

European Commission

EU Relations with South Africa

Country Overview

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Summary

South Africa is an atypical developing country. With a per capita GDP of around US\$3,630 (2004, Atlas method) for a total population of approximately 46,8 million people, its most striking feature is a dual economy inherited from 50 years of apartheid, based along racial divides. Political, trade and cooperation relations with Europe are good.

The first general and free elections in April 1994 put an end to Apartheid and brought Mandela to power as President of a Government of National Unity. The second and third elections held in June 1999 and April 2004, confirmed the mandate for the ANC which in 2004 received 70 % of the vote, and demonstrated the progressive consolidation of democracy in the country.

Today South Africa has emerged from its isolation under the Apartheid and has become a key player in international relations and an active trading partner. Half of the external trade is with Western Europe. The country has put its macro-economic house in order thanks to sound public management and conservative budget policy. It has a relatively diversified economy, where agriculture, mining (diamonds, gold and others), secondary industry and a well-developed tertiary sector contribute to the overall wealth of the country, but average economic growth over the last twelve years has remained disappointingly slow. Another interesting feature of the country is its vibrant civil society and the major role played by the NGO sector.

Despite a huge potential, South Africa faces major challenges, in particular a wide gap in distribution of wealth and income, very high unemployment and slow economic growth, an alarming level of HIV/AIDS prevalence, poor vocational training and skills development, unresolved land distribution issues and high crime rate.

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Political situation

South Africa has made considerable progress in **social and economic transformation** since the end of the apartheid regime in 1994. The current Mbeki-led government is committed to pursuing and further developing this policy.

Although much remains to be done, South Africa has made great efforts towards institutionalising democracy. The achievements to date include:

- A multi-party political system,
- A functioning parliamentary democracy,

A prevailing sense of constitutionalism and of the rule of law,

Mechanisms of accountability, transparency and information in public administration,
An independent judiciary.

According to the Transparency International "Corruption Perceptions Index 2005", South Africa ranked 46th out of 159 countries with regards to corruption, with a score of 4.5 points out of ten.

The Country has done well in maintaining macroeconomic internal and external **stability** and Public expenditure has remained at an overall sustainable level, with a budget deficit that has varied between 1.4% and 2.3% of GDP since 2000. The exchange rate of the Rand has fluctuated widely over the past ten years, but the Reserve Bank is seeking to increase the external economic stability and to reduce the Rand's volatility. This policy has been successful in reducing inflation, which has come down to the target bracket of 3 to 6% p.a.

Economic growth in the ten years after the end of the Apartheid regime averaged 2.9% per annum, increased to 4.5% in 2004 and was estimated at 5.0% for 2005. The average is still below the level required for decisive economic take off. The Government has recently adopted a more interventionist economic policy of active job creation. A substantial but unmeasured informal sector operates along the formal economy.

Compared to other emerging markets, South Africa has experienced a low **investment** to GDP ratio (around 15.7%) over the last decade. Foreign direct investment also (approximately 3.2% of GDP) lags behind, reflecting the small South Africa market size, the fear by overseas investors of state interventions in employment rules and equity ownership, coupled with the economic and social impact of the HIV/AIDS pandemic, the volatility of the Rand, political situation in neighbouring Zimbabwe and high levels of crime.

Black Economic Empowerment is one of the key tools of the South African Government's policy of poverty alleviation and of redressing the inequalities of the past. Through voluntary and compulsory measures it aims at ensuring that private sector ownership and decision making power be shared with the previously excluded black community. To succeed, efforts need to be made to ensure that the benefits spread beyond the emerging black financial elite, to limit evasion (fronting), and to minimise the risk that it deters foreign investors.

Land reform is another key challenge that needs to be handled with caution and sensitivity, as under the apartheid more than 3,5 million people were forcefully removed between 1960 and 1983 alone. The government views land reform as part of a strategy to uplift the rural poor and give them access to the mainstream economy, while at the same time guaranteeing the constitutional protection of property rights. Land reform has three components: land redistribution to broaden the black majority's access to land; land restitution to restore land or provide alternative compensation to those dispossessed; and tenure reform to secure the right of people living on land owned by others. Speeding up the programme remains a government priority.

Although political violence has subsided drastically since the early 1990s, other violent **crime** rates (murder, rape etc) have risen steeply and are at unacceptably high levels. As violent crime not only affects the day to day live of thousands of South African, but also impacts negatively on tourism and foreign investment, the fight against crime is an important challenge to the government.

A major threat to stable social and economic development with higher economic growth comes from the **HIV/AIDS** pandemic. Estimates of the number of HIV infected people have grown from 3.75 million in 1999 to approximately 6 million in 2006. Without effective intervention it is estimated that 5-7 million South Africans will die of HIV related illnesses by 2010. Most victims come from the poorest parts of the population. The impact on the productive sector will be highly adverse: highly trained and experienced personnel are being lost within the productive sector, leading to reduced productivity and lower economic growth. The effect on the informal sector, particularly in rural areas, unless the pandemic is rolled back, is becoming even more catastrophic, as declining productivity aggravates poverty and social exclusion. The government decision in favour of a programme to deliver anti retroviral drugs is seen as important but delayed and implementation remains too slow.

In spite of these numerous challenges, the key issue in South Africa remains wide-spread **poverty**. The poverty rate is about 45% and does not seem to come down, thus over 20 million citizens live below the poverty line. Poverty is largely coupled with high and rising unemployment (currently about 40%) and widening income inequality (Gini coefficient 0.58). South Africa exemplifies the dual economy: considerable wealth in the hands of the economic actors and beneficiaries of the modern sector (including a growing black African middle class), but a large part of the population totally without access to this wealth.

Unless South Africa can provide an acceptable economic and social perspective to the large majority of its population in the medium term, increasing social tensions can be expected, endangering a stable political, social and economic development. A failure of the South African model would have incalculable consequences for the region and for Africa.

The regional and international framework

South Africa is a full member of the South African Customs Union (SACU) and the Southern African Development Community (SADC). As a qualified signatory to the Cotonou Agreement, South Africa is also a member of the ACP group. In 2006 the SADC-EPA countries have proposed that South Africa be included in the negotiations and in the future EPA. To that end, the complex linkages between the SADC EPA and the bilateral agreement (see below) between the EU and South Africa need to be addressed.

In recognition to its continental role South Africa became in 2002 the first chair of the African Union; it remains one of the driving forces behind NEPAD, a commitment of African leaders to take ownership and responsibility for the sustainable economic development of the continent. It is one of the most committed and supportive members of the African Union. South Africa has also been chosen in 2004 to host the Pan African Parliament. NEPAD has now become the official Socio-Economic programme of the African Union and South Africa continues to provide the bulk of the funds and of the capacity for this initiative. In 2006 the African peer Review of South Africa has been completed.

South Africa has been very active in Peace and Security on the African continent. President Mbeki has become involved in addressing crises and conflicts such as the ones in Liberia, DRC, Rwanda and Ivory Coast. South African troops are deployed in Peace Operations in DRC, Rwanda, and Darfur. From the budget for cooperation with South Africa, a contribution of close to 8 million Euro was made to the African Peace Facility.

Relations with the european union

South Africa is a key partner to the EU on the continental and global levels. It is the EU's main African trading nation. Political relations with the Community and its member states are well established and date back to times of support for the anti-apartheid struggle. In addition to strong Community involvement, 19 EU member states are represented in South Africa and most of them are implementing bilateral aid programmes.

4.1 the Trade, Development and Co-operation Agreement

This partnership is expressed in the Trade, Development and Co-operation Agreement (TDCA), which includes provisions for a Free Trade Area, financial assistance and development cooperation, cooperation in trade related issues, economic cooperation, social and cultural cooperation and political dialogue. The TDCA has entered fully into force on 1 May 2004, after ratification by all signatory parties. Prior to that, the provisions on trade and development co-operation had been provisionally applied from 1 January 2000. In 2004 a review of the TDCA has been carried out and has initiated a process that will lead to a revision of the agreement.

From the outset, both sides have agreed that the TDCA is still by and large a valid agreement and that a full overhaul is not required. Nevertheless, some of the provisions need to be updated and the revision is an opportunity to look at the entire agreement and update the language where required. A mandate for negotiating the revision has been adopted by the Council and negotiations will take place in the course of 2007. One of the main areas for revision is the trade liberalisation section of the Agreement. However, in view of the link with the SADC/EPA negotiations and South Africa's participation in them, it is highly probable that the TDCA trade talks will be suspended, pending the outcome of the EPA negotiations.

The TDCA also provides for a joint Cooperation Council to ensure the proper functioning and implementation of the Agreement and the dialogue between the parties. The Council has met six times so far; since the November 2004 meeting it is held at ministerial level.

A separate Science and Technology Agreement ensures, inter alia, the country's participation in the EU Framework Programmes. Wine & Spirits agreements have been signed on 28 January 2002. Negotiations on the Fisheries Agreement have been suspended by mutual agreement.

4.2 A Strategic Partnership

Following up on joint Conclusions and a report from the Cooperation Council, and on the Commission proposal of 28 June 2006 to Council and Parliament for a Strategic Partnership between South Africa and the EU, the Council has adopted on 17 October 2006 Conclusions inviting South Africa to establish a Strategic Partnership on the basis of the Commission proposal. The purpose is to propose a **comprehensive, coherent and coordinated long-term framework** for the EU's relations with South Africa that is mindful of South Africa's traumatic past, of its role as an anchor country in the region and of its unique position on the continent and on the global scene. The proposal also touches upon trade relations, development cooperation, economic, social, environmental and cultural cooperation, but is primarily a **political statement** on the importance of the relations between South Africa and the EU that should translate into deeper political dialogue, more common political positions and **joint political action** at the regional, African and global levels.

The November 2006 Joint Cooperation Council adopted a statement on the Strategic Partnership, calling for the establishment of a joint Action Plan to implement it. The Action Plan is currently being drafted.

4.3 Political Dialogue

Political dialogue between South Africa and the EU has been ongoing ever since the end of the Apartheid regime, through informal talks at the Heads of Mission level in Pretoria and through visits from politicians and senior officials both ways. Structured and formal political dialogue as mentioned in Article 4 of the TDCA has been launched in the margin of the June 2002 Cooperation Council. Political dialogue at senior officials' level took place in December 2003, in the margin of the fourth Cooperation Council and marked the start of high level dialogue. A ministerial troika meeting held on 2 April 2004 in Dublin confirmed the depth and quality of political exchanges between the two sides. Since November 2004 the Cooperation Council meets at ministerial level and is followed by a troika-meeting on political issues. On the agenda of Political Dialogue are African, European and international subjects. In the framework of the Strategic Partnership that is progressively being put in place, it is expected that over time political dialogue will evolve towards regular EU – South Africa Summit meetings.

4.4. Trade

The TDCA creates a free-trade area between SA and EU over an asymmetric, transitional period of 12 years. At the time of signature, the agreement covered about 90 % of bilateral trade between the EU and SA.

Since the provisional application of the Trade, Development and Co-operation Agreement on 1 January 2000, South Africa - EU trade has grown significantly in spite of the volatility of the Rand. The EU is South Africa's most important economic trade partner, accounting for over 40% of its imports and exports, as well as for 70% of foreign direct investment. South Africa is also the EU's largest trade partner in Africa.

4.5 Development Cooperation

South Africa has signed the Cotonou Agreement with a special status and without access to its financial instruments and preferential trade regime. Development aid is financed from Commission budget, and has been operational since 1995. The Regulation on Development Cooperation with South Africa earmarks an indicative amount of 885,5 million Euro for the 2000 to 2006 period. Financial commitment has been of the order of magnitude of EUR 125 to 130 million per annum. For the new 2007-2013 Financial Perspectives, the indicative amount earmarked for cooperation with South Africa is € 980 million. The European Development Bank also has an agreement with South Africa and provides loans for an average amount of € 120 million per annum. The EU is by far the most important donor; the Commission and Member States together provide about 70 % of total donor funds, which amount to about 1.3% of the government budget and 0.3 of GDP.

European development cooperation is geared to closely support the Government's macroeconomic policies. For the period 2007 – 2013 the Commission and ten Member States have jointly drafted a new Country Strategy Paper. It will formally be adopted in the first months of 2007 together with the Indicative Programme 2007 – 2013 for Community cooperation with South Africa. The programme will focus on economic growth and employment on the one hand and on delivery capacity for social services on the other. Secondary areas of cooperation will be regional integration, governance and promotion of economic, social and cultural interaction between South Africa and the EU.

Overall EPRD Financial Flow Pattern

In million Euro

Year	commitment	disbursement
1995	125.0	45.59
1996	129.6	29.12
1997	127.5	60.20
1998	127.5	71.98
1999	127.5	99.95
2000	123.5	105.0
2001	121.8	110.0
2002	127.0	117.0
2003	127.0	116.5
2004	131,5	113,5
2005	135,1	118.5
2006	122,8	105,5

Basic figures

South Africa Data Profile			
	2000	2004	2005
People			
Population, total	44.0 million	45.5 million	45.2 million
Population growth (annual %)	2.5	-0.7	-0.7
Life expectancy at birth, total (years)	47.8	44.6	..
Fertility rate, total (births per woman)	2.9	2.7	..
Mortality rate, infant (per 1,000 live births)	50.0	54.0	..
Mortality rate, under-5 (per 1,000)	63.0	67.0	..
Immunization, measles (% of children ages 12-23 months)	77.0	81.0	
Prevalence of HIV, total (% of population ages 15-49)	18.8
Primary completion rate, total (% of	89.0	..	

relevant age group)			
School enrolment, primary (% gross)	106.7
School enrolment, secondary (% gross)	84.9
School enrolment, tertiary (% gross)	14.4
Ratio of girls to boys in primary and secondary education (%)	100.8	..	
Literacy rate, adult total (% of people ages 15 and above)			82.4
Economy			
GNI, Atlas method (current US\$)	134.4 billion	167.2 billion	224.1 billion
GNI per capita, Atlas method (current US\$)	3,050.0	3,670.0	4,960.0
GDP (current US\$)	132.9 billion	214.7 billion	240.2 billion
GDP growth (annual %)	4.2	4.5	4.9
Inflation, GDP deflator (annual %)	8.8	5.6	5.0
Exports of goods and services (% of GDP)	27.9	26.6	26.6
Imports of goods and services (% of GDP)	24.9	22.4	22.4
Gross capital formation (% of GDP)	15.9	17.5	17.5
Merchandise trade (% of GDP)	44.9	48.0	49.3
Net barter terms of trade (2000 = 100)	100.0	119.7	..
Foreign direct investment, net inflows (BoP, current US\$)	969.0 million	585.0 million	..
Long-term debt (DOD, current US\$)	15.3 billion	20.6 billion	..
Present value of debt (% of GNI)	..	16.8	..
Official development assistance (current US\$)	487.5 million	617.3 million	..
Workers' remittances and compensation of employees	344.0 million	523.0 million	658.0 million
Source: World Development Indicators database, April 2006			

Future developments - A more strategic partnership

A number of recent and upcoming events have led to an in depth rethinking of South Africa-EU relations:

The assessment by South Africa of the achievements of Ten Years of Democracy,

The recent shift in South African economic policy from structural macro-economic stability combined with improved delivery of social services towards more interventionist promotion of economic growth focusing on employment,
The review of the bilateral agreement, the "Trade, Development and Cooperation Agreement" (TDCA),
The full entry into force of the TDCA on 1 May 2004, including of those provisions that were not provisionally applied,
The ongoing preparations of the Community Financial Perspectives 2007-2013,
The preparation of the post-2006 Country Strategy Paper.
The adoption by the Council and Parliament of the "European Consensus" on the overall EU Development Policy. And the more recently adopted proposal for a new EU Strategy for Africa, which considers South Africa as an anchor country on the continent.

The November 2004 Cooperation Council has adopted "Joint Conclusions", indicating the way forward and setting broad guidelines for developing this new relationship. Recommendations are for a holistic approach, integrating development cooperation, trade, political dialogue, cooperation in trade related, economic and other areas, into a mutually beneficial partnership benefiting both the poor, informal "second" economy of the country and the developed, industrialised "first" segment of South African economy and society. The new approach will focus increasingly on integrating South Africa into the world economy, on economic growth and on jobs with Poverty Alleviation as an overarching objective.

Implementation of these Joint Conclusions is being translated into the following steps:

A) A strategic partnership

The Commission has submitted to Council and Parliament a Communication on an EU - South Africa Strategic Partnership, the purpose of which is to propose a **comprehensive, coherent and coordinated long-term framework** for the EU's relations with South Africa that is mindful of South Africa's traumatic past, of its role as an anchor country in the region and of its unique position on the continent and on the global scene. The proposal also touches upon trade relations, development cooperation, economic, social, environmental and cultural cooperation, but is primarily a **political statement** on the importance of the relations between South Africa and the EU that should translate into deeper political dialogue, more common political positions and **joint political action** at the regional, African and global levels.

B) Revision of the text of the TDCA

From the outset, both sides have agreed that the TDCA is still by and large a valid agreement and that a full overhaul is not required. Nevertheless, some of the provisions need to be updated and the revision is an opportunity to look at the entire agreement and update the language where required. One of the main areas for revision obviously is the trade liberalisation section of the Agreement. A mandate for negotiating the revision is currently before Council.

C) Drafting of a new Country Strategy Paper and Indicative Programme

The Commission and nine Member States represented in Pretoria have jointly drafted a new Country Strategy and Indicative programme for development cooperation for the period 2007-2013. The draft is to be completed with a Commission-South Africa Indicative Programme for implementation and needs to be formally approved by the Commission, the Member States and the South African government.