In the period from 1993 to 2010 how have the EU and USA differed in their economic policies towards Southern African countries?

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ABSTRACT

This dissertation will seek to investigate the differences that exist between the EU and the US foreign economic policies towards Southern African states, during the period from 1993 to 2010. This period takes into account when the European Union was formed as a global economic and political machinery.

The key areas of focus will be the trade and investment policies; aid and loans. It is perceived that both the EU and the USA have different strategies, despite a few similarities.

The dissertation will also examine the impact of those foreign economic policies in the region, and make suggestions on alleviating them.

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INTRODUCTION

This dissertation will seek to examine how the EU and USA have differed in their economic policies towards Southern African countries in the period from 1993 to 2010. Being the largest economic power in the world, with a representation of half a billion people plus a GDP and trade flows surpassing those of the United States (Almunia, 2009), the EU appears to be a great competitor and at the same time a strong partner of the USA in this era of globalisation. This study will not focus on their partnership on the world stage, which will imply the tasks they do together, but rather their differing agendas on foreign economic policies, and how they go about them.

Why was the period of 1993 to 2010 chosen? Gabel (2010) states that the EU was created by the Maastricht Treaty, which entered into force on November 1, 1993. In spite of the fact that the European Community (EC) may have acted as a single actor with regard to trade, before the Maastricht Treaty, it is true to say that its role was more limited to the liberalisation of cross border trade amongst its members. But as a collective political entity with global influence and multilateral diplomatic capabilities, it is possible to say that the EU was further underpinned by the Maastricht Treaty. Thus, it is argued that the Maastricht Treaty, led to a commitment to reinforce the community's international position (Europa, 2007). Henceforth, from 1993 up until 2010, which is the year when this dissertation project was initiated, the sources of information from the various literature and online resources that will be used will undoubtedly reflect this period.

The EU currently has twenty seven member countries[1], which have transferred some of their sovereignty or lawmaking authority to it (Europa, 2010). Though it is possible to say that EU

[1] The members include Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

member states do not always tailor and address all their foreign economic policies collectively, especially given the fact that national interest always prevails, the majority of initiatives are perceived to be coordinated under the umbrella of the European Union. It has also been remarked by Smith (1999, p. 5) that analyzing foreign policymaking in the Union is complicated by an institutional division between frameworks for making economic policy and coordinating foreign policy. Hence, because of such disparity it is well possible that individual member state's agenda in one part of the world may conflict or differ from that of another member state, given the assumption that there might not be any unity at all within the Union.

However, the sphere of this discussion will equally cover an analysis of the EU and the USA's decision making procedures with regard to foreign economic policy making.
Johnson (2005) counts fourteen states that form the Southern African Development Community (SADC)[2]. Thus, specific examples from any of those countries will be used to substantiate some of the points raised.

Throughout this research, attention would be paid to the level of investment deployed in the region by both the EU and USA, while at the same time assessing their impact in the development of the region. The level of loan and aid given to the governments in the region, by those two actors would be compared whilst examining also some of the conditions attached to such deals and their impact on the locals.

Trade policies will also be examined, to discuss some of the restrictions imposed on the export of Southern African products to the EU and USA territories. These will be looked at in comparison to the flexible export of goods the EU and the USA still enjoy in the region under the free trade agreement.

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[2] These include Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

The academic analysis of the study will be underpinned by theory drawn from International Political Economy (IPE) and how the theory and practice of economic liberalism has an impact on Southern African States. O'Brien and Williams (2007, p.13) succinctly claim that IPE is often characterized as the site of a dispute between three contending paradigms or perspectives – economic nationalism/state power, liberalism, and Marxism/critical. The theoretical grounding of this work will equally address the relevance of the debate between these schools of thought, on the impact of economic liberalisation on developing states. Though it is true to say that Southern African states are not getting a reciprocal gesture from the West with regard to economic liberalisation.

Why was there a need for economic liberalisation? Historically, Ravenhill (2008, p.8) notes that raising tariffs on importers made trade difficult during the nineteenth century, though it helped domestic producers, it disadvantaged exporting states. Thus, it was about time to remove trade barriers to facilitate the movement of goods, across the globe.

At its most basic level, IPE is about how market pressures cause actors to constantly relocate productive activities in a global space, about how states try to bend those market forces when it hurts them and allow them to work when it helps, and about the essential unity of modern states and capitalist markets (Schwartz, 2010, p. 2). From Schwartz' s perception on the concept of IPE, we somehow get a feeling that foreign economic policies are the tools used by the major players to bend the market forces in order to advance their interests.

The first chapter of the dissertation will focus on *Trade and Investment*, where the trade policies and volume of investment between the EU and USA vis-à-vis Southern African states will be examined.

Sundaram and Arnim (2008) argue that the removal or reduction of subsidies and protection in the North would give farmers in Sub-Saharan Africa the opportunity to significantly increase their share of these markets. It is rather unequivocal for the North to retain a higher degree of protectionism whilst the South has got to dissolve his. Hypothetically, it seems as though the South is always cornered to open his doors wider to the North, whilst the North is always narrowing his opening.

Foreign direct investment has been an important component of development success stories around the world, but Africa and particularly southern African economies, has not been part of this story (Lederman and Xu, 2010). What are the reasons behind Southern Africa's misfortune in attracting Foreign Direct Investment (FDI)? Both Lederman and Xu agree that some of the potential culprits include ethnic polarisation, political instability, and civil wars among others.

The second chapter will focus on *Aid*. In this chapter**,** humanitarian aid directed in the region by both the EU and USA government will be examined. Moreover the hidden agenda of aid, often used as a pretext to advance national interest, will also be looked at more closely, by consulting a range of academic literature on the history of aid.

The EU countries have emphasized that foreign aid should also be used to reduce migration and the flow of refugees from the Middle East and Africa to Europe, by rewarding states that agree to receive refugees who have been refused entrance to EU countries (Degnbol-Martinussen and Engberg-Perderson, 2003, p.16). In the true sense of the word, aid is not the genuine help or support it was meant to be.

The USA's aid to Africa on the other hand is based on the theme of 'business as usual', as where the USA is concerned, low-income countries should export their way out of poverty (Sogge, 2002, p.44). It is true to say that the mineral rich region of Southern Africa, has often traded its natural resources at a mediocre price in exchange for aid. To make matters worst, Smith (1994, p.139-141) claims that over 80 percent of America's foreign aid returns directly through its exports. This means that the aid recipient countries are condemned to buy American exports.

The third chapter will be on *Loans*, where an assessment of the impact of developmental loans from the EU and USA government will be looked at; the conditions of repayment; their impact on the borrowing government and his people.

Since 2000, the European Investment Bank is known to have invested nearly €2.5 billion in Sub-Saharan Africa, with over a quarter of those investments being in the energy, oil and gas sectors (Bank Information Centre, 2010). Without such loans, Southern Africa's path to development is almost obsolete. The EIB supports economic development in the Highly Indebted Poor Countries (HIPC) and believes that governments should not be overburdened with debt but should have sufficient resources to invest in their countries (European Investment Bank, 2010). For Southern African countries with no resources to invest, more is needed in terms of debt cancellation, rather than giving up more of the last precious resources available as a guarantee or mean of repayment.

Whilst the EU's loans might be geared towards developing the infrastructure, the USA, does provide loans and guarantees to micro lenders to boost the growth of small and medium size enterprises (USAID, 2004). Through the U.S. Defense Security Cooperation Agency, the USA is known to provide military loans to enable Southern African states finance arms purchases (Volman, 2003).

There will also be a *Conclusion* section towards the end of the dissertation. This will provide a summary of findings and suggest areas of improvement to support Southern African states better.

Without the inflow of FDI, there is a real danger that Sub-Saharan Africa economies will fail to become internationally competitive and as a result, will remain at the margins of an increasingly integrated global economy (Bennell, 1997). To attract more FDI, Southern Africa has been held hostage by two precedence, the first is to invest in a well connected information and communication technologies infrastructure, which it cannot afford, and the second, providing a safe and secure social environment free from political instabilities amongst other ‘plagues’, which no state can predict the sustainability no matter how hard it tries.

CHAPTER 1

TRADE & INVESTMENT

This chapter will examine the trade and investment related policies and approaches by the EU and the USA towards Southern Africa, whilst also considering their differing policy making processes. The EU policy-making process can be divided into two stages: policy initiation (or agenda setting) and decision making (Hocking and McGuire, 2005, p. 177). Both Hocking and McGuire (2005, p. 177) explain that the policy initiation is delegated to the Commission through the member states' authority and traditional intergovernmental approaches to the EU which assert the primacy of states in the political process, and the decision-making stage is governed by the Council who then reads, negotiates and votes on Commission proposals.

Smith (1999, p. 1) highlights that the EU policymaking process has, at times, been marked by considerable differences among the member states, but nonetheless they have always been able to overcome their differences to reach agreement on a series of crucial decisions. It is believed that reaching consensus on foreign economic policies could at times arouse some disagreement amongst members, whose national interest is not well served. Nevertheless, it is true to say that in the end, the decision to embark on a policy route will be decided via a democratic voting system, where of course the will of the majority of MEPs[3] within the Council will prevail.

Mény, Muller and Quermonne (1996, p. 41) describe the Commission as a kind of bourse, acting as a market for policy ideas, where a bulk of lobbying effort is also directed by interest groups. Hence we could argue that most policies devised by the EU, are equally done so under the

[3] Member of European Parliament

influence of special interest groups who could be the multi national companies and prominent businessmen and women.

In the USA system on the other hand, policy-making is concentrated in congressional committees and subcommittees (Kesselman, Krieger and Joseph, 2010, p. 79). But Paarlberg (1995, p. 41) does point out that although foreign economic policymaking in most other industrial countries is dominated by politicians, former business leaders, or technocrats (including professional economists), U.S. foreign economic policymaking is often dominated by courts, judges, and lawyers. On this note, Paarlberg affirms that this is particularly true of trade policy and external environmental policy. Thus, how are decisions made? Many final U.S. trade policy actions are decided upon neither by the Congress nor by the president, but instead by quasi-judicial institutions operating to some extent apart from both branches (Paarlberg, 1995, p. 41). So what are those institutions? Some examples include the U.S. International Trade Commission, the U.S. Commerce Department and private industrial associations (Paarlberg, 1995, p. 41 – 44). This might seem rather frustrating for foreign governments to conceive that the USA government as a political entity does not determine its foreign economic policies.

Upon taking office, President Bill Clinton gave an executive order on January 25, 1993 to create a National Economic Council whose job is to coordinate the economic policy-making process with respect to domestic and international economic issues (Scott, 1998, p. 92). Though it is worth saying that Scott argues that the institutional idea was not quite as new as Clinton implied, given the fact that every president from Nixon onward had established some sort of Cabinet level economic council with a mandate to lead on international economic policy and to link it to the domestic economy.

Until recently, African exports to the EU had preferential access under the successive Lomé Conventions concluded by the EU and the group of African, Caribbean and Pacific (ACP) states

(Williams, 2004, p.14). The EU trade policies towards Southern Africa have been underpinned by a number of conventions and agreements. It is worth saying that the most recent Lomé Convention ran its course from 1989 to 1999 (Akandji-Kombé, 2001, p. 214). So what were the terms of the Lomé Conventions? Dent (1997, p. 200) claims that the provisions of the Lomé Conventions include a range of functions to assist the economic development process in the ACP countries.

The EU's assistance on economic development in Africa is generally by and large a positive policy geared towards alleviating poverty and bringing about economic reforms. But Dent (1997, p. 200) equally admits that the EU is the largest market for ACP exports taking around 40 per cent of total ACP export earnings. If the average African state has to pay the EU a levy of around 40 percent of its export earnings in the EU region, the notion of assistance acclaimed by the Lomé Convention is rather questionable. This means that the average African state only retains an estimate of 60 percent of gross earnings before working out its profit.

When the EU on the other hand, exports its goods in Africa, it is not subjected to loose 40 percent of earnings to none of the African states. This is clearly not a reciprocal trade policy. However, it is true to say that through the EU and African trade relations, we already sense a level of dependence. By dependence, we mean a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected (Dos Santos, 2003, p. 168).

Looking at the dependency theory, it is possible to argue that Africa's economic growth as a continent is subjected to the state of the EU's economy. In their analysis of the dependency theory between the EU and African states, Odion, Agbebaku and Kadiri (2010) do state that the economically weaker nations largely depend on stronger ones for their socio-economic survival. They blame Neocolonialism as the consequence of the above linkage through which Western capitalist are able to assume indirect influence on the African states and facilitate continued relations of imperialist exploitation of the peripheral states. So for how long will the African states be exploited for?

When Raoul Prebisch developed his version of dependency theory in the late 1950s, his initial explanation for the phenomenon was very straightforward: poor countries exported primary commodities to the rich countries that then manufactured products out of those commodities and sold them back to the poorer countries (Ferraro, 1996). Let us also not overlook the fact that such commodities are sold at a cheap price to the rich countries. Therefore, at least if raw materials from Southern Africa are exported in the EU, the sale price from the exporter nation should be reflective of the market value. Although Ferraro (1996) acknowledges that the "Value Added" by manufacturing a usable product always costs more than the primary products used to create those products, means that the poorer countries would never be earning enough from their export earnings to pay for their imports. If poorer Southern African states like Mozambique, Zambia, Botswana and many more, cannot to pay for their imports, there is a greater probability that they would always experience trade deficits, and be kept economically hostage by western economies, particularly the EU who so far happens to be their richer western partner.

However, in terms of favourable trade access to the European market, Lomé has been very important, in the sense that the Convention not only allows traditional primary exports of the former colonies into Europe duty-free, but it makes it possible for ACP countries to evade prohibitive tariff barriers (Keet, 1996). Though it may be perceived that Keet’s remarks on duty free export contradict Dent’s view on exploitation based on EU’s earnings on ACP exports, it has to be said that the idea behind the free trade according to Keet, is to ensure that European investors in ACP countries can freely export goods produced there back into Europe and prevent other foreign investors in the ACP from doing the same. This certainly makes sense for the EU, but what about the goods produced by the African states? Schmitz *et al* (2002, p. 18) remarked that the Lomé

Convention granted nonreciprocal free access to the EU markets for all goods except those that might interfere with domestic policies such as the CAP[4] (Common Agricultural Policy), and these included products like banana, sugar, rice and rum. Whilst the EU's farmers' products are protected from foreign competition, the farmers in Southern Africa may not have much of a choice.

The absence of reciprocity in trade relations between the EU and Southern African states, does undoubtedly make the concept of 'free trade' untenable. With South Africa's relatively developed industrial base, plus Lomé access to the EU's vast market, joint manufacturing ventures in Southern Africa could help to advance economic development and diversification across the whole region (Keet, 1996). But for those Southern African's countries with very little industrial base compared to South Africa, the terms of the Lomé Convention would need to be more comprehensive of the needs of local exporters.

It has to be recognized, that the Lomé convention would prove to be an area of contention between the EU and the USA, at the World Trade Organisation, as Patterson (2001) highlights "*the dispute involves the EU's regulatory regime for imported bananas, enacted in 1993.(1) Prior to 1992 each of the 12 EU member states had its own banana import regime. Germany operated on a free market system and had no import restrictions. The other 11 members imposed a 20% tariff, and 6 members (France, Italy, Portugal, Spain, Greece, and the UK) also applied quotas on bananas produced in Central and South America*". Although Patterson remarks that from July 1, 1993, an EU-wide banana trade regime was introduced, banana imports were still subject to one of two two-tier tariff rate quota systems based on their country of origin. However, the GATT[5] panel ruled in January 1994 that the EU regime was GATT-illegal and a framework agreement

[4] The Common Agricultural Policy (CAP) is enshrined in the EU treaties increase agricultural productivity thus to ensure a fair standard of living for agricultural producers; stabilise markets; assure availability of supplies; ensure reasonable prices to consumers (Europa, 2010).

[5] General Agreement on Tariffs and Trade

was negotiated, and this raised the non-ACP quota to 2.1 million tons in 1994 and to 2.2 million tons in 1995; lowered the in-quota tariff on Latin American bananas by 25% to ECU 75 per metric ton; and allocated specific export quotas to each of the 4 Latin American signatories (Patterson, 2001). This is clear evidence, that the Lomé Convention pitfalls were apprehended and felt by many, not only in Southern Africa, but indeed, even in the USA.

The Economic Partnership Agreement (EPA) is another EU initiative, which sought to create a Free Trade Area (FTA) between the EU and the African, Caribbean and Pacific (ACP) countries (Odion, Agbebaku and Kadiri, 2010). Odion, Agbebaku and Kadiri (2010) do state that this required ACP countries to eliminate tariffs on 90% of EU exports within a period of 10-12 years and open up their economy. In as much as EU exports in Southern African states may bring goods that the region may lack, the elimination of tariffs is bound to have a profound negative impact in those economies, as a significant proportion of income that was to be generated by a state's customs and excise, has been wiped out.

McDonald and Walmsley (2010) both agree the reluctance of the EU to fully liberalise trade in food and agriculture commodities results in a major reduction in the benefits for the Republic of South Africa without ameliorating substantively the adverse implications for other nations. How does the EU expect Southern African states to benefit from trade liberalization?

In his study of trade policies in Eastern and Southern Africa, Subramanian (2000, p. 27) claims that revenue is less likely to be affected by trade reform when the initial position is highly restrictive; when trade liberalization involves the tariffication and/or elimination of quotas, and elimination of exemptions, simplification, and reduction of tariff dispersion; when there are simultaneous reforms of customs and tax administration; and when trade liberalization is supported by macroeconomic policies that maintain external balance and avoid a concomitant real appreciation of the liberalizing country's currency. To concur with Subramanian, the revenues from trade will be more profitable if tariffs are removed on both sides.

Successful economic liberalization requires simultaneous political liberalization (Apter and Rosberg, 1994, p. 215). Most Southern African states have not made proof to date political liberalization. But is it imperative for democracy and economic liberalization to go hand in hand to reap the benefits of economic liberalization? The example of China as a world super power seems to indicate otherwise. A communist state, where freedom of expression is restrained, but yet with a liberalized economy, Apter and Rosberg's argument may not be too convincing.

In February 2000, the EU and ACP countries finalized a new agreement known as the Cotonou Agreement, which was destined to replace the Lomé Convention (Robbins and Ferris, 2003, p. 32). The Cotonou Agreement addressed all the benefits outlined in the Lomé Convention for ACP countries, while at the same time adhering to the World Trade Organisation (WTO) standards. So what are those WTO standards? In short, removing all obstacles to free trade by lowering tariffs and removing quotas and other quantitative restrictions as well as reducing the red tape (Dadkhah, 2009, p. 233) appear to be the hallmark of the WTO standards.

But Robbins and Ferris (2003, p. 34) remarked that the continued agricultural protectionism in the EU (especially regarding temperate produce, a sector in which Southern African countries are currently competitive) represents a continuing disagreement between the parties. It is obvious that the EU is not offering a good deal to the Southern African farmers, if anything, the EU under the Cotonou Agreement could have helped them capitalize in their production of temperate produce by offering them access in the EU market. Hence, this is not quite what the WTO standards seek to achieve.

It has to be said that Omamo and Grebmer (2005, p. 192) noticed some benefits of the Cotonou Agreement on the Southern African states, where for instance countries like Botswana, Namibia, Swaziland, and Zimbabwe, can export a specified tonnage of beef into the lucrative EU market paying only 8 percent duty. This seems like a very comprehensive and positive deal for Southern Africa, as paying 8 percent duty is by far better than being denied access in to the EU market . With regard to the sugar protocol of the agreement Omamo and Grebmer also do point out that several Southern African states like Malawi, Mauritius, Swaziland, Zambia, and Zimbabwe, have been granted preferential market access to the EU market. It has also been noted by them, that other provisions include granting preferential market access for grapes, of which Namibia is the main beneficiary.

With regard to the USA trade policies towards Southern Africa, in August, 2002, President Bush signed an African Growth and Opportunity Act (AGOA) geared towards trade and investment in Sub-Saharan Africa, as part of the Trade and Development Act of 2000 (Office of the United States Trade Representative, 2003, p. 7). Mattoo, Roy and Subramanian (2004) highlight that the Act aims broadly to improve economic policymaking in Africa, enabling countries to embrace globalisation, and to secure durable political and economic stability, and thus as an incentive for Africa to adopt these policy changes, the AGOA offers increased preferential access for African exports to the United States. This sounds more or less similar to EU’s policies in the region, though, the only difference is that the USA’s approach is specifically designed for the Sub-Saharan Africa.

However, in its annual report, the Office of the United States Trade Representative (2003, p. 8) notes that the total trade between the United States and the Sub-Saharan African region was nearly $24 billion in 2002, with U.S. exports of $6 billion and U.S. imports of $18 billion. Furthermore, the office has equally estimated that U.S. imports under AGOA were valued at $9 billion in 2002, a 10 percent increase from 2001. This is surely a trend in the right direction to boost both the USA and Southern African economies.

AGOA's medium-term benefits have been estimated at about US$100-140 million, an 8-11 per cent addition to current non-oil exports would have been nearly five times greater (US$540 million) if no restrictive conditions had been imposed on the terms of market access (Mattoo, Roy and Subramanian, 2004). We already sense that it is not all free market access as we were led to believe from the onset. So what are those restrictive conditions? The most important of these conditions are the rules of origin which African exporters of clothing must comply with to benefit from duty-free access (Mattoo, Roy and Subramanian, 2004). If the rules are proving difficult for Southern African states to export clothing into the USA market, then it simply means that the USA has not completely removed the barriers, but rather still applying a great deal of protectionism for its textile industry.

Looking at Table 1.1, it is clear that in 1999, the value of Sub-Saharan African total exports in the USA was $18.3 billion, which is the same and that of Europe also estimated at $18.3 billion. Could this explain some similarities in trade policies, or just mere coincidence? Not necessarily, as if we look at the share of the Sub-Saharan African exports to Europe for the same year, it is estimated at 37%, whereas the USA's is 22.9%. This certainly makes the EU Sub-Saharan Africa's biggest trading partner. But ironically, how do we explain the fact that the Sub-Saharan Africa exports less to the USA, compared with the EU, but yet the value of exports equates that of the EU? It is true that it is not about quantity but quality, but it is also possible to say that they get a better deal from the USA for less, than they do with the EU.

Table 1.1: Growth in Sub-Saharan African Exports, 1990–99[1]

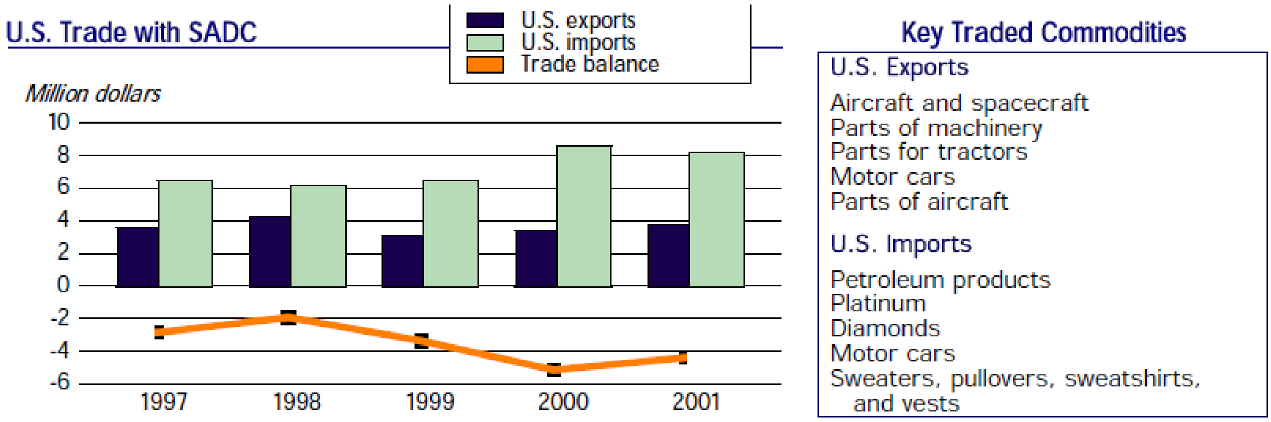
	Value		Rate of Growth[2]	Share	
	1990 (US billion)	1999 (US billion)	1990–99 (%)	1990 (%)	1999 (%)
Total exports *of which*	48.6	49.6	0.2	100.0	100.0
Europe	32.1	18.3	–2.5	47.5	37.0
United States	11.7	18.3	–0.3	24.0	22.9
Other OECD	3.5	2.5	–3.7	7.2	5.0
Africa	0.4	0.4	2.4	0.7	0.9
Developing countries	10.0	17.0	6.1	20.5	34.2
Non-oil exports *of which*					
Europe	14.2	14.5	0.3	55.8	54.3
United States	1.7	2.0	2.1	6.5	7.4
Other OECD	2.8	1.7	–5.4	10.9	6.2
Africa	0.3	0.4	4.0	1.2	1.7
Developing countries	6.5	8.1	2.5	25.6	30.4

[1]Excludes countries in the Southern Africa Customs Union
[2]Annual average
Source: World Bank

Adapted from Mattoo, Roy and Subramanian (2004)

Looking at the non-oil exports, the value of Sub-Saharan Africa's exports to Europe in 1999 was estimated at $14.5 billion, whilst the USA is a mere $2 billion. The value of EU's non-oil imports from Sub-Saharan Africa is over 7 times more than that of the USA. With the share of the non-oil exports to Europe being 54.3% for the year 1999, whilst the USA's is 7.4%, it means that the USA's imports from the region is predominantly, oil, and that explains why the two powers spend the same amount for buying goods in the region, but yet different goods, from which oil seems to be perceived as more expensive in value than agricultural products.

Figure 1.1



Source: U.S. International Trade Commission (2002)

From Fig 1.1, the USA imports in the year 2000 had increased to nearly $8.2 million and had decreased slightly to $8.1 million in 2001. It is possible to say that the USA trade with Southern Africa is somehow reciprocal to some extent, as in addition to buying petroleum products, the USA buys platinum, diamonds, motor cars, sweaters, pullovers, sweatshirts and vests, while the Southern African states buy from the USA, parts of machinery, parts for tractors, parts of aircraft, motor cars, aircraft and spacecraft.

On July 16, 2008, the U.S. Trade Representative Susan C. Schwab signed the very first Trade, Investment and Development Cooperation Agreement (TIDCA) with the Southern African Customs Union (SACU) in an official ceremony with SACU Trade Ministers from Botswana, Lesotho, Namibia, Swaziland and South Africa (Office of the United States Trade Representative, 2008). The Trade, Investment and Development Cooperation Agreement (TIDCA) appears to be a good opportunity to address some of the pitfalls from AGOA.

In her address to the Ministers, Ambassador Schwab said *“this important agreement will provide a framework for the United States and SACU to work together to create the building blocks that strengthen and deepen our trade ties and that could lead to a free trade agreement (FTA) in the long term. Before we address the issues of an FTA, we are using the new TIDCA to expand* *market access, strengthen the links between trade and economic development strategies, encourage greater foreign investment, and promote regional economic integration and growth."* (Office of the United States Trade Representative, 2008).

Helping Southern African countries work towards achieving all the privileges of the free trade agreement is undoubtedly a bold step by the USA government, as ultimately this will also send signals to other trading partners to grant Southern African states the same rights. But the question remains as to whether Southern Africa would ever be given unrestricted access into the USA market.

But in the following year, after Susan Schwab's promising declaration, Coffey (2009) highlights that US Trade Representative, Ron Kirk said that due to "differing views" between the US and African countries, the Obama administration will not revive talks on a free trade accord with these Southern African countries and will instead focus on implementing separate agreements to bolster economic ties. We do not exactly know what those differing views are, but Coffey notes that where the USA is concerned, in order for those Southern African states to get the full benefits of AGOA, their governments must remove barriers to trade among themselves and should enter into a full free trade agreement with the U.S.

To be fair to the Southern African states, they have already gone to some length of removing those barriers by establishing the Southern Africa Development Community (SADC) and the Southern African Customs Union (SACU), to facilitate trade amongst themselves, but it seems like even that may not be enough for the USA to give them a full free trade agreement. Could the USA be asking far too much from those Southern African states? Of course, what are all those separate agreements about from the Obama's administration? An educated guess would be that this could imply having some form of agreement for specific products within the region, or probably separate agreement with each state. But if one or both of the cited probabilities turns out to be true, then the future of AGOA is certainly in disarray and Southern African countries are being pushed further away by a superpower that has promised to take them through a road map to get to access the full benefits of free trade.

Where foreign direct investment (FDI) is concerned, the European Commission (2009) claims that in 2007, the foreign direct investment stocks the EU held in African countries amounted to EUR 146 billion, corresponding to 4.7 % of the EU's FDI stocks worldwide (see Table 1.2).

Table 1.2: EU-27 FDI stocks to/from Africa, 2007 (EUR million)

	Outward FDI stocks				Inward FDI stocks		
	in million EUR	as a % of total Africa	as % of total extra-EU-27		in million EUR	as a % from total Africa	as % of total extra-EU-27
Africa	**146 212**	**100%**	**4.7%**		**26 827**	**100%**	**1.2%**
of which:							
South Africa	44 089	30%	1.41%	South Africa	7 610	28%	0.33%
Nigeria	20 429	14%	0.65%	Nigeria	3 441	13%	0.15%
Morocco	14 611	10%	0.47%	Morocco	518	2%	0.02%
Egypt	11 629	8%	0.37%	Egypt	659	2%	0.03%
Main EU countries involved							
France	27 480	19%		France	3 366	13%	
United Kingd.	25 420	17%		United Kingd.	1 857	7%	
Netherlands*	9 293	6%		Sweden	1 303	5%	
Italy	5 008	3%		Italy	1 064	4%	

Source: European Commission (2009)

From Table 1.2, it is clear that thirty percent of EU stocks were invested in enterprises located in South Africa, and the second largest share was 14 % in Nigeria.

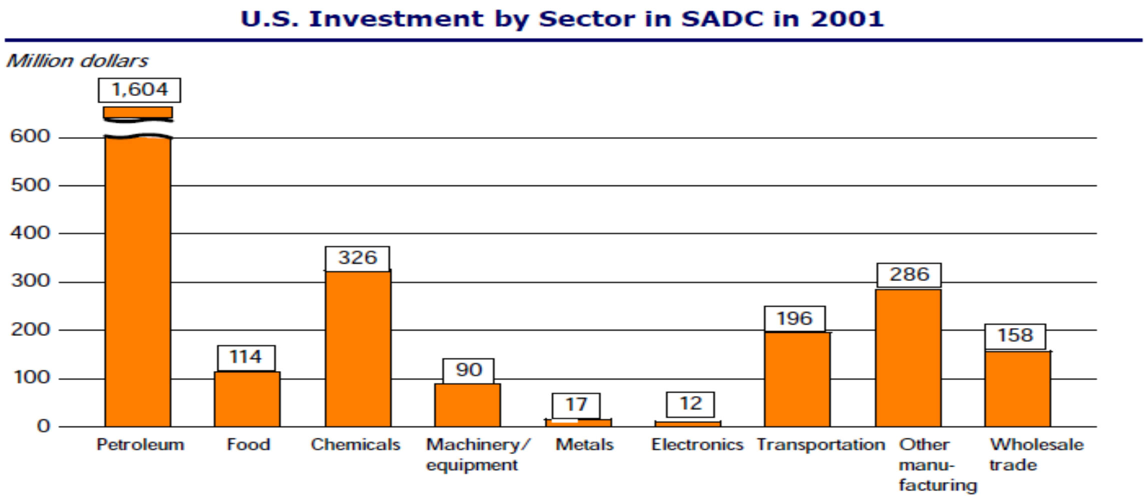
Foreign direct investment is said to be taking place when a foreign corporation buys at least a 10 percent shareholding in a domestic firm or undertakes a greenfield investment in a foreign country (Matjekana, 2002). South Africa being the most predominant recipient of EU's investment in the Southern African region, does highlight the fact that something needs to be done by other states in the region, to arouse the same sort of attention. But, it might clearly be not that straightforward, given the fact that South Africa has a long history of European settlers, a strong democracy, governance and member of the G20. Unfortunately, the same attributes could not be tied to Zimbabwe, Tanzania, Lesotho and others.

Blomström and Kokko (1997) cited by Medvedev (2006, p. 6) noted that the interaction between investment and trade, are seen as a concept of two different modes of reaching foreign markets whereby FDI is attracted to protected markets where it is cheaper to set up a subsidiary than pay the tariffs required to serve the market through exports (a practice referred to as "tariff-jumping" FDI). Henceforth, we could concur with Blomström and Kokko that FDI might surely be preferable to trade, and this partially may explain the EU's FDI flows in Southern Africa and other parts of the world where trade might prove costly.

When Jenkins and Thomas (2003) cited by Mwilima (2003) conducted interviews with 81 UK, Swiss and German firms to find out why they invested in the SADC region, 84 % claimed because of the *size of the local market*; 40% because of the *local raw materials*; 26% because of *personal reasons*; 21% *strategic reasons*, and 19% because of privatization. The Southern African region, being by far densely populated and encapsulating a range of minerals, does make it a profitable spot for EU investment.

Looking at Fig 1.2, below, after adding up the value of the USA's FDI stock in Southern Africa within each sector in 2001, we have reached a total of $2.8 billion, which is by far relatively smaller to that of the EU's stock value in South Africa alone (see Table 1.2).

Figure 1.2



Source: U.S. International Trade Commission (2002)

Hence, when compared with the EU, the USA is seen to invest much less in Southern Africa. This seems to indicate that the USA prefers trading with Southern Africa more than, invest. Or could we possibly argue that the USA does not find Southern Africa very conducive for FDI? Surely, if the EU has invested a great deal in the region, and has made substantial returns, it is believed that the USA could do the same.

Nnadozie and Osili (2004) highlight that although a number of African countries have undertaken economic and political reforms, this has not led to a significant expansion in US FDI to the region. Thus, the USA's stance on FDI towards Southern Africa, is a reflection of its approach towards Africa overall.

Some of the benefits that are known to be brought about by multinational corporations (MNCs) according to Nafziger (2006, p. 533) include capital gains, new technology, management skills, new products, increased efficiency and income. Given Southern Africa's level of development, it is evident that this may seem like the right recipe to accent to economic growth.

Livingstone and Belshaw (2002, p. 395) have also remarked that in the case of Angola and Mozambique, FDI brought about large net inflows relative to their GDP. It is therefore inevitable that the net inflows from FDI could equally consolidate the state's ability to fund local projects or other expenditures. Moss (2004) equally claims that there is some evidence that foreign investment can contribute to raising exports and integrating into global economic networks. However, it has to be said that the prospect of raising exports could only be beneficial to the host state to a greater extent if the goods produced have been processed by locally owned firms than foreign ones, as there is a high risk of capital flight.

Despite the benefits that may be brought about by FDI within the Southern African region, by the EU and the USA, Makola (2003) notes in his observation that foreign firms are often more efficient than smaller local firms and also they have the resources to attract workers and finance away from host firms, therefore the local industries are worried that the foreign countries will acquire monopsony control over the local resources. From Makola's view, it is possible to anticipate some of the risks that the transnational corporations (TNCs) may pose to the evolution of local businesses, given the fact that TNCs may have more robust technologies and provide better working conditions for their workers. If one of the state's main national economic objectives is to help local businesses grow, then having a mass influx of TNCs would not help.

Mwilima (2003) also warns of the impact on the balance of payments, where the trade deficit can be a real constraint for developing countries, if investors import more than they export, FDI can end up worsening the trade situation of the country. In as much as Mwilima's view may accurate, we need to conceive the fact that applying restrictions on investors' imports would only turn them away. But it has to be said that some level of balance must be stricken before any deal is finalised, where the host state could weigh the value of imports versus the TNC's potential contributions in the local economy.

Looking at the theoretical implications of FDI in Southern Africa, we still see traits of dependency for development, just like with trade. The dependency theory still vividly reflect the reality that without FDI from the EU and the USA, Southern Africa or even Africa in general, will not achieve significant development and sustainable economic growth. MNCs are in business to make profit and not for development (Tandon, 2002, cited by Adams, 2009) and on that basis Adams (2009) highlights that the dependency theory predicts that FDI inflows may slow growth and produce greater levels of income inequality. The inequality may also be reflected in the sense that western nations will always continue to enrich their economies at the expense of the less developed nations that they are exploiting through cheap labour.

Other scholars within the dependency theory literature focus on the process of “denationalization”, where foreign capital absorbs local assets (Jensen, 2000, p. 33). In as much as FDI may appear to be a catalyst for Southern African economies, it has to be recognized that when the majority of state owned vital public institutions from hospitals to telecommunication services are sold to the multinational corporations at a local price, the affordability of such services by the local population would greatly be impacted upon, as MNCs are there to make a profit. But the locals are also condemned to depend on the terms and conditions that the MNCs may set for such services, whether they are inconsiderate, and may at times be in conflict with the state’s national interests, people will have to accustom themselves to the situation.

In their work on the key concepts of international relations, Griffiths, O’Callaghan and Roach (2008, p. 71) argue that the dependency refers to exogenously imposed conditions whereby the exposure of Third World states to foreign direct investment, unequal trade agreements, interest payments on debt, and the exchange of raw materials for higher-priced manufactured goods creates structurally unequal relations between the core and the periphery. The relations between the developing world and the West, could therefore be perceived metaphorically in so many different ways, at times as those of the weak and mighty, often the poor and rich, and even possibly the boss and the worker. It seems like in every perception of the relationship, the developing world appear to be subservient and needy.

But if we move away from seeing the developing world as the dependant party from these relations, we would come to understand and appreciate the fact that the West is heavily reliant on the developing world for raw materials, as had it not been for the wealth of minerals available from some underdeveloped states, particularly in Africa, the West would not have enjoyed most aspects of the industrial development or revolution that it had endured to date. Thus, maybe if we see the relevance of the dependency theory in the relations between Southern Africa and the West, in such light, Southern Africa will cease to be a 'beggar' but rather an equal partner with full rights, respect and a great sense of sovereignty in all trade and investment deals.

The theoretical foundation for economic liberalization seems to be grounded in the massive wave of globalisation that attempts to force its way in all parts of the world. But the issue is, if the Third World countries are not benefiting a great deal from economic liberalization like the Western states, is there really a point in them opening their economies to an influx of financial drain? Rakner (2003, p. 26) considers whether there is a negative or positive correlation between political and economic liberalisation. In her remarks, Rakner notes the possibility that democratic systems could be better equipped to carry out economic reforms intended to secure growth than authoritarian systems. From Rakner's view, it could well be argued that the political liberalisation of a state may not necessarily alter the configuration of international political economic environment which has controlled by the powerful nations that will always seek to put their interests first.

Ironically, when Odekon (2005) does state that the "*economic theory promoting economic liberalization (rooted in neoliberal economic theory) is based on the assumption that a free-market economy is superior to any other economic structure in that it almost automatically produces allocative efficiency and promotes growth and development",* we get a sense that all parties involved should benefit from it. But in reality, it is the MNCs that benefit from privatization and Western governments from free trade.

Berdal and Serrano (2002, p.40) recognize such inequalities when they observe that the neoclassical economic theory makes no claims about the distribution of the gains from economic liberalization. There is an obvious uneven distribution of gains amongst the free traders.

For liberalism to function, Webber (2005, p. 107) suggests that it must have no credible external rivals, in other words, it must be free of contradictions, both internally and externally. As there seems to be quite a number of negativities associated with economic liberalism internally, it is possible to agree with Webber that liberalism is not working as well as it should. Thus, the neoliberals may have clearly misled the Third World on the benefits of economic liberalisation.

While it is clear that this chapter has demonstrated that the USA does seem to favour FDI over trade in Southern Africa, the EU has been rather more opportunistic by indulging in maximizing its benefits from both FDI and trade in the region. The next chapter however, will seek to investigate the issue of aid, and how it has been used to drive the donor’s political and economic motives.

CHAPTER 2

AID

This chapter will attempt to analyse how aid is used by both the EU and the USA, as part of their foreign economic policies. Before commencing our analysis, we would first of all try to consolidate our understanding of aid. When questioning what is aid? Healey (1971, p. 1) observes that it is an ambiguous word and there is no common agreement on its definition and hence its measurement. To concur with Healey, different individuals and organisations may have their own conception of aid. As Healey (1971, p. 1) does point out that the Development Assistance Committee of OECD[6], conceives aid as the 'flow of long-term financial resources to less developed countries and multilateral agencies' and this includes both official flows and private investment, private lending and export credits. Putting the OECD's definition and Healy's conception into prospective, it is true to say that aid in some way does not only include providing assistance to the recipient, but also generating a profit in return for the donor.

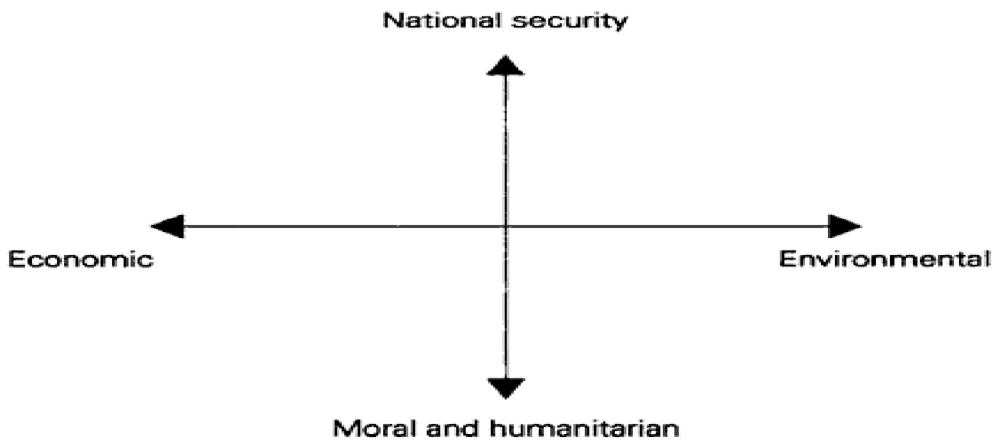
In the public eye and the media, aid is associated with 'development', 'solidarity' and 'humanitarian' causes (Tandon, 2008, p. 1). But even Tandon concurs with Healey that not all aid goes for these causes, and much that passes as development or humanitarian may indeed have little legitimate claim to be either. If it is true that much of the humanitarian or development aid is not what it seems, then the definition of aid as 'help' or 'support' as described in the Cambridge Advanced Learner's Dictionary (2010) is not sustainable.

So why is aid an important part of a government's foreign economic policies? The answer is simple, as according to Skålnes (2003, p. 27), foreign aid allocations are part of a government's

[6] Organisation for Economic Cooperation and Development

budget, and hence, government officials generally have greater control over the channeling of aid than over investment and trade flows. Henceforth, the idea that aid could be used as a carrot to stimulate trade deals and foreign direct investment contracts in bilateral relations amongst states, is hardly surprising.

Figure 2.1: Main motives for giving developmental assistance



Adapted from Degnbol-Martinussen and Engberg-Pedersen (2005, p. 17).

Degnbol-Martinussen and Engberg-Pedersen (2005, p. 17) have gone in greater depth by highlighting the main motives of developmental assistance (fig 2.1) which national security, environmental, economic, moral and humanitarian. In the true sense of the terms ‘moral and humanitarian’, we still perceive a genuine assistance with no preconditions, in times of natural disasters. Whereas the other motives (economic, environmental and national security) are mainly driven by financial interests.

Where the aid allocation decision making is concerned within the EU, Orjiako (2001, p. 17) observes that process is not like the quick dispensing of loans of the IMF/World Bank group, as it passes through a complex maze of processes involving protracted project identification, appraisals, financing proposals, extensive bilateral negotiations and agreements, contract tenders and awards, projects monitoring, evaluations, technical and financial execution. Some may argue that such an approach for allocating aid might seem rather grilling for the developing state in need, but it is also worth saying that perhaps such exercises are not carried out in vain, and in most cases it translates that the donor seeks something in return.

The EU is the world's largest contributor to development aid, and it has invested billions in the development of Southern Africa over the last several decades (Baregu and Landsberg, 2003, p. 305). Baregu and Landsberg have also estimated that the EU contributes around 0.51 percent of its gross national product to development aid in Southern Africa, compared to a 0.15 percent contribution by the USA. The positive impact of development aid in a less developed part of the world like Southern African, cannot be under estimated, though at times this may exacerbate the dependency on aid, but if used in a proactive manner, the trend could be broken.

From the year 2002 to 2007, the EU donated € 101 million in exclusive grant form to the SADC region, where 35%-45% have been allocated for regional integration and trade; 35%-45% for transport and communications; and up to 20% for non-focal areas (Europa, 2010). Given the poor infrastructure in the region, a grant is essential to render the transportation network conducive for trade. As this will benefit the EU imports and exports transactions, whilst at the same time help the local population.

Gebrewold (2007, p. 64 – 65) notes that in May 2006, the EU signed an agreement for €18 million for the modernisation of the SADC customs in preparation for a SADC customs Union by 2010. The benefits of a modernised Southern African Customs Union (SACU) are inevitably the facilitation of the trade administration, which again are perceived to be of mutual interests to the states and main trading partners (the EU).

In May 2008, the EU announced the elaboration, jointly with ACP regions, which include Southern Africa, of regional aid-for-trade packages to support the ACP countries regional integration agendas by providing a co-ordinated and increased EU financial response (OECD[7] and WTO[8], 2009). The aid-for-trade package given by the EU to Southern African states could not come at a better time. But by its definition, states in the region, would be able to integrate into the multilateral trading system and use trade more effectively to reduce poverty. Though the cynics may argue that the reduction of poverty may not be substantial, we need to recognize that the EU allocated €1.78 billion in 2008 (OECD and WTO, 2009) for its aid-for-trade package to the ACP regions, and it is estimated that if the recipient states in Southern Africa used their share sensibly to pay for imports and invest in resources geared towards alleviating poverty, maybe a lot of those states will not be in the predicament they find themselves in today.

In Zimbabwe, the EU is also known to have funded NGOs to influence and improve the Governance performance and also to assist several agencies of the United Nations, for example the UNDP in strengthening the National Parliament in Zimbabwe (Plänitz, 2010, p. 30). Plänitz goes on further to commend the positive impact of such EU policies, by noting its success in the formation of the Government of National Unity with the Prime Minister Morgan Tsvangirai. If the EU aid has made such a difference in Zimbabwe’s governance, though not perfect by far, but workable, it is plausible that if such efforts are being further propagated across the region, Southern Africa will not just be a good business partner to the EU, but also a democratic environment where the will of the people are upheld.

In their second report, during their 2010 – 2011 session, the European Scrutiny Committee highlighted an important EU initiative introduced in April 2009 in response to the financial crisis, the ad hoc Vulnerability Flex mechanism, that mobilised up to €500 million to Africa Caribbean and Pacific (ACP) countries, of which €161 million has been paid out to date (House of Commons, 2010, p. 97). The report also highlights that an additional €1 billion EU Food Facility (agreed in

[7] Organisation for Economic Co-operation and Development

[8] World Trade Organisation

December 2008; expiring in 2010) had allocated over €837 million by the end of 2009, with a range of providers able to deliver food aid under the Facility. The world financial crisis has certainly had a global impact, and for the Southern African states as part of the ACP, to be supported with food aid and ad hoc financial support, irrespective of the size of the EU's envelope, is a positive and significant step towards ensuring that those economies remain afloat.

However, Abbas and Niyiragira (2009, p. 111) point out that the EU is insidiously transforming official development assistance (ODA) into an instrument for trade liberalisation under the disguise of 'aid for trade' in line with its neoliberal agenda. The EU's hidden agenda on aid for trade could be perceived to be benefiting the EU's trade primarily, as well as offering some level of assistance to the Southern African states. But Neubauer (2009, p. 13) gives a more poignant reason for the EU's aid, as despite the need for African resources and agrarian products, Europe has an ethical duty because of its history and its stand in for humanity. The wounds of slavery and imperialism may have been forgotten by the former European colonies, but the scars still run deep. Some may argue that Africa has been impoverished for the sake of supplying raw materials to Europe, during the time of industrialization. Hence, it is possible to argue that if slavery and imperialism did not occur, Africa will not be aid dependent as it is now.

The EU is also known to provide prevalent humanitarian aid in the Southern African region, especially in eastern DRC where the European Commission has funded 35 health zones that provide access to primary care services for 2.5 million people (European Commission, 2010). In addition, the European Commission also states that over 450,000 children were vaccinated against measles and over 122,500 people provided with improved access to clean water. Despite the special interests that the EU may have in this enormously rich country blessed with mineral reserves for copper, diamonds and coltan, with an estimated value of £175 billion over the next twenty five years according to (Pflanz, 2007), it is true to say that the EU could turn their back away from the recurring tragedies in Eastern DRC.

Humanitarian aid is supposed to be a genuine support given to a nation in need with no string attached, but Versluys (2008) sees it as a political tool used by the EU. In her analysis of the EU humanitarian aid, Versluys warns that the creation of the European Commission Office for Humanitarian Aid (ECHO) in 1992 has to be seen in light of the post-Cold War context which opened a window of opportunity for the Union to assume a more prominent international role with other than strictly military means. To concur with Versluys, it is evident that if the EU is able to gain and exercise political influence in a region that it has provided humanitarian aid to, then there is a possibility to realise trade ambitions and solidify good deals on foreign direct investment.

As Baregu and Landsberg (2003, p. 305) recognize that although the EU remains Southern Africa's largest donor and continues to spend large sums on development aid, there is growing concern among EU member states that this money is being wasted and that aid has not achieved its aims. Though we still face challenges to ensure that the aid given is achieving its aims, reducing the aid amount could hold back Southern African states further in their development and hamper the EU's economic objectives when over powered by China, that has become of late a strong trading partner to Southern Africa and gradually muscling its way in areas of Africa where the EU was once known to exercise a high degree of influence.

With regard to the aid allocation process of the USA, Lancaster (2000, p.36) notes that the budgetary process for foreign aid is a long and complex one, commencing roughly a year and a half before the beginning of the fiscal year in which the budget is spent. The USA aid allocation decision making, appears to be based on a well thought out rationale by members of Congress, hence during that process which Lancaster claims that it could even be prolonged further when Congress fails to pass the bill before the beginning of the fiscal year, an investigation of the economic benefits likely to arouse from the aid might be evident. Just imagine a scenario, where

Congress refuses to pass the appropriation of a foreign aid, what could be the possible reasons, other than the USA's interests not being served?

Since it was created in 1961, the USAID has been the principal bilateral aid agency of the U.S. government, responsible for shaping policies, proposing budgets, making allocative decisions, and managing a worldwide foreign-aid program (Lancaster, 1999, p. 101). Over the years, the USAID is also perceived to have played a pivotal role in shaping the USA foreign policies, as well as foreign government domestic policies by rendering them more inclined to satisfy USA's interests.

In their 109th second congress session on November 17, 2005, the United States Senate Committee on Foreign Relations (2005, p. 16) states that since 1998, USAID has viewed the Common Market for Eastern and Southern Africa (COMESA[9]) group as a key development partner, providing approximately $25 million in assistance to support capacity building for COMESA in the areas of (1) trade and institutional strengthening and (2) conflict prevention, mitigation and response. Such a donation is perceived to foster trade ties between the US and its Eastern and Southern African partners, and at the same time geared towards providing a conflict free zone, conducive for investment.

The US uses aid to achieve its wider political and economic objectives (Murphy and Levidow, 2006, p. 153). Critics also pointed out that US food aid subsidises US agriculture and that this type of relief aid is bad practice because it disrupts local markets (Zerbe, 2004, cited by Murphy and Levidow, 2006, p. 153).

Anderson (2010) claims that up to 15 million people in six countries in Southern Africa are currently facing famine and hence, aid agencies desperately need assistance to source and

[9] This is a group of 20 African nations which agree to promote integration through trade, natural resource and human development for the benefit of their respective populations.

deliver food, but the US donation of 500,000 tonnes of maize has been rejected by Zambia, and only accepted with reluctance by the other nations. The reason for such a move, by Zambia, according to Anderson, is the possible effects that the US Genetically Modified (GM) grain could unleash on African agriculture, economies and health, henceforth, there is increasing suspicion that US food donations are being used as a tool to force GM on to the African market. Some may call Zambia's reaction naïve and preposterous, as is it right for a state to deprive its people from food aid that it so badly needs? Of course not, but if that means the price to pay is the loss of business for local farmers, then the agricultural sector would be badly hit, then the appropriate response would be to say to the USA, 'thanks, but, no thanks!'.

Sharma (2002) cited by Shah (2005) was right when he said that food aid has become a commercial enterprise. An enterprise that is meant to give the locals an appetite for similar donor's products, in order for the donor country to boost its agricultural exports in the region. This theory has been further explained by Sharma when he highlights the most blatantly anti-humanitarian act, seen as morally repugnant, the decision of the United States Agency for International Development (USAID) to offer US $50 million in food aid to famine-stricken Zimbabwe provided that it is used to purchase genetically modified maize. Is it not ironic, that a country like Zimbabwe, which possesses the land for farming, should import maize from the USA? If it was a genuine humanitarian aid, without the USA's economic interest attached, Zimbabwe could have been best helped with the provision of farming logistics rather than a forced purchase of genetically modified food.

It has been observed by Niyiragira (2010) that close to 80% of the USAID contracts and grants go directly to American firms, in addition to that, the foreign assistance programmes have helped create major markets for agricultural goods, created new markets for American industrial exports, and [have] meant hundreds of thousands of jobs for Americans. Who would have thought that the USAID could be used to boost employment for USA citizens back home?

Providing military aid to Rwanda, has also been a strategy used by the USA to get its hands on the vast minerals of the DRC (Chossudovsky, 2003). Chossudovsky claims that the Rwanda genocide was a meticulously staged act by the USA in order to destabilize the once French and Belgian strong dominance in the region, with the aim of equipping Rwandese and Ugandan rebels to oust President Mobutu's regime in order to gain access to the the extensive mining resources of Eastern and Southern Zaire including strategic reserves of cobalt which are of crucial importance for the US defence industry. Call this act immoral, unrighteous, cruel, barbaric, and use all the atrocious adjectives you could think of, but if Chossudovsky is right, this goes to show to what length the USA will go to give military aid in order to boost its economy.

Kayaya (1997) cited by Chossudovsky (2003) states that "*during the civil war several months before the downfall of Mobutu, Laurent Desire Kabila based in Goma, Eastern Zaire had renegotiated the mining contracts with several US and British mining companies including American Mineral Fields (AMF), a company headquartered in President Bill Clinton's hometown of Hope, Arkansas*". Given the size of the mineral reserves in the DRC, it is possible to estimate that mining contracts could be worth hundreds of millions of dollars destined to benefit the American and the British.

Berrigan, Hartung and Heffel (2005) claim that the USA military aid to Angola, is on the rise, given the fact that Angola has huge oil reserves, providing the United States with more oil than Kuwait, and despite pumping more than a million barrels a day, the country's oil wealth does not trickle down. This seems like a good place for the USA to do business, but, could we also argue that the USA may want to arm and use Angola to exercise a strong American influence in the region? There is no doubt that the USA dependence on foreign oil has been worst than an addiction, that the USA government would do anything to satisfy. Hence if arming Angola in the best possible way will secure stability in a country previously plagued by civil war for nearly two decades which the USA is alleged to have fuelled during the cold war to fight the Soviet influence according to Cox, Falconer and Stackhouse (2009, p. 188), than military aid is a price the USA is willing to pay to protect its interests.

In 1997, Devarajan, Dollar and Holmgren (2001, p. 309) remarked that the United States was cautious, slow, reluctant or unable to make contributions in support for sectoral programs like capacity building for private sector development. Could it be argued that probably Tanzania's natural resources may not be of great interest to the USA, hence the reasons for such resentment in the volume of aid? When the U.S. pledged in February 2003 to devote $10 billion to fight HIV/AIDS in Africa, within days, they announced that general development assistance for Kenya, Uganda and Tanzania would be cut drastically (Stock, 2004, p. 453). Stock criticizes the notion that what has been given with one hand, was being taken away with the other.

But, let us stop for a minute and ask ourselves why is the USA spending billions of dollars to fight the HIV/AIDS epidemic in Africa? Zeilig (2008) highlights that the funds are used to purchase life-saving anti-retrovirals (ARV) from large US pharmaceutical corporations that make massive profits in the process. So US foreign aid to combat HIV is making vast profits for US firms, claims Zeilig. Thus it does not take rocket science to know that the money donated for HIV/AIDS is going back into the USA's economy with added profit on the top.

Despite the legality of compulsory licensing and parallel imports, and despite the public health emergency enveloping much of the developing world, the U.S. has actively opposed developing country efforts to implement compulsory licensing, parallel imports, or other measures to make life-saving HIV/AIDS drugs more affordable and available in their countries (Weissman, 1999). If the USA refuses to grant Southern African states the compulsory licence to develop their own version of the HIV/AIDS drugs, then the developing world would forever be condemned to buy the drugs from the USA from the aid funds that they are given. This probably explains that the USA perceives the HIV/AIDS epidemic in Africa as a way to make assured profits in the name of charity.

According to Weissman (1999) South Africa tried to defy the USA on the compulsory licensing issue, by making provisions on its Medicines Act that would help the country make essential medicines more accessible and affordable, but as a result, Washington had undertaken a massive bullying effort to get South Africa to repeal such provisions. Weissman notes that a report from the State Department stated, "All relevant agencies of the U.S. government-the Department of State together with the Department of Commerce, its U.S. Patent and Trademark Office, the Office of the United States Trade Representative, the National Security Council and the Office of the Vice President-have been engaged in an assiduous, concerted campaign to persuade the government of South Africa to withdraw or modify" the Medicines Act provisions that give the government the authority to pursue compulsory licensing and parallel import policies.

It is clear that any Southern African state that dares to challenge the USA on this issue will face the diplomatic wrath from quite a significant number of U.S. government agencies, and possibly even sanctions. As this is the state of play, should Southern African states say no to HIV/AIDS donations from the USA, as clearly, the money is not helping the majority of people suffering from the disease. Nevertheless, from a trade point of view, it would not be so bad, if the USA could consider exchanging particular types of products for HIV/AIDS drugs at least that would be a fair trade.

But Miller (2005) also recognizes the fact that it is not only the USA playing this game of claiming to support efforts to tackle disease and HIV/AIDS in Africa, as the world's major pharmaceutical corporations are known to have directed the positions of the US, European and Japanese governments, forcing developing country governments to sign up to an agreement against their interests. The agreement referred to according to McCoy (2005) cited by Miller (2005), is the

Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), established at the WTO ten years ago, which ensured that northern knowledge-based industries have strengthened their grip on the global control of knowledge and political power to protect their profits.

Theoretically, the dependency theory is still very much alive and active where aid to the poorest nations is concerned. As it has been expressed by Chabal and Daloz (1999, p. 110) the question of dependence has long been at the heart of the analysis of Africa's economic predicament, even if the arguments of underdevelopment and dependency theory no longer carry the same conviction. Africa has always relied on the West for knowledge and skills in very specific domains where it lacked logistics and resources to properly train its intellectual workforce.

Where economics are concerned, even Kendall (2010, p. 269 - 270) recognizes its rapport with aid, when she asserts that "*dependency theory had to be expanded to encompass transnational economic linkages that affect developing countries, including foreign aid, foreign trade, foreign direct investment and foreign loans".* Can Southern African states put a stop to this aid dependency? The United Nations Economic Commission for Africa (2010) argues that in these times of financial crisis, African governments may only diminish the high aid dependency if they increase their domestic revenues. But how could they increase their domestic revenues if they have to rely on the same aid donors for foreign investment and favourable trade deals? It seems like a never ending dependency.

Dependency is also maintained by the Third World's reliance on the West for aid, and despite appearances, aid to the Third World does not come cheaply as interest charges or Western factories have to be paid for (Frank, 2003). Through Frank's perception, it seems as though, in such dependency, the donor must get something in return, although in some cases their return on 'investment' could be ten times more than what they have actually spent. It is believed that the more Western nations continue to enrich themselves through such means, the more they will try to promote aid at all costs to Third World nations where it is felt that they would get good returns.

It has also been noted by Kegley (2008, p. 146) that dependent countries are vulnerable to penetration by outside forces, such as other governments that use aid, as an instrument of such penetration. Although Kegley is right, we could also argue that even in the absence of economic liberalization, aid could still prove to be a viable and rewarding foreign economic policy tool.

One of the three central assumptions to the liberal perspective in IPE is the rational action whereby individuals make cost-benefit calculations across a wide range of possible options (Frieden and Lake, 2003). By such rational action, we understand that all parties involved should have a share of the pie somehow, but sadly some are more avaricious than others, which means that a number of individuals do walk away with much less benefits.

But Abbas and Niyiragira (2009, p. 111) also note that a similarity between the EU and USA approach to aid towards Africa in general, that is the belief that the road to 'salvation' is more trade-orientated policies through 'free trade' agreements in compliance with WTO rules and the implementation of export-led growth strategies. Why could not there be simple aid with no string attached? As we have already witnessed how the free trade agreements still favour both the EU and the USA economically more than Southern Africa and other developing countries.

This chapter has shown that the USA's motive, where aid is concerned is by and large to make lucrative sums of money to benefit its economy. Although in the previous the USA and the EU have shown to a significant extent some degree of protectionism, especially for agricultural products, the EU approach to aid has been more mindful to the needs of the Southern African states. The next chapter will look at the loans given by the EU and the USA, to Southern Africa, and some of the issues surrounding their application process, choice of projects and means of repayment.

CHAPTER 3

LOANS

This chapter will examine the lending and repayment strategies of loans given to Southern African states, by both the EU and the USA. The progress made to date in the amount of loans given, will also be addressed.

Most loans from the EU, are known to be dispensed by the European Investment Bank (EIB). The European Investment Bank supports the policy and strategic objectives of the European Union by providing long-term loans for economically viable projects (European Investment Bank, 2010). The EIB also highlights that its shareholders are the EU's 27 Member States, where Italy is one of the four major shareholders, together with the United Kingdom, Germany and France (each holding 16.2% of the capital).

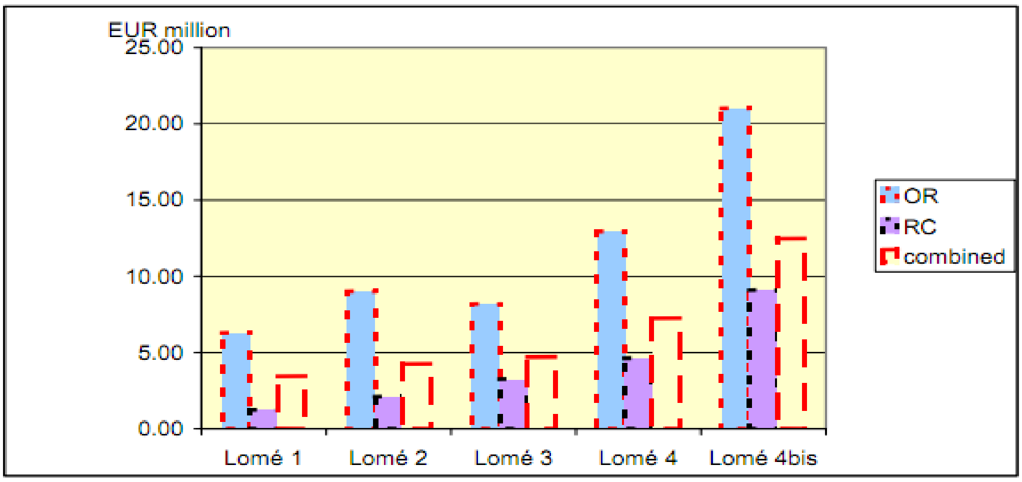
Stoeva (2008) explains the EIB loan approval process in a series of steps where the first step involves a promoter making a request; second, the EIB checks for eligibility; third, an assessment of banking criteria against the project are made, where the various staff teams (Economic, Financial, Technical and Environmental), the Management Committee that seeks the Commission and Member State's opinion, are also involved; fourth, the Board of Directors approve the loan, that is then translated into a contract by a team of lawyers, with some room for negotiation where necessary. On the whole, this appears to be quite a rigorist process that takes away any possibility of careless lending. But it has to be said that such tightening in the EU's lending system, may marginalise those Southern African states, whose projects may not win member states' vote of confidence.

The type of projects that are eligible for EIB financing, according to Piening (1997, p. 185), include industrial projects, tourism, mining, energy production, transport, telecommunications and water. It is believed that such projects are of crucial importance to the development of any state. But Fräss-Ehrfeld (2009, p. 230) mentions that the EIB also uses guarantees when lending to ACP countries, and the guarantee may be more attractive to EIB than the loan itself, as it may provide higher value-added and lower capital charges with zero risk. With the guarantee set to be more valuable than the loan, it is evident that the EIB has nothing to loose. But what about the projects that may not exhibit the right form of guarantee that surpasses the loan amount? It seems as though some Southern African states may find themselves in the position whereby they would have to cede part of their land or territory as a guarantee.

During August, 2010, The European Investment Bank had approved a 45 million euro loan to assist Mozambique's power utility Electricidade de Mocambique supply electricity to cities, towns and villages (International Business Times, 2010). This is by and large a very positive approach to supporting Southern African in their development, which has been an EU pledge as part of the Lomé Convention.

From the Evaluation Report of EIB financing through individual loans under the Lomé IV Convention, Saeberk *et al* (2006) show how an increase of the average size of EIB loans under each agreement, as it can be noticed from Fig 3.1.

Figure 3.1: Average Size of EIB Loans under Lomé Conventions



Adapted from Saeberk *et al* (2006).

According to Saeberk *et al* (2006), the graph shows that the average loan size for both, EIB loans from own resources (OR) and from risk capital (RC), have increased with each convention and financial protocol. It is also noted by Saeberk *et al* that under Lomé I the average EIB loan amounted to about EUR 3.3 million, in the second protocol of the Lomé IV Convention (Lomé IV B) the average loan size had increased to EUR 12.1 million, and to EUR 21 million for loans from EIB own resources.

Given the loan amount granted to Mozambique alone (EUR 45 million) compared with the collective package set aside under the second part of Lomé IV (EUR 21 million) we see a significant increase, that could be due to the developmental progress and economic reforms that some ACP states may have made, and also, the strong partnership that may have been fostered with the EU. Or could it also be that the EU had progressively found them to be a bit more solvent? As looking at fig 3.1 we also notice a constant increase of the EIB's risk capital throughout the five Lomé Conventions.

Nugent (2006, p. 321) notes some advantages of EIB loans, such as they are generally made available at fixed interest rates, repayments can often be deferred for the first two or three years, and the repayment periods are usually medium to long term (between five and twelve years for industrial projects and up to twenty years or more for infrastructure projects). Those appear to be flexible conditions that could facilitate the repayment by Southern African states, given the slow pace at which their economies are known to be growing, compared with those of the developed states.

With regard to the format of EIB loan disbursement, Khambata (1996, p. 271) explains that there are three main formats. The first is one that includes several currencies in a standard mix, with the currencies generally being those in large supply at the bank, and with the terms fixed in advance. The second is a mix of several currencies according to the borrower’s preferences and their availability at the bank. The third format is a single noncommunity currency (mostly U.S. dollars, Swiss francs, or Japanese yen). The fact that the borrower is able to make payments in practically any currency of choice, is a succinct advantage, rather than being confined to pay in U.S. dollars or EUR.

However, some criticism of EIB loans come from Harrop (2000, p. 176) who argues that the EIB is never a source of the whole finance of a project, but provides up to half of the cost, with the borrower having to obtain the remainder from other institutions. This poses a great problem for the Southern African states that may not secure the remaining balance of the funds needed from alternative sources. Like other multilateral institutions, the EIB does not provide debt forgiveness, or enter into rescheduling agreements (OECD, 1998, p. 105). Given the level of poverty in Southern Africa, plus other loans that countries in the region may have already taken through the IMF and the World Bank, debt forgiveness and the rescheduling of loan agreements are paramount for the struggling economies.

With over 364 million euros invested between 2000 and 2006, the mining sector is one of the most important investment sectors for the EIB in the ACP countries, more than transportation, telecommunications, water and sanitation, agriculture and fishing (Bouchanine and Simpere, 2007). Bouchanine and Simpere also noticed that education and health in Africa did not receive any funding from the EIB during this period, whereas in 2007, the EIB had approved more than 330 million euros of loans to mines in Zambia, Madagascar and DRC. The EIB's interest in giving voluminous loans for mining projects seems to devalue their interest in the development of Southern African states, as drilling mines may create jobs, but does not necessarily promote sustainable development nor generate vast revenues in the state's economy. If anything, mining projects are likely to benefit foreign investors more and pollute the environment.

This has also been noted by Mwambwua (2010) who argues that the EIB seems to be closing an eye on the problems brought about by the mining companies in Zambia, such as tax evasion, huge environmental impact, lack of transparency and poor working conditions. With the increasing risks of global warming exacerbated by the industrial pollution of mining activities, one would think that the EIB would at least consider a number of projects that promote green energy.

Loans dispensed by the USA to the Southern African states on the other hand, are done through the United States Agency for International Development (USAID). The decision making for loan appropriation is exercised by the Development Credit Authority (DCA) which is a broad financing authority that allows the Agency to use credit to pursue any of the development purposes specified under the Foreign Assistance Act (FAA) of 1961, as amended (USAID, 2004). The Development Credit Authority is known to make its decision based on the credit worthiness of the borrowers. If Southern African states do not have a good credit score, then there is already a hurdle in getting the loan that the USAID professes to make available for development.

The DCA is based on the premise that there are large reserves of dormant private capital in less developed countries, hence, it uses guarantees to stimulate lending of resources held in the private sector in addition to, or instead of, traditional grant-funded programs (Wasielewski and

Lord, 2010). It does seem as though the DCA have stronger tendency to help local financial institutions find the guarantees required to secure their lending to small and medium sized enterprises (SMEs).

Jeffreys (2009, p. 55) also concurs by saying that USAID loans are mainly targeted at banks, where the USAID will guarantee any loan to SMEs for up to five years and if they default on the loan, the USAID will pay the bank anywhere from 50% to 75% of the principal amount. Given the novelty of micro lending as a concept, it is perhaps fair to say that a guarantee is necessary, though it could be argued that 50% is not sufficient to stop the bank from making a loss. However, for a region like Southern Africa, that may have a pool of ambitious potential entrepreneurs held back because of lack of capital, this may be just what they need to get their foot on the ladder.

Nevertheless, Bronstein (2010) affirms that Michael Yates, the Deputy Assistant Administrator of USAID explained that USAID's loan guarantees helped to reduce the risk until banks "gain confidence in these new lending practices". It may take the local banks some time, to start reaping the benefits of the micro lending, depending on how many clients they are able to attract.

On November 16, 2010 trading began on the Dar Es Salaam Stock Exchange for the first ever microfinance bond in Sub-Saharan Africa and the $10 Million bond issue has been guaranteed by USAID in Tanzania to support lending through Tanzania's Promotion of Rural Initiatives and Development Enterprises Limited (PRIDE), extending credit to poor but economically active Tanzanians owning and running businesses since 1994 (USAID, 2010). This is undoubtedly a positive development, as it is often the poor and small businesses that struggle to stay afloat or invest in new ventures, and such actors are perceived to be crucial to the local economy of any state.

The Opportunity International Bank of Malawi (OIBM) has also been supported by the USAID to provide loans to people who do not have collateral, by helping them open a savings account with an initial deposit equivalent to $5 (USAID, 2010). In a country where over 74% of people live below the poverty line on $1.25 per day between 1992 and 2007 (UNICEF, 2010), it could be argued $5 to open an account might seem a bit extortionate. It is also plausible to assume that some clients may have to save money just to open a saving account in order to qualify for the loan. In the first nine months of the program, the bank boasted 7,000 clients with savings accounts, and has served 300 people, 70% of them women, with small business loans (USAID, 2010). The number of borrowers within such a short space of time seems to highlight the desperation of people feeling eager to change their way of life and invest in new ventures.

But according to the USAID (2007), the share of guarantee given to the lender, does not exceed fifty percent and there is no debt rescheduling for borrowers. The absence of debt rescheduling could have a negative impact on those businesses that are struggling, especially during this time of recession.

Naples and Desai (2002, p. 196) criticise some of the terms and conditions of USAID loans for funding microcredit programs in NGOs, such as the number of women participants, which happens to be a core requirement for how much funding is to be given. This has also been echoed by Gootnick (2003, p. 3) who observed that USAID has encouraged women's participation in microfinance projects, where they (women) have comprised two-thirds or more of the micro loan clients in USAID-funded microfinance projects since 1997, according to USAID data. In as much as promoting gender equality in a lot of Southern African states might be a good thing, we need to be mindful about neglecting other borrowers that may have good projects, but not necessarily comprising a greater number of women participants.

Although USAID-funded studies and academic analyses have found that microfinance activities generally serve the poor clustered around the poverty line, few loans appear to be reaching the very poor (Gootnick, 2003, p. 3). It is possible to say that in certain parts of Southern Africa, due to poor communication, there may be insufficient awareness of micro lenders. Gootnick went on further to say that some research suggest that loans to the very poor may be ineffective, creating unmanageable debt, unless combined with other services. Surely for business starters, there is always a danger of not meeting the payment when the business is in its infancy.

The theoretical implications, judging from the core motives of USAID loans, are the liberalising of the micro-financing sector. The liberalisation of the micro-financing sector has its advantages and disadvantages. Following the report of the Commonwealth Business Council to the Commonwealth Finance Ministers at their meeting held in Ottawa in October 1998, it was noted that within the context of developing economies, the deepening of financial markets and micro-financing are of growing importance to stimulate productive enterprises (Commonwealth Secretariat, 2001, p. 26). Bearing in mind the potential of such benefits, we could assume that liberalising the micro-financing sector, would be a good thing for the Southern African economies, although it would be ideal for the USAID Development Credit Authority to consider advising the banks to give loans to a broad spectrum of small and medium sized companies, rather than targeting mainly women entrepreneurs and rural projects. The distribution of the loans and guarantees could be a bit more diversified, to reflect the developmental gaps in the region.

Bateman and Chang (2010) concerns with the microfinance model based on its intimate relationship with neoliberalism and the globalisation project. They have shown that emphasising individual entrepreneurship over all other forms (state, cooperative, etc), the microfinance concept has strong political/ideological serviceability to the prevailing neoliberal/globalisation model. Hence, Bateman and Chang perceive this association to be extremely problematic, because there is much evidence to suggest that policies and institutions could be deliberately favoured simply because they support neoliberalism and the globalisation project, and for no other reason than this.

It could therefore be argued that the USA is driving and imposing by force its neoliberal agenda in third world economies. But is it right for the EU and the USA to dictate their economic liberalist agenda to Southern African states, just because they are in desperate need of financial help? For the USAID and the EIB to own lucrative loan guarantee assets on a foreign soil undermines the sovereignty of those states. Nevertheless, we at the same time need to recognize that this might one of the ways to encourage economic growth in Southern African economies, though realists would question if it is a price worth paying.

Liberalisation made it possible to set interest at rates that cover the costs of dealing in finance at the frontier, providing a window for experimentation in the commercialisation that could ensure sustainability (Matthäus-Maier and Pschke, 2009, p. 1). The experimentation has so far proven to be successful in some parts of the world, predominantly in the west and Asia, but we have yet to see if a significant number of states in Southern Africa will be part of those success stories.

The combination of the EIB loans predominantly for mining projects, and the USAID's for the micro financing sector, appears to be a recipe that gives the Southern African states even less control over the dealings, and subsequently promoting financial deregulation. The EU is finding it preferable to direct loans in private and to some extent public sector projects, whereas the USA's loans are more geared for the private sector.

The USA is also known to have given military loans to a number of Southern African countries during the period from 2001 to 2003 under the Foreign Military Financing Program, according to Volman (2003). During that period, Daniel Volman, who was the Director of the African Security Research Project in Washington claims that Botswana received a total of $ 3 million in military loans, and South Africa $ 13.7 million. It is rather ironic for a superpower that preaches about the values of peace and democracy, to be involved in such dealings. Encouraging states to buy weapons from the USA, even by giving them loans for the transaction, is a merciless way to make money out of the poorer nations, without realising the impact on their economies. It may not sound like a lucrative amount here in the west, but $ 3 million in Botswana, could build a number of hospitals and schools.

According to Deen (1997) the data released by the Pentagon shows that Liberia, Somalia, Sudan, and Zaire owe $434 million in arms sales loans, of which more than half, $231 million, is currently in arrears. It is questionable how those four countries, out of which Zaire now known as the DRC, are expected to pay for their military loans. It would be an interesting statistic to know how much profit the USA was set to make from military loans out of the DRC, Botswana and South Africa. But Deen (1997) claimed that Volman said Washington may eventually be forced to write off these African debts by converting them into outright grants. If Volman's assumption turns out to be true, knowing what we already know about the USA's foreign economic policies, it would not be surprising for them to seek something in return for the military debt cancellation. Hence, conspiracy theories might clearly indicate that for a country like the DRC, its minerals might seem like a good form of compensation.

This chapter has shown how the EU's loans have been geared towards sponsoring a number of projects that promote development in the region, while at the same time highlighting their strong interests in funding mining projects that cause damage to the environment and capital flight. The USA has chosen to provide guarantees to local lenders for micro financing, which some may argue is not as significant as giving large sums of money, but they are known to be helping small and medium size enterprises.

CONCLUSIONS

Foreign economic policies are meant to serve the national interests of a state as it can be noted in the case of the USA and the EU. The repercussions of those policies on the states to which they are directed, could be devastating for the locals, and, in some cases, beneficial, when there is a slight best interest of the receiving state, at heart. But we know that it is rather uncommon for a state that is meticulously devising its foreign economic policies to ensure the growth of its own economy and the welfare of its people, to genuinely develop a sentiment that has the best interest of another state at heart.

There have been differences and similarities noted between the EU and USA foreign economic policies towards Southern Africa. On the issue of trade, the EU has made an effort with the Lomé Convention and subsequently the Cotonou Agreement, to open its borders to encourage imports from Southern African states, but both agreements fell short from granting Southern African states the full penetration into the EU market, as we have identified some areas especially where agricultural products are concerned, the EU applied a higher degree of protectionism, to ensure that its farmers are not threatened. Whereas the Southern African states have been forced to open their markets to EU exports without any restrictions.

With the USA, Southern African states were told to open their markets to American exports too, but the only difference this time, under the African Growth and Opportunity Act, was that they were promised the road to free trade, whereby they would have all the privileges enjoyed by the western nations under that status. This never materialised as Southern African states have yet again faced restrictions and limitations on what they can export to the USA.

Both the EU and the USA have bought the same value of Sub-Saharan African exports totalling $ 18.3 billion each during the year 1999. It is assumed that they are both in demand of Southern African's exports, with the EU particularly interested in non-oil exports, unlike the USA.

When it comes to foreign direct investments, in Southern Africa, the EU is estimated to have invested assets worth over EUR 7 billion in 2007, which is good for employment and hence boosting local economies. The USA has been trailing behind the EU in FDI, with invested stock value worth nearly $2.8 billion during the same period. It does show that the USA is not so keen on investing a great deal in the region, and hence hampering the prospects of development and economic growth in some areas.

The EU and the USA, have both used aid in the region to their own advantage. Whilst the EU has been a little bit rational by helping develop the infrastructure and promote good governance, while at the same time exercising a stronger sphere of influence, the USA's proceeds for the money given to fight HIV/AIDS, have been rather extortionate in the sense that the states receiving the aid were bound to purchase the antiviral drugs from American pharmaceutical corporations at a higher price, and hence making vast amounts of profits benefiting the USA's economy. The USA has also been perceived to be rather brutal in getting its hands on the wealth of minerals contained in Eastern Congo and crucial to the US defence developments, by orchestrating the Rwandan Genocide, according to the claims made by Chossudovsky (2003). Although Chossudovsky claims may be quite controversial and essentially opened for discussions, it remains questionable how the US government at the time, according to Power (2001) had shown virtually no interest in stopping the genocide when it stood by as the death toll rose into the hundreds of thousands. From the National Security Archive, Power (2001) states that "*the U.S. government knew enough about the genocide early on to save lives, but passed up countless opportunities to intervene*".

After supporting the rebel movement in Angola during the cold war period, to topple the communist regime (Kamalu, 2007, p. 130), it became increasingly obvious that the USA, now the main importer of Angolan oil, is almost capable of masterminding coup d'états and funding wars just to achieve its political and economic objectives.

On the issue of loans, the EU is known to have given a substantial amount of loans to the Southern African states, through the European Investment Bank. A number of projects relating to water, energy, transport and mining, were funded by the EIB, with the imposition of 100% loan guarantee as a precondition, which to some may be perceived as a violation of the state's sovereignty. However, in spite the number of projects funded aimed at promoting development, the EIB loans were criticized for concentrating mainly on funding mining projects which were perceived to benefit foreign companies and pollute the environment.

The USAID loans have been targeted at local lenders by providing them with funds and guarantees to offer loans to small and medium size enterprises. Critics have pointed out that the USAID loans have been particularly favouring women based NGOs, and hence neglecting at times other organisations that are perceived to be male dominated. Of course encouraging female emancipation from in the region is not necessarily a bad thing, but the loans and guarantees could best serve their purpose of promoting development and economic growth, if distributed to a broad spectrum of people and organisations. The USA has also tried to make money in the region by providing low interest military loans as an convenient way to sell its weapons, although countries like the DRC were million of dollars in loan payment arrears in 1997, which they could not afford to pay and perhaps would never be able to pay.

Southern Africa, may have been deluded in hoping that despite its painful colonial background with the EU, the USA may prove to be a more reasonable trading partner and financier, but it was a misconception, as the USA has shown itself to be more concerned about making money and having its needs met at all costs, without taking a step back to help build amenities and adequate infrastructure. Perhaps that explains why even in Iraq, they are not so bothered about building, but rather aspirating the lucrative reserves of oil (Segell, 2004, p. 254).

Despite the EU's policies having been self centred in some way, they have gone a step in helping promote development in the region. But increasingly there is fear that China has now come to build, despite extracting its share of resources too.

The liberals may have misguided the third world in general on the benefits of globalisation, as the privileges of free trade have so far turned out to be a distant destination for Southern Africa, and economic liberalisation has proven itself to be rather exploitative.

The dependency theorists on the other hand, will be glad to know on all counts, that their theory still holds until today. The economies of Southern Africa appear to be subservient to the USA, while its states are continually seeking developmental assistance from the EU. Maybe it is time for Africa to look to the east and experiment its new love, 'China'. Perhaps the negative impacts of the Chinese foreign economic policies in the region may turn out to be less than that of the EU and the USA. But hindsight would suggest that this must be approached with caution too, as it is better for one to work with the devil he knows, though in this case there are two (EU and USA), and one is definitely better than the other, rather than looking to the East where blossoming China's interests might prove even far more costlier for Southern Africa, or simply turn out to be more of the same.

At the level of international economy, liberals assert that a fundamental harmony of interests exists between as well as within countries (Frieden and Lake, 2003), but the reality seems to indicate that there is a higher degree of imbalance in the nature of the interests concerned. As not all countries are able to exercise their full interests especially where trade is concerned. Whereas O'Brien and Williams (2007, p. 18 – 19) assert that unlike economic nationalism, liberals believe that if individuals are left freely to engage in production, exchange and consumption all will benefit. But if the benefits were to be quantified on all counts, the EU and the USA would be seen to benefit more than the Southern African states. Perhaps the realist view of IPE that holds the state as the most important actor or unit of analysis where individuals interact in the market under rules set down by the state (Clark, 2002, p. 7) could be a better theory as it would give Southern African states a chance to lay down their rules, rather than being dictated by the powerful nations. Although this could backfire, given the reality of the dependency theory that portrays the Southern African states as being heavily dependent on the West, there seems to be very little chance that they have the power and influence to lay all the rules that meet their national interests.

Through the lenses of a Marxist, which concentrate on the determinants of foreign economic policy such as the interests of multinational corporations and the role of social forces and political institutions (Goodin, Pettit and Pogge, 2007, p. 156), we perceive that Southern African states still fall victims of a great deal of exploitation by the EU and USA's MNCs. This being a reflection of capitalism at its best simply transcends the notion that major world powers are making profits at the expense of the poorer nations. All the three main IPE theories (Liberalism, Realism and Marxism) seem to indicate that Southern African states are disadvantaged vis-à-vis the EU and USA's foreign economic policies.

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