SOUTH AFRICA IN THE REGIONAL ECONOMY - OPTIONS AND CHALLENGES

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1. Introduction

Matters economic, like fashion, move in cycles. At least, this would seem to be the case for regional economic integration arrangements. Regionalism, a recent World Bank study noted, is back with a vengeance and here to stay (World Bank, 1992). Of course, there is an ominous ring to the new regionalism. In some circles the possible triad of trading blocs - Europe, the Americas and East Asia - raises fears of impending doom. Not only is universal free trade to suffer from inward-looking, protectionist tendencies in the trading blocs; those countries or regions that do not find themselves within the warm embrace of one of the blocs will supposedly be forced into the wilderness of virtual autarky and poverty.

I am exaggerating, but might be forgiven. After all, in sub-Saharan Africa we find ourselves in a part of the world that possibly has the greatest number of past and existing schemes of regional integration; probably has the most dismal record with regard to the success of regional arrangements; is the only major region outside the hypothetical boundaries of the three trading blocs; and, finds itself in the wake of donor fatigue and a preoccupation with eastern Europe and the market transformation of the erstwhile socialist economics.

However, given these rather pessimistic observations based on the nebulous development of a triad, it is quite ironic that in Southern Africa we have perhaps the oldest operating customs union in the world. The longevity of the Southern African Customs Union (SACU) cannot in itself be regarded as proof of its success as a regional integration arrangement, but it works, despite many perceived problems, and I never tire of emphasising that in a renegotiated form SACU can provide an important stepping stone in the development of appropriate and lasting regional relationships in the post-apartheid era (see McCarthy, 1992). References to the new South Africa and the post-apartheid era have become the platitudes of the day, especially if we consider the rocky nature of our progress towards this visionary state. But let us not underestimate or be unprepared for the implications and economic ramifications of the establishment of a non-racist democracy in South Africa. Obviously, this development will affect the domestic economic situation, but for our present purposes the effects on the normalisation of foreign relations in the region are more important. But it is also true, I have increasingly come to realise, that foreign relations are a mere extension of the domestic situation. And since economic issues are becoming more important in the foreign affairs of our new uni-polar world, we might expect that our future foreign relations, in our region in particular, will firmly be grounded in the domestic economic situation.

South Africans should be conscious of the strong expectations that exist in the region with regard to the post-apartheid era. These expectations may be hope, hope that South Africa might serve as the economic locomotive that could pull the region out of its economic quagmire, or it may be reservations that South African hegemony could force important economic sectors in neighbouring countries out of business (Stoneman and Thompson, 1991). Both hopes and fears derive from the disparities in size, economic structure and the level of development between the RSA on the one hand and the other countries in the region on the other. South Africa, with a 29 per cent share in the total population of southern Africa (defined as the RSA plus the SADCC countries) was responsible for 74 per cent of the total production of the region in 1989. South Africa's per capita income of 2 470 US dollars is therefore much higher than that of the region. The population-weighted average of the SADCC countries' per capita GNP is 320 US dollars, with only Botswana and Namibia having levels higher than 1000 dollars. South Africa, being responsible for more than 70 per cent of the total exports of the countries in the region, is also the major trading nation of the region.

Diversity in the size and levels of development of integrating economies seems to guarantee dissent in any regional integration arrangement. The reason for this is that in integration exercises size begets size if the distribution of economic activity is left to the free play of market sources. Numerous examples exist in the developing world where economic activity has tended to converge on the more developed economy in the common market. Countries of course participate in integration schemes because they perceive it to be to their benefit. However, these benefits frequently are perceived in relative terms and if country X appears to benefit more than country Y the growth in X is rightly or wrongly interpreted to be at the cost of Y. These perceptions can create serious problems and tensions and even, as happened in the case of the East African Community, lead to the break-up of the integration arrangement.

Consequently, since inequality in economic development is virtually inevitable, integration schemes usually provide for a mechanism to counter polarised development. Frequently this takes the form of serious regional planning and the allocation of industrial concerns and other agencies, for example the regional development bank, to selected countries with the explicit objective of encouraging a relatively equal distribution of productive activity. A second option, which could be tied to regional planning, is the provision of special funding for regional projects. The World Bank recently criticised this option, arguing that it could lead to funds being spent for political reasons on projects with a low or even negative return. Instead, the Bank argued, the example of SACU should be followed where, as a third option, direct transfers to the budgets of the weaker economies are made (World Bank, 1991).

Why is the issue of polarisation relevant in the Southern African region? As noted the South African economy, through mere size and level of development, will in schemes of integration tend to attract the lion's share of productive activity seeking to exploit the regional market. But why consider increasing regional integration and economic cooperation as a likely outcome of a post-apartheid South Africa? At this point we have to return to South Africa's role as a regional or even continental growth engine, an economic locomotive which through its size and development can pull the region and countries further to the north on a track towards prosperity.

The arguments that point to South Africa's inability to act as a locomotive are well known. The RSA, it is argued, is itself in an economic mess and it will take a tremendous effort to get the South African economy on a road of growth again. The need to address the welfare gap in a democratic South Africa, and therefore a perceived lack of resources to assist beyond our borders, adds further lines to this pessimistic picture.

No one who has any knowledge of the sad cyclical and structural state of the South African economy, and the extent of absolute and relative poverty, will deny these factors. But increasingly I am inclined to think that South Africa will have little option but to become involved as a growth engine. Furthermore, I would argue that due to certain complementarities and positive externalities in regional development, the locomotive act will not be one of charity and moral considerations in the first place, but action that primarily will be to the mutual benefit of all concerned, South Africa included.

South African cannot de-link from Africa. We are part and parcel of this continent which some observers only see in doomsday terms; the cradle of humankind is these days viewed in an apocalyptic sense. As a writer of Time recently so eloquently but sadly wrote: "Africa has become the basket case of the planet, the 'Third World of the Third World', a vast continent in free fall, a sort of neo-post-colonial breakdown" (Morrow, 1992). In the same review margins of hope are identified, one of these being South Africa and the role which it could play as a locomotive. A hard, clinical look at the situation will make it clear why South Africa, moral and economic self-interest apart, cannot turn its back on Africa. If the poor masses to the north of South Africa are not offered better material prospects they will migrate and joint the poor masses of South Africa. Migration into South Africa is already in swing, and it does not take much imagination and political insight to realise that, devoid of hope, the stream of people into South Africa will increase in the post-apartheid era.

Redistributive growth and development will take one a new meaning in the post-apartheid era. The modern sector of the South African economy will not only have to address the development needs of South Africa's poor, but also that of the region. Seen from this perspective it seems clear that endeavours to act as economic locomotive will be forced on South Africa in a fashion reminiscent of old-style grand apartheid and the idea of South Africa being a combination of the First and Third World succumbing to economic and political realities. As we now know grand apartheid followed petty apartheid to its demise when the poor, or 'Third World', migrated to the cities. If one takes note of how Mozambiqueans have little regard for electrified fences, and if you hear the anecdotes of non-South African languages increasingly being heard in Hillbrow and Berea, the powerful and expectations-driven force of migration to South Africa in a marginalised continent reveals itself as a force that should not be underestimated.

But, as alluded to earlier, there is also another dimension to South Africa's position in Africa, southern Africa in particular, namely one of South Africa benefiting from trade with Africa. Considering the fact that African countries buy approximately 25 per cent of South Africa's non-gold exports the importance of Africa for current economic activity and future economic growth is obvious. But, many say, Africa cannot be a market for growing exports because African countries cannot pay. While the lack of hard currency to finance imports is a problem, one should bear in mind that South Africa's pariah status has restricted entry of exports into many African markets. The current significant contribution of South African exports to the imports of African economies was attained without any meaningful sales in relatively large sub-Saharan countries, of which Nigeria and Kenya are notable examples. On the assumption that, form an ex post perspective, imports have been financed, it is possible to argue that significant room exists for South Africa to increase market share in its natural markets without incurring problems of payment. In an elementary exercise I found, using trade statistics for 1990, that if South Africa could increase its exports to a minimum of 15 per cent of the imports of 11 non-SACU Southern African and Indian ocean countries, while maintaining existing import shares where this already exceeds 15 per cent, the outcome would propel this relatively small group of poor countries into a market which is larger than any of South Africa's industrialised trading partners.

Underlying the 'inability to pay' hypothesis, however, there is an element of truth which starts with the simple but so easily forgotten or ignored fact, namely that nations export so that they can import. Mercantilism does not work, as is evident form the fact that world exports per definition equal world imports. I would argue that this also applies in a regional sense, especially where regional integration is partly prompted by the possible absence of close links with the large trading blocs. In this respect it does not make sense to have one rand of imports entering South Africa from other African countries for every seven rand of exports from South Africa destined for African markets. One-way, north-bound trade cannot provide the basis for mutually beneficial economic development. Let us not forget the endeavours of Adam Smith, David Ricardo and Robert Torrens who persuasively argued the advantages of specialisation and two-way trade in reaction to the Mercantilist view that exports alone is the source of wealth.

But the development of a two-way trading relationship presupposes two conditions. The first is the existence in South Africa's trading partners of a capacity to produce a surplus of tradeable goods which will find a ready market in South Africa. The second is that border and non-border restrictions will not obstruct the exploitation of these market opportunities.

The capacity to produce a tradeable surplus concerns the supply side of African economies, which in too many cases are poorly developed and lacking in diversification. What we are concerned with here is economic growth, that is the increase in the capacity to produce. Growth is a complicated and multi-faceted phenomenon and only a fool will rush in with easy and generalised solutions. But it will not be difficult to find agreement on at least two necessary, albeit insufficient conditions for growth, and that is adequate capital formation and the existence of a reasonably strong entrepreneurial class. Both of these are largely absent in African economies. The investment ratio (gross fixed investment as a percentage of GDP) during 1984-86 (the most recent period for which data is available) exceeded 20 per cent only in the SACU countries. There is no magic number that comes to mind on the investment ratio amongst other because the productivity of capital is so important, but one would, given the level of development in these economies, expect investment ratios of at least 25 per cent in order to make a significant impact on economic growth.

But the supply side is only one facet of growth; border and non-border restrictions in context, represent the demand side of the growth equation. Growth can only materialise and be sustained if a ready market exists for the surplus product. Growth in domestic real incomes represent such a demand source but this takes us into chicken-and-egg causation, which is why import replacement and exports are the policy vehicles on the demand side of economic growth. Import replacement appears to hold out some prospects for growth in African economies, especially in the field of agriculture where the World Bank and IMF advice emphasised export orientation, for example the substitution of foreign exchange-earning ground nuts for the staple food rice in Senegal and tobacco for maize and wheat in Zimbabwe. This takes us into the delicate issue of food security to which I will briefly return at the end of the paper.

The question of border and non-border restrictions becomes relevant when the export of goods to South Africa is considered. In developing a two-way trading relationship with African economies, serious attention should be given to the tariff and non-tariff restrictions that goods form these economies encounter on crossing the border into the South African market and to possible non-border restrictions, for example, the subsidisation of economic activity in South Africa. The subsidisation of domestic economic activities impacts negatively on free trade in ways which do not differ in principle from border restrictions.

What should the future hold as far as these factors and appropriate action on South Africa's part are concerned? On the supply side, that is, in the creation of capacity to produce exportable products, South African agents can play a useful role. South Africa is a capital poor country and should itself depend on a net inflow of foreign capital to supplement domestic savings. Consequently, it is inconceivable that, form a macro perspective, South Africa can become a major net exporter of capital to other African economies. However, South African business and parastatals are already very active in the countries of the region and I have little doubt that with facilitating regional ecumenic integration and cooperation arrangements this role can be extended in building up a capacity to produce for export.

South Africa's contribution to capacity building will largely be determined by sectoral potential. In this respect it is clear that, apart from infrastructural development by South African agencies, the primary sector and value added to primary products can represent a field of profitable opportunities for South African business. Anecdotes would have it that South African farmers are already showing a keen interest in farming opportunities in Zambia. Considering the history of South African farmers in countries out our north, it does not take much imagination to foresee a resumption of this role once apartheid has been laid to rest. Likewise, it is possible to expect the entry of South African business in the field of food processing for export to South Africa, other countries in Africa and to the rest of the world.

But, as noted previously, the production of a surplus requires entry into markets. At this point the issue of integration becomes important, because all forms of integration in the linear model that runs from free trade areas to economic unions, requires the absence of border restrictions on trade among participating countries. In agriculture marketing arrangements in a particular economy which would exclude the marketing of a participating country's produce would be out of order since in essence it would represent a non-tariff border restriction on trade. This explains article 12 of the Southern African Customs Union Agreement (SACUA) which states quite explicitly that marketing arrangements for agricultural products "shall be applied on an equitable basis to similar commodities produced in any other area of the common customs area and marketed in the area where the marketing arrangement is in operation..." But we all know that there are more ways than one to skin a cat, as Botswana found out when a minimum weight was determined for cattle to be marketed in South Africa at a level which effectively excluded its smaller cattle from the South African market.

As far as non-border restrictions are concerned that old story about South Africa's heavily subsidised farming sector makes its appearance. Product subsidies, for example on bread, do not have an effect on the producers in neighbouring countries. What will have an influence is subsidies of input costs. With the time and information at my disposal it has not been possible to obtain a clear and definitive picture on the subsidisation of South Africa agriculture. Efforts to do so are complicated by indirect subsidies and by the fact that much of it is directly associated with emergency aid related to natural disasters such as drought and floods, aid which perhaps should not be regarded as those subsidies which in the end lead to the production of surpluses a^H' la Europe.

Gazing into the crystal ball to forecast future economic integration and economic cooperation arrangements produces only hazy pictures. This general haziness is not shared by all; in fact, many people seem to have fixed ideas of joint existing organisations in Southern Africa with the usual ambitious aims with respect to integration and corresponding timetables. I have been contemplating our regional integration options and the variety of experiences with integrating elsewhere, and have come to the conclusion that diversity in economic size and structure and the relatively large number of countries involved would seem to dictate the following guiding principles:

* A flexible, open-ended approach to cooperation and integration and the avoidance of overambitious schemes with impossible deadlines and targets on integration;
* In line with trends elsewhere, an outward-looking approach to integration, which means that the greater insertion of the countries of the region into the world economy is the longer term objective; and
* considering flexibility and open-endedness, an emphasis on functionality in choosing and designing formal arrangements and also in defining regions[1]

The raison d'etre of adopting these guidelines is the restructuring of the economy on a regional scale. Economic restructuring, we know, has one overriding objective, namely to shift resources out if less productive into more productive use. At this point the immortal economic workhorse of comparative cost advantage, dressed up in a dynamic guise, comes into operation. Recently, during a Latin American research visit, I met a number of Chilean economists who were very proud of their economy's success with structural adjustment. The evidence they produced for this student with his bias for industrialisation strategies was the decline in the share of manufacturing in GDP and the increase in the share of agriculture. The Chilean economy is growing rapidly, the rate of urbanisation is stabilising, and all-round, people are feeling quite satisfied with the progress made. Given the intellectual habit of equating more rapid industrial growth with efficiency and development this experience is something from which we all can learn.

Why this sermon on sectoral growth? Southern Africa has a potential, if not revealed comparative cost advantage in agriculture which needs to be exploited if a free trade environment is created in the region. Only under these circumstances can South Africa play a role as a regional growth engine in the development of two-way trading relationships.

In developing two-way trade SACU could represent a good starting point, but this in all probability will require a renegotiation of the SACUA. The diverse development needs of SACU members, the fiscal strain which South Africa experiences in meeting the present compensatory payments in terms of the current revenue distribution formula, and the possibility of extending SACU membership, will require a renegotiation of the Agreement. In this respect flexibility and different levels of integration within the customs union might be considered[2]. As far as agricultural production is concerned the BLNS countries' agricultural output is not only relatively small compared to that of South Africa, namely less than 10 per cent of South African farming GDP in 1989, but with the exception of cattle and sugar not heavily involved in major products produced in South Africa.

In moving beyond SACU one would expect, in the first place, that links into the region, which may include the possibility of membership of SADC and the PTA, will be approached from a common SACU standpoint. SACU represents a common customs area, and on the assumption that it will remain so, closer integration and cooperation with the other countries in the region should be embarked on by the customs union as a unit. In the second place, the movement towards a free trade situation with the other cereal growing countries for the region will have severe implications for South African agriculture. If we take a long-term view, and furthermore if we consider that all the good arguments for self-sufficiency in staple production does not really apply to individual countries within a common market, we are left with an issue of tremendous proportions: will South Africa adapt to a situation where comparative cost advantages within a Southern African common market determine the production of its major corps? If not, what hope do we really have of creating a two-way flow of trade and enhanced economic efficiency and welfare in the region?

Notes

1. For example, there is no reason why the countries included for functional integration of transport networks should be the same as the region that would be optimal for cooperation in generating and distributing electricity.

2. It is, for example, possible to argue that Lesotho, which is closely linked into the South African labour market and monetary system and highly dependent on customs union revenue, to be accommodated on a higher level of integration than Botswana within the broader framework of the customs union.

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