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## THE REALITIES OF REGIONAL TRADE OPPORTUNITIES AND CONSTRAINTS

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### 1. Introduction

In view of the fact that most critical aspects relevant to regional trade were quite extensively dealt with at the conference as part of the Presidential address, "Expanding the playing field: South Africa, Southern Africa and the role of the Agricultural Economist," and Otto and Darroch's contributed paper on future economic co-operation and integration in Southern Africa, this session was conducted as a panel discussion rather than a workshop. Discussions evolved from the scene set by these two papers and although useful additional information was supplied, statements made by the panellists and floor discussion basically echoed the sentiments expressed in these papers.

It was the view of many that regional trade should however not be seen in isolation but rather in context of its dependence on regional co-operation and the role it could play in the economic development of the region. As such the statement in the presidential address that although the pre-occupation with internal integration has as result the neglect of regional integration, the future economic prosperity of the region and of South Africa depends critically on the successful completion of both these processes, was generally supported.

Discussions centred on the realities of present trade, i.e. the structures of trade and extent of actual trade, opportunities for South Africa in regional context and possible constraints in this regard. The major aspects discussed under these headings are briefly summarised.

### 2. Realities of regional trade

Although the different co-operation and integration arrangements in Southern Africa were established to pursue a variety of objectives, it also formed in essence the structures for regional trade.

In the case of South Africa trade is conducted, **firstly**, in terms of the Customs Union Agreement (CUA) concluded between South Africa and the BLNS countries. The rules of trade as laid down by the CUA stipulate the free trade of locally produced products. It does, however, recognise the national sovereignty of each state by ruling that when an arrangement for regulating the marketing of a product is operational in a specific country, the other countries should honour the arrangement when marketing in that country. Also that marketing arrangements should not discriminate against the products of any of the member countries. **Secondly**, trade with Malawi, Zimbabwe and Mozambique is conducted in terms of preferential trade agreements concluded between South Africa and each one of these countries.

The two other major institutions for regional co-operation that have an influence on regional trade, are the

South African Development Coordination Conference (SADCC), now the Southern African Development Community (SADC), and the Preferential Trade Agreement of Eastern and Southern Africa (PTA). One of SADCC's main objectives has been to reduce its dependence on South Africa by the enhancement of, inter alia, trade between members, whilst the PTA strives towards a reduction of trade protection barriers between member countries.

The region's trade, including that of South Africa, takes place primarily with OECD countries. In the case of the PTA only 5% of the total recorded trade is between member countries - most exports are of primary commodities whilst most imports are of foodstuffs and manufactured goods. In 1990 South Africa's trade with Africa represented approximately 14 per cent of the country's total trade. In this regard the following is of specific significance:

- 21% of South Africa's exports was to African countries, while only 5% of the country's imports originated in Africa;
- Of South Africa's total trade with Africa 68% occurred with its Custom union partners and 16% with Malawi, Mozambique and Zimbabwe combined;
- Between 25% and 33% of South Africa's total export of manufactured goods was destined for Africa. While primary commodities make up more than 75% of South Africa's total exports, manufactured goods contributed some 40% of its exports to Africa; and
- South Africa's exports to African countries outside the CUA increased from R3,4 billion in 1989 to R5,1 billion in 1991.

Although tariff and quantitative import control measures exist in the region, non-tariff barriers such as the lack of suitable payments mechanisms, foreign exchange constraints and transport bottlenecks, are seen as a greater inhibiting factor.

### 3. Opportunities for South Africa in regional co-operation and trade

The delay in concluding the Uruguay round of the GATT, although essential to its successful conclusion, postponed important reforms that would strengthen the multilateral trade system and benefit most countries. This uncertain trade environment has, **firstly**, lead to an increase in protectionist policies and subsidisation of agricultural exports to the detriment of small countries. As it is, the agricultural policies of the USA and EEC have damaged the competitiveness of many other coun-

tries - as such they have discouraged the development of efficient farm sectors in the rest of the world - especially in poorer countries. Secondly, countries are tending increasingly to address their concerns about the uncertain trade environment by the expansion of bilateral and regional trade arrangements. The North American Free Trade Agreement and the extended European Economic Area are examples of efforts in this regard. These types of arrangements will however divert trade and investment flows inwardly and erode trade preferences with third countries. The emergence of these trading blocs has given rise to fears that the countries of the region will be marginalized internationally if they do not merge into an economic grouping too.

According to SACOB, prices of South African manufactured goods may be as much as 25% higher than those of competitors in several important export markets. Given existing trade with Africa, and South Africa's regional advantage, Africa seems to be a natural and substantial market for the country's manufactured goods. South Africa therefore has a vital interest in the economic development and stability of these other countries in the region as well.

The combining of forces regionally through co-operation and integration, has however many advantages other than the enhancement of trade. These include enhanced efficiency through competition and specialization, joint utilization of capacity, technology sharing, increased capital inflows, greater distributional and administrative efficiency, etc. It is also perceived that international agencies will more readily assist an economically unified Southern Africa than the various individual countries.

#### 4. Possible constraints

As mentioned, inadequacies regarding payment mechanisms, foreign exchange and transport facilities are considered to be major physical constraints to regional trade. Trade expansion will however be a function of future regional co-operation and integration. Regarding the latter, the following are seen to be some of the determining factors:

- (a) Policies of the future South Africa will most probably be focused primarily on domestic issues. Services neglected during the apartheid era will need massive investments. Even under

favourable conditions, only modest amounts of South African funds are expected to be invested in neighbouring countries - even then it will primarily be focused on South African needs.

- (b) Although South Africa's own interest requires stability and prosperity in the region at large, the country's welfare depends presently more on its ability to compete internationally than on the penetration of African markets. The successful conclusion of the GATT's Uruguay round and thus trade liberalisation, the possible reclassification of South Africa as a developing country, and the country's ability to negotiate preferential market access agreements with selected countries, are some of the determining factors in this regard.

- (c) Finding a suitable co-operation or integration model for the region to which all countries could agree to, may prove difficult. Due to the financial burden of the CUA for South Africa, it is unlikely that it will be extended to other countries. With South Africa producing approximately two thirds of the regional GNP, it is also doubtful whether the CUA, PTA or SADC could successfully accommodate the aspirations of both the smaller and larger sized economies of the region, i.e. assuring an equal distribution of gains and losses amongst participants.

#### 5. Conclusion

Although the discussion did not reach a definite conclusion, it was generally felt that regional co-operation should evolve from common needs and centre on tangible aspects such as in the case of SARCCUS, and that integration will follow at its own pace.

#### Note

- 1. Introductory statements were made by P.J.A. Swart, Department of Agriculture, Pretoria; N. Vink, Development Bank of Southern Africa, Halfway House; S. Shapouri, ERS, US Department of Agriculture, Washington DC; and R-J. Otto, University of Natal, Pietermaritzburg.