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## THE GLOBALISATION OF THE SOUTH AFRICAN POLITICAL ECONOMY

by

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Bradlow Fellow

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# The Globalisation of the South African Political Economy

Rukhsana A. Siddiqui

*Is globalisation only to benefit the powerful and the financiers, speculators, investors and traders? Does it offer nothing to men, women and children who are ravaged by the violence and poverty? To answer 'Yes' to these questions is to re-create the conditions for conflict and instability. However, if the answer is 'No' then we can begin to build a better life for all humanity.*

Nelson Mandela, 1999

## Introduction

Keeping in mind the ongoing changes in the international position of South Africa since 1993, it is timely to help locate and understand the South African position in the context of the continent's developmental problems and the evolving global economic system of the late 1990s.

The initial questions this paper addresses are:

- What is globalisation?
- What is regional integration/and regionalisation?
- How does South Africa adapt to it?

Both globalisation and regionalisation have generated considerable debate over their meaning and relationship to each other. What will be the South African path from isolation to integration and globalisation?

With an unusual mix of development and underdevelopment, South Africa faces the high expectations, not only of its own citizens, but of those in southern Africa also. The international community has great hopes of what South Africa could contribute to Africa's economic regeneration and to the global economic environment in general. It is crucial that South Africa balance its domestic needs while playing a dynamic developmental role in the sub-Saharan region.

Critical to the South African government's macro-economic strategy is the imperative to attract and reassure both national and international investors by

creating an investor-friendly environment. Thus there is an urgency to establish fiscal and monetary discipline, provide incentives and ensure a stable sociopolitical environment. In a complex web of perceptions and relations, the overall view of South Africa is shaped by its geostrategic location on the continent and the staggering legacy of apartheid and several decades of civil conflict. Thus an understanding of the complexities of the global economy and of South Africa's place in it is of great importance.

This research attempts to compare globalisation and regional integration as paths to economic development, using South Africa as a case study. Applying the following conceptual definitions of the two units of analysis, this study will focus mainly on the relationship between globalisation and/or regional integration and their role in South Africa.

## **Definition of the concepts**

### ***Globalisation***

In generic terms globalisation refers to the accelerated growth of economic activity that transcends politically defined national and regional boundaries. It is normally facilitated and stimulated by a lowering of impediments to cross-border activity (through technological progress, for example, in transportation, communications, and through reduction of tariffs and of investment restrictions). It is also driven by the actions of individual actors — firms, banks, people — usually in the pursuit of profit and often spurred by the pressures of competition.

Globalisation is then best understood as a micro-economic phenomenon with macro-economic implications. Furthermore, it represents openness and state disengagement from economic activity, a factor that involves an expanding role of the market in resource allocation (marketisation) — a reform instituted in the 1980s in many African countries. Proponents of this reform (largely introduced by the International Monetary Fund (IMF) and the World Bank's Structural Adjustment Programmes to encourage the worldwide globalisation process) argue that it will invigorate African economies through more efficient allocation of resources and more balanced macro-economic policies. Many view integration with the global economy as the best strategy for promoting faster growth, while they associate regionalism with protectionism, which in turn is linked to slow growth due to the inefficient allocation of resources which regionalism is believed to entail. While globalisation as a micro-economic phenomenon cannot adequately be understood simply by looking at visible patterns of international trade and investment, it does have the effect

of reducing the economic 'distance' between countries and continents, as well as between the economic agents whose actions drive the process.

Globalisation has been used to describe a variety of tendencies. At the most general level it has been defined as:

The forging of a multiplicity of linkages and interconnections between the states and societies which make up the modern world system. The processes by which events, decisions and activities in part of the world can come to have significant consequences for individuals and communities in quite distant parts of the globe.<sup>1</sup>

The contextual conditions envisaged in the very notion of complex interconnectedness are reflected in McGrew's conception of globalisation in terms of the 'multiplicity of linkages and interconnections between the states and societies which make up the modern world system. It describes the process by which events, decisions, and activities in one part of the world can come to have significant consequences for individuals and communities in quite distant parts of the globe. McGrew also delineates two dimensions of globalisation: scope (or stretching) and intensity (or deepening). The conjunction of these twin forces propels the world's transformation.<sup>2</sup>

Globalisation is also seen as sharing a common conceptual identity with the term 'interdependence' in international relations and political economy. It is argued that many of the processes and 'interpretations of interdependence have evolved, almost unaltered, into contemporary notions of globalisation'.<sup>3</sup> Others, however, argue that interdependence is a distinct concept that should not be confused with globalisation or interconnectedness. While the globalisation process may stimulate interdependencies between nation-states, it can create relationships of dependence and reinforce existing asymmetries in the global system.<sup>4</sup> Asymmetries characterise the relationships between the industrialised countries of the North and third world countries of the South. Globalisation then involves a dispersal of economic activities across national boundaries. This phenomenon has hastened the shrinkage of international

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<sup>1</sup> McGrew A, 'The Third World in the New Global Order', in Allen T & A Thomas (eds.), *Poverty and Development in the 1990s*. Oxford: Oxford University Press in association with the Open University Oxford, 1992a, p.262.

<sup>2</sup> McGrew A, 'Conceptualising Global Politics', in McGrew A & PG Lewis (eds.), *Global Politics: Globalisation and the Nation State*. New York: Polity Press, 1992b, p.23.

<sup>3</sup> Jones RJB, *Globalisation and Interdependence in the International Political Economy*. New York: Pinter Publishers, 1995, p.3.

<sup>4</sup> Potter D, 'The Anatomy of the Third World States within the Global Economy', in McGrew A & PG Lewis, *ibid.*, pp.216-32.

space by tightly linking national economies, and rendering their borders porous as trade, services, people, values, ideas and technologies flow across them with relative ease and relentless intensity.

A focus of the economic aspects of globalisation can be described as follows:

It extends to a broad range of issues that bring together the politics and economics of change today on a global scale. Issues include the viability of the world trading system, the growing need for 'deep' international policy integration, and the apparent decline of national economic policy autonomy. They include the impact of the technological 'revolution', the sources of long-term economic and productive growth, the importance of change in systems of corporate management and industrial organisation, and the bases of competitive strength of countries as well as firms. They include the implications of the emergence of a tri-polar world, rapidly changing North-South relations, growing diversity among the developing countries, poverty and the threat of expulsion for a large proportion of the world's population and, in the leading economies, severe problems of unemployment and growing wage and income disparities. And they include the role of government and the nature of state market relations ... as well as the emergence of competition between different social systems or types of capitalism.<sup>5</sup>

Globalisation and the new world order have also resulted in the realignment of the structure of the world economy to coincide with the waning of military power and the ascendance of economic power. According to Samir Amin, the status of a country in the global economy is 'defined by its competitive capacity on the world market'.<sup>6</sup>

The structure of the global political order is characterised by unipolarity, while that of the global economic order is multipolarity. That is, the world's political power is heavily concentrated in the United States (US), while the world's economic power is more diffused but still dominated by Western states. This is very aptly elucidated by the following diagram by Edoho, which shows that globally, economic power is diffused among the US, Japan, and the European Union (EU). The global economy today revolves around these three economic powers. As a result of globalisation, these core economies are deeply integrated because they counter-penetrate one another.<sup>7</sup>

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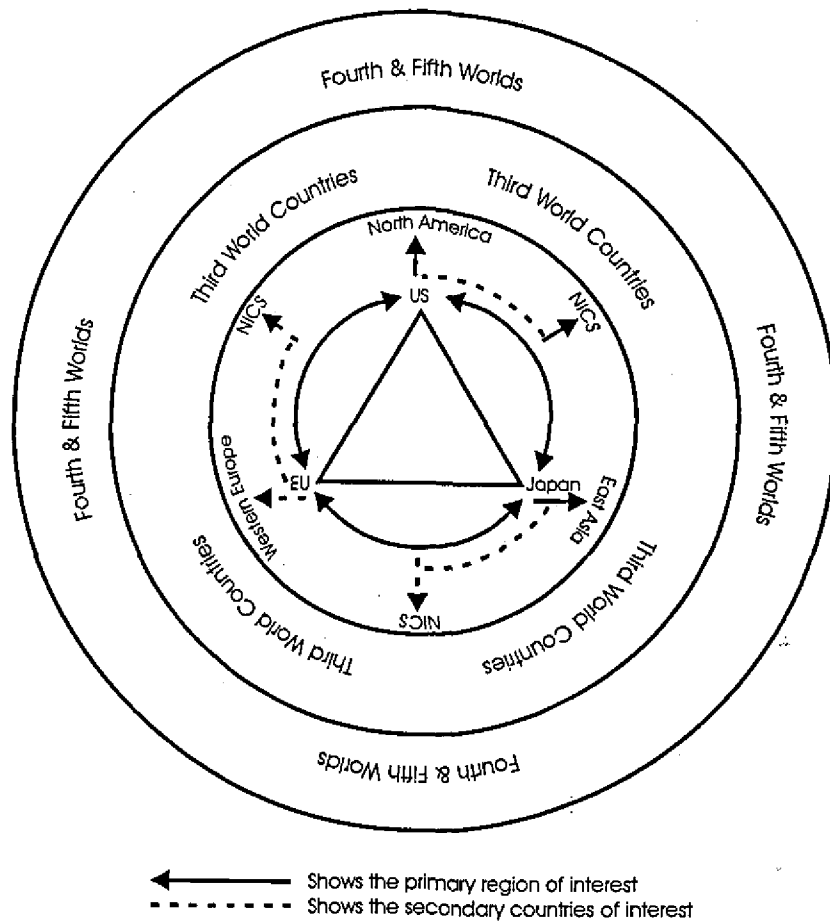
<sup>5</sup> Oman CP, *Globalisation and Regionalisation: The Challenge for Developing Countries*. Paris: OECD Development Centre Studies, 1994, p.1.

<sup>6</sup> Amin S, 'The Future of Global Polarisation', in *Africa Today*, 40, 4, 1993a, pp.77.

<sup>7</sup> Edoho FM, *Globalisation and the New World Order*, Westport, Connecticut: Greenwood Praeger Press, 1997, p.9.



## The Structure of the Global Economic System



Source: Edoho FM, *Globalisation and the New World Order*. Westport, Connecticut: Praeger Press, 1997, p.9.

Members of the triad control the global financial systems; they have sophisticated infrastructure that enables them to attract investment, generate most of the modern technologies, and appropriate economic surplus. Although they are few in number, the industrialised countries consume by far the largest proportion of world energy, goods, and services.

Globalisation is also defined in terms of the changing power relationship between state and non-state institutions, particularly multinational companies (MNCs). Here the centrality of MNCs in changing the global economy is stressed to the extent that 'governments as a group have indeed lost bargaining power to the multinationals'.<sup>8</sup>

<sup>8</sup> Dicken P, 'Global-Local Tensions: Firms and States in the Global Space-Economy'. The Roepke Lecture in Economic Geography, in *Economic Geography*, 70, 2, 1994, p.102.

We are living through a transformation that will rearrange the politics and economics of the coming century. There will be no national products or technologies, no national corporations, no national industries. There will no longer be national economies, at least as we have come to understand that concept.<sup>9</sup>

This is challenged by the argument that 'we do not have a fully globalised economy; we do have an international economy and national response to it'.<sup>10</sup>

Globalisation, which among other things represents openness and state disengagement from economic activity, has also become a factor that obstructs state-building and undermines states. Income inequalities between social classes, ethnic groups, and regions are on the rise, and the state — especially in poor countries — is becoming powerless to deal with these problems. Both the state and institutions such as democracy and labour unions are national in nature, and they are not equipped to deal with the economic system, which is becoming increasingly global.<sup>11</sup>

Although it would be appropriate to understand globalisation as an all-encompassing concept with political, economic, social and environmental dimensions,<sup>12</sup> the above definitions consider it to be largely an economic phenomenon. As a 'recent' term, globalisation, therefore, does not enjoy the levels of conceptualisation, like many other concepts in the larger discourse of international relations, which could provide a basis for an overall theoretical framework.<sup>13</sup> However, to understand what is being called globalisation and its impact on the world, one would start by examining the key features and strategies involved in the explanation of this term.

The chief strategy to integrate African economies with the global economic system is being promoted through the Structural Adjustment Programmes (SAPs) of the World Bank. This strategy is largely imposed by IMF–World Bank

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<sup>9</sup> Reich RB, *The World of Nations: Preparing Ourselves for 21st Century Capitalism*. New York: Vintage Books, 1991, p.38.

<sup>10</sup> Hirst P & G Thompson, 'The Problem of "Globalisation": International Economic Relations, National Economic Management and the Formation of Trading Blocs', in *Economics and Society*, 21, 1992, p.394.

<sup>11</sup> Mengisteab K, *Globalisation and Autocentricity in Africa's Development in the 21st Century*. Trenton, NJ: Africa World Press Inc., 1996, p.13.

<sup>12</sup> Naidoo SK, 'New Rules for Security and Survival: Southern Africa's Adaptation to a Changing World Environment'. Unpublished Master's thesis, Rhodes University, 1998.

<sup>13</sup> *Ibid.*

conditionalities as a part of the worldwide globalisation process whose ostensible aim is to invigorate African economies through more efficient allocation of resources and more balanced macro-economic policies.

### **Are structural adjustment programmes essential for globalisation?**

No definition of globalisation can be adequate without a discussion of the liberalisation policies proposed by the SAPs of the World Bank and the IMF. Since the 1980s, SAPs have seen some modification, for at least two reasons. One is that the widespread concern in the early 1980s that the inability of developing countries to service their debts would undermine the international financial system has been largely alleviated. Among the objectives of SAPs was to ensure the availability of foreign exchange for servicing debt, but by the late 1980s this objective had become less important. A second reason is the intensification of hardship experienced by the poor during the adjustment process, which led to the voicing of opposition to SAPs by many humanitarian organisations and popular protests in many countries.

In the late 1980s the international financial institutions (IFIs), which are the primary sponsors of SAPs, made some effort to develop policies to mitigate the burden of adjustment on the poor segments of society. The World Bank, in conjunction with other organisations such as the United Nations Development Programme (UNDP), has for example launched the Social Dimension of Adjustment Project, which involves measures such as food-for-work programmes and food subsidies for the poor.<sup>14</sup>

As indicated by its last two annual *World Economic Reports*, the World Bank has also begun to emphasise the importance of expenditure on health, education, and infrastructure for sustained development. One observation has been that 'indeed there has been some evolution in the World Bank's view of SAPs'.<sup>15</sup> Others argue that true priorities are revealed only when tough choices have to be made during the *time of conflict between efficiency and welfare objectives*. Efficiency, which is a critical aspect of globalisation, remains the World Bank's priority despite the apparent shift in its views. The social safety net measures have been severely inadequate, and they remain exogenous to

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<sup>14</sup> World Bank, *Sub-Saharan Africa: From Crisis to Sustainable to Growth*. Washington DC: World Bank, 1989.

<sup>15</sup> Husain I, *The Evolving Role of the World Bank: The Challenge of Africa*. Washington DC: World Bank, 1994, p.17.

the liberalisation drive.<sup>16</sup>

SAPs do not necessarily reduce the power of the state across the board; they only weaken its redistributive and regulatory roles. They also do not adversely affect the interests of high-level state officials. The political élite who have accumulated wealth, often through corruption, can relatively easily realign their interests, invest in private enterprises, and join the ranks of the economic élite in order to benefit from liberalisation if they have not already done so. This explains, at least in part, why even the notoriously self-serving states showed little resistance to SAPs. The social groups that have resisted liberalisation are mostly workers and low-income consumers.<sup>17</sup> It has further been argued that most of the implementation of SAPs has relied heavily on state authoritarian and coercive power to impose and sustain them, which has led to governance problems:

In 1991 alone 85% of the world's population received only 15% of global income, while in 1996 the total of the world's top 358 billionaires equalled the combined incomes of the world's 2.3 billion poorest people ... the process of globalisation is enriching the few at the expense of the many. Moreover, the divisions between social groups are increasing: globalisation divides as much as it unites; it divides as it unites — the causes of division being identical with those which promote the uniformity of the globe, ... the processes of segregation which accompany globalisation ... means the freedom to move anywhere at almost any time, these people are 'global'. By contrast, the poor are still local. Being local in a globalised world is a sign of social deprivation and degradation.<sup>18</sup>

One criticism of the pro-market analysis has been that it tends to generalise that all state intervention in all markets hampers socio-economic development in all countries and that a liberalised and outward-oriented economy generates faster growth. 'This claim fails to distinguish between the different types of states and the disparate conditions in different countries. It also suffers from lack of conclusive evidence.'<sup>19</sup> Several studies have, for example, shown that the impacts of outward orientation differ significantly

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<sup>16</sup> Bienefeld M, 'The New World Order: Echoes of a New Imperialism', in *Third World Quarterly*, 15, 1, 1994, p.34.

<sup>17</sup> Mengisteab K, *ibid.*, p.34-36; Bangura Y, 'Authoritarian Rule and Democracy in Africa: A Theoretical Discourse', in Gibbon P, Bangura Y & A Olfstad (eds.), *Authoritarianism, Democracy and Adjustment*. Uppsala: Scandinavian Institute of African Studies, 1992.

<sup>18</sup> Bauman Z, *Globalisation: The Human Consequences*. Oxford: Polity Press, 1998.

<sup>19</sup> Helleiner G, 'Outward Orientation, Import Instability and African Economic Growth: An Empirical Investigation', in Sanjay L & F Stewart (eds.), *Theory and Reality in Development: Essays in Honour of Paul Streeten*. London: Macmillan, 1986, pp.139-53.

between low-income and middle-income countries,<sup>20</sup> while other studies have shown serious doubts that outward orientation works for countries that face adverse world demand conditions.<sup>21</sup>

### **Regional integration/regionalisation**

Strong supporters of globalisation regard this as the second best strategy for faster progress towards the ultimate goal of economic progress. Regionalisation, then, can be understood as the movement of two or more adjacent economies toward greater integration with one another. It can be a *de facto* process, driven by the same micro-economic forces that drive globalisation, or it can be a *de jure* process, driven by political forces, which may in turn be motivated by security, economic or other objectives, or a combination of the two. While *de jure* regionalisation can take a variety of forms, what those institutional arrangements have in common is participating governments' use of extra-economic powers (powers of the state) to lower impediments to intra-regional economic activity, and those governments' movement, to a greater or lesser degree, to pool their policy sovereignty, usually with the aim of collectively strengthening that sovereignty, *vis-à-vis* the rest of the world.<sup>22</sup>

Just as regionalisation can be understood as a *centripetal* process, so, then, can globalisation be understood as a *centrifugal* process.<sup>23</sup> Much of the economic policy debate over globalisation and regionalisation has thus focused on two closely related questions:

- (i) Are the major regional agreements trade-creating or trade-diverting? and
- (ii) Do they work for or against a more open world trading system?

The answers are inconclusive. Broadly, the thrust toward regional integration falls into three categories — economic, political and security — with considerable overlap between them. The mixture is different in each case and the emphasis may change over time, so that while initially states may come together for economic reasons, in time their security interests may become

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<sup>20</sup> Gray P & HW Singer, 'Trade Policy and Growth of Developing Countries: Some New Data', *World Development*, 16, 3 March 1998, pp.395-403.

<sup>21</sup> Streeten P, 'Against Minimalism', in Putterman L & D Rueschemeyer (eds.), *State and Market in Development: Synergy or Rivalry?* Lynne Rienner: Boulder, 1992, pp.15-38.

<sup>22</sup> Oman CP, 'The Policy Challenges of Globalisation and Regionalisation', *OECD Development Centre Special Section*. London: Sage Publications, 1997, p.44.

<sup>23</sup> *Ibid.*

equally important. A further distinctive factor is the degree of integration to which a regional group aims.<sup>24</sup> In economic terms, four distinct steps can be identified:<sup>25</sup>

- a free trade area, which removes internal barriers;
- a customs union, which as well as lifting internal barriers introduces a common tariff for external goods;
- a common market, which introduces the free movement of factors of production (labour, capital and enterprise); and
- an economic union, which implies a common market plus unification of all other factors, including tax and money.

The last is a cumulative stage that incorporates the other steps and involves joint ventures and planned distribution of selected industries among members.

However, the economic steps are not without political implications. Because of the need to satisfy such a variety of objectives, many attempts at regional integration have failed or fallen far short of their original aims; the rhetoric has been more prominent than the achievements.

There is an expanding literature on the nature and implications of regional integration and/or regionalisation. A very comprehensive analysis is that of Dot Keet.<sup>26</sup> Such analysis has direct bearing on the prospects for regional integration in southern Africa in relation to the emerging global markets. Keet lists the current trends in regionalisation:

- regional integration that is internally generated and multidimensional;
- regional integration that provides an intermediate basis for dealing with global integration;
- regional integration that offers defensive redoubts against some aspects of globalisation;
- regional integration that is outwardly oriented and expansionist;
- regional integration that is predatory or pre-emptive;

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<sup>24</sup> Barber J, 'Co-operation and Integration: South Africa, the Southern African Development Community (SADC) and Mercado Comun del Sur (Mercosur)', in Guimaraes SP (ed.), *South Africa and Brazil: Risks and Opportunities in the Turmoil of Globalisation*. Brazil: IPRI & CNPQ, 1996, p.335.

<sup>25</sup> *Ibid.*

<sup>26</sup> Keet D, 'Globalisation and Regionalisation — Contradictory Tendencies? Counteractive Tactics? or Strategic Possibilities'. Unpublished Paper. University of the Western Cape: Centre For Southern African Studies, School of Government, 1999, pp.1-25.

- reciprocal FTAs that are prescriptively promoted;
- pragmatic regional integration between emerging economies;
- regional integration with strategic developmental objectives;
- regional delinking for strategic purposes;
- pro-active regional strategies to reshape the global economy; and
- open regionalism as a stepping stone to globalisation.

Analysis of the above trends can be vital to understanding the different types of regional integration in Africa and their ramifications.

Christopher Clapham<sup>27</sup> draws the following lessons for regional integration in Africa. First, it is central to any consideration of regional integration that the benefits produced by the creation of a larger and more powerful bloc have to be achieved by the reduction of its autonomy. The loss of autonomy on the one hand and the creation of benefits on the other are inevitably unevenly distributed in favour of the stronger partners. 'In straightforward economic terms, the benefits accruing to the grouping as a whole, through trade creation, have to be set against the benefits which accrue to some members at the expense of others through trade diversion.'<sup>28</sup> Second, two of the most sensitive issues in regional integration are those of revenue and labour migration. Third, the supporters of regional integration in Africa have often accused national leaders of lacking the political will to pursue integration schemes, but the problems actually go beyond this realm. Four, when African regional integration schemes have achieved a measure of success, this has been due to their contribution to regional security rather than any actual or potential economic benefits. Five, regional integration schemes which actually serve to promote the tenure of particular regimes are always likely to be fragile. Six, it is difficult to see how any regional integration scheme can work if the state that draws the greatest benefits from it seeks to restrict those benefits to its own population, by denying the opportunity to participate with the populations of the peripheral states. Finally, free movement of labour is the key criterion by which any regional integration scheme — especially in Africa, where labour is exceptionally mobile — is likely to stand or fall.

There is an age-old tension between state sovereignty and regional initiatives. Chances of successful regional integration increase when there is greater

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<sup>27</sup> Clapham C, 'Regional Integration in Africa: Lessons and Experiences', in Handley A & G Mills (eds.), *South Africa and Southern Africa: Regional Integration and Emerging Markets*, Johannesburg: SALLA, 1998, pp.17–28.

<sup>28</sup> *Ibid.*, p.9.

importation of products from within the region itself than from without, and when the internal markets are larger and accompanied by a resultant diversity of production structures among member states and lower transport costs. It is politically necessary, moreover, to contain regional hegemony; otherwise it can spill over into political rivalry. The perception of 'fairness of distribution', benefits and costs, then becomes central to the resolution of such rivalries.

Furthermore, there is room for considerable disagreement on the role of the state in promoting economic development. It is argued here that the 'interventionist/non-interventionist dichotomy' is neither useful nor an appropriate analytical tool to study globalisation as well as regional integration. Instead it would be more productive to analyse how state abstention as well as involvement can be sequentialised to implement sound economic policy.

### **The compatibility of globalisation and regionalisation**

The difference between globalisation and regionalisation in economic terms is being reduced over time. What is seen in the world today is more internationalisation of companies in a few, mostly neighbouring or regional but important markets, and not many on all markets. The share of transnational companies (TNCs) having more than 10 affiliations is still very modest. Even among the top 100 TNCs, only 21 had an index of internationalisation of over 60% in 1992. Those with a low level of internationalisation still predominate. Yet many TNCs are active on all of the most important markets.<sup>29</sup> Basically the same forces that drive globalisation drive regionalisation. 'They are *de facto* economic factors and *de jure* political processes and pooling of sovereignty.'<sup>30</sup>

The complementarity of globalisation and regionalisation is explained in an interesting analogy:

Regional groupings can be likened to personal computers (PCs) which can co-operate nicely among themselves. Globalisation could be a more centralised mainframe type of configuration, where individual units depend on the centre setting the rules (therefore more autocratic). Globalisation could also be pluralistic, though this is less likely due to potentially vast differences among

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<sup>29</sup> Svetlicic M, 'Challenges of Globalisation and Regionalisation in the World Economy', in *Global Society*, 10, 2, 1996, p.107.

<sup>30</sup> Oman CP, 'Regionalisation in the 1980s', in Singer H & M Svetlicic (eds.), *The World Economy: Challenges of Globalisation and Regionalisation*. Basingstoke: Macmillan, New York: St. Martin's Press, 1996.



the participants. The optimum sociopolitical area must be small enough so that every individual can have a sense of participation. The optimum economic area is the world.<sup>31</sup>

It is also argued that the contribution that regionalism might make to globalisation (where the real money is) lies mainly in the political arena, especially in promoting credible policies. An important aspect of the global economic revolution is what can be termed the search for credibility. It is not enough for governments to announce that they are going to liberalise policies, favour the private sector or adopt conservative macro-economic policies. Investors may refuse to invest if they fear that the governments' announcements are not credible. What's more, firms may take advantage over the short period of liberalised capital controls, and massive flight of capital might occur in such a period.<sup>32</sup> An example here is Pakistan where, due to the unpredictability of government's liberalisation policy accompanied by the sudden crash of the rupee during the nuclear blasts in May 1997, millions of dollars fled overseas overnight. Foreign investors hurriedly extricated themselves from a country which had been giving them mixed messages for months.

However, the two processes of globalisation and regionalisation are also frequently regarded as *opposed*. Some see regionalisation as a defensive instrument, as a protection of local industries and as a substitute for globalisation. Differentiation between the two processes on the grounds that one is a more *de jure* political process and the other a *de facto* economic one is therefore subject to question. One study demonstrates that a regional framework is not sufficient in the field of high technology products.<sup>33</sup> Furthermore, there exists an ambivalence among economists regarding trading blocs that can be best illustrated by arguments which favour 'selective protection' and industrial policy. According to Krugman, 'regional blocs may be a bad idea in principle but good in practice', but for Bhagwati, while 'regional trading blocs are a good idea in principle, they are likely to be a bad idea in practice'.<sup>34</sup> While some consider global orientation a *sine qua non* for a successful regionalisation, others argue that the situation differs sector by

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<sup>31</sup> Svetlicic, *op. cit.*; Kindleberger C, *Multinational Excursions*. Cambridge, Mass., MIT Press, 1984, p.14.

<sup>32</sup> Herbst J, 'Developing Nations, Regional Integration and Globalism', in Handley A & G Mills. (eds.), *op. cit.*, 1998, p.34.

<sup>33</sup> Junne G & R Van Tulder, *European Multinationals in Core Technologies*. Chichester: Wiley, 1988.

<sup>34</sup> Cited in de Melo J & A Panagariya, 'The New Regionalism in Trade Policy', *World Bank Policy Research Bulletin*, 3, 3, May-June 1992, p.7.

sector or by type of activity. 'A division has thus emerged: globalisation of networks of knowledge and control, and regionalisation of supply of physical goods.'<sup>35</sup>

Those having the ambition to enter the field of knowledge have therefore embarked upon the very difficult task of developing some kind of knowledge which would give them a competitive edge and make them interesting as a partner in a global network. In other words, they have to be globalised. Those who would be satisfied with the position of a supplier of physical goods in an intra-regional framework would condemn themselves to a permanent position of following the technological leaders.<sup>36</sup>

Supporters of regional rather than global co-operation claim that regional bonds transcend narrowly defined economic reasons. Common religion, history and culture are cited as factors of regional cohesion. Another important component is the physical proximity between producers and consumers.

Clearly there are costs and benefits to globalisation as well as regionalisation. They include economic, political, military, security as well as cultural factors. Internationalisation can produce uneven development across countries and regions; it can expose weak local industries to international competition and accelerate their decline. The benefits of globalisation may not be immediate and not appreciated by short-term-oriented electorates, and may even lead to the overthrow of governments. Sometimes globalisation and national interests are opposed and irreconcilable. A country would never decide to integrate either regionally or globally if the benefits were not greater than the costs.

### **The South African case study**

Some of the main questions that this study proposes to address, then, are:

- How can South Africa globalise and raise its potential for growth while eliminating poverty and redistributing resources equitably in a sustainable manner?
- Is it possible for South Africa to postpone the World Bank's Structural Adjustment Programmes long enough, if only to prove that some of the ills of the economy can be cured internally, or will South Africa be too impatient to do that? What are the external pressures and domestic economic considerations in relation to globalisation?

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<sup>35</sup> Stopford J, 'Global Competition Moulds European Multinationals' Response to Regionalisation', in Svetlicic & Singer, *op. cit.*, 1996.

<sup>36</sup> Svetlicic, *op. cit.*, pp.118-119.

- How crucial is the sound and wise management of the policy of Growth Employment and Redistribution (GEAR) as a domestic response to the struggle for economic prosperity of the country? Is it a viable alternative to SAPs?
- What are the desirable conditions to attract foreign investment?
- How can South Africa strengthen internal cohesion and stability while pursuing the above objectives? How can the negative effects of crime, violence, corruption and unemployment be curtailed? And what roles will human and natural resources, international trends and political stability play in achieving this?
- How can regional integration of southern Africa play a serious role in South Africa's sustainable economic development? Can the country's international economic policy promote prosperity through a more balanced though greater integration in the region? As a 'dominant' economy, can South Africa play a responsible leadership role by becoming an 'international gateway' to southern Africa?

### **Is the South African GEAR an adequate response to globalisation?**

Any study of the current economic situation in South Africa must elaborate upon the government's strategy, GEAR. The strategy document is actually a response to requests from several quarters for a macro-economic plan to meet the objectives of elevating South African economic growth potential to a sustainably higher level, as mentioned in the Reconstruction and Development Programme (RDP). GEAR was thus presented to Parliament by the Minister of Finance in June 1996. The programme had its origins in several political and economic developments. One reason was the demise of the RDP, which had been the linch-pin of the ANC's election manifesto and its main socio-economic strategy. In March 1996 the RDP office and ministry were abolished highlighting the need for a better and clearer macro-economic policy framework under the guidance of Deputy President Thabo Mbeki.

The second reason was that in February 1996 the South Africa Foundation (SAF), which represents around 50 of the largest corporations which have overseas connections with large MNCs and global corporations, published *Growth For All*, which, while praising the government's achievements in deregulating and liberalising the financial markets and foreign trade, strongly attacked the ANC's policy problems in dealing with crime, transforming the public sector, deregulating the labour market and promoting manufactured

exports.<sup>37</sup> In addition, SAF strongly criticised the budget deficit and the rigidities of the labour market, which exacerbated unemployment. The ANC, the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP) were surprised by this attack and responded with a document entitled *Social Equity and Job Creation*. However, it contained only suggestions that somewhat duplicated those of the Macro-Economic Research Group (MERG) report, which had already been ignored by the government.

The third factor was the currency crisis — the 17% drop in the nominal effective value of the rand in early 1996. The currency's weakness reflected growing concern in the markets about the lack of clear policy directions. The fourth reason was the pressure from academic advisers, civil servants, key ministers and technocrats, who emphasised the need for fiscal discipline at the core of South Africa's macro-economic strategy. While all four of these developments played a role in determining the shape and content of GEAR, 'there is no doubt that the devaluation of the Rand perpetrated the need to confront some hard policy choices.'<sup>38</sup>

The GEAR programme formally set a number of specific targets to be achieved by the year 2000. These included:

- a rise to 6.5% p.a. in the growth rate of real output;
- the creation of more than 400,000 new 'formal sector' jobs annually;
- a reduction in the ratio of the fiscal deficit to GDP to three percent;
- an increase in gross domestic savings from 17% of GDP in 1992-9 to more than 21% in 2000;
- an average growth rate of 11% p.a. in real manufactured exports, reflecting increased competitiveness; and
- a doubling of the growth rate of real investment.

In monetary/fiscal policy terms, the objectives outlined as the distinct macro-economic goals of GEAR over the next five years included inflation reduction; elimination of governmental dissaving; relaxation of exchange controls; exchange rate management; lowering of tariffs; public sector asset restructuring; labour-intensive growth; wage and price moderation; accelerated investment and employment; enhancement of public service delivery; sharper deficit reduction, tight monetary policy, and above all,

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<sup>37</sup> Blumenfeld J, 'Assessing South Africa's Growth Strategy'. Briefing Paper, The Royal Institute of International Affairs, Southern Africa Study Group, 49, July 1998, pp.1-2.

<sup>38</sup> *Ibid.*

productivity-linked wage increases.<sup>39</sup>

The various means by which the GEAR strategy was to be implemented included privatisation, investment incentives, budgetary reform, public service restructuring, labour market reforms, the lifting of exchange controls and social accords between labour, government and business.

There have been criticisms of GEAR; yet there are those who assess its performance positively. 'In several respects, however, GEAR has proved flawed. Not only has it failed to deliver on many of its promises, but it has also exposed serious policy deficiencies and dilemmas.'<sup>40</sup> It is argued that there are serious gaps between rhetoric and policy in key areas like the labour market and privatisation and, more generally, the inconsistency between policy-making and implementation. Critics claim that in order to secure wider political acceptance, the government has made major concessions. There is also criticism of the fact that after promising a 'shift' of resources on a grand scale into the trade sector of the economy, particularly in manufactured goods, the government has been unable to do so. Furthermore, rising unemployment and inadequate growth continue creating political and economic difficulties. Blumenfeld warns that any back-tracking on the fiscal front will be mercilessly punished by the markets. In fact some argue that there is already such a back-tracking, which has led to deflation and 'the recent "assault" on the Rand is one such example.'<sup>41</sup> The ongoing speculation on the rand may lead to, or might be a reflection of, the investors' demand for further reassurances from the South African government concerning its policy intentions, particularly *vis-à-vis* privatisation and the labour market.

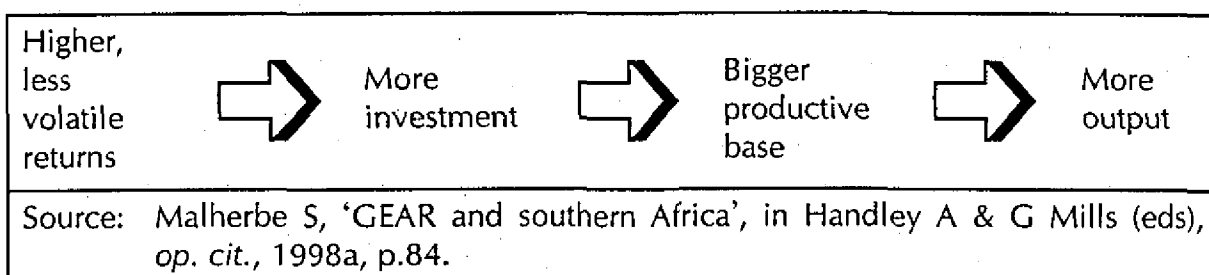
GEAR is an explicit response from the South African government to the challenges of an open global economy. But perhaps due to an incomplete understanding of the implications of the global economy, this response will not bring South Africa up to its potential growth rate, or to the rates projected in GEAR. It is a programme based on the following simple logic:

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<sup>39</sup> Stals C, 'The South African Economy: An Evaluation', in Mills G & A Handley (eds.), *From Isolation to Integration? the South Africa Economy in the 1990s*. SAILA, Johannesburg, 1996, p.23.

<sup>40</sup> Blumenfeld, *op. cit.*, p.5.

<sup>41</sup> Osborn E, 'Why GEAR isn't Working: An Update', *Indicator South Africa*, 14, 3, Spring 1997, p.26.



GEAR works by increasing the returns, adjusted for volatility, of investing capital in South Africa: interest costs and the dollar costs of non-tradeables are lower, and taxes are in some cases lower, which is one of the reasons why capitalists like GEAR. They must be careful, of course: the trade element of the GEAR package creates a filter that allows these higher returns only for firms that have internationally competitive cost bases. But the fact remains, GEAR is aimed at improving the return on investment (ROI) to projects based in South Africa. The structural adjustment programmes in other African countries follow the same logic.<sup>42</sup>

At the heart of the GEAR strategy, then, lies the emphasis on increasing savings and also attracting more foreign inflows in order to increase levels of investment. The main device for increasing savings, particularly for private investment, is through a phased reduction of the budget deficit from 5.1% to three percent over the ensuing years. The objective is to increase investment by seven percent of GDP to 26%. This implies that an additional R43 billion either has to be saved domestically, attracted from abroad or got by some combination of the two. But that is only one part of the equation. Increasing savings without increasing actual flows into investment opportunities will merely result in a current account surplus. A dramatic increase in the number of bankable projects is needed. This, in turn, requires an adjustment either to productivity levels, to factor costs or to tax rates. It is at this point that GEAR is most vulnerable. The GEAR programme's main strategy, then, is to improve returns to investors by means of a reduction in the cost of non-tradeable goods in the South African market through the real exchange devaluation of about 20% which preceded its publication.<sup>43</sup>

Malherbe, however, takes issue with both GEAR's disappointed supporters and the critics from the Left on a more profound and central part of their argument: their view that GEAR has been a failure. GEAR, according to him, has accomplished its central mission. He separates the GEAR statement of

<sup>42</sup> *Ibid.*

<sup>43</sup> *Ibid.*, p.83.

principles from its policy programme. What matters is the policy programme and its prescriptions, which fall into three groups: hard, discretionary and indicative. The hard prescriptions are actions with particular parameters and a set timetable:

The most important of these are, of course, the deficit targets for the government budget. Discretionary prescriptions are definite undertakings that either in design or implementation leave considerable leeway to the line department involved. The tax relief scheme for investment is an example. The third category indicative prescriptions, is too broad to entail real prescriptions at all. They are, rather, indications of future political direction. The statements about labour market flexibility are indicative in nature.

... It is a stabilisation programme in the classical sense, consisting of fiscal contraction and institutional arrangements to bolster the credibility of monetary policy. The GEAR framework provided the political authorisation for the Manuel-Stals conduct of macro-economic policy which has dominated the country's economic policy making for the last 18 months. When evaluated as a stabilisation package, GEAR has worked well in difficult circumstances. Despite the dramatic currency collapses in Korea, Malaysia, Thailand and Indonesia, the Rand shrugged off the threat of contagion, averaging a respectable R4.62 to the Dollar during 1997. The year ended with a net inflow of foreign private capital for the year of 1.5% GDP. Foreign exchange reserves were up significantly from a year earlier.<sup>44</sup>

It can then be argued that GEAR is not so much a *growth* as a *stabilisation* programme. Malherbe asserts that due to the progress on government expenditure, talk of a debt trap has receded. Most impressive has been the fall of inflation, as measured by the consumer price index (CPI). CPI growth peaked in April 1997 at 9.9%, but fell to below six percent where it stayed for much of 1997. GEAR then remained a successful stabilisation package. Countering the arguments of opponents of GEAR, who he thinks are out to discredit the whole programme, Malherbe argues:

Compare Asia. It is conservatively estimated that US\$1 trillion ... of value was lost in Asia between the middle of last year and January 1998. South Africa, home of a fragile polity, politicians on the right and left tempted by easy publicity, and an élite rubbed raw by crime, cannot afford that kind of calamity. And that is exactly what GEAR enabled South Africa to steer clear of.<sup>45</sup>

In identifying GEAR's broad policy themes as improved macro-economic balance and fiscal discipline; increased competitiveness and greater openness to international flows of goods and finance; and greater market liberalisation,

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<sup>44</sup> Malherbe S, 'GEAR', in *South African Year Book of International Affairs*, 1998/99b. Johannesburg: SAILA, 1998, pp.274-5.

<sup>45</sup> *Ibid.*, p.276.

the critics concede some of its policy successes:

It is widely acknowledged that the government has made significant strides towards delivering improved macro-economic balance and greater openness. By any standards, the political commitment to achieving fiscal discipline has been impressively unwavering, particularly given the obvious pressures on the state to deliver more, rather than less, by way of public expenditure. Moreover, although the interim budget deficit targets have not been fully achieved, the downward trend has been maintained. The government has also demonstrated its determination to continue the gradual lifting of exchange controls on residents — a process that, to date, has been skilfully managed. However, the above successes have been not been unqualified. There is still considerable uncertainty, for example about the privatisation process ‘... Moreover, evidence persists of continuing prevarication within the government over the speed and possibly over the principle — of privatisation.’<sup>46</sup>

The GEAR strategy has also been endorsed by a recently retired bureaucrat of the IMF, who argues that the prestige of the new South Africa reaches deep into the African continent. Other countries in Africa look southward for leadership. South African know-how and capital will play their part in the development of the region, for the South African achievements of financial consolidation and peaceful political transition are impressive:

GEAR with its design of enhancement and the outline of needed structural reform in the field of trade, the labour market, land reform, as well as in the social spheres of health, education and skills enhancement, provides the strategy and the road map. South Africa’s success in implementing the GEAR strategy could be of immense interest to many developing countries.<sup>47</sup>

### **South Africa and structural adjustment**

An ongoing debate exists in South Africa regarding globalisation and the role that is, or ought to be played by the World Bank and the IMF in its economic restructuring. While the relations between the South African government and the two organisations are still ambivalent, the approaches inside and outside the government range from the positive and conciliatory to the suspicious and even hostile.

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<sup>46</sup> Blumenfeld, *op. cit.*, p.4.

<sup>47</sup> Van Houtven L, ‘Economic Globalisation and Policies for Sustainable Development’, in *South African Journal of International Affairs*, 6, 1, Summer, 1998, p.82.



It is appropriate here to mention the view of the IMF *vis-à-vis* South Africa. This is expressed by Van Houtven,<sup>48</sup> who believes that: the strengthening of co-operation between South Africa and the IMF could have a beneficial impact on the broader African region and contribute to the African Renaissance; that a continuing and beneficial dialogue between South Africa and IMF would help mutual confidence to blossom; and that the IMF has for many years given much attention to the African continent, because it accounts for about 30% of its membership and because the need of the continent, both human and financial, is so great. The IMF devotes more surveillance and technical assistance resources to Africa than to any other continent. Around 10 years ago, the IMF established the Enhanced Structural Adjustment Fund (ESAF) to provide concessional assistance to low-income developing countries that implement strong macro-economic and structural adjustment policies. About two-thirds of the ESAF programmes that have been applied to African countries are making important contributions to strengthen the quality of policies and to enhance growth in the continent.

On the South African side there are those who believe that World Bank and IMF involvement is beneficial; and yet there are those who see it as detrimental to economic development in the country. The difference in perceptions concerning the nature of the IMF/WB and their impact on the globalisation and economic performance of the country is visible in the published debates.

The 'liberal' argument emphasises that the IMF and the WB are essentially friendly institutions which could bail South Africa out of a balance of payment crisis if necessary; and that if South Africa broadly followed IMF guidelines, even without an actual implementation of the structural adjustment programme, economic growth and development would follow.<sup>49</sup> There is an acceptance here of the assumptions of the WB and IMF's economic policy and the concomitant liberal division of politics and economics, without going into any detail on their implications (which are that the state has to play the role of facilitator in creating profitable and favourable markets globally).<sup>50</sup>

Some are of the view that IMF and WB relations with South Africa are a reality

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<sup>48</sup> *Ibid.*

<sup>49</sup> Jacobs J, 'The IMF and South Africa: Implications for Fiscal Policy', in Leysens A (ed.), *The Political Economy of South Africa's Relations with the International Monetary Fund and the World Bank*. Centre for International and Comparative Politics, University of Stellenbosch, Konrad-Adenauer Stiftung, 1994.

<sup>50</sup> Naude S, 'Evolving international Trade Policy in South Africa', in Leysens A, *ibid.*, 1994.

and may intensify, but that there is a need for an active state participation in the economy as a regulator, distributor, mediator and that a strong 'social contract' between the state, the private sector, and labour exists.<sup>51</sup> Those less critical of the international financial institutions (IFIs) perceive the IMF's role as being a lender of last resort if the country experiences economic problems, for example excessive state expenditure or deficit. They do not perceive the relation between the state and the IMF as threatening, because such a relationship can be on a 'voluntary' basis. South Africa does not have to accept the SAPs. What South Africa needs is access to the IMF, even if on a short-term basis, to manage BOP deficits resulting from gross mismanagement of the economy. Borrowing therefore does not necessarily imply accepting SAP conditionality. This view has strong support from the private sector.

However, there exists a serious concern about the linkage between the IMF and the WB. Some economists have categorised the IMF as the 'bad cop' and the WB as the 'good cop'. They also point out that WB funding is 'conditional on the acceptance of IMF SAPs and criticise the private sector and pre-apartheid finance and trade bureaucracies for NOT seeing this link.'<sup>52</sup> They argue that the ANC government must take into account the experiences of other African countries as well as the opinion of labour and business when dealing with the IFIs. Since these institutions have particular ideological and economic interests, it is vital to negotiate before drawing any developmental plan. There should be transparency regarding the nature and extent of any relationship with lending institutions.

In 1994 the representatives from the Department of Finance and Trade and Industry (DTI) admitted that the IMF had particular ideas about what needed to be done. For example, in the annual consultations, the IMF advised the scrapping of exchange controls. This however, was not supported by the representative of the Finance Department.<sup>53</sup>

There is scepticism among many as to whether there can be a real *depoliticisation* of macro-economic policy formulation leading to a unified approach between the government, private sector and labour, particularly with reference to economic restructuring as well as income redistribution.

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<sup>51</sup> Oliphant T, 'The Implications of IMF Involvement for Labour in South Africa', in Leysens A, *ibid.*; Ruiters T, 'The Implications of IMF Involvement for Labour in South Africa: COSATU's View,' *ibid.*; and Liebenberg J, 'Implications of IMF Involvement for Business/Labour Relations', *ibid.*

<sup>52</sup> Leysens A, *ibid.*, p.134.

<sup>53</sup> *Ibid.*, p.139.

COSATU, rejecting the economic orthodoxy of the IMF and WB, argues that SAPs do not improve the economic conditions of the majority.<sup>54</sup> Others warn that should SAPs be implemented in the future, inadequate negotiating skills between government and labour can lead to strikes and political unrest.<sup>55</sup>

A more radical posture towards the IMF/WB considers its involvement in South Africa as interference at best, at worst neo-colonialism. For Professor Ben Turok, an ANC member of parliament, the IMF's altruism is suspect:

South African policy makers need to understand that ... the IMF support for balance of payment crises is not an act of charity, but a business deal between an international financial institution and a state ... SAPs cannot inhibit the much needed development policies which have to be formulated and implemented. Therefore, relations with the IMF and the well considered acceptance of some sort of SAP should be coupled to domestic development strategies. This is what is meant by alternative policies. Macro-economic policy should focus on production. At the same time, there is room for a certain degree of supply-side economics ... The productive element required, in order to generate goods and capacity and resources, is the major challenge for South Africa. This requirement is not part and parcel of IMF policies. A South African strategy, based on domestic development needs, will generate enthusiasm and hope among the majority.<sup>56</sup>

Turok also questions the IMF 'agenda' in South Africa; he believes that the IMF needs a 'success story' in Africa, and South Africa is seen as having the potential to show other African states that SAPs can work. Furthermore, the IMF needs a base in Africa from which to ensure that 'free market' principles are espoused and implemented, both regionally and on the continent, attaching conditionalities to lending to Africa 'on the basis of purchases from South Africa'. He warns that liberal orthodoxy might bring short-term gains for the country, but in the long term it may have a negative effect on its relations with other African states.<sup>57</sup>

Any attempt to appease the IMF by simply taking on board all their familiar orthodoxy (believing that there is no other option in the current national and global conjecture) will have disastrous consequences for South Africa's poor, disadvantaged and marginalised communities. However, this does not suggest that some kind of agreement with the two institutions is not essential. A well-planned approach is needed in negotiating with the IFIs, based on a clear

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<sup>54</sup> Ruiters, *op. cit.*

<sup>55</sup> Leibenberg, *op. cit.*

<sup>56</sup> Turok B, 'South Africa's Relations with IMF', in Leysens A, *op. cit.*, pp.79-81.

<sup>57</sup> *Ibid.*

alternative strategy which has the support of the South African majority and which would avoid fragmentation and division in conducting such negotiations. Borrowing should only be undertaken if alternative and cheaper sources (both local and global) are not available. Exchange rate, trade and industrial policies must be developed which can avoid BOP deficits, and funds from the IFIs must be utilised in a most beneficial way towards long-term capacity to develop South African foreign exchange earning and capital stock.<sup>58</sup>

One of the sharpest criticisms of the IMF's claim to political neutrality and public support for multiparty democracies is the fact that in recent years the Fund has historically accommodated and favoured right-wing parties, whose actions and policies in some cases have led to the overthrow or electoral defeat of left-leaning governments. Examples cited are Ghana, Chile and worst yet, Yugoslavia. In the 1980s the economy of the latter evinced all the ingredients of typical Fund/Bank solutions: wage restraint, liberal trade/capital movements, privatisation, deregulation, and federal political solutions, which constrained the government's attempts at redistributing income and investment from a national level and perpetuated the gap between rich and poor regions. Yugoslavia was also a 'success story' which the IFIs loudly praised at the time.<sup>59</sup> Such critics claim that the IMF has found it easier to deal with authoritarian, undemocratic regimes who have fewer qualms about executing the specific monetaristic, *laissez faire* philosophies of the IFIs. In fact, in 1994 Edward J Cox, the Vice President of the World Bank, is quoted as having said in a speech that the World Bank staff have been a 'systematic destructive force in Africa'.<sup>60</sup>

### **South Africa and regional integration/regionalisation**

While regional co-operation continues in many sectors, several of the most important pending decisions and new departures lie in the area of trade. While recognising the significance of regional co-operation, South Africa cannot ignore the fact that the region suffers from acute imbalances, unevennesses and inequities. Not only do the size and level of development of economies of different countries in southern Africa vary, but the historical

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<sup>58</sup> Padayachee V, 'The IMF and Democratisation in Post-Apartheid South Africa', in Leysens A, *op. cit.*, pp.62-63.

<sup>59</sup> Padayachee, *ibid.*; Amin S, 'South Africa in the Global Economic System', in *Work in Progress*, February 1993b.

<sup>60</sup> Quoted in Turok, *op. cit.*, p.75.

pattern of interaction in the regional economy has been uneven. Essentially the main poles of accumulation were located in South Africa, while the other economies were incorporated in 'subaltern' roles as providers of migrant labour, services, and as 'captive markets' for higher South African products. The Southern African Development Community (SADC) maintained in 1992 that the region's dependence on South Africa was essentially a result of the apartheid legacy. Historically the colonial era saw the emergence of a form of capitalism in southern Africa that produced a high level of structural integration between South Africa and the regional economy. Whatever the precise causes, the South African economy dominates intra-regional trade in particular. In 1995 alone, approximately 75% of the total GNP for southern Africa was produced in South Africa, which recorded gross national product per capita levels 258% greater than the regional average.<sup>61</sup>

Table 1 and Table 2 illustrate South African dominance in the region. The question that needs to be asked is, How can regionalism be promoted, in the face of the striking inequalities in the southern African region, that is the predominance of a semi-industrialised state over other, more marginalised southern African economies?

	<b>South Africa</b>	<b>SADC * (including South Africa)</b>	<b>SA %</b>
Population (mn)	39	135	29
GNP (US\$bn) (1995)	125	165	76
GNP per capita (US\$) (1995)	3160	1255	258
Exports (US\$bn) (1995)	27.9	40.3	69
Imports (US\$bn) (1995)	30.5	44.6	68
Port traffic (mt) (1991)	104.6	116	90
Rail freight (mt) (1998-90)	183.4	214	86
* SADC total refers to SADC 12 and excludes the Democratic Republic of Congo and Seychelles. Source: The table has been adapted by Gibb R, 'Southern Africa in transition: Prospects and problems facing regional integration', in <i>The Journal of Modern African Studies</i> , 36, 2, June 1998, p.291, from its original version by Gelb S, 'Transport issues in southern Africa', in <i>Looking Sideways: The Specifics of South-South Co-operation</i> . Johannesburg: SAILA, 1998.			

<sup>61</sup> Gibb R, 'Southern Africa in Transition: Prospects and Problems Facing Regional Integration', in *The Journal of Modern African Studies*, 36, 2, June 1998, p.290.

In August 1996, in response to South Africa's tariff liberalisation offer to its neighbours, the SADC Heads of State or Government committed themselves to creating a Free Trade Area (FTA) in southern Africa within eight years of implementation. However, only a few countries signed the treaty protocol. In September 1998, the South African offer to the region was finally made in the form of a comprehensive proposition on behalf of the Southern African Customs Union (SACU), which includes Botswana, Lesotho, Namibia, South Africa and Swaziland. Since the bulk of SACU trade is predominantly South African, the offer is essentially a South African one. The Department of Trade and Industry (DTI) hoped that the protocol will be implemented by June 1999. It is now hoped that it will be implemented sometime in 2000.

<b>Table 2: South Africa's Trade in US\$m with southern Africa (1994)</b>			
	<b>Exports to</b>	<b>Imports from</b>	<b>Balance</b>
Botswana	1149.2	156.1	993.1
Namibia	1117.8	389.6	728.2
Swaziland	775.9	316.2	459.7
Lesotho	755.4	59	696.4
SACU Sub-total	3798.3	920.9	2877.4
Zimbabwe	677.5	281.4	396.1
Mozambique	387.5	25.3	362.2
Zambia	319.2	53.4	265.8
Malawi	171.6	51	120.6
Mauritius	149.1	4.2	144.9
Angola	85.9	4.7	81.2
Tanzania	50.5	4.4	46.1
<b>SADC Total</b>	<b>5639.6</b>	<b>1345.3</b>	<b>4294.3</b>
Source:	South African Department of Trade and Industry, calculated and cited in Gibb R, <i>ibid.</i> , p.291.		

The question that was being asked was how best to promote regionalism, in the face of striking inequalities in the region, given the predominance of a semi-industrialised state, that is, South Africa and the existence of marginalised southern African economies.

Table 3 is a summary of the SACU offer for trade liberalisation. It is hoped that most of the products will be liberalised from tariffs over ensuing years.

There are various reasons for the delay of regional economic integration in southern Africa, the chief factor being that South Africa has been negotiating a Free Trade Agreement (FTA) with the European Union (EU) since 1994. The South African government wanted to negotiate an FTA with Europe in such a way that it did not adversely affect the southern African region at large. It has been a very daunting task for the DTI, to negotiate two FTAs simultaneously with SADC and the EU, hence the slow movement on the protocol on the government's part.

Products	Current tariff	Implementation Period
Meat, vegetables, nuts, cereals, tobacco, pulp, chemicals, minerals, rubber, wood, paper products, cotton, fruit	1% - 17%	Immediate
Fabrics, semi-precious stones	18% - 25%	3 Years
Fabrics, carpets, vehicle parts	26% and up	5 Years
'Sensitive products': wheat, dairy products, sugar, clothing, leather, footwear, vehicles	Maximum	To be negotiated

Source: Bertelsmann T, 'Trade Integration in southern Africa', in *South African Journal of International Affairs*, 6, 1. Johannesburg: SAIIA, 1998, p.48.

Furthermore, South Africa fears that the fragile industries in the region will suffer once it enters into an FTA with EU. Border controls are weak, so cheap European products could filter through to SADC countries. South Africa therefore demands that the EU provides a guarantee that the region will not suffer. As no guarantees are offered by Europe, the process gets slower. The effects of the FTA are also difficult to predict. While Europe adamantly refuses to change its negotiating mandate, the South African government cites the EU as an example for southern African integration.

Although it is a dangerous thing to do...these aspirations are reflected in South Africa's approach to negotiations: impressed by the EU's relenting attitude towards its mandate, South Africa is turning towards its neighbours for similar support. However it remains a debatable issue whether South Africa or southern Africa's position is strengthened or weakened by this approach.<sup>62</sup>

South Africa's current policy stance is therefore based on the recognition that these inherited patterns are undesirable as well as unsuitable. The renegotiation of SACU is one manifestation of this recognition. 'Development integration' is one approach to combine sectoral co-operation, policy co-

<sup>62</sup> Bertelsmann T, 'The SA-EU FTA and southern Africa', in Handley A & G Mills (eds.), *South Africa and Southern Africa: Regional Integration and Emerging Markets*. Johannesburg: SAIIA, 1998, pp.74-77.

ordination and trade integration in a way that would prevent asymmetrical polarisation while complementing efforts to promote co-ordinated regional industrial development, greater access to regional markets and fiscal incentives for less developed members of SADC.<sup>63</sup>

A sound financial system in SADC that will be less vulnerable to 'systemic crises in the global economy' is another prerequisite in accelerating growth and employment in the region. South Africa has been honoured by SADC to play the role of co-ordinating the Finance and Investment Sector, to which this country has responded by establishing a Sector Co-ordinating Unit in the Ministry of Finance and a Committee of Central Bank Governors to pursue co-operation in the monetary sector. The South African Reserve Bank is to play a pivotal role in co-ordinating the functions of the central banks in SADC's overall objectives through its Committee of Governors. The key objectives in this respect are: *flexibility* to continue to allocate financial resources efficiently, and *resilience* to function and effect payments and settlements among the users reliably and expeditiously, regardless of any changes in the economic environment, which will vary from country to country depending on the degree of institutional and market infrastructures; the functioning of the markets; and regulation and supervision of the system to ensure compliance with prudential requirements in order to avoid systemic risks.<sup>64</sup>

In July–August 1996 the terms of reference of the Committee of Governors were approved by the Ministers of Finance and the SADC Council. The projects that were embarked upon included: the development of a monetary and financial statistical database for SADC countries; review of the structures and policies of SADC central banks; development of payment, clearing and settlement systems in SADC countries; determining the impact of exchange controls on the cross-border flow of goods, services and capital; repatriation of banknotes and coins; co-ordination of training of central bank officials in SADC and finally, co-ordination of information technology.

In the financial sector, co-operation in SADC is moving at a fast pace among the central banks, the stock markets and the banking associations. Private capital for investment is beginning to move across the borders from South Africa to other SADC countries. The potential for more investment is large. The commitment and determination of the governors to build a robust financial infrastructure that will facilitate regional integration of the markets and policy harmonisation later is unwavering. Hopefully the private sector will adopt the same vision of a region that can provide the preconditions for acceleration of

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<sup>63</sup> Davies R, 'South Africa and southern Africa', Handley & Mills, *ibid.*, p.42.

<sup>64</sup> Thahane T, 'Financial Sector Co-operation in SADC', Handley & Mills, *ibid.*, p.55.



growth and improvement in the living standards of all the peoples of southern Africa.<sup>65</sup>

## Conclusion

In a speech made to the World Economic Forum (WEF) in Davos, Switzerland on 29 January 1999, President Nelson Mandela said:

... like all trading nations our own growth depends critically on growth in the world economy. When we can least afford it the current crisis has had a very real impact on our growth rate, as it has across the world. Our own long term structural development also depends on all of southern Africa and Africa achieving the same and on our building economic ties and development co-operation amongst ourselves.

We are making sure but steady progress overcoming the colonial legacy of poor links, including transportation links, between our economies. Cross border co-operation with our neighbours to promote investment and development grows by the month. We will make progress this year toward a Free Trade Agreement in the SADC.

But much as we have advanced in these and other ways, continuing conflicts are hampering development. The gains we are making could be jeopardised, not only in the countries directly involved but more generally, such is the interdependence of all our countries ...

One of the greatest effects of this African Renaissance will be the reintegration of the African economies into the world economy no longer as dependent participants ... A profound and fundamental question, as to whether the world economy in its current structure will allow this reintegration... is seldom asked, since it is the weaknesses in Africa and the developing world that are usually put under the spotlight. But it is an essential question. For Africa to re-integrate, its economies must industrialise and modernise, and their success in doing so will depend on the framework within which this occurs ...<sup>66</sup>

The conclusions drawn in this paper are at best tentative directives for an ongoing search for a framework for South African globalisation and regional integration. Some lessons derived from this research however, are:

1. Globalisation for South Africa is a *necessary* but *insufficient* condition for economic development. Globalisation is *not* an unstoppable 'cosmic law' nor a supra-human process created by abstract and uncontrollable market forces. It is a societal construct shaped and driven by inter- and transnational processes which are cultural, economic, technological and

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<sup>65</sup> *Ibid.*, p.58.

<sup>66</sup> Mandela NR, *Address by President Nelson Mandela to the World Economic Forum (WEF)*. Davos, Switzerland, 29 January 1999, Office of the President.

political<sup>67</sup> and any serious analysis of this phenomenon should take these into account.

2. While the budget announced by Trevor Manuel, the Minister of Finance, on 17 February 1999 was attacked by the opposition for not allocating enough funds to crime control,<sup>68</sup> it was also hailed in some quarters of the private sector for having the ability to 'launch the start of a gradual policy shift to a more growth-friendly environment aimed at faster economic growth and improved job creation.'<sup>69</sup> Even though the performance of GEAR to date has been more a stabilisation than a growth programme, the problems of unemployment through growth remain a formidable task. The experience of 'jobless growth' from 1994 to 1996 brought home the message that economic growth does not necessarily reduce unemployment. Although job creation stands at the centre of GEAR strategy, the question still remains whether GEAR can reduce social inequality. The measures for which GEAR has been harshly criticised by the Left, that is, unloading the duty of economic salvation on to the shoulders of the private sector, have been hailed in the business community. While going for a 'gradual' and complete removal of exchange controls, GEAR will encourage foreign investors to gain easier access to domestic credit, allowing wholly foreign-owned firms to borrow up to 100% of shareholder equity. Furthermore, the concessions and ongoing promises of relaxation of controls to residents may have far-reaching implications. While local finance capital waits to escape from domestic constraints and gain access to global financial circuits, this could lead to unpredictable patterns of domestic capital investment and massive flight of local capital, as Herbst has warned. This will render GEAR hostage to the vagaries of finance capital, while simultaneously reinforcing the dualistic nature of the South African economy.
3. There is widespread recognition of the benefits to be derived from regional collaboration in the countries of southern Africa. Governments throughout the region support the idea of closer economic co-operation as a means of promoting economic development. However, to transform this desire into a well-functioning institutional reality will be a slow and arduous process. Regional integration cannot be understood in isolation from developments

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<sup>67</sup> Keet D, *op. cit.*, p.3.

<sup>68</sup> Stuart B, 'Crime Budget Not Enough'. Headlines in *The Citizen*, Johannesburg, 18 February 1999, p.1.

<sup>69</sup> Von Lieres V, quoting Rian le Roux, Head of Economic Research at Old Mutual Asset Managers (OMAM) in 'Business Policy Switch Likely for Manuel', *The Star Business Report*, Johannesburg, 17 February 1999, p.6.

taking place in the current global trends and regionally specific circumstances. It must go beyond trade agreements, because cross border natural resources, water, environment, health, social and cultural relations are equally important for sustainable development and stability. Trade policies cannot be immune to these other factors.

A very important factor influencing regional integration will be the inequality that exists between South Africa and southern African states. Apartheid economics forced the core areas of capital accumulation to focus on South Africa, while other states were marginalised to function as 'service economies'. Given South Africa's relative economic strength, it dominates intra-regional trade. However, it stands in a difficult position, balanced between developed and developing country status. On the one hand this leads to legitimate fears among policy makers as well as the intelligentsia that liberalisation of its domestic market will lead to significant job losses in a *not* very competitive labour-intensive industry; on the other hand, South Africa is anxious to gain access to the main markets of the industrialised West through multilateral negotiations. Southern Africa's striking inequalities raise the question of how best to promote regionalism while developing institutional monitors which will *maintain equity in such a process*. This calls attention to the controversial issue of redistributive mechanisms and compensatory payments.<sup>70</sup> Due to South Africa's relative superiority many regional states originally hoped that a post-apartheid regime would replace their previous 'donors' by providing investment capital and aid. However, because of its own unfavourable economic performance in the last decade, South Africa's capacity to support significant transfers of resources in favour of the least developed states in the region is doubtful as well as unrealistic. Although the prospects have improved since 1994, fundamental structural impediments remain.

4. The relationship between regional economic integration and multilateralism — the latter being one of the chief regulatory mechanisms for globalisation — is a very contentious issue in current economic debates. While developing country regionalism does not pose a threat to multilateralism (because most developing country regional arrangements are too weak and limited in scope), there is great deal of scepticism in the reverse direction. Does multilateralism threaten regional integration? According to the Overseas Development Institute in London, Africa is the only region in the world that is likely to experience reduction in overall welfare levels as a direct result of WTO multilateral trade liberalisation.

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<sup>70</sup> Gibb R, *op. cit.*

The contentious issue of WTO and regional integration can take much space and time and has not been dealt with comprehensively here. However, it is important to mention here that whatever may be the complexities of the issue, fully effective strategies have to include more concerted political engagement with external forces and more skilful interventions in international institutions. SADC in December 1996 called upon the WTO to be flexible enough in its application of rules to accommodate efforts being made by developing countries to work towards economic integration. However such appeals will remain ineffectual unless related to direct WTO clauses and provisions. There is an urgent need to challenge the mainstream wisdom that regional integration must reinforce globalisation, whereas the reverse should be the case. It is global processes that must support and accommodate regional strategies for poorer countries, not the other way around. Thus southern African integration cannot be understood in regional terms alone; it will be determined by the circumstantial complexities of regional as well as global character. Regional economic integration cannot, then, depend solely on trade liberalisation, but also on corresponding strategies of industrial development and the ability to deal with the problem of polarised development and imbalances in regional trade. Fortunately this is one of the main items on the South African FTA negotiations with the European Union before it signs the SACU protocol.

There are benefits and costs of integration into the world economy, be they regional or global. As mentioned earlier, these costs and benefits range from the economic and political to the cultural and military. For developed countries the distinction between the domestic and international economy has blurred, but this is not true of developing countries where globalisation may promote growth but also reinforce uneven development. Exposing weak local industries to international competition can lead to their further decline instead of progress. Furthermore, the benefits of globalisation are long term, whereas the local electorate's expectations are short term, which can bring a host of problems if a balance between the two is not kept by local policy makers. It is therefore *essential* at the policy-making level to accommodate globalisation at a speed that can match national aspirations with the demands of global trends. Accepting harsher global economic programmes based on the principle of 'hierarchical implementation,' for the domestic economy without taking into consideration culturally specific political ideals can only lead to a superficial international integration and in extreme cases to economic disintegration, as occurred in Indonesia, Russia and Yugoslavia.

5. As far as the structural adjustment programmes and South Africa are

concerned, not accepting a typical SAP package would in the long term affect South Africa positively.

On 7 January 1998, at the WIDER Annual Lecture in Helsinki, Joseph Stiglitz, the senior vice-president of the World Bank astounded the world by lambasting the Washington consensus (structural adjustment), which he said had failed.

... the policies advanced by the Washington consensus are not complete, they are sometimes misguided. Making markets work requires more than just low inflation; it requires sound financial regulation, competition policy, and policies to facilitate the transfer of technology and to encourage transparency, to cite some fundamental issues neglected by the Washington consensus ... The more dogmatic versions of the Washington consensus fail to provide the right framework for understanding either the success of the East Asian economies or their current troubles. Responses to East Asia's crisis grounded in these views of the world are likely to be, at best, badly flawed and, at worst, counterproductive ...

... Other essential ingredients were also left out or underemphasised by the Washington consensus. One — education — has been widely recognised within the development community; others, such as the improvement of technology, may not have received the attention they deserve.

The success of the Washington consensus as an intellectual doctrine rests on its simplicity: its policy recommendations could be administered by economists using little more than simple accounting frameworks. A few economic indicators — inflation, money supply growth, interest rates, budget and trade deficits — could serve as the basis for a set of policy recommendations. Indeed, in some cases economists would fly into a country, look at and attempt to verify these data, and make macro-economic recommendations for policy reforms all in the space of a couple of weeks...

I will discuss macro-stability and liberalisation — two sets of issues which the Washington consensus was concerned about ... I shall argue that Washington consensus' message in the two core areas are at best incomplete and at worst misguided. While macro-stability is important, for example, inflation is not always its most essential component. Trade liberalisation and privatisation are key parts of sound economic policies, but they are not ends in themselves.<sup>71</sup>

6. South Africa cannot be rushed into a globalisation frenzy without simultaneously addressing the urgent problems of crime and issues related to corruption, mismanagement, health, education, gender, environment and resource redistribution. The recent murder of a Daewoo executive in Johannesburg, and the assault on the High Commissioner of Canada in

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<sup>71</sup> Stiglitz J, 'More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus'. The 1998 WIDER Annual Lecture, Helsinki, Finland, 7 January 1998, pp.1-34.

Cape Town are signs that the targets of crime can also be overseas investors and diplomats.

Part of creating a more productive economy in South Africa will involve identifying ways which the government can become more effective to complement the market. The 1997 *World Development Report* uses data from 94 countries over three decades to show that it is not just economic policies and human capital *but the quality of a country's institutions* that will eventually determine the outcomes of its economy and the quality of life of its people. It will be those very institutions which create a favourable environment for a prosperous market to operate. This report endorses the fact that weak institutions lead to greater intervention and arbitrariness from the state.<sup>72</sup>

South Africa can improve the capabilities of the state by reinvigorating its institutions through: building administrative and technical capacity; further strengthening an independent judiciary, maintaining checks and balances through separations of power; giving competitive wage incentives to civil servants; attracting professionals into the government and the private sector; and instituting norms that provide officials with incentives to act in the collective national interest while restraining corruption.

In conclusion, I recommend that 'a people- rather than an élite-centred' globalisation in South Africa can grapple more adequately with the issues of growth and social inequality rather than the old-fashioned paradigm of the rich getting richer and the poor waiting for the benefits to trickle down.

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<sup>72</sup> Stiglitz J, *op. cit.*, p.28; World Bank, *World Development Report 1997: The State in a Changing World*. New York: Oxford University Press.

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