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INTEGRATION AND CO-OPERATION IN SOUTHERN AFRICA

by

Carolyn Jenkins

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TABLE OF CONTENTS

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PREFACE

The Development Centre's research on Africa since 1997 has centred on the theme of Emerging Africa. An in-depth examination of six countries showing some potential for take-off has identified three ingredients leading to high and sustainable growth:

1) access to external non-debt financial resources;
2) legitimate political leadership;
3) a long-term regional focus.

With these tentative conclusions in mind, in 1999 the Centre launched a research project to pass from country-specific to region-wide analysis, to improve the flow of information for the implementation of co-operation efforts, and to derive policy recommendations for donors and other non-governmental development partners. Regionalism may be fashionable but it is not a new phenomenon in Africa. Indeed, the world's oldest customs union exists in Southern Africa, and the list of both past and present multilateral economic agreements is probably longer than that of any other continent. However, while some successful examples of regional co-operation do exist**,** Africa's record of creating and sustaining regional frameworks is generally poor. The pressing need for high output growth, industrialisation, employment creation, increasing export trade, higher social and human capital development, and above all lower poverty, is giving regional integration a new lease of life.

A small number of experts from Africa and Europe have been asked to provide the elements to structure our thinking around two, complementary issues:

1) What is the scope for increased intra-regional trade in sub-Saharan Africa, in the context of current trends towards freer regional trade?
2) Which are the most promising areas of regional co-operation?

The studies included in this special series of Development Centre Technical Papers, together with one by Andrea Goldstein, published in 1999, (TP 154), provide updated analyses on the progress of regional integration in sub-Saharan Africa and will contribute to the debate on this key issue for its development. The papers are also published in anticipation of the Second International Forum on African Perspectives, on the theme of Regionalism in Africa, organised by the Development Centre and the African Development Bank.

Jorge Braga de Macedo
President
OECD Development Centre
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RÉSUMÉ

Après la suppression de l'Apartheid et la tenue d'élections pluralistes en 1994, l'Afrique du Sud a engagé une série de réformes économiques et commerciales qui ont abouti à sa ré-intégration rapide dans le système des échanges multilatéraux. L'Afrique du Sud est aujourd'hui le principal partenaire commercial de l'Union douanière de l'Afrique australe (Southern *Africa Customs Union* – SACU) et de la Communauté de développement de l'Afrique australe (*Southern Africa Development Community* – SADC). Dans le cadre de la SACU, les pays membres appliquent aux importations les mêmes droits de douane, taxes sur la consommation et les ventes, taxes anti-dumping, droits compensatoires, mesures de souvegarde et autres règlementations connexes. L'accord garantit la circulation des biens en franchise de taxes au sein des cinq pays de l'Union douanière et octroie un droit de transit sur le territoire de l'Afrique du Sud. La SADC, pour sa part, a établi un calendrier pour la création d'une zone de libre-échange comprenant la libre circulation des capitaux, des biens, des services et de la main-d'oeuvre. La SADC est un accord qui établira son propre mécanisme de règlement des différents, mais elle fait aussi fonction de forum de coopération politique. La structure du tarif extérieur commun de la SACU, définie par l'Afrique du Sud, reflète avant tout ses propres priorités et sa structure industrielle. Elle handicape parfois de ce fait les exportations de produits manufacturés des autres pays membres. Dans ce Document technique sont examinés les tendances récentes de la politique commerciale de l'Afrique du Sud, ainsi que le processus parallèle de régionalisme en Afrique australe. Sont enfin identifiés les perspectives de coopération et d'intégration régionales autres que commerciales et le rôle que joue l'Afrique du Sud dans ce domaine.

SUMMARY

Following the end of apartheid and the holding of multi-party elections in 1994, South Africa embarked on new economic and trade reforms and is now rapidly re-integrating its economy into the multilateral trading system. South Africa is by far the largest trading partner in both the Southern Africa Customs Union (SACU) and the Southern Africa Development Community (SADC). Under the SACU, members apply to imports customs, excise, sales, anti-dumping, countervailing and safeguard duties, and other related laws set by. The agreement provides for duty-free circulation of goods within the five-country customs union and grants transit rights across South African territory. SADC, on the other hand, sets out a timetable for the creation of a free-trade area encompassing the free movement of capital, goods, services and labour. SADC, an agreement which is to have its own dispute settlement mechanism, is also a forum for political co-operation. The structure of the SACU's common external tariff, determined by South Africa, primarily reflects its policy priorities and industrial structure and may sometimes impose an anti-export bias on members' industries. This paper will examine recent developments in South African trade policies; analyse the parallel process of regionalism in Southern Africa; and identify non-trade channels of regional integration and co-operation and the role that South Africa is playing in these domains.

I. INTRODUCTION

Regionalism is not a new phenomenon in Africa. Indeed, the world's oldest customs union exists in Southern Africa, and the list of both past and present multilateral economic agreements is probably longer than that of any other continent. However, while some successful examples of regional co-operation do exist[1], Africa's record of creating and sustaining regional frameworks is generally poor.

In spite of this, there has been a resurgence of interest in regional integration from both within Africa and on the part of external agents interested in African development. The motivations may be somewhat different. African concerns include small markets and the fear of marginalisation in a world increasingly dominated by powerful trading blocs, but there is a simultaneous fear of the costs of unilateral liberalisation, especially when the large world players are most protective of sectors where African countries might feasibly compete. Regional integration is therefore frequently seen as an alternative to unilateral trade liberalisation. International organisations (and donors) are also concerned about small markets and the lack of progress in both economic development and poverty reduction. However, they tend to see regional integration as one stage of, that is, as a complement to, a more general liberalisation.

In fact, extensive unilateral liberalisation of foreign trade has occurred across Southern Africa in the 1990s. For many countries this was a requirement of aid-supported structural adjustment programmes, although the signing by South Africa of an agreement with the World Trade Organisation in 1994 was domestically motivated. This bound the country — and the other four members of the Southern Africa Customs Union (SACU)[2] — to an eight-year programme of comprehensive trade liberalisation from January 1995.

At the same time, there is a process of realignment of regional integration initiatives which is not yet complete. In 1992, the Southern Africa Development Co-ordination Conference changed its name to the Southern Africa Development Community (SADC) and broadened its concerns to facilitating regional economic integration, including freer intra-regional trade. The viability of SADC as an economic community was enhanced by the accession to membership in 1994 of South Africa, which generates around three quarters of Southern Africa's GDP. In mid-1996, a trade protocol was signed, which committed the (then) twelve members to a programme of phasing out customs duties and other equivalent measures in the process of establishing a free trade area (FTA) early in the next decade. Implementation commenced in September 2000.

In parallel with the SADC negotiations, the members of SACU have been involved in sensitive renegoiation of the Customs Union agreement, and South Africa has signed a trade, development and co-operation agreement with the European Union, the climax of talks which commenced in 1995. All other members of SADC have non-reciprocal preferential access to the EU under the Lomé Convention, and are concerned about the trade diverting effects of the agreement between South Africa and the EU. At the same time, the approaching expiry of Lomé IV is prompting a general reappraisal of the trade relationships between the EU and its developing Lomé partners.

In addition to these issues, SADC countries also have to think through their response to the proposed new round of WTO-led negotiations, and to developments within Africa involving the Community of Eastern and Southern African States, the revived East African Community and the low-key (and therefore possibly more effective) Cross-Border Initiative.

South Africa alone constitutes more than two thirds of the regional economy, so its trade policy has region-wide effects. South Africa has a history of unilateral actions on trade policy issues, in spite of its legal obligations to confer with its SACU partners (Maasdorp, 1998). Although the new government is concerned to reverse the practice of non-consultation, it is already being criticised for not taking the concerns of its smaller neighbours into account. Unlike issues affecting SACU, however, there is no legal obligation for South Africa to confer with SADC members on trade policy issues. Moreover, the formation of a FTA will not bestow this obligation, unless a provision to this effect is specifically included. Nevertheless, the regional dominance of the South African economy means that its unilateral actions inevitably affect its neighbours, and that it has a crucial role to play in any regional integration initiative.

This paper argues that regional integration is important for all members of SADC, but it is not sufficient as a trade liberalisation strategy, which should be global rather than regional in its vision. South Africa, in particular, stands to gain less from a regional FTA (which would cover less than 10 per cent of its total trade) than from other reciprocal agreements. Indeed, the regional agreement would be more important to the non-SACU members of SADC than to SACU countries, because it would provide the former with better access to the South African market. SACU countries are, however, interested in promoting the arrangement, which, if it helps to accelerate growth in the rest of the region, could generate more employment reducing the flow of unskilled labour into South Africa and Botswana. At the same time, there is potential for non-trade co-operation, especially in freer cross-border investment and in regional transport and infrastructure, which will benefit all countries in the region.

There are obstacles to closer integration. The most potentially damaging are political. A few countries remain volatile, and may be unwilling or unable to comply with commitments. If credible sanctions for non-compliance are not universally imposed — and it is difficult to believe that they will be — the process could founder on incomplete implementation. The process may, therefore, be easier to create than to sustain. This has the potential to create rancour, and will make future initiatives all the more precarious. Other obstacles are economic, the most significant of which is that further trade liberalisation may simply be premature for countries still plagued by macroeconomic instability.

Because of South Africa's dominance in the regional economy, its trade policy tends to limit the policy options of its neighbours. Therefore, in the next section, recent developments in South African trade policies are examined. Section III is concerned with analysing the parallel process of regionalism in Southern Africa, and Section IV identifies obstacles to regional integration. Non-trade channels of regional integration and co-operation are discussed in Section V, which highlights, in particular, the potential role that could be played by South Africa in achieving these broader objectives. Section VI concludes.

II. RECENT DEVELOPMENTS IN SOUTH AFRICA'S TRADE POLICY[3]

II.1 The Evolution of Trade Policy

A study by Bell (1993) identifies two trade liberalisation episodes in South Africa: the first beginning in 1972 with the report of the Reynders Commission of Inquiry into South Africa's export trade (RSA, 1972), and the second beginning in 1983 with the programme to replace quantitative restrictions (QRs) with equivalent tariffs. During this second phase, more vigorous export promotion was pursued. South Africa entered a third liberalisation episode in 1994, when an agreement with the GATT committed the country to the lowering of tariffs. The process of trade liberalisation has survived the change in government, which reduces the possibilities of a reversal of the process.

This section traces out briefly the development of South Africa's trade policy, providing a context for assessing recent developments. Because the succession of policy initiatives has been complex, a summary table in Appendix 1 lists the developments chronologically.

Import-Substituting Industrialisation from 1925

South Africa was one of the first of the world's current middle-income countries to explicitly adopt, in 1925, a policy of import-substituting industrialisation (ISI). ISI was expected to assist with developing greater economic independence from Britain and with creating employment for whites in manufacturing (Botha, 1973; Lumby, 1990). There were substantial gains both in employment and in industrial expansion and diversification, but protection had a weakening effect on initiative and risk-taking, and on competitiveness (Black, 1993). However, many industries became reliant on protection for survival, and its maintenance became a political issue, particularly when the threat of economic isolation, from 1960, added a strategic need for continuing ISI.

Manufacturing growth began to slow towards the end of the 1960s. Empirical estimates of the contribution of ISI to growth show that import substitution was an important source of overall growth during the "easy" stages of ISI; thereafter, given the size of the domestic market, further import substitution — into capital goods — did not drive growth (Scheepers, 1969). Increasingly, further industrial expansion was dependent on the ability to import capital, and, therefore, on primary export earnings, as a marked anti-export bias existed in manufacturing.

Initiatives to Reduce the Anti-Export Bias from 1972

The failure to expand exports, together with the recognition that ISI was no longer driving growth, initiated a major policy shift in the early 1970s. There was concern that South Africa was too dependent on a single commodity, gold (at that stage subject to a fixed price). In any event, imports were rising too rapidly for the trade deficit to be financed by gold exports and capital inflows. The government introduced a policy of export promotion through a range of incentives, but left the protective tariff and import-control structure largely unchanged. A real devaluation of the rand, precipitated by a fall in the gold price in the mid-1970s, reinforced the strategy (albeit unintentionally).

In the years which followed the shift in policy, exports grew in volume terms more rapidly than imports, although these effects are better attributed to the depreciation of the currency[4] and to the gold boom than to any programme of export promotion. The growth in exports came mainly from an expansion in mining exports (from 57 per cent to 62 per cent of the value of total exports) and from processed minerals, which recorded impressive growth from around 5 per cent of total exports (15 per cent of manufactured exports) to 17.5 per cent of the total (52 per cent of manufactured exports) from 1974 to 1985. With few exceptions, most other categories of manufactures were sold mainly in the domestic market. There is no empirical evidence to suggest that basic metals received greater incentives to export than did other sectors, and yet, apart from basic metals, the export performance of most other sectors in the economy failed to respond to the improved system of incentives (Holden, 1990).

More Concerted Attempts at Liberalisation from 1983

In 1983, the government began to liberalise trade by replacing QRs with import tariffs[5]. The liberalisation was not unambiguous, however. Import surcharges, introduced in 1985 in response to a tightening of economic sanctions, raised rates of effective protection substantially (Holden, 1992; IDC, 1990), and, as in other countries, increases in tariffs were used to offset the effects of the removal of QRs on industry[6]. Towards the end of the 1980s the Board of Trade and Industry, which historically had responded sympathetically to private-sector requests for tariff relief, began to move pro-actively towards reforming industrial policy. From 1987, the Board responded less favourably to applications for tariff protection, supporting 65 per cent in 1987, 38 per cent in 1988 and 20 per cent in 1989.

Generally speaking, the 1980s saw a shift towards market-oriented instruments of economic policy, not only with respect to trade but also in monetary and exchange-rate policy. At the same time, the government initiated a review of the parastatals, shifting towards a programme of “commercialisation” (rather than privatisation).

It has been argued that the dismantling of QRs initiated what has been called “South Africa’s second liberalisation episode” (Bell, 1993), although, if anything, effective protection rose in the mid-1980s. The process was supplemented with more effective incentives to exporters. The sanctions-precipitated debt crisis of 1985 increased the urgency with which this was pursued, as this required action by the authorities to turn the historical current-account deficit into a substantial surplus, so as to enable the servicing of the foreign debt. The effect was a dramatic increase in non-gold export volumes, which increased by an average of 7.7 per cent annually between 1984 and 1990, in spite of trade sanctions. The proportion of gold in total exports fell from 48 per cent in 1983 to 27 per cent in 1992.

II.2 Recent Developments: Trade Policy Reform from 1994

The Overall Strategy

There were fears that the new government, which has close links with the trade unions, would be under pressure to reverse earlier reforms, opting for a more protectionist policy, particularly since protection actually favoured labour. However, both the Industrial Strategy Project, commissioned by the largest trade union body (ISP, 1993) and the framework for macroeconomic policy commissioned by the African National Congress (MERG, 1993) recognised the need for South Africa to become internationally more competitive, and recommended a more neutral trade regime: a simpler transparent tariff structure, with tariffs reduced in line with GATT requirements, and export incentives guaranteed for five years after the change of government. These recommendations have been implemented.

South Africa's offer in the Uruguay Round was the raising of the proportion of tariffs bound by the GATT from less than 20 per cent to just over 50 per cent; an increase in the percentage of duty-free lines to over one-quarter; and a fall in the simple average tariff for industrial products by one third in a phased reduction programme (GATT, 1993). It was necessary for South Africa to revise its first GATT offer under pressure from the US and Europe, which objected to the high protection wanted for the clothing, textiles and motor industries. A 45 per cent tariff on textiles was preserved, but the tariff on clothing was reduced to 45 per cent, compared with the 60 per cent offered and the existing 100 per cent; and the tariff on cars was reduced from 100 per cent to 50 per cent.

South Africa subsequently initiated a five-year tariff reduction and rationalisation programme in 1995 (although clothing, textiles and motor assembly were given eight years to adjust). The number of tariff rates is reduced from over 100 to six, ranging from 0 per cent to 30 per cent, and discretionary changes in the system are no longer possible. Although the GATT (WTO) offer is predicted to cause greatest difficulties for the textile and motor industries, it did not prevent Ford from purchasing a 45 per cent stake in South Africa's fourth largest vehicle maker in November 1994. Nor did it prevent the Minister of Trade and Industry from announcing in September 1994 that these industries should expect tariffs to be reduced to below those agreed with the WTO. In March 1995, the Minister revoked an earlier commitment to provide R4.5 billion ($1 billion) in subsidies to textile producers[7], and announced that tariff protection for the industry would be dismantled even faster than required (the eight-year target remains for many textiles, although some specific duties will go in four years).

The government has reserved the right to use import controls under special circumstances, but even then they will apply for a limited period only. Import controls may be used to give infant industries temporary protection, or, as in March 1997 in the footwear industry, temporary protection from alleged dumping by countries which are not members of the WTO. Progress has been made on restructuring anti-dumping and countervailing legislation in order to render the system more transparent and “equitable”.

The programme will lose the government an estimated R600m ($100 million, 1994 prices) in tariff revenue over five years, although there may be some savings as the General Export Incentive Scheme, which cost the government more than three times that sum annually, was eliminated in July 1997 and replaced with a new system of export incentives, compatible with WTO rules. In order to strengthen the export drive, the Export Marketing Assistance scheme was updated in April 1997. This is designed to assist with primary export market research, trade missions and exhibitions, and investigations into both inward and outward investment opportunities.

Supplementary measures are deepening the liberalisation, especially the abolition of almost all agricultural marketing boards by the end of 1997. Historically, the marketing boards had power over imports, exports and prices of most agricultural products. In part,their abolition is in line with WTO requirements. However, the objectives include the breaking of the monopolistic stranglehold over agricultural markets and the opening of the sector to those previously excluded.

The Department of Trade and Industry is developing a strategy of integrated trade and industrial policy measures to promote manufacturing, particularly production for export. A deliberate shift away from demand-side interventions, which lower the risks of manufacturing by, for example, providing subsidies, has been undertaken. In addition to the use of rebates and drawbacks, a variety of supply-side measures has been introduced. These include a new pre-shipment export guarantee programme for small-and medium-scale enterprises, support for industrial innovation, human resource development and investment promotion schemes.

The phased liberalisation of exchange controls has occurred simultaneously with the freeing of trade. In March 1995, the financial rand and capital controls on non-residents were abolished, without generating the anticipated outflows of capital (and consequent depreciation of the rand), which were anticipated. In subsequent budgets, exchange controls on residents have been further relaxed, and the regime applying to applications for investments in SADC countries is even more lenient.

Exchange rate policy is crucial for the sustainability of the trade liberalisation. When the weighted exchange rate of the rand fell 20 per cent in the first half of 1996, tariff reduction was accelerated in the Growth, Employment and Redistribution (GEAR) macroeconomic strategy announced in June. This was a move calculated to offset the inflationary effects of the depreciation on consumers and import-dependent consumers, and the effect was to sustain the boost to exports achieved by the fall in the currency. A contemporaneous study showed, using a CGE model, how accelerating the trade liberalisation maintained its sustainability by compensating for the currency depreciation; the interaction of depreciation and accelerated tariff reduction actually eased the conflicts between the short-term costs and long-term benefits of trade liberalisation (Coetzee *et al.*, 1996).

Attention is now being given to the restructuring of the South African Revenue Services which have taken over responsibility for customs revenue collection. The expansion in international trade since 1990 has led to an increase in traffic into and out of the country, with many entry points not properly manned. Agreement to reduce the number of entry points was reached in 1997. The virtual collapse of the Department of Customs and Excise meant that the country was probably far closer to free trade than the WTO programme suggests. Improvement in collection, even at reduced tariffs, may actually increase true protection.

Trade Agreements

South Africa joined the SADC in 1994, greatly enhancing its viability as an economic community by multiplying the Community's GDP fourfold. In mid-1996, the then twelve members signed a trade protocol, and later commenced negotiations about a programme of phasing out customs duties and other equivalent measures in the process of establishing a free trade area (FTA) early in the next decade. Implementation began in September 2000.

Although the draft protocol applied provisions to all members equally, South Africa's offer included a suggestion that it might reduce with immediate effect its barriers to trade with members of SADC, which are not already members of SACU. Smaller members would then agree to a period of phase down. It is envisaged that, during this period, while some protection remains, outward investment, particularly from South Africa, would foster the development of industrial capacity in neighbouring countries. This should improve the potential for two-way trade within the region, which is currently heavily skewed towards South Africa. The appeal for South Africa about this proposal is the dual advantage of increasing neighbours' demand for South African exports and, in the longer run, the creation of jobs in the region, which should reduce the flow of cross-border jobseekers to South Africa. Even before agreement was reached as to the programme of tariff phase-down by the SADC Trade Negotiating Forum, South Africa proceeded unilaterally with implementing its offer, putting it to parliament for approval in November 1999 for introduction in January 2000.

Renegotiation of the SACU agreement began in December 1994. The major issues were the revenue-sharing formula and the institutional structure of a proposed Secretariat together with the control of tariff policy, although the members have also worked closely on, for example, trade negotiations with the EU, SADC and Zambia. However, this co-operation should not mask the fact that there are very real differences between South Africa and its customs union partners (the BLNS countries) on trade policy issues.

Interestingly, the revenue-sharing formula was not one of these differences. Available information suggests that BLNS revenue will not be destabilised suddenly. The formula will now exclude excise duties, surcharges and the enhancement and stabilisation factors, but will compensate BLNS for the price-raising effects of the common external tariff on total imports. There will be an implicit enhancement factor for polarisation and loss of fiscal discretion. The concept of South Africa's share being the residual after calculating the shares of the other countries will disappear; instead, the share of each member will be specifically calculated[8]. A five-year review mechanism has been proposed.

The major source of dissent was the nature of the institutions to govern the revised agreement. Smaller members want a Secretariat that would also be a supranational tariff-setting institution. South Africa had indicated that it was reluctant to cede such vital decision-making powers to a supranational body so long as there was no agreement between all SACU partners on industrial policies. South Africa's stance was probably also based on the view that, under South Africa's control, SACU, unlike other regional organisations in Africa, has functioned effectively — and more cheaply. Nevertheless, it is important that decisionmaking be more democratic, and some agreement has now been reached on the establishment of a Secretariat to manage the common revenue pool and administer the common external tariff system.

In June 1995, negotiations commenced between South Africa and the EU over trade preferences. South Africa's request for Lomé status was turned down, but the country was offered a free trade agreement, with immediate access to Europe for most exports in return for phased exposure to European exporters. The talks with the EU were difficult, not least because of the complexity of the EU political process (Gibb, 2000). The EU's negotiating mandate was unattractive to South Africa in its early insistence that fishing rights be tied to trade negotiations and its (unreasonable) exclusion of certain agricultural products from discussion, a factor which reduced South Africa's ability to exchange concessions with the EU during talks. In addition, South African manufacturers are wary of greater exposure to foreign competition before the WTO commitments have been fully discharged, and were consequently ambivalent about the process. Finally, the country was under pressure from the smaller members of SACU/SADC, which are afraid that a free trade agreement between South Africa and the EU will expose their economies to European competition. In the end, a trade, development and co-operation agreement was signed at the end of 1999, amidst rancour over the naming of fortified wines and the position of canned fruit exports.

The tariff phasedown of the EU is to occur over a maximum of six years (with the exception of certain agricultural and fisheries products), while South Africa has up to ten years to eliminate tariffs on most of its imports from the EU (EU, 1999). A special safeguard is written into the agreement to cover "disruption" of agricultural markets by exports of one party to the other; and a review within five years of the entire agreement is also included. The treaty also includes specific provision for developing and promoting co-operation not only between the parties to the agreement, but also with the rest of Southern Africa. Areas specifically noted for the development of regional linkages include small enterprise development, telecommunications and information technology, energy, mining, transport and tourism. This includes, but is by no means limited to, financial assistance for regional projects by the EU.

II.3 The Significance of Recent Developments

South Africa has experienced not so much a trade liberalisation episode as a gradual shift of trade policy in a more liberal direction, accelerated with the transfer to majority rule and the removal of international sanctions. The reforms that have taken place have not been part of a general and formal structural adjustment programme, and only very recently have the requirements of an external agency (the WTO) begun to drive trade reform. Nor have the changes been driven by a commitment to some free-trade objective. Rather, they have occurred in response to problems, which have arisen in the economy in the belief that they were the appropriate policy response at that point in the country's industrial evolution.

The fact that the liberalisation measures are designed domestically, with the aim of addressing particular problems, means that the government is committed to each reform. The government has usually moved at its own pace in implementing recommendations, even those of commissions appointed by itself, but it has generally achieved consensus through consultation with the business sector, both before and after the 1994 political transition. From the early 1990s, trade unions have also had representation in tripartite consultations. Consequently, there is domestically no significant credibility problem. Even with respect to a reduction in the overall level of protection, industrialists support the government's initiatives, although specific programmes have been vigorously criticised. Moreover, the authorities have shown a willingness to resist lobbying pressures from the private sector, both business and labour[9] None of this implies, however, that the government has necessarily responded timeously. The existence of large natural resource rents delayed reforms in the past, and is likely to have the same effect again, especially with respect to labour-market liberalisation[10].

South Africa is also inevitably playing a greater role in Africa. Its penetration of regional markets has grown significantly — both before and after the change of government in 1994 — expanding its considerable trade surplus with the rest of Africa. On its own, this is not a problem if the other countries of the region can finance this deficit by exporting elsewhere or with aid, and, since the value of the rand has fallen, the increased volume of exports from South Africa has occurred at lower US dollar values, providing a terms of trade gain for regional economies[11]. Nevertheless, its growing trade surplus with the region is politically sensitive, as South Africa is viewed as capturing a disproportionate amount of the gains from increased trade. It is important therefore that the provisions of the FTA are seen to improve the access of the non-SACU members of SADC to the South African market. South Africa's asymmetric liberalisation should go some way to addressing this concern.

The EU's support for regional co-operation, now part of its trade agreement with South Africa is consistent with recent EU proposals to support regional initiatives among all ACP countries[12]. However, the rancour with which the EU concluded its agreement with South Africa has sent negative signals to other developing countries seeking a review of their trade arrangements with Europe. The belief that the EU will not compromise its remaining protectionism increases the reluctance of the ACP countries to consider alternatives to the Lomé arrangements.

III. REGIONALISM IN SOUTHERN AFRICA

III.1 Regionalism in Africa

Almost all regional trade initiatives in Africa have achieved very little, in spite of their political appeal. A range of studies indicates why this is the case[13]. Many schemes were designed without regard for members' incentives to comply; implementation has sometimes not been feasible, as countries have overlapping and incompatible membership of different regional arrangements; and members have frequently substituted non-tariff barriers for tariffs against each other. Domestic economic policies have also undermined the effectiveness of African trade integration schemes. Moreover, the structure of demand and production is too similar across African countries to generate substantial trade creation.

Nevertheless, African policymakers continue to pursue broader economic co-operation as a potential solution to small markets and generally weak economies. Political interest in regionalism has received added impetus in recent years as a result of growing fears of African marginalisation. The potential expansion of the EU to encompass Eastern European states and the increasing integration of the Americas, for example, have created the perception that Africa risks being left behind in the formation of regional economic blocs, with adverse consequences for trade and investment.

At present, there are several regional integration initiatives being pursued across Africa, aimed at promoting economic growth. SADC is, arguably, more likely than some others to provide the basis for successful economic co-operation due to the participation of South Africa, the continent's largest economy. Part of the problem that most African regional groupings are facing is the lack of a large, more developed partner to provide both a significant regional market and a source of external capital and expertise, particularly in regionally integrated production processes. The involvement of South Africa in SADC — representing around 70 per cent of SADC's GDP — has alleviated this constraint to some extent by improving the potential for cross-border trade and investment with a relatively large and more developed neighbour[14].

SADC is not the only regional integration initiative in which Southern African countries are currently participating (Table 1). For instance, many are members of the Community of Eastern and Southern Africa (COMESA); others are involved in the Cross-Border Initiative (CBI); and a small subset of members are involved in the long-standing Southern Africa Customs Union (SACU) and the Common (Rand) Monetary Area (CMA)[15]. The existence of overlapping membership of regional initiatives is common across Africa and provides a confusing picture of priorities. This is another reason why many of these initiatives have not been sustainable.

Table 1. **Membership of Regional Groupings**

SADC	COMESA	SACU	CMA	CBI
Angola	√			
Botswana		√		
DR Congo				
Lesotho		√	√	
Malawi	√			√
Mauritius	√			√
Mozambique				
Namibia	√	√	√	√
Seychelles	√			
South Africa		√	√	observer
Swaziland	√	√	√	√
Tanzania	√			√
Zambia	√			√
Zimbabwe	√			√

Note: COMESA: Community of Eastern and Southern African States.
CMA: Common (Rand) Monetary Area.
CBI: Cross-Border Initiative.

The focus of this section is the process of intra-regional trade liberalisation under SADC. An attempt to highlight some of its implications is made by comparing the extent of convergence within pre-FTA SADC with that which has occurred after years of free trade within SACU. This gives an indication of the potential importance of this initiative. In addition, some of the potential barriers to continued economic co-operation are highlighted.

III.2 The Current Situation in the SADC

The regional FTA is perhaps the most important initiative being undertaken by SADC. The establishment of the FTA is expected to mean the freeing over eight years of around 90 per cent of intra-regional trade, in line with the rules of the WTO, which state that “free trade” should cover “substantially all” trade.

At least half of SADC members are relatively closed to international trade. In part, restrictive trade policies have been driven by a perceived need to protect weak domestic industries, but they have also been used as an instrument for balancing otherwise unstable macroeconomic regimes. Because of the dominance of South African products in the imports of most SADC countries, there are concerns about the effects on the smaller (non-SACU) economies of too rapid an exposure to greater competition from South African manufacturers. The identification of “sensitive” industries, which might be exempted from the main timetable for tariff reduction, is therefore taking a considerable amount of time.

The "Problem" of South Africa

South Africa's size, relative to its neighbours[16], has several important implications for regional trade. Firstly, the relationship is asymmetric in that South Africa is much more important to the region than the reverse. Secondly, South Africa runs, and will continue to run, a substantial trade surplus with each of its regional trading partners individually (as well as collectively). The imbalance has widened considerably as South African penetration of the region has increased over the past decade, and the trend will continue regardless of whether a free trade area is established or not: unilateral trade liberalisation has given all exporters greater access to SADC markets; the reconstruction of Mozambique, funded by aid, creates opportunities that South Africa is well-placed to meet; South Africa's semi-Lomé status means that inputs from South Africa now count as "local content" in SADC exports to the EU; and South Africa's reintegration into Africa has improved its ability to receive and send trade delegations. The formation of a SADC free trade area will only magnify these trends.

Intra-regional trade (with the exception of mineral exports) is heavily oriented towards South Africa. With the exception of Botswana, the smaller members of the SADC trade comparatively very little with each other, but substantially with South Africa. Intra-SADC trade, excluding South Africa, is about 4 per cent of total SADC trade, while trade with South Africa is 25 per cent of total SADC trade. Even these proportions are understated, because they do not take into account informal trade.

South Africa's trade regime has exacerbated the difficulties faced by its neighbours in gaining access to its significantly larger market. Although South African rates of effective protection are not particularly high for many goods, selectivity created a tariff structure characterised by large differences in tariff levels between and within sectors. Consequently, the moderate average level of protection in South Africa does not necessarily imply that the countries of the region have not faced a high tariff wall: effective rates of protection have in fact been highest for those products which are, or could be produced, in the region (like earthenware, clothing, footwear, textiles, foodstuffs and wood products). In some of these industries, protection made penetration of the South African market, without preferential access, impossible. Moreover, South Africa has not hesitated to erect tariff barriers against neighbouring countries when their exports are seen as threatening to South Africa's interests, even against countries within the SACU (car imports from Botswana in 1995) or in violation of a trade agreement (textile imports from Zimbabwe in 1992). These problems are now, in the main, being addressed, as South Africa has virtually eliminated QRs and is reducing tariffs. Nervousness and suspicion are, however, harder to dispel.

Moreover, the trend of increasing South African penetration of the region does pose a threat to South Africa's competitors in Southern Africa, particularly Zimbabwe. Although Zimbabwe is a major supplier to the SADC countries, its trade with them did not grow much during the 1980s, while South Africa's trade in the region did. South Africa's aggressive marketing in the rest of Africa means that regional competitors will have to improve South African producers in terms of price, quality and reliability in order to win markets, which may have been easier to gain during the 1980s, when the country was facing international sanctions.

It does not follow that South African exports will swamp regional markets. Regional competitors have some cost advantages over South Africa: cheaper labour; lower transport costs to countries to the North; and a better knowledge of local conditions, which reduces information costs. Obviously, South African competition will most affect uncompetitive, inefficient or backward sectors, but some exporters in Botswana and Zimbabwe are competing effectively in SACU countries, where South Africa holds the advantage of proximity and an integrated goods market.

Moreover, the asymmetry of the trade relationship between South Africa and its neighbours does not mean that the region is of no significance to South Africa. It is particularly important as a market for manufactured exports, which may be less competitive in European, American or Asian markets, but which can compete in Africa because of proximity, which reduces delivery times, and better access to parts and servicing technicians. Almost two thirds of South Africa's manufactured exports are sold to other African countries, the range of exports being virtually as wide as the range of South African products. [The most important are invisible (services), food, steel, domestic appliances, building materials and paper products.] For this reason, South African exporters are interested in extending trade links with the region, and South African policymakers are anxious that the FTA "works".

III.3 Regional Integration and Economic Convergence[17]

Regional trade liberalisation enables members — especially those which are poorer — to reap some of the gains from trade via larger markets and improved efficiency, without exposure to non-regional competition. Consistent with the predictions of neoclassical theory (which assumes that there are no barriers to trade), there is evidence that regional trade groups form convergence clubs, where poorer members catch up with (converge on) richer ones through the process of trade (Ben-David, 1995; Barro and Sala-i-Martin, 1991; Dowrick and Nguyen, 1989).

This section is intended to demonstrate that there is evidence that, as elsewhere, trade between African countries promotes convergence. The intention is not to establish that convergence will occur in SADC, but to assess whether it might. Data used are historical, as it was necessary to use information that is compatible and adjusted for purchasing power parity. In simply establishing whether there is evidence that convergence processes apply in African conditions, it is sufficient to use the Summers and Heston (1991) data for 1960-89. Developments in the 1990s are discussed later.

There are problems attached to measures of macroeconomic convergence, but two of the simpler measures have been calculated below in order to illustrate SADC trends[18]. The most simple measure is ß-convergence, when the dispersion of income levels across countries diminishes over time, with dispersion typically measured by the deviation each country's per capita income from the group average. If countries which are initially very different are converging, it is expected that this deviation will be growing smaller.

Consider the European Union (EU) (as a point of reference for comparison). Since the formation of the Common Market in the 1950s, the dispersion of per capita income of all EU members has fallen as shown in Figure 1[19]. There was some interruption to this trend in 1982-83, when a degree of divergence occurred, but this was subsequently reversed. The calculations for SADC members are plotted in Figure 2. In contrast to the downward sloping pattern of convergence that is evident in the data for EU countries, the pattern for SADC countries is essentially flat — indicating that no convergence in per capita incomes has occurred over the 30-year period. Indeed, the degree of dispersion was marginally higher at the end of the period than at the beginning, which suggests that the countries have, if anything, diverged slightly. Note that there is no *a priori* expectation that convergence would occur in SADC, as there has been only very limited trade between SADC members. Any divergence, which has occurred among the SADC countries, may be due to several factors, including different responses to the oil and exchange-rate shocks of the 1970s, different problems with indebtedness, and the uniquely domestic policy issues, which have promoted or slowed growth.

If, however, the sub-sample of SACU member countries is examined separately, as shown in Figure 3, a strikingly different pattern emerges. Although the intra-SACU dispersion of per capita incomes held roughly constant through the 1960s, it dropped steadily in the 1970s and 1980s. The result of this downward trend was that the dispersion at the end of the period was little more than half what it had been at the beginning — a degree of convergence that slightly exceeds that evident in the EU countries over the same period. Note that neither the oil price shocks of the 1970s nor the gold price shock of 1980 — both of which would have had asymmetric effects on the SACU countries — caused any significant interruption to this pattern.

The second and most common measure of convergence is ß-convergence. When countries, which are initially poorest, grow faster than those which are richer, "catching up" with richer economies, a downward-sloping plot of average growth rates on initial GDP will indicate possible ß-convergence: if the hypothesis of convergence is supported by the data, then those countries whose per capita incomes were below the average for all countries at the beginning of the period should have higher average growth rates subsequently.

Some examples should make this clear. In Figures 4 and 5, time-averaged growth rates (average growth between 1960 and 1990) for members of the EU (Figure 4) and SADC (Figure 5) are plotted against initial (1960) GDP per capita relative to the regional average. Again as a point of comparison, in 1960, the poorest country in Europe in per capita income terms was Portugal, whose income per head was 64 per cent below the European average in 1960. Portugal grew by an average of 4.8 per cent in real terms annually over the next thirty years. On the other hand, Sweden and Britain, with per capita incomes of 45 and 30 per cent above the average respectively in 1960, grew most slowly over the decade.

Figure 5 shows that, using this second measure, there is no pattern of convergence among Southern African economies over the period. Almost all of the below-average economies in income per capita terms had below-average growth rates over the period, while Mauritius began best-off in 1960 and grew on average 3 per cent each year (in terms of real income per head) over the thirty years, which followed. However, if one looks at the sub-set of SACU countries, there is again a very clear trend of convergence, with initially low-income Botswana and Lesotho converging on Swaziland, Namibia and South Africa, but diverging from Malawi and Tanzania, which began with similar levels of income per head.

Both measures of convergence demonstrate that SADC countries have, if anything, diverged over the thirty years between 1960 and 1990[20]. This implies that the relatively rich have been getting richer, while the poor have been getting poorer. As pointed out above, there is no reason to expect that the SADC countries should have converged, as free trade in the Community is a very recent ideal. However, within the Customs Union, movements of goods have been free for most of the century and smaller members have grown rapidly, particularly since the early 1970s.

During the 1990s, the trends established in earlier decades continued, with many poorer non-SACU countries contracting further as a result of either continuing civil war or debt problems, while the faster-growing SACU countries have continued to converge on South Africa.

The possible reasons for convergence in SACU include *i)* free trade between SACU members; *ii)* transfers from South Africa to other members under an enhanced customs revenue formula; *iii)* the existence of a currency union (Botswana is not a member of the Common Monetary Area, but the pula tracks the rand); *iv)* similar (comparatively conservative) macroeconomic policies; or *v)* country-specific factors which have little to do with regional arrangements. These explanations are not mutually exclusive: cases *ii) to v)* do not rule out the importance of international trade in driving convergence in SACU. Although this evidence is not conclusive, it seems likely that access to the South African market has allowed smaller members to escape the limitations imposed by small domestic markets and this trend is, at least, consistent with that of other regions, both developed and developing.

Figure 1. **Standard Deviation of Log of Per Capita Income: EU**

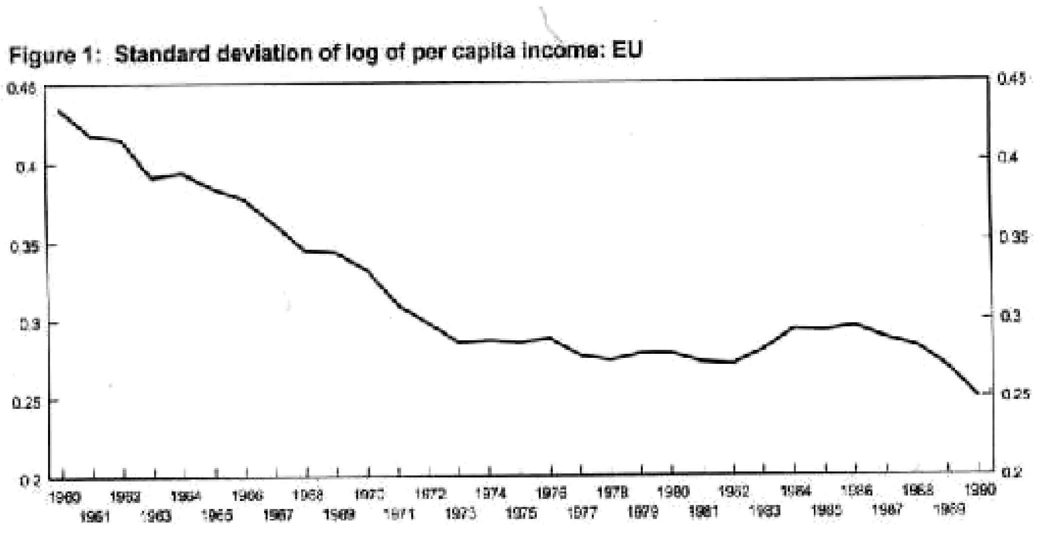


Figure 2. **Standard Deviation of Log of Per Capita Income: SADC**

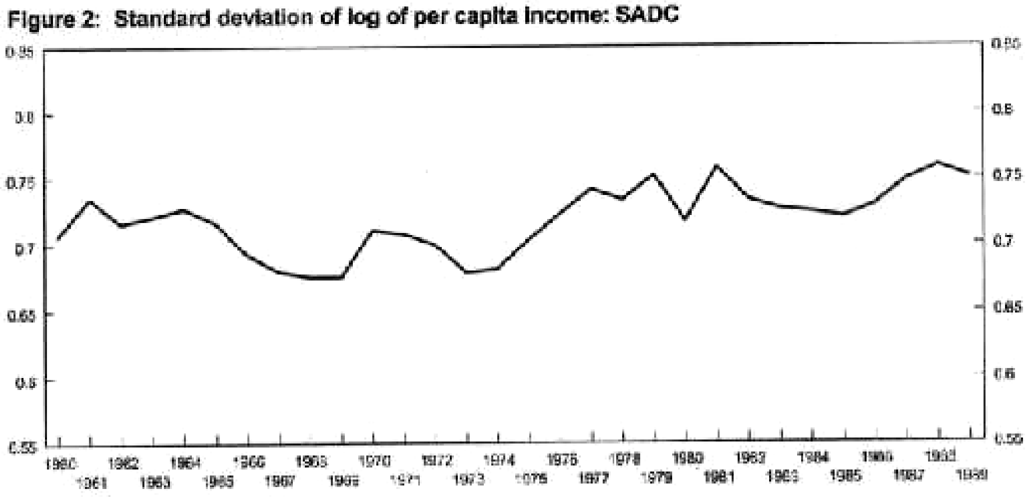


Figure 3. **Standard Deviation of Log of Per Capita Income:SACU**

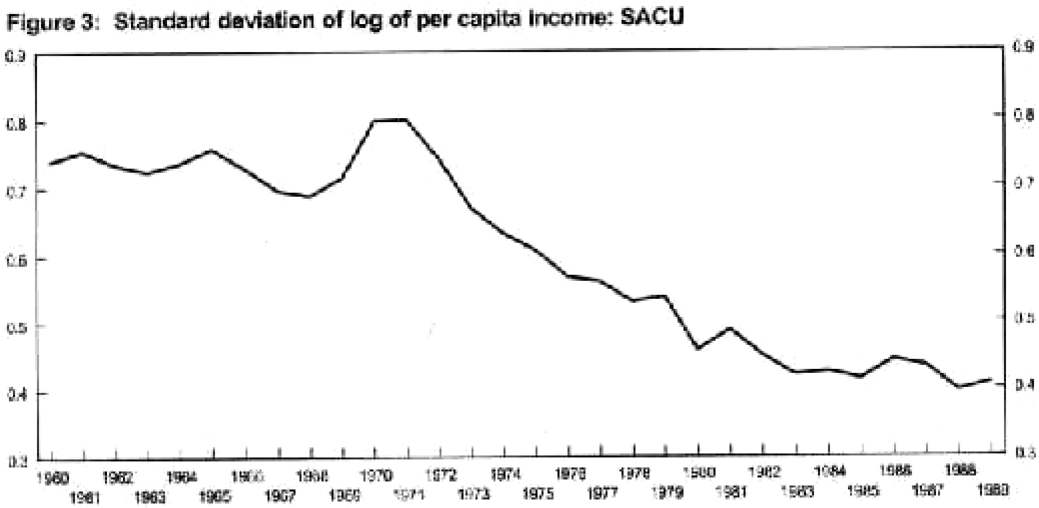


Figure 4. **The Relationship Between Per Capita Income in 1960 and Subsequent Growth (EU)**

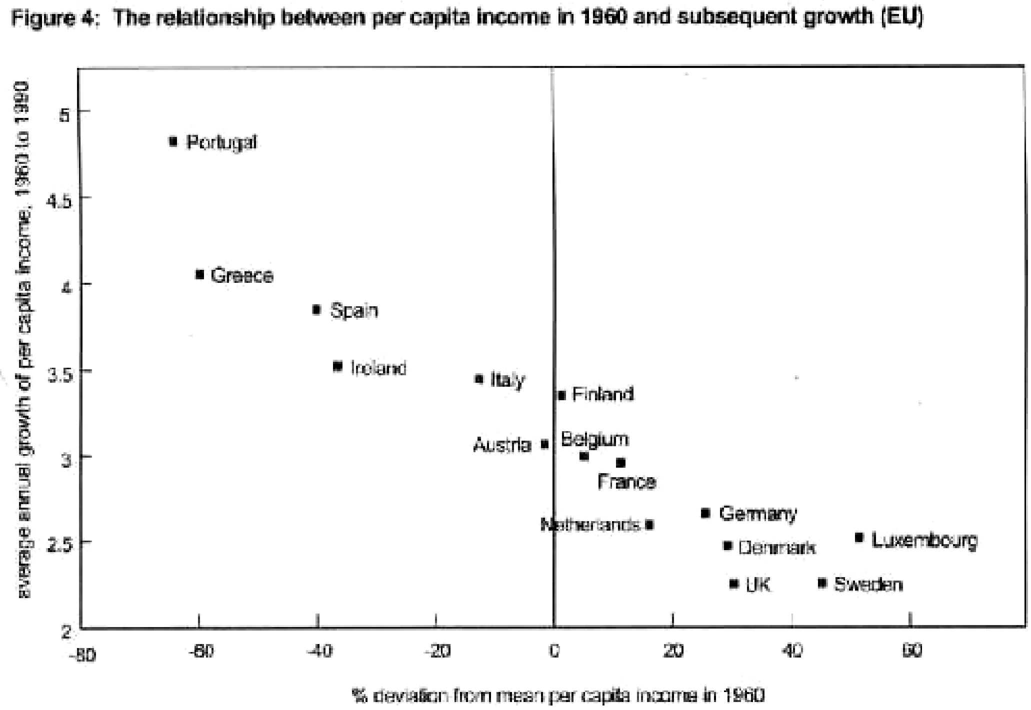
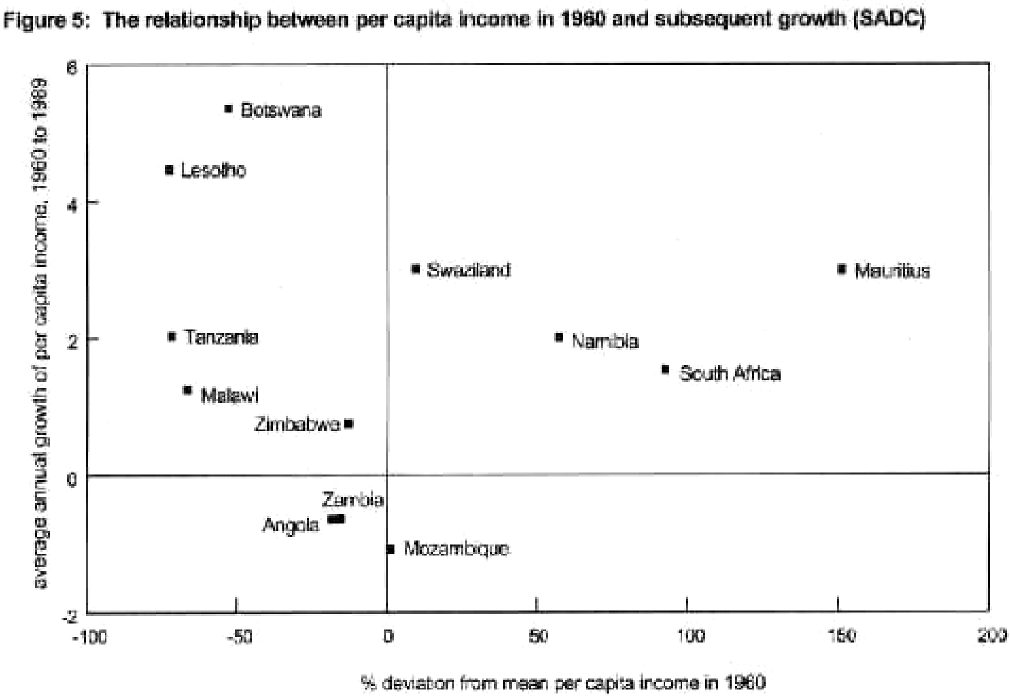


Figure 5. **The Relationship Between Per Capita Income in 1960 and Subsequent Growth (SADC)**



III.4 Implications for the SADC

The Potential Benefits of the FTA

The existence of one convergence club in Southern Africa provides some grounds for optimism that "catch-up" convergence could also occur in a more closely integrated SADC. Smaller members of SADC stand to gain from regional integration in a variety of ways.

i) South Africa is more than three times the size of the sum of the economies of the other SADC members, each of which, therefore, stands to increase their export markets substantially, with the potential for reaping economies of scale in domestic production.

ii) While exposure to South African competition will inevitably eliminate some production, more efficient firms will improve productivity and output, and diversification into products for the comparatively large South African market can be expected.

iii) Exposure to South African competition will help prepare smaller countries for greater integration into the world economy, by enhancing both quality and productivity, and thereby competitiveness.

iv) Countries undergoing donor-funded structural adjustment programmes (SAPs) will find the credibility of their trade liberalisation enhanced, because the policy lock-in mechanism of a regional FTA should be more effective than liberalisation under SAPs has proved to be. If SADC develops an effective enforcement procedure, the costs of reversal of the SADC process could be high for a defaulting member, making it more likely that policy changes will be sustained.

v) Outward investment from South Africa will both increase resources (access to savings and foreign exchange) and provide opportunities for technology transfers and better integration with South Africa's more sophisticated financial markets.

vi) Greater two-way trade together with foreign (mainly South African) investment should generate industrial development and help the diversification of production into non-traditional exports.

South Africa also stands to benefit from the regional FTA:

i) There should be some market expansion, particularly for manufactured output, as the SADC countries are an important destination for South Africa's manufactures. There are two caveats to this: first, in aggregate the SADC market is considerably smaller than South Africa's total (formal) domestic market; and second, market penetration by South African exporters will probably occur anyway, even without a SADC FTA.

ii) The FTA will increase opportunities for profitable cross-border investment, not least by improving the flow of information.

iii) South African investment in the region will generate additional demand for South African goods, with second-round growth effects for existing firms.

iv) There should be slower inward cross-border migration if the neighbours are expanding their economic — and especially industrial — capacity. Higher rates of economic growth from increased trade and greater investment should create jobs in the smaller countries, some of which are exporting labour both legally and illegally to South Africa.

However, regional trade liberalisation is not in itself a solution to creating economic growth in the region. There are three important points that need to be considered. The first is that South Africa should not be tied to the region at the expense of pursuing wider economic opportunities; second, that regional integration should be viewed as a first step in the process of wider trade integration; and finally, SADC governments need to adopt macro and microeconomic policies that are consistent with promoting trade and investment. These issues are explored below.

Regional Integration Will Not Be Enough for South Africa

One of the implications of the notion of convergence clubs is that there may be limits to the extent to which growth performance via regional arrangements can be enhanced: “catch-up” implies that the benefits in terms of economic growth are greater the lower the initial level of income. In other words, the richest member is constrained in the extent to which economic growth can be accelerated by the forces driving catch-up. This suggests that, if South Africa is to improve its own growth performance, it will need to look beyond the region.

Securing faster future growth requires that South Africa expand its trade agreements beyond that with SADC. There are three reasons for this. First, South Africa does not reap significant dynamic gains from regional trade: on average it has superior technology, is the source of most of the region’s investment, gains no enhanced credibility, and has limited opportunities to reap economies of scale. Second, many non-SACU members of SADC are instinctively protectionist, and regional integration is seen by some of them as an alternative to unilateral liberalisation. A frequently raised motivation for regional integration in Africa is a lowering of dependence on OECD economies. In this way, their agenda is different from that of the SACU countries, which have embarked on closer integration into the world economy via unilateral liberalisation, under a WTO agreement. Finally, South Africa needs to be in a position where it has the opportunity to converge on both high-income and fast-growing economies. South Africa should look to establish a network of reciprocal FTAs with regions such as the EU, NAFTA, East Asia and possibly Australasia. It is, in the interests of SADC as a whole for the dominant partner to accelerate its growth through expanding trade with the rest of the world (Jenkins, 1997).

The FTA as One Stage in the Process of Globalisation

For all SADC members, regional integration should be perceived as one step in a process of greater integration into international markets. Regional integration is complementary to global integration: it can play an important role in facilitating trade and investment through creating larger markets, which could ultimately enable SADC to compete in the global context. Continued progress in liberalising *vis-a-vis* the rest of the world is important for the entire region. Two initiatives are of particular relevance: the free trade agreement between South Africa (and the other members of SACU) and the EU; and the negotiations on the successor to the Lomé convention, through which SADC members (with the exception of South Africa) have preferential access to the EU market.

The main provisions of the SA-EU agreement were outlined in Section II. This FTA offers potential benefits both for South Africa and the region, especially in terms of enhanced incentives for investment, although, as with any trade liberalisation, there are concerns about the short-term impact on domestic producers. For South Africa, it offers the potential (long-term) opportunity for stronger growth and convergence with higher-income economies; for the rest of SADC, stronger growth in South Africa may provide a regional stimulus.

The Lomé convention, the current version of which is due to expire in 2000, has previously provided preferential access to the EU for around 70 developing countries on a non-reciprocal basis. All SADC members with the exception of South Africa are included in the ACP group. It seems likely that the renegotiated Lomé agreement will be fundamentally different in scope — including the principle of reciprocity of access to markets. For SADC, perhaps the most important change being proposed by the EU is that new agreements will be reached with regional (trade) groups as opposed to individual countries — in effect, Lomé will be reorganised through the establishment of a series of FTAs with developing regions. While the EU's proposals face considerable opposition from the ACP group, they nevertheless underscore the potential importance of the SADC FTA as the basis on which a new Lomé agreement could be negotiated by Southern African countries.

In summary, in the long term, the SADC FTA could be one of a series of extra-regional trade arrangements in which Southern African countries participate. A shift away from non-reciprocal trade preferences with the EU and towards a SADC-EU FTA may be considered as the next stage in SADC's move towards global integration.

III.5 The Estimated Effects of the FTA

Studies of the effects of the FTA on SADC members tend to be ambiguous, although on balance the results are positive. Page *et al.* (1999) find that, the more liberal the trade regime, the higher the welfare gains for SADC countries, although the proposed regional agreement with the EU which could replace the current Lomé arrangements are inferior for all members because of the trade diversion effects. This is entirely consistent with the results of the region-wide modelling exercise of Evans (1997).

The primary effect of any trade liberalisation undertaken by SADC countries is generally found to be the fall in tax revenues. The longer-term effects of the regional FTA on government revenue will almost certainly be positive due to the favourable effects on growth, but in the near term, regional trade liberalisation is likely to have some adverse effects on revenue (Leape, 2000). These adverse effects can be limited to the extent that the implementation of the FTA is asymmetric, although virtually all countries will need to put in place some fiscal adjustment measures to offset expected revenue losses.

The effects of the agreement between the EU and SACU is expected to be modest in its effects, primarily because it is modest in scope (Stevens, 1997)[21]. If the EU-SA agreement were far-reaching, it would be likely to shift the balance of trade further in the EU's favour. However, for South Africa, and the rest of SACU [Botswana, Lesotho, Namibia and Swaziland (BLNS)], only a small percentage of current exports face a material improvement in terms of access to the EU — and many EU imports are capital goods which currently enter SACU duty-free. BLNS firms report that they are unlikely to be much affected by the agreement (BIDPA, 1999). Some are already exporting to Europe. Others produce non-competing goods for the lower end of the market: makers of cheap footwear or boiled sweets do not compete with imports of Italian shoes or Belgian chocolates. South African producers are already adjusting to WTO-driven unilateral liberalisation. In theory, they could lose current SACU markets to European competitors. However, long-established commercial relationships are not easily broken, and South African suppliers are closer, which means shorter delivery times and easier servicing arrangements.

There has been concern about the effect of the agreement on those Southern African countries outside SACU. As 85 per cent of the exports of these countries to SACU markets do not compete with the EU, they will not immediately be directly affected. Indeed, if they succeed in negotiating a SADC free trade area, their direct exposure to South African firms will be of greater concern than EU competition.

The intangible cost of the EU-SA FTA may accrue to the EU. It wants to replace the nonreciprocal Lomé system with a series of agreements with groups of developing countries. The EU's agreement with South Africa was billed as a post-Lomé test case. Its unwillingness to make genuine concessions to a developing country smaller than Belgium has undermined its credibility as a negotiating partner in both this forum and the WTO[22]. This credibility may be hard to regain.

IV. BARRIERS TO REGIONAL INTEGRATION

IV.1 Political Barriers to Regional Integration

Reaching agreement on the details of tariff reduction is not the only barrier to successful regional integration in Southern Africa. There are also considerable political tensions in SADC. These tensions surfaced during 1998 following the military intervention by some member states in the war in the Democratic Republic of Congo (and others in Lesotho following an attempted coup). It is not clear when the situation in the DRC will be resolved, and there is a risk that political divisions, sharpened as a result of this conflict, may undermine the fragile process of regional integration in SADC. The difficulty in forecasting political events is that the region remains volatile, and at least some of the leaders are unpredictable.

Of course, there are potential political benefits from regional integration. For example, the political and economic bargaining power of African countries might be strengthened if their voice came from regional organisations. Given the extreme difficulty of achieving an agreed pan-African view, regional organisations are more likely to be effective than continent-wide ones in presenting a collective position on globalisation issues. There is also a gain from achieving collective view on intra-regional issues, such as a anti-narcotics strategy or joint infrastructural initiatives. There is some evidence that regional groups survive, with good attendance at meetings from heads of state, so long as they achieve some diplomatic recognition and success, but that they fade away when such gains are small (Harvey, 1999). In this sense, SADC has, up until now, been quite successful.

A measure of success for SADC in establishing a common position in international fora and on issues of regional significance will mean that it is worthwhile for member governments to minimise intra-SADC political differences. It is significant that the public hostility that existed between President Mandela of South Africa and President Mugabe of Zimbabwe has not yet surfaced with the appointment of a new South African head of state. Indeed, President Mbeki risked domestic and foreign disapproval in refusing to condemn, publicly, land invasions and political intimidation prior to the 2000 elections in Zimbabwe. Instead, in May, the South African government raised some £9 million from Saudi Arabia and Nordic countries to buy 118 farms designated for acquisition by the government of Zimbabwe. This was designed to defuse tension over the land issue within Zimbabwe and between the British and Zimbabwean governments. Mbeki's attempt to replace hostility with quiet diplomacy may mark a sea change within SADC[23], although it does not follow that Mugabe will reciprocate. With the normalisation of relations with South Africa, Zimbabwe lost regional supremacy, and this has frequently been cited as the main reason for Mugabe's antipathy to any leadership in regional affairs shown by South Africa.

It was mentioned earlier that, underlying many of the tensions in Southern Africa, there is a fear of the dominance of South Africa. There is a clear need for South Africa to be seen to be taking the concerns of its smaller neighbours seriously. South Africa has shown some willingness to make concessions — such as opening its markets to regional partners more rapidly than called for as part of the proposed SADC FTA and accepting, in principle, a SACU secretariat — but it still does demonstrate a tendency to assume regional leadership and to pay scant attention to the concerns of its smaller regional partners. It has yet to be seen whether the asymmetric phase-in of the SADC FTA will be enough to allay fears of polarisation of industry in South Africa as a result of integration. If it is not, and if the current climate of suspicion of South African intentions is not improved, then the development of regionalism in Southern Africa may not be sustainable.

Domestic tensions may also undermine progress towards the formation of the FTA. For example, both the revival of hostilities in Angola and Zimbabwe's economic decline have the potential to disrupt those countries' compliance with any agreement, even if ratification proceeds. The optimism, which was evident in the region in 1996 and 1997, has given way to a fear that the process might be difficult to get underway, even though it is ratified by a majority of member states. South Africa's unilateral implementation of its own offer might be viewed as an attempt to precipitate action.

If credible sanctions for non-compliance can be established, trade integration will create a regional agency of restraint, limiting government discretion in making trade policy changes and providing more predictability and stability for importers, exporters and investors[24]. Failure to achieve a free trade area because of non-compliance by all members will mean that the SADC free trade area will suffer the fate of other FTAs in Sub-Saharan Africa; and a failed attempt would set back future attempts at regional integration by many years.

Political factors may, therefore, be a greater problem in sustaining than in creating the FTA. Political conditions in SADC fluctuate: there was considerable optimism in 1996-97 as progress was made in creating protocols not only on trade but on energy and transportation; in 1998, it appeared that the collapse of SADC on the back of political fallout was imminent; in 2000, this threat was reduced and the FTA was implemented by a majority of members. The enthusiasm and goodwill that was necessary to agree on establishing the FTA will, however, evaporate if not all members see themselves as gaining equally from closer economic integration. Sustaining the FTA is the subject of Section V.

IV.2 Economic Obstacles to Regional Trade Integration

Inconsistent Economic Policies and the Timing of Liberalisation

International experience shows that inconsistencies between the macroeconomic policy package and the trade regime tend to undermine trade liberalisation, whether regional or unilateral. This may mean that trade liberalisation is premature for some countries. The reasons are sketched briefly below.

In the first place, one of the goals of regional trade liberalisation is the diversification of the export base away from dependence on primary commodities towards non-traditional exports. Even if there is spare capacity in the economy as a whole, existing capacity may need upgrading, and new investment is required for the production of value-added exports to take advantage of improved access to neighbouring markets. However, if the government deficit is large, the imperative of raising interest rates, in order to maintain overall macroeconomic balance in the face of fiscal imbalance, raises both the direct cost and the risk of investment. If the authorities do seek to finance public-sector deficits in a non-inflationary way by borrowing domestically, private investors are crowded out of access to accumulated domestic savings: savings in the financial system are lent to the government and, consequently, are not available for private investment. To avoid this, governments may borrow offshore, but this adds to the external debt burden. Large budget deficits are therefore incompatible with trade liberalisation.

At least half of SADC members need to engage in significant and sustained tightening of the fiscal stance, if the benefits of the FTA are not to elude them. Countries that continue to run large budget deficits will fail to realise much of the advantage that could be gained from the freeing of regional trade. It is very clear that in most SADC countries, with some notable exceptions, the fiscal position is incompatible with either unilateral or regional trade liberalisation.

In the second place, an appropriate exchange-rate policy is of crucial importance in supporting trade liberalisation initiatives. If there are balance of payments problems, devaluation of the domestic currency should promote a response to trade liberalisation from the export-producing sectors (at least over time). If the domestic exchange rate is overvalued — either because the government has large international debt obligations and will not devalue, or because price inflation is higher than the rate of currency depreciation — then there will be a reluctance to invest in the production of processed exports. An overvalued currency is, therefore, also incompatible with the freeing of international trade.

For most SADC countries, preventing overvaluation of the real exchange rate will mean bringing inflation under control. It appears that, although trade flows depend on real bilateral exchange rates, policy in many SADC countries targets nominal rates. Rapid nominal depreciation during the 1980s and 1990s has not been sufficient to offset domestic inflation, resulting in appreciation (or at least a considerably slower depreciation) of the real exchange rate. This undermines the development of the export sector, particularly nontraditional exports to other regional economies. It is imperative, therefore, that inflationary pressures be controlled if exchange-rate policy is to be used to support the SADC free trade area. If inflationary pressures arise from monetisation of the fiscal deficit, this is further reason to bring government spending under control.

In summary, not all SADC countries are implementing policies that place them in a position to take advantage of the opportunities presented by a FTA[25]. The successful removal of trade restrictions therefore requires, in addition, both government deficit reduction and the elimination of currency overvaluation. Trade liberalisation — of whatever form — is not a panacea in itself. SADC member states must implement consistent domestic macroeconomic policies as well as appropriate micro-level measures to improve the environment for investment if regional integration is to deliver the long term goal of stronger economic growth. In other words, regional trade policy is just one element of the overall economic policy framework, each component of which needs to be consistent if the goals of trade liberalisation are to be realised.

Overlapping Memberships

The regional arrangements are a muddle (see Appendix 2). Five members of the SADC belong to the SACU, and all, except Botswana, Lesotho, Mozambique and South Africa, also belong to Community of Eastern and Southern African countries. Seven of these countries are also signatories to the Cross Border Initiative (which aims to promote trade and investment, but is not a formal grouping). Tanzania is also a member of the revived East African Community. Zimbabwe has bilateral trade agreements with three of the five SACU countries: South Africa, Botswana and Namibia, and the SACU countries have a free trade agreement with Malawi. The contradictions inherent in dual (or more) memberships are being addressed as part of the FTA negotiations.

In addition to these problems, developments both in the evolution of the world trading system and in the position of the EU, with respect to former colonies, could create difficulties for SADC trade liberalisation. South Africa, which is classified by the EU as an economy in transition, has an agreement with the EU that requires reciprocity in tariff reduction. All other SADC countries are currently members of the Lomé Convention, which gives non-reciprocal preferential access to former European colonies. The Convention contravenes WTO rules, although there is a temporary waiver while a successor is negotiated. The EU, however, has now classified its ex-colonies into developing and least developed countries, and expects the former to provide some measure of reciprocity under any new regime which is negotiated. Five SADC countries are classified as least developed, while the rest (apart from South Africa) are developing. This means that there is potential for goods with reduced tariffs to be imported from the EU by the "more advanced" members of SADC and re-exported under the FTA to members, which should be protected by higher tariffs. Although there is precedent for multiple trade agreements by different countries (as, for example, in Latin America), intra-regional identification and documentation of rules of origin need to be carefully policed, or there is potential for conflict to arise within the SADC over "cheap" imports from outside the region crossing borders where tariffs are payable.

V. NON-TRADE CHANNELS OF REGIONAL INTEGRATION AND CO-OPERATION

V.1 Making the FTA "Work"

Although much of the work needed to make regionalism successful in Southern Africa is in the hands of domestic governments, there is scope for regional initiatives to support the FTA — for example, there is potential for improving transport links through regional networks and for developing multi-country initiatives to attract investment. Moreover, the perceived need for sharing the potential gains from regional trade will inevitably require some mechanism for ensuring balanced development in the region. One alternative that is currently being explored is the creation of a regional development fund, financing investment in infrastructure, which could accompany the establishment of the FTA. These issues are discussed below.

Compensating Mechanisms and a Regional Development Fund

There is no strong economic case for payment of compensation by net intra-regional exporters within a free trade area (since an FTA avoids the price-raising effects of the common external tariff that is required by a customs union). There may, however, be political reasons for redistributing gains from regional trade liberalisation, so that all parties are seen to benefit. The experience of, and practice in, other regional trade groups, from both developed and developing areas, differ considerably. The SACU revenue formula cannot be considered a precedent for SADC, because the SACU is a full customs union. In the latter case, there is a strong argument for payment of compensation by South Africa, which is the net exporter to a region protected by a common external tariff.

In an FTA, there may be reasons, both political and economic, to enhance the intra-regional flows of resources from core to peripheral economies in order to redistribute the gains from freeing regional trade. The point of offsetting payments is not the provision of an alternative source of revenue for cash-constrained governments, but an equitable distribution of benefits between private economic agents. This is particularly true where core economies attract most foreign direct investment from outside the region[26].

Where compensating payments are neither economically justifiable nor politically feasible, it is possible to facilitate the reduction of regional disparities through regional investment incentives and infrastructural and educational development. Infrastructural development in particular is likely to advance the aims of the SADC FTA.

One option for financing this is to establish a regional fund. There are so many examples where these have failed that the prior design is crucial. Some suggestions are made below[27]:

— Contributions to the fund should come from governments in proportion to their intra-regional exports. This may be topped up by donors.

— It is imperative that projects requiring resources from the fund use co-financing from national sources, private and public, and that local resources be spent before Community funds or aid. Private-sector participation in development projects is important, for the quality and efficiency of projects, and for building private-sector capacity.

— Projects involving more than one SADC country should be given preference in allocating resources from the fund, and each country applying for financing should be on target with the timetable for liberalisation under the FTA. This supports both co-operation and compliance, and ensures that transport and communications routes are competed from end to end when they need to cross national borders.

— The approval of applications for projects will be politically sensitive, and it is therefore critical that this be the task of a supranational body with political autonomy and a clear mandate to make decisions based on transparent criteria. It will be more cost-effective to strengthen and use existing institutions than to create a new one. The project-approval body should not be a separate permanent commission, but a committee that meets several times a year. It should be composed of representatives from the SADC Secretariat, the SADC Finance and Investment Sector Coordinating Unit (FISCU), one or two other relevant co-ordinating units and those who are providing the finance.

There are two reasons why this is an obvious area of South African involvement. First, the FISCU is located in the Department of Finance in Pretoria, as finance and investment is the portfolio held by South Africa. This places a regional development fund directly within South Africa's remit. Second, the Development Bank of Southern Africa, established during the apartheid era to finance "separate development", is solvent, competent, experienced in development lending and already lending to other countries in the region. It would, therefore, be a reasonable institution to administer a regional development fund.

The problem is that, as South Africa would be the largest contributor to the fund, and as there are already problems with the leadership role it assumes in the region, there would be objections to what would be seen as South African control of (and funding), of regional development programmes. The approval of applications should, at least, occur in a "neutral" venue by a committee made up as suggested above.

Transport[28]

Since its inception, SADC has given priority to investment in transport and communications, recognising that the efficient movement of people, goods and services is the key to successful regional co-operation and integration. Despite its efforts, however, transport and communications problems are still found and represent a major non-tariff barrier affecting, in particular, the competitive position of the smaller landlocked countries.

A particular onus rests on maritime countries which, by definition, have to serve their landlocked neighbours dependent for their overseas trade on port, road and rail networks to the sea. In turn, the landlocked countries, like Botswana, frequently offer important transit routes for through traffic between other landlocked countries and a maritime country.

What is required is a clear policy at a SADC level with all governments committing themselves towards establishing efficient inter-modal competition. It is important that the efficiency of cross-border transport be maximised, while simultaneously minimising the investment in physical infrastructure, given competing demands on the exchequer in all countries of the region, and the need to keep foreign debt within bounds (unless physical infrastructure is privatised).

The three modes which should compete for cross-border traffic in the region are road, rail and sea (air transport is limited to passengers and very specific cargoes). The declining standards of most national railways has led to under-utilisation of this mode and the loss of traffic to road. Rail infrastructure needs rehabilitation and/or upgrading in most countries, and it is clear that the continuation of a situation characterised by national railways of differing efficiency and capacity will militate against the ability of rail transport to compete in terms of service with road hauliers. The tendency for traffic to move away from rail to road is a worldwide trend and, indeed, many categories of goods are better suited to road transport. However, the road system in many countries is also sub-standard, requiring considerable investment to upgrade the network to cope with the increased volumes of transport.

Competition is reduced, however, by the differential effective subsidies applying to road and rail transport. The main policy problem in road-rail competition is the failure to introduce equal operating conditions for the various modes. Road hauliers at present are not charged the full user costs because of inadequate road pricing policies, and it is of critical importance that these charges be leveled in such a way that full costs (including social costs of pollution and accidents) are recovered. Rail is, by contrast, commercially operated in most SADC countries, and operators have also to raise the capital costs of infrastructural investment. A SADC-wide policy of subsidy elimination and recovery of full user charges is necessary to harmonise costs across the entire region.

SADC co-operation is also needed at an administrative level. Delays facing rail and road operators at border posts should be minimised by joint inspections, the harmonisation of documentation, and improved staff efficiency.

The regionalisation of air and rail networks is important, and should help not only efficiency but also reduce the burden carried by taxpayers of loss-making utilities. For example, for rail one solution to improving co-operation is to establish a regional rail corporation, the ownership of which is held jointly by national governments (each with equal shareholdings) and the private sector. A regional railway would be the best way of providing a seamless service with through rates and a minimisation of trip time, obviating the present system of changing crews and locomotives at the border. As rail competes with road, the problem of a monopoly transport mode does not really apply. Although the idea of a regional rail authority has been mentioned, particularly by the South African rail company, it has found little support in the face of the "national flag carrier" syndrome[29]. There has been less resistance to co-operation within the airline industry: for example Alliance Airways is a joint venture between three SADC countries.

There is growing interest in the concept of cross-border development corridors in Southern Africa and, in South Africa, the government is promoting the similar concept of spatial development initiatives. Such projects generally involve government, local and foreign businesses, multilateral agencies, and are aimed at promoting the development of infrastructure and investment across several sectors within a particular (cross-border) area. For example, the first of these is the Maputo Corridor, which runs between the industrial Witwatersrand-Pretoria region of South Africa and the port of Maputo in Mozambique, passing through areas of mining, industry, agriculture, forestry and tourism.

As the country with the largest harbours and the most advanced rail and road network, South Africa will clearly be involved in regional transport initiatives. However, the SADC transport authority is based in Maputo (Mozambique), and it is important that regional initiatives are co-ordinated there.

Investment

South Africa's large trade surplus with the region will need to be offset by financial flows in the opposite direction. In itself, a continuing trade deficit with South Africa is not a problem if the smaller economies are running trade surpluses with other partners (or receiving aid that allows them to purchase from South Africa). However, for political sustainability, capital will need to flow from South Africa to its neighbours, either in the form of direct investment by South African firms (or multinational corporations based in South Africa), or in the form of finance. The latter will imply an extension of the South African financial system to its neighbours, developing *de facto* a monetary zone centring around the rand.

Currently, what little intra-regional investment there is occurs exclusively from South Africa outwards. Even during the period of tight capital controls, it was possible for South African investment to occur in the region. Historically, this was dominated by mining investment, although more recently, it has also occurred in other sectors, notably financial services, beer brewing and construction. Construction companies are particularly interested in positioning themselves to take advantage of their eligibility to tender for projects funded by multilateral donor organisations. In other sectors, the primary objective of South African investment in Africa has been to obtain lucrative contracts, rather than to establish manufacturing concerns. South Africans are as nervous about investing in the rest of Africa as they are about domestic investment. An exception is Mozambique, where access to complementary agricultural raw materials has prompted large investments, usually in joint ventures with local entrepreneurs.

No exchange controls exist between SACU members, and members co-operate in exchange control procedures with outside parties. The rules for outward investments in Southern African countries tend to be more leniently applied than those destined elsewhere.

Flows of investment within the region are likely to be influenced by several factors. First, South Africa's agreement with the EU allows its products to qualify as inputs to regional exports under the Lomé Convention. This could increase the incentive for South African firms to invest in other countries in the region in last-stage manufacturing, using South African inputs. Second, South African firms are taking the opportunity to purchase public enterprises currently being sold off under World Bank-sponsored privatisation programmes. One of the attractions of this option lies in many public enterprises currently being monopolies. Third, direct investment from outside the region is likely to be located in South Africa rather than the smaller countries.

The cumulative effect of these factors is that cross-border investment is more likely to come from South Africa than from anywhere else. The flows are therefore unlikely to be significant in relation to the trade imbalances. Ironically, if these flows did become large, they would cause political resentment at the increased foreign ownership of domestic assets, a contributing factor to the nationalisations of the 1960s and 1970s.

Both trade and investment are hindered by exchange-rate instability, and would, therefore, probably grow faster if more formal arrangements could be established to reduce the uncertainty associated with fluctuating exchange rates (Harvey and Hudson, 1993).

Macroeconomic Policy Co-ordination

International interest in policy co-ordination is driven, at least in part, by the spillover effects of macroeconomic policy. Within SADC, South Africa's regional dominance, and the cross-border impact of un-coordinated structural adjustment programmes, have generated an interest in the potential for a policy co-ordination, as is being attempted in the EU. For example, because changes in South Africa's exchange-rate affects immediately all countries in the region (see Harvey and Jenkins, 1992), there appears to be a case for a degree of exchange-rate co-ordination in the region. This would apply to all members other than South Africa, Lesotho, Namibia and Swaziland, which are already members of a (rand) common currency area.

In 1996, research was commissioned by the FISCU to consider whether SADC member states should move towards greater economic integration through macroeconomic policy co-ordination. Based on the divergence of the regional economies, as shown in Section II, as well as the significant divergence of the policy regimes pursued by different governments across the region (as summarised in Appendix 3 (Table A3.2), it was argued that Southern Africa is not yet ready for regional monetary integration (Jenkins and Thomas, 1997). A subsequent report, written in 1998, confirmed this recommendation (FISCU, 1998), but suggested that either the Secretariat or FISCU establish a unit to monitor macroeconomic policy developments in the region.

To a very great extent, a nation has the ability to achieve its economic goals by itself. Although the levels of demand, inflation and interest rates in one country affect economies elsewhere, a country can manage its own monetary and fiscal policies to offset many of the potential influences from abroad. There is a serious risk that economic summits and ministerial meetings can slow down the taking of painful decisions to make appropriate changes to domestic policies. This occurs either because politicians feel that they can escape their responsibilities by blaming poor domestic performance on policies pursued abroad, or because they hope that co-ordinated foreign action will make domestic changes unnecessary, or because their actions are, in fact, bound by international agreements. The attempt to pursue co-ordination in a wide range of macroeconomic policies is likely, even among developed countries, to result in disagreements that reduce the prospects for co-operation in those more limited areas of trade, defence and foreign assistance where international co-operation is actually necessary (Feldstein, 1988:3). The collapse of, or non-compliance with, international agreements can lead to recriminations, souring foreign relations. It is better not to set up a policy union which is destined to fail.

V.2 Miscellaneous

The potential role of supporting regional initiatives suggests that it will be vital for the various sectors of SADC to co-ordinate their activities. For example, while the regional FTA is the responsibility of the Industry and Trade sector in Tanzania, a regional development fund would more naturally fall under the remit of the Finance and Investment sector in South Africa. Development corridors and spatial development initiatives, co-ordinated by Mozambique, could require co-ordination across several sectors depending on the nature of projects envisaged. Such co-ordination will be important to reduce duplication of effort and to ensure an appropriate targeting of limited resources. Political rivalries, however, may make such co-operation difficult in the foreseeable future.

In assistance with supporting regional initiatives, as in other areas, the co-ordination of donor efforts is critical. With respect to the FTA in particular, there has been duplication of effort in some areas, while other important areas have been overlooked. A degree of duplication can stimulate debate on some key issues, but there is a lack of capacity among most SADC members — and the SADC Secretariat — to absorb a wide range of inputs. These problems could be addressed by, for example, commissioning regular overviews when a variety of consultants' reports on very similar topics have been produced.

VI. CONCLUSION

Regional trade agreements are fashionable. Although many developing countries are, or are likely to become, involved in negotiating such arrangements, it is still not clear whether they advance or retard multilateralist and developmental objectives. Economic analysis cannot supply a definitive answer, partly because of the great variety of trade agreements, but it can identify the key questions to be asked of any proposal. Agreements that liberalise a high proportion of participants' trade, extend the boundaries of trade policy in ways that are compatible with multilateral accords, and ease barriers *vis-á-vis* non-members are generally to be preferred to those that do not (Stevens, 1999).

Even if Southern African countries succeed in agreeing an accord, which contains all of these ideals, there is a possibility that regional integration could still founder on political conflict. That is a point which has been repeated at several points in this report. There is potential for the meaningful co-operation which currently exists in SACU and the CMA to be extended to other countries in the region. The question is whether such co-operation can be made sustainable. It is important that all countries gain from the initiatives, so that underlying political tensions are eased and do not become a destabilising factor in the process of integration. A system of credible sanctions for non-compliance should be established, including the ultimate sanction of exclusion. Agreement on this will be so difficult to achieve, that positive incentives to comply with and therefore maintain the process of regional integration will be crucial. OECD countries can foster these benefits. If, for example, SADC is given more than a token hearing in international fora, the political will to develop and maintain a common Southern African position will be significantly enhanced. This will have the added benefit of keeping SADC members engaged over matters of purely regional interest.

It is important that the Community as a whole adopts an outward-looking focus rather than a narrow regional view. For South Africa, this is particularly important for accelerating its own economic growth. Regionalism in Southern Africa should be seen as a step towards increased participation in the global economy. In particular, the SADC FTA could become a means for pursuing trade agreements with a range of developed and developing regions.

Finally, co-ordination of supplementary activities, many of which are within existing institutional divisions of SADC, will be of increasing importance as the region becomes more integrated. Regional co-operation across a wide range of sectors should contribute to creating consistent policy frameworks for increasing trade and cross-border investment. South Africa's role is important, but much of the responsibility in this area will ultimately lie in the hands of the domestic governments themselves.

Appendix 1

Year(s)	Policy change, important commissions, relevant events (South Africa)
1925-72	The period of import-substitution industrialisation (ISI)
1925	Adoption of ISI with the Customs Tariff and Excise Duty Amendment Act
1948	Introduction of QRs
1958	Viljoen Commission recommends continued ISI, but using tariffs rather than QRs or subsidies
1969	SA government announces its intention to lift QRs under pressure from the GATT and the IMF, but does nothing
1972-83	The first trade liberalisation episode
1972	Reynders Commission recommends export promotion
1972	Export incentive measures are introduced
1972-76	Some relaxation of QRs
1975-79	The rand is devalued
1978	Further assistance to exporters introduced in line with the Van Huyssteen Committee's proposals
1979-80	Rand appreciates sharply
1983-91	The second trade liberalisation episode
1983	Kleu Study Group recommends a move away from ISI
1983-85	The reduction of QRs is resumed
1983	The dual exchange-rate system is abolished
1983-85	The external value of the rand falls significantly
1985	Government white paper recommends a dual approach to industrial policy: ISI and export promotion
1985	Debt crisis; dual exchange-rate system re-introduced
1985	Substantial import surcharges introduced
1987	BTI begins to move proactively towards trade policy reform
1989	QR removal continues
1989	"Structural adjustment" export incentives introduced for clothing, textiles, automobiles and automobile components
1990	General Export Incentive Scheme (GEIS) is introduced
1990	The phasing out of the import surcharge begins; not completed
1991	An accelerated depreciation tax scheme is introduced
Current	The third trade liberalisation episode
1994	The conversion of QRs to tariffs is completed
1995	Import surcharges are eliminated
1995	Tariff reduction in line with GATT requirements begins
1995	The financial rand is abolished
1995	Negotiations with the European Union over trade preferences commence
1996	The SADC free trade protocol is signed
1996	Further exchange control liberalisation is announced
1997	GEIS removed and replaced with WTO-compatible export incentives
1999	Agreement is finally reached with the EU

Appendix 2. Existing Regional Trade Arrangements

i) The Southern Africa Customs Union (SACU)

The SACU was established in 1969 between Botswana, Lesotho, South Africa and Swaziland. Namibia became (remained) a member on achieving independence in 1990. Tariff revenues are pooled and shared out according to a revenue formula, which has a considerable compensation element paid out by South Africa to the other, smaller members. All members except Botswana are also members of a common currency area. Although considered a success in terms of trade creation between the members, by the end of the 1970s, it was apparent that all parties had reservations about certain aspects of the agreement. Since 1995, the members have been involved in a protracted renegotiation of the agreement.

ii) The Community of Eastern and Southern African States (COMESA)

In 1993, a new treaty was drawn up by the nineteen members of the Preferential Trade Area for Eastern and Southern African States (PTA), and three additional signatories establishing COMESA. The intention is to create a free trade area which will become a customs union with a common external tariff within ten years and eventually evolve into a common market. The original mandate of the PTA was large: its objectives were to promote trade among member countries and to promote development in industry, agriculture, human resources and communications within and between members. Action focused on trade promotion, the main instruments of which were tariff preferences and the establishment of the PTA Clearing House. The achievements were very limited. COMESA members will follow the PTA programme of tariff reduction, although the COMESA Treaty does contain a variety of new features, one of the most important being a provision for sanctions to be applied for non-compliance (including suspension or expulsion). There is nothing to suggest that COMESA will prove any more successful than the PTA arrangements, because trade potential between member countries is low, and because member governments are no more willing to allow COMESA rules and promises to override their domestic interests than they were to submit to PTA requirements. Lesotho and Mozambique withdrew from COMESA in 1996.

iii) The Southern Africa Development Community (SADC)

The SADC evolved out of the Southern African Development Co-ordination Conference (SADCC), established in 1980. The latter's objectives were to reduce the dependence of the region on the rest of the world (especially South Africa) and to promote regional co-operation in development projects. SADCC was never intended as a regional trade arrangement. It worked rather well in bringing regional political leaders together, and as a means for procuring foreign aid. The SADC Treaty (1992), however, is directly concerned with trade integration between the then ten members (see Table A2.1), providing for the reduction of tariff and non-tariff barriers to intra-SADC trade, greater co-ordination of external tariffs, the creation of regional infrastructural authorities, and freer movement of capital and people. South Africa joined SADC in 1994, Mauritius in 1995, and the Democratic Republic of Congo in 1998.

iv) The Cross-Border Initiative (CBI)
The CBI is not another independent attempt at regional harmonisation. It is an attempt to address the regional dimension of trade liberalisation and deregulation which, it is argued, is missing from national structural adjustment programmes. The initiative was launched in July 1990 at the Maastricht Conference on Africa. Its objective is to promote regional trade, factor mobility, and investment opportunities in the context of generally low trade barriers *vis-à-vis* the rest of the world. Several bilateral and multilateral donors (among them the European Union, the IMF, the World Bank and the African Development Bank) have actively endorsed the initiative, as have ten African countries. South Africa has participated in the discussions. Although there is a common plan of action, it is recognised that each participating country is at a different stage with respect to its trade liberalisation and efforts at regional harmonisation. The common plan of action recommends the elimination of all intra-regional trade barriers by the end of 1996, and the establishment of a common external tariff by the end of 1988. However, the initiative concentrates on regulatory impediments to regional trade and investment, recommending what needs to be done in order to increase cross-border trade and investment flows. Many of its recommendations are compatible with the aims of the PTA, SADC or national adjustment programmes, which it is not intending to replace.

The regional arrangements are a muddle. Five members of the SADC belong to the SACU, and all, except Botswana, Lesotho, Mozambique and South Africa, also belong to COMESA. Seven of these countries are also signatories to the CBI (which aims to promote trade and investment, but is not a formal grouping). Tanzania is also a member of the revived East African Community. Zimbabwe has bilateral trade agreements with three of the five SACU countries: South Africa, Botswana and Namibia, and the SACU countries have a free trade agreement with Malawi. The contradictions inherent in dual (or more) memberships are being addressed as part of the FTA negotiations.

Appendix 3. SADC Indicators

Table A3.1 **Comparative Size**

	GDP (in $ mns)	Population (mns)	GNP per capita ($) purchasing power parity
Angola	7 785	11.6	1 030
Botswana	5 238	1.5	7 390
Democratic Republic of Congo	19 828	48.0	790
Lesotho	953	2.1	2 380
Malawi	2 326	10.1	690
Mauritius	4 136	1.1	9 000
Mozambique	2 270	18.3	500
Namibia	3 159	1.6	5 390
Seychelles	521	0.1	not available
South Africa	132 646	43.3	7 450
Swaziland	1 138	0.9	3 320
Tanzania	5 358	31.5	not available
Zambia	5 115	8.5	860
Zimbabwe	7 905	11.7	2 200
Total	198 378	190.1	

Source: Jenkins and Thomas (2000), using *African Development Report 1998*, African Development Bank; *World Development Indicators 1998*, World Bank.

Table A3.2. **Economic Pserformance and Policy Frameworks in SADC**

Average 1990-95

	Real GDP growth	Consumer price inflation	External debt to GDP	Investment to GDP	Savings to GDP	Structural Adjustment Programme	Aid as % of imports	Exports + imports to GDP	Money supply growth	Real lending rates	Budget deficit to GDP
Angola	-0.4	870.3	250.1	14.0	30.1	no	21.1	80.3	...	...	-25.7
Botswana	5.0	12.5	17.2	33.1	31.5	no	5.4	124.8	8.7	0.3	5.7
DR Congo	-7.3	5 444.5	190.6	6.5	7.1	no	24.7	43.7	2 530.0	...	....
Lesotho	5.4	12.9	42.2	82.3	-26.7	yes	15.4	147.4	13.5	3.7	-4.5
Malawi	3.5	30.8	113.2	16.4	2.9	yes	79.2	62.0	31.1	0.0	-13.3
Mauritius	5.3	8.2	38.8	29.6	24.3	no	3.5	126.7	13.6	9.4	-2.9
Mozam-sbique	4.9	47.5	431.5	49.4	7.6	yes	143.4	86.5	...	...	-25.5
Namibia	4.2	11.8	12.9	20.1	13.3	no	9.1	119.7	25.0	6.9	-6.9
Seychelles	3.2	2.0	43.0	23.5	22.3	no	9.9	116.9	7.7	13.4	-6.0
South Africa	0.6	11.8	16.5	16.2	19.7	no	1.1	44.9	16.3	5.8	-6.5
Swaziland	2.3	12.7	25.8	19.9	12.0	no	7.4	172.6	13.9	2.5	-0.5
Tanzania	3.5	28.9	185.4	32.8	4.1	yes	68.3	65.8	31.3	6.8	-6.5
Zambia	-0.4	117.7	222.0	12.9	10.5	yes	95.2	64.6	61.0	-33.8	-12.4
Zimbabwe	0.5	25.9	70.4	22.1	18.2	yes	21.4	83.3	37.0	0.0	-10.0

Note: South Africa is defined as a closed economy according to the criteria used. However, it has a conservative, "investor friendly" macroeconomics stance and probably fits more comfortably in the group of "more open" economies.

Source: Compiled by Lynne Thomas (Centre for Research into Economics and Finance in Southern Africa at the London School of Economics) from *World Data CDROM, 1995, African Development Indicators, various issues, Global Development Finance, 1997*, World Bank; *International Financial Statistics Yearbook, 1997, Staff Country Reports, various issues*, International Monetary Fund; *Geographical Distribution of Financial Flows to Aid Recipients, various issues*, Organisation for Economic Co-operation and Development; *Country Reports, Country Profiles, various issues*, Economist Intelligence Unit; various central bank publications from Botswana, Swaziland, Lesotho, South Africa and Zimbabwe

NOTES

1. For example, the Southern Africa Customs Union; the (Rand) Common Monetary Area; and the CFA franc zone. It is interesting to note that these relatively successful initiatives involve links with a more developed partner — in SACU and the CMA, the partner is South Africa. The CFA franc was previously linked to the French franc and is now linked to the euro.

2. The other four members are Botswana, Lesotho, Namibia and Swaziland (the BLNS countries).

3. This section draws on a detailed account of South African trade policy by the author in Bleaney *et al.,* (1999).

4. Until the late 1980s, the exchange rate was highly volatile, which was hardly appropriate for an export promotion policy.

5. The share of imports (by value) requiring import permits fell from 77 per cent in 1983 to 55 per cent in 1984 to 23 per cent in 1985 (Levy, 1992:10). By 1989, the proportion was 15 per cent. The government was not, however, in favour of completely free trade. A government white paper issued in 1985 states:

   > The government wishes to make it very clear that it has never espoused any so-called "free-trade" policy. On the contrary, like all previous South African governments since 1924, and indeed earlier, it has decisively implemented a policy of protection for industry. Like previous governments, it has accorded protective customs duties, where justified, against competition from normally priced imports. This has continued to be done on a moderate and selective basis (RSA, 1985:14).

6. These did not take the form of increases in *ad valorem* tariffs, but the creation of a non-transparent system of import reference prices (known in South Africa as "formula duties"), the extent of protection increasing as the gap between an external reference price and the (lower) import price increases. Reference prices were often ruling Western European prices, implying that almost by definition countries exporting to South Africa at prices below those of firms in Western Europe were treated as if they were dumping. The formula duties became less important over time, as the formulas were not adjusted for inflation.

7. In 1994, the clothing and textiles industries, together with the South African Clothing and Textile Workers' Union, agreed to accelerate the tariff reduction programme (from 12 years to 10) in exchange for R4.5 billion in government aid to help with training and new investment. This agreement, known as the Swart plan, was jettisoned by the government when the Clothing Federation adopted a revised plan, proposing a two-year tariff elimination for textiles, claiming that it could then create another 65 000 jobs for very little capital expenditure.

8. Under the new formula, BLNS would be responsible for setting and collecting their excise duties, but customs duties would continue to be pooled before being distributed. The net effect will be that BLNS will receive about 60 per cent of the new (customs duty-only pool); nonetheless, this share, together with the excise duties they raise independently, is expected to result in a decline of customs and excise revenue because of tariff liberalisation.

9. The credibility of the reforms should not be overstated. While it is generally true that there is consultation and a degree of consensus, the process of liberalisation goes against much of traditional ANC philosophy and has met with resistance from both the SA Communist Party and the Congress of South African Trade Unions. This has meant that the government has sometimes held back from taking necessary steps, including extensive privatisation.

10. This is common amongst natural resource rich countries, where labour movements tend to be strong (Ranis, 1991).

11. Part of this considerable growth represents the recording of trade which was un(der)reported during the sanctions period, when African countries did not want to be seen to be trading too freely with South Africa. Nevertheless, intra-regional trade is actually still understated, because it excludes trade within the SACU (which is effectively treated by South Africa as domestic rather than foreign trade).

12. African, Caribbean and Pacific countries (the less developed Lomé signatories).

13. See Berg, 1988; Collier and Gunning, 1996; Decaluwé *et al*., 1995; De Melo *et al.,* 1993; Elbadawi, 1995; Fine and Yeo, 1994; Foroutan, 1993.

14. It is not suggested that the relief of this constraint necessarily confers success: SADC is currently divided politically (see below), while other regional groupings, notably COMESA and the new East African Community, are showing considerable political commitment to closer integration.

15. A brief history of these arrangements is appended (Appendix 2).

16. For comparative basic indicators, see Appendix 3.

17. This section draws on Jenkins and Thomas (1977).

18. For a third, more technical measure, see Jenkins and Thomas (1997).

19. Data are from the Penn World Tables, Mark 5.6.

20. An alternative methodology follows Quah (1995) and uses a Markov-chain process to estimate the probability that relatively poorer (richer) countries will raise (lower) their per capita income in the next period and thereby either converge or diverge. Using this approach, Jenkins and Thomas (1997) measure divergence in SADC over the last three decades.

21. As 40 per cent of SACU imports originate in the EU, the primary cost will be lost tariff revenue. The countries worst hit will be Namibia and Lesotho, which currently run deficits amounting to around 6 per cent of GDP. South Africa receives only 20 per cent of the revenue pool, so it is less affected, and tariff revenue in Botswana accounts for only 15 per cent of total revenue.

22. The process reflected badly on the EU. It is true that South Africa did not begin well, squandering initial goodwill in an effort to secure nonreciprocal access under old Lomé rules. However, the EU's early insistence that fishing rights be tied to trade negotiations and its (unreasonable) exclusion of certain agricultural products from discussion meant that its mandate was extremely unattractive. The problem with excluding so many agricultural products meant that South Africa's ability to exchange concessions with the EU during talks was severely reduced. It also sent a signal to poorer Lomé signatories that the EU remains determinedly protectionist about agriculture. It took over four years to conclude this deal, and even then, the signing occurred amidst rancour over the naming of fortified wines and the position of canned fruit exports, with European countries threatening a change of mind at the last minute.

23. In October 2000, Mbeki did, in fact, condemn as illegal land invasions in Zimbabwe.

24. The necessary investor confidence will take a long time to establish for individual countries, so the process must be accelerated. The potential benefits of a regional free trade area can only be secured if a credible collective agency of restraint is established by the SADC governments themselves. Other mechanisms might be able to contribute. For example, some form of partial investment guarantee to reduce the risks of South African investment in the SADC periphery could be positive. Such a scheme might attract donor support. This issue is considered below.

25. A summary of policy indicators is in Appendix 3 (Table A3.2).

26. Clearly foreign direct investment from the core countries to the smaller countries in the region will offset some of the trade diversion effects. This issue is considered below.

27. More details — and the reasons for each recommendation — are in Jenkins *et al.* (2000).

28. This section draws on Jenkins (2000).

29. However, a Southern African Railways Association (SARA) was formed in 1996 to deal with governments. SARA in the medium term may offer some of the benefits which have accrued in the USA from the formation of the Association of American Railroads (AAR). The AAR is now a key element in the efficiency of the US rail system, offering services to all railways, including standardisation of procedures, documentation, interlining arrangements, leasing of track and rolling stock, and the definition of technical standards. The main function of the SARA is to lobby governments on changes in transport policy, particularly with regard to providing equal operating conditions for road and rail.

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