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Regional Integration in Developing Countries: Some Lessons Based on Case Studies

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ABSTRACT

The main focus of this paper is the question if the success of regional integration organisation in developing countries is, in fact, dependent on factors like similarity of their economic structure, market size or lack of committment. It is shown that there are also other more important institutional and politico-economical reasons to explain the functioning of such organisations in developing countries. Case studies of ECOWAS and SADC will be used to discuss this question. It is also very often argued that south-south integration is inferior to north-south integration. This will be discussed considering the case of MERCOSUR as an example.

JEL-Classification: F15, O1, P16

Keywords: regional integration, economic development, Africa, Latin America, political economy

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1 Introduction

Regional integration in developing countries does not enjoy great esteem among economists. It is often argued that north-south integration is superior to south-south integration. The reasons usually mentioned why regional integration is unsuccessful in developing countries are the similarity of their economic structure, market size, lack of dynamism in their economic development and lack of commitment. In this paper, we use case studies to discuss the question if south-south integration is, in fact, inferior to north-south integration. We will also study the self-image of existing regional integration organisations and ask if this presents a true picture of their mood of operation. We would like to find out if the success of regional integration organisation in developing countries is, in fact, dependent on such economic factors or if there are also other more important institutional and politico-economical reasons to explain the functioning of such organisations in developing countries. The first case study, where the thesis of the superiority of north-south integration is discussed, is that of the Common Market of the South (MERCOSUR). The two other cases are the Economic Community of West African States (ECOWAS) and the South African Development Community (SADC).

2 Obstacles to the development of south-south trading blocs: The case of MERCOSUR

Dynamic development is not usually a feature of south-south trading blocs, and this is especially true of old south-south regionalism. But there are also a number of obstacles to the development of new regionalism in the south. We first discuss the reasons for the failure of the old south-south regionalism. Thereafter, we will study the obstacles to the development of new regionalism as they are put forward in the literature. The validity of these arguments will then be examined in the case of MERCOSUR. The general hypothesis to be supported in this part of the paper is that the reasons behind the slow development of south-south trading blocs are not structural features of south-south integration, but inappropriate economic policies in the member countries.

2.1 Why has the old south-south regionalism failed?

"Old regionalism" refers to the free trade areas and custom unions created in the 1960s and 1970s. South-south agreements originating in this period were part of the import substitution policies that member countries were following. These policies aimed to boost the development process by substituting imports with domestic production. Regional integration was supposed to strengthen the developmental effects of these policies by enlarging the market. As a result, regional integration diverted trade from more efficient external sources of production. Regional integration as a part of import substitution policies led to the separation of domestic and external markets, to diminishing competitiveness of domestic markets and to their stagnation due to the lack of technology transfer.

Another obstacle to south-south integration was that it included countries with a low and similar level of development and similar resource endowment. In this case, there is neither much scope for inter-industry specialization nor do the countries have the option of intra-industry specialization (Langhammer; Hiemenz 1990, p. 68).

Integration schemes are more successful if there is enough scope for market-driven integration. The scope for market-driven integration depends heavily on the extent of transaction costs. Low transaction costs make it much easier for the partner countries to interpenetrate their markets and increase their trade. In south-south integration schemes, transaction costs were usually high due to a high share of raw materials and non-durables in mutual trade (high transport costs) as well as poor infrastructure and banking services (Schweickert 1994, p. 5).

Market-driven integration can also be boosted by a high level of foreign direct investment. Such investments create more scope for mutual trade and so increase the degree of market interpenetration. The lack of scope for direct investment among countries in the south has, therefore, been another obstacle to a successful south-south integration.

Besides these structural obstacles, past experience also shows impediments created by policies towards south-south integration. Very often integration policies were implemented half-heartedly and in an inconsistent manner and were neutralised by non-tariff barriers or abolished after a short period of time (Langhammer; Hiemenz 1990, pp. 18-60). Partner countries "did never grant duty-free market access to each other, and efforts towards trade liberalization were either limited ... or were aborted early" (Schweickert 1994, p. 1).

2.2 Obstacles to new regionalism in the south

"New regionalism" refers to the creation of new and the revival of old regional integration agreements which has been taking place since the mid-1980s and especially in the 1990s. These new regional integration schemes are part of a broader liberalization and include more open economies. Import substitution policies are no longer pursued. On the contrary, export promotion is seen as the more viable strategy. The question we are interested in is how far the prospects for south-south integration have changed as a result, and whether the new schemes encounter fewer obstacles and are, therefore, more successful compared to the old south-south regional schemes.

The recent literature on economic integration in developing countries does not address this question directly. It is, therefore, essential, and possible, to approach the question indirectly. Vamvakidis (1998), for example, examines whether the openness, market size, and level of development of countries in the same region foster growth in the home country and comes to the result that economies of countries near large and open economies grow faster. He concludes, therefore, that trade agreements between developing countries and large and more developed countries may lead to faster growth.

More telling arguments for the inappropriateness of south-south integration are developed by Venables (1999). He considers both comparative advantage and agglomeration effects. Regarding comparative advantages in the case of south-south interaction he looks at two developing countries that both have a comparative disadvantage in manufactures, relative to the rest of the world, but the disadvantage is less for one of them (country A) than for the other (country B). Low endowment of human capital is taken as the source of this comparative disadvantage. If these two countries form a free trade area the less developed country B will suffer trade diversion, because some manufactures that were previously imported from the rest of the world will be now imported from the more developed country A. Country A will gain from the relocation, because it is now able to supply more manufactures to the market of the less developed country B, protected from competition from the rest of the world. South-south integration therefore leads to divergence.

Agglomeration effects lead to similar results (Venables 1999, pp. 14-18). One possibility is that particular sectors become more spatially concentrated. This sectoral agglomeration need not lead to increasing inequalities within a regional integration bloc, since each region may attract activity in some sectors. A divergence of income levels of members of a free trade area may follow from the alternative possibility that manufacturing clusters emerge in just a few locations, de-industrialising the less favored regions. This is particularly the case if manufacturing as a whole accounts for a small share of the economy and if linkages are broad and across many sectors, as in early stages of development where a country's basic infrastructure is thinly developed and unevenly spread.

This suggests that there is the possibility that in a south-south trading bloc the latter type of agglomeration would lead to growing divergence between member countries. Some more favored locations would not only attract manufacturing from the rest of the bloc, the process might be even further accelerated by the propensity of foreign direct investment to cluster in these same locations (Venables 1999, p. 18).

Concluding the discussion so far, the most important obstacles to south-south integration are the lack of growth opportunities due to the lack of large and more developed countries in the neighbourhood and the risk of divergence due to trade diversion and agglomeration effects. In the following discussion we will study the case of MERCOSUR as a south-south trading bloc in order to find out how far the above-mentioned factors have contributed to economic stagnation in the region and if there are other factors which might have been equally important in this respect.

2.3 The case of MERCOSUR

2.3.1 Large and more developed neighborhood

Being located near a large and developed neighborhood leads to faster growth. Obviously, north-south regional trade agreements fulfill such a condition. Regarding south-south regional trade agreements with a less optimistic view is in order. In the past, these agreements clearly existed among small and very similar economies, but things have changed insofar as nowadays a differentiation in the level of economic development among developing countries is apparent and it is no longer unusual to find countries on different levels of development in the same region. Therefore, it is possible to build south-south regional integration schemes clustering less developed and smaller countries around a more developed and larger neighbouring country.

MERCOSUR, to some extent, fulfills this condition. Obviously, as Table 1 shows, Brazil, one of the 10 largest countries in the world, is the dominant country within MERCOSUR. It is the largest country in terms of population, GDP and exports. Brazil could, therefore, function as engine of growth especially for its small member neighbours Paraguay and Uruguay and the associated members Chile and Bolivia, and to some extent also for its relatively large neighbour Argentina.

Table 1: Economic indicators for MERCOSUR and associated member countries Year 2000

	Argentina	Brazil	Paraguay	Uruguay	Chile	Bolivia
Population in millions	37	170	5	3	15	8
GDP in million US$	285,473	587,553	7,680	20,195	70,710	8,469
Exports in million US $	26,251	55,086	852	2,375	18,158	1,210
GNI in US$	7,440	3,570	1,450	6,090	4,600	1,000

Source: World Bank, World Development Report 2001, Selected World Development Indicators.

But as the table also clearly shows, Brazil has a lower level of development than the two member countries Argentina and Uruguay. This low level hinders Brazil in assuming this function. The development of the region is, therefore, constricted by the inability of Brazil's economy to unfold its growth potential. Responsibility for the slow progress of regional integration has to be assigned not to the south-south integration as such, but to the lack of dynamics of the leading economy.

2.3.2 Trade diversion

MERCOSUR is a typical example of new regionalism where most features of such a regionalism mentioned by Ethier (1998) apply (Esteradeordal; Goto; Saez 2001, p. 182). One salient feature of MERCOSUR has been the concomitant development of both internal and external liberalization. Unilateral tariff reduction programmes were implemented in the MERCOSUR countries during the late 1980s and 1990s. The simple average MFN tariff for MERCOSUR fell from 41 per cent in 1986 to 12 per cent by 1996 (Bartholomew 2001, p. 253). The unilateral trade policy reforms led not only to lower import tariffs but also to reduced rates differences and the abolition of most non-tariff barriers for imports from third countries (for details see: Esteradeordal; Goto; Saez 2001). Since January 1995 a common external tariff (CET) has been implemented with a tariff structure which implies further overall tariff reductions. Generally there has been a substantial reduction in the average level of protectionism, both towards external countries as well as within MERCOSUR itself.

Since the formation of the MERCOSUR trade bloc, intraregional and extraregional trade have increased at the same time (Bartholomew 2001, pp. 239-240). Intra-MERCOSUR exports showed an average increase of 52 per cent annually between 1990 and 1998, while extra-MERCOSUR exports, by contrast, rose annually by 5.5 per cent from 1989 to 1998. A similar trend was registered with regard to imports. The average increase of intra-MERCOSUR imports was 52 per cent annually between 1990 and 1998 and of extra-MERCOSUR imports 25 per cent annually for the same period. Trade has, therefore, risen between both MERCOSUR members and non-members, although trade between members has been growing much faster than with non-members.

Concomitant internal and external trade liberalization and the rapid rise in internal and external trade both indicate that trade creation in MERCOSUR was most probably larger than trade diversion. In the case of MERCOSUR the issue of trade creation versus trade diversion has been the subject-matter of a number of formal studies in recent years. One of the earliest attempts to study this question is that of Amjadi and Winters (1997). For this purpose they compare the transport costs between MERCOSUR members on the one hand and those between them and their most important external trade partners on the other. In spite of relatively low intraregional transport costs the authors do not regard the cost differences as sufficient to justify regional preferences.

Yeats (1997, 1998) uses trade data of MERCOSUR countries to examine whether the direction and composition of trade has changed substantially after the formation of the trading bloc. In addition, he calculates an index to measure the regional distribution of exports of specific commodities and compares it with a measure of revealed comparative advantage to analyze potential inefficiencies in trade patterns. He concludes that intra-MERCOSUR trade has increased substantially at the expense of trade with NAFTA-countries. According to Yeats (1998) this implies a strong deviation of actual data from what would be expected on the basis of efficiency considerations and comparative advantage. He ascribes this to restrictive trade policies within MERCOSUR.

One weakness of Yeats' studies (1997, 1998) is that he does not clearly differentiate between managed trade and trade induced by tariff reductions due to the regional integration process. A significant part of MERCOSUR trade (notably machines and transport equipment, minerals and fuels) is subject to managed trade agreements between Brazil and Argentina. Taking this managed trade into account, the intra-MERCOSUR trade liberalization programme appears not to have had much effect on trade with third parties (Bartholomew 2001, p. 258).

The most recent studies, which use a more sophisticated methodology, come to different results. Nagarajan (1998), for example, uses in fact Yeats' methodology, but in contrast to him applies the method to imports and not to exports. He examines whether more efficiently produced imports from the rest of the world are substituted by less efficiently produced imports from within MERCOSUR and whether the latter correspond to the comparative advantages of MERCOSUR producers. To determine the direction of imports he uses the "regional orientation index" developed by Yeats (1997, 1998). To identify the comparative advantage of MERCOSUR countries proves more difficult, since MERCOSUR includes upper-middle income countries and it cannot therefore be assumed that these countries are solely exporters of labour intensive products. He uses different indices of "revealed comparative advantage" and can identify a list of products where MERCOSUR suppliers do not have a revealed comparative advantage. But since for most of these products there has also been strong growth in imports from countries outside MERCOSUR he considers the concern about trade diversion to be exaggerated.

Estevadeordal, Goto and Saez (2000) use a Krugman-type model assuming imperfect competition and product differentiation not only to examine trade patterns but also the impact on welfare. They demonstrate a remarkable internal and external trade liberalization in MERCOSUR and a tremendous rise not only in intraregional trade but also in trade with third countries. From this they conclude the dominance of trade creation over trade diversion in MERCOSUR and an increase in welfare not only for member countries but for non-members also.

Diao and Somwaru (2000) employ a dynamic global general equilibrium model to analyze trade effects and welfare effects of MERCOSUR on both its member countries as well as on non-member trading regions. The simulation results show that the welfare of the member countries of MERCOSUR is raised due to increasing investment, production and consumption. The negative spillover effects of the regional trade arrangement on third country trading partners is measured in terms of the third country's investment, consumer welfare and national products when MERCOSUR only carries out internal trade liberalization. Such negative effects remain small due to the fact that trade with MERCOSUR is a relatively small share of the total trade of the third regions. However, both member and non-member trading partners would benefit more if MERCOSUR could further reduce its CET rates.

Becker and Suarez (2001) use a modified gravity model to measure trade creation and trade diversion in MERCOSUR. They find evidence of trade diversion for Brazil, Paraguay and Uruguay but neither trade diversion nor trade creation in the case of Argentina. The methodology used does not allow an estimate as to whether the trade bloc is trade creating or trade diverting as a whole.

Concluding this survey of the existing literature on trade and welfare effects of MERCOSUR, we cannot find any convincing evidence for trade diversion. We cannot, therefore, assume trade diversion to be a characteristic feature of south-south integration schemes. Trade creation may even be higher in south-south agreements than trade diversion as long as these agreements are dedicated to external liberalization as well as they are to internal liberalization.

2.3.3 Agglomeration effects

One way to look at agglomeration effects is to measure the diversion of income levels caused by the clustering of manufacturing activity. A conventional test would be to examine the relationship between the average growth rate and GNI per capita at the beginning of the period for the member countries of MERCOSUR as shown in Table 2.

Table 2: Average growth rates 1980-90 and 1990-99 and GNI per capita in 1980 and 1990 for MERCOSUR countries

	GDP growth rate 1980-90	GDP growth rate 1990-99	GNI per capita 1980 in US$	GNI per capita 1990 in US$
Argentina	- 0.7	4.9	2,390	2,370
Brazil	2.7	3.0	2,050	2,680
Paraguay	2.5	2.4	1,300	1,110
Uruguay	0.5	3.8	2,810	2,560

Source: World Bank, World Development Indicators, Development Data (http://www.worldbank.org/data/wdi2001/economy.htm), and World Bank, World Development Report 1982 and 1992, World Development Indicators, Table 1.

The relationship between the GDP growth rates of the 1980s and the GNI per capita of 1980 does not give a clear indication of either divergence or convergence. For the 1990s, however, the data point to convergence if Paraguay is excluded as an uncharacteristic case. For the remaining three countries a negative, though not very strong, relationship exists between real growth and GNI per capita in 1990. The less developed members have grown faster than the more developed members, closing the gap in development between them.

Agglomeration effects can also be measured directly. One recent study (Darrigues and Montaud 2001) uses a New Economic Geography model with three regions which serves as a support to numerical simulations of trade liberalization in MERCOSUR. Since Brazil is the regional industrial bloc the authors initially expect that the integration process would lead to a loss in domestic production capacity in other member countries. But as the simulation results show, a redeployment of industrial activity occurs from Brazil to Argentina while there are no changes in the industrial structure of Paraguay and Uruguay. Therefore, if MERCOSUR is taken as an example of new regionalism in the south we have no indication of divergence in south-south free trade agreements as a result of agglomeration effects.

2.4 Economic policies in MERCOSUR as obstacles to growth

2.4.1 Uncoordinated macroeconomic policies

The example of MERCOSUR shows that south-south integration is not necessarily hindered by trade diversion or agglomeration effects. Also, the condition of a more developed and large neighbourhood could be fulfilled in MERCOSUR if Brazil could exploit its growth potential in full. The most serious obstacle to the development of MERCOSUR is not its character as a south-south trading bloc, but the economic policies followed both at the regional level and within the individual member countries, which limit the growth potential of the region as whole. Economic policies, therefore, and not the structural deficiencies of south-south integration, are responsible for slow growth of trading blocs like MERCOSUR.

One important deficiency of MERCOSUR is the lack of coordinated macroeconomic policies in the two most important member countries Brazil and Argentina. Four different phases can be distinguished since the beginning of the 1990s. The first phase was marked by the introduction of Argentina's Convertibility Plan in 1991, the second by Brazil's Real Plan in 1994, the third by the devaluation of the real in January 1999, and the fourth by the suspension of the 1:1 binding of the Argentine peso to the US dollar and its subsequent devaluation in January 2002.

In the first phase, which extended from 1991 to 1993, the exchange rate policy in the two countries was characterised by a 1:1 parity of the Argentine peso to the US dollar and constant devaluations of the Brazilian currency against the US dollar. Although the Convertibility Plan caused a sharp reduction of the inflation rate, prices in Argentina continued to rise at a higher rate than in the US. The result was a real appreciation of the peso against both the US dollar and the Brazilian currency, and deficits in Argentina's trade balance with Brazil. As a consequence, the Argentine government introduced a series of protectionist measures in 1992.

In the second period, from 1994 to 1999, the Brazilian currency appreciated against the US dollar soon after the implementation of the Real Plan. Due to the fixed parity of the peso by law to the US dollar the real also appreciated against the peso. The resulting Brazilian trade balance deficits with Argentina prompted the Brazilian government to introduce a series of protectionist measures.

The third phase, which lasted until the end of 2001, was characterised by the free floating of the Brazilian real. After the policy of periodic small devaluations was abandoned in January 1999, the real underwent a drastic devaluation against the US dollar and the Argentine peso which resulted in a reduction of Brazil's trade balance deficits with Argentina. As from mid-2001, Argentina experienced a growing balance of payments crisis which it attempted to overcome by retaining not only the existing trade restrictions but also by introducing new measures, including voluntary export restrictions with Brazil.

It is clear that these uncoordinated exchange rate policies are not without effects on integration in MERCOSUR. They create an exchange rate volatility which may have a negative impact on trade and they lead to the emergence of lobbies for the protection of those sectors competing with imports. Baer, Cavalcanti and Silva (2001) have examined both these channels of influence. To investigate the direct effect of exchange rate volatility they estimate an export supply function and come to the conclusion that an increase in exchange rate volatility decreases the export flows between Argentina and Brazil. Uncoordinated changes in exchange rates can, therefore, hamper trade integration in the region.

To investigate the indirect channel through the formation of lobby groups the authors examine "if at a specific point in time variations in import penetration ratios are important on average to explain higher level of protection between Brazil and Argentina." (Baer; Cavalcanti and Silva 2001, p. 19). They come to the conclusion that large swings in real exchange rates between the two member countries lead to the appearance or intensification of protective measures through the lobbying activities of those sectors that lose market shares to imports.

The further success of MERCOSUR is, therefore, dependent on the coordination of macroeconomic policy and a unification of exchange rate policies. The foundations for such a unification have already been laid by Argentina's relaxation of the 1:1 parity of the peso to the US dollar since January 2002. MERCOSUR is now in a position to formulate a common exchange rate policy which prevents large swings in exchange rates and subsequent lobbying for protection.

2.4.2 Sustainability of growth in Brazil

Since Brazil is the dominant player in MERCOSUR, the other important issue for the success of MERCOSUR is whether Brazil can cross the threshold to sustainable growth and thus function as an engine of growth in the region. Until the late 1980s Brazil's economy was based on inward-oriented development. During the 1990s Brazil started to introduce a strategy based on market reforms and outward orientation. The first step included tariff reductions and the removal of other trade barriers. After 1995 the Real Plan led to a decisive break with high inflation, and an ambitious privatisation programme increased the participation of foreign enterprises and banks in the economy.

These reform measures have paved the way for sustainable growth in Brazil. However, the high burden of Brazil's external debt and its dependence on foreign savings still render the country vulnerable to external shocks. In spite of improvements in the budget situation, there is limited room for manoeuvre in setting macroeconomic policy due to the short maturity of Brazilian public debt and its indexation, to a significant part, either to short term interest rates or the exchange rate (OECD 2001, p. 12).

Sustainable growth also requires far-reaching reforms of the country's fiscal policy. The Real Plan already acknowledged a sustainable fiscal position as a prerequisite for macroeconomic stabilisation. However, the implementation of measures for this purpose was delayed due to laborious political negotiations between 1996 and 1998. In late 1998 a comprehensive fiscal stabilisation plan was announced and in May 2000 the Fiscal Responsibility Law was approved to ensure that the fiscal position of sub-national governments was consistent with the overall goal of fiscal consolidation (OECD 2001, p. 69).

If control over public spending is to be regained, the process of fiscal reform in Brazil must continue. This refers to two areas in particular: Firstly, the federal fiscal arrangements which have produced budgetary rigidity and tax distortions and, secondly, the special social security regime for civil servants, particularly at the state level and for public enterprises (OECD 2001, p. 70).

Other areas where reforms have to be continued are the development of financial markets and the improvement of corporate competitiveness. Maintaining the country's economic performance also requires further reforms in some key sectors such as agriculture and energy, as well as appropriate policies to increase human capital through investments in education and health care.

2.4.3 Receptiveness of economic policies in other member countries

Sustainable growth in Brazil would make the country the engine of growth within MERCOSUR. This would create an enormous potential for growth in the region which could be utilised by other member countries to enhance their economic performance. To be able to exploit the opportunities created by sustainable growth in the leading economy presumes that the peripheral economies pursue appropriate economic policies which make them receptive to an environment conducive to growth.

As the example of the recent economic crisis in Argentina shows, this has not always been the case in the past. The crisis in Argentina was the direct result of a combination of fixed exchange rates and fiscal laxity (The Economist, March 2nd 2002, pp. 27-29). The currency board in Argentina was undermined by loose fiscal policy. Public debt rose steadily from the beginning of the 1990s. This was the result of an increasing share of public spending in GDP, an inefficient tax system, high levels of tax evasion and a lack of incentive on the part of the provinces to spend more efficiently. In addition, unsound financing of government spending increased the vulnerability of the banking system. Using the reserves of the entire banking system severely weakened that system. The result was a bank run and social unrest.

Far-reaching structural reforms are thus not only necessary in the leading economy, but also in other member countries, if the latter are to be able to utilise the growth opportunities created by the existence of a large and growing neighbouring country.

2.5 Conclusions

Obstacles to the development of south-south trading blocs are usually considered to be very serious. A lack of opportunities due to a scarcity of large and more developed countries in the neighbourhood, and the risk of divergence due to trade diversion and agglomeration effects are among the factors cited as impediments to a dynamic development of south-south integration. A careful examination of the validity of these factors in the case of MERCOSUR does not lead to a clear cut answer. Brazil, for example, is the dominant economy in MERCOSUR, but it has a long way to go to become the engine of growth for the region. The condition of having a more developed and large country in the neighbourhood is, in this case, also only partially fulfilled. Similarly, trade diversion may exist to some extent but it does not prove the dominant feature of the integration process in MERCOSUR. The empirical studies of this phenomenon thus come to contradicting conclusions. Regarding the agglomeration effects, as far as empirical studies exist, they do not support the existence of economic divergence in the case of MERCOSUR.

More significant than these alleged structural obstacles to development of south-south integration are the economic policies followed in the member countries. South-south integration will only be successful if structural reforms are forcefully implemented in all participating countries, if macroeconomic stability is guaranteed and sectoral deficiencies do not hinder the growth process. Only then can a dynamic development, comparable to the development in south-north or north-north trading blocs, be expected.

3 What is ECOWAS?

ECOWAS is known to be an Economic Community[1]. It is discussed in the same manner as other regional integration areas like MERCOSUR, EAC, SADC, etc. But most written work on ECOWAS reports on agreed economic co-operation and regional security issues rather than on its actual development through the different stages of integration from free trade area over custom union to monetary union. ECOWAS exists since 1975 but its intra-regional trade is stagnating. Why can such an institution exist and claim to be a regional integration area? If it is not a normal developing regional integration zone, what is it then? This is the main question to be discussed in this short paper. We first analyse the self-image of ECOWAS. Then we will discuss some interpretations of its development in the literature. It follows a discussion of its political and economical divisions in different subregions. Our analysis closes with a tentative political economy interpretation of the existence of ECOWAS as a regional integration scheme and with a proposal how to promote the economic integration of West Africa.

3.1 The self-image of ECOWAS

3.1.1 ECOWAS as regional organisation

The self-image of ECOWAS is reflected in the article of agreement of 1975 and in the revised Treaty of 1993. In both ECOWAS is conceptualised as an economic union. ECOWAS had to be the only union in the region focusing on economic integration. It had to evolve from free trade area to custom union, common market and lastly to monetary union. Clearly distinguishing it from some other regional integration schemes, the Treaty of ECOWAS does not cover any goals focusing on political union (Mair 2000, pp. 17-19).

What has just been stated has to be distilled from the articles of the Treaty of 1993. The Treaty itself contains a long list of other goals and principles which cover a wide area of economic co-operation. Examples are: Harmonisation and co-ordination of environmental protection, promotion of small and intermediate firms, promotion of contacts and information among rural population, women and youth organisations, solidarity and collective self-reliance, policy harmonisation and programme integration etc.

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1 Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Niger, Nigeria, Mali, Senegal, Sierra Leone, Togo.

Reading the long list of goals pursued by ECOWAS it is not fully clear if there has been a distinction between the evolutionary goals and these other goals in the perception of the founders of the Union. Therefore, it can be stated that the treaty does not distinguish between integration and co-operation. The self-image of ECOWAS is contradictory, easily leading to developments not unambiguously identifiable as features of regional economic integration.

3.1.2 ECOWAS as security organisation

But ECOWAS is more than a regional organisation. Although it is not supposed to evolve into a political union, the treaty contains principles on political co-operation. Examples are the renunciation of aggression, maintaining regional peace, stability and security and peaceful settlement of conflicts among the member states. In this regard, ECOWAS is rather a security organisation than a regional organisation. It also behaves like such an organisation. This comes clearly to the fore in the activity of ECOWAS by the regulation of Liberia conflict. The Liberia conflict escalated in 1989/1990 and threatened to destabilise the whole West African region (Körner 1996, p. 283). Appealing to the protocols of 1978 (non-aggression) and 1981 (standby) ECOWAS decided to intervene, which led to the creation of the military force ECOMOG.

To mitigate the growing destabilising impact of the Liberia conflict the member states agreed to create the new institution "ECOWAS Standing Mediation Committee" (ESMC) for conflict resolution on the regular ECOWAS-summit in May 1990 (Körner 1996, p. 285). This could not prevent the escalation of the conflict. Hard negotiations in August 1995 led to the agreement of Abuja, which allowed the establishment of a transitional administration consisting of all groups who participated in the war. The Abuja agreement was a compromise which could not overcome the traditional antagonism among the participating groups (Körner 1996, p. 288). ECOWAS has, in fact, created regional peace institutions. But it is, nevertheless, not able to fulfil its functions adequately.

3.2 Low level of intra-regional trade

3.2.1 The public choice approach

One of the outstanding features of ECOWAS is the lack of dynamic in the intra-regional trade. "In spite of the difficulties, ECOWAS has chalked up remarkable progress in the area of free movement of persons; construction of regional (inter-State) roads, development of telecommunication links between the States and maintenance of peace and regional security. It is the area of integration of markets that the efforts of the Community have been frustrating. In fact, the trade liberalisation scheme is not yet operational as shown by the low level of the intra-regional trade which is only 11% as compared to trade with third countries." (ECOWAS Official Site 2002, p. 1). Far from realising a free trade area, the planned common external tariff still awaits its inauguration and the economic and financial policies have not yet been harmonised. Therefore, ECOWAS is as yet neither a community nor a regional integration scheme.

One interpretation of the low intra-regional trade in ECOWAS is given by Kufour (2000). He applies public choice theory to explain the failure of the ECOWAS trade liberalisation scheme (TLS). According to him the ECOWAS rules of origin have been important in this respect. They were shaped to hinder foreign firms to benefit from TLS (Kufour 2000, p. 144). These foreign firms were located mainly in Senegal and Côte d'Ivoire while firms in Ghana and Nigeria were state-promoted and still in their infancy. It was Nigeria who "persuaded the Community to adopt the rules of origin" (Kufour 2000, p. 145). The result was that only 17 manufacturing firms were allowed to participate in the TLS, limiting the growth potential of intra-regional trade.

This interpretation refers to an anomaly in the behaviour of the state bureaucracy in Nigeria. While Nigeria is the driving force behind the formation of the ECOWAS, at the same time it hinders its development to a mature regional organisation in order to protect its own national interest.

3.2.2 Lack of commitment

Lack of political commitment is given as another reason for the low level of intra-regional trade in ECOWAS (Aryeetey 2001, p. 26). Two explanations are given for this lack of commitment. The first one emphasises the different political ideologies of the member countries and their external alliances. It is also pointed out that the ruling classes are outward-oriented towards extra-continental integration, so that intra-continental integration remains unimportant. The second explanation ascribes the lack of commitment to problems arising from the distribution of gains from integration. If gains are unequally distributed and an adequate compensation mechanism is not available, the countries will not be ready to give up sovereignty.

From these explanations it is not quite clear why ECOWAS, as an institution, could survive for almost three decades. Lack of commitment refers, therefore, to the failure of ECOWAS as a regional integration organisation but it remains the puzzle why such an organisation, without commitment to its core functions, could exist for such a long time.

3.3 UEMOA and ECOWAS

3.3.1 One region in spite of political divergence?

ECOWAS is not a unique entity. The group of francophone countries have their own regional organisation, UEMOA, since 1994[1]. UEMOA has realised a higher level of integration than ECOWAS. Tariffs among the member countries are eliminated and a Common External Tariff exists already. Exports within the bloc accounted for 15.6% of total exports of the bloc. UEMOA could be a core integration area expanding to cover the whole ECOWAS. But, as the Liberia conflict shows, the two organisations are politically divergent. As Körner (1996, p. 288) states, the ECOMOG-Intervention was an expression of the traditional antagonism between anglophone and francophone countries in the region. He looks at the history of ECOWAS and ECOMOG as a history of the development of the antagonism hindering the integration process. At the centre stage of this antagonism between the two groups of countries we find Nigeria and Côte d'Ivoire with their contradictory positions (Körner 1996, p. 288). As already mentioned, even in the Abuja Agreement this difference in interests between the two groups of countries could not be overcome.

The political divergence between the two groups shows that UEMOA is not a core area inside ECOWAS but a rivalling region centring on Côte d'Ivoire, while Nigeria is leading the anglophone groups of countries, behaving at least politically as a different region without commitment to its core economic functions. How far this rivalry between the two subregions can be traced back to the interest of France to maintain an independent francophone region remains an open question. At least in financial terms UEMOA is dependent on France and the French influence looks to go far beyond financial relations (Mair 2000, p. vi).

1 Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo.

3.3.2 Two regions in spite of economic convergence?

Could the hypotheses that ECOWAS consists of two different regions be maintained even if the member countries were to build a convergence club? The most common test for convergence is a negative correlation between initial per capita output levels and subsequent growth rates for a group of countries. It implies that, on average, countries with low per capita initial incomes are growing faster than those with high initial per capita incomes. A second set of tests interprets convergence in such a way that in the long run differences in per capita output across countries converge to zero. Jones (2002) has examined both these approaches. Cross-section results for the period 1960-1990 show that the economies of ECOWAS are converging at a rate of 1.7 per cent per annum. The half life of convergence is 40 years (Jones 2002, pp. 36-37). The time serious method on the other hand, shows that the pairwise per capita output deviation for ECOWAS countries does not appear to disappear systematically over time (Jones 2002, p. 37).

The general conclusion is that "ECOWAS represents a convergence club among themselves, albeit at the lower end of the convergence spectrum" (Jones 2002, p. 39). This conclusion could be interpreted as an acknowledgement that ECOWAS is a unique entity. Since the convergence is at the lower end the implication is that all ECOWAS countries are poor and in this respect homogenous. Such a convergence can not easily be interpreted as the result of growing intra-regional trade or spillover effects. Convergence at a higher end of the spectrum, on the other hand, would mean that the lower developed countries have undergone structural changes (growing intra-regional trade and strong spillover effects) in order to reach the development level of the higher developed countries in the same region. In this later case there would be a precise statement in regard to the uniqueness of the whole region. Convergence in income level at the lower end of the spectrum, accompanied by political divergence and clear discrepancy in the level of integration (free trade area in UEMOA versus high tariff barriers in Rest-ECOWAS) among the participating countries could hardly be interpreted as uniqueness. ECOWAS, therefore, seems to be consisting of two economically distinct areas: the subregion UEMOA and the remaining anglophone countries, each with its own centre.

3.4 The essence of regional integration in West Africa

3.4.1 A false conceptualisation of economic integration

Hitherto we have realised that UEMOA and Rest-ECOWAS are two different regions, but put together to build ECOWAS as a single regional integration organisation. This is a false conceptualisation of integration, since both Nigeria and Côte d'Ivoire not only behave as core economies but could also potentially serve this function for their respective neighbouring countries. If we assume for a moment that there were two different regional integration organisations UEMOA and the Rest-ECOWAS in the region, two difficult problems could be solved:

The political confrontation between anglophone and francophone countries would come to an end, and

The Rest-ECOWAS would undergo a more dynamic integration process.

As ECOWAS was established in 1975 it encompassed also the francophone countries in West Africa. The motivation behind the creation of the organisation was to demonstrate the power of the West African developing countries in a surrounding characterised by emancipatory claims of developing countries and their continual asking for a new world economic order (Mair 2000, p. 13). Nigeria, specially, felt strong due to its oil richness and was ready to overtake the role of a regional leading power. In this role it was ready also to confront France as a foreign power which controlled the whole francophone West Africa. ECOWAS was established as an economic organisation but the motivation behind its creation was primarily political. In its subsequent development it functioned also primarily as a security organisation and not as an regional integration organisation. It remains to ask why ECOWAS was created, right from the start, as an economic and not as a political organisation. The reason is that at the beginning of the 1970s it would have been perilous to create a regional political organisation including francophone countries but very popular to create a regional integration organisation. Regional integration focussing on pure economic goals became a pretence for regional security issues and for confronting the political influence of France in the region. Nigeria assumed the leading role, but it could not subsequently transform ECOWAS neither to an effective political organisation nor to a dynamic integration area.

3.4.2 Dominance by quarrelling unity

ECOWAS seems to be an instrument to enforce the dominance of Nigeria in the region, while UEMOA, on the other hand, has developed as an organisation to resist the Nigerian dominance in the region. Nigeria is neither able to assume the centric position inside a successful ECOWAS nor able to enforce its dominance effectively. It is trying to dominate West Africa without being itself a unity. Nigeria is characterised by deep social divisions which make it impossible to define and implement a coherent policy. In Nigeria there exist around 250 ethnic groups. The four largest groups constitute more than 60 percent of the population (Wright 1998, pp. 31-33). Ethnicity has become a political issue. It "began to be a critical indicator in political organisation, employment, and education, and was increasingly referred to as the factor dividing 'us' from 'them' in the bitter arenas of regional and national politics" (Wright 1998, p. 31).

Ethnic contentions have been reinforced by religious (Islam and Christianity) denominations and divisions and religion have been used for political gain. The political life became even more complicated with the involvement of traditional and modern interest groups. While the northern leadership was primarily traditional (emirs and other traditional figures), in the south the interest groups comprised businesspersons, teachers, lawyers "and other professionals who had worked their way through political parties to positions of authority" (Wright 1998, p. 38). These politicians also utilised ethnicity to remain in office.

In Nigeria, to hold political positions served the purpose of appropriating public resources and using them for private ends (Wright 1998, p. 40). The military as a distinct group participated also in this process. The hope that the military would create an honest and ethical leadership proved to be wrong. The lack of consensus among the numerous interest groups in Nigeria is the main obstacle hindering Nigeria to assume its role as an engine of growth, at least for its anglophone neighbouring countries.

3.5 Conclusions

It is not easy to identify ECOWAS as a full-fledged economic community. Its self-image is contradictory in this respect and it resembles more a regional security organisation than a regional integration scheme. While Nigeria is the driving force behind the formation of the ECOWAS, at the same time it hinders its development to a mature regional organisation in order to protect its own national interest. Without commitment to its core functions ECOWAS is devoid of the essential features to develop into a dynamic regional integration organisation. In political terms ECOWAS comprises two regions rivalling with each other and distinguishable in economic terms: the subregion UEMOA and the remaining anglophone countries. ECOWAS is, at first instance, a political organisation, where Nigeria is struggling to impose its domination. Regional integration focussing on pure economic goals, from the beginning, had become a pretence for regional security issues and for confronting the political influence of France in the region. But Nigeria is itself a society characterised by political diversion, deep social divisions and lack of consensus among numerous interest groups.

In economic terms, ECOWAS consists of two distinct regions. If this fact were to be recognised also politically, two different dynamic regional integration organisations could coexist in West Africa contributing to peace and to economic development in the region.

The whole tragedy of economic integration in West Africa comes to the fore in the proposal to work toward a single currency for ECOWAS by 2004 (Masson; Pattillo 2001). UEMOA is already a monetary union with a common currency (CFA franc). ECOWAS is supposed to be an economic community. It has its own bureaucracy in pursuit of developing the community into a full-fledged integrated region. Monetary integration seems, therefore, to be a natural further step in the development of the ECOWAS. But there are also problems. ECOWAS is until now neither a free trade area nor a custom union or a common market. Monetary union is usually the last step and not the first one. Commenting on the above proposal, Masson and Pattillo (2001, p. 31) state that "Given the expected time to achieve convergence and to design the necessary institutions, it seems doubtful that the ECOWAS monetary union planned for 2004 is feasible. Instead, it should await much fuller economic convergence and reinforced political solidarity within the region." Striving for monetary union in ECOWAS is not only premature, it also points to a wrong conceptualisation of economic integration in the region. Political divergence in the region and the structure of economic transactions justify not the existence of one artificial but two distinct economic integration schemes in the region.

4 SDAC: Development co-operation or regional integration?

South African Development Community (SADC) was founded in 1992. It has developed a complex institutional structure, but progress towards building a free trade area and customs union is slow. At the same time it has developed a remarkable activity towards implementation of common projects within the region. In the following discussion we try to find the rationality behind these particular development patterns and ask if they are an indication for the alleged character of the organisation as an economic community. We put first the question if the real objective followed by the SADC is regional integration in the sense it is normally understood or more or less the promotion of the economic and political development of the region by realising common projects. Then the shortcommings of the institutional structure of the SADC to promote regional integration are discussed. Thereafter, the process of adoption and implementation of the trade protocol as an indication for lack of committment by the member countries is analysed. The next section deals with the heavily discussed problem of the dominance of South African economy within the region. An explanation for the specific developmental approach of the SADC is given in the following section. Conclusions will be summarised in the last section.

4.1 Regional integration or economic and political development?

SADC is a community of states for the purpose of the development of the South African region.[1] This is what can be inferred from the term "SADC". But usually SADC is seen as a regional integration organisation. A regional integration organisation is characterised by establishing at least a FTA. Further steps are a costums union, a common market, a monetary union and ultimately some kind of political union. SADC aims at creating a FTA which is substantiated in a trade protocol. The full implementation of the SADC Trade Protocol has to wait until 2008. 85% of intra-regional trade will be liberalised in 2008 and 100% in 2012 (The Courier from 01.03.2003, p. 3). There exists no other timeplan for a stepwise development of the SADC into a full developed community. As a regional organisation the SADC is at present, therefore, in its earliest development stages.

A look at the list of objectives of the SADC shows that not regional integration but economic and political development is the principle motivation behind the creation of

1 SADC has 14 member states: Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe.

the organisation (SADC website, 2003, p. 2). Regional integration is seen, if at all, as a means to realise economic and political objectives. Examples for economic objectives are economic growth, poverty alleviation, improving standard and quality of life, productive employment and utilisation of resources. Somewhat stereotypical sounds the objective of promoting self-sustaining development on the basis of collective self-reliance. Political objectives, like evolving common political values and defending peace and security, complement the list. The list includes also ecological, social and cultural objectives.

This is a long list and it is not clear if it is taken seriously and in what respect a regional organisation proves to be unavoidable to realise these objectives. The main instrument to realise these objectives is the SADC Programme of Action (SPA). The SPA encompasses a series of Sectoral Programmes, with their policy objectives, strategies and projects. At present round 407 projects with an estimated cost of US$ 8.09 billion build the mainstay of the SPA (SADC website, 2003, p. 6). Sectoral protocols encompassing a totality of projects for the respective sector must be signed by the head of states and/or governments and ratified by at least by two-thirds of the participating member states to become effective. The full implementation of such protocols takes usually eight years (SADC website, 2003, p. 29-30).

The whole endeavour of SADC is, therefore, focused on the implementation of sectoral protocols (SADC website, 2003, p. 2). This is strongly reminiscent of the predecessor of the SADC i.e. SADCC (Southern African Development Coordination Conference). SADCC was established in 1980 by the head of states and/or governments of the so called "front states" Tanzania, Zambia, Botswana, Mozambique, Angola and Zimbabwe. Its main objective was the reduction of the economic dependence of these states from South Africa. The economic approach followed by the SADCC could be characterised by integration through project co-ordination (Peters-Berries 2000, p. 3). SADC, which was created out of SADCC in 1992, is still affected by this policy approach. This explains the utmost importance of projects in the SPA. The predominance of the project approach means that regional integration is understood mainly as an economic development process and less so as an institutional development process through different stages from FTA over customs union, common market and monetary union up to political union.

4.2 The shortcomings of the institutional structure

In a regional integration organisation the secretariat plays an important role, although up to now nowhere, not even in the EU, the partner states have transfered the decision power in strategical areas to the secretariat. In SADC the case is more complicated due to the complex institutional structure of the organisation:

The ultimate policy-making institution is the Summit, made up of heads of states and/or government,

The troika, consisting of the Chair, Incoming Chair and Outgoing Chair of SADC, implements decisions and provides policy direction in periods between regular SADC meetings,

Non-economic issues are separated and delegated to the Organ on Politics, Defence and Security (OPDS),

The Council of Ministers is responsible for overseeing the functioning and development of the SADC and ensuring that policies are properly implemented,

The Integrated Committee of Ministers ensures proper policy guidance, co-ordination and harmonization of cross-sectoral activities,

SADC National Committees are composed of key stakeholders, notably government, private sector and civil society, and provide input in the formulation and coordination of regional policies, strategies and SPA,

The Standing Committee of Senior Officials is a technical advisory committee to the Council,

The Secretariat is the principal executive institution of SADC and

Commissions and Sector Coordinating Units (SCUS).

Within such a complex organisation, disagreements about competence and misunderstandings and disputes about functions can hardly be avoided. The weakness of SADC as a regional integration organisation is reflected in the weakness of its Secretariat. Constraints in co-ordination and implementation of its functions and inadequate endowment with resources lead to inflexibility and lack of motivation (Peters-Berries 2000, p. 14). Not the Secretariat, but Commissions and Sector Coordinating Units (SCUS), run by the member states, are responsible for the implementation of projects above all others (Peters-Berries 2000, p. 15). Economic policy is, therefore, decentralised and in task of the member states while the institution most important for the regional organisation, notably the Secretariat, suffers from lack of competence.

The institutional structure of the SADC inhibits the efficient and effective performance of the organisation. This problem is well known and explicitly mentioned on the SADC website (SADC website, 2003, p. 2). It manifests itself, among others, in an inadequate provision of resources and staffing by member states, different management and administrative procedures and rules, rapid increase of sectors and a plethora of priorities and activities and a profileration of meetings.

The institutional structure of the SADC is clearly an indication of the fact that the member states are not ready to commit themselves fully to the task of regional integration in the region. This lack of commitment leads to the question why, in the first place, the member states were ready to create the organisation. To formulate objectives and to create institutions which are not adequate to realise them, is an indication that other reasons, beyond those mentioned in the treaty, may exist to explain the existence and the mode of operation of the organisation.

4.3 The Trade Protocol and its painstaking adoption and implementation

The adoption and implementation of the SADC Trade Protocol is an example of how differences among member states may hinder the further development of integration in the region. The text of the Protocol was already drafted in 1996 and signed by eleven of the twelve member states. The process of ratification was slow. After three years, i.e. at the end of 1999, only five countries had ratified the protocol. Especially South Africa were not ready to ratify the Protocol due to differences over the pace and extent of tariff reduction and the treatment of sensible products like textiles, sugar and leather (Peters-Berries 2000, p. 30-31). It took until 2000 that the remaining members, with the exception of Zambia ratified the Trade Protocol. Extensive negotiations were especially necessary to reach an agreement on rules of origin and over the time and stages of the reduction of customs tariffs.

The Trade Protocol entered into force as of first of September 1999. As already stated above, 85% of intra-regional trade will be liberalised in 2008 and 100% in 2012. Information about the pace of the implementation of the Trade Protocol is hardly available. As of December 2002 progress in implementing the Trade Protocol has been very limited and many countries are still to publish their tariff phase down schedules (Tekere Moses et al. 2002, p. 2).

This lack of progress in implementation of the Protocol is probably due to the prevalent protectionism in the region. Restrictive trade policies have been pervasive in smaller

SADC countries. A perceived need to protect weak domestic industries and unstable macroeconomic conditions has been among the reasons for this behavior. Due to the increasing penetration of the region by South Africa there have been "concerns about the effects on the smaller economies of too rapid an exposure to greater competition from South African Manufacturers." (Jenkins 2001, p. 19). The smaller countries also fear a decline in tariff revenue following the liberalisation process. The remedy would be the creation of compensatory mechanisms chiefly funded by South Africa. But South Africa, already highly presented in the markets of the other member countries does not seem to be ready to bear such an additional burden (Peters-Barries 2000, p. 34).

In the past, South Africa's trade regime has been also highly restrictive towards its neighbouring countries. For many goods the South African rates of effective protection are not particularly high. But the tariff structure in South Africa is characterised by large differences in tariff levels between and within sectors. Consequently effective rates of protection have been highest for those products which are, or could be, produced by neighbouring countries (Jenkins 2001, p. 20). Moreover, tariff barriers have been raised by South Africa whenever exports from neighbouring countries were seen as threatening the South African manufacturers.

The protectionist bias which prevailed the region is described lucidly by Frank Flatters (2001, p. 13): "The language and the behavior of many of the negotiators seems to be based on the understanding that the benefits of trade liberalization by any member country are enjoyed principally by other members, and the 'costs' of granting market access are borne primarily by the liberalizing country".

Despite increased trade liberalization in the 1990s, the volume of intra-regional trade is, compared to other regional integration organisations like MERCOSUR and EU, not very high. In 2001 exports from SADC countries sold within the bloc only amounted to 13 percent (Lewis 2001, p. 25).

4.4 The dominance of South Africa in the region: Curse or blessing?

The protectionist bias in the region may be the result of the high diversity among the member states of SADC. SADC countries not only vary in population and land area, there are large economic disparities as well (for details see Lewis 2001, pp. 24-25). Economically, South Africa is the dominant country with 71 percent of GDP of the region and about 21 percent of its population. Alongside South Africa, Zambia, Mauritius and Zimbabwe have the largest manfucturing sectors. In Angola, Namibia and Botswana mining accounts for a high proportion of the GDP, while Malawi, Mozambique and Tanzania remain highly agricultural. In 6 of 11 countries services is the largest sector.

What does the dominating position of South Africa mean for the region? Is it a curse or a blessing? Some look at it as a problem:

South Africa runs, and will continue to run, a trade surplus with the other countries of the region (Jenkins 2001, p. 20),

The intra-regional trade is heavily oriented towards South Africa and the smaller countries of the region trade comparatively very little with each other (Jenkins 2001, p. 20),

South African manufactured goods are sold heavily to other South African countries. The smaller countries of the region feel, therefore, to be heavily exposed to competition from South African manufacturers (Jenkins 2001, p. 19).

Others feel that the South African economic dominance could lead the country to assume a locomotive function for the region (Piazolo 1996, p. 263). As it is seen, this function evolves itself in import drag into South Africa from the region and in transfer payments of foreign workers from neighbouring countries. Capital and know-how transfer would complement the process.

The above arguments are not without flaws:

A trade surplus or deficit is not a problem as long as it is compensated by countercurrent flows in other balance of payments items (services, transfers or capital flows). In addition, bilateral surpluses or deficits in the balance of payment are of no importance as long as multilaterally the balance of payment is in equilibrium,

As Table 3 shows, the trade of smaller countries is oriented towards industrial countries and Asia and not towards South Africa. Only when their trade with African countries is under consideration the smaller countries export heavily to South Africa.

To be exposed to competition from South Africa could be a problem for smaller countries only if they are not able to compete effectively. This is often the case if, due to protectionist policies, the law of comparative advantage does not apply.

Table 3: Direction of Trade: Exports in Million US$ 1999

	Dots World Total	Industrial Countries	Asia	Africa	South Africa
Angola	4,361	3,086	1,215	32	19
Botswana	n.a.	n.a.	n.a.	n.a.	n.a.
DRC (Congo)	n.a.	n.a.	n.a.	n.a.	n.a.
Lesotho	n.a.	n.a.	n.a.	n.a.	n.a.
Malawi	462	281	20	95	74
Mauritius	1,696	1,426	54	205	167
Mozambique	271	98	46	123	71
Namibia	n.a.	n.a.	n.a.	n.a.	n.a.
Seychelles	n.a.	n.a.	n.a.	n.a.	n.a.
Swaziland	n.a.	n.a.	n.a.	n.a.	n.a.
Tanzania	587	290	187	75	4
Zambia	785	401	174	158	39
Zimbabwe	1,888	965	241	558	219

Source: IMF, Direction of Trade Statistics Yearbook 2000, Washington, D.C.

There is some truth in the opposit view, looking at South Africa as an engine of growth for the region. Considering only the trade of smaller neighbouring countries with other African countries, the orientation of their trade towards South Africa could be interpreted as an indication of the locomotive function of South African economy for the region. Another indication is the surge of direct investment from South Africa into neighbouring countries. Between 1995 and 1998 South African public and private firms invested US$ 8.86 billions in Sub-saharan Africa. Most of these investments went to the SADC-region (Peters-Berries 2000, p. 26). These investments show clear characteristics. Investment activities are largely concentrated in mining, including acquisition of shares and prospection of new deposits. Compared to mining, the investment in manufacturing is negligable and concentrated in leverages and basic materials industries (Halbach 1997, pp. 48-51). South African private firms participate also in the financing of infrastructure projects in the region which are based on public initiative and supported by international financial organisations (Röhm; Halbach 1999, p. 60).

Over the past years, FDI outflow from South Africa has been declining. The annual average outflows 1990-1995 amounted to US$ 1034 millions. The outflow of FDI reached its peak in 1997 with US$ 2351 millions. Since then it is declining and amounted in 2000 to US$ 271 millions. In 2001 the outflows were even negativ and amounted to US$ -3334 millions (UNCTAD 2002, p. 308).

The orientation of the African trade of neighbouring countries towards South Africa and the flow of direct investments from South Africa towards these countries are but weak indications for the locomotive function of the South African economy for the region. According to the concept of centric integration, several less developed small countries can enter into an advantageous process of specialisation with a more developed large country in the same region and together build a growth pole (Shams 1998). In the case of South Africa and its neighbouring countries this process has not yet been fully materialised. The reason may lie in protectionist policies in the region and the weakness of the growth process in South Africa.

For a centre country to initiate a process of dynamic development in the region, it has to open its markets to the neighbouring countries and through direct investment relocate mature industries to these countries while at the same time climbing up the value added chain. Protectionist policies and policies which curb the growth process impede such a process of dynamic development. The South African economy, in fact, experienced a prolonged decline in the third quarter of the twentieth century. In real terms, per capita GDP in 2000 was lower than it was in 1970 (Jones 2002, p. 1). It is sometimes pointed out that sanctions caused the country's structural problems. But it is now realised that not sanctions but the late liberalization of the economy was at the root of the prolonged decline of the economy (Maasdorp 2002, p. 15). These structural problems are traced to the policy of import-substituting industrialization, which was continued beyond the 1970s, when the economic opportunities were exhausted. The interventionist tendency was compounded by the oil crisis, riots, sanctions, militant trade unionism and patronage (Maasdorp 2002, pp. 10 and 19). It was not until the 1990s that South Africa opened the country to international competition. In 1994 South Africa began to reduce its tariffs. The average weighted tariff rates are now below the requirements of the WTO (Strydom 2002, p. 42). “Inspite of external liberalisation, by 2000, South Africa was a country of high prices, high taxes and low incomes - a very different situation from that in 1970" (Jones 2002, p. 6).

Not the economic dominance of South Africa in the region is, therefore, a problem but the economic policies applied in the region including its centre country, namely South Africa. Interventionism, direct controls and political unrest in some areas deteriorate the conditions for centric integrations in the region. In addition the region is too large, in the sense that some countries (Angola, DRC, Tanzania) belong to other regions with the potential to build their own growth poles.

4.5 How to explain the developmental approach in the SADC?

The recent political conditions in South Africa are not conducive to growth. There exist serious controversies on economic policy and social strategies among the tripartite alliance consisting of ANC (African National Congress), COSATU (Congress of South African Trade Unions) and the South African Communist Party (SACU). COSATU blames ANC for its neoliberal approach while it is insisting itself on an interventionist approach not conducive to foreign direct investments (Osmanovic 2002, pp. 24-26). The opposition is similarly at odds with each other and fragmented in several parties.

The centre country is therefore constrained in its capacity to initiate a centric integration process in the region. As it is shown in section 1, in the SADC context regional integration is understood more as a process of development co-operation than as a process of regional integration. Integration policy is concentrated on the realisation of common projects rather than on creating an economic community. This developmental approach in the context of regional integration is not self-evident. In case of SADC it can be explained in the context of its historical development and the specific interests of South Africa in the region. It is known that the creation of SADCC was politically motivated (Peters-Berries 2000, p. 4). The front states intended to widen the resistence against South Africa and at the same time to reduce the potential of the Apartheid regime to use its economic power against them. The SADCC was thought as a bloc oriented against the South African strategy of neutralising the freedom movements along its borders (Peters-Berries 2000, p. 5). Its economic conception as a regional integration organisation was inspired by the European Community and Scandinavian countries (Peters-Berries 2000, p. 3) as early as 1977.

In 1992 SADCC was transformed into the more formal organisation SADC. Project co-ordination as the main economic approach of the SADCC was taken over by the SADC. After the first free election in 1994 SADC admitted South Africa as a member country. In political terms the membership of South Africa raised fears of being dominated by the mere largeness of its economy. In economic terms the South African firms looked at the region as an area where they could expand their activity without restrictions (Peters-Berries 2000, p. 8). Regional integration was more and more identified with implementation of common projects, and the adoption and implementation of the trade protocol proved to be a time consuming process. Not the further development of the institution into a customs union, common market and monetary union but the implementation of common projects became the main activity of the SADC.

4.6 Conclusions

The whole endeavour of SADC is, therefore, focused on the implementation of sectoral protocols. This explains the utmost importance of projects in the SPA. The predominance of the project approach means that regional integration is understood mainly as an economic development process and less so as an institutional development process through different stages from FTA over customs union, common market and monetary union up to political union.

The institutional structure of the SADC inhibits the efficient and effective performance of the organisation. It is clearly an indication of the fact that the member states are not ready to commit themselves fully to the task of regional integration in the region.

The painstaking adoption and implementation of the SADC Trade Protocol is an example of how differences among member states may hinder the further development of integration in the region. This lack of progress in implementation of the Protocol is probably due to the prevalent protectionism in the region. Restrictive trade policies have been pervasive in smaller SADC countries. In the past, South Africa's trade regime has been also highly restrictive towards its neighbouring countries.

Not the economic dominance of South Africa in the region is a problem but the economic policies applied in the region including its centre country, namely South Africa. Interventionism, direct controls and political unrest in some areas deteriorate the conditions for centric integrations in the region. In addition, the region is too large in the sense that some countries (Angola, DRC, Tanzania) belong to other regions with the potential to build their own growth poles.

The developmental approach in the SADC can be explained in the context of its historical development and the specific interests of South Africa in the region. In historical terms, regional integration was more and more identified with the implementation of common projects, and the adoption and implementation of the trade protocol proved to be a time consuming process. Not the further development of the institution into a customs union, common market and monetary union but the implementation of common projects became the main activity of the SADC.

5 General conclusions

In this paper we used case studies to discuss the question if south-south integration is, in fact, inferior to north-south integration. We also studied the self-image of existing regional integration organisations and asked if this presents a true picture of their mood of operation. Two general conclusions follow from the case studies:

South-south-integration is by no means inferior compared to south-north integration. The assumed inferiority of south-south-integration is not due to factors such as market size, similarity of economic structure, lack of dynamism etc., but, first and foremost, due to economic policies followed in the regional integration areas as a whole or in the individual member countries.

The self-image of the existing regional integration organisations in the south is not commonsurate with their real mode of operation. These organisations serve usually other economico-political purposes than those stated in their status. Their economic policies are, therefore, oriented towards materializing these informal goals rather than to establish a well functioning regional integration organisation. One has to recognise this fact in order to evaluate the functioning of these organisations adequately and to be able to develop them into real regional integration areas.

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