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THE NOT SO BRAVE NEW WORLD!

PROBLEMS AND PROSPECTS OF REGIONAL INTEGRATION

IN POST-APARTHEID SOUTHERN AFRICA

Fantu Cheru

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THE SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS

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INTRODUCTION

The 1980s have been characterized as the lost development decade for Africa. Grinding poverty and ecological degradation across the continent are so serious and extensive that the major international organizations are predicting even more hard times for Africa. The recently released United Nations Development Programme's *1990 Human Development Report* confirms that over the past decade, many countries in Africa witnessed stagnation or a reversal of the gains of the 1960s and 1970s. In the 1980s, expenditures on health, education, and other social programmes were drastically reduced in many African countries, with far reaching consequences. The infant mortality rate rose, nutrition levels deteriorated, employment and incomes declined. The countries of southern Africa were no exception.

If this cheerless picture prevails at the end of a decade of stagnation, the last two years have also signalled positive changes in a region where peace and stability have proved elusive. The independence of Namibia, the cessation of hostilities in Angola, the emergence of democratic movements throughout the sub-region, have been some of the key developments. The apartheid system has begun to unravel as the possibilities of a democratic transition loom over the horizon. While there is good reason to be optimistic about the future, there are still important challenges facing the governments in the region to solve some of the old problems and dilemmas. The New World Order (NWO) may have grave consequences for southern Africa and the continent as a whole.

With the end of the cold war, the old military blocs are being replaced by trading blocs, signalling the emergence of a system of "global apartheid" - separating North and South. Only the United States has the power and economic leverage to withstand or retaliate against this new "collective protectionist" bloc. The recent US-Canada free trade agreement and the soon to be signed US-Mexico free trade agreement is an attempt to create the largest trading bloc in response to the threat posed by the European Economic Community (EC) and an incipient East Asian trading bloc under the leadership of Japan. Africa will find itself ever more vulnerable and isolated if it chooses (or is obliged) to remain a collection of fifty, small, competing exporters, dependent on these regional giants to purchase its output and to supply its needs. There is a compelling need to reverse this state of vulnerability, to strengthen regional markets, and to rationalize existing resources by establishing viable sub-regional economic integration schemes.

In the Lagos Plan of Action and subsequent declarations on development strategy, African governments have clearly articulated the strongly held view that Africans should strive for self-reliance through regional integration and South-South cooperation. Although past efforts by African leaders at collective cooperation have been disappointing, the failure of IMF-induced structural adjustment and liberalization policies to reverse Africa's economic decline has generated renewed interest for a second look at regional integration and South-South cooperation.

Interestingly, the renewed interest in regional integration has been *welcomed by the World Bank*, an institution long opposed to such an idea. The Bank has singled out the *Preferential Trade Area for Eastern* and Southern Africa (PTA), as well as the Southern Africa Development Coordination Conference (SADCC) for financial and technical support. This is interesting since the Bank's view on development and regional integration does not correspond to the view expressed by the Economic Commission for Africa (ECA). The Bank assumes that global interdependence and economic liberalism is the only route Africa should follow. The ECA, on the other hand, tries to achieve African self-sufficiency through collective action and through partial de-linking from the West's unequal terms of trade. In marked contrast to the Bank, the ECA calls for economic measures such as customs duties to protect the African market.

This report explores the problems and prospects of balanced regional integration in post-apartheid southern Africa. What are the challenges, both internal and external, that the governments in the region, including South Africa, are going to confront on their way to establishing viable economic integration? What preconditions do they have to fulfil beforehand? How will the existing organizations that seek economic integration, such as SADCC, the PTA, SACU, have to restructure to meet the new challenges? How is the entry of South Africa, with its huge economy, going to affect the pattern of regional economic interaction, regardless of the political orientations of a post-apartheid government?

I. SOUTHERN AFRICA: IS PROSPERITY AROUND THE CORNER?

The economic dominance of South Africa in southern Africa is well known. In 1986, the GNP of South Africa was more than three times that of SADCC and Namibia combined, while the population of SADCC was more than twice that of South Africa. The average per capita income of South Africa was nearly six times that of SADCC. However, it is clear that while South Africa's domestic market comprised a population of 37 million, South Africa together with SADCC would constitute a market in excess of 114 million people. If South Africa were to join the PTA, this would translate into a market of 200 million people (Appendix A). This demographic figure is what has promoted interest in creating a regional market, with South Africa supplying the region's capital and goods.

Both the SADCC member states and the South African Government are propounding the view that the end of apartheid and the transition to democratic rule will open the door for the establishment of new and mutually beneficial economic relation between South Africa and its neighbours. Such a move, both sides argue, is the only way to resolve the socio-economic backlog confronting the region and to overcome the difficulty of market penetration in relation to the three world trading blocs.[1] The SADCC states believe that, once a democratic government is in place, South Africa could become the engine for regional economic growth in southern Africa and beyond, by providing the neighbouring countries with access to markets as well as capital investment for development.[2] It is interesting to note, however, that the same enthusiasm has not been expressed by the PTA, the largest regional organization in the sub-region. In anticipation of a democratic post-apartheid regime, the organization is preparing the ground rules under which South Africa will be admitted into the community.

There are many reasons why governments in the region pin so much hope on regional integration. One compelling reason is the growing realization that southern Africa will be marginalized in the new world order, characterized by powerful trading blocs.[3] This will transform the world both economically and politically - and not necessarily to the advantage of Africa. Fearing that the continent will find itself vulnerable if it chooses to remain disunited and dependent on these regional giants, African leaders signed the Treaty establishing the Pan-African Economic Community at the Abuja OAU summit last year.

A second concern expressed by African leaders is that the major capitalist centres are losing interest in much of Africa as they move to greener pastures in Eastern Europe and the former Soviet Union. Long before the end of the cold war, Western governments were already showing signs of aid fatigue. Increasingly, the provision of aid is being conditioned on democratization and government accountability.[4] There is also widespread fear that increasing flows of foreign investment will be diverted to Eastern Europe as these countries have a better infrastructure and human capital for expanded investment cooperation with the West. With the end of the cold war, the capacity of African states to play one super-power off against the other, and thus secure foreign aid, has come to an end. Therefore, Africa is unlikely to benefit from the peace dividend in the form of increased aid from the West. These developments have forced governments in southern Africa to adopt a framework of economic co-operation if they are to become a serious player in the new world order.

A similar rethink is underway in South Africa and visions of a common market have emerged although details are sketchy. The emphasis, however, is more on the expansion of trade relations and less on the formalization of regional cooperation. The business community in particular believes that trade opportunities north of the Limpopo are unlimited and ready for the picking. Emphasizing the dominance of the South African economy in the region, the late Governor of the South African Reserve Bank, Dr. Gerhard de Kock, went even further when he suggested that "little real economic expansion in sub-Saharan Africa is feasible without simultaneous growth in the South African economy" and that South Africa is uniquely placed to promote economic cooperation in the continent.[5] The Assistant General Manager of the South African Foreign Trade Organization (SAFTO), Mr. David Graham, also argues that "South Africa is the 'economic engine' of the African continent generally and of the southern African region specifically."[6]

This optimism is reinforced by the new political mood in Pretoria, which has led to the independence of Namibia and the resumption of constitutional talks on a future non-racial democratic South Africa. Increased business interaction with the governments in the region, such as the Lesotho Highlands Water project and the Sua Pan Soda Ash project in Botswana, and the opening up of trade legations in Kenya, Togo and Mali has given rise to the view that a new and positive era is at hand in the region. Unfortunately, the new trade diplomacy towards Africa is not based on a realistic assessment and identification of potential areas of economic cooperation between South Africa and its neighbors.

That a democratic South Africa will become an important member of the PTA and SADCC is a foregone conclusion. As the last member of the OAU, South Africa can join any regional organization on the continent if it so wishes. But the current expectations from both sides that immediate trade benefits are out there for the picking is premature and it needs to be scaled down. While all governments in the region express an interest in collective self-reliance and development, all of them are likely to pursue divergent interests and take different actions to advance their perceived national interest. South Africa's membership of the PTA or SADCC in the near future is unlikely to lead to the equalization of economic relations between member states. In addition, southern African states should not look to a post-apartheid South Africa for their economic salvation. South Africa will be too pre-occupied with its own problems to come to their rescue.

At the present moment, intra-regional trade and industrial co-operation in southern Africa face a number of serious obtacles - political, economic, institutional - on both sides of the border. In fact, South Africa and its neighbours face very similar political and economic challenges of structural reform and adjustment, under deteriorating international and economic conditions. Sub-Saharan African economies have undergone a dramatic decline in the past decade. The assumptions about the strength of the South African economy are over-exaggerated. Overall, the economy has performed miserably and the country is currently in the midst of the longest recession in forty years. Overcoming these economic and political difficulties is not an easy task. If one goes by the experience of Sub-Saharan Africa, fundamental restructuring to create an enabling environment will prove to be difficult, time consuming, and politically risky. Immediate payoffs are unlikely in the short- and medium-term despite the sub-region's economic and resource potential.

I.I. SOUTHERN AFRICA AND THE NEW WORLD ORDER

The end of the cold war has brought both opportunities and challenges to southern Africa. The independence of Namibia, the end of hostilities in Angola, the emergence of democratic movements throughout the region, the unravelling of the apartheid system and the possibilities of a democratic government in South Africa in the not too distant future are important milestones for a sub-region where peace and stability have proved rather elusive.

On the economic front, however, southern Africa faces major challenges. Peace and political democratization will unleash enormous public expectations from a population whose standard of living had declined as a result of years of wars, economic mismanagement and lack of political participation. These fundamental changes are taking place at a time when the world economy and international relationships are changing radically. This will make the establishment of viable regional economic cooperation among southern African states difficult. The stipulation of trade liberalization (reduction of quotas and tariffs) by bilateral and multilateral aid agencies as part of their conditionalities, the global negotiations through GATT to liberalize world trade, will have profound consequences for southern Africa - including for South Africa.[7] These changes are likely to further contribute to reduced intra-regional trade, by opening up the SADCC markets to cheap supplies from outside of the region.[8]

While the liberalization of intra-regional trade should be vigorously pursued, across-the-board trade liberalization demanded by GATT and the IMF/World Bank

Group is counter-productive and contrary to the logic of the PTA or SADCC.[9] In the New World Order, southern African states have very little room to manoeuvre. The days of playing one super-power off against the other are over. It is this reality that is shaping the perceptions of policy makers and business elites on both side of the Limpopo River. As the spectre of a democratic transition looms larger over the South African horizon, policy makers now urge that the language of isolation and destabilization should give way to real economic cooperation among the countries of southern Africa. Therefore, well thought-out protection measures against the major trading blocs must be considered.

Even before the recent global political changes, direct foreign investment and private financial flows to the continent have slowed down, primarily on account of the debt crisis and the problems which it has given rise to. With the end of the cold war, new investment opportunities have opened up for Western investors in Eastern Europe. Sub-Saharan Africa, with its weak infrastructure, inefficient management, high debt burden and weak managerial capacity does not attract attention from the West anymore and it is increasingly considered as a risky place to do business. The recent decision by the Swedish Government, a major supporter of the SADCC initiative, to allocate a high proportion of its aid and export credit to the Baltic States is indicative of the new thinking in much of Western Europe, as the EC tries to cultivate market access to the Community's goods and thus preempt American and Japanese domination of these new markets. In the case of South Africa, it will be some time before the impact of sanctions and disinvestment are reversed and a resumption of investment can take place. Investor confidence is lacking since the general perception is that the transition to a stable non-racial democratic rule will be slow.

Another characteristic of the New World Order is the emergence of competing trading blocs, which are likely to consolidate the North-South divide. The European Community (EC) single market, the North American trading bloc, involving the U.S, Mexico and Canada, and an incipient East Asian trading bloc under the leadership of Japan will definitely influence, if not determine, the context within which decision-making takes place in southern Africa. Given the relative state of underdevelopment of the region's economy, southern African states will have limited economic and political options in the coming years. While this political reality is a powerful incentive for closer economic collaboration, the possibilities of internal restructuring to allow the process to go forward will remain difficult.

I.II. WILL THERE BE A POST-APARTHEID DIVIDEND?

This is not to suggest that the transition to democracy in South Africa on the whole will have no immediate positive economic impact at the national, sub-regional and continental level. On the contrary, the demise of apartheid, the repeal of sanctions, the cessation of hostilities will generate, what Stephen R. Lewis called, a "post-apartheid dividend".[10] Most of this dividend will accrue to South Africa. The reduction of expenditure on defence, internal security, the administration of Byzantine apartheid laws, duplication of services (for example, the 16 departments of education) will result in enormous savings to the government which in turn can be used toward black education, housing and improved health care. According to one estimate, the country can reduce its 900,000 civil servants, 150 cabinet bureaux, 1900 MPs and their staffs. Direct spending on apartheid accounts for up to 14% of the budget.[11] The removal of sanctions is also expected to result in increased access to foreign capital, investment and markets for South African products throughout the world.

Likewise, South Africa's neighbours and sub-Saharan African countries may also benefit from the demise of apartheid and the transition to democratic rule in South Africa. For the Frontline States in particular, the threat of destabilization, with its enormous financial and human cost, will disappear. Ports and railway systems that were closed for more than a decade or were operating at low levels of capacity can begin to generate revenue, and land locked countries will have access to ports that are less expensive for shipping their goods to overseas markets. Other countries in sub-Saharan Africa are also expected to benefit by resuming imports and exports with South Africa which were interrupted for decades as a result of OAU sanctions.

In sum, these are very important and positive developments for a region where "peace and stability" have proved to be elusive. But once the euphoria over a democratic South Africa is over, regional and continental political solidarity, forged over the past thirty years to oppose apartheid will be replaced by economic pragmatism dictated by national self-interest. Despite repeated reassurances by ANC officials that a democratic South Africa will not try to dominate the region, a post-apartheid government will be forced to aggressively pursue trade relations to penetrate the African market on behalf of the business community and the new social classes.[12] It is at this juncture that I would like to challenge those who paint a rosy picture of the future of southern Africa's economic integration.

I.III. PROBLEMS IN THE SADCC REGION

The best starting point for evaluation of the prospects for expanded trade between South Africa and its neighbours is by examining the performance of southern African economies over the last decade. Since the mid-1970s, all the states of the region, including South Africa, have been hard hit by falling terms of trade and a rising international debt burden. The principal factors leading to the crisis have been both internal and external. Low agricultural production, declining levels of investment, with industrial capacity utilization as low as 25% in most countries, poor export performance, serious institutional and policy weaknesses, deteriorating social services and low employment generation have characterized the crisis. As a result, growth has stagnated, and in some countries may have actually been reversed.

As shown in Table 2 (See Appendix), the region shows some recovery in 1989 and 1990, except for Zambia which experienced a decline in GDP growth. With the exception of Botswana, the recovery in the rest of the region is far below the rate of population growth. While Angola's growth potential is promising, the prospect for Mozambique is bleak. It will take another decade before a functioning government and economy is put in place. With declining receipts, all of the states in the region have become even more dependent on export markets.

Since 1980, the SADCC countries have been implementing "structural adjustment" programmes under the watchful eye of the IMF and the World Bank. While adjustment policies in the area of pricing, exchange rates, public sector reform and liberalization of markets are some of the essential ingredients of a balanced national strategy, conventional stabilization and structural adjustment policies have contributed to the weakening of regional cooperation. These short-term policies, designed to improve commodity exports to generate foreign exchange for servicing external debt, often conflict with long-term development needs. For example, rapid and steep devaluation of national currencies was often required without regard to the effects on neighbouring currencies. By looking at individual states as separate entities, implementation of such programmes inhibited meaningful trade with neighbours. Implementation of stabilization programmes also ignored the impact of destabilization on production and trade.

More importantly, however, implementation of such policies has failed to reverse the decline in production. While some countries in the region have improved their short-term trade positions, few have gained in any of the indicators that measure real, sustainable development. Rather, most have slid backward amidst growing inequality, environmental degradation, de-industrialization and poverty. For expanded trade to materialize in the region, a reversal in the following areas is necessary:

(a) Agricultural Decline

The shortcomings of an elite-oriented export-led strategy are clearly evident when one looks at Africa's agricultural decline. Since agriculture accounts for 33% of Africa's GDP, 66% of its labour force, and 40% of its exports, the stagnation of this important sector has had a negative impact on the overall process of development on the continent.[13] During the 1960s, agricultural production grew at 2.7% a year, about the same as population growth. Thereafter, agricultural growth slowed considerably, averaging only 1.4% from 1970 to 1985 - half the rate of population growth.[14] Agricultural production for the whole of Africa, having grown by 2.8% in 1989, was virtually stagnant during 1990.

In the SADCC region, the performance of the agricultural sector was mixed throughout the 1980s. While some countries, such as Zimbabwe and Malawi increased their outputs due to the combination of economic incentives, technological innovation and favourable weather, production declined in the war-ravaged countries of Angola and Mozambique. Food aid continued unabated to the war-torn countries while food imports from South Africa to the BLS states continued unchecked. The region is currently facing the worst drought in years, pointing to the vulnerability of the agricultural sector. Both formerly food-sufficient South Africa and Zimbabwe are themselves now forced to import food from overseas. The need to rethink agricultural strategy is becoming increasingly evident.

Declining agricultural output is part of a wider pattern whereby most governments in the region, regardless of ideological orientation, have consistently failed to recognize the role of small farmers, particularly women farmers, when setting their development priorities. Government investment policy across the region has tended to favour projects in urban areas or in export plantations. Prices paid to farmers for food crops are kept artificially low, thus providing cheap food to people in the cities.[15] Inadequate investment in agriculture, insufficient incentives to peasant producers. the breakdown of marketing and transport systems, lack of storage facilities and weak extension services have further constrained agricultural production and proper management and utilization of natural resources. In Zimbabwe and South Africa, the institution of radical land reform is a necessary precondition for improved agricultural production.

(b) Poor Manufacturing Performance

The poor performance of the manufacturing sector in the SADCC region has not shown marked improvement in the 1980s. With the exception of Botswana and Lesotho, the other countries in the region continue to experience a high level of capacity under-utilization. The import-substitution strategy has run its course. Considering the high level of import dependence of SADCC manufacturing, both production and output have been affected by increased cost of inputs and spare parts, as well as by the lack of foreign exchange to this sector. As shown in Table 3 (See Appendix), manufacturing value added (MVA) per head declined significantly, with Tanzania and Mozambique experiencing the worst.

Manufacturing value added (MVA) expanded at an average annual rate of 3.1% during the 1970s, virtually keeping pace with population growth. Since the early 1980s, however, growth in manufacturing has lagged far behind population growth. This was the consequence of demand and supply-side influences. Declining real per capita income and overvalued exchange rates in several countries undermined demand domestically and overseas. On the supply side, the foreign exchange shortage contributed to significant curtailment of necessary inputs and spare parts, hence the decline in capacity utilization across all sectors. The weak post-1980 performance is explained by relative industrial stagnation in Malawi, Tanzania and Angola. These countries have paid a very high price for South Africa's destabilization policy.

Table 4 (See *Appendix*) shows the relative dependence of SADCC manufacturing on imported inputs. The level of import ratios in the manufacturing sector varies considerably from a low of 27% in Zimbabwe to highs of 90% in Botswana and Swaziland. Since the agricultural sector is the sole generator of foreign exchange, the decline in agricultural output as well as the negative terms of trade have directly affected the performance of the manufacturing sector, with capacity utilization rates as low as 20%. The foreign exchange famine is unlikely to disappear in the short-term unless radical measures are taken to improve agricultural productivity in the region.

(c) Low Commodity Prices

No other region in the world depends on commodity exports to the same degree as sub-Saharan Africa. Burkina Faso and Mali, for example, rely on cotton for over 50% of their export receipts. Burundi, Ethiopia, Ghana, Kenya and the Ivory Coast get over 50% of their export revenues from tropical beverages. Malawi, Mauritania and Somalia derive similar proportions from food products. Niger and

Zambia depend heavily on the exports of metals and minerals.[16] This is equally true for the countries of southern Africa (See Appendix:Table 5). They remain primarily exporters of raw materials while importing industrial goods from the West. These countries in general show very little diversification within the primary commodities exported. Thus, they are competitive with rather than complementary to one another.

Over the past decade, the export prices for African commodities have been subjected to very large fluctuations, and are currently at the lowest levels in thirty years. The decline in commodity prices in 1990 was fairly pervasive (See Appendix:Table 6). While the volume index of exports increased by 7.5 percentage points, the unit value index dropped 23.2 points. At the same time, the unit value of Africa's imports rose by nearly 13.9 percentage points during the 1986-90 period, against a 3.8 percentage points decrease in volume. As a result, the purchasing power of Africa's exports fell sharply, averaging about 54% in 1986-90, compared to 76% in 1981-85. Many of Africa's exports are also facing mounting competition from substitutes such as synthetics for cotton and sugar beet and corn syrup for sugar.

African countries tried to offset lower world prices by producing ever-greater quantities of timber, tin, copper, cotton, sugar and cocoa. However, this simply drove prices further down as dozens of developing countries tried to flood the world market with their commodities as part of donor mandated "structural adjustment" programmes. The decline in foreign exchange earnings further constrained import capacity, depriving industry and agriculture of important inputs such as fertilizers and spare parts.

These countries are unlikely to overcome the "foreign exchange famine" in the foreseeable future. The strategy of "export your way out of debt" is a recipe for glut and lower prices. So, is there a need to rethink their strategies?

In addition, market access conditions for African exports have not improved in recent years. Although the Lomé Convention provides all southern African countries, with the exception of South Africa, with duty free access to the European Community markets, non-tariff and related measures are being used as significant barriers to wider entry into the European markets. A feature of many of these barriers is that they are tied to the degree of processing. The greater the degree of processing, the higher the barrier. Other barriers include: quotas, voluntary export restraints, technical (especially phyto-sanitary) regulations. The issue of quality and standards will affect the capacity of southern Africa to compete effectively in Europe. Since quality is dependent on technology, it will be difficult for SADCC countries to compete on an equal footing with the Newly Industrialised Countries (NICs). Even South Africa has to undergo serious industrial restructuring before it can compete with the Pacific Rim countries. This takes place in the face of increased demand from the West for Africa to liberalize its market and open up its economy.

(d) The Debt Crisis

The debt crisis is another impediment to the establishment of viable economic integration in southern Africa. Most governments in the region continue to be severely affected by the debt crisis, which crushes the potential for economic growth and recovery by diverting local resources towards the payment of debt.

In actual terms, sub-Saharan African debt stood at $161 billion in 1989, an increase of more than 9% over the $147 billion of the previous year.[17] However, it is important to note that there are major differences between the debt structure of sub-Saharan Africa and the Highly Indebted Countries, with much higher proportions owed to official bilateral (41%) and multilateral agencies (21%) and much less to commercial banks.[18] While debt to private sources can be rescheduled, debt owed to the IMF and the World Bank cannot.

By most conventional economic indicators, such as the ratio of debt to GNP, sub-Saharan Africa's debt burden was equivalent to 96.9% of its GNP compared to 45.8% for Latin America. For some countries - Congo, Guinea-Bissau, Mauritania, Mozambique and Somalia - the ratio of debt to GNP was 200% or more. In terms of ratio of debt to exports, the figures were striking: 312% for sub-Saharan Africa, as compared to 288% for Latin America. For the sub-continent as a whole, debt per capita in 1989 was $437 as compared to GNP per capita of $449.[19]

The combined debt of southern Africa in 1989 stood at $50 billion, of which $20 billion is owed by South Africa (See Appendix:Table 7). Debt service obligations for 1990, excluding South Africa, Angola and Namibia, were estimated at $2.5 billion. All countries in the sub-region except Botswana experienced deficits on their balance of payments in the 1980s. The worst affected were Tanzania, Mozambique and Zambia. The debt/GNP ratio ranges from a low of 53.6% for Zimbabwe to a high of 474.2% for Mozambique. Angola, Mozambique, Tanzania and Zambia register debt per capita figures much higher than GNP per capita. With the transition to democracy and the lifting of sanctions, South Africa will be able to overcome its debt crisis much more quickly than any of the other countries in the region.

Despite a range of debt initiatives

by Western countries over the past five years, the total stock of sub-Saharan Africa's debt has continued to rise and annual debt servicing costs have eased only marginally. In fact, according to the World Bank, no more than a dozen sub-Saharan African countries have serviced their debts regularly since 1980. Altogether, 25 sub-Saharan countries rescheduled their debts 105 times during 1980-88.[20]

The debt overhang has reduced the amount of foreign exchange available to purchase imports, leading to a very severe import strangulation, depriving industry and agriculture of much needed inputs; holding back new investments and even the maintenance of the existing capital stock.[21] Debt servicing and the adjustment policies pushed to free up foreign exchange needed to repay the debt, have also worsened social welfare in the areas of health, education and poverty relief.[22]

(e) Shortage of Skilled Manpower

One of the most negative aspects of the economic crisis, aggravated by a high level of debt, has been the dramatic growth in the brain-drain involving middle and high level manpower whom Africa needs for its recovery and development. A joint ECA/ILO report put the estimate at 70,000 Africans who had left the continent by mid-1987, up from 40,000 in 1985. This represents aproximately 30% of Africa's skilled human resources. While the lucky ones fled to Europe, those less fortunate took up jobs as teachers and doctors in some of South Africa's 'homelands' - a cruel irony.

In southern Africa, the brain drain is taking place in the face of a growing shortage of skilled manpower in all sectors of the economy. For example, a 1987 SADCC mining sector skilled manpower survey shows that the region is highly dependent on expensive expatriate skills: general management (52%), technical service (20%), maintenance (17%) and finance and administration (14%).[23] Table 8 (See Appendix) shows the level of skilled manpower requirements by country. The demand for skilled personnel is particularly high in Zambia where the mining sector is adversely affected.

The unprecedented flight of high level manpower from the continent is the result of a hostile domestic economic environment, aggravated by the implementation of harsh adjustment policies. The decline in real earnings, the removal of subsidies, the increase in the cost of medical, educational and other services, the freezing of wages and the massive retrenchments from the public service have made life difficult for all Africans. The loss of skilled people will continue to affect the functioning of the institutions of higher learning, industry and enterprises.

With a transition to democratic rule in South Africa, the brain-drain problem north of the Limpopo is likely to get worse. South Africa faces a serious shortage of skilled personnel, largely as a result of its apartheid policy which denied higher educational opportunities to the vast majority of the black population. Until the skills level is improved in the country, the private sector, government and non-government institutions will engage in a piracy of high level manpower from the rest of Africa.

(f) Unbreakable Colonial Trade Links

Historical trade relations with Europe pose a serious constaint to regional economic integration. The directions of trade in sub-Saharan Africa have changed very little since independence, oriented largely to the markets of the former colonial powers. This pattern of trade can be seen in southern Africa, despite regional efforts by the PTA and SADCC to reverse this trend. Almost 77% of SADCC trade is still with countries outside the region, mainly with the former colonial powers. SADCC-South Africa trade has largely remained unchanged despite SADCC's efforts to reduce dependence on South Africa. In 1984, for example, intra-SADCC trade was only 4.2% compared to 18.5% with South Africa and 77.3% with the rest of the world (See Appendix:Table 9).

There are many reasons why SADCC's trade is heavily oriented towards Europe. First, the existing physical and financial infrastructure has been developed to facilitate trade with Europe rather than intra-regional trade. This historical relationship has been strengthened through the Lomé Convention and other aid programmes.[24] Many of the purchases from overseas suppliers are tied directly to aid programmes which tend to favour imports from the aid-giving countries. Nearly two-thirds of capital and commodity aid, and even a higher proportion of technical assistance, is tied in this manner. As a result, trade patterns become distorted in favour of the overseas suppliers as the recipient country is tied to the donor country for repeat orders and services. Third, through advertising, African consumers have become captives of goods produced in Europe and they tend to look down on goods produced locally.

Another factor which has tightened the links between southern Africa and the industrialized world has been the SADCC project itself. Since the whole SADCC initiative is heavily dependent on external financing, aid donors have largely funded projects with positive effects for their own economies. In addition to the purchase of inputs, donors are insisting that recipient countries adopt policy measures conducive to private investment and the liberalization of trade and exchange rate systems, consistent with the overall development philosophy of the World Bank and the IMF. Disbursement of adjustment funds is often tied to the purchase of inputs and management expertise from Europe.[25]

South Africa will have to break into African markets which have been carefully nurtured by other countries during the period when Pretoria was busily destabilizing the region. Even in southern Africa, where SA has long relationships, competition over existing regional markets is growing. For example, the Portuguese have tapped the markets of Portuguese-speaking Angola and Mozambique, while the Nordic countries have established a special fund to promote joint ventures in the region. Given its financial constraint, South Africa is not in a position to supply its neighbours with advantageous credit and delivery terms.

(g) The Policy Dimension

Member states of the PTA and SADCC are far from creating a policy environment conducive to greater intra-regional trade and investment. There are simply too many unnecessary and bureaucratic barriers to trade within the SADCC region. Import controls and export licencing, customs hold-ups and price controls, and a complicated system of documentation are some of the factors that hinder expansion of intra-regional trade. For example, Zimbabwe's import control system involves twenty-two different government bodies and this is very costly for business. Businessmen interested in cross-border trade are often frustrated by the shortage of foreign exchange and complicated visa requirements.

In the area of macroeconomic management, few countries have successfully completed the transition from command (dirigist) to market-economies. Over-valued currencies, unrealistic minimum export prices and high import duties are insisted upon and there are bewildering and different systems of customs tariffs and procedures. This situation is unlikely to be resolved in the near future. In addition, reform in the areas of pricing, exchange rates, privatization, containing budget deficits, liberalization of trade, public sector reform and the like will be slow particularly in the face of dwindling external assistance, an uncertain commodity environment, lack of rain and domestic political events. Most governments are likely to exhibit an excessive preoccupation with politics rather than economics, as the different social coalitions try to deflect the sacrifices that often accompany fundamental economic restructuring. The case of Zambia in 1987, when the government broke off negotiations with the IMF, is instructive.

Additional factors that hinder intra-regional trade include: lack of political will to succeed, the underdeveloped monetary and banking system, lack of adequate domestic savings, credit control, high rates of inflation, exchange rate problems, low producer prices and an uncoordinated, inadequate regional transport system. Without establishing an enabling environment in sub-Saharan Africa, the prospects for internal and regional growth - and thus for expanded intra-regional trade are exceedingly dim.[26] South African policy makers, despite their over-exaggerated optimism, should accept this reality before initiating policies that will produce very little return in the long-term.

(h) Democratization vs. economic restructuring?

The pressure for democratization (that is: redressing economic injustice simultaneously with political freedom) is another added dimension which will push for an inward looking development strategy. This analysis equally applies to South Africa. As William Martin succinctly put it:

Underneath the calls for greater democracy, for example, lie a surging demand for greater participation, accountability, and a more equitable distribution of productive resources and wealth. Such trends are most sharply etched in the burgeoning anti-capitalist sentiment within South Africa's mass democratic organizations, particularly in trade union structures. But it is not restricted to those bodies, as is indicated by widespread protest across the region against entrenched parties' implementation of stabilisation programmes and "free enterprise" policies.[27]

The trend towards liberalization of markets and an export-oriented strategy is being challenged by the popular classes who want to see an alternative development strategy. The focus will be on internally-induced development to meet basic needs. In South Africa, the trade union movement has argued recently that the economy must seek its dynamism from the domestic market rather than external markets. This will bring COSATU on a collision course with the apologists of export-led growth. What is this going to mean for regional trade? The concern for social justice on the one hand, and the drive towards export markets on the other, will have a pull and push effect, delaying quick solutions to domestic economic and political problems.

The task for PTA/SADCC member states is to initiate policies and actions that will address the problems listed above. It is important to review policies that have not worked in the past in favour of new imaginative policies that support growth and production as well as intra-regional exchange. Failure to do so will lead to permanent stagnation, poverty and inequality.

II NATURE OF SOUTH AFRICA'S ECONOMY

It has been pointed out earlier that the assumptions about the strength of the South African economy are unfounded. It must also be said at the outset that the assumption that South Africa will salvage southern Africa from its stagnation is a *pipe dream*. In fact, apartheid has been both an economic disaster and a human tragedy. Since 1976, the economy has been under siege as a consequence of the government's own actions.[28] During the period 1965-79, the average GDP growth was 5.4%. Since then, growth has gone continuously down, reaching its lowest levels in the 1980-88 period (See Appendix:Table 10). Only once in the 1980s has the GDP grown by more than 5%, the minimum required to keep a ceiling on its dismally high unemployment figures, to absorb the more than 300,000 new workers coming onto the labour market every year. At the beginning of the 1970s, unemployment was about 19%. In 1992, the figure is over 40%.[29] Were it not for the informal sector which has grown rapidly over the past three years, the unemployment figure would have been much higher.

Table 11 (See Appendix) shows a comparative analysis of the performance of the South African economy vis-a-vis the Asian NICs, some southern African states, and Brazil and Mexico. The latter two have similar per capita income to South Africa. Yet they outperformed South Africa, despite their heavy debt burden - five times greater than that of South Africa. In every respect, South Africa performed badly. As to the potential of South Africa emulating the NICs model, that is unlikely to happen in the near future. A growth rate matching that of Korea or Hong Kong will require *massive investment* in Research and Development (R&D) as well as raising the skills levels of black South Africa. Even close to home, the South African economy did badly compared to the neighbouring countries. Between 1980-88, the economy performed at an average of 1.3%, a strikingly depressing performance compared with neighbouring countries such as Botswana (11.4%), Lesotho (2.9%), Malawi (2.6%) and Zimbabwe (2.7%).

As apartheid ends, high expectations will demand more social expenditure on education, health, and housing. It is difficult to see how the domestic economy can mobilize the investment funds needed to redress the damage of apartheid and restore the economy to reasonable growth. While there will be a post-apartheid dividend in the short-term, these savings will be inadequate for the task ahead. South Africa will require a significant injection of capital from outside. Whether one travels the "high road" or the "low road", the South African economy is unlikely to generate any significant surplus to contribute to the development and growth of the rest of the region.

(a) Poor manufacturing performance

Despite the fact that South Africa is the economic giant of the sub-continent, the performance of the economy over the last 15 years, the manufacturing sector in particular, has been disappointing. The success of the economy over the past 40 years depended largely on favourable international prices for agricultural commodities and minerals, on credit-financed import-substitution industrialization, centralized state management of the economy, sheltered markets, guaranteed labour supplies and unequal income distribution.[30] This strategy is in contrast to the Asian tigers who based their success on the development of human capital, fostering indigenous technical capacity, land reform, the creation of an enabling environment for national and international competition for production, innovation and quality through deregulation and deconcentration of ownership.

Much of South Africa's post-war economic boom had to do with the favourable demand conditions for its exports, mainly gold, metals and agricultural goods. Until about the mid-1970s, commodity and mineral exports provided the bulk of revenues that was translated into rapid growth of GDP. This in turn paved the way for imports of capital goods necessary for building the manufacturing sector. The apartheid labour policy also facilitated the availability of cheap labour.

Since the mid-1970s, however, growth has slowed down on account of the oil crisis, the general recession in the world economy, domestic political turmoil, and the international pressure to isolate South Africa. South African exports met with resistance abroad and capital formation was curtailed as a result of disinvestment and financial sanctions. Gold, diamonds and platinum kept their place in the sun longer to allow the state to balance its books. But since 1982, the prices for metals have plummeted.

The most disappointing performance is recorded in the manufacturing sector which accounts for 25% of GDP. In its present state, the South African economy has little chance of replicating the successful export-led growth strategy of the Asian NICs. For a long time, South Africa will remain as a semi-industrialized country at the same stage of development as that of Mexico and Brazil. Its products are not competitive in the world market. Low quality standards, high production cost levels, the lack of indigenous technological innovation capabilities provide some of the reasons.[31]

The manufacturing sector is largely dependent on imported inputs. This import-intensity has been financed through the generation of foreign exchange in the primary sector, mainly from gold and mineral exports, as well as capital inflows from the West. With declining receipts from gold and metals, the replacement cost of capital stock in the sector will be expensive and it is difficult to see where additional resources can be found for this purpose.

Another interesting aspect of manufacturing, has been the trend toward capital intensity since the 1970s in the face of growing unemployment. The demands of up-market consumers for expensive durables have dictated industrial strategy. In a country where the average black South African can barely afford a radio, seven car manufacturers produce each year thousands of expensive cars. These companies managed to survive because of various forms of protection accorded to them by the state.

The extent to which South Africa will graduate from low technology to high technology production largely depends on the availability of investment to remove capacity constraints in the economy. The ratio of fixed investment to GDP has declined from a high of 30% in 1974 to a low of 19% in 1990.[32] The sharpest adjustments in investment after the political shocks and financial sanctions of the mid-1980s were in the public sector, with large declines in government fixed investment after the late 1970s and an even sharper decline in the public enterprise sector in the 1980s. Manufacturing led the collapse in investment spending, but then also led the recovery in 1987-90.[33] In addition, because of the absence of indigenous technical capacity, the manufacturing sector has not made the necessary adjustment to industrial export and competition in the world market. The performance of this sector is likely to be central to South African growth in the 1990s.

As is pointed out above, a post-apartheid democratic government will undoubtedly give priority to the alleviation of poverty and massive unemployment, so prevalent in the country, if it wishes to avoid a break-down in civil-society relations. The overall cost of economic reform to bring about equality is estimated at R30 billion a year for each year until the year 2000.[34] This objective represents a conflict with the expansion of the manufacturing sector, since both compete for scarce resources. The rate at which South Africa will be able to move from low to high technology production, following the NICs model, depends on how the conflict between output and employment objectives is resolved by the new government when formulating an industrial strategy,[35] and how quickly foreign business confidence can be restored in order that the country may benefit from the spread of technological innovation. Capital intensive development has been going on for a decade. Can this be tolerated?

The additional aspect of competitiveness and industrial innovation will depend on what the *government will do with* "dead weight" conglomerates that dominate the economy. About 42% of South Africa's GDP is generated by the 810 JSE listed companies and their subsidiaries, which number over 20,000. The four largest conglomerates - Anglo American, the Rembrandt group, Sanlam and SA Mutual - control 81% of the JSE listed companies. In terms of capitalization, percentage of control is as follows: Anglo (43.6%), Rembrandt group (14.3%), Sanlam (13.9%) and SA Mutual (9.2%).[36] The profitability of conglomerates was a function of their association with the apartheid system rather than their capacity to innovate. Because of their size and the many layers of management structures, inefficiency is widespread and innovation lacking.

Any serious economic restructuring should not preclude reform in the size and ownership of enterprises. What is needed is enterprises that are leaner and more efficient. This implies that more *conglomerates may have to divest* themselves from the many investments in areas which fell outside their expertise. In today's world, competitiveness cannot be built on minimization of labour cost, a protected domestic market, and the intensification of old production practices; rather, it must be based on technological innovation, product characteristics and labour productivity.[37] How quickly South Africa will be able to make these adjustments remains to be seen. The argument that "we can do it because we are naturally located in Africa" does not hold water in a changing global economy where innovation rather than proximity is the key to competitiveness.

In sum, the problem of industrial innovation and competitiveness hinges on the political outcome of what a post-apartheid state looks like, and the kinds of economic and political choices a new government may want to put forward. The economic solution can neither be socialization of production nor a continuation of the status quo, which emphasizes growth (*with monopolies* at the centre) while neglecting social needs. The structure of ownership has to be changed, and the size of industries can be scaled down, with production of components parcelled out to much smaller and efficient companies. Deprived of its apartheid shield, South African industry will be exposed to stiff competition from the rest of the world.

III. GROWTH OR REDISTRIBUTION?

(a) What options?

The economic debate in South Africa is centred around the issue of the state vs. the market approach, to reduce the skewed income distribution between a privileged white minority community and the impoverished black majority. In the short two years since the release of Nelson Mandela from prison, the hardline statist position of the ANC, which included nationalization and redistribution of assets, has gradually shifted, more or less coalescing with the economic policies of the National Party and the business community.[38] The term "growth through redistribution" is widely being talked about among the opposition.[39] The government and the business community have coined the term "redistribution from growth". Terminologies aside, both parties appear to have charted common ground. They both emphasize the role of the market and the need for economic growth. *Nationalization has become, and will* remain, an empty slogan. The movement toward market-oriented policies has been endorsed by the major international organizations, particularly the World Bank which has promised significant amounts of financial assistance.

The basic reason for the shift in the economic policy of the ANC has to do with the collapse of communism in Eastern Europe and the failure of the statist approach which dominated much of sub-Saharan Africa's economic planning. The ANC now advocates a "mixed economy" model. The market, if allowed to operate freely without government intervention, can deliver the resources needed to close the income gap between whites and blacks. At the same time, the ANC advocates state intervention, using a variety of instruments, to achieve parity between the races. Expansion of employment through massive state-funded housing programmes and upgrading of townships are some of the essential features of a redistribution strategy advocated by the ANC and COSATU. This does not mean expropriation of assets from the privileged classes.

The business community, in particular, has been advocating the development of black entrepreneurship, access to credit, education and training, and provision of housing as the best way to make up to the victims of apartheid. Nationalization and redistribution of assets have become synonymous with doom and gloom. According to Mr. Leslie Boyd, deputy chairman of Anglo American Investment Corporation: "only by creating more wealth can we hope to meet the expectations of the poorer section of our population. Redistribution has to come through economic growth - the reverse is pie in the sky."[40]

This philosophy is also being reinforced by increased involvement of the World Bank and the IMF which have promised significant levels of aid to South Africa only if it sheds its racial character. In this respect, Kenya and Zimbabwe are often cited the best models of transition which South Africa should emulate, without jeopardizing growth potential.

Increasingly, however, there is growing consensus that some form of redistribution has to take place through inward-looking industrialization, while pursuing simultaneously outward-looking growth strategies, to compete in the world market. The government, the business community, and international donors now realize that the state has to play a role in removing inequalities and poverty if there is going to be peace and stability in the country. This would involve massive expenditure on education, housing and stimulation of labour intensive production of basic goods for low income groups.[41] Massive public housing programmes and the provision of urban infrastructure are some of the means suggested to give a kickstart to inward-looking industrialization. Through these forms of market intervention, it is expected that a redistribution of income will take place.[42] This strategy is also considered the best solution for generating employment and political stability. The main economic strategy to stimulate growth, however, is believed to lie in an outward-looking export strategy characteristic of the Asian model.[43]

Despite this optimistic scenario, South Africa will have to pay a high price for wasted opportunities. The South African "locomotive" has to be put in reverse gear to pull the underdeveloped sections of the population before it can pull the rest of southern Africa out of stagnation. How South Africa deals with the enormous poverty and inequality in the country will have a major impact on its ability to project itself regionally. Among the issues which the new government has to address include the following:

(b) Paying a high price for the golden days of apartheid

The injustices inflicted by apartheid have left the majority of South Africans with poor living standards and insufficient opportunities for employment with only limited access to adequate education, health care and housing (See Appendix:Table 12). In 1990, for example, educational expenditure for the African population was just one-fifth the level of spending for whites. This represents a substantial loss of human capital formation. Similar disparities exist in health, pension and housing services, as shown in the relevant table (See Appendix:Table 12).

The gap in income and the provision of services between the various racial groups in South Africa is a well known fact. As shown in Table 12, the average monthly household income of Africans, coloured people, Indians, and whites was R521, R1059, R1604, and R3297 respectively in 1988/89. With over 40% of the black population already unemployed, redistribution of wealth is unavoidable irrespective of what the business community does to publicize the merit of "redistribution from growth" policy. Even the IMF called for "redistribution" and growth policies (See Appendix:Table 13).

A post-apartheid government that fails to correct the legacies of apartheid cannot hope to get popular support for its economic programme and is doomed to face serious political crises and civil strife, *further undermining* business confidence. The removal of the racial basis of the economic and social structure, together with the reduction of poverty and inequality are important preconditions for building a post-apartheid democratic South Africa.[44] The black community expects the conquest of apartheid to bring more than just votes. Activists want jobs in the new bureaucracy. Peasants want white farmland. Trade unions want a minimum wage and worker control of some enterprises.

The constitutional negotiations which are underway will certainly affect economic questions such as foreign investment, trade policy, industrial and agricultural policy, fiscal and monetary policy, international and domestic finance, just to name a few. During the transition period, South Africa will be more preoccupied by domestic problems, and its capacity to respond to and take advantage of regional and international developments will be severely *circumscribed. The exclusive "white economy" will* have to be redirected - first to help in the reconstruction and rehabilitation of the underdeveloped section of the black community before it can serve as an engine of growth for the whole sub-region. After all, charity should begin at home.

(c) Inadequate capital

The expectation that South Africa *will* be able to provide the region with capital is also misleading. If there is anything to be learned from the disinvestment campaign of the 1980s, it is the fact that South Africa itself is very dependent on foreign capital for its development. These external financial flows have been disrupted as a result of disinvestment and financial sanctions, so that it must first re-establish these links before it can lend a hand to its poor neighbours.[45] In fact, if it generates any significant external capital, a post-apartheid democratic government is most likely to use this capital to spur domestic development in order to correct the negative legacies of apartheid. This does not rule out the need to strengthen existing export and import support schemes to help South African businesses and importers. Beyond that, there is a limit to what South Africa can do financially for the region.

South African exporters are often at a severe disadvantage in southern Africa compared to exporters from *competitor countries whose* governments have made large amounts of financing available. For example, in 1990, the Nordic countries established the NORSAD fund to promote joint ventures between companies in the SADCC region and Nordic private enterprises. With an initial capital of $30 million, the fund will guarantee the availability of foreign exchange for the importation of spare parts and other production inputs essential for the running the operations of such companies. Also, the foreign exchange needs for management, technical know-how, licence fees and for dividends will be considered for support by the fund.[46] In addition to such schemes, the presence of "tied" aid has, in certain circumstances, limited the potential for South African involvement in some of the major projects in the region.

South Africa's huge debt ($21 billion) is likely to have a significant impact on the capital available to fund domestic development as well as provide export credits to potential customers in the region (See Appendix:Table 14). In 1985, the government announced a temporary standstill on repayments of approximately $14 billion of its $24 billion total external debt. The government reached a rescheduling agreement with its creditors in 1986, 1987 and 1989, which brought down the total stock of debt to $20 billion by 1989. The third interim arrangement of October 1989 called for repayment of $1.5 billion, equal to 20% of remaining moratorium debt over three years, commencing in December 1990. In 1990, the debt represented 21 % of GDP and 70% of exports. Interest payments were only 7.1% of exports. Large debt servicing commitments will persist through the early 1990s. Taking into account maturities on debts outside the moratorium, amortization will remain at or above $1.5 billion through 1993.[47]

By the standards of sub-Saharan Africa, the debt is not onerous considering the size of the economy. However, the government will be pressured to maintain substantial current account surpluses for financing large capital outflows. In an import-dependent economy like South Africa, such pressure handicaps domestic investment, employment and growth. One important source of hard currency has been gold. Whether the necessary surpluses can be achieved is to a large extent dependent on how this industry performs in the coming years. The government will need more external resources to fund its social and industrial development as well as regional trade. It will not be able, as it has done in the 1980s, to rely more on interbank lending without jeopardizing the growth prospects of the private sector.

(d) Narrowing the Skills Gap

South Africa's low labour productivity has to do with the lack of skilled manpower which prevents the running of more than one shift in industrial enterprises, leading to under-utilization of installed capacity.[48] The development of human resources would require massive investment in education as well as in social infrastructure (housing, health). The post-apartheid dividend can be diverted to support this effort.

The inferior education available to blacks can be seen in the low level of performance of black students in national matriculation examinations. As shown in Table 15 (See Appendix), only 41% of black students passed their examinations in 1989. The corresponding figures for coloureds, Indians and whites were 73%, 94% and 96% respectively. At university level, the number of black students is still insignificant although enrollment levels have increased in recent years. Even here, few manage to survive their first year of university since they are ill prepared to compete with white students with a better educational background. In terms of faculties, the number of black students in the engineering and science fields is miniscule. The entire educational system has to be revamped in a serious way and government resources must be made available to increase black participation rates, particularly at the university level if South Africa is to become competitive globally.

(e) Regional Trade Imbalances

Assymetry characterizes the economic relationship between South Africa and its neighbours. Even during the height of destabilization and international sactions, South Africa consistently enjoyed a positive trade balance with the SADCC countries. In 1989, for example, African countries imported R3 billion worth of goods from South Africa. Following the February 1990 reform, exports to Africa soared to R5,5 billion.[49] SADCC's priority objective of reducing dependence on South Africa has not been fulfilled. This pattern of relationship is bound to continue even under a black government in South Africa. This situation is historical and it will take long to reverse.

The SADCC states would like to have closer economic interaction with a post-apartheid South Africa as long as the price is right for South African goods. Given the increasing penetration of the southern African market by other more powerful countries, SADCC states do not necessarily have to buy from South Africa as was the case in the past. Some, like Botswana, are sourcing their needs from other suppliers, and proximity is no longer a convincing reason to trade with the Republic, it being no longer the sole metropole in the region. With regard to SADCC exports to South Africa, South Africa offers little alternative to their trade problems. Given the dominance of agriculture and consumer goods production (textiles, shoes) in the SADCC region, there are very few goods South African consumers would want to buy that their own country is not producing.

In addition, the foreign exchange shortage in the majority of sub-Saharan African countries will inhibit South Africa from taking advantage of trade opportunities. With limited resources, securing export markets through costly export credits and guarantees could be increasingly dificult. Furthermore, donor policies, considering strong colonial ties, often oblige African countries to purchase machinery and spare parts as part of a package, which leaves South Africa out in the cold. These relationships have been developed over a long period of time, with all sorts of reward and punishment built into the system, thus, it will be hard in the short-term to abandon them and evolve a new arrangement. The vulnerability of the neighbouring countries is well understood by the business community and this explains partly why they favour bilateral relations over a formal regional integration, with compensatory mechanisms built into it to reward weaker partners. Furthermore, the business community does not want to subsidize the government for the high annual membership fees it must pay should South Africa join the PTA and SADCC.

(f) Possible Access to Western Markets

There are strong forces inside the government and some sections of the business community who believe that the future for South Africa's trade lies in Europe, North America and the Far East. These groups argue that Africa is financially broke and it will take a long time before weak governments can establish an enabling political and economic environment for investment and trade. Indeed, exports to Europe constitute 52% of South Africa's R60 billion exports in 1990. This was followed by the Far East (25%), the U.S. (10%), Africa (10%) and South America and Australia (3%).[50]

The pragmatists, on the other hand, see Africa as an important trading partner in the future, in the light of the emergence of the three trading blocs in North America, Europe and Asia. For example, the creation of a North American common market comprising the US, Canada and Mexico will bring South Africa into competition with the aggressive low-cost producers of Mexico who are already selling into the U.S. market.[51] To repeat earlier observations, South Africa has to move from low to high technology production in order to compete effectively with the Asian NICs and other producers from the West. To do so, industrial "deepening" is of utmost importance and this will require significant resources in Research and Development (R&D), production diversification (i.e. microeletronics, biotechnology), investing in people, and upgrading the manpower base than simply relying on foreign capital, as has been the case in the past.[52] Pursuing a strategy of export competitiveness, however, will be politically difficult against the background of black. In addition, the old apartheid bureaucracy and trade and investment regulations have to be radically altered to fit the new regional and global economic reality.[53]

With regard to Eastern Europe, its potential as a viable *trading* partner in the short-term is limited, since the new democracies face the same kind of problems as the rest of Africa: foreign exchange crises, a difficult transition from command to market economies and political uncertainty. Although East Europeans may wish to purchase South African products which include a wide range of consumer, producer and capital goods, they will not be able to do so unless South Africa is prepared to extend export credits. The RSA is already crowded out by German and other European and American firms. The \$24 billion which the G-7 governments have pledged to raise for the reconstruction of the former Soviet Union and the new democracies in Eastern Europe is contingent on the purchase of Western capital and expertise. IMF Managing Director, Michael Camdessus, said recently that the 15 former Soviet Republics would need \$44 billion in foreign aid in 1992 alone, plus a similar sum for several years to come.[54]

(g) The Policy Dimension

South Africa itself needs structural readjustment in its economy. In fact, South Africa's future competitiveness rests on the quality of economic policies that the government will adopt. As the findings of the IMF and World Bank report indicate, the government will be under considerable pressure from the major donor agencies to follow sensible policies which will attract foreign investment, encourage rapid economic growth, and facilitate a different distribution of the enhanced economic benefit. The process of domestic economic readjustment will be very slow as different social coalitions (labour, business, the bureaucracy) compete to maintain advantage for their respective constituencies. These struggles can undermine progress in economic reform.

The challenge for the new government will be how to combine a vigorous private sector with an efficient state sector concerning itself with macro-economic policies which promote economic growth. A new government must adopt a prudent overall fiscal and monetary stance. This includes arresting the growth in money supply, containment of inflation, strengthening the balance of payment situation, phasing out exchange controls, stabilizing the value of the currency, creating incentives for entrepreneurs, removing credit controls and replacing them with open market operations. As experience from other countries shows, fiscal mismanagement is inconsistent with macroeconomic stability, and thus deters a private investment recovery.

In terms of overall economic management, the role of the state must be curtailed significantly. This includes privatization of state-controlled industries; reduction of the bureaucracy; deregulation of economic activities and removal of subsidies. At present, the government continues to rely on direct subsidies to spur on exports of manufactured goods. For example, Taiwan can buy South African iron ore cheaper than South African manufacturers can because of Iscor's international pricing policy.

Protectionism has been at the forefront of South Africa's trade policy for years. By keeping out import competition and allowing local industries to grow behind protective tariff walls, consumers have had to bear the brunt of high retail prices. Slashing tariffs would force these industries to compete with imported goods.

In addition, the government must be able to reverse net capital outflow as a result of its debt. The international debt freeze has affected the rate of economic growth, by diverting resources rather than drawing resources from outside. It also has to reorient strategic industries which the government built to deflect the threat of sanctions (ie. armaments industry), to productive areas - for export.

South Africa does possess superior managerial capacity to governments in the rest of the region, which will enable it to put in place sensible policies that promote growth. However, overcoming the economic and political legacies of apartheid will require more than just good management skills. The government has to be able to fashion carefully a social accord on the economy. One view that has been advanced by the government and the business community is of a social market model which argues that the state must be committed to widespread provision of social benefits to the extent that the market does not provide these on an equal basis for all.[55] A similar view is expressed by the ANC which now advocates a social democratic market-led model.[56]

IV BREAKING NEW GROUND:

(a) The future of regional integration

Economic integration in the post-apartheid period will need to be guided by the opposite principle to that which has formed the basis for regional cooperation up to now: the efforts of regional institutions, such as the PTA and SADCC, will need to be refocussed - from coping with the economic costs of excluding South Africa to deriving the benefits of association through South

Africa's effective inclusion in the regional economy. This must be based on equitably adjusted burden-sharing among all members and promoting regional growth with due consideration for regional *equity.*[57] *South Africa should be* seen as promoting the material prosperity of its neighbours by encouraging investment in the region and by expanding commercial relations - not by planning to undermine SADCC or the PTA.

Regardless of the future policies of a post-apartheid government towards the region, the question must be asked whether the existing regional organizations - SADCC and the PTA - are equipped to incorporate South Africa as a new member and still be able to fulfil their dream of regional growth with equity? Given the regional disparities, admission of a strong South Africa will have to be carefully evaluated and appropriate rules and mechanisms introduced to prevent South African domination of the region. It is, therefore, important to look critically where these two institutions stand at this critical juncture.

At the present moment, there is a subtle tug of war going on between SADCC and the PTA as each tries to absorb the other's functions as part of its *own ongoing objective.* Arguing that a *laissez faire* approach to regional integration would be inappropriate in a region with gross disparities, the SADCC governments endorsed a "development integration" approach during the 1992 summit. This approach gives priority to the integration of systems of investment, production and trade, including promoting the freer movement of capital, goods, labour and people *within the region* in order to create a true southern African Community of Nations. This action would not be compatible with overlapping PTA membership.

During the same week, the heads of states attending the annual PTA meeting in Lusaka endorsed a draft document which calls for the integration of SADCC and the PTA. These actions point to the fact that SADCC governments hold separate loyalties to the two organizations and thus are unable to put the interest of the entire region ahead of individual national interest. This duplication of functions is unlikely to lead to the development of balanced and equitable relations between member states and might even weaken the capacity of the region to deal with South Africa. The lack of regional consensus and rational coordination can only benefit South Africa which has the capacity to use its resources to woo weaker SADCC members to join SACU or to establish bilateral economic and trade relations. It is, therefore, important for member states to consider seriously the viability of belonging to more than one regional organization.

V ASSESSMENT OF SADCC

SADCC was established in 1980 to promote regional development among the countries of southern Africa, and to reduce dependence on South Africa. All the members of SADCC, except for Angola, Mozambique and Botswana, have joined the PTA.

SADCC has a GDP of $17 billion (as compared to $78 billion for South Africa) but its population of 63 million is twice the size of South Africa.

In reviewing the successes and failures of SADCC, a much more exhaustive treatment is required than the one presented here. In its first decade of existence, SADCC's strategy has centred on the rehabilitation and creation of infrastructures; with emphasis on transport, telecommunications, civil aviation and energy. The rehabilitation of the transport corridors has been the only, and most notable, achievement of SADCC. Beyond that, the organization has failed to translate the logic of regional coordination and planning into the respective national decision-making process. Project initiation, preparation and implementation have been weak.

One of the most glaring failures of SADCC has been the limited progress in intra-SADCC trade, which stands at some 5% of total trade. Despite its stated intention of reducing dependence on South Africa, the region's trade with Pretoria has grown tremendously. As long as donors dished out the gravy for regional projects, no effort was made to harmonize policies so as to encourage growing economic interaction among the members. Since 1987, however, emphasis was given to issues relating to the promotion of trade, investment and production in the region. The strategy for the second decade, as elaborated in the 1990 annual conference, will give priority to creating an enabling environment for the development of enterprise, skills and productivity. But these will remain mere declarations and nothing more, as there is simply no political commitment on the part of SADCC leaders.

The second reason for SADCC's failure had to do with the organization's excessive dependence on external funds. This dependence has reached a critical threshold with more than 90% of financial requirements coming from foreign donors. Very little mobilization of the region's own resources has taken place. Given its dismal record of mobilizing domestic savings, it is unlikely that investors will be attracted to the region. The SADCC approach - i.e. loose cooperation - is no longer valid in a changing international and regional economic and political environment.

At the beginning, SADCC was a novel idea. But as the organization's survival became tied to the availability of aid money, begging rather than planning became the day to day concern of the secretariat. The organization showed very little leadership quality and it lacked vision. Even if the member governments were unable to take initiatives on their own, the organization should have taken the lead to ensure that appropriate policies are formulated and effective institutions are put in place. They milked donor countries for a decade, by exploiting white guilt, and they could have done it for another decade or so had it not been for the rapid political changes taking place in South Africa. SADCC governments are concerned that aid donors might abandon them for greener pastures in South Africa. The fact that SADCC now wants to move from begging to production and trade, is more indicative of the organization's bureaucratic interest than a grasp of concrete economic realities. It does not make sense to duplicate the functions of the PTA although the PTA itself has had little success when it comes to coordinating trade relations.

What is interesting is that the very donor institutions who commended SADCC for staying away from commitments to broad formal economic integration among members are the ones that are now insisting that SADCC should move towards market integration. The World Bank has proposed a $30 million PTA/SADCC Intra-Regional Trade and Investment Project, centring around the financing of the foreign exchange component of cross-border investments resulting from the adoption of regional liberalization policies.[58] According to the Bank's vice-president for southern Africa, Mr. Edward Jaycox:

"Successful economic integration will be contingent on the implementation of policies that elicit the correct response from markets and which will boost regional production and demand. Policy changes such as encouraging realistic exchange rate movements, liberalizing trade, designing price incentives for exports, improving public sector investment strategies, and increasing private sector activity must go hand in hand with specific investments in physical and human resource development".

In short, the basic role of donor support will be toward overall, collective economic liberalization of PTA/SADCC countries by improving conditions for a more active role by private agents across the frontiers of the region. The approach is designed to be consistent with and to promote liberalization efforts at the national level and not set back programmes that any individual country may want to undertake on its own. This market-led integration and across-the-board trade liberalization is inconsistent to the *raison d'etre* of both SADCC and the PTA. If fully implemented, South Africa will obviously be the main beneficiary and little progress will occur in intra-PTA trade.

For a post-apartheid South Africa, there is no pressing need to formalize trade relations with SADCC. Since South African capital dominates the region, the country is already part of SADCC. This is shown by the fact that, despite apartheid, economic interaction between SADCC and South Africa was high throughout the 1980s and is on the increase. South Africa's annual exports to SADCC countries were, on average, five times more than the region's exports to that country. The only thing that South Africa has not been able to do in the past decade was to bid for donor funded SADCC projects. With sanctions lifted, South Africa will be able to take advantage of SADCC projects, including the chance to bid on World Bank funded projects.

In its present form, SADCC is not equipped to incorporate South Africa as its 11th member. The organization simply does not have the institutional capacity, binding rules and regulations to promote economic integration on the basis of balance, equity and mutual benefit. In fact, SADCC has missed the opportunity to form a viable economic entity when the gravy train was still running. With apartheid gone, donors will be selective as to where they put their financial support. It is unlikely that SADCC will overcome both the political and economic hurdles so vital for increased investment and aid.

VI ASSESSMENT OF THE PTA

The PTA was established in 1981 to promote the development of its member states by creating a single internal market, undertaking regional development projects and programmes, and encouraging cooperation in all fields of economic activity. Sixteen of twenty eligible eastern and southern African countries have joined - Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Rwanda, Somalia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. The group has a GDP of $33 billion and a population of 146 million. In contrast, South Africa has a GDP of $79 billion, more than twice that of the PTA, and a population of only 34 million (see Appendix A).

Unlike SADCC, the PTA has instituted various instruments designed to encourage intra-PTA trade, particularly in the areas of agricultural and industrial production, and transport and communications. Accomplishments to date include: The establishment of a regional PTA Clearing House in Harare which houses local currencies for trade transactions, thus enabling trading partners to save valuable foreign exchange. The second is the PTA Trade and Development Bank located in Burundi for financing regional projects. The third is the Unit of Account of the PTA (UAPTA) travellers cheques that can be purchased with local currency and can be converted in any PTA member bank. This allows business people to purchase goods anywhere in the region and meet their travel expenses without using any hard currency such as the dollar.[59] In 1990, the PTA decided to work towards the establishment of a single common currency by the year 2000.

The PTA is structured to check multinational penetration of the regional community.[60] The local content and rule of origin clause is designed to curtail external penetration. In addition, the PTA is in the process of devising programmes to assist the economically weaker members through programmes for rapid rural transformation and capacity building of skills. This is bound to lead the organization into a collision course with SADCC.[61]

The PTA has achieved limited success with regard to the promotion of intra-PTA trade. Trade with SSA (Sub-Saharan Africa) accounts for 8% of overall trade of the PTA countries treated as a group, thus implying that intra-PTA trade is equivalent to 7% of total trade. However, there are country variations. For example, only 1% and 3% of the total trade of Somalia, Mauritius and Ethiopia is with SSA at one extreme while at the other end, about 20% of the trade of Uganda and Rwanda is with SSA partners.[62] As shown in Table 5, the PTA has a degree of openness of 41%, the average for the group, even though it includes Mauritius which has the most open economy of the SSA - and Somalia and Uganda which are the least open. Most PTA countries have a degree of openness that is bunched between 29% and 49%.

There are many reasons for lack of progress in intra-PTA trade. The first is the lack of tradeable goods of international quality within the PTA. Even when such goods are available, the lack of trade financing and export credit guarantees becomes a problem. Second, transport costs have become prohibitive, particularly for the land locked countries. The smaller and weaker members complain about the lack of adequate mechanisms to enhance the equitable distribution of costs and benefits among the member states.[63] Also, the tendency on the part of the most industrialized members, such as Kenya and Zimbabwe, to dominate the sub-region has consistently been raised in PTA annual meetings. Malawi, Mauritius and Djibouti have particularly been critical of the organization's inability to adopt compensatory and corrective measures.[64]

In addition, the Rules of Origin and local content requirements have been contentious. Most countries have challenged the Protocol on Rules of Origin, which stipulates that goods declared for trade must come from companies with at least 51% equity holding by nationals. Since most countries cannot meet this requirement, this rule has been relaxed. The concern now is more where the goods are being manufactured, rather than the nationality of the manufacturer. Thus, the local content criteria now postulates that at least 40% should be of local value, or alternatively not more than 60% (c.i.f.) of cost of imported material. Where goods are in short supply, the local content can be relaxed to 30%.[65]

Progress on trade liberalization has also been slow. The main focus of internal liberalization has been tariff preferences for a limited list of products. According to the World Bank, official intra-PTA trade is handicapped by extensive non-tariff barriers and over-valuation of the different currencies. Thus, the PTA has postponed a 1992 deadline for implementing various intra-union liberalization decisions to 1996 and this may well slip further.

The World Bank would like to see the PTA focus its activities on increasing intra-regional economic activity by (a) reducing non-tariff barriers to imports; (b) promoting cross-border investment ventures; (c) permitting traders and investors to transact on the basis of market-determined exchange rates. In short, a simple market integration approach is recommended. While trade expansion among the countries of the region is very important, it does not constitute a significant constraint to self-sustained growth. The PTA's strategy should go beyond a simple market integration approach, and instead give priority to reviving and then linking production capabilities of member states. As Martin (1990) succinctly argues:

> Attempts to promote wider economic exchanges based on notions of comparative advantage immediately exacerbate uneven patterns of accumulation, and thus trigger struggles between nationally-based dominant classes. It is precisely these pressures that have torn apart regional bodies elsewhere in Africa.[66]

South Africa's entry into the PTA, emphasizing market integration alone, will only help exacerbate core-periphery relations and help weaken equitable regional cooperation. Some members, such as Kenya and Zimbabwe, with a large industrial and manufacturing base, will resist South Africa's membership into the community for fear of being priced out in the competition. In addition, the smaller PTA members engaged in their own import-substitution industrialization with the aim of tackling unemployment, will resist South Africa's admission to the PTA. If the trend toward regional free trade continues, the Pretoria-Witwatersrand-Vereeniging (PWV) region would become the new "bambazonke", roughly meaning polarisation between the latter and the SADCC region.[67] Given South Africa's dominance in the region (excluding Kenya and Zimbabwe), an economic community dominated by that country - South

Africa - will not be welcomed.[68]

In addition, given the crisis of the 1980s, with excess industrial capacity and high unemployment in the region, governments in the region should put their efforts in improving capacity utilization and reduction of unemployment before jumping on the bandwagon of free trade and integration with South Africa, further exposing themselves to the dictates of a stronger actor. Therefore, protection issues will remain on the economic policy agenda of the region, including South Africa. In this regard, the PTA is better structured to deal with external penetration than SADCC does.

At the January 1992 PTA summit, the heads of states gave the green light for the integration of SADCC and the PTA. This move was motivated to keep South Africa at arm's length until regional policies are harmonized so as to bring the PTA/SADCC member countries to a position roughly similar to that of South Africa in order to bargain effectively. The new PTA/SADCC could then perhaps coordinate development as separate but equal partners rather than South Africa being a dominant member of either SADCC or PTA. The action may also have been designed to pre-empt possible South African desire to convert SACU into a common market, further tempting other SADCC members to join it, as well as Zaire.

VII AREAS OF FUTURE COLLABORATION

The World Bank and the African Development Bank (ADB) would like to see regional integration that provides additional means of moving a group of countries towards overall economic liberalization and market integration by improving conditions for a more active role by private agents across the frontiers of Africa. However, there exists in Africa today strong interests that resist liberalization for good reasons. After ten years of structural adjustment efforts in the SSA, progress with liberalization has been slow and accompanied by reversals.

To start with, liberalization policies have been conceived as national programmes with national goals and using national financial policies and thus have lacked a regional dimension. Since the emphasis of SALS (Southern African Liberalization Systems) is on demand management, this has not encouraged intra-regional trade. In addition, liberalization measures have reduced the size of preferential margins and hence encourage trade outside the SADCC and the PTA rather than within these trading blocs.[69] In fact, trade liberalization has opened up the SADCC market to cheap supplies from outside the region.[70] Admission of South Africa into the PTA without instituting rules and regulations to prevent domination by the former, could only undermine intra-regional trade in the region.

There are many areas where South Africa and the PTA/SADCC countries could forge vital economic cooperation. Whether or not southern Africa as a whole or in part opts for formal integration, cooperation is necessary at technical or policy levels if the region is to compete with world trading blocs. The real challenge is how to re-orient the region's banking, financial, institutional and transport infrastructure towards sectors other than trade. These include the following:

(a) Regional Food Security

Because of demographic and ecological reasons, South Africa will become a net importer of food in the future. Countries such as Zimbabwe, Malawi, Zambia (even Mozambique) might under certain conditions, become exporters of food to South Africa (fruit, grain, vegetable,meat). In return, South Africa can provide agricultural technology, expertise and inputs. Opportunities exist for joint programming, ensuring significant increases in agricultural production, especially food processing for domestic consumption, including the production of cereals for intra-African trade.

(b) Regional Industrial/Agro-processing Strategy

A common platform for restructuring and strengthening of industrial production and manufacturing capacities, including especially the reduction or elimination of excess plant capacity, as well as the production of agricultural inputs, such as fertilizers, pesticides, vaccines and sprays.

(c) Alternative Energy Strategy

Opportunities also exist for joint production of new and renewable forms of energy and up-grading existing capacities as well as trade in energy. For example, it would be in the interest of Angola to supply South Africa with oil in exchange for consumer and manufactured goods for the Angolan markets. Already, high level contact between the two countries is taking place. In addition, Angola, Lesotho, Malawi, Zambia and Mozambique are richly endowed with surface water, thus providing opportunities for cross border water and hydro-power supply schemes. South Africa can also play a role in the rehabilitation of the huge Cahora Bassa hydro-electric scheme on the Zambezi River.

(d) Trade and Finance Policy

It has been noted earlier that restrictive banking procedures and inadequate trade financing facilities are some of the constraints to intra-regional trade in southern Africa. It is of the utmost importance that the governments in the region establish appropriate trade financing institutions such as an Export/Import Bank and Export and Import Insurance Schemes. The PTA Trade and Development Bank and the DBSA (Development Bank of Southern Africa) can play a major role in facilitating trade in the region. Closer cooperation with chambers of commerce, regional trade promotion councils, financial institutions and business and professional associations should actively be encouraged.

(e) Human Resource Development

It has been pointed out in this report that skills gaps in the region will remain an important constraint to intra-regional trade and production. There are many universities and training institutions in South Africa and the PTA/SADCC region. South Africa alone has some 25 universities, technical colleges and research institutions. Given the resource constraint in the region, ways to rationalize existing facilities and harmonization of human resource development policies must be found. Priority should be given to the adaptation of science and technology, especially for upgrading technical skills and managerial capabilities, as well as in the management of domestic and external resources for integration and cooperation. Existing resources from the World Bank's African Capacity Building Facility can be used to strengthen the training programmes of regional universities.

(f) Coordination of Resource Management

There is also a real need for integrated strategies for the protection of the environment and natural resources, joint use of water resources and river basins and common programmes for drought management, soil erosion and desertification control. The recent agreement between South Africa, Mozambique and Swaziland to exploit the waters of the Nkomati river, is the type of cooperation to be encouraged. There are also plans to transfer water from the Zambezi and the Okavango systems via canals or pipelines to the Transvaal.

(g) Promotion of Regional Tourist Industry

The regions of eastern and southern Africa are already famous for the best tourist spots in the world. On the average, 2.5 million tourists visit East Africa alone. With the dismantling of apartheid and the resolution of conflict in the region, southern Africa can rival East Africa. Therefore, eastern and southern Africa can benefit a great deal if relevant governments, regional airlines, chambers of commerce and tour operators coordinate their activities. The growth of tourism can generate billions of dollars in hard currency, employ thousands of people, and provide income to farmers, hotel and transport operators, and many more.

The 1992 SADCC consultative conference has endorsed collaboration in the above areas, without reference to the need for coordination with the PTA which is also doing the same thing. Urgent action must be taken by the member states to eliminate duplication between the PTA and SADCC. The impoverished population of the region can no more afford to pay a high price for the extravagant follies of well-paid competing bureaucrats of these two institutions.

VII IS THERE A FUTURE FOR A SOUTHERN AFRICA ECONOMIC COMMUNITY?

The long term economic interest of southern Africa can best be served by formalizing economic integration along the lines of the European Economic Community. This in essence will require the integration of the PTA, SADCC, SACU and CMA (Common Monetary Area) to form one united Economic Community for Eastern and Southern African States (ECESAS), as envisaged by the founding members of the PTA.[71] There is already pressure from major donor agencies, such as the World Bank and the African Development Bank, for South Africa to take the lead in transforming the existing integration efforts in eastern and southern Africa. These two institutions believe that a weak South African economy is in no one's interest and they are prepared to pour billions of dollars into the South African economy. By reviving the South African economy, it is believed that the process of market integration can be moved forward, by applying the managerial, institutional, and financial capacity of South Africa.

Whatever their motives, the Africa Development Bank and the World Bank are correct in their assumptions that the inclusion of South Africa can bring dynamism to a region where progress in integration has been slow. This would ultimately involve the merging of SACU/CMA with the PTA/SADCC to form a larger southern Africa Economic Community. This obviously has to take place step by step as envisaged by the founding fathers of the PTA.

The PTA is conceived as a free trade area (i.e. gradual reduction and eventual elimination of customs duties). This is a first step towards the establishment of a customs union with a common external tariff, as in the case of SACU. Therefore, there is no contradiction between the PTA and SACU in terms of structure and function. The only exception is that the PTA treaty demands most-favoured-nation treatment among its members, whereas the SACU agreement does not allow such preferential treatment.

The second stage would be for a common market, which entails the free movement of factors of production and commodities within the area. Given the level of disparities among the members, a common market would be ruled out since the free movement of labour would not be acceptable to reçeiving countries because of their own problems regarding job creation. The third stage and eventual goal of the PTA is an economic community which entails harmonization of national economic policies among the member countries.[72]

South Africa can bring into the new Economic Community a number of valuable experiences as well as institutional support. Monetary harmonisation is one such example. The PTA has adopted a strategy towards the establishment of a single common currency by the year 2000. The absence of a common currency has been a major impediment to intra-regional trade. Although the PTA travellers cheque is a start in the right direction, it does not come close to instituting a common currency for the whole region, such as the CFA in Francopohone West Africa. In terms of institutional capacity, there should be little difficulty with harmonization of monetary policies as the Common Monetary Area will take care of this.[73]

Another potential input from South Africa to the new Economic Community will be development financing and its administration. Although the PTA has established a PTA Trade and Development Bank, it is underfunded. Given a great deal of interest by ADB and World Bank in using the Development Bank of Southern Africa (DBSA) as a junior partner in the development of Souther Africa, the region's trade financing problem could be solved if the PTA Bank and DBSA were merged and their assets consolidated. The DBSA is structured in the same way as the ADB and the World Bank and it has the professional capacity to undertake such a task. Already, the DBSA is cooperating with the World Bank in respect of the Lesotho Highlands Water Project, and is financing projects such as the rehabilitation and modernization by the South African Electricity Supply Commission (ESCOM) of the Maputo power station. The individual national banks would then simply become instruments of finance administration thus avoiding the need to create new trade financing institutions, similar to the one proposed by SADCC.

A third contribution by South Africa to the new Economic Community will be in the area of customs administration. As the architect of the longest running customs union, SACU, South Africa has a wealth of experience and this can be used to strengthen the capacities of member countries in customs administration.

A fourth contribution by South Africa will be in the field of domestic resource mobilisation and allocation. The PTA does not have a programme to develop the financial markets of member states. Although commercial banks dominate in the mobilization of domestic financial savings, cross border financial mobility is discouraged. With the exception of South Africa, Botswana and Zimbabwe, capital market institutions to facilitate cross border mobility are non-existent throughout the region. South Africa has well developed capital market institutions (i.e. issuing houses, share underwriters, security markets) and it can assist the neighbouring countries in developing similar institutions.[74] Once similar capital markets are established, they will be able to provide long term loans for development purposes at national and regional levels.

The existing project and infrastructure coordination function of SADCC will be included in the new entity. Instead of regional projects being entirely funded by donors, project activity will develop along the lines of the Lesotho Highland Water project, whereby regional banks such as the DBSA, along with national governments and donors, will participate. This will solve the problem of duplication between the PTA and SADCC.

IX STRUCTURE

An important point at issue for post-apartheid southern Africa is how far the region should extend geographically in terms of its institutional economic links - should it embrace the present the PTA area of eighteen countries or should it be restricted to the present South Africa/SADCC area? Although this is an important question, what determines successful integration is the *quality of* macro-economic policies of member states and not the size of the membership. Those countries with policies attractive to investors would develop more rapidly than others. Funds, for instance, would move to countries with lower taxation rates and more favourable exchange control policies. Therefore, the new economic community should embrace the current area of the PTA, subject to some organisational changes.

Another reason for maintaining the current PTA area has to do with the fact that the current composition of SADCC will have to change in the next three years regardless of South Africa's decision whether or not to join SADCC. The SACU grouping of countries - BLSN (Botswana, Lesotho, Swaziland, Namibia) - would have to choose between SACU and SADCC, and would in all likelihood opt for the former. This will pave the way for more countries - Malawi, Angola, Mozambique - to join SACU, further weakening the region's capacity to negotiate effectively with Pretoria. Even if SADCC were to succeed in its latest initiative of 'developing integration', that literally duplicates the functions of the PTA, the inclusion of South Africa as the eleventh member, would simply bring to fruition the latter's unfullfilled dream of a constellation of southern African States (CONSAS), with South Africa calling the shots. By choosing to go it alone and by ignoring the PTA's *plea for coordination*, SADCC would be serving South Africa's and not the region's interest. In the end SADCC would be contributing to the "recolonisation of southern Africa" by South Africa - of course, with the assistance from the World Bank and the Africa Development Bank. This would be a great tragedy to the peoples of southern Africa.

The structure of the economic community will have to be flexible and change within a specified time frame. Given the variations in the size and level of development of the members - from tiny Djibouti to gigantic South Africa - the most disadvantaged (and poor performers) members should be grouped into an association (ESAFTA)-Eastern and southern Africa Free Trade Association, similar to EFTA. The countries with a higher level of development or those with more open economies could be grouped to form the core of the Economic Community, since integration among this category of countries would be easy (see Figure 2). For those within ESAFTA, special exemptions will be accorded to them until they can make the necessary domestic adjustments before they can be granted full membership. In this regard, special provisions similar to the existing arrangement between the PTA and BLS states or between South Africa and Lesotho in the context of SACU can be applied.

One problem area that could arise is the question of labour mobility. If free movement of labour is allowed initially, millions of people will *migrate to centres of growth*, notably South Africa, Kenya and Zimbabwe. To avoid this influx, rules governing labour mobility should be delayed until such time that imbalances are corrected. The eventual goal, however, should be to move from a customs union to a common market and then later to an economic community as previously stated. In this regard, the existing PTA treaty has built into it, step-by-step mechanisms for achieving the eventual goal of an economic community.

In terms of sectoral cooperation, the PTA has initiated sub-regional programmes and projects that are also covered by SADCC: agriculture, industry, energy, transport and telecommunications. Like SADCC, decisions are taken by consensus. Unfortunately, funding for the PTA initiated projects has been marginal as donors concentrated their support on SADCC. From the point of view of donors, support to SADCC had an immediate political payoff, since support to SADCC was perceived as fighting apartheid.

X WILL SOUTH AFRICA JOIN THE PTA AND SADCC SOON?

Although both SADCC and the PTA are expected to extend invitation to a democratic post-apartheid regime to join both organizations, a new government will be too preoccupied with domestic matters and is unlikely to give much attention to regional issues. What are the likely choices that a post-apartheid *regime will* make vis-a-vis the region? Without being speculative, one can expect the following options:

(a) Re-establishment of earlier relations

The most desirable outcome preferred by South African business community will be re-establishment of relationships as they existed between 1945-75 period - with RSA capital dominating the region, and serving the interests of local elites in the SADCC region. This might involve a resuscitation of past patterns of accumulation - i.e. commerce, tourism, manufacturing and raw material extraction(Martin, 1990). There are strong forces inside the regime and the business community who are antagonistic to regional integration. In a recent speech in Norway, a high level official of the South African Chamber of Business (SACOB) argued:

Mutual economic integration must be fostered and promoted in the southern African region to the benefit of all its members - but it is premature to speak of a "common market" in the traditional sense. South Africa will have to forge different and new instruments of economic cooperation in southern Africa.[75]

South Africa sees itself as the regional economic power. Thus, the reluctance to accept formal *economic integration* is based on the assumption that (a) southern African states will do little to develop their own productive potential; and (b)that the democratic forces in South Africa will be defeated, and (c) that the forces which benefited from apartheid - i.e. local and foreign capital, and the apartheid bureaucracy will remain dominant in the society. There is also a strong belief that the ANC is not prepared to take power. This view is reminiscent of the CONSAS strategy. The only difference is that it will be the carrot, not the stick, that will be used to make it happen.

(b) Expand SACU

A more likely scenario is that South Africa will expand and strengthen its customs union (SACU) - a region within a region. The countries closely allied with South Africa in the economic sphere, namely Botswana, Lesotho, Swaziland and Namibia, are unlikely to give up their membership unless they found an immediate substitute for it. Revenue from customs duties represents a significant portion of total revenue sources for BLS states. In 1986/87, for example, customs revenue received by Botswana amounted to P197 million, 16.6% of all government revenue. In Swaziland, the amount for 1986/87 was E119.8 million, 48.3% of revenue. Lesotho received M144.3 million, 56% of revenue. In fact, countries such as Mozambique, Angola and Malawi will try to find a way to become members of SACU since they already have deeper relations with South Africa than they do with SADCC or the PTA.

But before SACU can be enlarged, new negotiations have to be undertaken. Since the mid-1980s, the BLS states have been unhappy with the existing agreement and have been seeking to renegotiate it again. SACU had a detrimental effect on the industrialization of the BLS states. The recent decision by Citroen to abandon its investment agreement with Namibia is indicative of this problem.

(c) Expand bilateral relations

The third option is for South Africa to delay joining either the PTA or SADCC. Instead, it should concentrate on expanding different forms of bilateral trade and preferential agreements. Already, South Africa has bilateral relations with Zimbabwe, Mozambique and Malawi. This could take different forms: a bilateral trade agreement involving reduced or non-quantitative trade restrictions for specified goods, with payment in foreign exchange or local currencies; trade protocols with a strong clearing/barter element; or a trade agreement with a 'most-favoured' clause for third parties; or trade based on Open General Import License (OGIL) where all goods which are put on the licensed list can be freely imported.[76]

The three options outlined above are quite possible scenarios, since the movement towards trade liberalization and the removal of barriers will take longer. Experience from the European Community and the Economic Community of West African States (ECOWAS) shows that the reduction of tariffs, the establishment of a common currency, and the harmonization of macro-economic policies, will take much longer, given the divergent levels of development among members and the level of political commitment.

Furthermore, in spite of the encouraging trend toward democratization in the region, establishing accountable institutions of government, ensuring people's participation in national development, and creating an enabling environment for formulating sensible macro-economic policies will take longer and is bound to present difficulties. Unless driven by political motives, from the economic point of view there are no convincing reasons for South Africa to join the PTA in the near future. As already suggested, South Africa is better off pursuing bilateral trade arrangements until it gains the confidence of its neighbours. The SADCC states also need more time to make the necessary internal adjustments before they engage in formalized integration schemes with South Africa.

XI CONCLUDING REMARKS

This report has focussed primarily on the prospects of economic integration, as opposed to economic cooperation, in post-apartheid southern Africa. It is important to note the distinctions between the two terms. Countries can cooperate economically without harmonising policy instruments. SADCC illustrates this approach. On the other hand, economic integration entails harmonisation of some policy instruments, such as tariff, customs, monetary and fiscal policies. A review of the evidence indicates that the basis for cooperation does exist in southern Africa. However, the conditions for consummating a formal "economic marriage" between South Africa and its neighbours do not exist at the moment. Both South Africa and its neighbours face very similar political and economic challenges of structural reform and adjustment, under deteriorating international and economic conditions. On the basis of the foregoing analysis, the following suggestions are offered:

First, southern African states should not look to a post-apartheid South Africa for their economic salvation. South Africa will be too pre-occupied with its own problems to come to their rescue. As the economy grows, it should address the question of poverty and the racial disparities in incomes. Far from coming to the region's aid, a future South African government might instead pursue policies harmful to its neighbours. For example, to reduce unemployment, it might discourage migrant labour, which would have disastrous consequences for countries dependent on their remittances to shore up their foreign exchange earnings.

Second, South African policy-makers need to recognise the painful reality that the majority of sub-Saharan African governments are completely broke. All governments in the region have been hit by falling terms of trade and a rising international debt burden. While some countries have improved their short-term trade positions, few have gained in any of the indicators that measure real, sustainable development. Rather, most have slid backwards into growing inequality, environmental degradation, de-industrialisation and poverty. It would be some time before appropriate and sensible policies are put in place and the production decline is reversed.

A final point to be made is that the survival of the region largely depends on the ability and willingness of the governments concerned to harmonize economic policies, and to find ways in the appropriate utilization of existing regional resources to generate balanced development. The cost of inaction could be very high. In the new world order, southern African states will have very little room to manoeuvre.

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APPENDIX

TABLE 1: SOUTHERN AFRICA: TRENDS IN FOREIGN DIRECT INVESTMENT
(in Millions of US dollars)

COUNTRY	1980-84	1985-89
ANGOLA	373.6	-27.5
BOTSWANA	307.1	354.2
LESOTHO	19.4	37.5
MALAWI	13.2	1.0
MOZAMBIQUE	6.3	1.7
SWAZILAND	47.7	192.3
TANZANIA	33.9	10.1
ZAMBIA	106.0	128.8
ZIMBABWE	-0.2	-20.1
SADCC TOTAL	907.0	678.0
SOUTH AFRICA	944.0	-453.0

SOURCE: *UN Centre for Transnational Corporation*

TABLE 2: GROWTH OF GDP (AVERAGE ANNUAL PERCENTAGE) AT CONSTANT 1980 PRICES

COUNTRY	1965-73	1973-80	1980-87	1989[1]	1990[1]
ANGOLA	3.7	- 9.4	-	0.6	-
BOTSWANA	14.7	10.5	13.0	6.3	8.3
LESOTHO	3.8	7.6	2.3	- 2.1	4.1
MALAWI	5.9	5.3	2.6	4.1	4.8
MOZAMBIQUE	-	-	- 2.6	5.3	1.5
SWAZILAND	7.6	3.5	3.3	4.6	4.0
TANZANIA	4.8	2.3	1.7	3.3	3.0
ZAMBIA	2.4	0.3	- 0.1	0.1	- 1.9
ZIMBABWE	8.0	- 0.1	2.4	4.5	2.0

SOURCE: *SSA, Table 2*; [1] SADCC Annual Progress Report 1990-91

TABLE 3: MANUFACTURING VALUE-ADDED (MVA) PER HEAD CONSTANT 1980 $ PRICES

COUNTRY	1970	1980	1987	% OF CHANGE 1980/87
ANGOLA	25.1	10.1	8.9	- 12.0
BOTSWANA	35.0	69.3	80.2	+ 15.7
LESOTHO	3.4	14.1	18.2	+ 29.1
MALAWI	18.1	27.7	25.3	- 8.7
MOZAMBIQUE	46.6	29.3	18.2	- 37.9
SWAZILAND	81.7	183.0	181.5	- 1.0
TANZANIA	26.1	26.5	17.7	- 33.2
ZAMBIA	135.7	127.0	115.3	- 9.2
ZIMBABWE	150.3	169.3	157.9	- 6.7
REGIONAL AVERAGE	55.0	54.0	47.0	- 13.0

SOURCE: *UNIDO Database*

TABLE 4: NATIONAL IMPORT RATIONS OF MANUFACTURERS: 1980*

COUNTRY	IMPORT RATIO %	IMPORT RATIO (%) *(excluding fuel)*
BOTSWANA	90	78
LESOTHO	96	87
MALAWI	60	51
SWAZILAND	90	74
TANZANIA	-	-
ZAMBIA	35	34
ZIMBABWE	27	22

* Excluding Angola and Mozambique

SOURCE: *UNIDO 1985*

TABLE 5: SOUTHERN AFRICA: COMMODITY DEPENDENCE

COUNTRY	MAIN EXPORT	% SHARE
ANGOLA (1985)	Oil	90
BOTSWANA (1986)	Diamonds	78
LESOTHO (1985)	Mohair	24
MALAWI (1986)	Tobacco	55
MOZAMBIQUE (1987)	Prawns	42
SWAZILAND (1986)	Sugar	42
TANZANIA (1986)	Coffee	50
ZAMBIA (1987)	Copper	85
ZIMBABWE (1986)	Tobacco	20
SOUTH AFRICA	Gold	40

SOURCE: *SADCC, Regional Economic Survey 1988*, p.177

TABLE 6: AFRICA'S TERMS OF TRADE
(1980=100 average)

	1981-85	1986-90
EXPORTS		
Value	68.1	55.6
Unit Value	89.8	66.6
Quantum	75.9	83.4
IMPORTS		
Value	92.3	82.4
Unit Value	89.9	103.8
Quantum	83.1	79.3
TERMS OF TRADE	97.7	64.1
PURCHASE POWER/EXPORTS	75.7	53.7

SOURCE: *UNCTAD Secretariat*

TABLE 7: SOUTHERN AFRICA'S DEBT PROFILE: 1989

	TOTAL DEBT (1989)	DEBT STRUCTURE (%)			DEBT SERVICE 1989 (ACTUAL)		DEBT SERVICE 1990 (OBLIGATIONS)		DEBT/GNP RATIO (%)	DEBT PER CAPITA	GNP PER CAPITA
	$mn	BILATERAL	LATERAL	PRIVATE	$mn	AS % OF EXPORTS	$mn	AS % OF EXPORTS		($)	($)
ANGOLA	6,950	n.a.	1	n.a.	1,322	42.0	n.a.	-	115.6	716	620
BOTSWANA	513	24	68	8	69	3.6	82	4.0	36.5	422	1,172*
LESOTHO	324	9	80	11	22	2.8	32	4.0	39.0	188	483*
MALAWI	1,394	19	73	8	95	28.0	76	22.4	89.4	169	189
MOZAMBIQUE	4,737	60	9	31	63	24.4	613	238.5	474.2	310	65
SWAZILAND	281	42	48	10	35	4.8	32	4.5	43.6	370	848*
TANZANIA	4,918	55	34	11	87	16.6	365	69.1	186.1	192	103
ZAMBIA	6,874	34	31	35	171	12.3	529	37.9	137.9	877	636
ZIMBABWE	3,088	27	19	54	472	25.6	536	29.1	53.6	323	602

TABLE 8: SKILLED MANPOWER REQUIREMENTS BY COUNTRY IN THE MINING SECTOR (1987)

	HIGH SKILLS MANAGEMENT	SUPERVISORS AND TECHNICIANS	TOTALS No.	%
ANGOLA	550	1 750	2 300	13
BOTSWANA	367	987	1 354	8
MOZAMBIQUE	524	2 328	2 852	16
SWAZILAND	49	187	236	1
TANZANIA	277	916	1 193	7
ZAMBIA	1 786	5 234	7 020	39
ZIMBABWE	716	2 062	2 778	16
TOTAL	4 288	13 452	17 829	99

SOURCE: *SADCC Mining Sector Skilled Manpower Survey* (1987)

TABLE 9 DIRECTIONS OF TRADE IN SOUTHERN AFRICA
(in percentages)

	1979	1982	1984
Percent of SADCC Exports:			
To SADCC Countries	2.8	4.6	4.3
To South Africa	6.4	6.9	7.2
All other countries	90.8	88.5	88.5
Percent of SADCC Imports:			
From SADCC countries	2.6	3.9	4.2
From South Africa	35.3	31.5	29.7
All other countries	62.1	64.6	66.1
Percent of Total SADCC Trade:			
Intra-SADCC	2.7	4.2	4.2
With South Africa	21.4	20.3	18.5
All other countries	75.9	75.5	77.3

SOURCE: 1979 and 1982 data from *UNIDO, 1985*; 1984 data from *World Bank*. Table adapted from Stephen Lewis.

TABLE 10 AVERAGE GDP GROWTH IN SOUTH AFRICA
(in percentages)

1965-70	5.4
1970-75	4.0
1975-80	2.8
1980-85	2.3
1985-90	1.5

SOURCE: Calculated from various *EIU Reports*.

TABLE 11 GROWTH PERFORMANCE: SOUTH AFRICA, EAST ASIA AND NEIGHBOURING COUNTRIES

Country	1965-80	1980-88
Korea	9.6	9.9
Thailand	7.2	6.0
Malaysia	7.3	4.6
Singapore	10.1	5.7
Hong Kong	8.6	7.3
Mexico	6.5	0.5
Brazil	8.8	2.9
SOUTH AFRICA	3.8	1.3
Botswana	14.2	11.4
Lesotho	5.7	2.9
Malawi	5.6	2.6
Zimbabwe	5.0	2.7

SOURCE: World Bank, *World Development Report*, 1990

TABLE 12 SOCIAL SPENDING ALONG RACIAL LINES IN 1990

	White	Black	Colored	Asian
EDUCATION:				
Pupils (millions)	1.0	7.7	0.9	0.3
Pupil/teacher ratio	18.6	40.8	23.3	1.7
Expenditure per pupil in Rand	4,087	907	2,406	3,055
Expenditure as % of GDP	15.4	3.4	9.1	11.5
HEALTH SECTOR:				
Per capita in rand	322	147	304	330
Expenditure as % of GDP	4.7	2.1	4.4	4.8
SOCIAL PENSION:				
Per capita benefit in Rand	3,312	1,980	2,700	2,700
Percent of GDP if equalized	3.1	1.8	2.5	2.5

SOURCE: Compiled from *IMF Report* on South Africa, tables on pages 37, 40 and 41

TABLE 13 *MONTHLY HOUSEHOLD INCOME 1988/89*

Income Group R/month	*African* %	*Coloured* %	*Indian* %	*White* %
1- 399	50.9	24.4	6.1	2.6
400- 699	23.1	18.4	14.5	5.3
700-1199	19.0	25.1	26.8	10.1
1200-1999	4.7	19.5	26.3	16.1
2000-2499	0.9	5.1	9.5	11.1
2500-3999	1.1	5.3	11.7	24.9
4000-5999	0.3	1.5	4.5	18.9
6000 +	0.1	0.6	1.1	10.9

SOURCE: *Race Relations, 1989/90, p.658.*

Note: Columns may not add up to 100% as figures have been rounded off.

TABLE 14: SOUTH AFRICA: EXTERNAL DEBT POSITION

	1986	1987	1988	1989f	1990f
EXTERNAL DEBT AND RESERVES ($ million)					
Total External Debt	22667	22590	21168	19736	18718
% GDP	37.3	28.6	25.0	20.9	
% Exports goods, services & income	107.2	93.1	82.6	76.4	69.8
(Interest arrears)	0	0	0	0	0
International financial institutions	487	0	0	0	0
Official bilateral creditors	3155	3850	3830	3899	4094
Commercial banks	14343	14635	13176	12207	11217
Other private creditors	4682	4105	4162	3630	3407
DEBT SERVICE PAYMENTS ($ million)					
Total debt service	2522	3301	3093	3453	4021
% Exports goods, services & income	11.9	13.6	12.1	13.4	15.0
Interest payments due	1986	1871	1902	1998	1831
Amortization paid	536	1430	1190	1455	2190

f = forecast

SOURCE: *Institute of International Finance*

TABLE 15 MATRICULATION EXAMINATION RESULTS: 1989

	African	Coloured	Indian	White
Candidates:	177,076	22,666	14,191	70,666
Total Passes	72,787	16,475	13,282	67,825
Proportions	41.1%	72.7%	93.6%	96.0%
Passed with exemptions:	17,170	4,044	6,004	29,933
Percent of total Candidates	9.7%	17.8%	42.3%	42.4%
Passed with school-leaving certificate:	55,617	12,431	7,278	37,892
Percent of total Candidates	31.4%	54.8%	51.3%	53.6%

SOURCE: *South African Institute of Race Relations*, p.828.

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