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FUTURE ECONOMIC CO-OPERATION AND INTEGRATION IN SOUTHERN AFRICA: SOME BASIC IDEAS

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Abstract

Political changes in South Africa and the worldwide trend towards formation of trade blocs make it necessary to study prospects for closer future economic co-operation and integration in Southern Africa. A review of past integration attempts indicates the need for all major Southern African regional bodies to reassess their functions and roles. An agenda of issues which must be addressed in the formation of a possible Southern African Economic Union (SAEU) - with South Africa as the potential engine of economic growth - is discussed. Closer integration, if merited, should probably occur between economies that are ready.

1. Introduction

Major changes in international trade relations are in prospect. The European Community (EC) and United States (US) are renewing attempts to get the stalled Uruguay Round of GATT (General Agreement on Tariffs and Trade) trade talks under way, following agreement to reform EC farm policies. These talks highlight a new era in international economic and political co-operation characterized by closer integration. Movements towards full economic and political integration are occurring worldwide, mainly in response to the Single European Market (SEM) associated with the EC.

Political change in South Africa and the trend towards formation of new trade blocs raises the question: What are the prospects for closer future regional economic co-operation and integration in Southern Africa? This paper analyses these prospects by first briefly outlining the theory of economic integration and summarising recent world and African experience. Possible future economic co-operation and integration within a Southern Africa Economic Union (SAEU) is then considered. An agenda of issues which must be addressed in forming a SAEU is proposed.

2. Economic integration theory.

This section reviews integration theory and considers its relevance for less developed countries. Lindert (1991: 175) identifies the following progression of economic blocs towards increasing economic integration:

- **Free-trade area**: Members remove trade barriers among themselves, but keep their separate national barriers against trade with the outside world (eg. Canada-US Free Trade Area);

- **Customs union**: Members again remove all barriers to trade among themselves, but further adopt a common set of external barriers (eg. the Southern African Customs Union, SACU);

- **Common market**: Members allow full freedom of factor flows (migration of labour or capital) among themselves, in addition to having a customs union (eg. SEM); and

- **Full economic union**: Member countries unify all their economic policies, including monetary, fiscal and welfare policies, as well as policies toward trade and factor migration (eg. Belgium and Luxembourg).

All arrangements for international economic integration have three features in common (Robson, 1980:2):

- The suppression of discrimination among members;
- the maintenance of discrimination against the rest of the world in various respects; and
- the conclusion of agreements intended to have a lasting character, which limit the independent use of certain instruments of economic policy.

The primary incentive for states to enter into such arrangements is the prospect of economic gain, which may be derived from (Robson, 1980:3):

- Increased production arising from specialisation according to comparative advantage;
- increased output arising from the better exploitation of economies of scale;
- improved terms of trade for the group with the rest of the world;
- forced changes in efficiency arising from increased competition within the group; and
- integration-induced changes affecting the quantity or quality of factor imports, such as increased capital inflows and changes in the rate of technological advance.

Lindert (1991:177), however, identifies certain disadvantages of trade bloc formation.

- It may encourage consumers to buy from higher-cost suppliers, because of tariff protection against low-cost competition;
- much of the gains arising from global trade may be lost; and
- possible international friction, because those countries excluded may be at a disadvantage relative to those included in the agreement.

The GATT is opposed to trade discrimination in principle (Lindert, 1991:177), but encourages regional economic co-operation. However, trade discrimination is regarded as disadvantageous to the world economy. Despite this, trade bloc formation is on the increase, possibly because countries believe that they have more to gain than to lose. The possibility of a trade bloc being formed in Southern Africa should be analyzed in this context.

2.1 Relevance of integration theory for less developed countries.

Integration theory has been criticised as having no relevance to developing countries, as it was devised mainly for developed countries (Robson, 1968: 30-36). The question is whether the theoretical possible gains are in practice significant, given the conditions that exist in developing countries. Trade creation is likely to result when the member countries have little external trade in proportion to their internal production, but undertake a high proportion of that external trade with their prospective fellow members. The strength of trade effects will also depend on how trade patterns change in response to tariff changes, and the relative prices at which protected products are produced. Trade creation is also more likely, the higher the pre-union duties imposed by each member on products from other members are.

If these propositions are valid, the immediate gain from integration in less developed countries is expected to be small. Typical less developed countries have a large external trade in relation to domestic production, whereas the actual volume of trade amongst them is small. Trade patterns of developing countries, exporting mainly primary products and importing intermediate and manufactured products, leave little room for manoeuvre. In general, a customs union among typical less developed countries is hence likely to offer only small gains, unless it promotes integrated regional development by taking advantage of economies of scale and specialization.

3. Recent world experience.

Trade issues have only become important in bloc formation after the Second World War. The EC was the first major agreement among countries to form a common market. It is first of all a customs union, having a common external tariff and eliminating all barriers to trade between member nations. The Treaty of Rome provides for still closer integration, with a full economic union as the ultimate goal (Krause, 1964: 2). This will probably be achieved with the establishment of the Single European Market (SEM) at the end of 1992.

The SEM has far reaching implications for international trade, especially EC trade with developing countries. The major effects will be on merchandise trade flows - via trade creation and trade diversion - and on the terms of trade. Trade creation effects relate to expected increases in export prices of primary goods and lower import bills from lower EC export prices for manufacturers (Davenport and Page, 1991: 7). Trade diversion effects may be significantly underrated, using traditional customs union analyses, as the SEM includes the elimination of conventional non-tariff barriers. By freeing intra-EC trade considerably, this may boost EC productivity, indirectly magnifying the degree of trade diversion (Davenport and Page, 1991: 8). It may further lead to increased protection through, for example, phytosanitary and other health regulations. The potentially harmful effect of the SEM on international trade was highlighted when the Uruguay Round of the GATT stalled, damaging prospects for trade liberalisation (Davenport and Page, 1991: 13). However, some progress has been made with EC agreement to reform farm subsidies.

The US has led moves towards North American co-operation, with efforts to integrate its two FTA agreements with Canada and Mexico into a single overlapping agreement, the North American Free-Trade Area (NAFTA). However, it is not confining its efforts to forming trade blocs there alone. Other Western Hemisphere nations have been invited to sign FTA's, either separately or as groups, as part of its Enterprise for the Americas Initiative. Potential trade gains are inducing more and more countries to accept. These moves have stimulated increased interest in regional initiatives throughout Latin America. For example Columbia, Bolivia, Peru, Ecuador and Venezuela have agreed to lift all internal barriers to trade, while Brazil, Argentina, Paraguay and Uruguay, have agreed to form the Mercosur common market by the end of 1995. Pressure is likely to be exerted on the US to extend its invitation to willing Asian and other economies, resulting, if accepted, in an open agreement, leading to a global arrangement (Lawrence, 1991: 7-8).

Japan has also initiated talks to form trade agreements with other Asian countries. However, this bloc is the least likely to develop into a formal protectionist arrangement, as the region is particularly dependent on extra-regional trade. Although Japanese influence in East Asia is expected to increase, progress towards a single regional arrangement centred on the country is likely to be slow. Other Asian nations are reluctant to enter into an arrangement with a single dominant economy, while the US will be unwilling to concede to Japan and is likely to try and prevent a formal Pacific arrangement which excludes American influence (Lawrence 1991: 8-9).

Fears which outsiders have about each of these regional initiatives can be summarised as follows (Lawrence, 1991a: 8-9):

- The EC may divert more trade than it creates, become increasingly preoccupied with internal concerns and could be dominated by its more protectionist members;
- US initiatives in the Western Hemisphere could have substantial trade-diversion effects, further diverting the US, like the EC, away from global trade liberalisation initiatives;
- Japan will spearhead a Southeast Asian bloc, principally by moving its manufacturing industry offshore; and
- Asian nations will respond to the US and EC initiatives with their own protectionist measures, although this scenario seems to be least likely.

A 'Fortress Europe' could encourage outside parties to form blocs of their own, while an Asian bloc run by Japan could topple the global trading system by increasing demands for managed trade (Lawrence, 1991a: 9). If the US forms separate agreements, a polarisation of international trade into regional trading blocs will be the most likely outcome. Excluded countries, especially in Africa, will be the most disadvantaged parties in this scenario. The question now arises whether they should try and form similar trading blocs.

4. Past African experience with economic integration.

Africa has a long history of attempted regional co-operation, culminating in the formation of the Organisation of African Unity (OAU) in 1963. Closer economic union between African countries was seen as a cure for their trade problems, since it was assumed that most countries were too small to provide a viable basis for dynamic economic upliftment of their own (Abegunrin, 1990: 9). Subsequent attempts at closer economic co-operation have failed outright, or are very weak, due to seemingly insurmountable differences between member countries.

Five integration attempts in Africa - ECOWAS (Economic Community of West African States), CEAO (West African Economic Union), the PTA (Preferential Trade Area of East and Southern African States), SACU (Southern African Customs Union) and the SADCC (Southern African Development Coordinating Conference) - are discussed below as a basis for assessing prospects for closer economic co-operation and integration in Southern Africa.

4.1. Economic integration in West Africa.

ECOWAS, formally established in 1975 on the initiative of Nigeria and Togo, aims at a common market with free movement of goods, capital and labour (Abegunrin, 1990: 17). The CEAO, formed in Abidjan in 1973 upon a French initiative, aimed to institute a common external tariff in 1985. Its members also belong to ECOWAS, and it remains to be seen for how long these two organisations will exist as separate entities (Abegunrin, 1990: 17-18).

Economic integration efforts in this region have not created much additional trade. Intra-group trade remains a small share of their total trade - 9.2 percent for ECOWAS and 10.7 percent for the CEAO in 1987 - due to the following factors (OECD, 1991: 3-5):

- Agriculture - the only sector which could fruitfully divert trade away from outside exporters and thus lay a base for further trade diversion - was neglected and governments were unwilling to sacrifice local industry in the name of regional co-operation.
- Much of the trade generated did not lead to increased efficiency as market size was in many cases too small to allow economies of scale. Integration failed to stimulate competition and increase efficiency.
- Disparities in economic size and levels of development occur in this region, leading to unequal distribution of costs and benefits.
- Divergent macroeconomic policies have led to widespread balance of payments problems. Members that have payment difficulties because of failures to stabilise their economies, run persistent deficits with their intra-group trading partners. Members with trade surpluses ultimately refuse to continue extending credits, and trade decreases.
- Countries in similar climatic zones and at comparable stages of development often have similar industrial structures, and little to trade with each other. Much of the intra-group trade is in agricultural products, while in West Africa, the manufacturing sector is too small to play a leading role in trade and growth creation.
- Differences in historical and cultural backgrounds exist.

Future Southern African attempts at closer economic integration should address these problems from the outset, identifying their applicability and determining measures to overcome them.

4.2. The Preferential Trade Area (PTA).

The PTA, set up in 1981, now comprises 18 East and South African states and it aims to establish a common market by the year 2000. Two more countries, Namibia and Zaire, have recently applied to join the PTA (Africa Recovery, 1992:29).

One of the PTA's main objectives has been the reduction or elimination of trade protection barriers between member countries, with the retention of some barriers for non-members. This is expected to give their products an advantage over non-member states, assuming that some members have excessive levels of inefficiency in their production (Ikiara, 1989:22). Tariff barriers were scheduled to be eliminated by the end of 1992, but this has been deferred, as many PTA member states are dependent on tariff revenue. Another fear has been the possible collapse of their infant industries due to competition from goods from member states with relatively more developed manufacturing sectors. PTA operations have also not produced dramatic expansion of intra-regional trade, due to limited diversity in production patterns of member states. Most have economies still dominated by agriculture, with fairly similar import and export structures (Ikiara, 1989:23).

There are strong calls within the PTA to merge with SADCC, as part of an accelerated move to a single integrated common market. The final communique of the last PTA summit meeting advised the body to take the steps necessary to realize closer economic integration (including monetary harmonization) in Eastern and Southern Africa (Africa Recovery, 1992:5).

4.3. The SACU experience.

The SACU, comprising Botswana, Lesotho, Swaziland, Namibia (BLNS) and South Africa, was formed in 1969 to replace an earlier agreement of 1910 with the High Commission Territories. The Common Monetary Area agreement (CMA) of 1974 between Lesotho, Swaziland and South Africa, as part of SACU, makes the rand the common currency in these countries. (Namibia is now part of the CMA.)

Given that South Africa's economy is much stronger than those of its SACU partners and the weak theoretical base for customs unions between countries with different levels of economic development, what are the advantages for the BLNS countries? According to Maasdorp (1986:154), SACU accounts for a large proportion of government revenue in these countries, and the revenue-sharing formula is attractive to them. Secondly, South

Africa is the cheapest source of basic consumer goods for their low-income populations. In addition, the CMA provides ready access to foreign exchange. Outside the SACU and the CMA, the region is characterized by goods and foreign exchange shortages (Maasdorp, 1992:59). The SACU also contains some disadvantages for these countries (Maasdorp, 1986:154): They have found it difficult to industrialise because of their limited domestic market potential, competition from more efficient South African industries, and an inability to match the incentives available to investors under South Africa's past industrial decentralisation policies.

However, their small economic size limits the potential for such competition, and so they probably have less to lose from preferential-trade relationships with South Africa than would countries with larger economies (Maasdorp, 1986: 154). The future role of SACU under a new constitution in South Africa needs to be reconsidered. If the PTA vision of an enlarged Southern African economic community prevails, the SACU may be incorporated into such a new structure.

4.4. The SADCC experience.

The SADCC was formally established in 1981 by Angola, Zambia, Tanzania, Botswana, Mozambique, Lesotho, Swaziland, Zimbabwe and Malawi. Namibia joined after independence in March 1990. One of the SADCC's main aims is to reduce its dependence on South Africa, by forging intra-group trade, transport, agriculture, telecommunications and energy links. However, for reasons similar to those experienced in West Africa, the required results have not always been achieved. SADCC still relies heavily on South Africa for most of its imports and for much of their exports (Otto, 1990), while Maasdorp (1986:157-160) identifies strong links between SADCC countries and South Africa in the fields of transport, trade and employment.

The SADCC approach on regional co-operation differs significantly from those that seek common markets and customs unions. It adopted a strategy of 'sectoral programming', aiming at self-reliance by creating new links among developing countries (Chitala, 1987:13). However, dependence on South Africa remains, as highlighted by recent logistical problems with coordinating transport of drought relief maize supplies. The changing political scene in South Africa has made the original aim of the organisation redundant. Future economic development may depend on even closer co-operation between South Africa, the SACU and the PTA.

As with the PTA, there are increasing pressures within SADCC to merge these two organisations. However, SADCC officials say that no official discussion in this regard has taken place. Prospects for a merger between SADCC and the PTA seem limited. It would create administrative problems, given geographic realities, infrastructural problems and differing cultural and historical backgrounds. A merger between SADCC and the SACU forming a Southern African Economic Union (SAEU) may be an alternative, given infrastructural links and locality.

4.4.1. The Southern African Development Community (SADC).

At a SADCC summit meeting in August 1992 in Namibia, a treaty was signed by the heads of state and government representatives present, forming the Southern African Development Community (SADC). The basis of this treaty was a keynote document, 'SADCC: Towards economic integration', setting out a detailed plan for turning SADCC into an economic community, pursuing common policies in crucial areas such as trade and exchange rates (Africa Recovery, 1992: 5). An effort will not only be made to harmonise economic policies, but also regional peace-keeping efforts as well as foreign affairs and security issues. Although this treaty still has to be ratified by two-thirds of SADCC's member states, it came into effect immediately (Financial Mail, 1992:50). This new form would incorporate a majority-ruled South Africa as a full member (Africa Recovery, 1992:5), leading to a possible merger between SADCC and SACU.

The formation of the SADC will not only present SADCC member states with an opportunity to become more competitive on international markets, but will also take account of the fact that South Africa, due to its changing internal political environment, could meet the criteria to be accepted as a future member of the SADC. If this should happen, the SADC will provide an appropriate structure to facilitate such a merger, ensuring the incorporation of such a powerful member, without jeopardising the principles of equity and mutual benefit (SADCC, 1992:36). However, it is this possibility of economic domination, that leads to misgivings, especially under South African business, about South Africa joining the SADC under its present form. It is felt that the country has to concede to much economic sovereignty, with no payment in kind. Further it is felt that the SADC without South Africa will not be able to survive, while South Africa without the SADC would be able to do so. The region's economy would depend to much on South Africa (Stewart, 1992:30-31), placing an enormous burden on the country. If the SADC indeed expects South Africa to be the only engine of growth in the region, then a merger between these two seems unlikely. However, it should be realised that trade is already taking place between most of the present SADC members and South Africa, therefore an economic union, with no barriers to trade can only improve this situation. Further, an integrated development programme, with South Africa as the leading force, would not only benefit the SADC, but would also create business opportunities for South Africa, both in the short and in the long term. A detailed analysis of the different prospects is therefore necessary before any conclusions can be drawn about South Africa joining the SADC or not.

5. Future economic co-operation and integration in Southern Africa.

Countries participating in a possible merger between SADCC and the SACU, must meet some basic prerequisites for the union to be a stable entity:

- A stable and popular government in each member country;
- decisions based on general consensus only;
- administration by an agreed secretariat;
- recognition of differing stages of development;
- recognition of cultural differences and minorities; and
- recognition of basic human rights.

5.1 Structure of a possible SAEU.

A possible SAEU would cover 693 million hectares. Nearly 5.5 percent is presently used for crop production and 43.0 percent is under permanent pastures. In 1990, the total population was 120 million people. Some 41.7 percent of the population were economically active, 60 percent of these in agriculture (FAO, 1991). Total GDP was estimated to be 89 billion US dollars in 1987 (excluding Namibia and Angola), representing 69.1 percent of the total GDP of Sub-Saharan Africa. Per capita GNP, in 1987, ranged between 170 US dollars for Malawi and 1890 US dollars for South Africa (World Bank, 1989).

In 1990, approximately 23.7 million tons of cereals were produced by SADCC countries and South Africa, or 27 percent of total African production. Maize production accounted for 73 percent of all cereals produced, 51.1 percent of total African production. The region produced 1.2 million tons of beef and veal and 270 000 tons of mutton, lamb and goat meat in 1990, or 33.1 and 18.1 percent of total African production respectively and 27.0 percent, or 484 000 tons, of Africa's poultry meat production (FAO, 1991).

Three countries - Tanzania, Zimbabwe and South Africa - would together make up 36.8 percent of the total SAEU area, have 60.3 percent of the total population and contribute 58.8 percent to the total economically active population. They produced more than 50 percent of cereal, meat and milk products and contributed over 90 percent of total GDP in 1987. South African dominance is highlighted by an 83.4 percent contribution to regional GDP (FAO, 1991; World Bank, 1989). The fear of South Africa extending such economic hegemony over potential member states could be a major obstacle to closer economic integration.

6. A future agenda.

Within a possible SAEU, there are likely to be major obstacles to achieving integration benefits associated with economic unions. An agenda for future action has to be developed, stressing important points which must be addressed when evaluating the potential for a future SAEU to succeed.

6.1. Economic domination safeguards.

Safeguards should be developed to prevent domination by a single country. The principle of unanimity could be applied. Although this involves a time-consuming process, it will assure that all participants agree on decisions taken. This principle has been successfully applied by the Organisation for Economic Co-operation and Development (OECD), where it led to an atmosphere of mutual trust between member states (Leistner, 1992: 10).

6.2. A Common Agricultural Policy.

Accelerated growth in agriculture could lead to the expansion of domestic markets and should be a crucial element of African development strategies. Integration policies which give attention to the agricultural sector will not only encourage freer trade, but will enable countries to achieve higher levels of supply and demand on regional markets, and help increase the potential contribution of regional trade to national development objectives (Badiane, 1991:41-45). In this regard, it may become necessary to develop a common agricultural policy for Southern Africa. Strong commercial sectors, especially well developed in South Africa, Namibia and Zimbabwe, exist together with communal farming. A common policy would need to recognize this dualism and develop ways to maintain and extend the commercial sector, while simultaneously encouraging development of the communal sector.

The agricultural sector dominates the economic structure of most Southern African nations. Except for South Africa, all countries earn at least 20 percent of GDP from agriculture, while this sector employs significant numbers of the economically active population. The absolute dominance of South Africa's agriculture shows that it is important to other countries in the region as a source of food and fibre (Van Rooyen and Fényes, 1987: 172). This should be taken into account in the development of a common agricultural policy for a SAEU.

In the short run it seems advisable to continue and extend existing agricultural technical co-operation agreements between Southern African states. Agricultural integration could develop over the long term, combining existing agreements to form the basis of such a policy. However, costs and benefits of a potential common agricultural policy should be analyzed before integration takes place.

6.3. Industrial allocation problem.

World experience of attempts to allocate industries in economic groupings indicate that industrial co-operation is fraught with political problems, particularly the pull between national and regional goals (Maasdorp, 1986: 156). Fears of dominance by the relatively more industrialized economies of South Africa and Zimbabwe could lead to serious friction between member countries. Preferential-trade conditions would necessitate considerable concessions from both countries, especially South Africa, which would be opposed by certain industries within the country, and in such circumstances it might be difficult to negotiate membership to regional integration agreements (Maasdorp, 1986: 157).

6.4. Scientific and technical co-operation.

As with agriculture, it is necessary to establish effective scientific and technical co-operation agreements. Extended scientific and technical co-operation should lead to the encouragement of productive and competitive industries by targeted investment and research and training. This approach can then create a balanced industrial policy that will include major investment in training and retraining, new technologies, research and development and infrastructure, and a coordinated approach to encouraging foreign investment (Kinnock, 1989: 8-9).

This policy should further address regional differences in industrial development. Regional industrial policy should be part of a package which includes rural development initiatives, rather than a feeble attempt to implant industry in underdeveloped regions (Economic Review, 1992: 1).

6.5. South Africa's role.

Given that South Africa is re-entering the African community, it should engage in talks with willing partners, to eventually conclude bilateral economic agreements. While continuing bilateral talks, which could include agreements with present SADCC members, the country should strive for at least observer status at SADCC, in order to influence trade talks. This could smooth future economic integration of SADCC's and South Africa's economies. Existing bilateral and multilateral links could then be merged into the SAEU.

Member countries should see South Africa as an opportunity to uplift their own economic development, rather than a threat to their economic systems. Trade balance problems with South Africa could be reduced by entering into bilateral and multilateral agreements on energy, water and transport services, thereby increasing interdependence in the region (Maasdorp, 1992:59). South Africa has the ability to be a potential engine of economic growth within a possible SAEU. A politically stable South Africa presents investment opportunities, which could be extended to other members of a SAEU. In the short term, increased investment in South Africa may boost productivity, providing low-cost basic products for member countries. In the long run, investment opportunities in other countries will arise with the elimination of internal barriers to trade. However, infrastructural links have to be upgraded first and this is an area where South Africa can make a valuable contribution.

There are major problems which must be overcome for South Africa to play this role. The South African economy has been in recession for the last three years, with slow production growth rates combined with a rapid increase in population growth. In addition to the economic downturn, serious structural deficiencies exist within the country. The country is experiencing low production growth rates with increased capital intensity. More people have to find jobs outside the formal non-agricultural sector, or face unemployment. This is aggravated by the cyclical downturn, leading to a decrease in non-agricultural employment. It therefore becomes important to reshape the economy in order to improve its production potential over the long term (SARB, 1992:1-2). High levels of political unrest contribute to prolonging the recession and the increased unemployment rate, reducing investor and business confidence. The present deteriorating political climate needs to be stabilized soon, to improve economic growth prospects for both the country and the region.

7. Summary and conclusion.

It seems that all major Southern African regional bodies need to reassess their functions and roles within the Southern African environment. Closer integration, if merited, should probably occur between economies in SACU and SADCC that are ready. Countries outside the union could be invited to sign association agreements, enabling them to join the union when prepared for economic integration.

A future agenda for integration efforts in Southern Africa should analyze safeguards to prevent economic dominance by a single country. Agricultural development should also not be neglected and could be enhanced via a common agricultural policy. Industrial policy must account for different stages of economic development of potential member countries. In the short run, existing scientific and technological co-operation in agriculture and industry should be extended, while simultaneously analyzing possible common policies for these sectors. South Africa has an important role to play within a possible SAEU, as it can potentially be an engine of economic growth in Southern Africa. Political and economic conditions in South Africa have to be improved first, before this can become a reality.

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