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The contributions to this compilation share a common focus but have different backgrounds. The paper by Carlos Lopes was originally drafted for a public seminar organised in Reykjavik, Iceland by the Nordic Africa Institute in May 2004. The paper by Paul Goodison and Colin Stoneman was initially presented to a South Africa conference in London during September 2004, in which the Institute was involved. The third paper started off as a commentary for the Institute's journal and was developed further for a panel debate in September in Bonn. Finally it was considerably expanded for this publication. All three analyses centre on currently related trade and development issues and their likely effects on African countries. They provide a perspective that complements and updates earlier interventions published by the Institute in light of recent developments and discourses. These include the Discussion Papers 7, 8, 9, 11, 13, 16, 24, 25 and 27 as well as Current African Issues 25. All these publications are accessible electronically on the Institute's web site (www.nai.uu.se).

I wish to thank the authors, the Institute's publication department and Sida for their support in making this volume possible. We hope that it offers food for thought to scholars, policy makers and NGO activists alike on closely related topical issues related to European-African trade relations and development cooperation.

Henning Melber

Uppsala, January 2005

Development Co-operation Revisited: New Dilemmas for a Narrower Agenda

Carlos Lopes¹

Development cooperation is an old story. Defined in its current format after the Second World War, it was influenced by the thinking of the times. The Marshall Plan, the beginning of the Cold War, the highly politicised environment and the existence of colonial powers all contributed to the shaping of current development cooperation architecture. The creation of a long-lasting Northern-dominated paradigm was an obvious outcome of history.

The end of the Cold War, coupled with immense progress, particularly in the areas of communication and information technology, have led to a new paradigm. In a globalised-network society, the notion of being propelled along a linear development path by knowledge emanating from a single distant country will increasingly be seen as antiquated and irrelevant. New institutional forms of global support for capacity-development are becoming possible. People across the world are increasingly engaged in knowledge exchanges with the purpose of recombining globally acquired knowledge into locally applicable practices. It is likely that these demand-driven processes will bypass the constraints of asymmetry and knowledge transfer.

There is a growing consensus that development, as in Amartya Sen's conception, should consist of strategies that lead to the enhancement of freedom. Themselves freedom-imbued endeavours, these strategies will be based on the principle that political liberties and human rights are essential to the expansion of human capabilities. The United Nations-elaborated Millennium Development Goals (MDGs), a series of objectives that should guide the fight against the chief forms of human deprivation, are inspired by these views.

This new approach to development, while necessarily broad in its perspective, seeks to attain a deep transformation of society. It is, in this sense, wholly innovative in comparison to the development objectives of earlier decades. Technical progress, set within frameworks of sound macro-economic policy and improved terms of trade and pricing mechanisms, have dominated the development discourse. This has been detrimental to real human development, not simply in terms of relieving poverty and inequality, but also, and ultimately, of increasing people's chances of achieving their full potential. Development strategies aimed at societal transformation in terms of expansion of human freedoms will help identify the barriers as well as the potential catalysts for change. Most importantly, they will provide for greater indigenous ownership and leadership of the change process – central factors in the sustainability and effectiveness of development initiatives.

The practice of international aid has long been confronted by a key dilemma. A series of conceptual and political barriers have always confronted the strong desire of both donors and recipients to amplify ownership and leadership of aid-related development activities among members of the recipient society. This is a *de facto* "Catch 22" scenario: the less accountable a recipient country is, the more donors are tempted to tighten their requirements and control mechanisms. These, in turn, are difficult to meet precisely because of weak institutions and governance. For quite some time, donor agencies and multilateral institutions tried hard to justify their effectiveness in the use of about US\$ 50 billion a year on official development assistance. In fact, this figure is quite small when compared to any other similarly colossal task.

1. This paper was prepared with the support of Filipe Dornellas, who acted as research assistant. His contribution is gratefully acknowledged.

The purpose of this paper is to address the problem of ownership through an assessment of three main perspectives on international aid and cooperation. First, we undertake an overview of the Monterrey Consensus as presented in the proceedings of the 2002 UN International Conference on Financing for Development. This will be followed by an analysis of the Poverty Reduction Strategy Papers (PRSP), a new international aid policy instrument conceived by the World Bank and the International Monetary Fund (IMF) that, like the Monterrey agreement, is strongly based on the rhetoric of ownership. Indeed, PRSP seems to be assuming the position once held by the strict conditionality-driven Washington Consensus. The limitations of PRSP will be tested making the case for capacity development or the effort toward enhancing the ability of people, institutions and societies to perform functions, solve problems and set and achieve objectives. For such an effort to be viable and productive, it is necessary that a strong sense of ownership permeate international aid and cooperation initiatives, coupled with a widely accessible policy dialogue in which all stakeholders can discern the benefits of their participation. Case studies illustrating the workings of PRSP and capacity development will be provided. The final part of the paper will look into the future prospects of international aid.

The paper begins by exploring definitional usages of ownership and policy dialogue in debates on international aid. This exercise will prove useful to the extent that these two apparently worn-out terms can be rescued and provide dynamic, meaningful understandings in the context of capacity development.

Ownership and policy dialogue: some definitional notes

About ten years ago, the municipality of Porto Alegre in Southern Brazil created an innovative system to manage municipal funds: people joined officials and locally elected leaders to decide on investment priorities, actions and public works, and build a participatory budget. Recognised not only in the national context, where public budgeting and accounting has been characterised by resource wastage, political clientelism and corruption, Porto Alegre's participatory budget sys-

tem is also internationally acclaimed – it was dubbed an exemplary urban innovation by the 1996 UN Conference on Human Settlements and in several Human Development Reports. Concrete changes have come to Porto Alegre, such as: almost universal access to water and sanitation; improved roads; drainage and street lighting; doubling of school enrolment; and the expansion of primary healthcare. Moreover, there has been a revival of the sense of citizenship and the realisation that it is possible to participate actively in public affairs. The results demonstrate that community involvement, transparency and accountability can improve the effectiveness and efficiency of public expenditures.

However, the major mark of success from the Porto Alegre experience is precisely the absence of significant external input. Enormous efforts, led by donor agencies, failed to produce such exceptional ownership. From a broader perspective, this example shows how expansion of ownership of the development process, generated by wider and more effective policy dialogue, can correlate strongly with socioeconomic betterment. What is meant by ownership here is the product of an evolving discussion (mostly among donors) about the effectiveness of aid that has emerged in the last two decades. Organisations, such as the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD), have held various debates on the subject. In 1994, DAC agreed on “new orientations for development assistance,” emphasizing the need for local control and long-term capacity development. Similarly, the World Bank and the IMF have, through PRSP, recently moved from top-down structural adjustment programmes to a more participatory process that brings together various sectors of civil society alongside traditional political and economic stakeholders to help redefine national poverty-reduction policies.

The principles underpinning the concept of ownership can be divided into the following four categories, which necessarily overlap but which correspond, albeit loosely, to a chronology of events in the development process:

- *Ownership of ideas and strategies*: First, there should be no pre-established limit to the number of partners; second, respecting the principle of free choice, transfer of ideas and strategies should occur through dialogue and

persuasion; finally, and linked to the previous requirement, the more controversial point here is that pressure from donors should be minimal.

- *Ownership of processes:* It is key that implementation be integrated into domestic processes, otherwise artificial islands of comfort will be created that may satisfy donor agencies but will rarely be sustainable.
- *Ownership of resources:* These include not merely the political and human resources involved in planning and management, but also financial and technological resources. If donor contributions are not processed through mechanisms that enhance domestic choice, certainly no sense of ownership will develop.
- *Ownership of outcomes:* Accountability problems are indeed rather common and represent a serious concern: almost invariably, the results of a successful activity are claimed by many, but results deemed a failure are attributed to others. Weak accountability has been shown to affect the development environment negatively and to jeopardise future endeavours.

Policy dialogue, while complementary to effective ownership, should also be seen as a goal in itself. The role of dialogue between recipients and donors is very important for the communication of concerns, the understanding of challenges and for establishing transparency about processes. Inclusion in the process of design and programming (and not only implementation) fosters ownership and commitment and reshapes ways of thinking in recipient countries. Yet policy dialogue should not be limited to donor-recipient relations: central to the idea of expanding participation is the inclusion of sectors of the population that were previously marginalised from public policy-making. The universal marginalisation of women in decision-making, for instance, has left their concerns unheard, thus significantly hampering the development process. The same is true regarding indigenous populations and socially discriminated-against groups. Eliciting the commitment and long-term involvement necessary for sustainable development requires the deep involvement of all societal groups. Moreover, this issue is particularly acute in the context of international aid where, in line with the Millennium Development Goals, cooperation efforts

are aimed at reducing inequalities and improving the lot of the poor.

Guidelines for a strategy towards widespread and effective policy dialogue include the following:

- Learning and capacity: Participants must be fully informed as well as capable of contributing meaningfully to the debate;
- A conducive environment: Incentives must exist for individuals, groups and organisations to participate. This becomes more acute where marginalised groups, such as poor women, are concerned. The issue of incentives is inextricably linked to the next element;
- The sense that decision-making is fair: Without a broad consensus that all actors (but especially marginal ones) can be influential in the decision-making process, sustained participation will be difficult to achieve;
- Sufficient time: The pressure of time tends to be great. Each development experience has its own pace. The most successful cases had a long-term vision.¹

Finally, it is important to stress two core issues affecting the ownership and dialogue equations that have not been adequately addressed in development policy circles. First, real ownership of the development process will not materialise unless development is appreciated as transformation, rather than as a simple displacement of indigenous practices, followed by the insertion of externally sourced ones. Transformation, therefore, means building on existing capacities. Importantly, however, transformation should be restricted neither to the individual nor even the institutional level, but should extend to the societal level, where self-sustaining and appropriate environments are built to provide individuals and institutions with capacity and with opportunities to thrive.

Second, there is the centrality and irrefutability of the asymmetry in the donor-recipient relationship. An underlying and erroneous assumption governing aid relations in previous decades has been that recipients can be considered equal part-

1. Due to its link to debt-forgiveness initiatives, PRSP is especially problematic in this sense, as the government concerned may undertake the project rather hastily, with a view to expediting debt relief. As a result of such time constraints, many groups are often excluded from the participatory process.

ners, despite ultimate control by donors over development processes. While there exists a clear need for more open debate about this rather sensitive issue, it is possible at this stage to confirm that the healthiest possible relationship is where the country concerned, having acknowledged the limitations imposed by the imbalance in the aid relationship, has set its own priorities and established its own momentum for societal transformation.

The Monterrey Consensus

The outcome of the UN's International Conference on Financing for Development, held in Monterrey, Mexico in March 2002, was an agreement commonly known as the Monterrey Consensus. With the Millennium Development Goals as points of reference, the Consensus stresses the need for the following commitments from donors and recipients: while the former will improve the quality of aid, by augmenting volume and stabilising fluctuations, the latter will proactively seek to enhance their governance through the adoption of development-friendly policies.

In the last few decades, predictability and long-term commitments have been scarce in the international aid system. The exception has appeared more recently with the debt relief mechanisms. Indeed, although it should be the reverse, international aid transfers are more volatile overall than growth itself in recipient countries (Rogerson *et al.*, 2004). With this in mind, the Monterrey Consensus goes beyond international aid to include norm-setting in the international financial system and notes the importance of trade in boosting developing economies. Importantly, policy dialogue and ownership emerge for the first time in the Consensus as internationally agreed parameters for the governance of aid relations.

The elements of the consensus that was formed through the Monterrey talks are already embedded in formal policy guidelines used by the UN system, the World Bank and IMF, the EU and a large number of European bilateral aid agencies. This supposed "embeddedness," however, is rather tenuous. On the one hand, subscription to the terms of the Consensus across the spectrum of the major aid agencies is not entirely consistent. On the other, and most importantly, even those who subscribe to it often act in divergent ways. In the following sec-

tion, we analyse some of the main conceptual underpinnings of the World Bank's and the IMF's PRSP, a policy strategy that, while formulated prior to the Monterrey conference, is claimed by its proponents to be in line with the latter. A series of problematic issues relating to the implementation of PRSP are then outlined.

Poverty Reduction Strategy Papers (PRSP)

Responding to the World Bank's Comprehensive Development Framework that serves as its bedrock, PRSP (formally adopted by both the Bank and the IMF in 1999) represents a policy instrument for concessional finance for poverty-reduction and sustainable growth. Its principles stress a "multisector, multidisciplinary, long term development vision ... as well as country leadership in designing the 'architecture' of local donor co-operation" (Rogerson *et al.* 2004:21). Initially created to guide the efforts towards external debt relief among the 41 Highly Indebted Poor Countries (HIPC), PRSP was extended to a further 30 International Development Association (IDA) borrowing countries. Although not applicable to remaining middle-income countries, PRSP's philosophy has been adopted *de facto* in the policy dialogue led by Bretton Woods for all borrowing developing countries.

Central to PRSP are national ownership and execution, with a view to promoting policy dialogue. Great responsibility, therefore, lies with recipient governments, as they must take the initiative to consult with development partners and national stakeholders. The result of this operative mechanism is the emergence of a complex arrangement of policy-dialogue platforms.

A conflict persists at the core of PRSP implementation. The fact that a Joint IMF-World Bank Staff Assessment (JSA) scrutinises PRSPs and forwards them for approval by the Fund and Bank boards fundamentally undermines ownership by recipient countries. Further challenges to the ownership objective in PRSP include the relatively modest role played by parliaments and elected constituencies and the absence of explicit macroeconomic links to the instrument. The existence of varying degrees of leverage by recipient countries within different aid relations will produce a range of outcomes in terms of donor influence in the development process. What is clear is that the partici-

patory nature of the PRSP lending strategy is called into question. A number of concerns with respect to ownership and effective policy dialogue arise:

- Is the haste/consultation trade-off (due to PRSP link to decisions on debt forgiveness) limiting the time given for consultation with all stakeholders – including civil society, the poor, women and the private sector – and thereby inhibiting the essential broad national ownership?
- Is the presence of conditionality in the PRSP process consistent with the concepts of local ownership and partnership with a borrower? How does conditionality relate to policy dialogue? Does conditionality replace or enhance policy dialogue?
- How will the ambiguous relationship between PRSP and the macroeconomic imperative, which is translated into the establishment of parallel negotiating mechanisms for WB and IMF disbursement, be resolved?

Although it is generally accepted that greater participation is fundamental to effective policy dialogue, the precise mechanisms through which such participation will be achieved need further adjustments. In the case of PRSP, neglect of such questions as *how* best to facilitate the involvement of all stakeholders in the dialogue and *how* to ensure that the dialogue is active, widespread and effective threatens to render participation merely symbolic. In the process of substituting the idea of greater discourse and participation for rigid short-term planning an important component of development has been lost: the foresight necessary to implement workable solutions to the problem of participation.

Capacity development: widespread ownership and effective policy dialogue

A complex social and economic relationship, the international aid system functions under various determining conditions, principal among them the requirement that often very different worlds of knowledge interact. Where such radically different cultures, values and ways of thinking and arguing meet, mutual understanding may not naturally follow. What is most problematic is that these issues are highly sensitive, making them difficult to address.

Language, culture and concepts convey notions that harden over time into mindsets. The language of development is full of metaphors of hierarchy and inequality: aid, assistance, developed, developing world, donor, recipients, etc. (Ribeiro 2002). Furthermore, while there is nothing wrong with legitimate forms of power, the prevailing norm is based on unequal relationships – between governments and their citizens, donors and recipients, the elite and the underprivileged. Contrary to popular opinion, the poor have a well-informed comprehension of this, having experienced despair over local elites who may be acting out of self-interest and for illegitimate ends.

In spite of the well-accepted rhetoric of participation and empowerment, power differentials ensure that many development relationships are unidirectional, as well as being marked by profound mistrust and exclusion. A real discussion about power, as it revolves around access, distribution and prioritisation of resources, is central to making progress, especially in terms of ownership and the appropriation of development goals and results.

The idea of capacity development explicitly attempts to account for the above concerns and emerges as a comprehensive framework for international cooperative initiatives. According to UNDP (2002), capacity development is the “the ability of people, institutions and societies to perform functions, solve problems and set and achieve objectives.” While this definition is straightforward, its conciseness may be misleading and it, therefore, requires further qualification.

Though improving capacities is central to the enhancement of people’s well-being, capacity development is distinct from socioeconomic development, itself a broader concept. Yet capacity development also differs from simple capacity building. The latter term refers more specifically to the process of refining technical abilities but suggests no necessary commitment to the subsequent use and retention of these abilities. Capacity building is, therefore, less comprehensive than capacity development, which not only takes into account complex social, political and economic contexts, but also appreciates the dynamic nature of international aid initiatives, rejects blueprints and aims at transforming rather than reinforcing inequalities in knowledge and power. Capacity development as an

objective corresponds in this sense to the goal of people wanting to learn about and increase their own options and choices. Importantly, it is applicable on various levels, which, in keeping with the earlier quote, we divide into the individual, the institutional and the societal. Capacity development is an approach just as much as it is a process in development, a means by which individuals, institutions and societies are empowered to make choices and chart their own development course. Finally, the far-reaching nature of capacity development not only makes it an objective, an approach, a process and a means, but also an outcome.

Because certain technical and scientific skills are indeed exclusive to given fields – such as water management, energy generation, health systems, accounting and social security systems – the understanding of capacity has for a long time been influenced by the engineering world. It was understood that the transfer of knowledge required particular processes (Morgan 2002), thus producing a vertical, sector-specific approach. Considerably less attention has, therefore, been paid to areas where horizontal efforts could transform external support for capacity development into more effective and far-reaching impacts. The inherently cross-cutting, management-related issues have most often been relegated to the narrow category of “*good governance*.” Increasingly, however, skills such as policy formulation, assessment of policy options, social and economic research, performance auditing and monitoring have more accurately been described as aspects of *good development management*.

More concretely, especially in regard to the issue of national ownership of development projects and programmes, capacity development must have a strong element of endogeneity. Capacity development clearly takes time, resists blueprints and requires flexibility. Yet the crucial and innovative point is that it must be voluntary, requires motivation and is based on existing capacity. These conditions give the assurance that national ownership is realised. Importantly, then, the state must not be bypassed, even when the legitimacy of its leadership is questionable. Bypassing the state has been used as an excuse for increased participation. However, that attitude questions legitimate power relations, as argued later in this paper.

But how do these ideas work in practice? In an exemplary case of PRSP execution, the Ethiopian

government, through wide public and participatory consultation, developed a comprehensive analysis of the poverty situation in the country, while persuading donors that an improved channel for aid relations had been created. The process began with the preparation of an interim PRSP (I-PRSP) in September 2000, outlining an agenda for policy reform and institutional change to reduce poverty. With nearly half the country’s population living in poverty and chronic drought severely impairing sustained economic growth, the I-PRSP was seen as a welcome initiative by many independent organisations. The latter’s contribution to the I-PRSP – through observations and suggestions – formed the groundwork for future participation by an ample section of civil society.

The next step was to subject the I-PRSP to public scrutiny. Not only were regional and federal steering committees and consultative forums appointed, but also, and most significantly, rural and urban district councils gathered feedback from the poor themselves. In total, it was estimated that 6,000 people were directly represented. Effective leadership and organisation from regional and technical bureaux also ensured high participation by women.

The final PRSP represents quite an improvement over the I-PRSP. It incorporates the divergent views of many segments of civil society and the donor community. Offering a more thorough analysis of poverty in Ethiopia along social and spatial dimensions, it probes incidence, depth and severity along gender, age and rural and urban dimensions, based on reliable empirical data. Crucially, the policy recommendations and action plans originated in rigorous assessments that include the suggestions forwarded by the different stakeholders.

Ethiopia’s PRSP subsequently inspired the preparation of a strategy paper for a Sustainable Development and Poverty Reduction Programme (SDPRP), in which the government has expressed its commitment to linking poverty with fast, broad-based, equitable and sustainable growth. The SDPRP identifies four core policies and strategies as building blocks for poverty reduction: industrialisation led by agricultural development, judicial and civil service reform, decentralisation and empowerment and capacity building.

Some 12 bilateral agencies, as well as UNDP and the European Union, pledged US\$ 50,000

each towards the PRSP process between July 2001 and July 2002. The World Bank, and the government of Japan provided US\$ 825,977, most of which was in the form of technical cooperation, while the African Development Bank offered US\$ 300,000. It is anticipated that through continuous and constructive engagement with the government of Ethiopia, the donor community will find it more appropriate to channel assistance through national processes, especially in the form of budget support.

An important question, however, arises. In a context such as the Ethiopian PRSP, what are the implications of national ownership of the development process, especially when there is the patent fact of asymmetry as financial and technical resources are being acquired through donations from external actors? As mentioned above, one of the most conspicuous omissions in the debates on development aid has been the unequal nature of the donor-recipient relationship. It is an imbalance that has provoked, among other distortions, discontinuity, or a lack of long-term commitment from both donors and recipients (UNDP 2002).

Referring to ownership in international aid, the New Partnership for Africa's Development (2001) eloquently stated that "Africans must not be wards of benevolent guardians; rather they must be the architects of their own sustained upliftment." Two important messages can be extracted from this statement. First, the traditional donor-recipient relationship must be reformulated and issues of power, hierarchy and, ultimately, the question of "who benefits?" must be addressed with more precision. Second, there is the issue of sustainability, a concept borrowed originally from the environmentalist movement and now a commonplace in mainstream development discourse, yet rarely implemented efficaciously

In the Ethiopian case, provision of new space in which civil society could *own* the development initiative through engaging in the public policy process – a process that was, indeed, meant to affect a large portion of the national population – was guaranteed by certain key innovative factors. Among them was the contribution of organisations such as the InterAfrica Group (IAG) towards the training of participation officers at district and regional levels. Yet beyond the training of facilitators and rapporteurs, capacity development involved encouragement of the media to raise public awareness

of the PRSP and working to sensitise parliamentarians. Furthermore, the Forum for Social Studies (FSS), an independent policy research institute, ran a two-year programme of public debates and consultations involving government policy makers, civil society, representatives from the private sector and the poor themselves. These additional efforts represented the kind of long-term commitment that is central to capacity development and reinforced the sustainability of what was otherwise a well-devised consultative and participatory mechanism.

Along the donor-recipient axis, a seldom discussed but potentially transformational course of action would be to create forums – at the regional and "hemispheric" levels – for a development policy dialogue between countries of the South. Functioning as a counterpart to institutions such as OECD/DAC, this dialogue would intensify recipient leverage with respect to donors by creating a platform from which concerns and demands could be voiced in unison.

These new forms of communication and knowledge-acquisition do not replace an important state role. There is a danger in ignoring the pivotal role of the state in aid relationships. While the state is no longer the only interlocutor for development initiatives, the lack of recognition of its role has produced tension, confusion and a leadership and commitment crisis. Recipient governments will feel motivated to follow through with a given development project when their theoretical and material contributions are integral to that project. This is not to say, however, that ownership should be limited to the level of central governments. Rather, what is needed is a precise, well-defined allocation of responsibilities – ownership must be mapped out so that the specific stakeholder interests are clear. As there is no benchmarking for such analysis, it will normally be case-specific. Indeed, all actors involved one way or another in a particular development activity can, at different stages, claim ownership, something that runs counter to the common use of the word as referring to appropriation by a specific set of actors. This underscores, on the one hand, the need to demonstrate that there are various interpretations of the same concept, but also, on the other, the fact that there must be more specific, less general, identification of the real interests linked to each interpretation. A good way to re-

respond to this need is to conduct a stakeholder analysis, such as Shekhar Singh (2002) proposes, in which vested interests that may steer a project away from intended objectives are revealed in time for the appropriate precautions to be taken.

The international aid system: prospects for the future

Studies have shown that if the Millennium Development Goals are to be achieved, there is a need not only to increase aid spending by at least 100 per cent (and possibly up to 200 per cent) from the current US\$ 50 billion a year,¹ but also to sustain these new levels over the next decade. Public opinion in some leading OECD countries is supportive of a significant increase in aid volume. The symbolic target of 0.7 per cent of GDP for ODA contributions from OECD countries has been the most debated issue within development forums in the last 30 years. Only four countries have reached that target. However, if the more generous donors maintain their current levels of aid spending, it is indeed not unlikely that the 6 per cent increase agreed upon in Monterrey could be achieved.

The aid industry of OECD countries does not favour direct budget assistance, preferring instead various forms of project aid. There is a sense that the latter is more tangible and leads to greater accountability, particularly when non-governmental groups are involved. NGO lobbying is, in fact, a major factor in aid decision-making, to the extent that in some OECD countries boosting aid in the Monterrey mode of core resource transfers may be compromised.

Two other trends remain strong in the international aid system. The first is the prevalence of bilateral as opposed to multilateral schemes. The current ratio of total bilateral to multilateral aid is 70:30, implying a reversal of the new multilateralism of the 1980s. This development is compounded on the one hand by the post 9/11 climate in which aid is again being used as a bilateral foreign policy tool, with poverty reduction receiving low priority. On the other hand, international aid does not represent a significant focus of partisan conten-

tion in countries of the North, thus leaving few barriers for pro-bilateral aid lobby groups.

The other main tendency, an associated effect of what is in many ways a return to pre-1980s bilateralism, is the renewed strength of tied aid. An example of this includes pressure for aid recipients to purchase OECD-produced pharmaceuticals, as opposed to the less expensive generic variants. Similarly, in many cases donor countries continue to demand preference for their own technical assistance and service providers. A novel and extreme variant of this has been witnessed in the Iraqi reconstruction, where contract bidding was, at least initially, limited to coalition members. Finally, aid tied to foreign trade, a well-established EU device, hardly shows signs of waning.

A major institutional innovation has been the creation of global thematic aid funds such as the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), the Global Alliance for Vaccines (GAVI) or the Global Alliance for Improved Nutrition (GAIN). Driven by the need to respond quickly and effectively to increasing global threats, institutions such as GFATM have *additionality* as their main principle – in other words, GFATM is not meant to displace existing health-aid mechanisms but rather to create new and speedier links between groups with immediately executable ideas and external funding sources. These groups could be from civil society, philanthropic organisations or even include those living with the diseases. Project analyses are conducted by independent commissions, rather than by Fund staff. Similarly, local accounting firms are tasked with grant administration. However, in practice the administration has been entrusted in most cases to management consulting firms from the North with no expertise in or knowledge of development processes.

In part because most of GFATM's budget originates in OECD pledges, there is some scepticism as to the extent to which GFATM will actually translate into added aid volume, as opposed to simply re-orienting existing aid transfers into multiple channels. Nevertheless, with a predicted annual commitment of US\$ 3 billion by 2005, GFATM is on course to surpass International Development Association (IDA) funding levels by 2010. This is a rather significant achievement for such a new institution, especially given the nature of the benefited

1. This figure excludes recent allocations to Afghanistan and Iraq, which are several times higher than the total annual ODA. These cases are very specific and linked to the current major crisis of multilateralism.

programmes: life-supporting medical treatments that cannot absorb serious funding fluctuations.

Another major proposal for the overhaul of the international aid system could arise from the International Financing Facility (IFF) proposal, a method to increase the availability of funding for development by securitising future aid expenditure through bond markets. The concept has been developed by Gordon Brown, the UK Chancellor of the Exchequer. The objective of IFF is to produce a kind of leverage of the US\$ 16 billion annual aid increment agreed upon in Monterrey, resulting in faster annual increases in aid receipt.

The principal implication of the IFF is a potential transformation of the governance of the entire aid system. The IFF alone could become the largest global source of development finance. Yet this central aspect of governance is hardly being debated, emphasis being placed at the moment on the financial engineering of the scheme. Ultimately, the materialisation of the IFF is largely dependent on developments in the current aid system. The potential impacts of the IFF are, however, no doubt colossal.

Conclusion

With lack of ownership a major reason for the failure of many development programmes, it is essential that development interventions be broadly owned, starting with the initial idea and continuing in terms of responsibility for the process, control over resources, and commitment to and acceptance of all outcomes. We have also stressed here the value of effective policy dialogue, not merely as an exercise complementary to ownership, but as a participatory mechanism which is important in and of itself.

The fact of a fundamental asymmetry in aid relations remains, however, and it is this enduring condition of the system that is tackled by capacity development. Aimed at transforming society through working with local skills and know-how, capacity development goes beyond the original strategies of technical cooperation that failed to recognise the importance of achieving a society-wide transformation. Instead, the effort was aimed at merely transferring Northern-generated technical skills to individuals and institutions in developing countries.

In today's world, knowledge-sharing should replace the outdated mode of knowledge-transfer. With wide access to different and varied sources of knowledge from all over the world, individuals, institutions and societies have an array of possibilities that can only be processed through myriad networks. The crucial element of capacity development, therefore, is the foresight that permits the establishment of sustainable development environments, while recognising the implications of an uneven playing field.

The development cooperation debate has become hostage to a narrow agenda, while the dilemmas are expanding. This is the main consequence of the further world polarisation that globalisation has not solved, but rather has so far reinforced.

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Trade, Development and Cooperation: Is the EU Helping Africa?

Paul Goodison & Colin Stoneman

Much of the analysis by academics and NGOs of the development crisis in Africa focuses on the role of key international financial institutions, particularly the World Bank, the IMF and, increasingly, the WTO. These are seen (correctly) as following (and imposing) policies heavily influenced by the US, so that it is easy to move to a scenario in which Africa's poverty and stagnation can be seen as a consequence of US imperialism.

This paper argues that, on the contrary, the primary economic influence on Africa derives from its relationship with Europe, which has for long been the major trade partner and remains so for most (though not all) African countries. Without wishing to contest the determining structural role of the US at the global level, we will, nevertheless, argue that the IFIs (International Financial Institutions) and the US are providing some openings for Africa – e.g., through the *Africa Growth and Opportunity Act* (AGOA) – that are more positive than the “Economic Partnership Agreements” (EPAs)¹ currently

being negotiated under the Cotonou Agreement between the EU and African, Caribbean and Pacific (ACP) countries, or the Trade, Development and Cooperation Agreement (TDCA) between the EU and South Africa concluded in 1999.

If the EU position prevails, these EPAs will, in most cases, go beyond anything currently being negotiated in the WTO to promote processes of market liberalisation, through the conclusion of reciprocal free-trade agreements between highly unequal partners, reversing the non-reciprocity of the Lomé Convention and paying scant attention to such standard textbook exceptions to the benefits of free trade as the need to protect infant industry. The negative impact that the EU is likely to have on its African trading partners, including South Africa, whether they negotiate EPAs or not, is, however, currently being determined unilaterally by the EU's chosen trajectory of reform of its Common Agricultural Policy and the establishment of a network of free-trade area agreements, with the EU at its “hub.” This is reducing the value of preferences, raising technical barriers to exports (particularly through rising food-safety standards) and damaging the prospects of agriculture-based industries in developing countries, negative factors that far outweigh any theoretical benefits for African countries from free access to the EU market. This paper, therefore, also asks whether such factors can be fully taken into account in the EPA negotiations in order to minimise the damage or even produce a beneficial outcome.

The thesis of this paper is that the economic relationship with Europe, to a high degree mediated by the policies of the European Commission (EC),²

1. The more positive aspect is, however, limited to the particular rules of origin applied under AGOA, which allows clothing to be manufactured from imported cloth without losing the benefits of duty free access. These benefits, however, should not be allowed to hide the fact that the principal policy thrust of AGOA is in the same direction as the Cotonou commitments on EPAs, with a phase of non-reciprocity being followed by demands to negotiate a free trade area arrangement. In this context, the current US-SACU negotiations are seen as a trailblazer. Indeed, the US demands in the current negotiations with the SACU go some way beyond what was included in the EU-South Africa Trade Development and Cooperation Agreement, and seem likely to include an extensive range of trade in services demands and requests for intellectual-property guarantees. What is more, there is not even a pretence of political dialogue, with the US president being the final arbiter of whether the norms on “market orientated” economic policies have been met. Thus, only in the narrowest sense of the specific rules of origin applied in the clothing sector can AGOA be seen as “more positive” than trade arrangements with African countries (Cotonou or EBA). The authors are indebted to Rob Davies, South African MP, for his observations and comments in this area.

2. The European Commission has responsibility for making policy proposals for common EU policies in the areas of trade, agricultural and fisheries, all of which have a major bearing on the context of African efforts to promote economic and social development.

is and will continue to be the dominating factor determining the growth and development of African (and to a lesser extent Caribbean and Pacific) countries. This runs counter to a common view that the US, the World Bank, the IMF and the WTO, in some combination, play this role.

We discuss the basic trade agreements and protocols cementing the EU-ACP relationship, their deficiencies and advantages in the next section, before proceeding in the main section of the paper to discuss the Economic Partnership Agreements that form the cornerstone of EC policy towards the ACP countries under the Cotonou Agreement (2000) and which are currently being negotiated (2002-07). The key element in such EPAs is to be reciprocity (in free trade), in a deliberate reversal of the non-reciprocity of the preceding Lomé Convention, and in contradiction of WTO agreements, which except least developed countries (LDCs) from tariff reductions in the multilateral agreements (a highly relevant contradiction, given that a majority of ACP – and African – countries are LDCs and at present are expected to be part of regional EPAs (REPA) that include their more developed neighbours).

We consider the direct consequences that reciprocity would have on government finances and the undermining of state-led development policies, factors that clearly need to be addressed in the negotiations. We then move to other issues that are critical in determining the success or failure of EPAs to meet their stated aims of supporting poverty eradication and promoting sustainable forms of economic and social development, including the residual constraints on market access into Europe, preference erosion and supply-side constraints.

Finally we look at two other key EU policies that are independent of the EPA negotiations but which may have such profoundly negative effects on ACP countries as to overwhelm or destroy any of the theoretical benefits of EPAs unless they are also given full consideration in the negotiations, namely Common Agricultural Policy (CAP) reform and the tightening of food-safety regulations in the EU.

Having thus set the background of constraints and threats under which all the negotiations are proceeding, we discuss the particular circumstances in Southern Africa, where the EU's pre-emptive TDCA with South Africa has effectively split

SADC, whose member countries are now negotiating in two separate regional configurations.

Europe's trade relationship with Africa

Traditionally European countries have been the main trading partners for most African countries, and the Lomé Convention was designed to continue this pattern for the EU. For almost all countries (with the partial exception of some oil-rich ones), trade with the rest of the world has been relatively minor. (See Annex 1 for a short description of the significance of the trade relationship.)

The frameworks for trade relations between Southern Africa and Europe

There are four separate frameworks applicable to Southern Africa's trade relations with the EU. The principal one is the Cotonou Agreement, which provides extensive trade preferences to African countries on a non-reciprocal basis,¹ and which will run until 31 December 2007. The basic principle underpinning these trade preferences was that of non-reciprocal duty- and quota-free access. This principle, however, has always been qualified in three significant respects:

- through the exceptions arising from the application of the EU's Common Agricultural Policy (CAP).
- through the application of detailed "rules of origin"; and
- through the existence of a safeguard clause.

More recently, tightening regulations relating to food safety and animal health have led to what many see as new non-tariff barriers to free access to the European market.

Beyond the Cotonou Agreement, since March 2001 the EU has established a special non-reciprocal trade arrangement in favour of LDCs known as the "everything but arms" (EBA) initiative. This provides complete duty- and special duty-free access for all originating exports from LDCs, including, of course, those in Southern Africa, with the exception of arms and munitions. However, bananas, rice and sugar, and products containing them (for example canned fruit containing sugar, still

1. These preferences are based on the earlier Lomé Convention, which ran from 1975 to 2000.

face duties based on the sugar content of the product) are subject to quotas until 2009. A significant feature of the EBA regime compared to the Cotonou trade regime is that it is fully WTO-compatible, because it applies equally to all countries at the same level of development, namely LDCs. The EBA regime cannot, therefore, be challenged in the WTO, unlike the Cotonou trade regime, which required a WTO waiver.

A third trade framework that is also open to all Southern African countries is the EU's standard GSP (General System of Preferences) regime. However, since this is less favourable than the framework established under the Cotonou Agreement it is little used.¹

The fourth framework is the EU-South Africa Trade, Development and Cooperation Agreement (TDCA), which covers five major areas:

- general objectives and principles;
- tariffs and other measures to be applied to trade in goods between the EU and South Africa;
- agreements on trade-related issues;
- economic cooperation; and
- development cooperation.

In terms of trade in goods, this is essentially a free-trade agreement. Under the tariff-reduction commitments, South Africa has committed itself to eliminating duties on 86 per cent of its current imports from the EU over a 12-year period, with many of the tariff reductions occurring towards the end of the phase-in period ("back loading"), while the EU has committed itself to allowing duty-free imports of 95 per cent of what South Africa currently exports to the EU over a ten-year period, with many of the tariff reductions occurring in the first few years ("front loading").

In terms of total levels of duty-free access allowed, South Africa appears to have negotiated a good deal. However, in terms of the level of tariff protection to be removed, South Africa is being required to make a significantly greater adjustment effort than the EU. This is particularly so in the agricultural and food-product sectors, those of greatest significance to South Africa's neighbours, with the South African market being opened up far more

extensively to duty-free competition than is the EU market.

South Africa will eliminate tariffs on 83 per cent of agricultural imports from the EU, but the EU will eliminate tariffs on only about 61 per cent of agricultural imports from South Africa, while granting tariff quotas for certain South African agricultural exports amounting to a further 13 per cent. Significantly, the South African Department of Industry has noted that while safeguard provisions exist in the agreement, it will be up to South African producers to make the case for the application of these provisions.

This is likely to be a major challenge and contrasts sharply with the safeguard provisions of the Cotonou Agreement, which are pre-emptive in form, establishing statistical surveillance arrangements for sensitive products, so as to allow preventive action to be taken where there is a threat of disruption to the EU market or a part of the EU market.

One very important aspect of the EU-South Africa TDCA is that in terms of trade in goods it applies to the whole territory of the Southern African Customs Union (SACU). The tariff-reduction obligations entered into by South Africa through the TDCA thus *de facto* apply also to Botswana, Lesotho, Namibia and Swaziland. This is of considerable significance when one considers the options for future trade relations with the EU for those countries, which form part of the SADC configuration for EPA negotiations.

In summary, the Cotonou Agreement (complicated by the existence of the TDCA) remains pivotal in determining Africa's trade relations with Europe, and, therefore, the bulk of its trade. We now look at the three qualifications affecting market access listed above, before discussing the EPA negotiations currently under way under the agreement.

CAP-related residual market-access restrictions

The most significant residual tariff barriers to non-LDC exports arise from the special trade arrangements for CAP-sensitive products established under the Lomé Convention. Special market-access arrangements are applied at two levels: for the ACP as a whole and for specific countries within the ACP. African countries benefit in particular from

1. The EBA initiative is, in fact, a component of the EU's GSP scheme.

the beef and sugar preferences under the commodity protocols, but West African producers also benefit under the banana protocol.

Apart from these commodity protocols, special market-access arrangements are laid out in Annex V and Declaration XXII of the Cotonou Agreement. These include various tariff rate quotas, “ceilings” and seasonal restrictions for agricultural and food products.

If there is no reference to a particular agricultural product in Declaration XXII, it means that no specific trade preferences are extended to it under the Cotonou Agreement. These provisions can, however, be modified and extended on the basis of “reasoned request” from the ACP.

In practice, little use has been made of these provisions to expand the duty-free access enjoyed by African countries. Where requests have been submitted for the inclusion of new products, as in the case of Namibian seedless grapes, the protectionist instincts of EC officials handling the applications have led to the setting of low quota ceilings and minimal improvements in market access.

This is a serious deficiency, since wider developments in EU trade policy are undermining the value of existing trade preferences enjoyed by African countries under both the Cotonou Agreement and the EBA initiative.

The removal of residual tariff barriers under Declaration XXII and the protocols constitutes the principal tariff issue facing non-LDC ACP countries under the EPA negotiations. At the current juncture, however, the EU is firmly committed to improving ACP market access only in the context of the introduction of reciprocal preferential trade arrangements.

The problem of rules of origin

Rules of origin define what goods can and cannot be given duty-free access to the EU market under any preferential trade arrangement. The aim of rules of origin is to prevent third countries that do not enjoy preferential access from simply routing products to the EU market through preferred trading partners.

Rules of origin generally specify what proportion of the final product must be produced in the country (or in the case of the ACP, countries) to which the trade preferences have been extended.

These “local-content” requirements vary from sector to sector and from product to product, particularly for those products considered to be “sensitive” by the EU.

An important aspect of rules of origin is the administrative requirements that they impose on exporters. If the paperwork dealing with rules of origin accompanying a consignment of exports to the EU is not entirely in order, the result can be that the consignment is held up or subjected to the standard MFN import duties. The strictness of the rules of origin applied has been seen as inhibiting the development of ACP exports to the EU, and the ACP have called for a major simplification and relaxation of the rules of origin applied under their trade arrangements with the EU.

Similar criticisms have been made of the rules of origin applied under the EBA. Indeed, the United States Department of Agriculture has identified rules-of-origin questions as one of the principal causes of the relative failure of the EU’s EBA initiative to stimulate expanded LDC exports to the EU. According to the USDA, since the introduction of the EBA the LDC trade deficit with the EU has actually increased.¹ This most notably affects the textile and clothing sector, as is vividly illustrated by the differing approaches of the US and the EU to rules of origin for clothing and textile products originating in LDCs. As a result of the waiver on the standard rules of origin applied to clothing and textiles under AGOA, African textile exports to the US have risen from US\$ 600 million to US\$ 1,500 million, creating 10,000 new jobs in Lesotho alone in 2001. In contrast, while the same duty-free access is enjoyed under the EBA, the rules of origin applied under the EBA have seen Lesotho’s exports of clothing to the EU virtually cease.

Safeguard provisions

The safeguard provisions of the Cotonou Agreement, which only the EU has recourse to, potentially offer a very effective safeguard, for they are pre-emptive in nature, establishing monitoring and surveillance mechanisms for sensitive products,

1. This is slightly misleading, since technically the EBA only applied to agricultural products, for which rules of origin are not such a problem. Duty-free access for LDC-manufactured goods had already been agreed earlier, and it is largely for these products that rules of origin issues arise.

consultations where possible problems are emerging and allowing for pre-emptive action where a threat of market disruption is emerging. In practice the actual EU actions under the safeguard clause have been few and far between, with the prospect of “consultations” in areas where warning signals emerge often proving sufficient to promote “export restraint” on the part of ACP exporters.

The EPA negotiations: rhetoric and reality in Southern Africa

Origins of the EPA concept

The roots of the EU’s approach to Economic Partnership Agreements can be found in the 1995 EC Staff Paper on “Free-Trade Areas: An Appraisal.” In this paper, the EC was far more frank about the underlying benefits that the EU could expect to gain from this policy than it has been in the debate around EPAs with the ACP. This paper stated quite clearly:

FTAs are economically beneficial, especially where they help the EU to bolster its presence in the faster growing economies of the world, which is our overriding interest ...

More recently, this direct economic justification has also been supplemented by strategic considerations regarding the need to reinforce our presence in particular markets and to attenuate the potential threat of others establishing privileged relations with countries which are economically important to the EU ...

... the level of tariffs in many of our partner countries, particularly newly industrialised and developing countries remains high. Tariff averages of 30-40% are not uncommon ... It, therefore, can seem obviously in our interest to persuade such countries to enter into FTAs with the Union, enabling us to encourage both tariff elimination and deregulation.¹

This was not an isolated instance of the identification of Europe’s economic interests in concluding free-trade area agreements with developing countries. The February 1996 Commission staff paper, “Towards a Free-Trade Area Between the European Union and South Africa: An Assessment,” stated quite clearly:

... the European Union has much to gain from an FTA with South Africa. The further opening up of the South

African market in the context of such an agreement will create competitive advantages for EU exporters compared to exporters from the USA, Japan and other suppliers of South Africa. The price the EU would have to pay for such an improved position in terms of loss of customs revenues is relatively low, due to the high level of existing duty-free access for South African imports and the relatively modest average level of the remaining tariffs at the EU side.²

However, once the EU Council of Ministers had adopted the broad parameters of this policy the rhetoric around EU free-trade area agreements began to change and a quite different justification was advanced. The benefits that the EU would derive from the introduction of free trade are now never mentioned in the discussion of EPAs. Rather, the emphasis is placed on the supposed benefits that ACP countries, including those in Southern Africa, would gain.

According to the EC, the past system of non-reciprocal ACP trade preferences (under the Lomé Convention) manifestly failed to deliver the expected results in terms of broader economic and social development. This, in the EC view, was primarily a result of policy failings on the part of ACP governments. From this perspective, the overriding imperative is to address these internal policy failings through moving from non-reciprocal trade preferences to reciprocal preferential trade arrangements, which serve to “lock in” policy reforms.

The EC’s case for change rests on the declining share of ACP exports in total EU imports. For example, between 1976 and 1992 the ACP’s share of imports into the EU fell from 6.7 per cent to 3.7 per cent. While ACP exports to the EU grew on average by 2 per cent per annum over the period, exports from Mediterranean and Latin American countries grew at an average of 6 per cent per annum, while exports from Asian developing countries grew at an average of 12 per cent per annum. As a result of these divergent export growth rates, by 1992 Asian countries had replaced the ACP as the main developing-country exporters to the EU, and these trends have continued into the new millennium. Against this background, the EU’s case for introducing change appears to be strong.

1. “Free-Trade Areas: An Appraisal,” Commission of the European Communities, Communication from the Commission, SEC(95)322 final p. 6.

2. “Towards a Free-Trade Area Between the European Union and South Africa: An Assessment,” Commission Staff Working Paper, 7 February 1996.

However, the overall ACP picture disguises differences in the constitution of the trade as well as the record of individual ACP countries. ACP trade is dominated by a limited number of countries exporting a limited range of primary products, the price and demand for which have been declining on the world market. It is the price trends for these major commodities that determines the overall ACP trade picture and masks the significant developments of trade in areas where the “margins of preference” granted ACP suppliers are significant (greater than a 3 per cent tariff preference). At the individual country level, some 26 ACP countries have enjoyed higher export growth to the EU than the average for Mediterranean and Latin American developing countries, while eight of them have exceeded the export growth to the EU of the average for Asian developing countries. These countries have developed a wide range of new non-traditional exports to the EU under the stimulus of trade preferences. This can be clearly seen in a Southern African context. As Davies and Mbuende have pointed out:

... whereas overall SADC exports to the EU in volume terms have declined by -5.4%, in those areas where margins of preference over GSP beneficiaries were greater than 3% SADC exports to the EU have increased by 83.6%. This suggests that despite the difficult circumstances faced by Southern Africa in the past decade, trade preferences have helped certain sectors of SADC economies to buck the generally poor trend in overall export performance. Indeed, in those areas where trade preferences are most significant, export growth to the EU has exceeded the average for non-ACP developing countries.¹

As Davies and Mbuende drily observe, “This suggests that the debate around the effectiveness of trade preferences is far more complicated than the EC approach implies ... [these complexities need to be] ... carefully considered and taken into account in the formulation of any future trade arrangements to succeed the current non-reciprocal Cotonou trade preferences.”

There is, however, little evidence that the EC is taking on board the complex realities which go to make up the Southern African regional economy. Rather, the EC appears to be pursuing its own nar-

row ideological agenda, designed to mask the underlying EU drive for strategic free-trade area agreements.

The case for EPAs

The EC has sought to argue that market access by itself is not sufficient to boost trade. While few observers would disagree with this, it has gone further in maintaining that improving ACP trade preferences is not the main purpose of the proposed EPAs. For the EC, EPAs are primarily about the wider benefits that ACP countries can gain from being part of a larger integrated economic area that has predictable, stable and transparent policies.

According to the EC, the creation of this larger economic area will bring benefits, with regard to:

- the exploitation of economies of scale;
- the development of increased specialisation;
- increased competitiveness;
- attractiveness to foreign investment;
- increased intra-regional trade flows;
- increased trade with the EU; and
- increased trade with the rest of the world.

This, it is maintained, will ultimately promote more sustainable forms of economic and social development in ACP countries.

Unfortunately, this rationale does not hold up under close scrutiny, even in a Southern African context. The benefits from economies of scale can only be realised if effective programmes of assistance are set in place to help address the supply-side constraints on competitive production that face the region (this is becoming a key demand in the current EPA negotiations).

In terms of improved specialisation, the question arises: into what areas can Southern African countries be encouraged to move? Unless they can specialise in products with higher demand growth and stronger price trends than the current products in which many mono-crop countries specialise, there would be no gain. This is a fundamental question, since many Southern African countries are currently seeking to diversify rather than specialise.

With regard to increased investment, questions arise as to whether EPAs, in and of themselves, are likely to provide a stimulus to investment in ACP countries, such as those in Southern Africa, many

1. “Beyond the Rhetoric of Economic Partnership Agreements,” R. Davies and K. Mbuende, Cape Town, February 2002.

of which are small, landlocked and suffer from serious infrastructural and human resource constraints. This situation is compounded by the reality of the EU now sitting at the hub from which “spokes” of free trade radiate to otherwise unconnected markets. The question arises: Why invest in Southern Africa to serve the EU market when you could locate in a low-wage, high-skill zone within an expanding EU and be at the hub of a multiplicity of free-trade area arrangements that allow you duty-free access to a far larger market?

With regard to increased trade, while it is clear how the introduction of EPAs with the EU will increase EU exports to Southern Africa (since tariffs will be eliminated on EU exports and, at a minimum, EU goods will be made more competitive vis-à-vis third-country suppliers), it is far from clear how the conclusion of EPAs with the EU will increase Southern Africa exports to the EU. This will be dependent on the EU’s constructively addressing a range of issues that effectively act as barriers to current Southern African exports. These range from residual market-access restrictions, through strict rules of origin and steeply rising food-safety standards, to a multiplicity of supply-side constraints. The EC assumes that new investment flows will take place into Southern African economies, which will then enhance international competitiveness and subsequently trade. However, such new investment flows are by no means a certainty. Indeed, it is far from apparent in what products and sectors individual Southern African countries would be first-choice investment locations to serve EU markets. Thus, while it appears reasonable to assert that Southern Africa-EU trade will increase under EPA arrangements, it appears likely that this will primarily benefit ACP consumers, international traders and European producers rather than promote the needed structural development and transformation of ACP economies.

Similarly, the EC’s suggestion that EPAs will increase ACP trade with the rest of the world is based on an assumption of general efficiency gains, resulting from the conclusion of EPAs and the resulting macroeconomic policy stability it will generate (the so-called “lock-in” effect). However, if because of wider developments in Southern African economies and societies (e.g., the impact of the HIV/AIDS pandemic on the human resource base) these efficiency gains are not made, it is difficult to see

how EPAs will have any positive effect on ACP trade with the rest of the world.

It is, therefore, difficult to see what benefits EPAs will bring Southern African countries unless the detailed obstacles to trade are constructively addressed in a carefully targeted manner within a broader and fully financed sector-by-sector development strategy. The question then arises: is the EU approaching the actual conduct of EPA negotiations in a way that will effectively get to grips with these issues?

Critical issues for EPA negotiations

If EPAs promise benefits that are far from certain, they also threaten more predictable negative consequences. Tough negotiations will be needed if any benefits are to be realised and costs are to be minimised. First, it should be noted that before any negotiations could begin, the process itself split the SADC region in two in trade terms, with eight SADC member states deciding to negotiate with the EU in the context of what is referred to as the SADC configuration while five decided that their interests could not be met in this context and have joined negotiations as part of the Eastern and Southern African (ESA) configuration. This split in a regional organisation that had been developing since 1980 was largely caused by the pre-emption of decisions on many key issues in the EU’s TDCA with South Africa, and is likely to create problems for regional integration initiatives throughout Eastern and Southern Africa.

Second, there is a range of substantive issues that EPA negotiations will need to address if there is to be any net benefit to Southern African countries.¹ They fall into three broad categories: direct consequences of the reciprocity explicit in the EC’s concept of EPAs; residual constraints and internal economic constraints endemic to ACP economies; and new factors of growing impact that are independent of the other two categories (such as CAP reform).

The challenge of reciprocity

The challenges posed by moves towards reciprocal preferential trade arrangements with the EU will be

1. Issues faced in trade-in-services and trade-related areas will not be addressed in this paper.

crucially determined by the nature of the proposed EPAs. For the EC, an EPA agreement is essentially a free-trade area agreement, and, therefore, according to WTO rules on free-trade areas, must:

- involve the elimination of import duties and all taxes having an equivalent effect on “substantially all trade” between the countries which sign the agreement;
- be fully in place within a ten- to 12-year transition period;
- exclude no economic sector from the coverage of the free-trade area; and
- include agreements on trade in services and trade-related areas.

Usually, the EC maintains that “substantially all trade” means as much as 90 per cent of current imports and exports. However, this may be simply an opening negotiating ploy.

The consequences of a simple application of the above rules are many and profound, but we will focus on two: the loss of fiscal revenue to governments previously dependent on tariffs as a source of revenue; and the surrender of any industrial development or wider development strategy to the determination of the market in a context of domination by overwhelmingly larger economies.

The impact on government revenues

The revenue implications of the introduction of reciprocity can be clearly seen by looking at the fiscal adjustment challenges facing the BLNS countries as a result of the provisions of the EU-South Africa TDCA. Studies suggest the following probable revenue losses as a percentage of total government revenue as a result of the elimination of tariff duties in line with the commitments made in the TDCA:

Botswana	5.3%
Namibia	8.6%
Lesotho	12.9%
Swaziland	13.9%

The problem now facing the governments of these four countries is how to establish efficient and effective alternative systems of revenue collection to compensate for such losses. This is by no means a simple task. In the case of Namibia, the losses faced are equivalent to nearly two-and-a-half times the

current Namibian government budget deficit. An analysis of options for fiscal reform submitted to the Namibian parliament in 2002 found that even if all other viable tax-raising options were pursued, the revenue losses arising from the introduction of free trade with the EU would be of such a magnitude as to require the Namibian government to reduce current government expenditures. Similar fiscal problems are likely to arise in other SADC-configuration countries. In Tanzania, for example, studies suggest losses to total government revenue of up to 20 per cent.

Clearly, the EU needs to recognise that the introduction of free trade will lead to significant fiscal-adjustment problems that reach beyond those arising from the multilateral process of trade liberalisation. Unfortunately, there is little evidence of EC willingness to recognise this problem and seek constructive solutions. This could in part be a consequence of a wider EU policy agenda that is seeking to reduce the role of the state in the provision of basic services and to expand the role of the private sector (foreign, most notably EU) in the provision of water, health and education services.

Consequences for economic development

Southern African governments, along with many of their ACP colleagues, believe that if EPAs are to support economic development and contribute to the elimination of poverty (the central stated objective of the Cotonou Agreement), they cannot simply be free-trade area agreements. They must include measures to promote the structural transformation of ACP economies so that they produce more value-added goods and relatively fewer basic commodities, even if the free-trade context threatens to make this impossible.

At times, the EC appears to agree with this view, stressing that the EPA approach will allow trade and development assistance to be linked. However, speaking in the Caribbean in April 2004, the EU Trade Commissioner, Pascal Lamy, stressed that the EC does not have a mandate to “negotiate development finance as a part of EPAs.” What is more, Commission spokespersons have repeatedly said that no additional funding will be made available to any ACP countries until all existing EDF funds have been spent.

The impact of the introduction of reciprocal trade preferences in favour of EU exports on sub-

stantially all trade is likely to pose a significant threat to local production for national and regional markets in a number of Southern African countries, particularly in the sector of food and agricultural products (most notably for Zimbabwe, Namibia, Swaziland and Botswana, but also Zambia, where efforts to develop agro-based industries are under way). The process of CAP reform is greatly enhancing the price competitiveness of simple EU value-added food-product exports on the basis of a shift in how EU aid is extended to the agricultural sector.¹ Dismantling border protection in this context could expose local agricultural producers and food manufacturers to highly price-competitive (albeit economically inefficient) competition, leading to a radical downsizing of the agro-processing industry in Southern Africa where it exists, and effectively preventing its emergence elsewhere. This would then have important knock-on effects on agricultural incomes, as prices for basic agricultural raw materials stagnate.

This issue of the unfair competition in the value-added food-product sector arising from changing patterns of CAP support will need to be addressed as an integral part of EPA negotiations. While this has been a key demand from private-sector bodies in the region, there is as yet little evidence that the EC is open to addressing this challenge constructively.

Residual constraints

Constraints on market access

In terms of real access to the EU market, there are at least seven areas (of varying significance to different Southern Africa countries) that will need to be addressed in EPA negotiations. These include:

- removal of residual tariff barriers (mainly for the non-LDCs of Botswana, Namibia, Swaziland, Zimbabwe and Mauritius);
- provision of assistance in getting to grips with stricter EU food-safety standards and the maintenance of an ongoing dialogue on the application of these standards;

- simplification and modification of the “rules of origin” so as to take into account the supply-side constraints faced;
- getting to grips with supply-side constraints, so that the efficiency of production for export in Southern Africa can be enhanced (an issue of particular importance to LDCs);
- confronting the consequences of the declining value of trade in commodities;
- addressing the issue of the erosion of the value of agricultural trade preferences arising from the process of CAP reform (an issue of immediate relevance to sugar and beef exporters, but one which will also have a bearing on horticultural exports in the coming years); and
- addressing the problem of preference erosion arising from the conclusion of a growing number of free-trade area arrangements between the EU and other, non-ACP, regions and the multilateral process of tariff reductions through the WTO.

As previously indicated, under the Cotonou Agreement a range of special arrangements was established for agricultural products involving quantitative restrictions and the maintenance of a range of special duties. While these have been removed for all LDCs (except for products involving sugar, rice and bananas, where they will not be removed until 2009), there remain significant barriers to trade for non-LDC countries, most notably Zimbabwe, Namibia, Botswana, Swaziland and Mauritius. These barriers will need to be fully removed in the context of EPA negotiations. The EC has already proposed this to the “Article 133 Committee” in October 2003, but EU member states have yet to take a position on this proposal. What is more, there is scope under the EU’s proposed framework for a new GSP scheme to create special arrangements for the least developed and most vulnerable developing countries (small economies, land-locked, small-island and low-income countries). This could offer scope for the removal of these residual market-access barriers within the framework of a non-punitive alternative to EPAs for those non-LDC countries that do not feel themselves in a position to enter into an EPA. Unfortunately, there is little evidence that the EC is likely to adopt this course of action. Indeed, the EC even ap-

1. Shifting from systems of price support, which sustained high producer prices, to systems of direct aid payments, which are allowing EU producer prices to fall dramatically without adversely affecting farm incomes and without reducing the overall level of EU agricultural production.

pears unwilling to modify the GSP scheme in ways that would extend existing Cotonou Agreement-level preferences to ACP countries within a GSP framework.

The revision of the EU's GSP scheme does, however, offer important opportunities for addressing those rules-of-origin issues that currently constrain the ability of LDCs to exploit the complete duty-free access to the EU market theoretically granted to all LDCs.

Overall, if the process of EPA negotiations gets to grips with these seven major issues, then it is possible that they will establish a trade framework which is supportive of the structural transformation of Southern African economies. For example, the concept of "compensatory financing" may be invoked for the last three issues above. If they do not effectively address all these issues, then EPAs could come to constitute nothing short of an economic and social disaster for Southern African countries.

Preference erosion

The value of the trade preferences traditionally enjoyed by Southern African countries in both the ESA and SADC negotiating configurations is being eroded by three processes: multilateral trade liberalisation; bilateral trade liberalisation through the conclusion by the EU of free-trade arrangements with other trading groups; and the process of CAP reform (see next section). The impact of these processes on the erosion of the value of preferences will vary from product to product and, hence, from country to country, depending on their basket of exports to the EU.

Perhaps the least significant of these processes of preference erosion is the multilateral process of trade liberalisation. Whilst any EU tariff cuts agreed multilaterally will reduce the "margin of preferences" that Southern Africa countries enjoy, either as a result of the Cotonou Agreement or the EBA, this erosion of preference is invariably sequenced *after* the process of CAP reform has reduced EU prices towards world-market price levels. Multilateral tariff reductions thus simply compound the processes of erosion of the value of preferences set in train by the process of CAP reform.

Of more concern is the trend for the EU to conclude ever more preferential bilateral trade agreements. This is particularly important in the fruit-and-vegetable sector, where 70 per cent of all EU

imports take place under various preferential trade arrangements. The extension of these preferential arrangements to a growing number of regions and countries is considerably eroding the margins of preference that ACP countries have traditionally enjoyed and which countries in the Eastern and Southern African region have proved particularly adept at exploiting. This has implications for the development of export-oriented floricultural and horticultural sectors throughout the Eastern and Southern African region, since it is likely to reduce the profitability of exporting to the EU.¹ The likely income losses that this will give rise to will be further compounded by the eventual application of the ongoing process of CAP reform to the fruit-and-vegetable sector.

Supply-side constraints

There is a need to ensure that under EPAs mechanisms are put in place for progressively getting to grips with the supply-side constraints that inhibit competitive forms of production throughout the ESA region. These supply-side constraints range from the unreliable provision of public utilities (e.g., electricity and water supply) and poor public infrastructure (run-down roads and railways) through weak institutional and policy frameworks (leading to fluctuating exchange rates and high inflation) to low labour productivity (arising from poor education, health and housing provision). In one recent impact-assessment study prepared as background to the EPA negotiations, it was revealed that one in four days of manufacturing was lost as a result of irregularities in electricity supplies. In a further study, the absence of an adequately trained human-resource base was cited as a principal factor behind the lack of foreign investment. These realities will place constraints on the development of competitive forms of production in ESA countries under EPAs. Effectively addressing these supply-side constraints is a fundamental challenge to promoting the structural transformation of ESA economies, so that investment is promoted, more value is added locally and more jobs and income-earning opportunities are created to enable people to work their way out of poverty.

1. The profitability of which is already being undermined by the costs associated with the increasingly strict EU food-safety regulations.

New factors

There are two other major influences at work that will need to be addressed directly in the negotiations (although the EC is likely to resist substantive consideration). These are the consequences of CAP reform and the implications of the EU's growing emphasis on food safety.

CAP reform and the consequences for African agriculture

The EU's Common Agricultural Policy has traditionally involved the management of agricultural markets across the EU and the regulation of government support measures in order to avoid unfair competition between EU member states' agricultural enterprises. Traditionally, it was based on high price incentives, in order to stimulate production and ensure European food security in the context of Cold War confrontation in Europe. This required the establishment of a highly regulated agricultural trade regime designed to prevent cheaper imported products flooding EU markets and undermining the CAP. This external trade regime always covered more products than the CAP regime, since it included any products that potentially compete with EU CAP products.

High producer prices were maintained either through the establishment of minimum-level intervention prices or through the establishment of minimum grower price schemes. This served to stimulate production, but it also served to suppress domestic demand, leading to the emergence of high-priced surplus production that could only be stored or sold on international markets with the benefit of substantial export refunds. The need for export refunds was directly linked to the EU's high price policy.

However, since 1992, across a range of sectors the EU has begun to shift from systems of price support to systems of direct aid to farmers. This is intended to reduce the internal price of EU agricultural products, without undermining farm incomes. Lower EU prices have generally served to:

- reduce the gap between EU and world market prices;
- reduce the need for export refunds;
- reduce the need for and costs of public storage;
- boost consumption; and

- reduce “surpluses” (by boosting domestic consumption and export possibilities);

Given the expansion of direct aid payments to farmers that has accompanied price reductions, somewhat bizarrely CAP reform has actually served to *increase* EU production in key sectors, despite the price reductions. This is particularly the case in the cereals sector where despite reductions in the EU intervention price of between 38 per cent and 54 per cent, cereals production increased by 17 per cent from 180.9 million tonnes in 1991/92 to 211.6 million tonnes in 2001/02.

Reform, by lowering EU prices and closing the gap with world market prices, has also greatly reduced the need for export refunds. In the arable sector, export-refund expenditures fell from €3,733 million in 1991 to a mere €99.3 million in 2002, a remarkable 97.3 per cent decrease. However, this was simply because such payments were no longer needed to the same extent. When the value of the euro increased dramatically against the US dollar (widening the price gap between euro and US dollar-denominated world market prices) export-refund allocations for cereals were again increased to meet the needs arising.

From an African perspective, this process of reform, by bringing down EU market prices, is having two important effects

- it is making the EU market less attractive for basic temperate agricultural exports from ACP countries; and
- it is enhancing the price competitiveness of EU exports to ACP markets.

These twin trends have important implications for the current EPA negotiations involving Southern African countries, since they reduce the benefits of preferential access to the EU market and increase the dangers of market disruption associated with the removal of import duties on agricultural and food-product imports from the EU.

The impact of CAP reform in Eastern and Southern Africa in terms of the erosion of the value of traditional trade preferences can be most vividly illustrated by the likely impact of current proposals for EU sugar-sector reform on the annual income earned from raw sugar exports to the EU. In July 2004, the EC proposed to abolish the intervention price for sugar and replace it by a “reference price”

Sugar Protocol Preferences

Country	Sugar protocol quota (tonnes)	Current earnings (at €523.70/t)	Earnings after stage 1 reform (at €329.0/t)	Income losses from reform
Malawi	20,824	10,905,528	6,851,096	- 4,054,432
Mauritius	491,031	257,152,935	161,549,199	- 95,603,736
Swaziland	117,845	61,715,426	38,771,005	- 22,944,421
Tanzania	10,186	5,334,408	3,351,194	- 1,983,214
Zimbabwe	30,225	15,828,832	9,944,025	- 5,884,807
Total				- 130,470,610

Special preferential sugar preferences (SPS)

Country	SPS sugar exports (tonnes)	Current earnings (at €523.70/t)	Earnings after stage 1 reform (at €329.0/t)	Income losses from reform
Malawi	10,000.0	5,237,000.0	3,290,000.0	- 2,747,000.0
Mauritius	41,980.1	21,984,978.0	13,811,452.0	- 8,173,526.0
Swaziland	30,000.0	15,711,000.0	9,870,000.0	- 5,841,000.0
Tanzania	2,485.9	1,301,865.8	817,861.1	- 484,004.7
Zimbabwe	25,000.0	13,092,500.0	8,225,000.0	- 4,767,000.0
Zambia	12,731.5	6,667,486.5	4,188,663.5	- 2,478,823.0
Total				- 24,491,353.7

one-third lower. This will lead to a fall in the EU sugar price from €632 per tonne to €422 per tonne and a fall in the price offered for ACP raw sugar from €523.7 per tonne to €329 per tonne. Total losses to Southern African exporters fall under two main headings, which are set out below.

To these need to be added the income losses for least developed sugar exporters under the EBA. Thus, the first phase of sugar-sector reform will lead to total annual income losses to Southern African sugar exporters of a minimum of about €155 million, to which potential income losses for EBA sugar exporters should be added. This follows the trend already established in the beef sector, where CAP reform has caused prices of Southern African beef marketed into Europe to fall by between 28 and 30 per cent over a three-year period.

However, there is an additional problem: with the EU price falling to only €329 per tonne, the domestic sugar price in many neighbouring ESA sugar-producing countries will prove more attractive than the EU price. This could well give rise to a large-scale formal (or more likely informal) trade in sugar between neighbouring ESA economies.

This would undermine the functioning of national sugar markets precisely at a time when their sugar sectors were seeking to cope with large income losses as a result of the EU sugar-sector reform. Any introduction of duty-free trade for high-sugar-content value-added food products in the context of EPAs would further compound the problem, as national industrial demand for sugar in the more advanced Eastern and Southern African economies would begin to shrink. This highlights the importance of dealing with “product chains” in formulating tariff offers in EPA negotiations.

Food safety: the new priority issue

In the 1990s, Europe was plagued by a series of food-safety scares, largely arising from over-intensification of agricultural production. These ranged from the BSE crisis in the UK to the dioxin contamination scandal in Belgium. As a consequence of these shocks to the EU's agriculture and food industry, in 2000 the EC began work on a comprehensive new policy designed to guarantee food safety from “farm to fork.”

This new more comprehensive approach involved the adoption of an integrated approach to food safety covering all sectors of the food chain, including feed production, primary production (on the farm), food processing, storage, transport and retail sale and came into effect on 1 January 2002. Most recently the EC has submitted, and the EU Council is in the process of approving, a Food and Feed Control regulation.

In addressing the executive directors of the World Bank, Commissioner Byrne rather ominously noted that:

... unless there is a serious effort to also strengthen the capacity of developing countries to meet the food-safety standards of the developed world, the opportunities presented by trade liberalisation in the food area may prove illusory.

The most important point for Southern African countries in the context of the EPA negotiations is that the implementation of the EU's "farm to fork" policy moves beyond the need for simple factory inspections, which characterised early EU SPS requirements placed on African countries. Policy now covers inspection and regulation of the whole chain of production from farm to fork (on the farm, during processing, during storage and during transport). This poses a whole new range of challenges to Southern African countries seeking to export food products to the EU market. Indeed, it is not unduly pessimistic to suggest that under a worst-case scenario of strict implementation of the requirements, Southern Africa's exports of food and agricultural products to the EU could be largely suspended. Given that agricultural exports account for about one-third of all Eastern and Southern African exports (substantially more, around 50 per cent, if oil and diamond exports are excluded – see Annex 2) to the EU, the seriousness of the challenge cannot be underestimated.

Some of the most notable examples have been in the fisheries sector, both sea fisheries (mercury residues in fish) and inland fisheries (poisoning and cholera in the Lake Victoria area), where failure to meet standards to the EU's satisfaction has effectively halted trade in the affected products and resulted in hundreds of millions of euros in lost income. The horticulture sector is also currently facing difficulties with the completion of the EU's pesticide review (which restricts what pesticides can

be used), the application of new stricter minimum residue levels, and the implementation of traceability requirements, all posing serious challenges to exporters (particularly with regard to traceability requirements for small-scale producers).

These problems need to be clearly situated in the context of the importance of the EU market for food and agricultural product exports to ESA countries. On average, some 30.8 per cent of exports by the Southern African members of the ESA configuration are food and agricultural products, ranging from a high of 98.6 per cent for Malawi to a low of 1.0 per cent for the Democratic Republic of the Congo (DRC), while for the ESA region as a whole some 57.8 per cent of exports to the EU are of food and agricultural products, ranging from a high of 92.6 per cent for Burundi to a low of 10.2 per cent for Djibouti. All these exports will potentially be impacted by various dimensions of the EU's new food-safety policy.

Unless producers can meet the basic food-safety standards and governments in Eastern and Southern Africa can establish systems to credibly verify and certify compliance, at a cost that is economically sustainable, then future exports from the ESA or SADC regions to the EU could be severely disrupted. This issue is of such profound importance that it has to be a central focus of discussions in EPA negotiations, regardless of the configuration of such negotiations. Indeed, it would appear essential that any EPA arrangements should constructively address food-safety issues at four levels:

- establishing a substantive dialogue on the development of new standards and their application in the specific context faced in the ESA or SADC, in order to ensure that no unnecessary trade barriers are created as a result of addressing genuine EU food-safety concerns;
- ensuring that financial assistance is made available through simple and easily accessible procedures to enterprises needing to upgrade to EU standards, so that part of the costs associated with higher EU standards can be defrayed;
- ensuring that financial assistance is made available through simple and easily accessible procedures for the creation and operation of institutional structures for the effective verification and certification of compliance with EU food-safety standards; and

- establishing an immediate dialogue on how to deal with transitional problems arising from the application of the new regulations.

The provision of financial assistance to producers and processors, along with financial assistance to building institutional capacity for certification and verification, would be wholly consistent with internal EU practice, in terms of which in the region of €3 to 4 billion each year is being made available under a variety of financial instruments to support the implementation of new food-safety standards within the EU. Whether the EC departments dealing with EPA negotiations, the wider EC, and the EU as a whole are open to getting to grips with these important questions is far from certain. While senior Commission officials have been strong on rhetoric acknowledging the need for such support, this has yet to translate into support on a scale commensurate with the size of the challenge faced.

EPA negotiations in the SADC configuration

The SADC-configuration/EU EPA negotiations were formally launched in July 2004. For the purpose of negotiating an EPA with the EU, the SADC configuration consists of Botswana, Lesotho, Namibia, Swaziland, Mozambique, Angola, Tanzania and South Africa. Nominally, given the existence of the EU-South Africa Trade, Development and Cooperation Agreement, South Africa will participate as an observer rather than a full participant. However, the TDCA haunts the process of negotiations like Banquo's ghost. Indeed, it is likely to prove the determining factor. As EU Development Commissioner Poul Nielson pointed out at the launch of the SADC-configuration/EU EPA negotiations: "an individual state can only be a member of a single trading arrangement with the EC."¹

Botswana, Namibia, Lesotho and Swaziland have long been part of the Southern African Customs Union (SACU), along with South Africa, and as the provisions of the TDCA with regard to trade in goods necessarily apply to the whole customs union, the following question arises: how can the future basis for the BLNS's trade relations with the EU be negotiated in the framework of the wider SADC configuration without the outcome simply

following the structure of the EU-South Africa TDCA?

This is a vitally important question since the TDCA was structured almost entirely with the specific economic needs and constraints of South Africa in mind, not those of the smaller neighbouring BLNS economies.² So the question arises: through what mechanisms can the BLNS best secure their interests in the development of their future trade relations with the EU?

This is a question that the EC has singularly failed to address to date. At the signing of the EU-South Africa TDCA in 2000, however, the then Commission Director General for Development, Stefan Schmidt, invited other Southern Africa countries to sign up to the EU-South Africa TDCA. This suggestion was quietly dropped when it was apparent that the Commission had little support for the idea. It is, however, one that is likely to surface again in the context of the SADC-configuration/EU negotiations, since, as the EC acknowledges, a country cannot be a party to more than one free-trade area agreement with the EU. This creates the danger of the simple incorporation of SADC-configuration countries into the EU-South Africa TDCA.

Such an incorporation of Botswana, Namibia and Swaziland into the TDCA would create a number of problems with regard to market access, since some of the provisions of the TDCA provide *less* favourable tariff access to the EU market than does the Cotonou Agreement.³ Thus, it would lead to a re-imposition of duties on fisheries products, beef and beef products, and sugar and sugar-based products. In the case of Namibia, this would affect over 50 per cent of current exports to the EU, while for Swaziland it would affect 82.7 per cent of current exports to the EU. There would also be problems arising with regard to the application of the existing reciprocal obligations that South Africa has entered into and which are currently subject to revision. These vary considerably from country to country. In Botswana, for example, a key issue is securing duty-free access to EU wheat exports for its milling

1. See speech by Commissioner Nielson (SPEECH/04/355-09/07/2004) <http://europa.int/rapid/pressReleasesAction>.

2. Although certain provisions were made in the TDCA designed to address BLNS concerns, at least in part.

3. This would not be a problem for the LDCs of Lesotho, Angola, Mozambique and Tanzania, who will enjoy full duty- and quota-free access to the EU market by 2008 under the EBA initiative.

industry, a sector currently excluded from tariff-reduction commitments. By contrast, Swaziland has an interest in keeping high-sugar-content processed-food products out of the South African market, even though tariff elimination commitments have been made.

The question that becomes ever more compelling is: how can divergent national interests be reconciled given the framework established for future trade relations by the EU-South Africa TDCA?

The best option for the BLNS economies, given their membership of SACU, would be to negotiate “parallel” agreements with the EU that address specific national concerns (including, for example, rules-of-origin issues, market-disruption safeguards and fiscal-revenue losses), with these agreements then being annexed to the EU-South Africa TDCA and forming an integral part of the agreement.

Many specific demands of this nature were put forward by Namibian “non-state actors” (including the Namibian Agricultural Trade Forum and Namibian Manufacturers’ Association) at the time of the launch of the EU-SADC configuration EPA negotiations, and were taken up in the opening remarks of the SADC’s ministerial lead negotiator, Jacob D. Nkate, Botswana’s minister of trade and industry. However, the EC responded with a “non-response, response” to the effect that, “concerning market access, safeguard measures, rules of origin and external effects of the CAP reform, the Commission has made it very clear that these issues would be included in the negotiations.”

It remains to be seen whether the commitment by the EU delegate to Namibia to include the “external effects of CAP reform” as an integral part of the EPA negotiations is a reflection of a shift in the position of the EC or simply a knee-jerk response by an off-balance Commission official to the considerable interest generated by the Namibian stakeholders’ demands (see Annex 3 for a summary of these demands).

If satisfactory “parallel annexes” can be negotiated for the BLNS countries, this would leave the issue of how to deal with future trade relations between the EU and the LDCs of Mozambique, Angola and Tanzania, which have stayed within the SADC configuration. As the Namibian stakeholders argued, there is little justification for LDCs entering into reciprocal tariff-elimination obligations with the EU, as the latter wants. This is particularly

the case since at the level of the WTO it has now been agreed that the poorest countries (the LDCs) should not be expected to take on any further tariff-reduction obligations. With the EU having been one of the principle sponsors of these provisions, it would be an act of hypocrisy if it were to insist on LDCs eliminating tariffs on substantially all EU exports in the context of EPA negotiations. It would also involve a sleight of hand, in which the EU would secure continued protection of LDC ACP markets against its own OECD competitors, whilst negotiating the elimination of tariffs on EU exports to these countries.

If this EU ploy can be ruled out, it would then allow the “parallel annexes” approach to be used to address other key issues faced in Mozambique’s, Angola’s and Tanzania’s relations with the EU, particularly in areas where programmes of assistance are needed to realise the benefits of preferential access granted under the EBA initiative.

However, it remains to be seen whether the EC is willing to adopt this approach, given its wider agenda of extending the EU-South Africa agreement to other Southern African countries. It was, of course, fears of *de facto* incorporation into the TDCA that caused other major SADC countries to opt instead for negotiating an EPA in the context of the ESA region.

EPA negotiations in the ESA configuration

The Eastern-and-Southern-African-configuration/EU EPA negotiations were formally launched in February 2004. In this context, the ESA configuration consists of: the Democratic Republic of the Congo, Madagascar, Malawi, Mauritius, the Seychelles, Zambia and Zimbabwe from SADC, and Burundi, the Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Sudan and Uganda from East Africa. Nowhere is the issue of the EU’s approach to trade relations with LDCs more critical than in its dealing with the ESA configuration, in which 84.5 per cent of the population live in LDCs. Given that under WTO rules LDCs enjoy the right to non-reciprocal trade preferences, the question arises: what is being done within EPA negotiations to ensure that this reality is recognised in determining the product coverage and length of the transition period for the phasing-in of free trade between a regional grouping composed primarily of LDCs and

an economic giant such as the EU? This is an issue of particular relevance to the Southern Africa countries of the DRC, Malawi and Zambia, but it is also one of concern to nearly all the other countries. Recent EU rhetoric in the WTO on letting LDCs get “the round for free” would reinforce the questionable nature of the EU’s negotiating free trade with a configuration composed primarily of LDCs.

Nevertheless, the negotiations are under way, and it is envisaged in the “road map” for negotiations that the substantive phase will be completed by December 2005, after barely a year of negotiation. This is a matter of considerable concern, given the scale of the challenge faced within the ESA configuration. As previously indicated, moves towards reciprocity will pose daunting challenges for fiscal and economic restructuring.

In terms of the challenges of economic restructuring arising from EPAs, a particular area of concern for the DRC, Malawi, Zambia and Zimbabwe is the impact of reciprocity on the food and agricultural sector. Already an average of some 16 per cent of total direct EU exports to these countries are of food and drink products or agricultural products. The dismantling of tariff protection through a free-trade area agreement, in a context of increased price competitiveness of EU exports as a result of CAP reform, could well undermine the whole basis for agro-based industrial development in these countries (and the whole region).

Of particular concern is the trend in value-added food products. Following the imposition of a WTO ceiling of €415 million on export refunds for so-called “non-annex I” products¹ in 2001, EU exports of these products to these four Southern Africa ESA countries fell 18 per cent from €31.8 million to €26.2 million. However this dip was short lived and by 2003 exports of prepared food and drink products has increased to €30.6 million, some 4.61 per cent of total EU exports to these four countries and 29 per cent of total food, drink and agricultural product exports. Exports of EU food and agricultural products, particularly simple value-added food products, are likely to be given a further boost by the ongoing process of CAP reform (currently extending to dairy and sugar).

1. That is, value-added food products containing raw materials whose prices are distorted by CAP policies and, hence, which are eligible for export refunds on the raw-material content of the value-added food products.

Particular attention will, thus, need to be paid in the negotiations concerning both how food and agricultural products are dealt with and as to whether measures can be set in place to deal with the new trade distortions emerging from CAP reform. This will be a critical issue for all Southern African countries regardless of the configuration within which they may be negotiating EPAs.

Overall, while the dangers of reciprocity under EPAs for ESA countries seem all too real, the benefits they are likely to gain from any EPA that the EC is currently willing to negotiate appear extremely remote. Indeed, both ESA countries and those in the SADC configuration could easily see the basis for their exports to the EU eroded at the same time as they face increased competition on national and regional markets from EU goods and services.

This does not create favourable circumstances for the future development of the Southern African regional economy outside South Africa, which is increasingly being seen as an essential partner for European businesses seeking to trade with or invest in the Southern and Eastern African region.

Conclusion: the WTO negotiations

The recent breakdowns of ministerial meetings of the WTO at Seattle and Cancun have highlighted the growing opposition of many developing countries to the domination of world trade arrangements by the OECD countries, the simplistic processes of tariffication of Non-Tariff Barriers (NTBs), of tariff reductions, and of widening the scope of free trade (especially into services and, above all, into government services such as health, education and water supply). Although the WTO may provide a structure within which developing countries can seek redress when their products are wrongly excluded from markets, this theoretical benefit loses value if the consequence is to lose aid from the guilty trade partner, a not uncommon threat. Recent challenges to the US cotton regime and the EU sugar regime have, however, offered some hope that poorer countries may sometimes be able to affect outcomes. Unfortunately, the 31 July 2004 outline agreement effectively gives WTO protection to the most blatant EU (and US) agricultural subsidy policies (despite devastating criticism from both the OECD and the World Bank), in particular as manifested in the EC’s CAP-reform strategy. The

ongoing WTO negotiations are, therefore, best seen mainly as a backdrop to the EPA negotiations rather than as an alternative forum for ACP countries to achieve their aims in. The future well-being

and development prospects of most ACP countries will be determined in Brussels, not Geneva or Washington

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Annex 1

SADC configuration - EU trade

In 2003, trade between the EU and SADC-configuration countries (excluding South Africa) totalled €7,382 million, consisting of €4,526.4 in imports from SADC-configuration countries into the EU and €2,855.6 million in EU exports to the SADC-configuration countries. The EU is the main exporter to the SADC-configuration countries, accounting for 32 per cent of imports in 2002 (compared to only 9 per cent for the USA.). The EU takes some 34 per cent of exports compared to 36 per cent for the US.

Five products accounted for fully 86 per cent of exports to the EU, namely: diamonds and gold (47.3 per cent), oil (19.1 per cent), aluminium (10.4 per cent) and fisheries products (10 per cent). Exports to the EU are dominated by primary goods, for which, with the exception of fisheries products and certain aluminium products, no tariff preferences exist, since imports' are zero-rated. The main EU exports in 2003 were machines and appliances (29.5 per cent) transport materials (24.3 per cent), food-industry products and drink (8 per cent), non-precious metals (7.7 per cent), and chemical products (6.8 per cent).

Angola dominates the trade relationship, accounting for 41 per cent of total trade, followed by Botswana with 22.5 per cent and Tanzania with 13.7 per cent.

ESA configuration – EU trade

In 2003, trade between the EU and ESA-configuration countries totalled €10,317.9 million, consisting of €5,958.7 in imports from ESA-configuration countries into the EU and €4,359.2 million in EU exports to the ESA-configuration countries. The EU is the ESA-configuration countries' main trading partner, accounting for 40 per cent of the region's exports.

Six products accounted for fully 60 per cent of exports to the EU, namely: precious stones – mainly diamonds – (21 per cent), textiles (11 per cent), aluminium (8 per cent), sugar (7 per cent), tobacco (7 per cent), and horticulture and floriculture (6 per cent). ESA exports to the EU are dominated by agricultural products (44 per cent), in respect of which the value of trade preferences granted under the Lomé Convention and subsequent Cotonou Agreement has been of greatest significance. The main EU exports in 2002 were machinery and appliances (36 per cent), chemical products (13 per cent), vehicles (8 per cent) and aircraft (6 per cent).

Mauritius, with 23 per cent of total EU-ESA trade, is the most important trade partner, followed by the Democratic Republic of the Congo (17 per cent), Kenya (16 per cent), and Zimbabwe 13 per cent.

Annex 2

Food and agricultural exports to the EU as a per cent of total exports to the EU in 2002 ('000 euros)

Country	Export TDC I-IV	Total Exports to EU	% Share
Angola	39,762	2,264,648	1.8%
Botswana	39,222	1,563,585	2.5%
Lesotho	3,942	10,310	38.2%
Namibia	299,108	738,175	40.5%
Mozambique	94,007	582,948	16.1%
Swaziland	112,341	129,149	87.0%
Tanzania	243,440	430,004	56.6%
Sub-Total	831,722	5,718,819	14.5%
DRC	12,665	1,238,936	1.0%
Malawi	174,391	176,849	98.6%
Zambia	59,805	115,390	51.8%
Zimbabwe	412,577	610,850	67.5%
Sub Total	659,438	2,142,025	30.8%
Mauritius	406,575	1,342,027	30.3%
Seychelles	225,265	258,171	87.3%
Burundi	17,269	18,650	92.6%
Comoros	14,438	18,896	77.4%
Djibuti	458	4,475	10.2%
Eritrea	1,921	6,308	30.5%
Ethiopia	108,796	189,981	57.3%
Kenya	639,584	848,186	75.4%
Madagascar	324,424	530,452	61.2%
Rwanda	17,079	21,779	78.4%
Uganda	218,520	260,679	83.8%
Sudan	87,259	264,577	33.0%
Sub Total	2,061,588	3,564,181	57.8%
Grand Total	3,552,748	11,425,025	31.1%

If oil, diamonds and gold are excluded from Botswana and Angola, the importance of agriculture rises to 45.7 per cent. If they are excluded from Botswana, Angola and the DRC, the importance rises to 54 per cent.

Annex 3

The declaration by Namibian stakeholders

The declaration by the Namibian Manufacturers' Association and the Agricultural Trade Forum, on the day of the launch of the EU-SADC configuration negotiations, called for:

- the immediate introduction of full duty-free access for all originating Botswanan, Namibian and Swazi exports to the EU, in line with EC proposals to the Article 133 Committee in October 2003, since, along with Lesotho, these countries are already *de facto* part of an EPA with the EU;
- "continued non-reciprocal duty-free access for least developed Mozambique, Angola and Tanzania under an improved EBA" (through addressing rules-of-origin issues);
- "full cumulation of origin for countries which are members of the SADC configuration, regardless of the trade arrangement under which the products are exported to the EU";
- "the establishment of simple and swift pre-emptive safeguards for products deemed sensitive, involving the establishment of monitoring and surveillance mechanism of trade flows in these products and the initiation of immediate remedial measures should import surges be detected which threaten to disrupt any markets within the SADC configuration";
- "the establishment of targeted programmes of restructuring assistance to BLNS enterprises which will be adversely affected by tariff phase-downs agreed under the TDCA";
- "the establishment of targeted programmes of assistance to fiscal restructuring designed in the light of the revenue losses which will result from an elimination of duties on substantially all imports from the EU, the region's major trading partner";
- The establishment of comprehensive and targeted programmes of assistance to address supply-side constraints in the smaller and less developed countries of the SADC configuration in order to enhance their capacity to attract investment and expand the production base for exports to the EU
- the EU to enter into a dialogue on standards-setting and the application of standards to SADC-configuration countries in order to ensure that no unnecessary trade barriers are created as a result of addressing genuine EU food-safety concerns;
- the EU to make financial assistance available through simple and easily accessible procedures to enterprises needing to upgrade to EU standards, so that part of the costs associated with higher EU standards can be defrayed;
- to make financial assistance available through simple and easily accessible procedures for the creation and operation of institutional structures for the effective verification and certification of compliance with EU food-safety standards; and
- the EU to enter into a dialogue on what steps can be taken to address the erosion of the value of preferences arising under the CAP in order to ensure the future viability of traditional exports to the EU (and propose specific steps which could be taken).

The signatories to the declaration argued that "these measures will encourage investment in the smaller and less developed economies of the SADC configuration. This will generate jobs and promote the structural development of these economies, a key objective of the overall economic and development co-operation relationship with the EU.

Globalisation and (De-)Regionalisation: Southern Africa in Times of Trade Liberalisation

Henning Melber

“Africa at the Crossroads. Between Regionalism and Globalization,” is the catchy but possibly misleading programmatic title of a recent volume. In it, there is an overview that summarises the challenges and prospects for regionalism and regional cooperation in Africa (Bischoff 2004). The suggested dichotomy, that African countries have the choice to opt either for regionalism or globalisation, seems to ignore existing realities. The more appropriate question is: Whether and to what extent does a meaningful regional development strategy remain a suitable tool under global market forces? Experiences so far have not been very encouraging and suggest that African regional collaboration projects show at best mixed results.

This contribution does not intend to balance the pros and cons of regionalism. Rather, it tries to summarise some recent evidence that current trends undermine and pre-empt any meaningful future efforts towards regional collaboration, without really posing the decisive question beforehand, namely whether this is the intended and desirable avenue to pursue. In fact, very many conventional development paradigms and discourses still advocated within OECD donor countries cultivate the assumption that regional collaboration is a positive factor and suitable tool not only in itself, but also for economic growth. At the same time, without abandoning this gospel, these countries are actively involved in aborting the supportive environment needed to enhance regional cooperation.

New factors replacing local and regional dimensions with increasingly continental and/or global arrangements, under which ownership clearly lies outside the local/regional actors' primary sphere of influence, include *i.a.*:

- the adoption and implementation of The New Partnership for Africa's Development (NEPAD) as an – at least formally and officially proclaimed – strategy of the African Union, with an (unfor-

tunate) emphasis in its implementation on socioeconomic issues; in combination with

- further enhancement of bi- and multilateral trade agreements between external agencies and individual African states, which might have a potentially divisive impact on regional integration issues, such as the US's *Africa Growth and Opportunity Act* (AGOA), the EU Free Trade Agreement with South Africa (EU-SA FTA) and, more recently, the Economic Partnership Agreements (EPAs) negotiated for the post-Cotonou era.

Under the paradigm of the World Trade Organisation (WTO), a newly structured economic reality gains momentum. As a result, trade relations are organised in a particular way, the direction and effect of which require questioning. This is the simple purpose of this overview, which ends with some reflections on the likely implications (in the sense of challenges to) for Swedish policy within the current EU setting.

NEPAD – Trade as Aid?

Much goodwill and optimism existed in the early stages of NEPAD. Many observers and stakeholders were prepared to support an initiative perceived as a sign of a new determination and political will to increase self-reliance. This optimism has slowly been replaced by a growing hangover in light of the self-proclaimed pragmatism that seems to be little more than a thin disguise for a pact among elites in the African South and the G7/8-North. The “time to rethink NEPAD” (Herbert 2004) seems to have come. Scepticism among those reluctant from the outset to offer the initiative the benefit of the doubt has been fuelled accordingly.¹

1. See, due to these sobering experiences, my own shift in analysis from cautious optimism in favour of constructive engagement towards increasingly critical analysis (Melber 2002, 2003, 2004a, 2004b and 2004c).

Increasingly, NEPAD seems to emerge as a type of mega-NGO to channel aid funds into development projects, which at best are claimed to be driven by a desire for enhanced regional collaboration, but in reality amount to little more than lip service. The programmes and policies funded under NEPAD are mainly implemented by countries, not by regional bodies. Hence, NEPAD in effect undermines an agency such as SADC (or any other regional institution) more than it strengthens it. This trend exists, notwithstanding the fact that NEPAD accords substantial relevance to regional bodies as ways and means to achieve defined socioeconomic goals.

NEPAD claims that its agenda is “based on national and regional priorities and development plans” that ought to be prepared “through participatory processes involving the people” (para. 49). So far, however, no visible signs in SADC indicate that the collective, multilateral efforts aim at a united approach for the region in its relations with the outside world. Nor, so far, does NEPAD translate its noble aims into practical steps for implementation. The blueprint even emphasizes sub-regional and regional approaches under a separate sub-heading. It stresses “the need for African countries to pool their resources and enhance regional development and economic integration ... to improve international competitiveness” (para. 94). But the crux of the matter lies there: the emphasis on international competitiveness comes at the expense of strengthening the local economies and people. As Patrick Bond (2002:134) points out in his annotated critique of NEPAD, integration in Africa should “meet the socio-economic and environmental needs of its citizenries” as a priority, instead of seeking to turn even more into an export platform.

NEPAD further claims to enhance the provision of essential regional goods as well as the promotion of intra-African trade and investment, with a further focus being “rationalising the institutional framework for economic integration” (para. 95). But again, this approach neglects the local/internal in favour of the global/external orientation. Hence, the implementation of NEPAD will most likely have an adverse effect and increase outward orientation of a regional bloc at the expense of internal consolidation. It is interesting to note that, notwithstanding the decisive role of South Africa within NEPAD, SADC has so far hardly acknowledged

the initiative, and certainly not embraced it. Revealingly, in a recent essay on NEPAD, the SADC executive secretary, Prega Ramsamy (2004), manages to mention SADC in just one general cross-reference to the need for working closely with sub-regional institutions.

As a point of departure, NEPAD defines a strengthening of African regional markets as a steppingstone to greater integration into the global economy, and not as a goal in itself. Hence, it fails to acknowledge that “what Africa needs is a regional integration strategy which is neither defined by liberalisation nor market mechanisms, but which nurtures first and foremost a policy, institutional and instrumental framework which will allow the regional market to function” (Hayman 2003:8f.). Instead, through its market access initiative, the NEPAD document itself advocates an external orientation, identifying the need for negotiations with the WTO for “more equitable terms of trade for African countries within the WTO multilateral framework” (Article 188) – whatever that means, given the restrictions of this framework, dominated as it is by the industrialised countries and the latter’s interest in maintaining control over affairs by means of their own protective market strategies. This is turned by NEPAD into “an historic opportunity for the developed countries of the world to enter into a genuine partnership with Africa, based on mutual interest, shared commitments and binding agreements,” as stated in the concluding paragraphs (Article 205) of the document. Given such wishful thinking, one wonders about the sense of realism of the NEPAD architects.

Some observers share the view that “there is tremendous potential for economic gains from specialisation and trade within Africa which might, in turn, open up new export possibilities to the world,” provided that the required harmonisation of trade rules and a much improved transportation infrastructure is achieved (Loxley 2003:122). But critics of NEPAD are more concerned that African goods are limited in their competitiveness by unfair practices and regulations and excluded from other markets by high tariffs and quotas. The question is: How to meet this challenge and what the strategies are to overcome (or at least reduce) the obstacles?

The complexity of trade constellations certainly necessitates more homework than NEPAD advocates and other advocates of trade liberalisation

seem to have done. This can be demonstrated particularly strikingly by reference to the possible liberalisation of the world sugar market. The abolition of protective clauses – as Paul Goodison and Colin Stoneman point out in their preceding analysis – would directly affect several vulnerable Southern African economies (particularly Swaziland, but also Malawi, Mauritius, Mozambique, Zambia and Zimbabwe) negatively. The specifics of a preferential sugar regime show, upon closer examination, “a complex geography of winners and losers” (Gibb 2004:585). If the spatial implications and variations of agricultural liberalisation are properly examined, “in both the short and medium term Southern Africa will, in fact, loose significantly” (ibid.).¹

The US-American Trade Policy Offensive

AGOA had originally been adopted as Title I of the Trade and Development Act of 2000 under the outgoing Clinton administration, as part of the “trade not aid” paradigm (since, twice extended by President Bush).² The benefits of AGOA differ among African countries according to their resources. Ironically, within those countries designated as Least Developed Countries under AGOA, thereby receiving additional preferential treatment, external capital (mainly from East Asian countries) has managed to exploit the opportunities created to supply the US market with cheap textiles from these countries. The generally unqualified and underpaid workforce in local sweatshops is reaping hardly any benefits from this super-exploitation. Nor does the fiscus of these states, since initial in-

vestments and running costs for operations are substantially subsidised by public revenue, instead of the operations providing tax income from the profits.

Provisional insights into AGOA’s results to date may prove illuminating and instructive. As the executive summary and key findings set out in its annual report for 2002 suggest,³ the United States is sub-Saharan Africa’s largest single market, purchasing 27 per cent of the region’s exports in 2000, with imports increasing by 61.5 per cent over the last two years. Looked at the other way around, US exports to sub-Saharan African countries grew 17.5 per cent in 2001 to nearly US\$ 7 billion and in 2001 were higher than to all the former Soviet Union and Eastern European countries combined. But a breakdown of the commodities sheds light on the flaws behind the statistics: the bulk of US trade was composed of aircraft, oil- and gas-field equipment and motor vehicles and parts. Sub-Saharan Africa in return supplies a growing share of US oil imports (already amounting to more than a quarter of the annual volume). In total, these represented 90 per cent of total imports from the region. African oil-producing countries are Nigeria, Angola, Cameroon, People’s Democratic Republic of Congo, Guinea and Gabon. Hence, the advantages of AGOA are mainly limited to these six countries (plus a handful more, for other specific reasons, as shown below).

It is not unreasonable to suspect that US trade policy does not look upon the sub-Saharan African countries in terms of support to African economic and political development, but mainly from a self-interested perspective, to gain better access to potential markets. If this resulted in mutual benefit and met the interests of all partners, one could accept the legitimacy of the deal. But the bulk of African countries will not reap such a harvest. Almost inevitably, as a result of this self-interested rationale the main beneficiaries of AGOA trade (accounting for 92 per cent of AGOA duty-free benefits) were Nigeria (with US\$ 5.7 billion of benefits),

1. Already, under a so-called reform of the ACP/EU Sugar Protocol and the Agreement on Special Preferential Sugar, necessitated by a WTO tribunal ruling in favour of a petition submitted by Australia, Thailand and Brazil (who were excluded from the Sugar Protocol), Southern African sugar exporters to the EU market have to adapt to “new market conditions.” According to a spokesperson for the Swaziland sugar industry, the country’s biggest export earner is expected to lose more than US\$ 23 million in 2005/06 and more than US\$ 39 million in 2007/08 as a result of the price cuts imposed (UN Office for the Coordination of Humanitarian Affairs, IRIN News, Southern Africa: EU Compensation to Sugar Producers “Inadequate,” 28 September 2004).

2. AGOA is US-legislation and – in contrast to any form of a negotiated agreement – is a unilaterally decreed act. Sole ownership and power of definition rests with the US administration, which is free to interpret and apply AGOA according to its exclusive understanding.

3. Both the act itself (AGOA I), signed by President Clinton in May 2000, and the first extension (AGOA II), signed by President Bush, as well as the annual report for 2002 are documented in *epd-Entwicklungspolitik*, no. 10, May 2003, pp. 48-53 (see also www.agoa.gov/) and commented upon in the accompanying article by Veney (2003).

Gabon (US\$ 938.7 million) and South Africa (US\$ 923.2 million).

After oil, textiles were the second single biggest African export to the US market under AGOA, contributing considerably to the increase of US imports (by 60 per cent). But textiles represent less than 5 per cent of total exports from sub-Saharan Africa. Hence, AGOA provides a rather biased and distorted trade pattern. Even worse, many of those countries hosting such imposed textile industries are abused in order to produce extra, short-term profits, mainly by East Asian capital interests, which expand into these temporarily created market niches. In Madagascar, companies from Singapore, Hong Kong and China established factories to gain access to the US market under AGOA. Along similar lines, the growing textile industry in Lesotho, Malawi, Mauritius and Swaziland is largely dependent on foreign investors, who accumulate profit through preferential local investment opportunities and a high degree of exploitation of cheap, and largely rightless, labour. Employment conditions in these sweatshops are appalling (Bahadur 2004) and benefits to the local economy are questionable.

As a result of AGOA, the textile sector in Lesotho, largely owned by foreign companies operating under a six-year state tax exemption, now accounts for 40,000 workers and is the largest employer of labour. But this comes at a price: "The Lesotho Clothing and Allied Workers Union claims that the success of the industry is also attributable to the gross exploitation of labour, as companies ignore local laws protecting workers, which they can do with impunity since top government officials are shareholders with the foreign companies. Poor working conditions, unduly long working hours, low wages and anti-union activities are said to characterise the industry" (Loxley 2003:126). Similarly, a Malaysian-owned company has opened a large textile factory (Ramatex) characterised by unacceptable labour standards (resulting in the first large strike in 2003) and other ethically questionable business practices, but is either tolerated or even actively supported by government authorities in the Namibian capital, Windhoek. And this is at the expense of taxpayers, since revenues had to provide for the state subsidies dished out to make Windhoek a more attractive location than its direct competitors in neighbouring countries (LaRRI

2003, Melber 2004d, Winterfeldt forthcoming). More investments along similar lines have been announced, and are claimed to reduce the extraordinary high rate of unemployment by creating job opportunities in the country's formal economic sectors (but, in fact, taking advantage of the degree of sheer despair among the unemployed battling to make a living). In light of the performance and effect so far of such dubious capital investments and their selective benefits (mainly for those already better off than the ordinary people), this announcement sounds more like a threat than a comforting promise of a better future.¹ Under such circumstances, AGOA fuels a local African economy less than it contributes to the increased profits of Asian companies taking advantage of this kind of liberalisation. Ultimately, this situation is just another elite pact, in which local African elites and Asian capital gain at the expense of workers, who hardly earn enough to survive.

As Thompson (2004:468) points out, empirical findings from AGOA reveal only restricted positive impacts from increased textile and apparel exports in a total of six out of 37 eligible countries: Kenya, Lesotho, Madagascar, Mauritius, Swaziland and South Africa. Only in Kenya and South Africa were exports from other sectors (primarily agricultural products) able to rise substantially under AGOA. With the expiry of the Multi-Fibre Agreement (MFA) at the beginning of 2005, the textile and apparel industries of China, India and other Asian countries will be able to compete freely with the AGOA-favoured African products, according to

1. The Ramatex saga has escalated since mid-2004, when the Windhoek municipality had to intervene because of constant violations of the environmental obligations of the company and the ongoing illegal pollution of the fragile water reservoirs. Furthermore, the illegal employment of several hundred unqualified workers imported from Bangladesh by unscrupulous dealers in migrant labour was uncovered, thereby showing "the ugly face of global capitalism as it exists today," in the words of the director of the local trade-union affiliated Labour Resource and Research Institute (LaRRI). He went on: "Protected by the blind faith of host countries that foreign investment will solve their development problems, these corporations drive down labour and environmental standards in what has been described as a 'race to the bottom' ... It is a tragic irony that Namibia plays host to such abuses ... Just over a decade after Independence, we now see a return to the migrant labour system in a new globalised, and perhaps even more vicious form. Like under colonial rule, workers who revolt against their inhuman conditions are simply deported to their 'homelands'. Previously back to 'Ovamboland', now back to Bangladesh, China or the Philippines." (Jauch 2004)

WTO rules. The predictable result will be the decline if not collapse of the short-term industry seeking temporary gains: "The simple facts are that the full incorporation of China and Eastern Europe into the world trading system over the next decade will more than double the number of workers in the global economy in just ten years time. The AGOA legislation passed in 2004 provides some preferential access for certain categories of African textiles until 2008, but there is no evidence that any African state will be able to build up viable domestic textile industries capable of competing with Chinese producers before that deadline" (Martin 2004:589). Once the AGOA bonanza is over, the winners will have again been internationally operating capital and a handful of local compradors.

EU's New Role: WTO Enforcement Through EPAs

The new Economic Partnership Agreements (EPAs) negotiated between the African, Caribbean and Pacific (ACP) states and the EU not only seek to replace the previous Cotonou Agreement by means of separate sub-regional negotiations, but also aim for compatibility between EU-ACP trade relations and the World Trade Organisation.¹ Bond (2004b:226) warns that the emerging regime of harsher "reciprocal liberalisation," suggested and pursued under the EPA negotiations that are more strictly in compliance with the WTO than its statutes would actually require, will replace the existing close trade links through "preferential agreements that tied so many African countries to their former colonial masters via cash-crop exports" and that "what meagre organic African industry and services remained after two decades of structural adjustment will probably be lost to European scale economies and technological sophistication." The EU is accused of using EPA negotiations to push through agreements on a number of sensitive matters (such as investment, procurement and competition policy) that were rejected by developing countries at the WTO negotiations during 2003. If such agreements are entered, they will reduce the policy space for African governments (Ochieng/Sharman 2004:

3). It does not help that even a high-ranking EU official² recognises "the right of countries, or rather regions, to regulate economic activity in their territory" and accepts the "idea of a preference in favour of local competition," when he adds at the same time, "provided it is not to be a discretionary one" (Falkenberg 2004:3).

EU negotiations aim at separate accords with each region, and no country may negotiate in more than one bloc. As such, SADC is reduced to seven member countries (half of the 14 SADC states) under the EPA negotiations. It is not far-fetched to see an inbuilt conflict between regionalism as it exists and the negotiation of new multilateral processes. Countries might differ over the advantages of continued protection of regional arrangements as against the creation of individual preferential access within other trade agreements. As Ian Gillson and Sven Grimm (2004) argue, "regionalism may actively serve to undermine the multilateral process, since regional agreements establish margins of preference for members over non-members. As such, for members of a preferential trade agreement, multilateral liberalisation can have costs associated with erosion of preferences." But if regionalism is viewed as a problem for or obstacle to further global harmonisation under the WTO, it stands little chance of being a viable platform for strengthening the South (or any Least Developed Country) within global trade arrangements.

The predictable outcome of the current negotiations under WTO-related agreements is a "shrinking of development space," as Robert Wade (2003) calls it. To avoid such non-egalitarian pseudo-partnerships, he argues, a shift in balance "from the drive to homogenize trading commitments to other states towards granting states reasonable scope to choose appropriate levels of national protection" is required. A development strategy would, therefore, have to operate in a zone in which internal as well as external integration reinforce rather than undermine each other. Instead, as the gospel of the free trade paradigm dominates the discourse, issues of internal integration (including issues of regional integration), which should be central to the development agenda, have largely dropped off that agen-

1. Interestingly enough, the draft European Constitution makes no reference to cooperation with African, Caribbean and Pacific states. It is only fair to assume that EU enlargement shifts interest even further away from the neighbouring continent towards more collaboration closer to Brussels.

2. European Commission Director/Trade Directory General, Directorate C – Free Trade Agreements, Agricultural Trade Questions, ACP, Bilateral Trade Relations II.

da. Even a recent working paper published by the International Monetary Fund is reluctant to consider EPAs as generally beneficial. It points to the foreseeable steep decline in revenue from trade taxes for many countries (some of them heavily dependent in their state budgets upon these revenue sources) due to the liberalisation of trade. It also identifies the risk that EPAs will enhance national strategies to opt out of open regionalism, thereby strengthening inward-looking forces (Khandelwal 2004:5).

The negotiation of future EPAs will introduce serious implementation problems and have a negative impact on regionalism within the ACP group and its African member states. Hurt (2004:165) has warned that regional organisations within Africa would be likely to have capacity problems when entering the negotiations. The situation is complicated further by the fact that all these regions present a mix of LDCs and non-LDCs.¹ A likely result is the further fragmentation of the process of regional integration and a division of ACP states into regional groups, which, it is suspected, will “enable the EU to target its trade restrictions more effectively on products that it chooses not to liberalize” (Hurt 2004:166).

The EU-SA Free Trade Agreement had an even more divisive effect on the Southern African region by establishing a preferential trade relationship with one country, thereby enhancing differences within the region resulting from existing conflicts of interest among the national economies. South Africa herself, the monetary zone, the South African Customs Union (SACU) and SADC are already not in complete harmony at any one time, and are now less so given the effects of the free trade agreement on regional economic matters. Hence, EU intervention adds more friction and the beneficial effects of the FTA for South Africa do not provide a convincing argument in favour of more free trade policy with other – less industrialised – countries. Instead, as Bauer (2004:23) concludes, “if the EU-SA FTA proves to be of positive net benefit to SA, it will be precisely inasmuch as SA has a rela-

tively developed and diversified industrial sector.” South African interests and benefits, however, are not identical with regional ones.² While regional integration would (and should) certainly not be at the expense of the hegemonic power, it would include the interests of the junior partners in the region. The political economy of such regionalism (Söderbaum 2002) is a constantly negotiated arrangement, with shifting boundaries and changing coalitions of interest. But it clearly has to aim beyond the immediate gains of the sub-imperialist centre, which is how South Africa is not only perceived (Nyirabu 2004) but also acting (Bond 2004a and 2004b).

The EPA-configuration process does not seem to strengthen the alternative, more desirable, route. Paul Goodison and Colin Stoneman have shown in this volume and elsewhere that “it would be an act of foolish optimism to expect integrity or honesty in the EU’s trade policy towards Southern Africa and the wider ACP group” (Goodison/Stoneman 2004:734). Instead, as Ochieng and Sharman (2004:3) remark, the EPA initiative during its initial negotiations “has created new regional groupings that are inconsistent with, and undermine, existing African economic and political blocs. Reducing regional integration to trade liberalisation undermines the broader socio-economic and political objectives of existing bodies.”

Such recent trends indicate less rather than more regional cooperation and integration, at least in macroeconomic terms, among the official membership of such bodies as SADC. Political and security interests might promote, with increased support from the G8, the strengthening of initiatives towards closer regional collaboration in reducing armed conflict and achieving more stability. Such stability continues, however, to be perceived as regime security, in contrast to human security that focuses on a human rights dimension (Kaime 2004). The latter would give primacy to human rights of citizens and not preference to governments in power. Even without the negative impacts of AGOA and EPAs and the like, SADC and similar

1. The 14 SADC member states, for example, include six non-LDCs, seven LDCs and South Africa, a so-called emerging economy with middle power status and orientation, as reflected in its own Free Trade Agreement, negotiated over many years and finally ratified at the end of the 1990s, with the EU – with rather destructive political and economic effects on the neighbouring countries.

2. Similar erosion of regional capacity-building in the economic sphere can be expected from the results of the ongoing negotiation of a free trade agreement between SACU and the US. The SACU-US agreement, as it currently appears, tends to separate and divide instead of bringing Southern African economies and interests closer.

regional configurations in Southern Africa (as elsewhere on the continent) have not so far provided convincing evidence that political leadership in the countries – or the local capital for that matter – will aim for a progressive “new regionalism.” At best, they demonstrate “predominantly state-driven visions of responsive, responsible but neo-liberal development,” in which “agendas are ... set and implemented, via the primary route of individual national plans and financial transfers.” As Simon (2003:71) further concludes: “This is hardly a radical prescription for reconfiguring inappropriate colonial and post-colonial legacies to promote ‘development’ at the regional or continental scales!”

Swedish Policy Perspectives

As shown above, the likely outcome of the current combination of effects linked to NEPAD, AGOA as well as EPA is not encouraging: “Anticipated costs include revenue losses, possibly resulting in the worsening of the regional debt situation; de-industrialization; increased unemployment; increased poverty; fragmentation of export and tariff regimes; loss of export competitiveness; undermining of local agriculture and industrial production arising from US and EU dumping; more trade diversion than trade creation; and undermining existing regional economic integration strategies.” (Lee 2004:6).

Notwithstanding this bleak prognosis, external support for further positive regional interdependence remains possible through both uni- and multi-lateral forms of cooperation. As a study for the Swedish development agency Sida, exploring possible gains for LDCs under the emerging world trade regime, pointed out: “it is important that EU’s future policy for free trade agreement regarding developing countries within the ACP group does not work counter to or hinder regional economic cooperation and integration, which can provide better preconditions for regional trade including the LDCs of each region” (de Vylder *et al.* 2001:161). But – as Timo Kivimäki and Liisa Laakso (2002: 176) note– this requires more than merely opening up to the global economy. More importantly, such an approach would have to revisit matters of regional economic collaboration and seek the involvement of the majority of the African population in these countries. Current initiatives by the

EU and the US under the WTO offer little if any promise of contributing to such a desirable trend either in SADC or elsewhere.

The challenge is to contribute to sustainable development by offering African partners a global environment conducive to securing them a fairer share of the world economy and of international policy-making processes. In order to take such a responsibility seriously, the G8, the EU and other OECD countries would have to stop the pursuance of their protectionist trade policies. Agrarian subsidies and other distorting interventions in the economic spheres should come to an end as an initial contribution towards a more competitive general environment. It remains to be seen whether steps already taken in this regard are achieving some acceptable degree of improvement in the grossly unequal power relations and resulting structural constraints. Only on such a basis could scenarios for fair partnerships be discussed, negotiated and entered. These partnerships would then not damage the interests of regional integration. It has been suggested by Hurt (2004:171) that currently dominant neo-liberalism in trade is largely compatible with the interests of a political elite, as well as an outward-oriented faction of capitalism, both within the EU and (to a lesser extent) in African states, and that the international environment has made it more difficult to redefine African-European relations positively. On the basis of the emerging evidence, it is not easy to counter this conclusion convincingly.

At the beginning of the 21st century, Sweden drafted policy documents that directly relate to and touch upon such issues. A “Swedish Strategy for Support for Regional and Subregional Development Cooperation in Sub-Saharan Africa” was adopted on 27 June 2002 as the relevant framework for foreign policy for the years to come. Development support to regional networks had already been prioritised in an earlier document on the role of policy in preventing violent conflict. It explicitly, “recognised that economic integration as well as technical cooperation at the regional and sub-regional level can have a preventive effect ... Economic growth, which is promoted by economic integration, is a necessary, although not sufficient, condition for eliminating potential structural causes of conflicts such as increasing poverty and economic inequality. There is a need to raise awareness

of the fact that economic co-operation and development can contribute to peaceful development.” (Ministry for Foreign Affairs 2001:26)

In an effort to specify and further cement the Swedish commitment to contribute towards reduced inequality in the world, a Parliamentary Commission on Swedish Policy for Global Development recommends that Sweden should “actively support augmented *regional cooperation*” (Globkom 2002:8; original emphasis). The summary report notes, among other things, that “a lack of coherence with the policy for global development may arise if the impact on poor people and countries is not taken into account,” and refers to trade policy as one important example (Globkom 2002:5). The EU policy is questioned for “a lack of coherence between trade and agricultural policy on one hand and development policy on the other” (Globkom 2002:8). According to the report, Sweden, therefore, should “launch a discussion on the division of duties and resources that ought to exist between the EC and the Member States” (ibid.).

On 16 December 2003, as a result of the Globkom process and its recommendations, the Swedish parliament adopted a new global development policy. As one of the first countries with a fully integrated policy for global development, Sweden committed itself to an ambitious objective: “Sweden’s efforts to combat poverty are to be coordinated so that the goal of contributing to an equitable and sustainable global development will apply to all areas of policy. This means that what was previously considered to be a primary task for the policy area of international assistance will become a task for all policy areas. The thought behind this is that policy should be more consistent, so that decisions within different policy areas can complement one another. This means that the way Sweden acts within one area will correspond to how Sweden acts within other areas. Trade, agriculture, the environment, security and migration are examples of areas that must be directed towards the same goals” (Sveriges Riksdag 2004:2).

On the basis of this conceptual understanding, the Swedish government should consider following the recommendations at the end of the analysis in the report tabled by Actionaid International. Its diagnosis is that “EPAs threaten African fiscal stability and public spending. They introduce investment agreements ... that would undermine African

policy choices. EPAs threaten African regional integration and lack an independent dispute settlement mechanism” (Ochieng/Sharman 2004:32). The authors, therefore, make the following appeal: “European Union member states must revise the European Commission’s EPA negotiating mandate to withdraw the demand for reciprocal trade liberalisation,” and stop “negotiations on investment, competition policy and public procurement.” They further urge the European parliament to “launch an investigation into the European Commission’s approach to the EPA negotiations and to exercise effective oversight over the Commission’s negotiating mandate, tactics and processes,” while beginning “to immediately examine all possible alternatives to EPAs” (ibid.).

If support for regional integration as a building block for enhanced international cooperation between partners, with the ultimate aim of less marginalisation and fewer discrepancies in power, is more than mere lip service, such policy advice ought to be taken seriously. If the partners in the South fail to utilise regional cooperation as a step towards emancipation in international relations for the benefit first and foremost of their local populations (and not a local fragment of the transnational elites), this is another matter. However, Swedish EU policy should not assist in widening the gap but, in contrast, should aim at reducing it. The irony of the trade regime currently emerging through the EPA is that it seems to fall into the trap a Sida study had warned of earlier (de Vylder *et al.* 2001:161): “While EU, through its enlargement, is collecting the European states into an increasingly strong unit, EU’s African policies may have the opposite effect.”

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