CHAPTER 7

SUMMARY AND CONCLUSION

7.1 The Final Word on the FTA between South Africa and the EU

The saga of negotiations between the European Union and South Africa on the creation of a Free Trade Agreement (FTA) has finally reached a conclusion. Although both trading partners gain, all other regions, the rest of Southern Africa included, experience welfare losses. The deal was signed during 1999, four years after talks began on what was supposed to be a generous gesture by the EU to the new multiracial regime in South Africa. In the event it has proved a mean-spirited and grudging exercise, which has soured relations between the two sides.

The deal is supposed to liberalize access for 95% of EU imports from South Africa, and 86% of EU exports in the opposite direction. It should make a big difference to South Africa, desperately trying to boost economic growth, produce more jobs and spread prosperity more widely in the black population. But agreement was delayed until the last minute by the blocking tactics of the Mediterranean members of the EU — France, Italy, Spain, Portugal and Greece — as they sought to protect their well-established wine sectors.

Thabo Mbeki, South Africa's president, accused the EU of naked self-interest. "The developed countries of the North have lost all sense of the noble idea of solidarity" he said. His frustration is understandable. The EU transformed a gesture to promote economic development into a haggling session over the labeling of port and sherry. Moreover the talks demonstrated once again what is wrong with bilateral trade agreements. They are by definition discriminatory against those — such as South Africa's neighbors — who are excluded. And they simply allow the strong and rich to bully the poorer, weaker partners.

In this case the EU has sought to enforce its control of names like "port" and "sherry" in the bilateral negotiations, rather than have the issue settled by the World Trade Organization, whose rules govern such questions of intellectual property. Failure to take this route suggests that the EU is less than sure of its legal case. Other "traditional" expressions such as "grand cru" may be subject to further controls. France seems to forget that the South African wine industry was founded by French Huguenots.

The malign influence of the EU's common agricultural policy can instantly be detected behind the protectionist stance in the negotiations. The one area in which developing countries can reasonably expect to be competitive is agriculture. And yet this is the one sector constantly excluded from genuine liberalization by the EU. If the South African negotiations are an indication of European rigidity, it bodes ill for the forthcoming trade round.

Nevertheless, the FTA is a start in the right direction, towards increased access for South African agricultural products to the EU. It has also been clearly indicated by the analysis that South Africa gains under the deal. The thorn in the flesh of the whole arrangement therefore remains the regional implications of the deal. South Africa cannot escape its obligation towards its neighbors, as poor neighbors are bad neighbors. The objective therefore should be to extend the deal with the EU to SADC. It will be of considerable interest to keep a close eye on future developments, and especially to see whether the welfare gains predicted by this study materialize in practice.

7.2 Conclusion

This study presents a comprehensive analysis of the effects of the free trade agreement between South Africa and the EU. It indicates that under a total reduction of tariffs, the welfare gains would be greater than with a limited reduction. Unfortunately countries excluded from the agreement, such as other SADC countries, would suffer welfare losses due to trade diversion effects. The results are very similar to those obtained by the USAID study discussed in Section 3.6 which showed that agricultural and food outputs, together with capital goods, were expected to rise in South Africa as a result of the FTA, while the output of these sectors should fall within the EU. Furthermore, the study showed that the South African–European FTA would have a significant effect on the rest of Southern Africa. South Africa's agricultural and food exports to the European Union were expected to rise dramatically, while those to other regions fell. South Africa is thus induced by creation of the FTA to switch markets. This switching is not only away from other foreign markets but also away from the domestic market towards the European Union.

This explains the simultaneous increase in imports of agricultural goods into South Africa. There are clearly both trade-creation and trade-diversion effects at work. The USAID study calculated that although both South Africa and the European Union gain from the FTA, in South Africa there is a large positive terms of trade (TOT) effect that is somewhat diminished by the negative resource allocation effects. These are still dominated by the trade diversion effect, although there is a small effect deriving from domestic distortions. Although the trade creation induces large positive values within the EU and South Africa, the trade diversion effects are also large, resulting in a relatively small positive overall welfare gain from the FTA.

In Chapters 5 and 6 the analysis of the results of the actual FTA between South Africa and the EU was conducted, making use of the GTAP model described in Chapter 4. This is a more accurate study than the USAID study, because it has more recent data at its disposal, which is essential given the altered import tariff structures for both the EU and South Africa. After all, both the welfare and trade-flow effects stem from directly from these tariff changes. Furthermore, the focus is mainly on the agricultural sector, which is disaggregated as much as possible to indicate the various effects on the different sectors. There was also a section on unemployment, and the results were tested through a sensitivity analysis. To the author's knowledge there has not been another study of an FTA up to now that uses a general equilibrium framework to calculate the real effects of the agreement. This study could therefore be the catalyst for further studies and discussion.

The analysis has shown that South Africa and the EU will experience considerable welfare gains, mainly flowing from terms of trade effects. Although the overall trade balance for South Africa weakens, cheaper imports and more expensive exports sway the welfare equation in South Africa's favor. There are also minor allocative efficiency and capital goods gains. Thus, in spite of an overall reduction in output, there is greater efficiency and most sectors become more competitive. The study also investigated the effects of the agreement on the unskilled labor endowment. It was established that although heavy users such as the manufacturing and services sectors (in terms of total share of unskilled labor use) either contracted or did not show any expansion, the total welfare effect for unskilled labor was positive.

In terms of changing trade flows the study showed significant import changes from the EU, especially for vegetables and fruit as well as other processed foodstuffs. Again these can be traced to tariff reductions stemming from the agreement. The FTA agreement between South Africa and the EU should produce higher prices for all South African export commodities resulting in noteworthy increases in exports of other agricultural products, dairy products, vegetables, and fruits. These sectors should experience growth during the implementation of the agreement, thereby earning much needed foreign currency and creating new employment opportunities.

Given these results, it is imperative for South Africa to rethink its regional role, being the largest economy in Africa. The study has indicated that all of its neighbouring countries would experience welfare loses if excluded from the deal. Therefore it is important for South Africa to seek futher regional integration and to extend the FTA into the region, thus enhancing economic stability and growth in the region, which would benefit all the countries involved. Furthermoreit becomes absolutely critical to ensure that the input side in the agricultural sector is completely open and free. Having liberalized the output side, producers need to be able to compete globally, which can only be done successfully if the playing field is level. These principles also apply to the excercise of evaluating the efforts of the EU and monitoring the adherence to the FTA.