SA, the EU and foreign aid - should we or should we not?

Recent news reports indicate that SA is taking a tough line with the EU in trade negotiations between the EU and SACU – the Southern Africa Customs Union. It seems as if there is unanimous political support for SA's stance: at a meeting of the parliamentary committee on trade & industry ALL the parties on the committee backed a tough stance by SA's negotiators. Media reports suggest that SA may be trying to break the SACU agreement up and is using these talks between SACU and the EU as a smokescreen for ding so.

There is a seldom highlighted aspect of the SACU agreement that I find particularly galling – the amount of money that SA pays to our four neighbouring countries. If that arrangement could be changed, it would be in SA's interest.

SA's Contribution

Here are the numbers. SA's GDP this financial year will come to around R2,36 trillion. SA is set to transfer R27 billion to its four neighbours in the Southern African Customs Union (SACU), namely to Botswana, Lesotho, Namibia and Swaziland. That is 1,15% of SA's GDP. Since 2005, when the SA economy really took off, payments to the four SACU counties amounted to just more than 1% of SA's GDP every year. It is making SA the biggest foreign donor in the world. (The official jargon is foreign development aid).

Why foreign donor? After all, the other four SACU countries also pay customs and contribute to the pool.

Well, SA makes up about 93% of the combined GDP of the five countries. It is reasonable to assume that its citizens and economic actors pay at least 93% of the customs duties. Yet of the total customs and excise duties of R31,4 billion due to be collected this year, the said amount of R27 billion will be transferred to the other four SACU countries. So SA pays more than 90% of the duties but keeps only about 15%. Looks like a donation to me. And by international standards it is a huge donation.

Foreign Aid – the Global Picture

The G8 countries have all committed themselves to a standard UN goal to spend 0,7% of their respective GDPs on foreign aid to poorer countries. Part of the plan is to enable poorer countries to reach the 8 MDGs (Millennium Development Goals) developed and ratified by the UN and all its members. Only five countries in the world has reached this target – and South Africa.

The five countries are The Netherlands, Luxemburg, Norway, Sweden and Denmark. Sweden is the highest foreign donor at 1,20% of its GDP.

South Africa spends 1.15% of GDP on payments to its neighbours.

The US spends about 0,2%, the UK 0,51%, Japan 0,25% and the average for the 22 richest countries in the world about 0,46% .

Customs Union

How does it work and how did it come about?

SA and its four neighbours pay customs duties on products imported into the five countries – the customs area. All the customs go into a pool and then gets distributed to the countries who form part of the customs pool. SA pay more than 90% of the pool and retains less than 15%.

This arrangement has been in place for donkeys' years and in the eighties was used by the NP government to foster closer relations with the customs union countries. After 1994 the customs agreement was renegotiated to make it more "developmental" and ensure that the poorer countries get a bigger part of the slice. The result was a huge rise in payments to the SACU countries.

In 2001 the total payments to SACU was as little as R8,2 bil, rising to R13,3bil in 2004 and R25 bil in 2006. This year, as already said, it will be R27 billion. More than a threefold increase in 8 years.

SA's 5% growth rate the last four years caused an import boom (also reflected in our current account deficit), thus customs income was much higher and thus more could be distributed to our neighbours.

The Harvard group

The Harvard panel that made 21 recommendations to the SA government on a range of issues, inter alia recommended that the SACU agreement should be re-negotiated with a clear distinction between revenue sharing and developmental aid elements and that the developmental aid is paid through the normal budget.

The problem is that these payments make up an extraordinary proportion of the income of the SACU countries (except Botswana). If they loose this income it will throw their national budgets into complete chaos. Naturally they do not like the idea of SA giving them less.

(Ab)Using the EU

Back to the EU negotiations. The EU wants a new trade agreement with the SACU countries, some SACU members are willing to sign it, but SA objects and refuses to sign. The EU is hugely upset. Their former Trade Commissioner Peter Mandelsohn was even here in SA lecturing us.

There is a suspicion that SA wants to break the SACU agreement and is using the EU negotiations as the excuse to do so. I do not know whether the suspicion is founded. But I would be very happy if the current agreement comes to and end and something more sensible and in line with SA's own interests emerge.