

## **An Analysis of EU-Southern African Relations**

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## **Introduction<sup>1</sup>**

The relations between the European Union (EU) and Southern African countries can be best understood in the context of the Lomé Agreement, signed and first implemented in the early 1970s. This is a non-reciprocal relationship where the EU gives ACP countries preferential market access and development aid. At present, the relationship has reached a transition period, shifting to a reciprocal one, being influenced by global processes such as those of the World Trade Organization (WTO). An element of colonial hangover still exists but this is not surprising considering that all Southern African countries were former colonies of some EU members. This obviously has a bearing on the new power relations.

This paper analyses the EU-Southern Africa relations from the period 2000 to the present, highlighting the problems and contradictions experienced. The negotiation for a new partnership is the dominating feature during this period and therefore more focus is given to this issue. The analysis is done from the perspective of Southern Africa in general and from that of Zimbabwe in particular.

## **From the Lomé Agreement to the Cotonou Partnership**

Since 1975, relations between the EU and Southern Africa were guided by the Lomé Agreement, where the former granted the latter non-reciprocal market access preferences, complemented by development aid. The market preferences were in the form of reduced or zero tariffs on key export commodities like agricultural products. Market access was further enhanced by commodity protocols such as those of beef<sup>2</sup> and sugar. However, before the expiry of Lomé IV Agreement in 2000, the EU had already made it clear that it would not renew it and wanted to negotiate a new partnership agreement compatible with the World Trade Organization (WTO) provisions. Southern African countries reluctantly accepted the EU's position but made it clear that the provisions of the new agreement should not be worse than those of Lomé.

After some intensive negotiations, Southern African countries and other ACP members signed a new partnership agreement with the EU in June 2000 in Cotonou, the capital of Benin (the Cotonou Agreement). Unlike the previous one, this agreement is based on the principle of reciprocity. The aims of the agreement are sustainable development, poverty reduction (with eventual aim of eliminating it) and the gradual integration of the ACP countries into the world economy (ACP-EU 2003 6-10). It is based on five pillars, which are economic and trade cooperation, political dialogue, involvement of civil society, the private sector and other non-state actors, poverty reduction as well as rationalization of financial instruments.

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<sup>1</sup> The Italian translation of this paper has been published on «afriche e orienti», vol. 13, n. 1-2, 2011, pp. 58-68.

<sup>2</sup> Zimbabwe benefited from the beef (quota of 9,100 tonnes).

## **Economic Partnership Agreements (EPAs)**

The EU and ACP also agreed under Cotonou to negotiate a new trading arrangement compatible with the WTO requirements, essentially paving way for trade liberalization between the two partners. This was not without controversy because Southern African countries felt that they could not enter into an FTA with the EU since the two are not at the same level of development. However, the EU argued that EPAs would accelerate development in Southern Africa and make the region more prosperous. Further, EPAs would make Southern African countries' policies more predictable and this would attract Foreign Direct Investment (FDI). This would enable the region to diversify the economy from producing primary commodities to value addition in both agricultural and non-agricultural sectors. In addition, EPAs would lower prices for imported industrial inputs and thereby lead to growth or creation of new industries. Consumers would also benefit from lower prices.

Economic experts also predict wider economic dynamic effects arising from EPAs. They argue that tariff reduction should result in increased competition and enhanced efficiency in production, made possible by increased specialisation in accordance with the law of comparative advantage; as tariffs and other impediments to trade are removed and the market expands, the number of potential competitors increase, monopolistic and oligopolistic market structures are exposed to outside pressures, and inefficient firms are forced to become efficient. These results may lead to research and development, in turn enhancing economic growth. If there is reduction in production and marketing constraints this will result in expanded total exports and a broadening of the export base (to include non-traditional exports) that will exert important linkage effects to other sectors of the economy e.g. the establishment of contacts could stimulate other co-operative ventures in areas such as finance, insurance and transport and the resulting rapid industrialisation will be based on more efficient utilisation of resources.

The EU further argues that the widening of markets under EPAs will result in increased opportunities for exploiting economies of scale, with larger output leading to reductions in unit cost. If such reductions are passed on to consumers (as they would be in competitive markets) then there would be 'second round' gains from consumption and production effects as prices fall. Further, the removal of tariffs have beneficial effects on incentives and output since it readily makes available imported inputs needed for production activities with potential. This is normally the case if those imported inputs were previously subject to licensing.

Other EPA benefits promised to African countries are potential economic and cultural linkages that foster investment. These linkages will result from more contact, trust, networking and confidence in business relationships. Some of these benefits will be implicitly captured by the endogenous productivity effect, which is based on historical econometric data.

However, Southern African countries feel that liberalizing trade with the powerful EU would destroy their economies because the two are not at the same level of development. Whilst the EU enjoys a very high level of development (excellent infrastructure, developed institutions, sophisticated industry and finance systems) Southern African countries lack basic facilities to produce tradable goods at competitive levels. In theory, trade benefits arising from an FTA can only be derived if the following conditions are fulfilled:

- Partners must be at the same level of development.
- There must be perfect market competition.
- Resources, e.g. labour & capital must be fully employed.
- Tariffs must be the only trade restrictions between the partners.
- There must be balanced trade between the countries.
- Prices must reflect the opportunity costs of production.
- There must be free flow of labour and capital.

Virtually all the prerequisites stated above, do not exist in Southern African countries, indicating that these countries have no capacity to implement EPAs. For Zimbabwe, the situation is worse because the negotiation period coincides with a devastating economic crisis. The economy experienced sustained decline for a period of about ten years since 2000. The country experienced shortages of foreign currency, fuel and electricity, dramatic decline in production, firm closures, informalization of the economy, high unemployment rate (over 90 %), hyperinflation (over a million %) and an unprecedented HIV/Aids pandemic.

In view of the above, Southern African countries feel that any trade relationship with the EU must be based on non-reciprocity. The issue, according to them is not only about trade but also about development. However, the EU insisted on a new trade arrangement that does not violate the new WTO's principles, especially that of the Most Favoured Nation (MFN). Indeed the United States of America (USA) and some Latin American countries successfully challenged the EU for its preferential treatment of bananas imported from ACP countries. For the EU, this was an embarrassing defeat which strengthened its resolve to terminate the Lomé preferences. The EU further argued that the Lomé preferences had not brought any developmental benefits to Southern African countries. For instance, whilst trade between the EU and non-ACP countries in Latin America and Asia had increased, trade with ACP had declined, despite market preferential treatment. ACP exports to the EU had declined from 6.7 % in 1976 to 2.8% in 1999 (ACP – EU 2000: 6-7). Some Southern African countries could not meet the quotas guaranteed under the commodity protocols and to make matters worse, some countries would not provide sufficient account of development aid given to them. In response, Southern African countries argued that the

Lomé preferences could have brought development to the region if they were complemented by sufficient measures to remove supply-side constraints (mainly poor infrastructure and weak institutions) but unfortunately this was not the case. Zimbabwe is cited as an example which derived commercial success from the Lomé benefits because supply side constraints in this country were moderate compared to others in the region.

After 2 years of delay, negotiations for Economic Partnership Agreements (EPAs) finally started in 2004. These should have been concluded at the end of December 2007 but this was not to be because major problems and contradictions were encountered and these include unbalanced negotiation capacity, risk of revenue loss, adjustment costs as well as speed and level of the trade liberalization. In the year 2001 at the WTO Ministerial Conference in Doha (Qatar), the two partners managed to get WTO waiver to extend with the Lomé preferences to 2007.

### **Unbalanced negotiation capacity**

From the outset, it was clear that Southern African countries did not have the negotiation capacity that matches that of the EU. They lack qualified and experience personnel and to make matters worse, the few available experts are over-stretched since they are also needed in other negotiations forums like the WTO and regional integration. Of course the EU promised assistance but this was not enough considering the short time and the complex nature of the issues. Of more concern is that Southern African countries started negotiating EPAs from “the dark” because there was hardly any reliable data that would inform negotiators about the state of their own economies and the kind of impact EPAs would have on the different economic and social sectors. Again the EU helped by funding impact assessment studies but this was unfortunately this was “too little too late”. Nevertheless, the negotiation continued but they proved extremely challenging, in terms of both process and substance. The negotiating environment has not always been an easy or friendly one with the partners often being at odds with each other in both words and deeds. The major areas of contentions are:

#### ***Revenue loss***

Southern African countries worry that that they will lose significant national revenue as a result of cutting trade tariffs. These fears have been confirmed by impact assessment studies done in some countries. Small economies like Lesotho, derive about 70 % of the national revenue from trade tariffs and if they are cut, the country will face severe problems to meet its budgetary requirements.

#### ***Adjustment costs***

Southern African countries have consistently argued that EPAs will undermine industrial

development in the region because local firms are not able to compete with those in the EU. Therefore, they will lose markets at both local and international levels. The resulting company closures and scaling down of operations will obviously lead to more joblessness and increased poverty. Therefore, the Southern African countries initially took the position that EPAs must be accompanied by specific measures (e.g. financial assistance) needed to pay for adjustment costs e.g. those associated with redeploying resources to potentially competitive sectors. Further finding is need to address the supply side constraints. The EU and some economic experts have sought to allay these fears by arguing that trade liberalization will increase economic activity whose benefits will outweigh the adjustment costs. Nevertheless, Southern African countries remain unconvinced and have become suspicious and cynical of the EU. They feel disappointed that the EU is not committed to provide the EPA-related funding. On its part, the EU feels that funding granted under the EDF is enough to meet key developmental needs in the region.

### ***Regional integration***

Southern African states allege that EPA negotiations are divisive and undermine regional integration initiatives already in progress in Southern Africa. For instance, the EU signed a Trade, Development and Cooperation Agreement (TDCA) with South Africa before starting EPA negotiations with the rest of the Southern African countries. The trade relations component of the TDCA envisages the establishment of a Free Trade Area (FTA). This will create considerable problems for other Southern African countries considering that South Africa is a member of SACU and has signed the SADC trade protocol. The problems include trade diversion, deflation and loss of revenue. For instance, EU products entering the SA market at preferential or zero tariff rates may find their way (smuggled) into Zimbabwe and other regional countries. Of particular concern are those EU products that are subsidized under the EU Common Agricultural Policy (CAP). Besides the issue of South Africa, EPA negotiations have split Southern African countries into three; namely SADC, Eastern and Southern Africa (ESA) and the Least Developed Countries (LDC) group. Some original SADC founder members like Zimbabwe, Zambia and Malawi have opted to negotiate EPAs under the ESA configuration while some are have decided to negotiate under SADC. Further, LDC's like Mozambique, Lesotho, Angola, Zambia are not obliged to conclude EPAs because they can resort to the Everything but Arms Initiatives (EBA).

In order to moderate the negative effects EPAs will have on regional integration, SADC proposed aligning the review of the TDCA to the EPA negotiations so as to bring coherence and coordination to the process and to move towards a single trade regime between SADC and the EU (ECDPM 2006).

### ***EPA Alternatives***

Southern African countries generally feel frustrated that their proposals, especially those providing alternatives to EPAs are not taken seriously by the EU. For instance, in order to ensure that sufficient development occurs during EPA implementation, the Southern African countries proposed to link EPA and development. An essential clause in the ESA proposal is Article 19, 'Development Benchmarks and Review Clause' proposes a five-yearly review of the EPA to assess whether it is indeed achieving its objectives: development (to be laid out in specified development benchmarks), and regional integration (building the ESA regional market). The ESA countries would be able to define when they would consider themselves to be ready for the next stages of market opening to the EU and would be able to postpone those stages if development or regional integration does not progress as expected. The EC response to this proposal is dismissive saying that the review should be limited in scope and mainly aimed at accelerating or extending liberalisation.

The SADC further proposed a WTO compatible alternative, which would exempt Mozambique, Angola and Tanzania (LDCs) from liberalisation and contractualise the EBA arrangement. The ESA group made a similar proposal: "Binding and contractual arrangements shall be accorded to ESA LDCs as provided under the EBA arrangements." The EC's response was again dismissive and stated that "Should any country decide not to join the EPA market access provisions, their tariff treatment would then be based on the unilateral EU GSP regime (or EBA as long as they are LDCs)."<sup>31</sup> It seems the only viable option acceptable to the EU was the Generalised System of Preferences (GSP) treatment. Unfortunately, this would involve a loss of preferential access for many products currently benefiting from Cotonou trade preferences, which would worsen the competitiveness of most Southern African countries.

### ***Speed, scope and level of liberalization***

The EU and Southern African countries differ as regards the extent to which trade liberalisation should be carried out. Both partners refer to WTO for guidance but unfortunately the GATT's Article XXIV (substantially all trade) on free trade agreements is not well defined in terms of levels and speed of liberalisation (Bilal, Rampa 2006 22-32). As a result, the two partners interpret this Article differently with the EU believing that it requires that more than 90% of the trade between the two partners be liberalized. Southern African countries' interpretation is that at least 40 percent of products should be exempt from tariff liberalisation. For them, the EU's interpretation is

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<sup>3</sup> Proposed EC response to the SADC EPA Framework, Annex 2 in Communication from the Commission to the Council: Communication to modify the directives for the negotiations of economic partnership agreements with ACP countries and region, 28 November 2006.  
[http://eur-lex.europa.eu/LexUriServ/site/en/com/2006/com2006\\_0673en01.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/com/2006/com2006_0673en01.pdf)



extremely strict and will jeopardise livelihoods and development. In terms of the time frame for liberalization, the EU regards 10 years as 'reasonable'. Southern African countries feel that this is too short; a period of at least 25 years would be reasonable.

### ***The Interim EPAs***

Despite that they were not well-prepared, the Southern African countries signed the Interim EPAs (IEPAs) in December 2007. This is regarded as the stepping stone towards a full EPA. The IEPAs cover trade in goods only but what is important is that the WTO compatibility has been achieved. Zimbabwe, Madagascar, Mauritius, Seychelles, Zambia and the Comoros signed under the configuration of COMESA and Botswana, Lesotho, Mozambique, Namibia and Swaziland signed under SADC. By signing the interim EPAs, 99.5 % of Southern African exports to the EU are now exempt from duties and quotas (Bilal 2008: 1-3). South Africa continued to trade under the Trade and Development Corporation Agreement (TDCA) it signed with the EU earlier. In January 2008, the EU removed all tariffs and quotas on imports from EPA signatories except for sugar and rice.

Critics say the interim EPAs were finalized in a rush to beat the December 2007 deadline and as a result, Southern African countries did not get the best out of it. It seems the initial hypothesis that EPAs would undermine development and regional integration in Southern Africa was confirmed. For instance, Zimbabwe will lose about 48 % of its trade revenue during the first tranche of liberalization. The Seychelles will lose a whopping 99 %, Mauritius 21 % and Madagascar 42%. Each Southern Africa country signed a different EPA. Regional integration has been significantly undermined considering that countries in the same regional grouping (SADC) liberalised different baskets of products and thereby created new barriers to intra-regional trade. Negotiations for a full EPA, which should have been completed mid 2008 are still going on.

By signing the interim EPAs (which covers goods only), Southern African countries believe that WTO compatibility has been achieved and therefore there is no more need to negotiate further. However, the EU believes that the (good only) agreement is not sufficient; it wants further negotiations in the areas of services, government procurement, competition policy, investment, trade-related intellectual property rights (TRIPS) etc. Southern African countries are not keen to negotiate these issues because they feel that they do not have the necessary regulatory environment and relevant institutions in place and therefore do not have the capacity and ability to make informed decisions on these issues. They fear that they would endanger their much needed policy space to develop. Further, new generation trade issues would pose serious policy challenges as Southern African countries have no common policies in these areas.

### ***The power game***

A major problem facing Southern African countries is that their negotiating capacity does not match that of the EU. As a result, they often make agreements that may not be consistent with their development needs as the above examples have demonstrated. So why should these countries enter into EPA negotiations with the EU? Some civil society organizations have, throughout the EPA negotiations, campaigned for “No to EPAs” but received lukewarm response from Southern African governments. The problem is that virtually all the Southern African countries are economic and financially dependent on the EU and as a result, they fear opposing it, in case the support maybe withdrawn. Apparently the EU uses this fear to its advantage and can gain concessions even after applying minimum pressure. For example, the former Trade Commissioner Peter Mandelson in a speech in the European Parliament (19 October 2006), in the presence of several Ambassadors from Southern African countries expressed displeasure at the SADC’s lack of willingness to negotiate new issues. The EU went further to propose that progress on the new issues be made prerequisites for Southern African countries to gain concessions from the EU.

Of more concern however is that Southern African countries are reactive in their approach, rather than being pro-active. The EU apparently dictates the agenda and pursues the issues of its interest aggressively. This is done through analysis of its strategic needs, especially the medium and long term ones. Issues raised by Southern African countries on the other hand are usually not informed by through research and positions are often not underpinned by national interests. Governance issues also come into play especially considering that some key policy makers in some countries (e.g. Zimbabwe) are not selected through democratically accepted processes. The commitment to serve the interests of the people becomes questionable.

### ***Political Relations***

The inclusion of political dialogue in the EU ACP relations is one of the principal innovations of the Cotonou Agreement. The agreement sets out a number of general principles but without indication the practical terms and conditions of their implementation. Articles 8 and 9 of the Agreement stipulate that Parties to the Agreements must regularly engage in comprehensive political dialogue leading to commitments on both sides, including the respect of human rights. The inclusion of civil society as well economic and social actors in the Cotonou Agreement is a further new feature. The objective is to involve these actors in the definition of strategies and priorities which hitherto were the exclusive jurisdiction of governments. However, rhetoric has not matched practice. Both the EU and Southern African countries have not been forthcoming in embracing the views of the civil society in EPA negotiations (McKeon 2008).

The issue of political dialogue is viewed with suspicion by some Southern African countries, especially Zimbabwe, where issues of good governance and human rights have been controversial

for the past ten years. Since the year 2000, Zimbabwe human rights and governance record has been dismal. There have been clear cases of unlawful arrests, torture and prosecution of the political opposition. Election results have been alleged to manipulated to favour the ruling party. The EU responded to the crisis by invoking its powers granted under Article 96 of the Cotonou Agreement and imposed restricted sanctions mainly targeted at senior officials in the former ruling Party ZANU PF. For the affected people, the EU's measures are illegal and unjustified because the channels of political dialogue under the Cotonou Agreement were not exhausted. They further argue that the EU suffers from the "Big Brother" syndrome because it wants to impose its own interpretation of "Good governance" and seeks to punish weaker countries like Zimbabwe for standing up for their sovereign rights<sup>4</sup>.

For Zimbabwe's joint-ruling party, ZANU PF in particular, good governance is subjective and varies according to culture. Unfortunately this stance is not convincing. Issues of democracy, respect of human rights and rule of law are universal and therefore no government or political party should undermine them on the justification of culture.

## **Conclusions**

A conclusion drawn from this paper is that relations between the EU and Southern Africa has transformed from that of a colonial nature to a partnership one based on global principles. The period since 2000 is about shaping future relations and the nature of those relations depend on the outcome of the new partnership agreement being negotiated. So far, the EU is in the driving seat, being able to dictate the negotiation agenda and push through its positions. Due to its economic and financial power, the EU is also able to influence or manipulate the negotiating positions of Southern African countries. A major weakness about Southern African countries is that they do not have the negotiating power or capacity that matches that of the EU. Further, they take a reactive approach to the negotiations and the positions they reach are often not underpinned by national/regional strategic interests.

The resulting relations emanating from the current negotiations may be difficult to implement because future generations in Southern Africa may feel alienated from them. This is because some agreements (particularly some aspects of EPAs), may not be consistent with their development needs. However it is not too late yet to come up with a mutually benefiting relationship that can be respected by all.

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<sup>4</sup> The targeted EU sanctions coincided to Zimbabwe's land reform programme, where land was taken away from mostly white commercial farmers and handed over to the black majority.

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