

To get to ‘Trade Nirvana’, South Africa should consider the following strategic decisions (these can be seen as recommendations):

- Retain and strengthen alliances on the diplomatic front.

- Get into the knowledge, communication and advocacy game (like New Zealand did with regard to foodmiles and carbon emissions of products destined for the UK).
- Be prepared to sign up to Annex I countries (developing countries expected to take on substantial mitigation commitments after 2012) under the Kyoto Protocol – this is a legitimacy issue.
- Improve domestic environmental policies and practices with a view to participating more effectively in the global game.
- Lobby the US with regard to extending AGOA on terms favourable to Africa.
- Build capacity and awareness regarding the use of AGOA (to refute the argument that despite the concession being available, it is not being fully utilised).

13. MILESTONES TOWARDS ALTERNATIVE FUTURES

For scenarios that are very uncertain or equally plausible, and in cases where preferable futures are not easily identifiable, such as ‘Open Regionalism’ and ‘The Realpolitik Renaissance’ (Figure 4), a ‘backcasting’ exercise may be appropriate. This is a method of forecasting or planning in which an event is posited as having occurred in the future, and the question then becomes, how did this event come about?

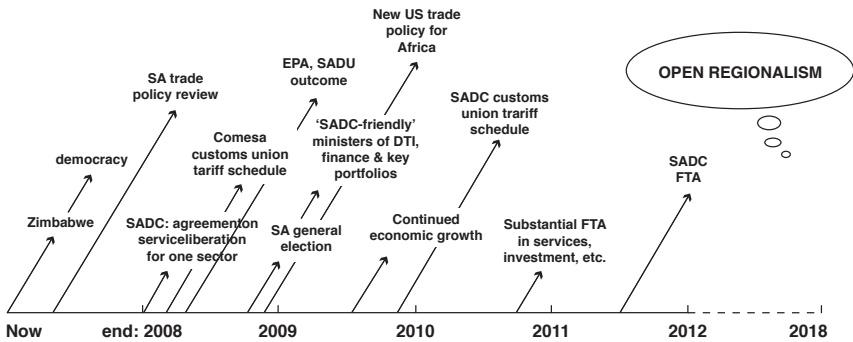
By following chains of causality from this future state back to the present, a roadmap with milestones is created to show how this future was achieved. The object of the exercise is to see if some crucial milestones/decisive factors/turning points that will ‘create’ this future can be identified, and then to start monitoring them from the present.

To get to ‘Open Regionalism’, the following events occurred:

- The Zimbabwe crisis is resolved.
- The liberal faction in the ANC gets its way.
- The SADC policy regime is harmonised.
- Countries agree to (really) share sovereignty.
- There is solid economic growth in all sub-Saharan countries.
- The EPA triggers (or contributes to) regulatory harmonisation.
- There is a critical mass of like-minded countries (political will).

- South Africa opts for SADC.
- The AU applies high-level political pressure.
- Member states are willing and able to finance SADC.
- Nepad’s regional infrastructure projects (funded by the EPA development funds) are implemented.
- The US negotiates with other RECs, i.e. Comesa, and this serves as a wake-up call.

Figure 6: Roadmap to ‘Open Regionalism’

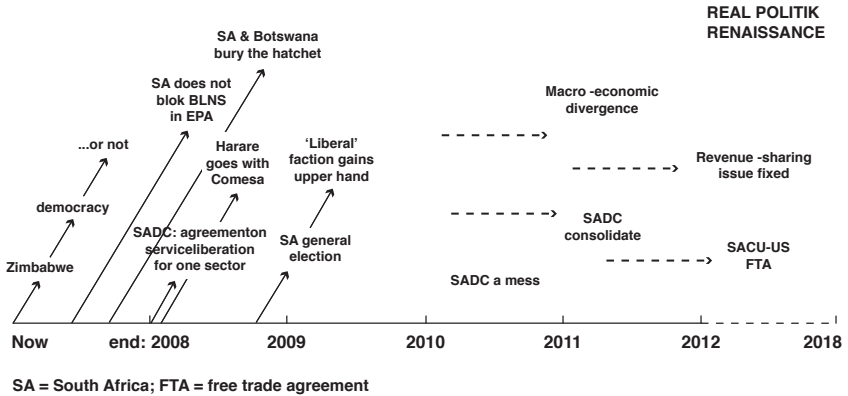


SA = South Africa; FTA = free trade agreement

To get to the alternative plausible future, ‘The Realpolitik Renaissance’, the following events occurred:

- Comesa gets it act together.
- Zimbabwe is ring-fenced OR fixed and pulled into Comesa.
- SADC gets left behind.
- South Africa does not block the BLNS countries (Botswana, Lesotho, Namibia and Swaziland) in the EPA.
- The liberal faction in the ANC gains the upper hand.
- South Africa and Botswana bury the hatchet.
- The revenue-sharing issue is resolved.
- SACU is consolidated.
- SACU–US FTA talks are restarted.
- The AU is ‘disregarded’.
- There is macroeconomic divergence.

Figure 7: Roadmap to ‘The Realpolitik Renaissance’



14. CONCLUSION

The Doha Round of international trade talks, and South and Southern Africa’s regional integration, are issues characterised by high levels of uncertainty and complexity. In order to gain clarity and a better understanding of these challenging issues, SAIIA applied some strategic futures thinking techniques to the subjects and concluded the following:

No one knows exactly how the Doha Round will pan out, but it is essential to develop views now on what could happen and then to reflect on how this will impact on and influence a future state of affairs. For South Africa and Southern Africa to be in a beneficial position, or to have a competitive advantage, means gaining knowledge about those factors that shape the future (the driving forces) and then acting on this knowledge where possible. This means following policy options, making domestic adjustments and lobbying for issues in the present that will make a preferable ‘Holy Grail’ (Figure 1) future more likely.

The preferable ‘Trade Nirvana’ (Figure 5) future also highlights the opportunities that could be had by developing foresight, being proactive and taking pre-emptive action when it comes to AGOA and trading relations with and trade conditions applied by the EU. South and Southern Africa have opportunities to influence outcomes proactively – these could become areas for further investigation or policy considerations.

Developing regional integration scenarios (telling the ‘stories’ of the possible REC futures) not only highlights the current, untenable situation, but also contributes to developing some clarity on how the future might unfold. The extent of factors that need to pan out, or that require resolution (i.e. continued economic growth and Zimbabwe) is particularly notable. The backcasting exercise in turn provides a ‘roadmap’ with signals for monitoring which future is likely to unfold as time passes. These scenarios also offer a useful communications tool where alternative views are intrinsic and valued.

By generating and analysing the scenarios,¹⁰ as well as looking at options of how to get to preferable futures, SAIIA can contribute to promoting better decisions, more preparedness and more beneficial outcomes for South and Southern Africa’s trade relations. This is because a futures approach not only helps to develop foresight, but also provides some degree of confidence when making recommendations.

¹⁰ It is prudent to periodically review the scenarios and their driving forces, as some conditions can change quite rapidly, and it is crucial to work with relevant, plausible alternatives.

