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MERCOSUR & SADC Regional Integration in the South

by

Talitha Bertelsmann-Scott
and
Claudia Mutschler

SAIIA



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Mercosur/Mercosul and SADC: Regional Integration in the South

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Talitha Bertelsmann-Scott
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Claudia Mutschler

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Preface

The post-Cold War world has brought many unexpected challenges. Contrary to the expectation of some, it has not ushered in an uncontested formula for economic and social advancement — as Francis Fukuyama suggested in his widely-read 1989 essay on 'the End of History'.

However, if anything, the post-Cold War world has seen the end of a political geography into which two generations of schoolchildren had been educated. Rapid improvements in technology have undoubtedly made the world a more accessible place. The information super-highway and the phenomenon of globalisation have combined to create an environment of accelerated change, perforated state borders and increasing power for the non-state actors, particularly those able to influence the international financial systems.

The process of globalisation is sustained by, and produces, national and regional interdependencies. But in contrast to the Cold War emphasis on regionalism in the form of collective security arrangements, there has been a new emphasis on regional economic groupings. Some entities have progressed to take on new forms (such as the European Union), while the 1990s has seen the rise of a set of other institutions, such as North American Free Trade Agreement (NAFTA), the Asia Pacific Economic Community (APEC), the Indian Ocean Rim Association for Regional Co-operation (IOR-ARC), the Southern African Development Community (SADC), the Economic Community of West African States (ECOWAS), the Southern Common Market (Mercosur), the Andean Community of Nations, and so on. The end of the Cold War has made it possible once more for regions to rediscover and strengthen these links. It is broadly acknowledged that in this process the development of economies (including those in Africa) cannot occur in isolation.

Furthermore, this process has not assumed the nation-state to be the only possible engine of regional integration; it has also involved the development of new transnational organisations which operate across state boundaries. The Maputo Development Corridor is an example of this process in Southern Africa.

Twenty years ago the southern part of Latin America was an economic and political backwater. Today, military dictatorships and tariff protectionism have given way to civilian democracies and at times hostile bilateral relations have yielded to a remarkable increase in trade.

The move towards regional market integration in Latin America came largely from two sources: first, through domestic liberal macro-economic reforms which coincided with a period of increased international market interest in developing economies and provided a push for reduced state intervention and greater openness; and second, through the creation of the Mercosur in 1991.

The establishment of Mercosur has involved a two-stage process: in a transition period until 1994, tariffs were gradually removed from 85% of regional trade. Then,

in 1995, Mercosur's customs union came into effect. A Common External Tariff (CET) has been established, with each country being allowed to exempt 300 goods (399 for Paraguay) temporarily, with a tariff convergence deadline in 2006. Today Mercosur's average tariff is 14%. The reduction in protectionism has resulted in a massive increase in intra-regional trade from US\$4 billion in 1990 to over US\$20 billion in 1997.

By comparison, the Southern African Development Community has moved ahead in fits and stutters. By January 1998, only one state (Botswana) had ratified all of its eight key protocols, while the protocol to establish a free trade area by 2004 had been ratified by just three countries. Its central institutions remain only as strong as the political will of its members; yet as events in Lesotho and Angola and the Democratic Republic of Congo (DRC) indicate, some are locked into combinations of personal political rivalry, civil wars and transitions from authoritarian rule.

With this backdrop in mind, the conference on *Mercosur/Mercosul and SADC: Regional Integration in the South* held on 27-28 October 1998 was set up with the intention of sharing regional integration experiences, with the aim of providing some answers (or insights) into a number of questions:

- First, is the current international environment conducive to regional integration?
- Second, what have been the experiences of both regions thus far? An audit of their respective progress may be instructive to understanding the next question,
- Third, how have problems confronting closer regional ties, including economic asymmetry and regional political instability, been addressed?
- Fourth, what has been the role of supra-national institutions in this process? Which should take precedence, the inter-governmental or the supra-national process of decision-making?
- Fifth, what are the functional areas around which it is possible to coalesce regional activities? Is it, in this regard, possible to speak of the need for a natural partnership for regional integration to be successful?
- Sixth, related to this point, we need to specify the conditions that encourage and/or affect the regional integration process. For example, what has been the role of macro-economic liberalisation in regional integration — is it a pre-requisite?
- Seventh, what is the role of personal relationships in regional integration?
- Eighth, what is the effect of other overlapping regional agreements, both bilateral and multilateral?

- Ninth, what should be the logic of regional free trade — should exclusions be permitted?
- Tenth, and finally, what are the opportunities for inter-regional co-operation?

Put simply, the conference was designed to provide an opportunity for a cross-fertilisation process between economies as they share experiences around regionalism and domestic structural reform.

This conference would not have happened at all had it not been for the hard work of our co-hosts — the Embassies and the Ambassadors of Argentina, Brazil, Paraguay, Uruguay and Chile — and for the willingness of all our speakers to travel, in some cases great distances, to attend.

The conference and this **Report** were the result of many able efforts, including those of Talitha Bertelsmann-Scott, Katy de Villiers, James Higgs, Pippa Lange, Claudia Mutschler, Raenette Taljaard, Heather Thuynsma and André Snyders.

Finally, I would also like to thank the sponsors of this conference, Daimler-Benz AG Germany, and in particular the foresight and vision of Michael Woerfel, in agreeing to support this initiative.

Greg Mills
SAIIA National Director
January 1999

1. Regional Co-operation in the South in the 21st Century: Mercosur and SADC

The rapidly evolving process of global integration and economic liberalisation, commonly referred to as 'globalisation', has accelerated the internationalisation of trade, investment flows and information transfers. These changes have given rise to questions about how states can best position themselves to compete in this increasingly interdependent international environment.

In the South, as elsewhere, one response to these questions has been the recourse to regional economic co-operation. The end of the Cold War has made it possible for states to rediscover the advantages of regional co-operation and has encouraged the pursuit of these as a tool to manage the exigencies of globalisation. Thus, the past decade has seen a remarkable renewal of interest in regional collaboration.

Among developing countries, two of the most important recent groupings to emerge are: the Southern Common Market — Mercosur¹ — in South America and the Southern African Development Community — SADC — in Southern Africa.

Mercosur was established by the Treaty of Asunción in March 1991. The grouping brings together Argentina, Brazil, Paraguay and Uruguay. (Bolivia and Chile joined Mercosur in 1994, as associate members.)

The Southern African post-apartheid context allowed the historically hamstrung Southern African Development Co-ordinating Conference (SADCC) to remodel itself into the Southern African Development Community (SADC) in July 1992 according to the Windhoek Declaration. SADC now consists of Angola, Botswana, the Democratic Republic of Congo (joined in 1998), Lesotho, Malawi, Mauritius (joined in 1996), Mozambique, Namibia, the Seychelles (joined in 1998), South Africa (joined in 1994), Swaziland, Tanzania, Zambia and Zimbabwe.

The SAIIA conference '*Mercosur and SADC: Regional Integration in the South*' essentially sought to answer three questions:

- What are the lessons to be learnt from regional integration in the cases of Mercosur and SADC?
- What are the prospects for intra- and inter-regional co-operation?
- How should this process be taken forward?

¹ In Portuguese, the acronym is Mercosul, but for the sake of clarity, the Spanish term Mercosur is used throughout.

1.1 Mercosur — The Latin American Success Story

In the scant seven years since Mercosur was established, it has become the most successful integration mechanism in Latin America.

As José Botafogo Gonçalves, the Brazilian Minister of Trade, Industry and Tourism, pointed out, against all expectations Mercosur has done remarkably well. To appreciate the enormous strides the region's economies have taken — in large part as a result of Mercosur — it is instructive to reflect on the Southern Cone of 1980.

In the 1980s the region's economies were marked by:

- high import tariffs;
- government administration of foreign trade — including the restriction of the import of certain products;
- foreign exchange rate policies aimed at supporting exports;
- the overriding presence of the public sector in the planning and operation of the economy; and
- the connivance between public and private interest for the preservation of an environment of protectionism.

These mechanisms for subsidising exports and curtailing imports contributed to low levels of intra-regional trade, especially in comparison with the trade figures of today.

- In 1980, the value of Brazilian imports was US\$756 million from Argentina, US\$91 million from Paraguay and US\$196 million from Uruguay. By comparison, these figures were equalled last year by Brazil's imports from Argentina in the month of June alone, from Paraguay in April and May, and from Uruguay between January and March.
- In 1980, trade exchanges between Brazil and its current Mercosur partners reached the equivalent of US\$2.8 billion. Today this amount has increased seven-fold, reaching almost US\$20 billion in 1997.

As Botafogo stressed, this figure is even more impressive when compared to the fact that Brazil's trade with the rest of the world increased only three-fold during the same period - from US\$43 billion in 1980 to US\$114 billion last year.

The remarkable increases in intra-regional trade reflect in large part the evolution of Mercosur. The reduction in protectionism resulted in a five-fold increase in intra-regional trade from US\$4 billion in 1990 to over US\$20 billion in 1997. In the transition period until 1994, tariffs were removed from 85% of intra-regional trade to create a free trade area. In that year, as Botafogo pointed out, Brazil's trade with its three Mercosur partners went above the US\$10 billion mark for the first time. In

1995, Mercosur proceeded to create a customs union with a Common External Tariff (CET) set at 11 levels, from zero to 20%. While Mercosur is at present an imperfect free trade area and an incipient customs union, the grouping is set to consolidate rapidly. From 1 January 1999, all remaining import and export tariffs on trade between Argentina and Brazil will be eliminated. A year later, the consolidated free trade area will be extended to Paraguay and Uruguay. And, by January 2001 (2006 for Paraguay) all exemptions to the CET will be removed, and all members will converge on the CET to consolidate the customs union.

The growing interdependence of Mercosur members is made apparent not only by their trade: Mercosur has also seen a sharp increase in intra-regional investment. Brazilian and Argentine investors have been the most active in this process. Bofafogo projected that within a year, two-way investments between Brazil and Argentina will have passed the US\$4 billion mark. Chile too has become an important regional investor, hence the decision in 1996 to join Mercosur as an associate member.

Bofafogo pointed out that Mercosur's momentum has given it a political and economic identity, both regionally and internationally. Owing to its economic success and speedy progress in the integration process, the grouping has considerably improved its negotiating position with other countries and groupings, as is shown by the following. Mercosur :

- concluded far-reaching free trade and economic co-operation agreements with Chile and Bolivia in 1996;
- opened discussions with the Andean Community to join all the South American economies;
- has signed an agreement with Canada to increase economic and trade co-operation and direct investment;
- has signed an inter-regional framework of co-operation agreement with the European Union; and
- is participating in the ongoing negotiations towards establishing the Free Trade Area of the Americas (FTAA) stretching from Alaska to Tierra del Fuego.

In short, Mercosur is recasting the position of South America in the global economy. After an absence of two generations, when the Southern Cone economies were mired in the dogma of state-run industry and state intervention in the economy, and protected behind high tariff walls, Mercosur has reaffirmed South America's position as a significant trader in the global market and as an attractive destination for investors.

1.2 The Southern African Development Community

While Mercosur was established in the early 1990s, SADC is a product of a much older regional process. SADC grew out of SADCC, which was established in April 1980 according to the Lusaka Declaration, which in turn was in large part a result of increased political co-ordination between the Front-line States.

As Prega Ramsamy, the SADC Deputy Executive Secretary, admitted, SADC still has 'hangovers' from the SADCC, such as the heavily decentralised system of operation and the approach of loosely co-ordinating the countries' economic activities as opposed to integrating the region's economies.

Ramsamy went on to outline the performance of SADC economies in terms of growth rates, monetary and fiscal policies, inflation rates, government budget deficits as a percentage of GDP, foreign exchange reserves, and general macro-economic management. From this outline it becomes apparent that SADC is a patchwork of widely divergent economies. On the one hand, the region boasts star performers such as Botswana and Mauritius, but on the other hand, SADC membership also includes numerous mismanaged economies. In Zimbabwe, for example, inflation is running at 40%, interest rates at 50%, and workers have taken to the streets repeatedly in recent months to protest at exorbitant fuel and food price hikes, and the average erosion of 60% in the value of their earnings since 1996.

Ramsamy expressed much concern over the slow pace of ratification of the SADC Trade Protocol, signed in 1996 which provides for the establishment of the SADC Free Trade Area within eight years. He pointed out that presently only four countries (Botswana, Mauritius, Tanzania and Zimbabwe) have ratified the Protocol.

Ramsamy commented that a major point of discussion regarding tariff liberalisation amounts for the economically divergent SADC members has been the determination of the schedule of tariff liberalisation. Thus far, trade ministers have approved the linear approach towards tariff liberalisation. The reduction of tariffs according to three different lists has also been approved. Consequently, the following have been agreed:

- immediate liberalisation of trade in products with low tariffs of up to 10% — which would allow the establishment of a partial Free Trade Area;
- gradual liberalisation for products subject to intermediate tariffs; and
- reduction and elimination of tariffs on sensitive products towards the end of the eight-year phase-down period of tariffs.

Also, South Africa's offer of an asymmetrical tariff liberalisation process, where South Africa liberalises at a faster pace than the other SADC members, has been accepted. In early November 1998, SADC finally took a decisive step towards regional trade liberalisation as formal negotiations on tariffs and sensitive products got under way.

It was also noted by Ramsamy that SADC states are members of a multitude of overlapping trade arrangements which involve different degrees of trade liberalisation amongst two or more SADC members. He maintained that this 'web of trade arrangements' has gone a long way towards freeing large portions of intra-SADC trade from tariff and non-tariff barriers.

In view of this so-called web of trade arrangements, the actual extent of trade integration as provided by a 1995 analysis of intra-SADC trade is sobering:

- Intra-SADC imports accounted for just 21.3% of SADC countries' global imports; 70% of this represents imports of the Southern African Customs Union (SACU) — consisting of Botswana, Lesotho, Namibia, South Africa and Swaziland.
- Only 2.8% represented non-SACU intra-SADC trade.
- Non-SACU SADC imports from the SACU sub-group accounted for 22.1% of intra-SADC trade, while the flow of goods from non-SACU SADC countries to the SACU sub-group represented only 6.8% of total intra-SADC trade.

Also, intra-SADC imports subject to tariffs higher than 10% accounted for no more than 3.2% of SADC countries' global imports, but for some 15% of SADC countries' intra-SADC imports.

In short, SADC countries trade very little with one another, despite numerous trade arrangements. Only South Africa, dominating SACU figures, is a significant regional trader, although it imports comparatively little from its neighbours.

1.3 Reasons for SADC's Lack of Progress

In relation to Mercosur, Michael Spicer, of the Anglo American Corporation, candidly noted that SADC's performance is disappointing. This raises the question, what are the reasons for SADC's lack of progress?

A number of reasons were put forward during the conference proceedings by different speakers, which can be broadly summarised into the following:

1. A Lack of Political Compatibility

SADC states represent a patchwork of different political perspectives. SADC states differ significantly in terms of their commitment to democracy. On the one hand, SADC members such as South Africa and Botswana are committed to democratisation and accountability; on the other hand the grouping also includes Robert Mugabe's Zimbabwe, where democracy has been systematically eroded, or worse still, the Democratic Republic of Congo and Angola, both embroiled in civil wars. This absence of political compatibility and regional stability has seriously impeded regional dialogue and progress towards regional integration.

2. *Absence of Common Economic Perspectives*

Over and above the lack of political congruity, SADC member states do not follow the same economic trajectory. SADC countries represent a divergent mix of economies - both in terms of their GDP and GDP per capita status, as well as their commitment to market-oriented economic reform to meet the challenges of globalisation. This lack of common economic perspective has translated into much uncertainty regarding the rules of the process, and vague commitments to the integration game. As Alec Erwin, South Africa's Minister of Trade and Industry, candidly put it, SADC has engaged in too much 'diplomatic waffle' as opposed to getting down to the nitty-gritty of integration.

3. *Personality Clashes between Heads of States or Government*

Personal relationships between the SADC heads of state or government are fraught with divergent personal agendas. As Spicer pointed out, some political leaders in the region, such as Robert Mugabe of Zimbabwe and Sam Nujoma of Namibia, represent a generation of leaders in the region that are rather parochial in their outlook. They are highly nationalistic, and suspicious of the impact of regional political co-ordination and broad-scale economic integration on their sovereign power and political patronage. Moreover, Mugabe's envy of Nelson Mandela's having assumed regional leadership has frustrated constructive relations between South Africa and Zimbabwe, which in turn has had a negative impact on regional dialogue and co-operation, as indicated by the suspension of activities of the SADC Organ of Politics, Defence and Security. In short, conflict in personal relationships and between personal agendas has impeded SADC progress.

4. *A Lack of Political Will*

Spicer pointed out that in SADC there is a notable lack of urgency, enthusiasm and political commitment to the integration project. SADC has suffered from a lack of political will to drive the deepening and consolidation of the integration process. This is, arguably, in large part attributable to the absence of common political and economic perspectives in the region, but also due to countries' domestic capacity constraints.

5. *Emphasis on Expanding as opposed to Deepening SADC*

SADC has emphasised expanding the grouping, as opposed to tackling the more complex issues of deepening intra-group links — arguably due to the above mentioned lack of political will and convergent political and economic perspectives. As Mfundo Nkuhlu of the South African Department of Trade and Industry noted sagely, that expanding SADC membership has carried the cost of exacerbating policy divergence amongst members and generally impeded consolidating the grouping.

6. *Limited Capacity to Manage Complex Policy and Technical Issues*

Philip Clayton, of the Standard Bank South Africa, noted that in SADC, rhetoric supersedes the grouping's capacity to integrate truly. SADC inherited the sectoral approach from its predecessor, SADCC. According to this approach different sectors are allocated to member states to co-ordinate and provide leadership, for example, Angola is responsible for the Energy Sectors, Namibia for Marine Fisheries and Resources, and Tanzania for Industry and Trade. Ramsamy explained that the rationale behind this decentralised system of operation is 'ownership by member states'. He argued that, for tangible benefits to accrue to all participating countries, SADC advocates a bottom-up approach to involve the stakeholders at the conceptualisation, development and implementation levels of projects and programmes.

But Clayton noted, experience has shown that SADC's sectoral approach, while theoretically ideal for inclusivity, has significant weaknesses, as when the institutional capacity in a country given a particular task is weak. Furthermore, this lack of capacity does not relate to individual countries only, but also to the SADC Secretariat which co-ordinates regional projects. Erwin noted that the Secretariat is simply not an efficient organ, not because of the people that staff it, but because of the structures and functions it has. In this regard, Erwin further noted that South Africa has failed SADC in its chairmanship because it has not restructured the secretariat to be more responsive to the actual requirements of the regional grouping.

7. *Political and Bureaucratic Disjuncture*

From a South African business perspective, Spicer pointed out that there appears to be a disconcerting gap between what one hears at the top political level regarding integration, and experiences on the ground with the bureaucrats who are charged with implementing policies. He noted that this is leading business to believe that a commitment to implementing liberalising policies exists more in words than in deeds. He warned that there is a distinct danger of fostering a spirit of cynicism in this regard.

Spicer mentioned, for example, the case of the South African government's efforts to encourage private investment in the region by means of a modest relaxation of exchange control for such investment. But in practice, South African business was confronted with the administrators of exchange control insisting that such exemptions do not apply to the Democratic Republic of Congo — on the grounds that it was not yet a fully fledged (economic) member of the SADC, even though SADC was already involved in the country politically.

8. *Suspicion of South Africa's Regional Dominance*

Both Clayton and Spicer pointed out that another problem facing constructive SADC relations is the issue of regional trust and confidence. The neighbours are

wary of the dominance of South Africa and its aspirations and ambitions, which causes significant tensions in political and economic relations with its SADC partners.

In economic terms, South Africa's GDP exceeds that of the next largest SADC member, Zimbabwe, twenty times. This has fed into the fears of elements of local business in Zimbabwe and other SADC neighbours that South African business will dominate the regional market place. This perception is clearly a tricky issue, as local business will be tempted to hinder rather than drive the process of regional integration, a significant problem, as business is meant to cement the decisions taken at the political level. Spicer reiterated that the issue of South Africa's dominance requires much sensitivity from both South Africa's large business corporations as well as the South African government. For this reason the plan of asymmetrical tariff liberalisation, where South Africa opens its markets more quickly than its SADC partners, is imperative.

9. *Distribution of Costs and Benefits*

Closely related to South Africa's regional dominance is the issue of the distribution of costs and benefits of economic integration in the region. A fear exists amongst SADC countries that there will be an asymmetry of benefits in favour of South Africa. Not all members perceive themselves as gaining equitably from the integration process, which feeds into a negative perception and reaction to South Africa's role. Spicer stressed that it is crucial to bring forth these fears of the other countries. They have to become part of the official agenda in order to enable policy responses to be devised to address imbalances incurred as a result of liberalisation. As pointed out elsewhere, one of the potential solutions would be the asymmetrical lowering of trade barriers.

Ironically, Clayton pointed out that it is also important to note that it is not only the SADC partners that fear asymmetrical division of costs and benefits. South Africa too has vested interests which lobby against liberalisation. On numerous occasions South African labour has protested against government plans, on the grounds that they will aggravate South Africa's already high unemployment rate. Moreover, even some sectors of South African business have been obstructive. Spicer cites the example of the South African textile industry's threats to 'go on strike' if the government went ahead with facilitating Zimbabwean access to the South African market by lowering tariffs.

10. *Absence of Business as a Driver of Regional Integration*

Clearly it is imperative that the business sectors become key players in the integration process. Business needs to cement the decisions taken at the political levels. Both Spicer and Clayton conceded that not all of the blame for SADC's lack of progress should go to the politicians and civil servants. It is also appropriate to reflect on the business sector's performance, which in general has been, in Spicer's words, 'half-hearted'. An important step towards rectifying the situation is for the

region's governments to commit themselves to creating a facilitating environment for business to expand regionally. This means that business needs to be consulted much more than in the past. As Erwin bluntly commented, '... not too much is achieved at summits. We need interaction at all levels. In particular we need business to be more active'.

1.4 Abandon Regionalism?

Spicer noted that the tide of history could be argued to be turning against regional organisations such as Mercosur and SADC. The recent shocks to the global economy have offered some politicians and commentators an excuse to advocate domestic economic isolation as an answer to current economic woes. Given this global economic context and SADC's slow pace of progress, should Southern Africa abandon the project?

Both Spicer and Clayton rejected this line of thought. In fact, they argued that the current global circumstance provided strong arguments for regional co-operation.

Citing Paul Volker, Spicer contended that the current situation strengthens the argument for regional co-operation, as smaller countries strive for critical mass to help protect themselves from speculative attack. Erwin supported this line of argument by emphasising the need for greater functional collaboration amongst developing countries in the fields of trade and investment, to improve the socio-economic conditions and bargaining position of the South.

Clayton concurred that regional integration still makes economic sense. The merits of creating a larger market are sound — as long as this does not lead to an inward-looking strategy. Southern African firms require the economies of scale that large markets could supply to improve competitiveness in the broader international market. Clayton did warn though that care must be taken in regional integration lest trade creation is swamped by trade diversion. (Trade creation refers to the increase in trade that occurs as barriers within the regional bloc are lowered; while trade diversion is the movement of imports and exports to higher cost producers within the bloc from lower cost producers outside the regional grouping.)

Moreover, Clayton rightly pointed out that, for geopolitical reasons, South Africa has no choice but to opt for a regime of improved trade with its neighbours. In his words, 'if we do not accept regional export of goods, ... we have to accept a larger stream in human trade.' In this context he mentioned that South Africa's average per capita income is about 30 times that of Mozambique — hence the flow of illegal immigrants willing to brave the lions of the Kruger National Park to come to South Africa.

In short, as Erwin stressed, 'regionalism is not an option, it is an imperative.'

1.5 Adapting to the Global Context

Imperative as regionalism is, Nkuhlu pointed out, macro-economic reform to adjust to the exigencies of globalisation is as necessary for South Africa, and its neighbours.

What is it that South Africa — and for that matter other countries — has to adjust to?

In essence, as Erwin outlined, countries have to make adjustments across a number of fronts, as the structure of global manufacturing and production processes has changed dramatically in the last two or three decades. This change is driven by the information technology revolution. Access to knowledge is crucial in this ever-changing world, as the speed with which science is translated into technology and products helps to determine a country's manufacturing base and the diversification of its export products. On the converse side, this also means that economies that are unable to adjust systems to take advantage of this explosion of knowledge, technology and the rapidity of these flows, will be marginalised. Erwin identified three areas where South Africa has to make adjustments.

1. *The Financial System has to be Stabilised*

Erwin observed that it is imperative for countries to stabilise their financial systems. This includes tightening an overexposed fiscal policy, and developing capital markets where risk is spread, and where the risk factors of any individual transactions can be internalised.

He noted that South Africa has undertaken a wide range of reform in this regard, not often highlighted. As a result of these reforms there have been notable changes in the relationship between the public sector's cash management and that of the private sector. Government now interacts with the financial system, which means it has to manage its cash and its debt within the constraints and the discipline of the financial market.

2. *Production Cost*

Erwin further pointed out that South Africa has to make sure that the cost of production is closer to the world benchmark. He emphasised that tariff reductions were not undertaken by the South African government because they were dictated by the World Bank, but because they were imperative for the competitiveness of the country's economy. Thus far, South Africa has succeeded in bringing its tariff levels closer to world benchmark prices. According to Erwin, South Africa's trade-weighted tariff average will be around seven percent by the end of next year, which is a significant reduction from close to 27% four years ago. These tariff reductions, Erwin maintained, in addition to the growth in industrialisation, points to tremendous manufacturing potential in South Africa.

3. *Labour Cost*

Additionally, Erwin stressed that South Africa has to bring about a labour dispensation compatible with this manufacturing potential, to make the economy more efficient for international and domestic production.

South Africa needs to create an efficient enabling environment that will allow business and labour to deal with their differences. Part of this environment requires both business and labour to take a longer-term strategic perspective to build South Africa's export sectors, instead of focusing only on immediate gains for themselves. If labour markets are too rigid, they cannot adapt sufficiently to the pressures of international trade and production.

In addition, Erwin emphasised that South Africa cannot take a narrow export-driven approach only, but also needs to expand the domestic economy. Research by the Department of Trade and Industry and the Industrial Development Corporation has shown that by reducing the cost of production relative to income, South Africa's domestic market can expand by two percent, which in turn has important consequences for improved socio-economic conditions.

1.6 **South Africa and SADC**

Erwin went on to emphasise that South Africa — and by implication other countries — cannot adapt to globalisation alone. Instead, South Africa has to tackle these challenges as part of SADC. Nkuhlu concurred that South Africa's progress and economic growth can only be secured as part of wider regional economic growth and development. Therefore, the regional arena is an important theatre for forging policies and programmes.

In this respect Nkuhlu highlighted three areas imperative to South African engagement with SADC.

1. *Regional Manufacturing Base*

Within SADC states there are huge discrepancies with regard to manufacturing base and production capacity. It is thus imperative that South Africa not only maintain and increase its existing manufacturing base and production capacity, but also engage with its neighbours to build regional capacity.

Nkuhlu further pointed out that this has to be predicated on an approach where the states play a strategic and differentiated role in providing the enabling economic and political environment to facilitate investment. The state's role is to support and guide the private sector in the restructuring of the regional economies' production base.

Given the fiscal constraints governments are faced with, it is imperative that the public sectors set up partnerships with private capital. In recent years there have

been numerous examples around the world of successful public-private sector partnership in, for instance, the provision of infrastructure for rapid service delivery and for catalysing investment into industrial and agriculture projects.

In this regard, Nkuhlu referred to the South Africa's Spatial Development Initiatives (SDIs), which link the provision of infrastructure with the generation of investment projects, to ensure a maximum density of projects that utilise the infrastructure provided. SDI's are structured to rely on effective utilisation of available natural resources; low cost, sustainable and accessible energy; industrial capacity in technology; skilled labour; good integrated infrastructure and a geographic location that is ideal for industrialisation in the South, while still being able to access markets of the North. The Maputo Corridor — linking South Africa's economic heartland, Gauteng, through Mpumalanga, with the Maputo port in Mozambique — is the most successful of these projects so far.

2. *Capital Flows*

Nkuhlu further referred to the importance of mobilising investment capital to unlock the region's potential, and particularly to the importance of increased South African capital in neighbouring countries.

Clayton, too, mentioned the importance of South African investment in the region for the following reasons:

- The capital flows assist, although to a limited extent, in balancing the large trade imbalance South Africa enjoys with its partners.
- Investments may, in time, lead to increased regional exports (to South Africa or further), as subsidiary companies expand production.
- Such investment is helpful in acting as a spur to productivity.

3. *Trade Flows*

Further, Nkuhlu observed that these capital flows must be complemented by a robust growth of the export sectors and a consequent high level of trade amongst SADC states. However, given the significant differences in the degree of industrialisation and economic diversification amongst SADC members, he also stressed the need for a supportive industrial development programme to complement trade liberalisation. In terms of the tariff liberalisation process, South Africa's offer of asymmetrical opening — where South Africa opens its markets substantially to its neighbours over the next five years, while the other countries reciprocate over an eight year period — will be the only feasible way to address the complexities of integration in the region.

As Erwin stressed, it is time for SADC to move beyond the 'diplomatic waffle' of abstractly debating integration, and actually get down to negotiating terms and

references, and then translating them into projects that will strengthen the region. He noted that he is greatly encouraged by the successes of the Maputo Corridor project involving the governments of Mozambique and South Africa. The Corridor encompassed: building a road from Gauteng through Mpumalanga to Maputo, through a build-operate-transfer (BOT) arrangement; concessioning the building of railway lines and upgrading the Maputo port; concessioning the marshalling yards; working with major international companies such as Billiton to locate a smelter in Maputo instead of Richards Bay; and co-ordinating with the Industrial Development Corporation, the Mozambican Gas Company, and the Mozambican government to follow that up with a large steel plant.

In short, the message is clear: for SADC economies to unleash their potential they need to integrate. In addition to regional infrastructure development projects, Erwin suggested that some SADC countries could also co-ordinate, for example, their clothing and textile industries. If SADC could combine the industrial weight of South Africa, the basic materials of Zimbabwe, and the foresight Mauritius has shown in clothing and textiles, it could develop advanced textile products for the world markets.

Erwin concluded that the countries of Southern Africa will simply have to come together, or risk degenerating into a region of abject poverty, persistent instability, lack of democracy and continuous cycles of violence.

1.7 South Africa and the South

Erwin stressed the need for countries of the South to play a more decisive collective role in the global market place, to counteract the risk of marginalisation. He explained that the economic crisis the world is facing at the moment is not merely an event in the financial markets, but reflects a profound structural flaw. He termed the large accumulation of funds of the North as 'structurally nervous money', as investors seek rates of high return — which are usually to be found in emerging markets. However, such funds are inherently unstable, for as soon as there are the slightest negative signs, the investments are moved to safer havens literally at the touch of a button. While this is an advantage for the investor, it has dire consequences for emerging economies, as the sudden capital flight can destroy the economic fabric of the country. Moreover, the movement of funds may be quite arbitrary, as it may be based on market sentiment rather than what is really happening in the economy.

Erwin further noted that part of the solution to this vulnerability of emerging markets lies in strengthening and developing the South. He went on to say that high growth rates are only conceivable in economies with giant potential such as Brazil, Argentina in South America and South Africa in Southern Africa, because the manufacturing and industrial potential exists in these places. Yet, he warned, it is possible only if there is sufficient political will and the mechanisms to build contacts between regions.

He went on to explain how South Africa can unlock its true potential, and that of the Southern African region, through strategic linkages with other regions in terms of an analogy between Southern Africa's trade relations and a butterfly. According to this analogy, South Africa is prioritising the consolidation of its relations with the European Union, as the country's main trade and investment partner. As the relationship with Europe is strengthened, the effects will be extended to the Southern African region and Africa as a whole, representing the body of the butterfly. As the Europe-Africa-South Africa axis is consolidated, so the butterfly wings are unfolded to encompass Mercosur, South East Asia, India and China.

2. Lessons to be Learned from the Mercosur Experience

Given the success of the Mercosur experience, it is little wonder that Erwin stated that Mercosur has the ingredients he would like to see repeated in SADC. Numerous speakers devoted time to examining the lessons SADC could learn from Mercosur. While one would do well to heed the words of Stretton, that '... comparison is strongest as a choosing and provoking mechanism: a system for questioning, not for answering ...', it is nevertheless instructive and insightful for SADC to consider why Mercosur became a Latin American success story.

2.1 The Politics of Trade Liberalisation

Nkuhlu warned that trade liberalisation is only one aspect of regional integration. Guillermo Mondino, Director of the *Mediterranean Foundation*, Argentina, concurred that trade liberalisation and economic integration are about much more than can be captured in economic models or through export and import statistics of a country. In short, regional integration is not only a matter of economics, but politics too.

Mondino emphasised that trade integration is the result of vision and statesmanship. He stressed the imperative for visionary politicians to kick-start the process politically, even at times against the (initial) advice of economists. According to Mondino, Mercosur is an example of such political vision and statesmanship.

Mondino proceeded to sketch the political and security context of the Southern Cone, in particular the perceptions and dynamics between Argentina and Brazil in the late 1980s. Both countries were preoccupied at the time with the dual battle of consolidating their new democracies and depoliticising their armed forces, as well as slashing hyperinflation in an effort to return their economies to the path of growth and prosperity. Mondino argues that visionary politicians realised at the time that integration would help these countries — and by implication the entire region — on both accounts.

2.2 Removing the Hypothesis of Conflict

Mondino asserted that central to the success of Mercosur is the removal of the so-called 'hypothesis of conflict' between constituent countries. This hypothesis had been created because of the internal legitimisation needs of the previously ruling armed forces, as opposed to objective criteria or the sentiments of the nations.

Based on this conflict hypothesis, the armed forces in the region had grown ever stronger. On numerous occasions the conflict potential almost escalated into full scale war, as in 1977, when Argentina was set to invade Chile, only to be dissuaded

at the last minute by the Pope's intervention. Regional rivalry between military leaders manifested itself not only in confrontational military action, but also in the diversions of billions of Dollars to fund aggressive nuclear programmes, as in the case of Argentina and Brazil. Regional mistrust was so entrenched that it even resulted in curious infrastructure projects. For example, Argentina laid railway tracks of a different width to those in Brazil, so that, in case of an invasion, Brazilian supply convoys could not use Argentine means of transportation.

According to Mondino, this was where vision and statesmanship on the part of some Argentinian and Brazilian politicians came into play. Realising in the late 1980s that their democracies would not be able to consolidate without the depoliticising and weakening of the armed forces, politicians turned to eliminating the conflict hypothesis. In other words, similarly to Europe's motivations behind uniting in 1950s, the Southern Cone countries sought to build a security community — a space with no internal justification for aggressive armed forces — based on *economic integration*.

The almost simultaneous political transitions of the region's countries to democracy and their consequent political like-mindedness aided the elimination of the hypothesis of conflict, which in turn facilitated sincere attempts at integration. In fact, following the failed coup attempt in Paraguay in April 1996, Mercosur has made democratic governance a prerequisite for membership.

In Southern Africa this commitment to democracy is notably lacking. Moreover, conflict has certainly not been eliminated in SADC. To mention a few examples: Angola is embroiled in a civil war, as is the Democratic Republic of Congo, which in turn has pulled in Zimbabwe and Namibia. Moreover, Namibia is faced with secessionist aspirations in the Caprivi strip.

2.3 Locking Regional Economies into Reform

As important as the pacification and resolution of external and internal conflict was to Mercosur's establishment, Mondino further noted, Mercosur also locked its constituent countries into the process of economic reform.

To reverse the economic disaster of the eighties in Latin America — a decade marked by stratospheric hyperinflation, a suffocating debt crisis and general stagnation — countries embarked on a neo-liberal reform programme which broadly included privatisation, deregulation, fiscal austerity and currency exchangeability. Yet the question remained, especially given Latin America's chequered economic history, would this reform process last? Would openness, careful fiscal management, deregulation and tax reform survive a change of government?

According to Mondino, Mercosur created a commitment to the continuation of the reform process. The integration process built credibility for the constituent countries' economic reform programmes by demanding each government's commitment to stay on its particular variant of the neo-liberal trajectory. The

process in effect created bonds that would not allow countries to deviate from 'the right path'.

In particular, the creation of the customs union forced members to set common trade policy goals and thus brought relative stability and predictability to the region. This was well received by foreign investors, and led to a dramatic increase in investment into the region. In fact, foreign direct investment in Mercosur grew tenfold, from US\$2.6 billion in 1990 to US\$26.6 billion in 1997.

These new economic realities in the region also led to an explosion in intra-Mercosur trade, which increased five-fold from US\$4 billion in 1990 to over US\$20 billion in 1997. This was in part due to unilateral tariff liberalisation and in part due to Mercosur agreements, as well as the positive effect economic reforms had on their economies' productivity and competitiveness. Mondino further indicated that not only did Mercosur trade grow in all sectors, there was also a tremendous growth in intra-industry trade. Again, the increases in intra-industry trade are another important factor forcing Mercosur commitment to continue on the economic trajectory. This is because, as production becomes integrated across borders, it creates regional business lobbies that make changes in policy in one country very difficult.

In short, the Mercosur process has contributed significantly to clear, transparent and immutable political and economic rules of the game that are crucial to attract investment and foster growth.

2.4 Pragmatic Approach

Besides the lessons SADC could learn from Mercosur in terms of the required political and economic policy context, Southern Africa would also do well to consider the following:

1. *Mercosur's Pragmatism*

Mercosur, in Botafogo's words, is a 'remarkable exercise in pragmatism'. It would be in SADC's interests to emulate this spirit of pragmatism in its effort to take Southern African integration further. Spicer commented that SADC is 'prone to building castles in the air'. Too much stress is placed on words — 'diplomatic waffle' — as opposed to deeds. According to Spicer, the pragmatic spirit of finding the 'do-goal' and building on it would stand SADC in good stead. In this regard he mentioned Ramsamy's idea of building a partial free trade area based on low tariff items, and the spatial development initiatives amongst specific SADC countries, as a good start. Nkuhlu contended that SADC may need to 'ring-fence' problematic states in Southern Africa, and establish a dual-track (or two-speed) approach to integration for those which are not yet ready to join, to do so at a later stage.

In short, a number of speakers hinted that it may be necessary to review SADC's current strategy. In the process, as Mondino noted, care must be taken to design

rules that take full cognisance of the individual countries' capacities and constraints. The rules and terms need to be both flexible, so as to accommodate differences and unexpected events, and strict enough to prevent governments from going back on their commitments or allowing powerful lobbies to bend the rules for their own purposes.

2. *Mercosur's Institutional Capacity*

Unlike many other regional integration schemes, Mercosur gave primacy to economic progress over institutionalisation. Instead of erecting complex structures, unrelated to real needs, Mercosur chose the minimalist institutional approach. The grouping is run by a network of inter-governmental bodies supported by a small administrative secretariat in Montevideo, Uruguay. This has definitely hastened the Mercosur decision-making process. Instead of a '*Mercosureaucracy*', the heads of state of the Mercosur countries are actively and directly involved in the process on a continuous level. Furthermore, instead of a decentralised sectoral approach, as in SADC, the relevant government agencies of each country are linked directly into the process, making it more flexible. This is definitely an area where SADC could learn from Mercosur, as effective and appropriate institutional capacity is absolutely imperative to the success of an integration scheme. As Spicer put it, SADC has to get its regulatory and institutional ducks in a row.

Mondino also emphasised that the institutional structure of integration schemes in the South needs to be affordable. Developing countries simply cannot accommodate the costs and burdens that the creation of a large bureaucracy brings. Again, the relatively low running costs of Mercosur's minimalist inter-governmental approach may be instructive for SADC.

3. Co-operation Within and Between Regions in the South

Countries of the South have much to gain — both for their own national interests and in the interest of finding global solutions — from functional co-operation in the fields of trade and investment, as well as coalition-building around a cluster of important global issues. As Erwin noted, developing countries need to work together, bilaterally and multilaterally. To improve the status and bargaining position of the South, developing countries need not only to engage in regional integration, but also to expand to inter-regional co-operative arrangements.

3.1 Mercosur's External Relations

In this context Elbio Rosselli, the Uruguayan Director-General for Integration and Mercosur Affairs, outlined Mercosur's progress in linking up with other countries and groupings.

Firstly, Rosselli reviewed Mercosur's so-called 'inner circle' — Bolivia and Chile. Mercosur concluded a free trade agreement with Chile in June 1996. This made Chile the first country to sign an economic complementary agreement with the grouping. For Mercosur this agreement was important, not only for potential trade but also because it served as a precedent for future negotiations with other Latin American states. According to the agreement Chile does not participate in the customs union, owing to its 11% across-the-board external tariff — which it plans to reduce to 7% in 1999 — as opposed to Mercosur's average tariff of 14%. In December 1996, Bolivia signed an economic complementary accord with Mercosur too. The agreement is similar to the one signed with Chile, and is expected to liberalise trade over a ten-year period.

Given the positive effects of Bolivia's and Chile's association, Mercosur is fast becoming the 'hard kernel of South American integration'. Rosselli pointed out that now the Andean Community — comprising Peru, Venezuela, Colombia, Bolivia and Ecuador — is in the process of seeking closer ties with Mercosur too. Although initially bilateral agreements between Mercosur and the members of the Andean Community were envisaged, it was decided that region-to-region negotiations would be more fruitful. Numerous cumbersome rounds of talks to prepare a bi-regional free trade accord have been held since 1996, although recent signs are that they may yet revert to the original idea of individual country agreements with Mercosur similar to the associate membership status of Bolivia and Chile.

Thirdly, Rosselli stressed that Mercosur is also actively pursuing closer ties with the Western hemisphere. The parallel development of Mercosur and the North American Free Trade Area (NAFTA) — comprising Canada, Mexico and the United States — has led to a notable increase in trade and investment within the two blocs and in the hemisphere as a whole. As a result of the gradual opening of the

hemispheric market, the rest of the continent accounted for almost 34% of Mercosur's overall exports in 1996. Moreover, the number of multinational companies setting up manufacturing facilities in Latin America, to benefit from expanding local markets and the different trade groupings (Mercosur, the Andean Community of Nations, the Caribbean Community and Common Market — CARICOM), has also increased.

In this context, one of the options open to Mercosur for improving its *entrée* into the world economy is to participate in the proposed Free Trade of the Americas Area (FTAA), which stretches from Alaska to Tierra del Fuego. The FTAA was launched at the first Summit of the Americas in Miami in December 1994. Numerous meetings have thus far been held between the hemisphere's trade ministers. The Miami Summit was followed up by the Santiago Heads of State Summit in 1997 to kick-start the negotiation process. However, the process has been complicated by President Clinton's inability to secure fast-track approval from the US Congress for the negotiations. While this does not mean that the process has collapsed, there is a noticeable decrease in enthusiasm from the United States for the initiative.

Fourth, Rosselli noted that given the difficulties of creating the FTAA and in view of the traditionally close ties between Europe and Mercosur, there is a renewed interest from both sides in strengthening their relations. In December 1995, the EU and Mercosur signed an inter-regional framework co-operation agreement. This agreement is the first of its kind, as it encompasses two customs unions on different continents.

Faced with US competition for participation in an increasingly open Latin American market, the EU has sought to guarantee preferential access to Mercosur, Latin America's most dynamic emerging market. The EU is Mercosur's principal trading partner (accounting for around one-third of Mercosur's total trade), and the principal source of direct investment flows into the region. The European Council has proposed a negotiating mandate to establish a Free Trade Area (FTA) between the EU and Mercosur to the Commission. Mercosur has, however, stressed that no agreement will be reached unless agriculture is included in the deal. South Africa's negotiations with the EU may provide some important lessons for Mercosur in this regard.

3.2 South Africa's Trade Butterfly

While Erwin stressed the importance of Southern African co-operation, he also made it clear that South Africa does not see SADC as the means to South Africa's economic salvation. Instead, he encouraged and urged co-operation with bilateral pivotal states in other regions, as well as inter-regional co-operation too. The now-familiar image of the 'trade butterfly', its body firmly oriented north-south to the EU and North America, along the axis of South Africa's traditional trading and investment flows, running through Africa, and its wings extended laterally to Latin American — especially Mercosur — and Australasian markets, was forcefully introduced.

To allow the butterfly to unfold, South Africa and Southern Africa would do well to realise that Mercosur's dynamism and momentum have greatly improved its negotiating position, both regionally and beyond. By integrating, Mercosur countries have acquired much greater leverage in trade negotiations, where power is measured in market size. For example, the Mercosur grouping is proving to be a formidable negotiating partner for the United States in the FTAA process.

3.3 Links across the South Atlantic

Economic linkages across the South Atlantic are comparatively untapped — pointing to much potential to build trade between the Southern Cone and Southern Africa. Timothy Thahane, Deputy Governor of the South African Reserve Bank, noted that exports from SADC member countries to Mercosur amounted to US\$722 million in 1996, which is equal to less than one percent of their total exports. Exports from SACU and Angola accounted for 98% of this total. However, it is interesting to note that SADC exports to Mercosur have increased at an annual average of nearly 40% between 1992 and 1996. Exports from SADC to Mercosur consists mainly of petroleum products from Angola, and agricultural, mining and chemical products from South Africa.

Thahane further pointed out that there is an increase in SADC member states involved in importing goods from Mercosur. Even so, the imports from the SACU, or rather South Africa, formed 75% of the total imports to SADC from Mercosur. Imports to SADC from Mercosur comprise mainly agricultural goods, foodstuffs, chemicals, machinery and transport equipment.

Not only are trade relations between SADC and Mercosur inconsequential, but the investment links are negligible too. Total investment from SADC to Mercosur amounted to US\$20 million in 1996, with US\$12 million going in the other direction. SADC-Mercosur investment ties have until now been mainly in mining, though there is promise of expansion into the retail and services sectors. Co-operation in the marketing of beef, as well as motor vehicle and wine production, could reap dividends. Steve Malherbe, of SA Pelagic Fish Processors, argued that the two regions could gain much from co-operating in the fishing industry too. He concluded that opportunities for co-operation abound in marine resource management, technological upgrading, and the supply of gear and equipment.

This brief summation of SADC-Mercosur trade and investment relations indicates that there is much scope for improvement. There are certainly many opportunities for inter-regional growth, despite the fact that the two regions are generally competitors in export markets. The regions' production structures are broadly complementary, which also open opportunities for closer intra-industry co-operation.

No formal trade arrangements or agreement exist as yet between SADC and Mercosur, although some contacts have been made. The SADC General Secretary, Kaire Mbuende, visited the Mercosur secretariat in 1996, and more recently

President Mandela, as current chair of SADC, attended and addressed the July Mercosur Summit meeting in Usuahia, Argentina.

It is clear that South and Southern Africa should explore all avenues for co-operation with Mercosur, and learn from the grouping's achievements. Moreover, if Southern Africa takes committed steps towards reform, this region in turn will become that much more attractive to Mercosur than it is at present. As Sean Cleary, Managing Director of Strategic Concepts, concluded, Erwin's analogy of the butterfly is apposite: South and Southern Africa need to look in all directions and forge strategic partnerships with the best players. But to do this successfully, South Africa and SADC have to be recognised as among the best themselves.

4. The Role of Infrastructural Development in Regional Integration

The availability of adequate infrastructure is imperative for effective regional integration. This is particularly evident when one considers, for example, some of the Southern Cone's peculiar attempts to hinder regional interconnectivity through infrastructure hurdles during the time of military leadership.

Mondino relayed a number of examples in this regard. Argentina's infrastructure provisions in the three provinces bordering its historic rival, Brazil, are instructive. These provinces are separated from the rest of the country by the Parana River. Until fairly recently, apart from a small railway bridge, the provinces were cut off from Argentina. The reason for no bridges is clear: were Brazil to have invaded Argentina, at worst Buenos Aires would have had to concede these provinces to Brazil. Furthermore, Argentina laid down railway tracks of different gauge than those used in Brazil. Similarly, only one pass across the Andes mountains links Chile to Argentina all year round.

In short, decades of mistrust resulted in the Southern Cone countries' developing national infrastructure networks that were purposely not linked with their neighbours'. The myopia of the past governments is now imposing great burdens on the region's economies. Mercosur resulted in an explosion of intra-regional trade flows which in turn caused tremendous infrastructural bottlenecks, highlighting the urgent need for a functional infrastructure to facilitate regional integration.

By comparison, Southern Africa has a relatively better developed regional infrastructure network. This is largely due to South Africa's historically dominant presence in infrastructure development in the region. However, this means that much of the regional infrastructure is focused on the needs of South Africa, as opposed to the entire region. In fact, in many cases SADC countries are dependent on South Africa for transport of goods and services. This gave *apartheid* South Africa, for example, the ability to conduct so-called 'railway diplomacy' by withholding rolling stock or delaying delivery of goods. In the 1980s, for example, South Africa used its infrastructure monopoly to pressure newly-independent Zimbabwe into giving in to Pretoria's demands. Redressing these imbalances has long been a central challenge for the SADC region, noted Stephen Gelb, of the Development Bank of Southern Africa (DBSA).

4.1 Surveying SADC and Mercosur Infrastructure

While SADC may have a better interlocking infrastructure network than Mercosur, Southern African infrastructure is not flawless. In fact, both Gelb and Eric Msolomba, Director of the Southern African Transport and Communications Commission, reflected on significant quantity and quality shortages in South African

and SADC infrastructure. Deficiencies exist both in terms of the quantity of supply and in failure to maintain efficient and cost effective infrastructure.

The following table gives an indication of the quantity of infrastructure provisions in South Africa, SADC and Brazil. Gelb pointed out that it is interesting to note that Brazil's total amount of traffic exceeds that of the entire SADC region. However, South African and SADC rail usage is far higher than that of Brazil, which relies to a far greater degree on road usage.

	South Africa	SADC	SA as % of SADC	Brazil	Uruguay
Surface Area ('000 sq)	1221	6932	18	8512	177
Population (mn 1995)	39	135	29	159	3.2
Exports (US\$bn 1995)	27.9	40.3	69	46.5	2.1
Imports (US\$bn 1995)	30.6	44.6	68	53.8	2.9
Harbour traffic (mn tons 1991)	104.6	116	90	360	n.a.
Rail freight (mn tons p.a. 1988-90)	183.4	214	86	80	n.a.
Rail network (kms/100 people 1990)	65	27	65	14	94
Paved Roads (m/100 people 1990)	168	64	60	102	306
Phone lines (per 100 people 1993)	10.2	3.5	84	7.5	13.4
Electric power generation (MW/100 people 1992)	115	12	74	35.8	n.a.

A survey of telecommunication provisions indicates that South Africa has 10.2 telephone lines per 100 people, while SADC has only 3.5 lines per 100 people. South Africa is well endowed in comparison with its SADC neighbours, as well as Brazil, but it is nevertheless much less so than East Asia, which has 30 lines per 100 persons. Furthermore, the SADC aggregate figure masks serious regional inequalities. Six of the remaining 13 SADC countries have less than 1 telephone line per 100 people, while in rural areas — where 73 % of the region's people live — the telephone line provisions are 0.03 lines per 100 people.

The following table contains performance indicators for South African infrastructure. Clearly, South Africa is far below 'best practice'. Infrastructure indicators for the rest of the SADC region are even lower than those of South Africa.

Sector	Performance Indicator	South Africa	Best Practice
Water	Unaccounted for water (as % of total)	32	15
Roads	Paved roads in less than good condition (%)	48	20
Rails	Diesel locomotives not available (as % diesel inventory)	12	10

Sector	Performance Indicator	South Africa	Best Practice
Telecoms	Faults per year 1000 mainlines	80	20
Electricity	System loss (technical and non-technical as % of net generation)	n/a	10

4.2 Transactional Infrastructure

Gelb noted that an inadequate supply of efficient and affordable transactional infrastructure — in other words, transport and communication provisions that support the intra-regional flow or market transactions of trade and services — impedes constructive regional integration.

Transport costs in SADC have been and remain extremely high. Msolomba pointed out that SADC transport costs account for about 30-40% of the total value of goods sold within the region. By comparison, transport costs represent only 12% of the value of goods sold in Brazil. Referring to a recent World Bank study, Gelb noted that Africa is comparatively less competitive than other regions, due to high transport costs. The study showed that transport costs were eight percent higher than tariff costs, which means that inadequate infrastructure and consequently high transport costs were in fact greater barriers to trade, than tariff barriers.

These high costs are due to a number of factors, including:

- bad policy design;
- a lack of co-ordination within transport modes and across transport modes;
- slow and cumbersome border crossings;
- inadequate levels of rolling stock on the railways; and
- poor training and productivity, both at management level and amongst workers.

It is clear that shortfalls in the availability of infrastructure presents a critical obstacle to intra-regional trade and external trade. Msolomba noted that the availability of infrastructure services is the key to the modernisation and diversification of an economy's production and export development. It is therefore essential that any regional integration attempt is associated with and accompanied by improvement in the quality of transactional infrastructure. This is imperative, to support both increased trade within the region as well as increased trade with the rest of the world.

4.3 Developing Regional Infrastructure

The development question that has to be posed in this regard is: will growth in infrastructure investment in the region contribute to enhanced trade integration, or will trade integration lead to greater congestion and higher costs, which will then increase the pressure to improve infrastructure investment? In other words, should *infrastructure investment lead trade integration, or can it lag trade integration?* Gelb argued that infrastructure should lead.

To effect regional infrastructure development, it is imperative for the countries to co-operate and address infrastructural needs in a regional context. Gelb contended that SADC's sectoral approach to regional infrastructure development goes only some of the way to resolve this issue. He suggested instead that more specific agreements on infrastructure installations are more constructive, such as the creation of so-called spatial development corridors.

The Maputo Corridor has been important to progressive integration for a number of reasons:

- It has contributed to improvements in the institutional design and administrative processes of the infrastructure sectors.
- It represents unique public and private sector partnership in infrastructure development and maintenance.
- Billiton's investment of US\$1.2 billion in the smelter at Maputo has focused the attention in Mozambique on trading and issues of productivity and competitiveness.
- It has facilitated greater inter-governmental co-operation between the Mozambican and South African governments.

In short, the corridor initiative represents an important and positive step towards realising the benefits of integration in the region.

5. Business and Labour in Regional Integration: The Case of the Automotive Industry

Addressing labour concerns in the context of the exigencies of globalisation is a key policy dilemma for national governments and regional integration schemes. This is particularly true for labour intensive industries such as the automotive sector, as the recent wave of strikes in the South African motor industry indicate.

5.1 The Southern Cone's Automotive Industry

Afonso Carbonar, International Advisor to the Trade and Industry Ministry in Brazil, outlined the progress of the automotive sector in the Southern Cone, and elaborated on the benefits the industry has enjoyed since the establishment of Mercosur. He argued that although the automotive sector has been temporarily excluded from the liberalisation in Mercosur — due to the severe discrepancies in government regulations concerning the sector in Argentina and Brazil — the industry has been able to expand and make impressive inroads into both local and global markets.

In the past decade the Southern Cone has seen significant growth and modernisation of its automobile industry. Automotive plants have rationalised and integrated, which in turn has led to increases in its world market share from 3.7% in 1993 to 4.9% in 1996.

The most important producers in the region are Argentina and Brazil. These two countries account for 92% of South American global production. They are also the region's most important markets. With a vehicle per capita ratio estimated at 1:10.7, the region certainly is a market with very attractive profit margins, which investors have not been able to ignore, given that the growth of the automobile market in the Organisation for Economic Co-operation and Development (OECD) countries is practically saturated, argued Carbonar.

The well-developed automotive industry structure in Argentina and Brazil has allowed these assembly industries to transform Mercosur into an exporting platform for the whole continent. It obviously adds greatly to the regional automotive sector's attractiveness in the eyes of investors. Consequently, the Southern Cone has become the world's largest destination for automotive investment. This has prompted automotive producers in Argentina and Brazil to plan and co-ordinate their activities and investments on a region-wide basis, both in terms of integrating production plants, as well as in co-ordinating component production and marketing. In short, the expanding external agenda of Mercosur has provided the industry with great opportunities in terms of trade and investment, as it promises an ever-enlarging market.

To capitalise fully on the potential of an integrated automotive industry, Mercosur countries agreed to establish a common automotive regime in 1994. An *ad hoc*

Technical Committee was set up in the Mercosur Trade Commission to this end. This technical committee was created to prepare the region for the transition to a common automotive regime in line with the requirements of customs union. The stated goal is to liberalise the regional trade for automotive products fully by 1 January 2000.

This future automotive regime will have to include the following:

- intra-regional free trade;
- a common external tariff;
- an import regime for parts and components;
- an import regime for vehicles;
- a regional content index;
- rules for environmental protection and users' safety; and
- transitional mechanisms for national regimes.

Carbonar stated that once this regime is in place, it can be expected that Mercosur's automotive industry will grow even further. Estimates are that production in Brazil and Argentina will amount to 2,5 million units, totalling US\$20 billion by the year 2000.

5.2 Southern Africa's Automotive Sector

By contrast, the Southern African region does not paint such a rosy picture for the automotive industry. But, as Brian Smith, of the South African Automobile Manufacturers Employers' Association pointed out, this presents an opportunity for Southern Africa to learn from the Mercosur experience and to put policies and procedures in place to rectify the situation in SADC.

Vehicle and component exports from South Africa to the other SADC countries have shown tremendous growth in the last few years. Smith noted that while Southern Africa has huge potential to expand its motor industry as the market is far from saturated, there are a number of constraints, including:

- very high import duty structures that range between 60% and 100% in SADC member states;
- a lack of control on 'grey imports' (that is, goods designated as second-hand);
- a lack of efficient distribution channels;

- poor infrastructure in terms of roads;
- poor quality of fuel available in some countries; and
- the high cost of vehicle inspection for certain countries.

Smith pointed out that it is essential to overcome these barriers, as the motor industry can play a very important role in the development of a viable and vibrant manufacturing sector.

5.3 Labour and Regional Integration

Mtutuzeli Tom, the President of the South African National Union of Metal Workers, looked at regional integration from a labour perspective.

Tom argued against regional integration for the following reasons:

- regional integration initiatives do not lead to social development but to the violation of human and trade union rights;
- regional integration is driven by competition rather than co-operation;
- emerging trade blocs may in fact signal a return to protectionist blocs that would leave regions and continents, like Africa, marginalised;
- labour unions are traditionally excluded from the process; and
- these trade blocs will undermine poor nation-states and strengthen the role of multinational corporations.

He further criticised the fact the regional integration schemes are driven by local and foreign business, as opposed to government. He argued that local and foreign companies step up cross-border investments with little regard for local labour, as they try to cash in on the 'emerging and promising' markets. By placing policy formulation at the regional level, he continued, labour's influence is undermined, as it has no political representation at that level.

Tom emphasised that labour concerns must be included at the highest level for regional integration to be successful in Southern Africa. National labour markets are impossible to separate in Southern Africa, especially given the high income disparities between South Africa and most of its SADC partners. Integration therefore cannot focus only on economic policy, but must also deal with the region's social realities. In this regard he condemned business' blind tendency to locate plants in the most 'cost-effective' locations, as opposed to economically depressed regions in need of investment. He went as far as saying a reconstruction and development policy should be developed at regional level. In this regard he mentioned the Congress of South African Trade Unions' (COSATU) proposal of establishing a Regional Development Bank or extending the role and scope of the

Development Bank of Southern Africa (DBSA) to facilitate a 'regional Redistribution and Development Programme (RDP)'. He further emphasised the importance of establishing minimum labour standards in terms of remuneration and working conditions throughout the region.

He warned that if these social concerns were not addressed, any national and regional attempt at economic advancement will be thwarted by the severe tensions which would develop.

While taking note of the social needs of the region, Smith, in contrast, emphasised the need for a cost-effective, productive, flexible and stable labour market for countries to be competitive in the global industry and for any development to occur. In particular, the highly globalised automotive industry requires a flexible labour regime, he noted.

To conclude, it is clear that to accommodate the concerns of labour is one of the key policy dilemmas of any national government and any integration attempt. As Erwin noted, even the European Union had to convene a job summit recently. The solution probably lies in consultative and co-ordinating mechanisms between business, labour and government, both at national and region levels. As Tom argued, the process of integration must be inclusive.

Mercosur trade unions are represented on the Economic and Social Consultative Forum, while the grouping's countries have also ratified a social charter to address labour needs. In SADC proposals have been made towards a regional labour market policy. However, relatively little progress has been achieved thus far, probably due in large part to the divergent political and economic perspectives of SADC's constituent countries. It remains to be seen how the Southern African region — and the world for that matter — will make globalisation compatible with social and political stability. Or, as Dani Rodrick, author of *Has Globalisation Gone too Far?* (Institute of International Economics: Washington: 1997), put it; 'to ensure that international economic integration does not contribute to domestic disintegration'.

6. From Closed to Open Regionalism

Tony Hawkins, Professor of Business Studies, University of Zimbabwe, noted that while it is generally agreed that completely free trade is the long-term objective that would do most to foster economic growth and reduce global inequalities, there is little agreement on the precise modalities necessary to reach the 'free trade utopia'. Also, over and above the considerable disagreement among economists and policy-makers as to whether regional trade agreements are building blocks or stumbling blocks towards global free trade, there is significant debate about what type of regionalism developing countries should engage in: closed or open?

6.1 Open Regionalism

Open regionalism seeks to marry the benefits of regional trade and economic co-operation agreements, with an open global trading and investment system. It can therefore be defined as 'world market oriented regional economic co-operation'. The concept goes back to 1989 when, at its inception, the Asia Pacific Economic Organisation (APEC) committed itself not just to reduction of trade barriers between the APEC economies themselves, but also between APEC and other countries.

Open regionalism is clearly market-driven. In contrast, Hawkins argued, closed regionalism is driven by institutional integration — that is, legal and institutional arrangements such as tariff reductions that facilitate trade. African integration schemes have taken the route of closed regionalism — but experience has shown these attempts have foundered largely because the underlying prerequisites for market integration are often absent. Hawkins argued that even when appropriate institutional arrangements were in place, obstacles to market integration remained in the form of high transport costs, weak infrastructure, ignorance about trading opportunities and the absence of complementaries in production.

6.2 Unilateral Liberalisation in Asia vs Fortress Europe

Hawkins stressed that it is worth recalling that the world's most economically successful region between the 1970s and mid-1990s — East and Southeast Asia — did not take the regional integration route. Its main economies — China, Japan, Taiwan and Hong Kong — did not belong to any effective regional arrangements until they joined APEC, while ASEAN only really took off in the mid-1990s. Despite this, Asian developing countries, excluding Japan — increased their share of global output from 14% in 1983 to 23% in 1997, and made significant inroads into poverty and inequality. These achievements were driven, not by preferential regional trading arrangements, but by unilateral trade liberalisation.

Europe by contrast, opted for a closed, highly discriminatory approach to integration.

The two experiences illustrate two very different patterns of growth:

- The regionalism of the European Union has led not just to a policy-induced increase in intra-regional trade, but also to rapid export growth to non-EU markets. As a result of both the broadening (more members) and deepening (closer economic integration) of the EU, intra-regional trade grew from 58% of the total in 1958, to 70% by the early 1990s.
- In Asia, while intra-regional trade also grew strongly from 41% to 50% of the total over the same period, the main impetus to economic growth came from extra-regional commerce, that is, the expansion of exports to economies beyond Asia.

This distinction between the EU and the Asian economies is highlighted by the fact that the EU, which accounts for almost a fifth of global output and 38% of world exports, has a very different trade-GDP profile to the four 'newly-industrialised' Asian economies. They account for 3.4% of global GDP, but more than 10% of its exports, that is, a trade-GDP ratio of 3 to 1 against the EU's 1.9.

6.3 Lessons for Developing Countries

Hawkins argued that there is a very important lesson for developing countries — especially African economies — to be derived from these two experiences: closed regional integration depends for its success on the size and vibrancy of the member states within the union. The EU's critical mass has enabled it to increase proportionally in a way that would not have applied to the 'Four Tigers', whose domestic markets were such that their growth had to be export-led.

The clear implication for Africa is that closed regionalism has serious limitations — the more so given both market size and the disappointing rates of GDP growth achieved between 1975 and 1995. In the last 15 years sub-Saharan Africa's share of world trade had halved to just over two percent, while it accounts for only 2.4% of world output — of which 40% is produced by South Africa and Nigeria.

Furthermore, as the Uruguay Round Agreements take effect and tariff and non-tariff barriers are lowered globally, so the case for inward-focused, discriminatory agreements that seek to give members an advantage over non-members, loses its attraction.

In sum, Hawkins argued that the closed regionalism of the so-called South-South agreements between developing economies is 'a mistake not worth repeating'. There is little to be gained by two or more developing countries integrating themselves.

6.4 Moving Africa from Closed to Open Regionalism

Despite these problems, regional integration in Africa is again 'flavour of the month', though whether its prospects of success are any better in the first part of the 21st century than during the last 25 years is a matter for conjecture.

With most of Africa part of closed regional arrangements, the option is not open versus closed regionalism, so much as making the transition from a closed regional system to an open global one.

Although open regionalism is not on the African agenda at this juncture, there are hopeful signs that the nature of regionalism is changing, Hawkins argued. He listed three major initiatives that could move the regional economy towards free trade and greater participation in the global economy:

- One is the EU-SA free trade area which brings together two closed regional agreements. Enhanced market access — albeit on an asymmetrical basis — and foreign direct investment inflows are projected to have beneficial trade output and employment effects. The effects are the more beneficial because the clear intention is — in terms of the SADC protocol — to bring more countries into the arrangements over time.
- The second initiative is the restructuring of the Lomé Convention. A number of options are on the table, some of which involve fostering various regional trading arrangements within Africa, the Caribbean and the Pacific countries (ACP), with the intention that these will then enjoy free trade area arrangements with the EU.
- The third is the currently-stalled US-Africa trade initiative, which fits the open regionalism model relatively well to the extent that it promises enhanced access for African exports into the US market in return for trade, economic and governance reforms that would benefit exporters, but not exclusive trade access limited to US exporters.

To move from closed to open regionalism, regional integration schemes would do well to ensure that:

- preferential arrangements such as SACU or the EU-SA FTA are consistent with the legal requirements of the World Trade Organisation (WTO) multilateral system;
- regional FTAs agree to lower their external trade barriers — the common external tariff — against outsiders approximately at the same rate that internal barriers between members are phased down. The net result would be to merge regionalisation and globalisation — albeit over a staggered timetable. The end result would be an open global market rather than a number of large, discriminatory blocs, bargaining with and threatening each other.

The critical influences underpinning the transition from closed to open regionalism are:

- that there should be a CET — though obviously not immediately;
- that this CET should be adjusted downwards over time in line with global trends thereby minimising discrimination against non-members and other blocs;
- that the regional agreements should not be confined to trading arrangements but that there should be a strong capacity-building commitment — infrastructure, skills development, competition policy designed to build competitiveness; and
- that, optimally, the closed arrangements should become progressively open, preferably by 'integrating' with a northern FTA, such as the EU, and also by increasing the extent of its integration with the global economy, through ongoing trade and payments liberalisation.

Hawkins concluded that provided policymakers focus on the endgame of global free trade, and that regionalism is seen as a means to an end and not as an end in itself, closed regionalism in Africa could become a platform for globalisation. He stressed, though, that the preconditions are critical.

6.5 Latin America's Move from Closed to Open Regionalism

Deputy Minister of International Economic Relations in Chile, Juan Gabriel Valdés, noted that during the past three decades there has been a considerable change in Latin America's approach to economic integration. In the sixties and the seventies, integration was principally an inward-orientated process, focused on reaching import-substitution on a regional scale. By contrast, in the nineties, due to the changes in the international system and to the restructuring and liberalisation of most Latin American economies, both the concept and the reality of integration have changed dramatically. Within this new modality of economic integration, the assignment of economic resources depends on market signals and international competitiveness, more than on interventionist policies. The state and multilateral institutions set the normative framework, in close collaboration with business, but the overall dynamism of the integration process is due to market forces. In other words, Latin America has moved from closed to open regionalism.

Nineteenth-century perceptions of mutual threat and national security concerns, which resulted in Latin American nations turning their backs on one another, have been replaced by successful new integration schemes (such as Mercosur), the revitalisation of previously hamstrung regional agreements (such as the Central American Common Market, CARICOM and the Andean Community of Nations), as well as dozens of preferential trade agreements. Even Chile, which had withdrawn from the then Andean Pact in 1976 to pursue aggressive unilateral opening and export promotion, turned to its neighbours. As Chilean Ambassador

Jorge Heine noted, Chile had much to gain from associate membership of Mercosur.

The benefits for intra-Latin American development offered by this approach are impressive: between 1990 and 1996, while Latin American exports to the world almost doubled, growing at an average of ten percent a year; exports within the region almost tripled, growing at an average of 20% annually.

Valdés continued that regional integration throughout Latin America has in turn spurred hemispheric integration in the 1990s, in the form of negotiations towards the FTAA. But the moves toward hemispheric integration in the 1990s are remarkably different from similar initiatives mooted in previous years. In the past, suggestions of hemispheric integration were closely related to power-politics and traditional geopolitics, as opposed to the dynamics of contemporary economic integration.

In the mid-nineties, the possible scenarios included either a NAFTA-enlargement or a hub-and-spokes framework, in which the United States would play the dominant role at the centre. Within these scenarios, the large players and their overall national interests and hegemonic ambitions had an overwhelming importance, while the trade issues themselves, as well as the interests of small and medium countries, were pushed into the background.

In the mid-1990s, regional realities are fundamentally different. The way in which Latin American countries relate to one another has been thoroughly transformed. In essence, the FTAA negotiations are becoming a mini-WTO between 34 countries, and the FTAA is becoming the vehicle to open regionalism in the Americas.

7. Bringing Together Regional Integration Schemes in the South

Abdul Minty, Deputy Director-General of Multilateral Affairs, South African Department of Foreign Affairs, addressed the topic of bringing regional integration schemes of the South together. It is important to note, in any discussion concerning the South, that not only do all the states of the South not actually fall into that hemisphere, but there is also considerable diversity within the grouping: from micro-states to huge countries like India; from the very wealthy in the Middle East to the very poor; from fully-fledged democracies to some of the world's worst human rights abusers. Yet despite these differences, what connects the countries of the South is their colonial heritage, and the varying degrees of economic, military and political dominance of the North. In short, the South consists of developing countries.

7.1 Types of South Groupings

The South has increasingly turned to regional co-operation to further its economic, political and security concerns and interests. Such regional groupings include ASEAN in Southeast Asia, ECOWAS in West Africa, South America's Mercosur and SADC in Southern Africa.

However, the South has not only sought regional co-operation as a means to improve its bargaining position in the world: a number of groupings are inter-regional in nature. Moreover, some transcend the traditional divisions between the developing and the developed world. Such groupings include, for example, the Valdivia Group and Cairns Group, which are formed around specific interest areas. By means of their broad and diverse membership, these groupings are able to call on the strong regional diplomatic networks of their individual members.

In addition to this, the South has also engaged in an even broader level of co-operation. Whilst belonging to various groupings and regional organisations, developing countries also come together at international fora such as the Non-Aligned Movement (NAM) and the Group of 77 (G77) to articulate their concerns.

7.2 Drawing the Different Groupings Together

Minty identified NAM and the G77 as the key organisations to draw together the regional integration schemes of the South in an effort to enhance the capacity of developing countries to participate in the global economy.

The recent global economic turmoil prompted the 1998 Durban NAM Summit to focus on improving the status and bargaining position of the South through greater functional collaboration in the fields of trade, investment and development. The

subsequent Durban Declaration stressed that South-South co-operation has to ensure a more equitable participation by developing countries in the global marketplace. As the rules of the world economy are essentially dictated by those with the greatest influence — that is, the North — the South, through coalition-building, has to engage in collective action to play a more decisive role in defining the rules of international political and economic interaction or face further marginalisation.

Minty stressed that 'bringing together regional groupings' should not only be understood in the political sense. It should also manifest itself in increased intra-regional and inter-regional trade and investment. Minty mentioned that South Africa is involved in efforts to this effect through fora such as SADC, the Indian Ocean Rim Association for Regional Co-operation and the Zone of Peace and Co-operation in the South Atlantic (ZPCSA).

He also stressed the importance of the South's engagement on the issue of security — not only conventional military security, but so-called human security too, which extends to economic, social, cultural and environmental protection. In this context, he mentioned co-operation amongst the South on shared water resources, fighting the scourge of AIDS, preserving marine resources, and eradicating poverty.

8. Concluding Remarks

The SAIIA conference '*Mercosur and SADC: Regional Integration in the South*' essentially sought to answer three questions:

- First, what are the lessons to be learnt about regional integration from Mercosur and SADC?
- Second, what are the prospects for intra- and inter-regional co-operation?
- Third, how should this process be taken forward?

Steven Friedman, Director of the Centre of Policy Studies, noted that regardless of one's view of the global economic system, regional groupings are part of the setting. In fact, Erwin went so far as to argue that regionalisation is an imperative, not an option. Hawkins concurred that provided policymakers focus on the endgame of global free trade — that is, see regional integration as a means to an end and not as an end in itself — regionalism in Southern Africa, and elsewhere, is an appropriate response to globalisation.

Furthermore, regional engagement is vital in Southern Africa where national labour markets are impossible to separate, given the high disparities in income between South Africa and most of its SADC partners. As Clayton contended: 'there needs to be an increase in regional trade in goods, otherwise there will be a trade in humans into South Africa'.

In short, as Erwin emphasised, it is high time that SADC moves beyond 'diplomatic waffle' to the practical issues of integration. It is essential that all the countries in the Southern African region work together and utilise their common resources to compete more equitably in the world economy.

To revitalise the region, it is imperative that SADC addresses its lack of focus. Mercosur certainly illustrates the importance of a commonality of purpose and values, as essential to create the 'critical mass' for a regional integration process to move forward. For this reason, Erwin noted, the 'Mercosur model is one we should emulate to a high degree'.

Textbook economics teaches that, generally speaking, regional integration projects are most likely to succeed under the following conditions:

- the greater the proportion of goods imported from the region and from member states in particular, and the smaller the proportion bought from outside this area;
- the larger the internal market;

- the greater the diversity of production structures among member states; and,
- the lower the 'transaction costs' among states, especially transport and infrastructure.

Furthermore, the following conditions, *inter alia*, are considered as not conducive to regional integration:

- a shortage of value-added products;
- a low level of industrialisation;
- a heavy dependency on imports and foreign trade, in particular with advanced industrialised countries;
- a relatively low level of trade within the region; and
- small economies, both in terms of population size and GDP.

Is there anything that can be learned specifically from the Mercosur experience? After all, Southern Africa would certainly wish to follow the success of Mercosur, where intra-regional trade grew five-fold from US\$4 billion in 1990 to over US\$20 billion in 1997. Foreign direct investment in Mercosur grew ten-fold from US\$2.6 billion in 1990 to US\$26.6 billion in 1997.

8.1 What are the Lessons?

Greg Mills, National Director, South African Institute of International Affairs, summarised the reasons for Mercosur's success

First, there was a high degree of political commitment to the process, particularly by Argentina and Brazil, which between them account for 97% of Mercosur's GDP. Distrust between these two large partners and fears of Brazil's hegemony were set aside in the interests of integration, as a result of what Mondino termed the 'vision and statesmanship' of the political leaders at the time.

Second, Mercosur's establishment was preceded by the unilateral implementation of liberal trade policies of the constituent members — broadly as a result of sweeping economic reform to address the scourge of hyperinflation, but also in accordance with the General Agreement on Trade and Tariffs (GATT)/WTO requirements. In short, integration was facilitated by the countries' commitment to neo-liberal reform.

Third, the rapid growth of Mercosur coincided with a period where international financial resources were freely available to finance current account deficits.

Fourth, Mercosur started small, thus limiting the potential for conflict. Unlike SADC, where the emphasis has been placed on the widening of membership,

Mercosur's step-by-step approach has allowed the grouping to deepen and consolidate their commitment to free trade.

Fifth, sound personal relationships between the respective presidents, as well as ministers of foreign affairs and finance, have helped to overcome hurdles. The political leaders meet regularly and are in constant, at times daily, contact.

Sixth, related to the last point, decision making is vested in an inter-governmental process rather than a supranational body or 'Mercosureaucracy'. This minimalist approach to institutionalisation ensures that the process remains cost-effective. As Rosselli emphasised, a grouping's institutional capacity need only reflect the nature of the regime at the time: an imperfect free trade area and customs union require only imperfect institutions. More complex structures can be erected as the process evolves.

Seventh, Mercosur has added to its own progress through an overlay of regional ties, including: the free trade areas with Chile and Bolivia (both enjoy associate membership status); similar arrangements under negotiation with both the Andean Community and Mexico; the framework agreement with the EU; and the negotiations with 34 American states to create the hemispheric FTAA.

Eighth, regional integration in the Southern Cone went hand in hand with political convergence. The restoration of democracy and the changed nature of the military's political role helped to subvert traditional rivalries and allowed genuine integration. In fact, greater economic co-operation locked countries into their democratic commitment. Mercosur allows membership only to democracies. In this way, the Mercosur experience illustrates that integration is not solely about business opportunities, but also the synergy between democracy, human rights and welfare.

Ninth, Mercosur, as Botafogo put it, is a remarkable exercise in pragmatism. The grouping focused on project-specific co-operation, such as the co-operation between Argentina and Brazil with regard to the automobile industry. This process in turn, as Mondino noted, highlights another important trend: as production becomes integrated across borders, changes in policies that turn against integration become ever more difficult. The lobby against such policies becomes so strong that no democratic government would dare to alter the established rules of the game. This supports Erwin's earlier point that regional integration is not achieved by summits alone, but requires ongoing interaction at all levels.

Tenth, the size of the regional economy can strengthen the imperative to engage. In Mercosur's case this is worth US\$1.25 trillion, with SADC just US\$180 billion.

In short, as Cleary noted, it seems that Mercosur's success can be attributed chiefly to facts that do not apply in SADC:

- Small size: There are only four members — Argentina, Brazil, Paraguay, Uruguay, with Bolivia and Chile as associate members.

- High value congruence: Highly congruent political and social values, a common commitment to democracy, and a shared Latin culture are common to all members.
- Common economic interests and perspectives: The member states see the world and the risks and opportunities it poses, in much the same light. No extensive debate on the need for macro-economic stabilisation or liberalisation was necessary. The region is not characterised by a tendency to kleptocracy.
- Good personal and political relations: Heads of state are said to talk regularly on a wide range of issues.
- Good capacity to manage complex policy and technical issues: Large numbers of well-trained technocrats and basic information infrastructure are available.
- Availability of international finances: Investment flows financed current account deficits in a period of global growth fuelled by fast-growing international trade.

Aside from interesting parallels with the process of trade integration, Mills argued, for Southern Africa these lessons can be simply distilled into the need for key actors to recognise the benefits of co-operation, bury differences and focus on pragmatic areas of interaction. 'For Argentina and Brazil read Zimbabwe, Angola and South Africa.' This is not to say Mercosur can be used in blueprint version by SADC. As Friedman put it, a closer look at Mercosur and SADC shows up some glaring differences which need to be taken into account:

- The two groupings emerged in very different political and economic contexts. Mercosur was established in the context of the Southern Cone's democratisation, and efforts to extend the gains of democracy to the economic field. On the other hand, SADC's origins lie in SADCC which aimed at economic independence from *apartheid* South Africa.
- The institutional capacity as well as the level and nature of political participation in the two groupings are vastly different too. Mercosur has progressed much further in a much shorter time than SADC in terms of creating efficient and appropriate infrastructure capacity. Moreover, Mercosur leaders arguably display a much higher commitment to the process than Southern African leaders do.
- SADC's progress towards free trade is hampered by the reality of South Africa's domination. Although Mercosur members fear Brazil's relative regional giantism, trade relationships exhibit greater balance than they do in Southern Africa. While the value of Brazil's intra-Mercosur trade is in the order of 20%, only five to six percent of South Africa's trade is conducted with the Southern African region.

8.2 Intra-regional Co-operation in Southern Africa

Is it really possible to integrate the 14 SADC states?

Given the diverse nature and perspectives of member states of SADC, Friedman noted, 'variable geometry' may be the only viable option, as all countries clearly do not share the same level of capacity and commitment. Nkuhlu went as far as suggesting that problematic states that could undermine the regional integration process should be 'ring-fenced', while the others go ahead. Agostinho Zacarias, from the *Instituto Superior das Relacoes Internacionais* in Mozambique, recommended the signing of security and defence pacts which can regulate regional relations and protect common values in the region.

Mills agreed that it may be prudent for SADC to follow a more gradualist approach — focusing essentially on achievable goals and with functional decision-making instruments. Mills suggested a dual-track (or two-speed) approach to regional integration in Southern Africa — with the political framework provided by the SADC, and the Southern African Customs Union being extended slowly to other Southern African states, particularly since the SACU accounts for 70% of intra-SADC trade. He further argued that the SACU could, as a first step, potentially include Mozambique.

8.3 What are the Opportunities for Inter-regional Integration?

Critical to the success of inter-regional integration is the need to 'get business on board' to cement the political process. As Thahane stressed, trade relations are not only 'inconsequential' at present, but investment linkages are 'negligible' too.

It is important to identify those sectors which may give an impetus to inter-regional trade and investment links. In particular, the mining, fishing and automobile fields must be considered. Also, the importance of trans-regional investor links as one of the ties which bind, should not be overlooked.

The session dedicated to the automotive industry certainly showed that opportunities abound. Speakers indicated that technology exchanges and production co-operation between Mercosur motor producers and those in South Africa could be very fruitful. Brazil's General Motors and South Africa's Delta Motors, for example, co-operate to produce and market the Opel Corsa in South Africa. It is constructed in Brazil, and shipped to South Africa in knock-down version. Tyres, seats and accessories are then added in South Africa. In short, the motor industry could be a key 'catalyst' for more South-South (or East-West) as opposed to North-South trade.

However, inter-regional links do only begin and end with trade and investment. As Minty showed, the two regions have many common concerns. They could share their experiences in dealing with trans-national crime issues, particularly drug and weapons smuggling and money laundering. Also in the security domain, Mercosur

states can share their peacekeeping experiences — particularly those in Africa — with SADC.

8.4 Taking this Process Forward?

Mills concluded that it is clear that both Mercosur and SADC contain countries on a similar trajectory, both within and between the two regions. Fostered through a shared transition from authoritarian rule to democracy, this mutual understanding has been strengthened by burgeoning inter-regional trade and investment ties. Mercosur convinces SADC of the need for continued implementation of serious macro-economic reform; and of the need for regional programmes which may be imperfect, but are focused on pragmatic projects — remembering Mondino's dictum in this regard that 'the perfect is the enemy of the good'. Finally, recalling Erwin's words about South Africa's role in SADC, there is an obligation on South Africa to exercise regional leadership to make this process of integration and inter-regional co-operation a reality.

Mills urged in this regard that it is crucial that the October meeting does not just become another talk-shop, 'where good ideas emerge simply to disappear'. It is hoped that, with the continued sponsorship of Daimler-Benz, this can be the first meeting in an ongoing dialogue between Mercosur and SADC member states, which must seek to identify regional projects around which to generate links along a practical rather than simply a political axis. The next meeting will probably take place in a Mercosur member country and contain a high degree of business involvement.

Participants

José Botafogo Gonçalves is the Brazilian Minister of Trade, Industry and Tourism.

Afonso Carbonar is the International Advisor to the Brazilian Minister of Trade and Industry.

Philip Clayton is Senior Economist at the Standard Bank, South Africa.

Alec Erwin is South Africa's Minister of Trade and Industry.

Steven Friedman is the Director of the Centre for Policy Studies.

Dr Stephen Gelb is a senior economist in the Policy Unit at the Development Bank of Southern Africa (DBSA).

Tony Hawkins is Professor of Business Studies at the University of Zimbabwe.

Dr Jorge Heine was Ambassador of Chile in South Africa and non-resident Ambassador of Mozambique, Namibia and Zimbabwe.

James Higgs is acting Director of Studies at the South African Institute of International Affairs.

André Jaquet is the Chief Director of the Americas in the South African Department of Foreign Affairs.

Christoph Köpke is the President of the National Association of Automobile Manufacturers of South Africa.

Steve Malherbe is the Chairman of the South African Pelagic Fish Industry Association.

Dr Greg Mills is the National Director of the South African Institute of International Affairs.

Abdul Samat Minty is Deputy-Director General of Multilateral Affairs at the South African Department of Foreign Affairs.

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Eric Hilario Msolomba is the Director of the Southern African Transport and Telecommunications Commission — Technical Unit.

Mfundo Nkuhlu is Chief Director: Africa Trade Relations at the South African Department of Trade and Industry.

Dr Garth le Pere is the Executive Director of the Foundation for Global Dialogue (FGD).

Dr Prega Ramsamy is the Deputy-Executive Secretary of Southern African Development Community (SADC).

Elbio Rosselli is the Director-General for Integration and Mercosur Affairs and National Co-ordinator for the Common Market Group at the Uruguayan Ministry of External Relations.

Brian Smith is the Director of Human Resources, Volkswagen South Africa.

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Timothy Thahane is the Deputy Governor of the South African Reserve Bank.

Mtutuzeli Tom is the National President of the National Union of Metal Workers of South Africa (NUMSA).

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About the SAIIA

The origins of the South African Institute of International Affairs (SAIIA) date back to the Paris Peace Conference of 1919. In this fragile post-war atmosphere, many delegates expressed a strongly-felt need for the establishment of independent, non-governmental institutions to address relations between states on an ongoing basis.

Founded in Cape Town in 1934, in 1960 the Institute's National Office was established at Jan Smuts House on the campus of the University of the Witwatersrand. SAIIA's six branches countrywide are run by locally-elected committees. The current National Chairman is Dr Conrad Strauss and the National Director is Dr. Greg Mills. The SAIIA has recently relaunched its range of publications. *The South African Yearbook of International Affairs* has established a reputation as the principal reference work of its kind. In addition to the reorganised *South African Journal of International Affairs*, SAIIA also publishes for members the fortnightly *Intelligence Update*, which contains first-class confidential briefings not readily available elsewhere. Specialist subjects are addressed comprehensively in books written by our research staff.

The Institute has established a proud record of independence, which has enabled it to forge important links with leaders of all shades of opinion, from within and beyond South Africa's borders. It is widely respected for its integrity. The information, analysis and opinions emanating from its programmes often exercise an important influence on strategic decision-making in the corporate and political spheres.

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Programme

MERCOSUR/MERCOSUL and SADC *Regional Integration in the South*

27-28 October 1998

The South African Institute of International Affairs
Jan Smuts House, East Campus, Wits. University

Tuesday 27 October 1998, Jan Smuts House Opening

- 07h15 : Registration
- 08h00 : Welcome and Administrative Arrangements

Session One

MERCOSUR and SADC

Chair: Greg Mills, SAIIA National Director

- 08h10 : *MERCOSUR Today: Choices and Challenges*
José Botafogo Goncalves, Brazilian Minister of Trade, Industry and Tourism
- 08h40 : *SADC: Evolution and Perspectives*
Prega Ramsamy, SADC Deputy Executive Secretary
- 09h10 : *Respondent*, Michael Spicer, Anglo American Corp.
- 09h30 : *Globalisation and Regionalism in the South in the 21st Century*
Alec Erwin, Minister of Trade and Industry, SA
- 10h05 : *Questions and Discussion*
- 10h20 : Coffee/Tea

Session Two

The Role of Trade Liberalisation in Regional Integration

- 10h40 : *The Expansion of Intra-regional Trade in MERCOSUR*
Alfredo Morelli, Deputy Secretary of Economic Integration, Argentina
- 11h00 : *Moving Forward with Trade Liberalisation in Southern Africa*
Mfundo Nkuhlu, Dept. of Trade and Industry, SA
- 11h20 : *Respondent*: Philip Clayton, Standard Bank, SA
- 11h35 : *Questions and Discussion*
- 12h15 : Lunch

Session Three

Investment and Trade Linkages Within and Between Regions

Chair: André Jaquet, Department of Foreign Affairs, SA

- 13h45 : Timothy Thahane, Deputy Governor of the Reserve Bank, SA
- 14h05 : Guillermo Mondino, Director of the Mediterranean Foundation, Argentina.
- 14h25 : *Respondent*
Steve Malherbe, SA Pelagic Fish Processors Association
- 14h40 : *Questions and Discussion*
- 15h20 : Coffee/Tea

Session Four

The Role of Infrastructural Development in Sub-regional Integration

Chair: James Higgs, SAIIA Director of Studies

- 15h40 : Stephen Gelb, Development Bank of Southern Africa
16h00 : Respondent, Eric Msolomba, Director,
Southern African Transport and Communications Commission
16h20 : *Questions and Discussion*
16h45 : *From Closed to Open Regionalism*
Juan Gabriel Valdés, Deputy Minister, International Economic Relations, Chile
17h15 : *Questions and Discussion*
17h30 : Close

Session Five

Business and Labour in Regional Integration:

The Case of the Automobile Industry

Chair: Christoph Köpke, President

National Association of Automobile Manufacturers of SA

- 08h30 : Afonso Carbonar,
International Advisor to the Trade and Industry Minister, Brazil
08h50 : Brian Smith, Automobile Manufacturers Employers Association, SA
09h10 : Respondent, Mtutuzeli Tom, President, SA National Union of Metal Workers
09h25 : *Questions and Discussion*
10h10 : Coffee/Tea

Session Six

From Closed to Open Regionalism

Chair: Garth le Pere, Foundation for Global Dialogue

- 10h30 : Tony Hawkins, University of Zimbabwe
10h50 : Jorge Heine, Chilean Ambassador to SA
11h10 : Respondent, Agostinho Zacarias, Instituto Superior
das Relacoes Internacionais, Mozambique
11h25 : *Questions and Discussion*
12h00 : STUDY GROUPS:
Managing Sub-regional Borders
Chair: Greg Mills, SAIIA
High-tech Industries in Sub-regional Integration
Chair: John Stremlau, Wits University
Democracy and Regionalism
Chair: Steven Friedman, Centre for Policy Studies
13h15 : Lunch

Closing Session

Chair: John Stremmler, Wits University

- 14h15 : *Bringing Together Regional Integration Schemes in the South*
Abdul Minty, Deputy Director-General of Foreign Affairs, SA
- 14h45 : *External Relations of Mercosur*
Elbio Rosselli, Director-General for Integration
and Mercosur, Ministerio Relaciones Exteriores, Uruguay.
- 15h15 : *Summary and Conclusions*
Steven Friedman, CPS
Greg Mills, SALLA
- 15h45 : Close

Recent SAIIA Publications

Books:

- SAIIA Yearbook, 1998/99*, edited by G Mills (1998)
- The Politics of De-Mining*, L Boulden & M Edmonds (1999)
- South Africa and the Future of the Non-Aligned Movement*, edited by G Mills (1998)
- South Africa into the New Millennium*, edited by G Mills (1998)
- Beyond the Horizon: Defence, Diplomacy and South Africa's Maritime Opportunities*, by M Edmonds & G Mills (1998)
- Looking Sideways: The Specifics of South-South Co-operation*, edited by J Heine & G Mills et al (1998)
- South Africa and Security Building in the Indian Ocean Rim*, G Mills (1998)
- The Illegal Drug Trade in Southern Africa*, SAIIA (1998)
- South Africa & Southern Africa: Regional Integration and Emerging Markets*, edited by A Handley & G Mills (1998)
- From Isolation to Integration?*, edited by A Handley & G Mills (1996)
- Portuguese Diplomacy in Southern Africa*, M Venancio & S Chan (1996)

Reports:

15. *Mercosur/Mercosul and SADC: Regional Integration in the South* by T Bertelsmann-Scott & C Mutschler (1999)
14. *The Critical Component: Personnel Strategies for the SANDF to 2000 and Beyond* by J Higgs (1998)
13. *The South African Defence Industry and New Thinking on Security* by A Zacarias (1998)
12. *The Foreign Relations of South Africa's Provinces* by D Geldenhuys (1998)
11. *Taking Southern Africa into the 21st Century* by A Handley & B Thoka (1998)
10. *Non Aligned Against What? South Africa and the Future of NAM* by A Handley (1998)
9. *Towards Cost-effective De-mining* by L Boulden (1998)
8. *The United States and South Africa in the 1990s* by J Broderick (1998)
7. *Regional Integration: Latin American Experiences* by C Mutschler (1998)
6. *The EU and South Africa* by T Bertelsmann (1998)
5. *Revisiting South-South Co-operation: An Agenda for the 1990s* by T Bertelsmann & C Mutschler (1997)
4. *South & Southern Africa: Lessons from Emerging Markets* by C Mutschler (1997)
3. *The Illegal Drug Trade in Southern Africa* by G Oosthuysen (1997)
2. *US-South Africa Relations and the 'Pariah' States* by G Mills et al (1997)
1. *India and South Africa: The Search for Partnership* by G Mills (1997)

About the Authors

Talitha Bertelsmann-Scott was born and raised in Pretoria. After having matriculated in 1992, she spent a year in France, first in Saint-Tropez, and later attending the Alliance Française on a full-time basis in Paris. On her return to South Africa she moved to Stellenbosch, where she read for a Bachelor of Arts degree, majoring in Political Science and English. Her thesis was titled: *A Free Trade Agreement with the European Union: Should South Africa Accept?* She is currently in the process of completing an Honours degree in International Relations at the University of South Africa (UNISA).

Her focus in Foreign Affairs and specifically the European Union stems from her keen interest in French and German, and the cultural background to these languages. Political Science has always been the obvious supplements to the study of languages, which gradually evolved into her interest in international affairs. In January 1997, she began work at the South African Institute of International Affairs as the Standard Bank European Union Research Fellow.

Claudia Mutschler was born in Nordhorn, Germany. She attended the Deutsche Schule Windhoek in Namibia and matriculated from West Ridge High School, Johannesburg. She obtained both a BA Journalism degree and a BA (Hons.) Political Studies degree *cum laude* from the Rand Afrikaans University (RAU), Johannesburg.

In November 1996, she was appointed Latin America Research Fellow at the South African Institute of International Affairs. Her fellowship is funded by the re-organised Anglo American Chairman's Fund. Her work focuses on the effects of globalisation and regional integration on Latin America, extracting from this lessons for South and Southern Africa. She has published on these and related subjects, including journal articles and book chapters, presented papers at both international and local conferences, and contributes regularly to the local media. She has travelled in South America as part of her research. In 1998, she taught Latin American Studies and International Organisation at the Department of International Relations at the University of the Witwatersrand (WITS).



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