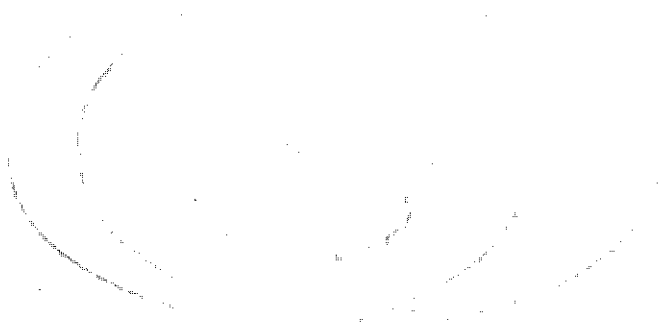


South Africa in the Global Economy



THE SOUTH AFRICAN INSTITUTE
OF INTERNATIONAL AFFAIRS

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SOUTH AFRICA
in the
GLOBAL ECONOMY

Edited By

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and
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Published by
The South African Institute of International Affairs
Jan Smuts House, Johannesburg
with assistance from
The Standard Bank Foundation

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Greg Mills, Alan Begg and Anthoni van Nieuwkerk
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ISBN: 1-874890-58-7

First published by the SAIIA, February 1995

(Printed by Print Inc.)

Cover designed by Belinda Rowles

The South African Institute of International Affairs gratefully acknowledges the generous financial assistance of The Standard Bank Foundation in the publication of this volume.

Preface

After the long isolation of the sanction years, South Africa can now as a full democracy, rejoin the community of nations with pride. This is a major challenge but must also be seen as an opportunity for South Africa's business community to play its full part, alongside the Government of National Unity, in conceiving new policies for this new age. These policies will have to synchronise our realities with those of a world in which trade and global competitiveness are as important as the political dimensions of diplomacy. How then South Africa chooses to integrate itself with regional economic trade blocs is a vital question if we are to utilise political goodwill to economic benefit. Of course, issues of peace, security and human rights should be equally important factors in determining our foreign policy. This book tackles these questions and other issues and is thus a timely contribution to a debate at the heart of our potential success as a nation in the future. The readers have the benefit of insightful academic thought presented in accessible and thought-provoking form by the contributors to whom thanks and praise are deservedly given.

Dr. Conrad Strauss
National Chairman
South African Institute of International Affairs

Editor's Note

Initiating change is difficult but glamorous. Sustaining change is even more difficult and much less glamorous. This book is set against a backdrop of conflicting and emergent national, regional, continental and global interests. It was born out of a perceived need by practitioners, academics, students and laypeople alike to understand the trends in international economic relations and world politics.

Effort has been made to solicit expert and diverse comment and analysis on the issues highlighted in this introduction. In doing so, the volume is divided essentially into three parts: the first looks at *The Changing Nature of the International Political-Economic System*; the second concentrates on *The African Context* where South Africa wittingly or not finds itself cast; and the final section deals with *South Africa and Southern Africa*.

In each of these general areas, the emphasis has been on the need for explanation of what is most times a confusing and complicated mosaic of organisations, acronyms, trends, shifts, needs, designs and motives. While it has not been possible to cover every area of South Africa's international economic relations, at the same time, however, it was intended that the topics chosen and the authors solicited would reflect and represent a wide range of views and constituencies.

There are many people who have helped in various ways with this project. Dr. Sara Pienaar, the Director-General of the South African Institute of International Affairs, is both an inspiration and encouragement. Dr. Conrad Strauss, who kindly agreed to preface this volume, has given much of his valuable time and effort in support of the Institute. All the members of the authorial team must be thanked for their ability to produce chapters at short notice and with much grace. Anne Katz performed her usual typing and production wizardry in keeping to a tight deadline. Alan Begg gave willingly of his time and wise advice, and with Anthoni van Nieuwkerk and the rest of the Research Group at SAIIA helped enormously in seeing this labour to fruition. The financial support of The Standard Bank Foundation is also gratefully acknowledged.

Finally, this book is dedicated to Annie Wothini (1942-94), whose life epitomised the plight and the struggle for survival and prosperity of Africa's women who most often bear the brunt of injustice and economic failure. It is hoped that her four daughters will reap the promise of the new South Africa. *Hamba kahle usisi wam.*

Greg Mills, February 1995

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Introduction:

Waiting for the Fig Leaf to Drop?

Greg Mills

The primary motivation of the ANC's foreign economic policies as a whole will be to place South Africa on the path of rapid economic development with a view to addressing three problem areas: slow growth, severe poverty and extreme inequalities in living standards, income and opportunity.

Nelson Mandela, 1993¹

The inauguration of President Nelson Mandela on 10 May 1994, was a catalytic event in the history of South Africa. A huge sense of pride, opportunity and achievement was generated by this moment. Accordingly, it is expected that the Republic will be able finally to take its rightful place in the international community. This position, it is believed, will now no longer be influenced so markedly by the nature of South Africa's domestic system. Under apartheid, domestic concerns and more specifically, security priorities, had dominated the foreign policy agenda. 'Normal' international economic relations were consumed by the threat of sanctions as well as the opposite *counter-sanctions* and *sanctions-busting* varieties.

South Africa's foreign relations should now, it is believed, be shaped by a whole range of factors and issues unrelated to domestic concerns. In the economic sphere, these include the membership of international organisations and regimes, as well as trade and investment partnerships.

Yet it is clear that domestic policy will continue to influence events and activities in the international sphere, and that the constraints on South Africa's foreign and domestic policies are still greater than the freedom of choice, even without apartheid. Some of these constraints relate to the politico-economic organisation of the international system, others to the manner in which South African *choices* impact on its foreign relations. Quite clearly, in the latter regard, the latitude for choice and degree of change that confronts the new South African regime will not solely be determined by influences from the top down, but those from the bottom up in particular. Questions that the international community is currently asking of South Africa include:

* What is (or will be) the perception of these 'rules' of the international system in

the new South African government, and how realistic then are Pretoria's current strategies?

- * What policies are expected to work in the international and African contexts?
- * What are the constraints, challenges and opportunities that face South Africa's future economic and trade relations?

In this, unless the South African government pursues a truly revolutionary code (and probably suffer the consequences) by inventing a new structure of politico-economic organisation that it can persuade others to follow, it will be obliged to align itself with global developments. Yet since the end of the Cold War, we have been confronted by what appear to be sweeping changes in the international system: what Francis Fukuyama described as 'The end of history', others the third act of a 'trptych' in a century characterised, first, by two world wars punctuated by a crippling depression and, second, by a period of relative economic and political stability in the West - the Cold War.² In a third 'panel' of the triptych, powerful economic forces have emerged alongside pervasive and devastating forms of nationalism. Ideology - previously to the fore in the battle between socialism/communism and liberalism/capitalism (as commonly portrayed) - has all but disappeared as the key determinant of international relations. Together politics and economics now cross international boundaries, what has become known in academic jargon as the 'international political economy'. In this:³

On the one hand, politics largely determines the framework of economic activity and channels it in directions intended to serve the interests of dominant groups; the exercise of power in all its forms is a major determinant of the nature of an economic system. On the other hand, the economic process itself tends to redistribute power and wealth; it transforms the power relationships among groups. This in turn leads to a transformation of the political system, thereby giving rise to a new structure of economic relationships. Thus, the dynamics of international relations in the modern world is largely a function of the reciprocal interaction between economics and politics.

What then are the nature of the economic forces at play in the international system today?

A World Torn Between Nationalism, Regionalism and Globalism?

The publication of the Atlantic Charter in August 1941 on the eve of America's involvement in the Second World War, illustrated the belief in the United States in a new design for world order which would replace the seemingly bankrupt ideas of the old world. For the Twentieth Century had already been convulsed by two major wars

which had become globalised through imperial connections; the international gold standard mechanism had collapsed; and the 1930s had seen major contractions in the international economy brought on by tariff and interest-rate wars. With this new design it was to be what Henry Luce termed the *American Century*.

The American solution was to be found in a new commitment to globalism. With the principal architect already possessing the most impressive national economy by the turn of the Nineteenth Century, and foreseen by Luce, 'as the dynamic centre of ever-widening spheres of enterprise', it was not surprising that this globalism was founded in multilateral liberalism. Admittedly with Washington playing the role of *primus inter pares*, there was created then the multilateral framework of: the United Nations (UN) with its commitment to collective security, human rights, national self-determination for the colonial territories, the development of specialised agencies for functionally-based co-operation, and the peaceful settlement of disputes; and the Bretton Woods system with its commitment to free trade, convertible currencies and balance of payments support.

The hallmark of the post-1945 international order has thus been one of contradiction: a universal commitment to globalism and multilateral co-operation replacing the destructive national and imperial competition of the interwar years, set against the intense desire for national self-determination in the colonial territories. As national, regional and global pressures developed, globalism failed to get off the ground in the way the US intended in 1945. With a proliferation of *coups d'état* often followed by a repression of opposition and massive corruption among the elites, the surrender of colonial rule seldom led to an orderly transition to peace-loving democracies. Collective security in the UN was supplanted by the arms race and superpower deterrence. As contiguity became easier than universalism, regional security and economic political agreements (such as the North Atlantic Treaty Organisation, the Organisation of African Unity, the Organisation of American States and the European Economic Community) became the norm. The multilateral Bretton Woods system, designed to promote international monetary co-operation, instead excluded the communist bloc and served to exacerbate and complement superpower rivalry. Many Third World states, already confronting horrendous problems of economic wider development or of building a legitimate political order, found themselves caught up in a superpower struggle which complicated their existing problems.

With the collapse of the Soviet Union and presumably an end to ideologically-driven conflicts, we have moved closer to the aspirations of the American wartime planners. While substantial problems of domestic order are likely to confront developing states for some time to come, equally there is a move towards more popularly legitimated

systems of government. This increasingly is taking the form of a multiparty democracy. At a regional level, economic co-operation progresses while the collective defence variety is either dead or moving that way.

In this, the Bretton Woods system of the International Monetary Fund (IMF), the World Bank and the General Agreement on Tariffs and Trade (GATT) has survived and is now more flexible and more truly (though not perfectly) multilateral than ever before. Trade has expanded at a rate faster than world output. In 1963, total world exports stood at US\$154 billion. By 1977, this amount was more than US\$1 trillion, by 1980 US\$2 trillion, and US\$2,5 trillion in 1987.⁴

Developments in international investment and banking have created high levels of interdependence. Capital can now move around the globe from place to place and currency to currency at a touch of a keyboard. Yet what is gained in mobility, is for some governments lost in control. The scope for slow deliberation is limited. In the 1920s, major economic decisions were handled either by letter (4 weeks) or telegram (24 hours). For example, the correspondence in 1923-24 between Sir Henry Strakosch, Montague Norman (Governor of the Bank of England) and the Governor of the South African Reserve Bank WH Clegg relating to the advisability and implications of South Africa reverting to the gold standard, took place through an exchange of letters one-month apart.⁵ There was thus time to thoroughly assess this move with its far-reaching economic implications for the value of the (then) South African pound, the pricing of imports and exports, the rate of inflation, and for debt redemption (factors perennial in the deliberations of Twentieth Century economists). This is something that CNN, Internet and 'faxism' do not allow.

Improvement in mass communications has also served, by fax, phone, computer and satellite, to disseminate knowledge of international issues and to stigmatise the politics of pariah states. This is the age of the global consumer, where the realities of the international markets and opportunities can no longer be shielded from view - although, paradoxically, the manipulation and objectivity of reporting is arguably now even more crucial than ever before.

In this era labour skills and Multinational Corporations (MNCs) regularly transgress international boundaries. The growth in productive capacity of this group guarantees an increasingly important place in international politics: in 1978 US\$1,9 billion of world GDP was produced by the top 430 MNCs. Ten years later, the largest 41 by themselves produced US\$1,5 billion. In the same year, the same 41 corporations were among the world's 100 largest economic units, with the largest, General Motors, at position 23 ranking ahead of political sovereignties such as Austria, Sweden, Switzerland

and Taiwan. South Africa, at 34, was followed immediately by Exxon and the Royal Dutch Shell Group.⁶ As industrial standards and consumer preferences are marshalled into uniformity and trade barriers lessen, these corporations are likely to expand further still, with a weakening effect on the power of the individual nation-state, particularly in the developing world.

Whereas the basis of wealth was in past centuries linked to the control of natural resources and trade routes, in more recent times this has moved to the control of capital and, most recently, to the accumulation of knowledge, human competence and technological progress. Industrial expansion is now fuelled by the expansion of knowledge, where skills are essential for survival yet easily transferable in the global economy. Here overpopulation and concomitant demographic pressures place certain societies at an immediate disadvantage in this world, thrusting them into decline and potential disintegration.⁷

In addition, new transideological issues now straddle national concerns and differences. Environmental and 'green' issues, health problems with AIDS, tuberculosis and malaria, the migrant and refugee problem - particularly for the Organisation for Economic Co-operation and Development (OECD) member countries and other growth 'poles' - and widespread famine are increasingly seen as requiring multilateral management.

How does South Africa fit in with this trend of progressive globalism and economic regionalism?

South Africa and the World Economy

Here it is important to note the character and strengths of the South African economy: how it might best fit into the new world economy; how domestic choices will shape its fortunes; and how extraneous factors such as perceptions of Africa on the world stage will also contribute.

The central objective of South Africa's foreign economic policy will have to be the attraction of foreign savings. South Africa will continue to experience a high rate of consumption in the foreseeable future to facilitate some degree of redistribution (which, of course, is linked ultimately to political stability). But to avoid economic collapse, the new South Africa has to attract substantial amounts of foreign savings with which to meet increased consumer demands. Investment will also bring with it improvements in skills and technologies, and competition for those internationally-uncompetitive South African producers and monopolies. To attract this investment, Pretoria's foreign financial and trade policies will be crucial.

Although followers of Lenin might disagree, there is not a great reservoir of foreign savings waiting idle to flow to developing corners of the world to expedite the process of exploitation and capital accumulation. Nowadays foreign capital needs to be attracted; and a fundamental prerequisite for this concerns the state of the domestic politico-economic system. Here a social-market economy combined with political stability and without domestic violence, is regarded as the ideal. So would an acceptance of the World Bank-IMF consensus. A final international prerequisite currently demands freedom of movement of capital, an open stock-market and banking sector, and a currency freely convertible at market rates.

It is important to distinguish between *investment* and *aid* when discussing capital flows. South Africa has outwardly benefited financially from the various aid packages which followed the April 1994 election. Following the election during 1994 South Africa received assurances of: the US\$600 million package from the US; US\$1,9 billion in a trade support and assistance package from the United Kingdom; US\$150 million in aid from the European Union (EU) plus US\$270 million in potential loans from the European Investment Bank; US\$800 million from the French government in July; and US\$1 billion from Japan. Not all of these amounts are 'direct government aid', some being structured in the form of loan and credit guarantees as well as bilateral aid.

Yet while such amounts give reason for optimism, questions have been asked about the efficacy of aid in bringing about sustainable economic growth and in relieving poverty. The manner in which aid donations are 'packaged' (sometimes tied to trade 'offsets', and the purchase of goods, personnel and services from the donor nation) and their channelling often through government offices has prompted cynical definitions that aid is: 'Poor people in rich countries helping rich people in poor countries' and is measured in 'bad advice per capita'. Importantly, unlike investment, aid seldom creates capacity and skills in the recipient nation, instead creating a 'culture of dependency'. Here it is also important to look at and follow those which have achieved growth with relatively little aid (China and India), and examine the reasons for failure in the countries (Cameroon, Tanzania, Zambia, for example) with slow growth but considerable (at times more than 20% of GDP) aid.

Capital will, of course, always seek out the best and most reliable option for a return on investment. It is attracted to countries which do not impose restrictions on investment flows, maintain a good balance between productivity and labour costs on the one hand and between investment and consumption expenditure on the other, run small and effective bureaucracies, and have a good record against corruption and monopolies. And it prefers countries which are politically stable, even if autocratic rather than democratic. Where does this leave South Africa?

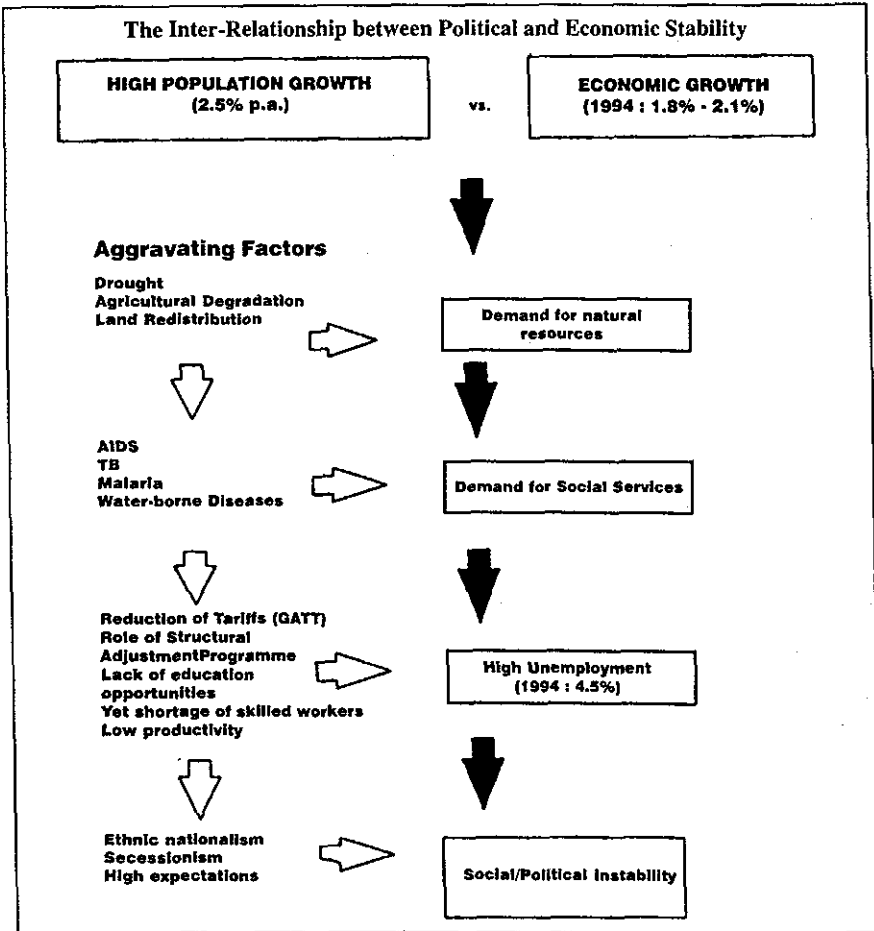
Although a giant on the continent and in Southern Africa, where with under 40% of the population it produces 80% of the region's economic product, South Africa is still a relatively small player in world terms. It ranks at the lower end of the 'upper-middle-income' countries, below Mauritius, Brazil, Mexico, Gabon, Greece and Portugal. If one takes the figures for economic growth per capita - a 'leading indicator of stable political development'⁸ - the picture for South and Southern Africa is not rosy at all. As the Table below indicates, the real annual economic growth in sub-Saharan Africa during the 1980s was some 30% lower than other regions. South Africa managed only 60% of the growth rate of other sub-Saharan countries during this time. Between 1980-92, South Africa managed an average GNP growth per capita annually of only 1.3%, compared to 3.9% for the low-income developing world, 2.3% for high-income developed countries, and 0.8% for sub-Saharan Africa.

| Performance Indicators in the World Economy | | | | | | |
|---|------------------------|---------|----------------------|---------|---|---------|
| GROUP AND REGION | REAL GROWTH OF GDP (%) | | GROWTH IN EXPORT (%) | | GROWTH IN GROSS DOMESTIC INVESTMENT (%) | |
| | 1970-80 | 1980-92 | 1970-80 | 1980-92 | 1970-80 | 1980-92 |
| Industrial countries | 3,2 | 2,9 | 5,4 | 4,9 | 2,0 | 4,0 |
| Less developed countries | 4,5 | 6,0 | 3,9 | 4,4 | 7,0 | 7,0 |
| Sub-Saharan Africa | 3,6 | 1,8 | 2,8 | 2,4 | 5,1 | -3,0 |
| East Asia & Pacific | 6,6 | 7,7 | 9,5 | 10,5 | 9,7 | 10,1 |
| South Asia | 3,5 | 5,2 | 3,6 | 6,8 | 4,6 | 5,0 |
| Middle East & North Africa & Others | 5,2 | 2,2 | 3,9 | 0,8 | n/a | n/a |
| Europe & Central Asia | n/a | 1,5 | n/a | n/a | n/a | n/a |
| Latin America & the Caribbean | 5,4 | 1,8 | -0,1 | 2,9 | 6,8 | -0,5 |
| South Africa | 3,0 | 1,1 | 11,1 | 0,7 | 2,5 | -4,4 |

Source: World Bank 1994, *World Development Report, 1994*. New York: Oxford University Press, in Spies, Note 7.

This low growth rate undoubtedly is related to the rate of increase in the population of sub-Saharan Africa. This doubled from 294 million in 1970, to nearly 600 million in 1994, with projections of 940 million in 2010 and 1,36 billion in 2025. With Southern Africa contributing a constant 25% of the total, South Africa's share went up from 22,5 million (1970) to around 41 million in 1994, and a projected 58,4 million in 2010 and

73 million in 2025. Recent UN forecasts (1992) on the effect of AIDS on the population in Central and Southern Africa found that the total increase in population could be diminished by 2.8% from that envisaged for the year 2000, and 4.0% less in 2005.⁹ While a combination of man's adaptability (in methods) and technology (such as fertilisers) has meant that the means of subsistence have kept ahead of population growth in South Africa, there is justification for a Malthusian pessimism as to its chances to stay ahead.



Given the decline in the availability of natural resources per capita as a result of this

increase in population, some radical changes are necessary if the socio-economic situation is to be stabilised. This should, if the formula of the Asian countries and other successes is adopted, rely on export-driven growth. Technological skills are, of course, required for this to happen.

Yet South Africa possesses a deplorable lack of technically skilled, educated workers. This is a debilitating legacy of apartheid and of Bantu Education in particular. Although the government has in the past spent a relatively large, by global standards, amount on schooling (the 1992-93 figure was 5.4% of GDP), this has been racially biased. In 1992 the spending on whites was three-and-a-half times greater than that on blacks. And the prospects for expenditure parity at the level of whites are slight. The IMF has estimated that, given an economic growth rate of 4% annually and a constant expenditure on education of 5.5% per annum, parity in education spending for children in 1995 would be R1,377 in 1990 rands. This would mean an increase of R470,00 for each black schoolchild, but a drop of R2,710 for whites, R1,029 for coloureds and R1,678 for Asians.¹⁰

Education is related both to skewed income distribution patterns and low productivity ratios in South Africa. While the *Gini* co-efficient (standard of living indicator) for the white, coloured and Asian sectors of the population compares favourably with those in developed countries, the corresponding figure for the black population (around 75% of the total) is among the highest (worst) in the world. Around one-half of the black population in South Africa (32 million) is below the age of twenty, existing in an environment where there are high expectations but a lack of economic development and resultant opportunity. In 1990, some 16 million South Africans lived below the breadline of R600 per family per month, 33% of whom resided in urban black households and 83% in black households in rural areas.¹¹

It has been estimated that a growth rate below 4.0% per annum will not create sufficient jobs given the population increase. Around 400,000 people are entering the labour market each year, 80% of whom are black. Between 1985-89 only 31,000 jobs (95% of which were in the formal sector) were created annually. By contrast in 2005, there is expected to be a shortage of 920,000 skilled workers, with a surplus of 11,5 million (57%) unskilled or semi-skilled workers.¹²

Productivity is an indirect function of the combination of skills, technology, capital and labour. With such a poor education background, it should not be surprising that labour productivity has grown slowly (some 0.4% and 0.5% in the 1970s and 1980s), though the annual growth in labour remuneration has been around 10% per annum in the 1970s and 16% in the 1980s. As a result, despite abundant labour reserves, South

African has become increasingly capital-intensive and labour-saving from the 1970s on, which has pushed up unemployment.¹³ This factor is an important consideration as the South African government seeks to encourage investment in areas that will, preferably, simultaneously create export-driven wealth and jobs. The table below illustrates the job generation ability in particular fields per asset dollar in the world's largest corporations.

| Employees per \$ million Assets - 1993 (E:\$) | | | |
|---|------|--------------------------|-------------|
| (in the world's largest 500 industrial corporations) | | | |
| | E:\$ | | E:\$ |
| Motor Vehicles and Parts | 3,56 | Scientific, Photo | 4,82 |
| Petroleum Refining | 1,55 | Soaps, Cosmetics | 5,00 |
| Electronics, Electrical Equipment | 4,02 | Publishing, Printing | 4,29 |
| Food | 7,26 | Rubber & Plastic | 8,18 |
| Chemicals | 3,75 | Textiles | 4,02 |
| Metals | 4,98 | Tobacco | 2,51 |
| Computers, Office Equipment | 4,29 | Mining, Crude Oil | 4,92 |
| Industrial & Farm Equipment | 4,32 | Apparel | 4,72 |
| Pharmaceuticals | 4,09 | Transportation Equipment | 5,74 |
| Aerospace | 7,22 | Toys, Sporting Goods | 2,33 |
| Beverages | 5,62 | Jewellery, Silverware | 3,42 |
| Forest & Paper Products | 3,71 | Building Material, Glass | 3,69 |
| Metal Products | 4,12 | | |
| Average: | | | 3,96 |
| Source: <i>Professional Marketing & Management Review</i> , 10, 1994. | | | |

There are, however, few high-technology areas where South Africa can hope to compete internationally. Ironically, given its apartheid heritage, the arms industry is seen by some as one of the few areas of technical expertise in South Africa which can spearhead export growth. Since the mid-1980s, arms have been trumpeted as South Africa's largest manufactured export: in 1993, US\$250 million was sold, or 0.5% of total global sales. But whereas South Africa's share of the global market might increase in this post-boycott and sanction age, the value of such exports might not go up. The world's arms

trade (and industry) has shrunk massively since the end of the Cold War. Some 350,000 jobs were lost worldwide in 1993 alone; and the world market has slimmed by 12% in real terms between 1990 and 1994.

Yet it is not actual arms sales that could benefit the South African economy alone: the maintenance of an ability to create technologically sophisticated products is crucial if export-driven growth beyond commodities is to ensue. This is especially important in South Africa where spending on Research and Development (R&D) is low by international standards. In 1990 only 0.8% of GDP was spent on R&D. In comparison, Japan spent 3.0%, the US 2.8%, South Korea 1.8% and Taiwan 1.4%.¹⁴ Between 1989-93, R&D expenditure on defence was cut by 75%. Defence technologies that have a civilian R&D application include: chemicals, fibre-optics, electronic imagery, metallurgy and specialist machine-skills, telecommunications, lasers, radar/sonar, and aviation engineering and maintenance.

The issue of armaments' technology and sales raises in turn the old chestnut of the massive savings that can be made through cuts in military expenditure. While this is unlikely to happen in South Africa in the short- to medium-term given the cost of military integration of the previously opposing forces, even in the long-term the savings will probably have only a 'benign effect on overall welfare'.¹⁵ However, given the high potential for continued instability both domestically and in the region the cost of a weak defensive shield could be fatal.

The African Burden

Nelson Mandela has noted that 'South Africa cannot escape its African destiny'.¹⁶ Though it has an increasing funding relationship with the continent, in many respects such an improvement is offset by South Africa's geographic location and perception as part of Africa, the continent described by some as the 'Third World's Third World',¹⁷ marginal in the international mainstream and incapable of solving its own difficulties.

By the mid-1990s, much of Africa has degenerated into a cocktail of tyranny, crime, political upheaval, corruption, military insurrection, mass migrations, mismanagement, endless civil conflict, racism, ethnic persecution and rebellion, overpopulation, environmental decay, religious intolerance, unbelievable poverty and starvation. While this may not be a totally realistic and accurate portrayal, this would seem to be the perception in the West, fed a diet of sensationalism and suffering.¹⁸ Unfortunately South Africa is, if only by an accident of geography, part of that mindset.

This outlook would prefer to forget Africa and its problems. In this, whatever moral guilt-induced colonial hangover remains, Africa nevertheless will be consigned to the good offices or tender mercies (depending on the observer's standpoint) of the IMF and the World Bank. America is a prime example of this disinterest. Now alone as a *superpower*, it produces 22.5% of global economic production from under 5% of the world's population (250 million). Only the United States possesses the military, diplomatic and economic clout to respond to distant and complex global concerns. Yet nine of the twenty-one US foreign aid missions to be closed over the next three years are in Africa. This is seen by some as a prologue to a consolidation of US embassies themselves, and may well be aggravated by the shift in control from Democrats to Republicans in the US legislature.¹⁹

What this results in is a process of global 'bifurcation' between the *haves* and the *have-nots*, where the differences between these groups are equated in terms of Samuel Huntington's 'clash of civilisations' or Hegel's Last Man (the survivor) and Hobbes' First Man (the Third World perennial loser for whom life is 'short, brutish and nasty').²⁰ To many outsiders, in this analysis Africa represents a post-modern world of Mad Max and road warriors - not people to do business with.

South and Southern Africa represent together many of these contradictions of frustration and hope. A prosperous Southern Africa would be to the benefit of South Africa as it seeks to expand its trading links, partners and profits. Yet as Angola and Mozambique struggle to get back into their independence starting-blocks, that vision is some way off.

Yet without such prosperity, not only would the gains for South Africa be small, but the costs high. For example, the costs of dealing with illegal immigrants (or 'economic refugees') into South Africa from the region will be over R200 million in 1994 and an estimated R1 billion by the year 2000. With additional, and related, cross-border problems of drugs, vehicle and arms smuggling as well as the flow of contraband (which costs South Africa around R1 billion in lost customs revenue annually), South Africa cannot afford to ignore the plight of the region: what will happen there today will probably affect South Africa tomorrow. Pretoria's response to this crisis can be to increase barriers and/or address the root causes, probably whichever is the cheapest. Here a 'fortress South Africa' policy may not be a politically incorrect option at all, but also something of a socio-economic necessity.²¹

As an African state, South Africa has also an additional burden to bear. Many Africans, particularly Southern Africans, have expected much from political change in the Republic after April 1994. A tonic of democracy and fair and sensible management it

was hoped, would herald an era of economic prosperity and growth. Harsh realities, however, point to failed expectations and a continuation of political and economic instability. Failure to 'deliver the goods' has implications that go beyond South Africa's borders. Too many complications and delays in completing the process of transition in the Republic, following the African tradition, will hasten the disappearance of the continent from global concern. Bluntly put, South Africa is Africa's last and best chance of getting things right. Any failure will hasten the exodus of world interest and concern, already prejudiced in a global system currently absorbed in grappling with issues of world trade and regional economic communities.

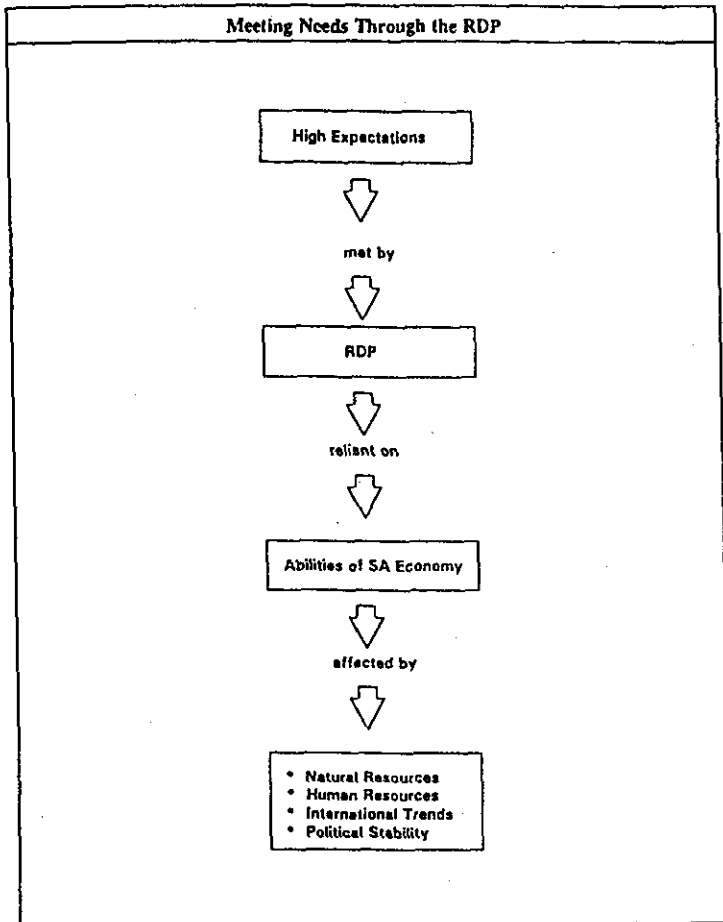
A harsh corollary to the African predisposition towards failure lies in the tendency for African economies to worsen over the short- to medium-term as the IMF/World Bank Structural Adjustment Programmes bite - although opinion differs as to whether the 'illness' is aggravated by the 'medicine' or by the 'patients' failure to stick out the prescription long enough to be cured. If there is a lobby in the South African Government of National Unity, as some suggest, which disdains the IMF/World Bank philosophy as exploitative or neo-colonialist capitalism, Pretoria might well take the lead in attempting to find a viable alternative - a potentially dangerous and isolationist step towards economic oblivion.

On the 'flip-side' to this negative African attachment, however, South African-African trade is growing in significance. Between January and June 1994 there was a 30% increase in such trade. This jumped from below R4 billion in value in 1993 to a projected figure of R5 billion in 1994. This was bettered only by the 40% rise in South African-UK trade figures. This ranked Africa fifth behind Germany (as estimated R7,5 billion in January-June 1994), the UK (R7,0 billion), the US (R7 billion) and Japan (R6,5 billion), though behind Europe, the Americas and Asia if measured on a continental basis.²²

The RDP

It is clear that something extraordinary will be required for South Africa to break out of both this African trend as well as the legacy of apartheid and the impending cycle of underdevelopment. The government's solution is, of course, the Reconstruction and Development Programme (RDP). While South Africa is not following the Asian 'tiger' success formula - principally because as a democracy it would probably find it impossible to carry out the reforms necessary and resist those not - some alternative has to be found to prevent an acceleration into the semi-periphery at best, and the African morass at worst. In a sense, the RDP is probably the only programme available for a government

under extreme political pressure to produce the economic goods. It might not be entirely 'sound economics', but the options for a democracy - existing as it does in a culture of entitlement - are few and far between.



The management of the RDP is going to be crucial in this process, as South Africa strives on the one hand to meet short-term demands through consumption yet on the other to portray an image of wise spender rather than *Icarus*-style spendthrift. If one is to borrow heavily, then one must spend wisely and ensure transparency and accountability every step of the way. Although consumption spending through the RDP can create near-term improvements in living standards and thus political stability

particularly through the provision of housing and land, in this too there should be created a culture of investment rather than entitlement. But this will be a difficult task for a government now representative largely of a majority of the very poor.

In this way the business of government will be much more difficult than that of opposition. As the then Vietnamese Prime Minister Pham Van Dong admitted six years after the liberation of the south: 'Yes, we defeated the United States. But now we are plagued by problems. We do not have enough to eat. We are a poor, underdeveloped nation. *Vous savez*, waging a war is simple, but running a country is very difficult'.

Of course this does not mean that the new government should 'play dead'. On the contrary, it should be active in assuring open access and in monitoring financial flows. The role of the local investor will also be significant in determining foreign investment patterns. Significant domestic investment can both create confidence in the economy and competition for investment opportunities.

This all said, South Africa does maintain (as of early-1995) a position of relative creditworthiness internationally. But the award of two 'investment grade' ratings by Moody's and Nippon Investor Services in 1994 stresses the interconnectedness between foreign and domestic economic policy. Future ratings will depend on government policy and its citizens' behaviour.

Here there are already some stark contrasts. At the beginning of October 1994 President Mandela visited the US. In a televised speech he argued:

Forget the past and come to South Africa to make money. All of you will, and should make your investment decisions based upon the real opportunities you seek and find in South Africa. Our Government of National Unity, founded on an unprecedented consensus, provides an economic and social climate that will create opportunities for investors.

However, as the US\$115 million NAB Pepsi plant - described by Thabo Mbeki as a 'model for foreign investment' and involving a consortium of prominent African-Americans and black South Africans - has discovered, there currently is no 'perfect formula' for investing in South Africa. In contrast to Mandela's enticing words, when questioned on industrial action at the NAB Pepsi plant, the head of the Gauteng Jobseekers Committee insisted: 'We will never budge until Pepsi meets our demands. We welcome foreign visitors, but they have to adhere to the rules of a new and democratic South Africa. The unemployed must have a say in who management will recruit'.²³ Many foreign investors will be wary as to which of these two spokesmen represents the 'new' South Africa.

In the light of the criteria for investment highlighted above, it should not be surprising then that international speculators prefer Asia and Eastern Europe over Africa. The lessons for South Africa from Asia are clear, though it is less distinct whether these can be applied in the African context.

Lessons from Asia

The Asian tiger economic success recipe would appear, outwardly at any rate, to have fairly easily identifiable and straightforward ingredients. First, economic liberalisation is adopted before political reform. This rule has been followed by South Korea, Singapore and now mainland China. Second, related to this approach, there is an emphasis on investment in export-driven manufacturing industries: the approach of 'factories before houses' where jobs and not the state provide wealth.

In the People's Republic of China (PRC), staged economic development has enabled terrific expansion. Since the introduction of economic reforms in 1978, the rate of growth has averaged over 9.0% per annum. In 1993 it was over 13%. From a South African perspective, as the economy battles to hit the 2.0% mark, there are a number of lessons.²⁴

- * First, economic growth in China has hinged on an expansion in foreign trade. Between 30-40% of the economy is devoted to trade - surpassing Japan and the US with 17% and 16% respectively. This has been facilitated, in part, by a depreciation in the official exchange rate, and through the favourable balance between productivity and wage levels. The latter is in part the result of the weakness of the Chinese trade unions.
- * Second, foreign investment has been encouraged through the establishment of Special Economic Zones (SEZ) offering incentives to international and local investors and providing a focus for government spending, in a climate of relative political stability; and through access to a vast potential market of 1,2 billion people.
- * Third, there has been a focus both on increasing agricultural productivity and on prioritising the development of light- and medium-industry. Here private rather than public enterprises have shown the most growth. The state sector is considered by many to be a cumbersome burden on the Chinese economy.
- * Fourth, there has been an approach of 'measured management' behind the recovery.

For example, the construction of credit controls and a sophisticated bond market is seen to be crucial in keeping the money supply under control, thereby keeping the lid on inflation.

- * Fifth, it is necessary to take a long-term view of economic growth and not yield to the need to gain short-term benefits through the satisfaction of high expectations generated, in South Africa's case, by political change.

Of all the Asian tigers, South Africa could probably best learn lessons from Malaysia in terms of economic planning and development. After all, Malaysia has many similar economic, and societal qualities and drawbacks. For one, both are ex-colonies in which the economies were characterised by a high degree of reliance on primary product exports. At independence, Malaysia was the world's largest producer of tin and the second largest of natural rubber. Dependence on these commodities made the country dangerously vulnerable to fluctuations in world prices. Thus the main aim of successive administrations has been to diversify the economy, particularly in the agricultural sector, and to promote industrialisation in select areas. The path towards development has been mapped out in a series of five-year plans and since 1971 by the philosophy of the New Economic Policy (NEP). Key to this was a need to try to reduce the racial differentiation in wealth between indigenous Malays (the *Bumiputra*) relative to the Chinese and Indian populations. In this too, there are obvious South African parallels.

In Malaysia, the manufacturing sector has, since 1986, become the largest export earner. The share of agriculture has dropped from 55% in 1965 to 26% in 1991; mining from 30% to 7.6%; whilst manufacturing has risen from 12% to 65%. The government has played a major part in cutting red tape and creating a favourable investor climate. Importantly, with the 'Malaysian Vision 2020' economic plan, it has given Malaysians a goal for the future around which to create a national consciousness and spirit. This goes some way to alleviating the pains and understanding the difficulties necessary for long-term reform and prosperity.²⁵

As the world turns from the 'American' to the 'Asian' century, Asian growth patterns illustrate that global competitiveness will provide economic boost through the attraction of capital investment and the ability to create export-driven growth. This in turn demands a competitive labour force, an ability to leverage the wealth of raw material exports and a need for added value to existing products and commodities.

There are, however, also lessons to be learnt from places which have democratic systems of government and possess a similar cultural heritage. New Zealand has managed to attract significant foreign investment as a result of economic reforms introduced by

Prime Minister David Lange ten years ago. A combination of deregulation, a streamlined civil-service, a reduction in tariffs and non-tariff barriers (such as licensing), privatisation, and a removal of local subsidies and incentives have led to a huge increase in foreign investment: from US\$1 billion annually between 1988-92, to US\$4,7 billion in 1993.

Similarly, the manner in which Greece - admittedly a comparatively low political risk - has handled the liberalisation of its foreign exchange controls, contains important lessons too. The introduction of high-yield government and treasury bonds (up to 26%) coupled with assurances of government belt-tightening and streamlining, created the necessary foreign-exchange cushion. Such lessons about economic reform are available also from elsewhere: from Pinochet's and the post-junta Chile, as well as Menem's Argentina. Latin America's economies have largely been transformed from the 1970s and 1980s slow-growth, debt-ridden versions into robust units overseen by democratically-elected free-marketeers: in 1993 these attracted US\$67 billion in foreign investment. South Africans will have to learn to identify, analyse and educate from these experiences.

Trade and Growth

South Africa's trade policy will have to be closely related to investment policy, not least because a high proportion of world trade is intra-firm trade. As the world turns from GATT to the World Trade Organisation (WTO) on 1 January 1995 after the successful conclusion of the GATT Uruguay Round, freer trade rather than tariffs or new restrictions are the current set of rules. Improvements in international trade through what is effectively an 'international tax cut', will be, it is envisaged by the Director-General of GATT, the 'glue that holds nations together'. In the past three years, the number of contracting parties to GATT has risen from 101 to 123, with another 20 applications in the pipeline. This provides members with collective protection through widely applied rules of international trade behaviour, and provides for a non-discriminatory international trading system where solutions are sought in an ordered way. Analysts in favour of GATT project an increase of over US\$500 billion annually in global income through the new agreement, with a predicted rise of over 20% in world merchandise exports by 2005 which will provide an enormous boost for investment and jobs.

South Africa's commitment to the GATT treaty will place a heavy burden on local business and industry as they battle to compete in the international markets. Large tariff reductions will put pressure on South Africa to lift import restrictions and to privatise industries in an effort to make them more competitive. In this regard, the tariff

rates in South Africa's submission to GATT are lower than those prescribed. From 1995-99 tariffs will be reduced by 40% on average. On the other hand, nationalisation, industrial action, wealth taxes and the potential cost of affirmative action could make South Africa's economy less competitive globally and serve to drive up barriers with the outside world. And consumer rather than producer protection could serve to damage the government's relations with business and with the unions as protected jobs disappear. Yet the treaty opens up the potential for duty-free access to significant markets elsewhere and *vice versa*.

The relationship that South Africa enjoys with its principal trading partners (see Table below) will remain crucially important in determining the Republic's economic fortunes. Any change in South Africa's position or in, for example, the constituency or operation of regional trading blocs could result in significant benefits or losses. Take the European Union. In 1992, six of South Africa's top ten trading partners were members of the EU. The EU is the Republic's largest foreign investor (52% in 1992), and 30.1% of South African exports and 44.4% of imports were with EU members in 1993.²⁶ By comparison, the US bought 8% and Japan 9% of South African exports.²⁷ From 1 January 1995, South Africa will be included alongside other developing countries in the EU's Generalised System of Preferences (GSP) granting preferential access to the EU, thereby adding an effective value of US\$500 million to goods entering that market.²⁸ South Africa's eventual status with the EU is thus of enormous economic importance. This is likely to be one of a number of options: either between full or partial Lomé status, or possibly the creation of an altogether unique and new special trading relationship.

| South Africa's Top Ten Trading Partners: 1992 | |
|---|------------------|
| Country | Amount R million |
| USA | 12,398 |
| Germany, FR | 11,836 |
| UK | 10,321 |
| Japan | 9,758 |
| Switzerland | 6,692 |
| Taiwan | 4,105 |
| Italy | 3,615 |
| Netherlands | 3,302 |
| Belgium | 3,205 |
| France | 3,167 |
| Source: Department of Trade and Industry. | |

Changes in the nature of the international system, particularly the moves towards integrated regional trading blocs - the North American Free Trade Agreement (NAFTA), the European Free Trade Association (EFTA) and the Asia-Pacific Economic Cooperation (APEC) 'superbloc' - possess many opportunities and challenges for South Africa. NAFTA, which came into effect on 1 January 1994 between Canada, Mexico and the US and which is probably the most significant free trade agreement since the formation of the European Economic Community in 1957, has implications both for South African access to that market and for the world's trading system. In the medium- to long-term, this agreement could result in barriers to third countries being raised or a resistance to further trade liberalisation. NAFTA would appear to be the embryonic forerunner to a free-trade area agreement stretching from Alaska to Tierra del Fuego planned for by the year 2005, which would include the South American regional trade groupings of Mercosur (Argentina, Brazil, Paraguay and Uruguay) and the Andean Group (Bolivia, Columbia, Ecuador, Peru and Venezuela). By that date it is estimated that such a grouping would encompass 850 million people and economies worth over US\$8 trillion. The invitation for Chile to join NAFTA issued at the December 1994 Pan-American summit is seen as a first step in the creation of this 'super-zone', though in the minds of many analysts the commitment to such a hemispheric free-trade area is similar to being just 'engaged - but without a date for the wedding'.

The goal of APEC is to create the world's largest trade group by removing trade barriers between its member nations by the year 2020. Although this group has been a strong lobbyist for trade liberalisation at the GATT negotiations, such solidarity will in the future possibly lie only with the group and not outsiders. Indeed, it is already shaping a form of regional insurance and alliances as 'a goad and a weapon in dealing with the EU'.²⁹ The exports of the 18 APEC countries - some US\$1,7 trillion - together make up 46% of the world total. Thus an endorsement of free-trade by this fastest growing region globally, will make impossible international isolation and self-reliance. Trade strategies, tariff barriers and productivity ratios will, *inter alia*, have to reflect a new age of interreliance and global competitiveness.

Thus South Africa will clearly have also to play to its strengths in the international markets, particularly since its share of world trade has been falling consistently: in 1992 this amounted to only 0.6% of the global figure. In terms of exports, such strengths include, obviously, its commodities. But there are other areas where a significant improvement in foreign earnings is possible, especially in the provision of 'services' such as banking, insurance and tourism. Take tourism, and particularly so-called 'eco-tourism', as an example. The table below illustrates how countries such as Swaziland and Greece, with much smaller populations and relatively poor infrastructures, earn a comparatively higher percentage of government revenue from tourism than South Africa.

| Tourism: Numbers and Revenue | | | |
|--|------------------------|------------------------|--------------------------------------|
| | Population | Tourist Numbers | Tourism as a % of Government Revenue |
| Greece | 10 million (1988) | 7.8 million (1986) | 13.00% |
| Kenya | 21,4 million (1988) | 676,900 * | |
| South Africa | 41 million (1994) | 1.7 million (1991) | 1.32% |
| Spain | 39 million (1992) | 55,3 million (1992) | 17.60% |
| Swaziland | 768,000 | 663,415 (1990) | 9.90% |
| UK | 55 million | 16,7 million (1991) | 3.20% |
| * Tourism became Kenya's principal source of forex in 1987. | | | |
| Source: <i>Europa World Year Book</i> , 1993. London: Europa Publications Limited, 1993. | | | |

The flow of tourists, like investment, will also be a function of political stability. The table underneath provides a comparative assessment of reported crimes.

| Reported crimes per 100,000 people in 1992 | | | | | |
|--|--------|---------|----------------|---------------------|--------|
| | Murder | Assault | House-Breaking | Motor Vehicle Theft | Total |
| Canada | 5 | 130 | 1386 | 344 | 11,415 |
| Denmark | 5 | 140 | 2413 | 700 | 10,500 |
| Japan | 1 | 17 | 211 | 28 | 1,430 |
| New Zealand | 4 | 137 | 2478 | 1026 | 13,247 |
| South Africa* | 59 | 800** | 1224 | 341 | 12,198 |
| UK | 2 | 305 | 1628 | 729 | 7,396 |
| USA | 10 | 433 | 1252 | 659 | 5,898 |
| Zimbabwe | 12 | 182 | 382 | 23 | 3,950 |
| * Excluding TBVC States | | | | | |
| ** Estimate | | | | | |
| Source: UNISA & US Information Service in the <i>Financial Mail</i> , 2 December 1994. | | | | | |

Criminal activity, in particular, will determine the scale of any growth in this industry. In this regard, however, the picture is rather bleak. South Africa has frighteningly high rates of violent crime: the murder rate is six times that in the US, for example. A high level of unemployment, political instability, a culture of violence, a sometimes ineffective and legitimacy-plagued police service, weapons' proliferation, and a lower-than-European-average number of active policemen per 1,000 population (3,1 *versus* 3,5) combine to provide a grim forecast.

Conclusion

South Africa is the largest and arguably the most stable industrial power on the African continent. Yet in spite of the success of the process of political handover, in socio-economic terms the country is sliding backwards. As Patrick McGowan has put it:³⁰

As much as one admires South Africa's wonderful and wonderfully diverse people and the country's exceptional beauty... in global terms South Africa has declined since the mid-1970s, and at an accelerating rate. It is only when the Republic is compared to the rest of sub-Saharan Africa that its strengths appear to be significant. We all now live in a global village, with one global economy. In this context, South Africa will be fortunate to retain a place among the world's semi-peripheral powers over the next twenty years.

The new South African government has a certain 'window' of goodwill and opportunity in the international community: the flow of aid following the elections, while not as large as some had hoped, was a sign of this. However, if South Africa does not create favourable conditions for investors and in doing so strike the necessary balance between consumption and investment, the fig leaf could drop, leaving South Africa as just another African risk exposed to the vagaries and ruthlessness of the international economic system.

Endnotes

Please note that acronyms are usually only explained once as they appear throughout the book. I am grateful for the comments of Anthoni van Nieuwkerk, Sara Pienaar, Alan Begg and Janet Wilson on the contents of this chapter.

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2. See the speech by Tony O'Reilly at The South African Institute of International Affairs (SAIIA) *Sixtieth Anniversary Banquet*, Carlton Hotel, Johannesburg, 9 November 1994.

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7. See Spies, P, 'The Southern African Scenario of 2005: The Future Landscape', pp.5-7. Paper presented at a conference on *The SA Army - Futures and Forecasts*, UNISA, Pretoria, 8 November 1994.
8. *Ibid.*, p.11.
9. *Ibid.*, p.13.
10. McGowan, PJ, 'The New South Africa: Ascent or Descent in the World System?', *The South African Journal of International Affairs*, 1, 1, Spring 1993, p.45.
11. See *ABSA Economic Spotlight: The Structure of the South African Economy*, 7 July 1993, p.6.
12. *Ibid.*, p.16.
13. *Ibid.*, p.13.
14. McGowan, *op.cit.*, p.89.
15. See Roux, A, 'Defence Spending in South Africa: An Economist's View', p.22. Paper presented at the aforementioned conference on *The SA Army - Futures and Forecasts*.
16. Mandela, *op.cit.*, p.89.
17. Kennedy, P, *Preparing for the Twenty-First Century*. London: Fontana Press, 1993, p.46.
18. See, for example, the article by Robert Kaplan, 'The Coming Anarchy' in *The Atlantic Monthly*, February 1994, pp.44-76.
19. *Ibid.*, p.54
20. *Ibid.*, p.72.
21. See the findings of the round-table discussion on Southern Africa's Border Security co-hosted by the Institute for Defence Policy and the Hanns Seidel Foundation, Irene, 24-26 November 1994.
22. See *Finance Week*, 2 December 1994, p.38. Also, Cassim, R & R Martin, 'South Africa in World Markets', *Trade Monitor*, 8 (December 1994), pp.5-10.
23. See *Newsweek*, 5 December 1994.

24. These lessons were evident during the deliberations of a one-day conference held at SAIIA on *China: Red Dragon Rising*, 3 November 1994. See also Overholt, WH, *China: The Next Economic Superpower*. London: Weidenfeld and Nicolson, 1993.
25. See *Information Malaysia 1992-93 Yearbook*. Kuala Lumpur: Berita Publishing, 1992, 746 pp.
26. See *The Citizen*, 2 July 1994; and *The Sowetan*, 6 October 1994.
27. See the article by Sir Leon Brittan in *The Sunday Times* (Johannesburg), 2 October 1994.
28. *The Citizen*, 20 August 1994.
29. *Insight* (Australian Department of Foreign Affairs and Trade), 3, 20, 7 November 1994, p.3.
30. McGowan, *op.cit.*, p.58.

The World Economy in the 1990s

Robert McKinlay

Background

The object of this paper is not to provide a descriptive profile of the world economy over the 1990s, nor to look forward to descriptive forecasts as we approach the next millennium. This is not, it must be emphasised, because such exercises are without use. It is in part because other bodies, commanding much greater resources, already do this in a detail which could not conceivably be matched by this chapter. The most comprehensive descriptive profiles are undertaken by the International Monetary Fund in its biannual *World Economic Outlook* and by the World Bank in its annual *World Development Report*. The most useful assessment, focusing more explicitly on developing countries, is undertaken by the United Nations in its *World Economic Survey*.

While it would be largely futile to paraphrase the accounts contained in these widely available sources, it is nonetheless useful by way of introductory background to summarise the kind of macro-picture painted by these reports at the mid-point of this decade.

The developed countries have come out of the recessions, which in some cases were quite severe, of the late-1980s and early-1990s and are now showing, in aggregate, increasing real rates of growth of output; inflation rates, which were already low by the standards of the 1970s, continue to remain low or to decline; and real interest rates also remain low. The less promising aspects concern the historically high levels of public debt and unemployment, neither of which show any sign of significant reduction.

Lumping all other countries together as developing countries, the real rates of growth in aggregate for the developing countries have been higher in the 1990s than those for the developed countries; external debt profiles have in general improved; savings and investment levels have been promising; there has been a substantial increase in foreign direct investment; emergent stock-markets have in general been successful.

From this rather simplified overview of some of the major economic aggregates, two main and largely uncontentious descriptive points can be made. First, the variation across the developing countries is very substantial. Unlike the case of the developed countries, the aggregate figures for the developing countries hide some extremely

successful and some rather gloomy performances. Secondly, although the principal economic aggregates have generally improved over the 1990s, it should be remembered that the start of the 1990s represented a relatively low point in the post-Second World War period. Consequently, at the mid-point of the 1990s, the picture of the world economy as profiled in terms of rates of performance over a host of economic aggregates, looks neither particularly rosy nor particularly gloomy by the standards of this post-war period.

Objective and Thesis

The structure of the world economy is most immediately apparent to us in the form of a battery of economic aggregates. Though examination of these aggregates is crucially important, such an examination cannot get beyond an essentially descriptive level. The objective of this chapter is then to examine the changing structure of the world economy in more analytical or theoretical terms than the kind of descriptive profile which appears in a way that this paper could not conceivably rival from, for example, IMF surveys.

The route to a more theoretical understanding of both the structure itself and changes in the nature of the world economy rests with political economy. Though it has of course to be conceded that there is no such thing as an agreed and homogeneous politico-economic mode of analysis, the approach adopted here works from the following basis: that the structure of the world economy - albeit seen most readily in patterns of principal aggregates - is a set of interactions underpinned both by goals and the values on which they, and also by the capacity to institute these goals. Any understanding of the world economy, beyond the purely descriptive level, must come to terms with the politico-economic issue of the differential capacity to institute certain goals and values, which in turn explains the particular interactions that constitute the structure of the world economy.

The world economy does not rest upon an agreed set of goals or values produced by a pluralistic and equal balance of power. On the contrary there has been and continues to be conflict and tension over the structure of the world economy, contingent on the very different power capabilities, goals and values of a variety of actors. The twin and organising theoretical bases for this paper consist therefore of goals and values on the one hand and the distribution of power on the other.

The theoretical vehicles that provide some understanding of the world economy of the 1990s are socialism, neo-mercantilism and liberalism. The structure and development of the world economy in the post-war period can be explained and understood in terms

of the conflict and tension between these three positions. Focusing more specifically on the 1990s, this paper argues:

- * that a relatively significant change has taken place in the 1990s as the challenge of socialism has receded;
- * that liberalism is being globalised to a substantial degree as the dominant orthodoxy;
- * that neo-mercantilism continues to provide a major challenge to liberalism;
- * that some moderately far-reaching changes in the distribution of world politico-economic power are beginning to take place.

The Receding Challenge of Socialism

One of the principal divides in the post-Second World War world economy has been between the politico-economic systems of the socialist command economies and the mixed market systems of the liberal democracies. Overwhelmingly the two most important command economies have been those of the Soviet Union and its 'satellites', and of the People's Republic of China. Both the Soviet Union and the PRC have gone through some pronounced, albeit very different, changes.

Arguably the most dramatic change for the world economy of the 1990s has been the collapse of the Soviet Union and its Eastern European satellites. Since 1989 the map of Eastern Europe and the former Soviet Union has changed in a way that would normally be associated with the end of a major international war. The 'two' Germanies have become reunited and the remaining five satellite states (with Czechoslovakia subsequently dividing as a consequence of the 'velvet revolution' into the Czech Republic and Slovakia) have become more truly independent. The former Yugoslavia has divided into Slovenia, Croatia, Macedonia, Serbia and whatever will finally appear from Bosnia. The 15 constituent republics of the former Soviet Union have become independent, with 12 joining the Commonwealth of Independent States (CIS), established by the Minsk Agreement of December 1991 (though Azerbaijan did not ratify the Agreement until September 1993 and Georgia did not join the CIS until October 1993). The remaining former republics of Estonia, Latvia and Lithuania have remained outside the CIS. Furthermore, the two principal international organisations, the Warsaw Treaty Organisation and the Council for Mutual Economic Assistance (CMEA), which gave both an international economic and military identity to the Soviet

bloc, were dissolved in March and June of 1991.

Though 1989 already seems to be etched into history as the great watershed, the changes in the former Soviet Union certainly preceded this year and began with the introduction of perestroika by Gorbachev. Though Gorbachev (1985-91) never believed in a market economy, continued to think of perestroika as economic restructuring but only within central planning parameters, produced the twelfth *Five Year Plan* which retained central control of prices and finance, and repeatedly turned down major reform programmes (including the *500 Day Plan* of September 1990), he did nonetheless provide the opening for 'reformers' such as Yavlinsky and Gaidar. With the arrival of Yeltsin, who initially strongly supported the reformers, most prices were freed and a second stage of reform, in the guise of privatisation, was begun. Although Yeltsin won 53% approval for his economic policies in the referendum of April 1993, subsequent events that year led to a loss in influence of these reformers. Though the Russian Federation can hardly be said at the moment to be on a major and concerted drive to a fully fledged market economy, a truly major counter-revolution would be required to restore a command economy. By mid-1994 the Russian economy had over one million small private businesses, 70% of industrial workers were employed by the private sector, and over 14,000 large and medium sized firms were in private hands. Furthermore Russia, together with the rest of the CIS, was a member of the IMF, the World Bank and the GATT.

Similar movements have been made by the former satellite states. Indeed, by the time of the collapse of the Berlin Wall both Poland and especially Hungary, whose reforms began with the introduction of the *New Economic Mechanism* in 1968, had already begun the process of unravelling the command economies that had been imposed with the establishment of the CMEA in 1949. East Germany, Romania and Bulgaria had, however, systematically resisted change. While the most dramatic changes since 1989 have taken place in Poland with the 'shock therapy' or 'big bang', engineered by Balcerowicz, all the so-called *Visegrad* countries, of Poland, Hungary, the Czech Republic and Slovakia, have economies which, though still containing substantial state subsidies, have price systems, banking systems and private sectors which closely resemble those of mixed market economies.

Given that the command economy of the former Soviet bloc underpinned one of the great divides in the post-war economy, it is rather obvious that its 'collapse' was of enormous significance for the world economy. The danger is that the euphoria, with which the 'end of the Cold War' has been greeted in some quarters, has led to an overstatement of the significance of this collapse.

For example, the politico-economic competition of the Cold War was over long before 1989. Indeed, the politico-economic competition of the Soviet bloc with the West, *qua* Western Europe, was over before the end of the 1950s, as Western Europe became securely and very firmly integrated into the successful liberal 'world economy' of the Bretton Woods system. The other great area of concern was competition over the Third World. With the notable exception of China, the Soviet Union never acted as a serious role model for the Third World, and perhaps more significantly - not least because in economic terms it was a Third World country itself - the Soviet Union, apart from arms sales, could never rival the West in terms of such critical flows as economic aid, foreign direct investment, commercial bank loans or trade. Despite a number of conflagrations, most notably in Vietnam, Cuba, Angola and the Horn of Africa, the Soviet Union never seriously disrupted the progressive integration of the Third World into the western world economy.

A second caution to the overstatement of the consequence of the 'end of the Cold War' is that while the 'transitional economies', to use IMF terminology, do appear, as has been indicated above, to be moving quite firmly from command to mixed market economies, the rate and smoothness of the transition are as yet far from clear. Indeed, with the possible exception of the *Visegrad* countries, progress towards either a stable or successful mixed market economy by Russia and many other members of the former Soviet bloc is not as yet very marked. Even in the middle of the 1990s the performance of many members of the CIS on principal economic indicators is among the worst in the world. Furthermore, Russia, which is easily the most important state of the CIS, itself clearly displays several manifestations of political instability and regional conflict. The combination of poor economic performance and political instability scarcely merits unbounded optimism for the near future for the CIS.

A third and final cautionary illustration concerns the rather incoherent response of the West to changes in the former Soviet Union. Reactions in the West have ranged between the radically different extremes of 'wait and see' to proposals for a new Marshall Plan for the former Soviet bloc. In practice the actual response, or more accurately responses, have been a set of relatively modest forms of assistance, which have been far from constant either in volume or form and which have been administered in a relatively unco-ordinated way both bi and multilaterally. There clearly has been a favourable reaction from the West at a very general level, essentially as an expression of approval. In more practical areas, however, concerning principally the rate or manner of integration of the East into the western world economy, there have been serious divisions of opinion in the West.

Outside the Soviet bloc, the other important world pillar of the command economy was

China. In 1989, on the eve of this decade, the two mega television events were the fall of the Berlin Wall and the killings in Tiananmen Square. These events were immediately hailed by the media as pointing in two very different directions - to a brave new world of liberalism for Eastern Europe and to a return to totalitarian orthodoxy, after a brief flirtation with liberalism, for China. The sensationalist reporting on Tiananmen Square had managed to conceal a fairly lengthy and enduring set of changes in China, which not only make a nonsense of a return to totalitarian orthodoxy but which arguably for the near future are of greater significance to the world economy than the changes in the former Soviet bloc.

China has not had a 'Berlin Wall' nor has it had a 'Big Bang'. Rather it has gone through a process of incremental and mostly managed change begun by Deng Xiaoping in 1978, which has carried China without any great economic or political instability a long way down the road of transition. Unsurprisingly, China seems to have learned from and copied to some extent its East Asian neighbours (not least among which, interestingly enough, is Taiwan). The significant reforms introduced by Deng Xiaoping in 1978 focused on the agricultural sector, significantly raising both output and productivity. Attention then turned to industry. Though state planning remains, the market sets the price of and distributes the majority of industrial goods. Furthermore, competition has been explicitly encouraged partly through foreign trade and investment, partly through the creation of 'township and village enterprises' (TVEs), and partly through inter-provincial rivalry facilitated by decentralisation and the free movement of goods (though not labour).

Arguably the most dramatic change of all has come in the ways in which China has opened itself to foreign trade and investment. Trade is no longer handled, as it was prior to 1978, by a central planning authority which had, apart from oil exports, largely isolated China from the rest of the world. It is now managed through hundreds of trading companies scattered throughout the country. The formerly over-valued currency, used by the central planning authority as a protectionist device, has been repeatedly devalued to around one-fifth of its pre-reform level. Also, trading companies can now retain and exchange a large portion of their foreign exchange earnings, previously taken by the central authority. In the investment area, China's stockmarkets remain very small; the largest single source of investment comes from Chinese overseas; and the government still has to approve projects, many of which become tied up in paperwork. Nonetheless, foreign direct investment in China has increased, even by East Asian standards, at dramatic rates since the mid-1980s. Furthermore, the inflow of foreign direct investment has followed the logic of comparative advantage and has been concentrated in industries exporting labour-intensive manufactured goods.

Not only has China moved a substantial distance down the 'transitional' road but it has done so through a set of mutually reinforcing reforms, all of which have been overwhelmingly liberal, and which have produced controlled and sustained change. While the states of the CIS have among the worst rates of performance in the world, since 1978 China has achieved a real increase in GNP of around 10% per annum and has had a rate of growth of trade double that of the world average. Such growth, taking place in a country which critically has a population of 1,2 billion, have transformed China from one of the poorest countries (in per capita terms) essentially closed to the world economy, to one which in per capita terms is now 'middle income' and which in absolute terms (using purchasing power parities) is now the third or fourth largest economy in the world.

The Globalisation of Liberalism

The planning conducted during the Second World War, principally in the United States, resulted in a design for the post-war economy that was substantially liberal in intent. Though much of the design was translated into practice, it certainly did not produce a fully-fledged liberal world economy. The first of three principal deviations was that, despite the intentions of White and Keynes, the envisaged new world economic order did not include the socialist economies. A second deviation was that the design did not explicitly embrace what was to become the Third World. The majority of these countries were not consulted nor did the design make any special provision for or concession to the particular problems that might be experienced by Third World countries. Finally, the design focused primarily on trade. Though an International Trade Organisation was not established following the failure to ratify the Havana Charter, both the IMF and the International Bank for Reconstruction and Development (IBRD) were geared to establishing an international monetary system that would promote free trade. The free movement of capital was neither anticipated nor high on the agenda.

The argument here is not that the world economy is now a textbook example of liberalism but that liberalism, in the sense of being increasingly diffused, has been strengthened and globalised. The support for this argument is that the three principal deviations noted above have ceased to be. The transformation of the command economies has already been discussed. This section focuses therefore on the Third World and the growth of international finance.

As it gradually became abundantly clear that there was a Third World, three main threats or causes of concern developed for the 'world economy', which of course was merely a First World liberal economy. One was that the emergent Third World would be recruited

into the socialist economies of the Second World. This did not happen principally because China, until 1978, was largely isolationist, and because the Soviet Union could not rival, except in nuclear terms, the West. A second concern was that the Third World would move to autarchy. Again with only the very isolated - and disastrous - exception this movement did not materialise. The third, and most real, threat was that the Third World would unite and, using a combination of its sheer size and commodity power, would pursue illiberal policies, such as import substitution, or would attempt to extract major redistributive concessions from the West. This threat did indeed materialise and underpinned the creation of the United Nations Conference on Trade and Development (UNCTAD) in 1964 and the New International Economic Order (NIEO) debate of the 1970s. But by the 1980s it was clear that this threat had largely evaporated and furthermore was unlikely ever to reappear. The failure of the NIEO- this type of strategy was due in part to a mismatch in leverage by the Third and First Worlds and in part to the politico-economic diversity of the Third World. This failure constituted, however, less of a victory for liberalism than a defeat of some of the challenges to it.

Yet the 1980s and 1990s have displayed a number of more positive victories for liberalism, in that this theory has come to be, albeit in varying degrees, embraced and accepted as the scripture. Import substitution and dependency theories seem to survive only as intellectual history rather than as guides to policy. The Asian tigers achieved and sustained enormous economic growth essentially by following economic, though not as markedly political, liberalism. Leading Third World countries such as Argentina, Brazil, India or Egypt, which had been either ambivalent or hostile to liberalism, significantly changed course. Many countries have relaxed and continue to relax restrictions on foreign direct investment. Countries which billed multinational corporations as instruments of neo-imperialism, now compete to attract multinational investment. Relatedly, privatisation, often involving even the sale of assets to foreign firms, is increasingly accepted. Third World stock markets, though mostly relatively small, are becoming more widely established and are growing. Export controls, government subsidies and multiple exchange rates are all being eroded. Though IMF and World Bank orthodoxy, which happens to be a particularly unrelenting and stringent strain of liberalism, has not been accepted wholeheartedly or without conflict, the trend unquestionably has been towards a progressive diffusion of this thesis as a guide to policy throughout the Third World. Wherever one looks in the Third World, there does not seem to be any sign of a significant reversal to this trend.

The world trade system, though still far from a text book example of liberalism, has nonetheless progressively increased its liberal credentials. The most important recent manifestation of this in the 1990s has been the successful completion of the Uruguay Round.

The Uruguay Round, involving 116 participants, was the eighth of the GATT Rounds which began in Geneva in 1947 with 23 participants. The guiding and continuing principle of these Rounds has been to promote freer trade through the elimination of discrimination and the diffusion of such non-discrimination to all GATT members. Successive GATT Rounds have not only included more participants but also have become progressively more ambitious.

The principal goals of the Uruguay Round, though many and somewhat varied, have all cohered very explicitly around a liberal orthodoxy. They have included: an attempt to produce a set of rules to liberalise the cross-border trade in services, such as insurance and banking; the protection of intellectual property, such as patents and copyrights; the phasing out of the quotas of the multifibre arrangements of textiles and clothing; attempts to liberalise farm trade by cutting subsidies, both domestic and export, and by replacing quotas with tariffs; provisions to try to curb dumping; the phasing out of restrictions on trade-related investment, such as local content requirements; the redesign of arbitration procedures and the strengthening of actions against recalcitrant or dissenting members; and the transformation of GATT, technically nothing other than a provisional agreement, into a fully-fledged intergovernmental organisation.

The Uruguay Round, which started in 1986, has seen some serious conflicts, has incorporated numerous compromises, has papered over a number of major problems, and has repeatedly postponed deadlines. Though on more than one occasion it seemed as though the Uruguay Round would collapse, it has been successfully concluded. With the establishment of the World Trade Organisation from 1 January 1995, the principle of non-discrimination has been further embedded in the international trade system.

Arguably more dramatic than the promotion of free trade has been the development of the free movement of capital. (The other principal tenet of liberalism, the free movement of labour, has to a large extent been systematically overlooked.) The changes in this area are difficult to document, not least because reporting and data systems are woefully inadequate. It is also difficult to explain such changes, in part because they had no clear beginning, and in part because it is extremely difficult to distinguish cause and effect. Nonetheless, it is abundantly clear that enormous changes have taken place in international capital movement, for the most part highly consonant with liberalism.

One distinctive component of international finance is foreign direct investment. Though the data on foreign direct investment are far from perfectly accurate and while foreign direct investment can move both up and down quite markedly from year to year, the underlying trend of the volume of foreign direct investment is not only upwards, but upwards at an increasing rate. At the start of this decade there were an estimated 35,000

multinational corporations with 147,000 foreign affiliates, and the stock of foreign direct investment was estimated at \$1,7 trillion. As but one illustration of the magnitude of this development, it may be noted that multinational corporations are estimated to be responsible for around half of world trade.¹

In one very important respect, the growth of foreign direct investment, while in line with liberalism, shows less globalisation, in the sense of diffusion, than trade. Foreign direct investment is heavily concentrated. Indeed the majority of foreign direct investment not only comes from five countries (the USA, the UK, Germany, France and Japan) but goes to those countries. Furthermore, that proportion of foreign direct investment going to the Third World has been heavily concentrated in a small number of countries. However, particularly since 1989 the relative share of Third World countries in foreign direct investment inflows has increased dramatically and furthermore the concentration within the Third World is reducing.²

Foreign direct investment is, however, only part of a much larger picture of international finance. Unfortunately single summary measures of international finance are not available - indeed it is not even unequivocally clear what exactly constitutes international finance as a whole, not least because new forms of finance are constantly being created. Nonetheless, it is quite clear that a major transformation is taking place in the volume of such finance.

One of the principal measures of the scale of international finance, the stock of international bank lending (cross-border lending and domestic lending in foreign currency), increased more than twenty-fold from 1980 to the early-1990s to reach the dizzying sum of \$7,5 trillion. Another form of international finance is bonds, which can either be issued 'offshore' or domestically and subsequently traded across borders. The total of international bonds outstanding in the early-1990s has grown six-fold from 1980. A further manifestation is the cross-border trade in equities, which again grew more than ten-fold from 1980 to the early-1990s. As the international financial market has become more complex, new financial instruments have been created, particularly as a protection against currency changes. One such area has been the growth in financial derivatives, such as options and futures. The global stock of principal financial derivatives in the early-1990s stood at \$7,0 trillion. Perhaps the most dizzying figure of all is that of the turnover in foreign exchange, including derivatives, which in the early-1990s exceeded \$1 trillion per day.³

The growth of international finance is certainly not peculiar to the last ten or fifteen years. Indeed its development preceded and in part explained the so-called collapse of the Bretton Woods system in 1973. Although the growth of international finance has certainly not destroyed national markets (nevertheless transforming them) and accepting

that the international financial market is not as integrated as the most developed national markets, the sheer volume and speed of international financial transactions - sustained 24 hours a day in a market which never closes - and the rates of growth of many of the principal forms of international finance are, by any stretch of the imagination, stunning. There are numerous aspects of the international financial system which concern liberals, such as its volatility or the prospect of a simultaneous collapse, as in the stockmarkets collapse of October 1987, which come precisely from the high level of integration. Nonetheless, the growth of foreign direct investment and of international finance, neither of which were anticipated by the architects of the post-war economic order to whom these developments would have represented a radical transformation, must be seen as a major step in the institutionalisation of a world liberal economic system.

The Continuing Neo-Mercantilist Challenge

Like liberalism, neo-mercantilism has a long pedigree in the international politico-economic system. Though it did not figure prominently in wartime planning of the post-war international economic order, which as already noted was overwhelmingly liberal, it did have a major influence on the implementation of that design, an implementation which at best could only be labelled quasi-liberal. The main contemporary macro-tension in politico-economic organisation, which importantly is far from being *zero sum*, is between 'states and markets'. Neo-mercantilism represents the state dimension and is expressed most clearly in attempts by governments to manage and monitor international economic interactions, as opposed to leaving management to the market, in accordance with what are normally billed as national interests. So-called national interests are not only very pervasive but also very varied and principally reflect such diverse factors as security calculations, responses to sectional economic groups, the protection of national industries and the maintenance of welfare state policies.

Neo-mercantilism has had its least impact in the area of international finance. This is in part because governments acquiesced or encouraged the developments which permitted the subsequent and largely market-driven development of international capital markets. Though it is wrong to see governments as powerless before the international financial market (indeed, governments can and do take advantage of it), certainly the capacity of individual governments to maintain autonomy, for example, over exchange or interest rates has largely disappeared. Indeed, even the capacity of the most powerful governments, acting in alliance, to manage exchange rates against market trends is very limited, as witnessed by the relative failures of the Plaza and Louvre Accords.⁴

On the other hand, governments have found it much easier to manage and control

trade, a very clear illustration of which can be seen from the Uruguay Round. While the Uruguay Round has reasonably been presented as a success for liberalism, there are several factors which must significantly qualify this success. The first is the amount of time it took to complete the Round, which reflected the substantial resistance of virtually all governments to liberalisation in some areas. Secondly, the final agreements in several important areas, such as agriculture, or voluntary export restraints, or government procurement, are from a liberal perspective really quite limited. Thirdly, and perhaps most importantly, the Uruguay Round was rather reactionary, in that it was a response to protectionist measures that had developed in the post-war period. Although liberals could take comfort from the progressive extension of GATT membership and from the impressive expansion of world trade, all this had developed alongside a growing battery of non-tariff barriers to trade (such as import quotas, voluntary export restraints, export subsidies, counter-trade, government procurement, or administrative and technical restrictions) which had given the international trade system a form of dual personality. Furthermore, many of the non-tariff barriers, which had been increasing while tariffs had been coming down, had not only been imposed by governments (or at least sanctioned by governments) but also were less desirable to liberals than tariffs. The important and pervasive influence of neo-mercantilism can be seen in that liberals had been *most* successful in reducing their *least* disliked form of protection, namely tariffs, and *least* successful in preventing the growth and diversification of their *most* disliked forms of protection. In sum, the Uruguay Round has most certainly not eradicated protectionism and discrimination, but it was also a step forward for liberals only in the reactionary sense that it was a response to a growing liberal failure.

Arguably, potentially the most powerful form of neo-mercantilism may come from regionalism. Though neo-mercantilism is still a very powerful force in the international economic system, it is difficult to see how it could be increased through the action of individual governments. On the other hand, it could be increased by the concerted action of governments, the most likely manifestation of which could be in the appearance of regional blocs or, more accurately, in the appearance of rival and autonomous regional blocs.

Regionalism, which is unquestionably present and growing, cannot however be taken *ipso facto* as a manifestation of neo-mercantilism. This is seen most clearly by noting the very divided attitudes held towards regionalism by liberals. Some liberals support regionalism on the grounds that it can either foster some integration that may not otherwise have taken place or provide a stepping stone to further international integration. Other liberals adamantly oppose regionalism on the grounds that it is discriminatory and can create larger units which are more able to resist international, in the sense of supra-regional, integration.⁵

Unquestionably the most highly developed current example of regional integration is the European Union, which neatly illustrates both of the liberal positions on regionalism. Some aspects of the development of the EU are consonant with the promotion of integration: trade between members has grown significantly; the Single European Act is a major victory for the free movement of goods, capital, and (even the usually overlooked) labour; competition policy is enshrined in the Commission and in Community law; and, the moves toward monetary union, the outcome of which is very much in the balance, also favour integration. On the other hand, there are multiple features of the development of the EU which underscore a neo-mercantilist impulse: the Common Agricultural Policy, for many years the jewel in the crown of common EU policies and still easily the largest component of the budget, is undoubtedly protectionist; though intra-EU trade has increased, this is nonetheless in part due to discrimination; and, EU social and regional policies to some extent also serve to consolidate and define a distinctive bloc. The most acute fears of liberals are that with monetary union and common foreign and defence policies - the critical pillars of the Maastricht Treaty - the EU could develop into a self-contained and inward-looking superstate along the lines of a 'fortress Europe'.

The development of the EU is not unique but is one of several examples of post-war regional integration, most of which have taken place in the Third World and most of which have collapsed. This, however, is not true of the recent North American Free Trade Agreement. The rather obvious reason why NAFTA has attracted substantially more attention than say the Economic Community of West African States (ECOWAS) is that it contains the United States. Curiously, the dwarfing effect of the United States on both Canada and Mexico also puts the regional impact of NAFTA into perspective. Thus even prior to the establishment of NAFTA, the United States already took 78% and 76% of the exports of Canada and Mexico (while they took only 20% and 9% respectively of US exports). Though NAFTA certainly goes beyond trade, and includes investment measures, the trade discrimination of this regional agreement in global terms can only be quite small. This would not however be the case were NAFTA to expand. Already Chile has been invited to join NAFTA (December 1994) and talks have begun on the establishment of a Free Trade Area of the Americas (FTAA), which would unquestionably be of much greater significance.

Regionalism is understandably a prevalent force in the world at the present time. It is also something which promotes and sustains discrimination. On the other hand, it is a very long way from a degree of trade and investment discrimination to the appearance of autonomous and rival neo-mercantilist regional blocs. Though regionalism is likely to continue and even expand, the image of 'fortress Europe' - admittedly far-fetched in

the light of the current divisions and serious conflicts within the EU - if projected to the establishment of other regional 'fortresses' seems decidedly unattainable.

The Redistribution of Politico-Economic Power

One of the several reasons why the post-war international politico-economic system could at best be labelled quasi-liberal was that it contained a number of major inequalities. Though liberalism is not committed to nor does it presuppose equality, it does presuppose competition, which in turn requires internationally a substantial diffusion of power. Indeed, one of the main difficulties faced by the wartime design for the post-war economy was that it demanded a degree of diffusion of power which simply could not be met in the immediate post-war years. This explains, for example, why the new international monetary system, though liberal in such aspects as its commitment to multilateralism or currency convertibility, proved to be less than liberal in being a *de facto* dollar standard.

There has however been one very significant wave of diffusion of economic power in the First World: the decline in the hegemony of the United States. Thus, irrespective of indicators used, whether of total output, size of foreign exchange holdings, outflows of foreign direct investment, sale or purchase of international bonds, or numerous others, the outright dominance of the United States within the developed countries has completely disappeared. Significant though this first wave of diffusion has been, it was confined to the First World and has been attributable, not of course to the decline of the United States, but to the anticipated recovery of Western Europe and Japan. This first wave of diffusion is now being followed by a second, arguably of rather more significance, in the form of a diffusion of economic power from developed to developing countries.

There have been three developments in the 1990s which point in exactly the opposite direction to the 'widening gap' position that was so popular in the 1970s. The first, which is very much an accounting rather than a structural change, concerns the increasing use of purchasing power parity to measure output. Purchasing power parity measures are not new and are not without either measurement or theoretical difficulties. The problem with valuations of output in international exchange rates, usually denominated in dollars, is that they do not reflect relative price levels across different countries and in particular underestimate the value of output in developing countries, which tend to have undervalued currencies as well as many goods and services which are not traded. The current share of developed countries in total world output, measured by market exchange rates, reduces from almost three-quarters to just over half when measured by purchasing power parities.⁶

A second change is that growth rates in real output for developing countries have been markedly higher in the 1990s than for developed countries. This in turn indicates a third more important change, which is a substantial reduction in the dependence of the developing world on developed economies. Rates of growth of real output in developing countries have usually matched (and sometimes exceeded) those in the developed countries. However, the significant pattern in the past has been that the ups and downs of output of developing countries have followed those of the developed countries, indicating a form of dependent growth. The recessions of the developed countries in the late-1980s and 1990s have not, however, been followed by a traditional and parallel reduction in output in the developing countries.⁷ This mismatch in growth rates between developing and developed countries in the 1990s seems to indicate therefore, if not a complete break, certainly a noticeable reduction in the dependence of developing economies upon the developed world. This increase in autonomy is unlikely to be a statistical artifact but is reflective of some important changes, induced in part by the liberalisation of the 1980s, whereby the trade and financial diversification of developing countries could complement significant expansions in the relative size of secondary and tertiary production.

This diffusion of economic power is shown perhaps most dramatically in the case of China. If current differentials in growth rates are sustained, then China would become, in purchasing power parity as opposed to market exchange rate terms, not the richest but the largest economy in the world early in the next century. While this projection, as is any which blindly projects current rates into the longer-term future, is somewhat foolhardy, the sustained transition of China from 1978, combined with its enormous size, does represent a very significant change. Though moves elsewhere in the developing world are less dramatic, they are nonetheless quite widespread. The Asian tigers, whose significance was always limited as their combined populations are less than that of Germany, still continue to outshine most, but their success is no longer isolated. The political and economic future of Latin America looks brighter than it has for decades; in Asia, both Malaysia and Thailand promise to become tigers, while substantial changes are taking place in the much more populous countries of India and Indonesia, and Vietnam is undergoing its own transition; even the prospects for Africa, where for the most part economic growth over the last two decades has been grim, now look much more favourable and could improve quite rapidly in Southern Africa.

International politico-economic inequalities are not about to disappear. However, the conditions and prospects for many developing countries look decidedly more favourable than they have done for some time, and, more importantly, there are signs that the link of *developing* to *developed* country growth may be changing. This reduction in dependence is however taking place principally within liberal parameters.

Conclusion

Though academics are perhaps slightly less fashion conscious than politicians, they are nonetheless easily seduced by the excitement of identifying watersheds. Politico-economic change, particularly at the macro-level, tends to be overwhelmingly incremental. Moreover, even more radical change, while certainly taking place, is rooted in and influenced by the past.

The world economy of the 1990s does not represent a watershed or dramatic turning point in the twentieth century and it would be a major error to regard everything that has gone before the 1990s as a kind of *tabula rasa* or pre-history. On the other hand, if this decade continues as it started, which looks very likely, it may well go down in history as that in which the liberal aspirations of the planners of the post-war liberal world order were significantly realised.

This is not to imply that history has come to an end. The world continues to manifest innumerable illiberal elements; there are many areas in which political and economic stability are far from secure; neo-mercantilism is still a potent and pervasive force; and it is not beyond the bounds of possibility that regionalism may develop perversely or that new permutations of corporatism may appear in such critical areas as the former Soviet Union or China (which despite its economic changes may well have substantial political adjustments to make). And if history - even for the liberal - is not at an end, the combined impacts of the receding challenge of socialism, of the growth of international finance, and of the diffusion of economic power to the developing countries, do point to the 1990s being seen as a decade in which liberalism was substantially extended, consolidated and globalised.

Endnotes

1. See, for example, Julius, D, *Global Companies and Public Policy*. London: Pinter, 1990.
2. See, for example, 'A Survey of Third World Finance', *The Economist*, September 1993.
3. See, 'A Survey of The World Economy', *The Economist*, September 1992.
4. The Plaza Meeting, attended by the US, Japan, UK, West Germany and France in September 1985, involved attempts to increase co-operation in monetary management. The Louvre Meeting in Paris, February 1987, was used by the G7 to co-ordinate domestic and foreign economic policies to stabilise exchange rates.
5. On regionalism, see Taylor, P, 'Regionalism: The Thought and the Deed' in Groom, A & P Taylor (eds), *Frameworks for International Co-operation*. London: Pinter, 1990.
6. 'A Survey of the Global Economy', *The Economist*, October 1994.

From the GATT to the WTO: The Global Trade Regime and its Implications for South Africa

Alan Hirsch

Introduction: The Doubled Return of South Africa

The Marrakesh Agreement of the General Agreement on Tariffs and Trade, which was signed by 122 countries, marked a doubled new discipline for South Africa in the global arena of trade on the 13 April 1994. Coinciding as it did with South Africa's first universal franchise elections, it signalled the return of South Africa as a full member of the world trading community, as well as South Africa's accession to the new multilateral regime. The return to the world economy was marked, in Marrakesh, by the fact that, although the elections had not yet occurred, the then Minister of Trade and Industry (and also of Finance), Mr Derek Keys, was accompanied by Professor Kader Asmal, an influential intellectual leader in the ANC, soon to become a cabinet minister.

The return entailed constraints as well as opportunities. The opportunities were obvious: sanctions against South Africa were about to end; South African products, far from being an embarrassment, had a new *cachet* in the world market; and governments began admitting South Africa to preferential trade arrangements, beginning with the extension of the United States Generalised System of Preferences, days after the successful elections.

The constraints of full membership rested on the fact that having been an international outlaw for at least a decade, South Africa had been allowed to operate beyond the reaches of GATT rules. With GATT as the apolitical international agreement *par excellence*, the sanctions which operated against South Africa from the mid-1980s were illegal in terms of GATT rules. For this reason, countries which maintained sanctions against South Africa in defiance of GATT were understandably reluctant to resort to GATT rules when they believed that South Africa was operating outside of the GATT framework. This was the penalty for countries which enjoyed the political luxury of trade sanctions against South Africa alongside the economic luxury of continued trade with South Africa. For this reason, South Africa's return as a full member of the world trading community was celebrated with an unusual spate of anti-dumping and countervailing duties against South Africa exports, as well as new pressures to reduce tariffs.

So re-entry in the first sense meant new opportunities, but also the reintroduction of the old GATT rules which had, for most intents and purposes effectively been suspended as far as South Africa was concerned.

But the return was 'doubled' by the fact that the moment of re-entry was the same moment in which the 122 members agreed to impose upon themselves a whole new regime of disciplines against government intervention in international markets. This amounted to a further liberalisation of controls over trade in goods, as well as a broadening of the process in the direction of investment and the service sector.

Moreover, unlike the GATT Tokyo Round which ended in 1979 and added voluntary Codes on subsidies and countervailing measures and several other items to the voluntary anti-dumping Code introduced by the Kennedy Round in 1967, all the elements of the Uruguay Round/Marrakesh Agreement were compulsory. It was a package deal, take it or leave it.

It will take several years for the South African political, legal, and economic systems to absorb and integrate the results of the latest GATT agreement. This chapter is concerned with contextualising and explaining the Uruguay Round, and its implications for South Africa. Its conclusion will argue that while the agreement is bitter medicine, it is medicine - not poison - if taken in the right dosage and in conjunction with fortifying tonics.

A History of GATT before Uruguay

The roots of the General Agreement on Tariffs and Trade are buried in the fear of economic depression, war and communism. The United States and its allies believed, in the aftermath of the Second World War, that a movement towards freer trade would make another great depression, and therefore world war, less likely, and that economic growth in 'the West' would challenge communism. However firmly they believed this, though, the Americans believed equally that they should not give up their sovereign power over trade policy to a multilateral institution. As a result, the 23 countries which met to form an International Trade Organisation (that would parallel the IMF), were forced to settle for no more than a trade agreement called the GATT, plus a small secretariat.¹

As the following table indicates, the GATT agreement created an environment which made possible steady trade liberalisation over that past 48 years. When GATT was established, developed country tariffs averaged about 40%. Before the Uruguay Round, they had come down to about 5%-6%. When the Marrakesh Agreement is fully implemented they will be

down to about 4%. Moreover, the proportion of industrial products entering duty free into developed countries has more than doubled, from 20% to 43%.²

But that was not the whole story. Developing countries were reluctant participants in the GATT process, and only partook in significant numbers in the 1970s after 'special and differential treatment' was permitted. Even then, many developing economies were relatively closed, and some were more strongly oriented towards the communist bloc. In the 1970s, the Indian economy, for example, was largely closed, and did more trade with the USSR than with the West.³ The oil shocks and Third World nationalism effectively challenged the 'one-world' GATT vision.

| Eight Rounds of GATT Trade Liberalisation | | | |
|--|---------|------------------|---|
| Year | Place | No. of countries | Results |
| 1947 | Geneva | 23 | Founding of GATT, negotiations and schedules covered 45,000 tariff concession worth about US\$10 billion in trade. |
| 1949 | Annecy | 13 | 5,000 tariff concessions |
| 1951 | Torquay | 38 | 8,700 tariff concessions yielding tariff reductions of about 25% below 1948 level. |
| 1956 | Geneva | 26 | About US\$2.5 billion worth of tariff reductions. |
| 1960-61 | Geneva | 26 | <i>The Dillon Round</i> . About 4,400 tariff concessions, covering around US\$4.9 billion of trade. |
| 1964-67 | Geneva | 62 | <i>The Kennedy Round</i> . Change from product-by-product to across-the-board cuts. 50% target for cuts, covering trade of about US\$40 billion. Also agreements on grains, chemical products and Anti-Dumping Code. |
| 1973-79 | Geneva | 99 | <i>The Tokyo Round</i> . About a one third cut in tariffs covering around US\$300 billion in trade. Also recognised preferential treatment for developing countries and liberalised trade on many tropical products. Established 'voluntary' codes on subsidies and countervailing measures, technical barriers to trade, import licensing procedures, customs valuation, dairy products, bovine meat, civil aircraft and revised the GATT Anti-Dumping Code. |
| 1986-94 | Geneva | 122 | <i>The Uruguay Round</i> . Described in detail in Part 3 of this article. |
| Source: Based on <i>GATT 1990</i> , pp.61-63 | | | |

By the early-1980s, however, it was the advanced industrial countries imposing novel forms of protectionism such as 'voluntary export restraints' on their increasingly competitive trading partners in the developing world, while developing countries were becoming the most vociferous advocates of freer trade.

There were two main reasons for this turnaround. The first was the fact that certain developing countries, such as the Asian tigers and their followers, were successfully competing in international markets for complex manufactures due to their high productivity at relatively low cost. Coming at a time when the Advanced Industrial Countries (AICs) had not yet recovered from the twin oil shocks of the 1970s and the worldwide recession of the early-1980s, the response of from Western Europe and North America was defensive.

The second reason for developing countries advocating liberalisation was the debt crisis of the early-1980s. Discovering that growth could not be financed indefinitely through capital inflows which compensated for current account deficits, developing countries began to open their economies in the hope of improving their trade performance. Those countries that were reluctant to do so on their own accord were often persuaded to liberalise by the IMF and the World Bank, whose power to persuade was boosted by their influence over international capital flows to developing countries. A further reason was the fact that key developing country exports, such as many agricultural products and clothing and textiles had been excluded from previous liberalisation rounds.

When the time came to begin the Uruguay Round negotiations, developing countries had become the most ardent advocates of liberalisation in manufactured and agricultural goods. In the meantime, the AICs were attempting to extend the aegis of GATT to the areas of expanding international exchange that now interested them more, such as services, intellectual property rights and investment.

The Uruguay Round

In 1986 a Ministerial meeting in Punta del Este launched a Declaration which set the Uruguay Round of GATT negotiations into motion. The Declaration set up a structure for negotiations which had the following main organs: the Trade Negotiations Committee which was the senior body overseeing the Round, the Group of Negotiations on Goods which consisted of 14 groups each responsible to co-ordinating negotiations over particular groups of goods, and the Group of Negotiations on Services, which consisted of a single group. In addition, there were negotiations over the revision of many of the existing GATT articles, such as those on anti-dumping procedures and on countervailing

duties, and on envisaged new areas for GATT operations, such as intellectual property rights.

The process of negotiating lower tariffs alone was very demanding. The first rounds of GATT had used an item-by-item approach whereby major suppliers and major importers negotiated respective requests and offers, with the end results accruing to all GATT members in terms of the most-favoured nation principle of the General Agreement. In the 1960s the Kennedy Round adopted the 'linear-cut' approach, which meant cutting tariffs across the board by an agreed percentage. The Tokyo Round improved on this with the use of a harmonizing formula which reduced high rates more than low rates.

Though many favoured a continuation of the Tokyo Round type of formula, the United States wished to revert to the 'request-and-offer' system of the early years. In 1990 it was agreed that participants could take either approach, but that the overall objective of a average 30% cut for each participant had to be achieved. In practice, however, the US approach emphasised the role of the AICs because, as the major markets for all countries they were able to influence the shape of the new deal through the 'request-and-offer' dimension of the negotiations. In fact, the effect was that every country had to have its offer approved by the AICs in the form of the *Quad* — the US, Canada, the EU and Japan.

With about thirty key areas of parallel negotiations, a middle-sized country like South Africa had little chance of influencing proceedings on its own, let alone monitoring the process. South Africa's three trade mission officials in Geneva were very thinly spread across the groups.

This was one reason for South Africa's 'defensive' posture during the Uruguay Round negotiations — it was hard enough trying to address demands on South Africa to liberalise without also formulating, pressing and monitoring demands on other countries to grant more favourable access to South Africa's major products.

The other reason for South Africa's timidity was the unwritten rule that the country's negotiators had developed during the years of isolation: when in doubt adopt a low profile. During the apartheid era, South Africa could neither adopt an aggressive posture, nor could it join international alliances to push causes dear to its heart (such as the Cairns Group of agricultural exporters), because of the weak political basis of its negotiators. It will take some time for the foreign service to recover from this enforced habit of shyness.

The Uruguay Round differed from previous GATT rounds in two main ways. The first

was that it brought into the general multilateral trade arena a wide range of new issues which had previously been kept outside GATT. These issues included agricultural trade, trade in services, trade related investment measures and intellectual property rights.

The second major change was that these new items, the usual old items such as industrial tariff reform, and previously optional items such as the anti-dumping code and the subsidies and countervailing measures code were all included in the agreement as a package deal. If a country signed on to the tariff reform programme it could not opt out of the other measures, as, for example, South Africa had done during the Tokyo Round.

The core of the agreement, however, remained the industrial tariff reductions. All GATT members are expected to implement a 33% average cut of all industrial tariffs. Remaining quantitative controls were required first to be converted into their '*ad valorem* tariff equivalents', and then reduced in such a way that a satisfactory average tariff was achieved. Industrial cuts are generally to be phased into equal annual cuts over 5 years, starting in 1995.⁴

Within the overall programme of industrial tariff reform, there were several sub-sector specific areas for negotiation. For construction, agricultural, and medical equipment, steel, beer, distilled spirits, pharmaceuticals, paper, toys and furniture, the objective was zero tariffs in industrialised countries and much lower tariffs in significant developing economies. The US pushed for major cuts in tariffs on electronic components and equipment. Harmonised very low tariffs were a target for the chemical sector.⁵

The industrial tariff reform, having advanced so far in previous rounds, and through unilateral reform, is now less dominating over GATT. As tariffs have declined, non-tariff barriers (NTBs) other than the traditional quantitative controls have become increasingly important obstacles to free trade. The GATT has tried to control the proliferation of NTBs through establishing codes of practices for such instruments as anti-dumping duties, subsidies and their counterparts countervailing measures, sanitary and phyto-sanitary measures (food safety and plant and animal health regulations), and other technical barriers to trade. All these codes were now made compulsory, though compliance requirements or implementation schedules may vary between developed, developing and least developed countries (LDCs).⁶

Of the new issues in the Uruguay Round, the one that received the most publicity was the inclusion of agricultural products. These had previously, with a few exceptions, been untouched by multilateral trade reform. The reason for this attention lay in the perception that certain developed countries were thought to be unduly penalised by the restrictive elements of measures such as the Common Agricultural Policy of the EU.

Having been left out of previous multilateral liberalisations, temperate climate agricultural staples are highly protected and highly subsidized. In 1990 the outlay of the major trading powers on agricultural export subsidies alone was estimated at US\$15 billion, while the total government outlay on agriculture world wide was estimated at more than US\$200 billion, or about half the total value of world agricultural trade.⁷

Many tropical products were liberalised earlier in a gesture towards developing country agricultural exporters, but these only account for some 3% of world trade. The rest of agriculture accounts, roughly, for another 8% of world trade.

The Uruguay Round subjected all agricultural tariffs to a 36% average cut in equal portions, to be phased in over 6 years for industrial countries, with a minimum of a 15% cut for each tariff line. For developing countries the tariff cut required was 24% over a maximum of 10 years.⁸ Where there are currently no significant imports, a 'minimum [import] access requirement' of 3% of domestic consumption, expanding to 5% by 1999, will be established through reduced-tariff quotas. Under certain conditions, import controls will be allowed to accompany the tariffication process until the end of the adjustment period.

Also required in the agricultural sector were the diminution of trade-distorting domestic agricultural supports by 20% (13.3% for developing countries). Export subsidies have to be cut by 36% (developing countries 24%), and the quantities exported with export subsidies by 21% (developing countries 14%), over six years for industrial countries and over ten years for developing countries.

The results of the agricultural reforms are difficult to gauge - and even more difficult to develop policy towards - in a country, like South Africa, torn between the need for cheap food and agricultural employment. But it should allow more competitive agricultural exporters of temperate products (some of which were represented in the Cairns Group) to get a greater share of the world market.

A second major new issue was the liberalisation of trade in services. Much of the pressure for this came from the AICs, for which service exports are growing much faster than manufactured exports. It is estimated that about 60% of jobs in industrial countries and around 20% in developing countries are in the service sector. One powerful voice in favour came from the American insurance industry, for example. However, the notion of services is extremely wide, ranging from professional services such as architecture to the provision of air transport.

There are schedules for service industry liberalisation, but the bedrock of the General

Agreement on Trade in Services (GATS) is the commitment which obliges each party to 'accord immediately and unconditionally to services and service providers of any other Party, treatment no less favourable than that it accords to like services and service providers of any other country'.⁹ While the GATS has just begun, the powerful principles of GATT have been incorporated and point service trade relations down the same path as that for goods.

Another very important new ingredient of the Uruguay Round is the agreement on Trade-Related Investment Measures (TRIMs). According to this agreement, countries must abandon the use of investment incentives or rules relating directly to exports. TRIMs take two main forms: 'measures which require particular levels of local procurement buy and enterprise ('local content requirements') or which restrict the volume or value of imports such an enterprise can purchase or use to an amount related to the level of products it exports'.¹⁰

A fourth significant new area for GATT operation is in the agreement on 'Trade-Related Intellectual Property Rights' (TRIPs). The purpose of this agreement is to standardise intellectual property rights amongst its members. For example, makers of sound recordings would retain copyright for 50 years, broadcasters would retain copyright for their signals for 20 years, as will inventors for their inventions, and industrial designs will be protected for 10 years. A Council for Trade-Related Aspects of Intellectual Property Rights will manage the implementation of such standards and manage the settlement of disputes.

The final major innovation of the Uruguay Round was the establishment of a World Trade Organisation to take over the functions of GATT and its secretariat. Instead of simply having a secretariat manage the affairs of the organisation, the WTO will be a fully fledged international body headed by a Ministerial Conference which will meet at least once every two years. The General Council of the WTO will act as day-to-day overseer, as a 'dispute settlement body' and as a 'trade policy review mechanism', instead of such activities falling under the previously somewhat *ad hoc* structures. There will also be subsidiary bodies such as a Goods Council, a Services Council, and a TRIPs (intellectual property rights) Council.

While the Marrakesh Agreement did not specify the full *modus operandi* of the WTO, certain principles were established: membership of these councils will be open to all members of the WTO; where there is no consensus, some decisions can be taken by a qualified majority (usually two-thirds or three-quarters), but others require unanimity; voting will not be weighted; and the WTO will not itself engage sanctions against transgressors but will authorize aggrieved parties to withdraw Most Favoured Nation (MFN) treatment from them.¹¹

Through such representative bodies the full scope of the Uruguay Round agreement will be monitored and managed. In addition, the plurilateral arrangements not covered by the Uruguay Round (because sufficient consensus was not reached during the negotiations, such as those for civil aircraft, government procurement, dairy products and bovine meat) will also be managed by the WTO.

The WTO will not only have to manage the implementation of the Uruguay Round agreement, but it will also have to deal with a range of new issues that are gaining currency in multilateral negotiations. The relationship between trade agreements and environmental concerns and labour rights are the most challenging of the emerging issues. Developed countries, led by the US, tried to get both issues onto the formal agenda of the WTO. They succeeded with the environmental thrust, perhaps because there are already formal and informal environmental sanctions operating in world trade that ought to be standardised. The GATT 94 agreement included a mandate to establish, under the WTO, a Committee on Trade and the Environment which would report to the first biennial Council of Ministers. Even before the WTO came into being, the work of the environment committee could begin, in a sub-committee falling under the Preparatory Committee 'PrepCom' for the World Trade Organisation.

While the issue of labour standards was noted at the Marrakesh Ministerial Conference, there was no decision to institutionalise its discussion within the WTO. Nevertheless, the issue will be one of the challenges for the new organisation. Essentially, workers in developed countries believe that it is illogical for their governments to allow them to be put out of work because of imports from countries which fail to implement conventions of the International Labour Organisation to which they have acceded. The unions argue that the International Labour Organisation (ILO) convention accession is a dead letter without the possibility of trade sanctions. They propose that the WTO and the ILO work together in establishing certain minimum standards for employment conditions and industrial relations.

These proposals have led to a heated debate between developed and developing countries, with the latter accusing the former of protectionist motives. The serious media, such as *The Economist*, have tended to back the developing countries against demands for labour standards, but the debate has a long way to go yet.¹²

Original plans for the implementation of the Agreement included an implementation conference in early December, followed by actual implementation from 1 January 1995. The interim transition has been led by the WTO PrepCom, which was established as a temporary body by the Marrakesh Agreement. The PrepCom was chaired by GATT Director General, Peter Sutherland, in his personal capacity, with membership open to

all signatories to the Marrakesh Agreement. Under the PrepCom fell 4 sub-committees on: finance; institutional matters; trade and the environment; and on services.

Implications for South Africa

It is always very difficult to estimate the effects of a new world-wide agreement, for two main reasons: firstly, because of the difficulties of building global economic models that can adequately capture the dynamic effects of new arrangements; and because of the related difficulty in guessing the unintended effects of the arrangements. This being noted, most analyses have estimated that world trade would rise by between US\$200 and US\$400 billion, and that the countries that would benefit the most would be the AICs and the Newly Industrialised Countries (NICs), mainly those in East Asia. The AICs stand to gain in particular from the new disciplines on investment and intellectual property rights, and from the GATS, while the NICs stand to gain from the further lowering of industrial tariffs, the tighter rules on anti-dumping duties, and the (gradual) abolition of the Multifibre Arrangement. Other developing countries may make some gains through the partial liberalisation of agricultural trade.

However, the gains to developing countries which are not competitive in their industrial sectors will be weakened by the fact that the universal lowering of tariffs post-Marrakesh, dilutes the effects of existing trade preferences for developing countries such as the various 'generalised systems of preference' and the Lomé Agreement. One World Bank economist has estimated that the African export losses deriving from the implementation of GATT 1994, could amount to about US\$2 billion at current values.¹³ Amongst the countries likely to be most affected are Côte d'Ivoire, Ethiopia, Kenya, Malawi, Senegal, Uganda and Zimbabwe. In spite of this, an expert on the Lomé Agreement still believes that trade preferences will continue to help certain developing countries, and that they would help South Africa.¹⁴

In the course of South Africa's transition to democracy, the process of participating in the Uruguay Round changed significantly. Initially, the offer was developed by the government and more-or-less imposed on the private sector without an adequate formal process of consultation. The process was fraught with tensions between representatives of the private sector and the government.

As the political transition advanced, the trade unions and the African National Congress voiced their own criticisms of the fact that the apartheid government was committing a future democratic government to a major long-term trade reform, without any proper process of consultation. The result was that the National Economic Forum (NEF), a

tripartite body representing government, business and labour, (and in which the ANC was informally represented) took over the responsibility of revising South Africa's offer to GATT. Minister Derek Keys enthusiastically supported the role of the NEF in the process, as he understood that it would bind a future government to the GATT reforms.

In practice the NEF did not have the technical capacity to develop an offer, so the *modus operandi* was for the relevant government departments, with the help of parastatal organisations such as the Industrial Development Corporation and the Board of Tariffs and Trade, to develop the offer in response to the reaction of the NEF to initial drafts, and taking into account the progress of negotiations in Geneva. Nevertheless, the political role of the ANC in the process grew as ANC leader Nelson Mandela lent his support to the South Africa's negotiating position on the key issue of clothing and textile tariff liberalisation.

In spite of the fact that Keys' signature to the Marrakesh Agreement on 15 April 1994 preceded the South African democratic transition by two weeks, the presence of Professor Asmal, representing the ANC, in the South African delegation in Morocco implicated the democratic government to be in South Africa's commitment to the GATT agreement.

As already noted, all GATT members are required to reform their protective systems and reduce their protection by about one-third over a five-year period from the time the Marrakesh Agreement is implemented. South Africa's industrial offer to the GATT 1995 has the following main characteristics:

- * Over 10,000 tariff lines will be rationalised into between 5,000 and 6,000 tariff lines by the end of the five-year adjustment period.
- * Instead of about 55% of the tariff lines being bound by GATT, about 98% will be. This means that these tariffs cannot be raised without seeking permission from the WTO, and that if it does give such permission it will extract a price in the form of equivalent tariff liberalisations.
- * All remaining quantitative controls and formula duties will be replaced with *ad valorem* duties.
- * Tariff lines, which currently have 80 different levels between 0% and over 100% will be standardised into six levels: 0%, 5%, 10%, 15%, 20% and 30%.
- * Generally, raw materials and capital goods will have tariffs 0% and 10%, intermediate

intermediate products/components will have tariffs 10% and 15%, and consumer goods will have tariffs 20% and 30%.

There are some significant exceptions: clothing and textiles have to comply with the GATT programme over 12 years instead of five years, and come down to a maximum of 45% instead of 30%.

In the case of the motor industry, manufacturers have a maximum of eight years to adjust instead of five, with a terminal maximum tariff of no more than 50%, instead of 30%.

The bound tariffs represent the upper limit above which the tariffs may not go. The tariff adjustment required by GATT has to take place over five years (as a rule), and in equal stages. However this is a ceiling, not an absolute level. The government can, at the recommendation of the Board of Tariffs and Trade, set tariff levels lower than the GATT ceiling.

In the case of clothing and textiles, the tripartite task force set up under the wing of government, recommended a pace of reform somewhat faster than the programme accepted by GATT. It proposed that a terminal tariff of 40% for clothing be reached in ten years (instead of 45% in twelve years). Some think it should go still faster.

South Africa's agricultural reform was not consciously structured with developmental objectives in mind. South Africa agreed to fulfil its commitments as a developed country (the option is significant in agriculture), roughly followed a formula that eliminated all tariffs below 5%, and reduced the remaining tariffs according to a schedule which reduced the highest tariffs by 60% and the lowest remaining tariffs by rather less. A prior task was establishing the *ad valorem* equivalents of the quantitative controls that affected many agricultural products. This was done in such a way so as not to reduce protection levels by more than necessary. South Africa also agreed to cut agricultural subsidies by the required amount for developed countries.

As significant for South Africa as the tariff reforms are the disciplines imposed by the rules on investment, subsidies, anti-dumping, intellectual property, the new services agreement and so on. Previously South Africa had opted out of many of the voluntary codes, and now it will have to alter policies and institutions to fit the rules. The ban on direct export subsidies is particularly serious, as the General Export Incentive Scheme (GEIS) became a significant component of South Africa's export drive in the 1990s. Plans are afoot to remove the GEIS three years into the GATT 94 regime, as required of developed countries. There is widely voiced concern, however, that alternatives to the

GEIS will not have had sufficient effect by then, and that the export drive will falter badly, particularly as domestic demand revives.¹⁵

Two linked new issues in the WTO, labour and environmental clauses, have a special significance in South Africa. Like many developing countries, South Africa has acceded to the relevant conventions of the ILO to comply with the basic labour clauses. It is also taking halting steps towards environmental responsibility. Unlike some other developing countries, the vibrant democratic environment and the strength of non-governmental organisations such as the unions and the churches, mean that most of the relevant ILO conventions have a good chance of being implemented and that further steps will be taken towards responsible environmental policies.

One of the key issues on the South African international economic policy agenda is deeper integration with its neighbours in Southern Africa. Many of South Africa's fellow members of the SADC are democracies, and most of the rest are on the path to democracy, but none have the powerful social movements that South Africa has, pushing the countries to higher standards of behaviour as regards labour and the environment. In several Southern African countries, formal sector wages are lower than South Africa's, and working conditions inferior, by a higher order than the differentiation within any known existing economic integration arrangement.

For this reason, South African trade unions are concerned that regional integration in South Africa will give South Africa companies the licence to find the cheapest production site in the region, and thus bid down wages and working conditions in South Africa.

Similarly in South Africa's burgeoning relations with Asia, local workers and environmentalists fear that the lower work and environmental standards of many Asian countries could worsen South Africa's performance in these areas if we are increasingly forced to compete.

At the same time, compared with many AICs, South African wages and working conditions are inferior, and more certainly, environmental rules are looser and more weakly enforced. It is not impossible, in fact rather likely, that South Africa could be subjected to environmental conditionality by some of its major trading partners in the near future. Indeed, some pressure may be quietly exerted even now.

South Africa is thus caught in a dilemma: if it supports the linkage between social clauses and trade agreements, it may avoid *social dumping* by some Southern African neighbours and some Asian countries, but it opens itself to pressure from the AICs. However, if it opposes social clauses, it make Southern African integration all the

more problematic, and endangers the future liberalisation of our economy towards Asia.

What we cannot ignore, however, is the vibrancy of the South African democracy, and the power of the non-governmental organisations. The course of opposing social and environmental clauses, is not really open. Besides, employment conditions in South Africa are currently so dire that the idea of exposing the country to further liberalisation without an insurance policy to inhibit social dumping is not attractive to most domestic constituencies.

For these reasons, South Africa will not only be an interested participant in WTO discussions on environmental and labour standards. It might well take a leading role in the process of reconciling the concerns of the AICs and the developing countries.

Conclusion

Accession to the Marrakesh Agreement imposes a series of disciplines on South Africa which will be costly in many ways. The cost of adjusting domestic industries, agriculture and the service sector to the new rules of the WTO will be expensive in social and economic terms, and in terms of the effort required from government officials and private sector leaders to guide the process. The cost of developing programmes that make South African firms competitive in the international environment, which could range from education and training programmes to specific technological initiatives, will also be high. The costs of being effective and good citizens within the WTO will include more skilled professionals in Geneva and Pretoria, as well as education programmes in tertiary institutions. These costs will be difficult to finance, particularly at a time when the main focus of government is on domestic reconstruction and development. But if South Africa declines to make a suitable investment in competing in the world economy by the new rules, it will find that it will never be able to pay for the reconstruction and development which itself is a prerequisite for competitiveness.

There is also an unusual opportunity for South Africa to take a lead in the process of including reasonable environmental and labour standards amongst the rules of international transactions. Sandwiched in the middle South Africa can see both the necessity for labour and environmental clauses, and the necessity to prevent their becoming protectionist barriers. They can and must be designed to improve standards worldwide, and not to inhibit trade. South Africa will inevitably be pulled in the direction of social and environmental clauses in its regional trade agreements by its NGOs, and even possibly by its parliament. It is therefore in South Africa's interests to address

urgently the challenge of developing a social and environmental clause system which does not support selfish protectionism in the better-off countries.

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The Formation of Regional Economic Super-Blocs: European Economic Co-operation, APEC and NAFTA

Nitesh Dullabh

Introduction

As the dust settles on the Cold War and the bipolar world-view which characterised this era, there now emerges a revival of interest in regionalism. A new unknown multipolar world-view is emerging with its tentacles moving in three separate directions: welfare (human rights), economics (trade and investment) and the environment. The prominence attached to economics has been seen as the first by-product of the now defunct ideology-bound world. Accompanied by the desire to understand the subject, there is a burgeoning debate and discussion on how best to study regionalism, particularly regional economic co-operation. This co-operation has become a salient feature of world politics in the latter half of the twentieth century.

Numerous agreements on regional economic co-operation have been signed and ratified. International institutions have been established to oversee the implementation of these agreements. Perhaps a simple explanation for the contemporary prominence of regional economic co-operation and the formation of trading blocs would be that for contemporary production - in the terms of a 'global' vision or macro-economics - many processes are too small to be effective economic units or have been stifled by the volatility of East-West relations. As newcomers to the international trading system, regional arrangements are now competing with the General Agreement on Tariffs and Trade. Consequently this trading system should become even more complex this decade.

The aim of this chapter is to give an understanding of regionalism and the formation of regional economic blocs. Emphasis will first be placed on a brief discussion of GATT, since it is the only multilateral body for the explicit purpose of reducing and eventually eliminating tariff and non-tariff barriers which will eventually help regulate the free flow of cross-border trade. Attention will then be focused on the definition of regionalism, explaining its contemporary importance. This chapter will focus on the formation and functioning of the world's most powerful regional economic super-blocs, *viz.*, the European Union, the Asia-Pacific Economic Co-operation (APEC) grouping and the North American

Free Trade Agreement (NAFTA). In conclusion, an evaluation of regional economic cooperation with its lessons for the development of the world economy will be presented.

The General Agreement on Tariffs and Trade

Following the destruction caused by the Second World War, there were efforts to reconstruct the world economy. An ambitious effort was led by the United States to establish a comprehensive system of multilateral institutions and rules governing international commercial activity. The Bretton Woods Conference which established the IMF and World Bank in 1944, however, failed to create an organisation of equivalent status for trade. World trade was to be organised and monitored by 'agreement'. Originally, an International Trade Organisation that paralleled the IMF and World Bank was planned by 14 nations who gathered at Havana in 1948 to complement the Bretton Woods' system. They sought to establish rules governing the flow of goods across borders, establishing the rights and obligations of foreign investors, and providing for the regulation of restrictive business practices. Fearful of losing its dominance over commercial activity, the US pre-empted the initiative by simultaneously negotiating GATT with 22 other countries.

The GATT charter had more limited ambitions than the proposed ITO. It did not pretend to regulate investment behaviour or to promote business practice, as born out by its very modest Secretariat compared to that of the IMF and the World Bank. Nevertheless, the vision of free trade remains intact.¹ The short term goal of GATT was to manage the mercantilist system inherited from the 1930s and to slowly remove irregular trade rules. The long term goal was to preside over the progressive lowering of tariffs, dismantling of trade barriers, and the relaxation and elimination of other discriminatory rules in international commerce.

GATT is seen as the main forum for debating and negotiating the rules and standards of international trade. The contracting parties agree to respect four key principles governing world trade. The first is that any protectionist measure should take the form of tariffs rather than import quotas or non-tariff barriers. Second, if one contracting party lowers its tariffs against another country's exports, there should be matching reductions by the other member. This is known as the *principle of reciprocity*. Third, no contracting party should grant preferential treatment to another country. This is the *principle of non-discrimination*. It means that contracting parties have to extend to each other the most favourable terms negotiated bilaterally with any trading partner, known as the Most Favoured Nation treatment. Exceptions to the above principles are permitted for balance of payments difficulties, national security reasons, health and safety standards, demands

of agriculture, and so that developing countries can protect infant industry.

The GATT agreement is based on successive rounds of multilateral negotiations. Prior to the Uruguay Round which commenced in 1986, seven rounds had been completed (as summarized in the table on p.43). Of these, the biggest tariff cuts were made in the first and sixth (Kennedy) rounds. The first round involved cuts of roughly one-third on import tariffs accounting for roughly one-half of world trade. The sixth involved tariff cuts of over one-third on imports accounting for roughly three-quarters of world trade. The seventh (or Tokyo) round also involved substantial tariff cuts but covered a smaller proportion of trade, and the tariff cuts were staggered over a period of ten years. The Tokyo Round was important in representing the first attempt by GATT members to tackle the problem of non-tariff barriers, which by the 1980s covered a substantial portion of US and European markets in manufactured goods.² GATT has succeeded in reducing tariffs on manufactured goods from 45% in 1945 to 4.5% in 1986. In the process, world trade has expanded 500% - twice as fast as global output.³ The Tokyo Round took place against a backdrop of a fast deteriorating world trade environment. A number of codes were signed, but problems relating to agricultural subsidies, domestic subsidies for manufactured goods, dispute settlement and the quota system for textiles went unresolved.

The eighth (or Uruguay) round was launched in 1986. It was due for completion after five years of negotiation, but because of the 'take it' or 'leave it' nature of the package and the sensitivity of agricultural trade policy reform, the round was only completed on 15 December 1993 with implementation from 1 January 1995. The main goals of this round were to: expand the coverage of GATT principles to previously excluded sectors (agriculture and textiles) and the new areas such as services, Trade-Related Investment Measures (TRIMs) and Trade-Related Intellectual Property (TRIPs); to reform the safeguards code; and to strengthen dispute settlement mechanisms. The inclusion of these new issues - TRIMs, TRIPs and services - created widespread discontent among developing countries. They argued that the GATT should first deliver on past promises, such as the removal of tariffs on tropical products.⁴ However, to the benefit of the developing countries, for the first time agriculture was included in the liberalisation process. In addition, textiles and clothing - an area of trade governed for nearly three decades by a regime of its own, the Multi-Fibre Arrangement - were also included.

The tenor of multilateral trade negotiations establishes GATT as the forum of choice for the elimination of quotas on sensitive products, and for the gradual elimination of the resulting high tariffs. The greatest challenge facing the GATT in the twenty-first century is to bring about reform in *sunrise* and *sunset* sectors, such as agriculture,

textiles and apparel, and telecommunications; and to make further progress on dispute settlement procedures. The GATT talks are, however, hindered by the procedural limitations of the GATT framework. With over 120 contracting parties now, negotiations are long and arduous, and member countries' interests are not always given priority. Moreover, the GATT formula for negotiating the reduction of barriers has run into difficulty because, firstly, the mathematics involved in tariff reduction is very difficult to apply and, secondly, countries such as the US and Japan are running out of barriers to cut.⁵ Given the fact that there is no international consensus on acceptable behaviour in the pursuit of national interest, GATT cannot be said to represent a mechanism for enforcing a comprehensive set of shared economic and industrial values. It is these and other criticisms that have now stimulated debate on regionalism in the pursuit of managed free trade.

The Rise of Regionalism

Regionalism has been defined as:⁶

The concept that nations situated in a geographical area or sharing common concerns can co-operate with each other through a limited membership organisation to meet military, political and functional problems. Regionalism provides a middle-level approach to problem solving, between the extremes of unilateralism and universalism.

This definition was acceptable in the Cold War era with the formation of regional blocs to solve military and political disputes. However, a contemporary understanding of regionalism would necessitate economic, social and environmental issues to be cultivated in the definition. Russett's study remains the leading example of an 'open' perspective on regional systems. He delineates regions using five criteria:⁷

- * Social and cultural homogeneity.
- * Political attitudes and external behaviour.
- * Political institutions.
- * Economic interdependence.
- * Geographical proximity.

Regional blocs should not only be looked upon as problem solving institutions, but region-building bodies, based on a commitment to mutual co-operation. This co-operation should take the form of the cross-pollination and fertilization of ideas that would lead to a process of constructive inputs and practicable outputs. In a nutshell, contemporary regionalism has come to mean mutual co-operation among states based on the dictates of democracy and the principle of free trade.

At this point, it seems appropriate to discuss this sudden interest in regionalism. Numerous reasons are pursued. One particular point is the conviction that borderless solidarity is essential to the success of the global industrial restructuring process. Lambert⁸ argues that the regional approach was a response to the changing character of international competition deriving from the global de-regulation of the financial markets, the consequent increased power and the mobility of international finance capital and Multinational Corporations. From this point, it is deduced that in these new conditions, the power of the individual state had decreased relative to the power of international capital. The state now had to intervene in a more concerted way, that is, through regional cohesion to try and create conditions of international competitiveness to attract investment.

Regional 'moves' also reflected frustration at the slow pace of the GATT negotiations. Anxious to apply market principles to their economies, many countries have opened talks with their neighbours to establish or strengthen free trade agreements and common markets. Moreover, these arrangements offer several substantive advantages over the GATT negotiations:

- * Regional groups exploit neighbourhood effects - the natural tendency of countries to trade intensively with their neighbours. Regions often form natural trading areas, in the sense that a given quantum of barrier reduction produces both a larger growth of trade and a more balanced growth pattern among the neighbours than it would with the world at large.
- * Unlike the reciprocal bargaining formula of the GATT talks, which emphasizes the equivalent reduction of trade barriers, free trade agreements start with the premise that barriers should be equalised and then eventually eliminated. In other words, the more protectionist a country, the greater the obligation to change its policies.
- * Within regional groups, countries seem more willing to discuss behind-the border barriers, such as procurement policy and technical standards. They are also sometimes more willing to liberalise trade in sensitive sectors such as agriculture, textiles and apparel.⁹

There exist numerous other arguments in support of the regional approach. Very few states have within their own borders all the resources needed for modern production. Few states contain sufficient population to constitute markets that would allow manufacturers to take full advantage of opportunities for economies of scale. Modern technology is too expensive and is sometimes beyond the means of most states. MNCs

too have become so large and their operations so extensive that single nations are *incapable of monitoring them and guiding or controlling their behaviour*.¹⁰ Tradition and the desire for greater power, status, international prestige and security are all playing vital roles in the growth and development of regionalism.

European Economic Regional Formations

The regional issue of economic and political integration has been on the Western European agenda since the end of Second World War. The first step toward forming the EU was taken in 1951, when Belgium, France, Germany, Italy, Luxembourg and the Netherlands formed the European Coal and Steel Community (ECSC). In 1955, the same six countries agreed in principle to form a common market, for freedom of movement of goods, services, labour and capital. The founding document of the European Economic Community (EEC) - the EEC Treaty, signed in March 1957 - embodied a vision for broadly based economic integration.

Talks on a larger Western Europe free trade zone - led by the United Kingdom - failed in 1958, partly because of *British insistence on preferential treatment of its Commonwealth ties and its special relationship with the United States*.¹¹ In reaction, Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the UK formed the European Free Trade Association (EFTA) at the Stockholm Convention in January 1960. Finland joined in 1961 (becoming a full member in 1986), Iceland in 1970 and Liechtenstein in 1991. Three founder members subsequently left EFTA and joined the EU: Denmark (1973), the UK (1973) and Portugal (1986). The ultimate aim of EFTA is to bring about free trade in industrial goods and an expansion of trade in agricultural goods between its member countries. Its vision is the creation of a single market and closer economic co-operation with all the countries in Western Europe.

A primary and distinctive difference between the EFTA and the EC is that the former has been concerned solely with economic integration.¹² It never sought political integration as its goal and never had the political and institutional ambitions of the EC. The EFTA is an intergovernmental organisation and its key institution as outlined in the Stockholm Convention is the Council. The Council is formed by representatives of member Governments, and its delegations are led by Ministers (normally twice a year) or by Heads of National Delegations (usually weekly). The Council does not have supranational powers, but nevertheless has full powers concerning the Association itself, including the power of creating - whenever needed - other bodies. As a result six standing committees have been created to handle various technical needs. They include a committee in each of the following areas: Trade Experts, Origin and Customs Experts,

Technical Barriers to Trade, Economics, a Consultative Committee, and a Committee of Members of Parliament of the EFTA countries. The EFTA Secretariat is located in Geneva, where the Permanent Delegation is also seated.

The EFTA'S first target, the creation of free trade in industrial goods between its members, was achieved by the end of 1966. By 1991, tariffs and import duties had been removed on all imports except agricultural products. By the end of 1973, Free Trade Agreements (FTA) were concluded between the EFTA and the EC whereby they both agreed on a timetable to abolish tariffs on most industrial goods in five cuts of 20% by the end of 1977. The last restrictions on some sensitive products such as paper and steel were delayed until January 1984. These FTAs not only developed a system of rules of origin to solve problems cause by differing trade policies, but also helped integrate the Western European market for industrial goods. It is important to note that the EU is the most significant commercial partner to the EFTA countries with, already in 1988, 55.9% of EFTA exports and 60.3% of their imports being directed to/from the then EC.¹³

In April 1984, ministers from all 19 members of the EC and the EFTA agreed on general guidelines for developing the EFTA-EC relationship. Their document, known as the *Luxembourg Declaration*, recommended intensified efforts to promote the free movement of goods between their countries and closer co-operation in a number of other fields, including research and development. In March 1989, it was agreed by the EFTA heads of state to establish a European Economic Area (EEA) consisting in all the 19 countries -380 million citizens with a 42.4% share of world trade.¹⁴ It also welcomed the proposal by the President of the EC Commission, Jacques Delors, to seek a more structured partnership with common decision-making and administrative institutions. As a result, an expert *High Steering Group* was charged with studying the 'four freedoms' of the internal market, approximation of laws and extensive political dialogue, and all related legal and institutional questions. This fact-finding programme was completed by the end of 1989 and formal negotiations for the EEA treaty opened in June 1990. After lengthy discussions and intense bargaining, the EFTA and the EC agreed on the terms of the EEA treaty in October 1991 and decided that it should come into effect on 1 January 1993, the date for the completion of the EC's single market. The provisions of the treaty meant that EFTA countries were effectively to be included in the EC single market. The EFTA states also agreed to adopt EC legislation that had created the single market.

The functioning of the EEA led to the establishment of 5 EEA institutions, namely:

- * Council of Ministers.
- * Joint Committee.
- * Court of Justice.
- * Parliamentary Committee.
- * Consultative Committee.

To both the EFTA and the EC citizens, the EEA meant the chance of travelling, living, working and studying in any one of the 19 countries. On 2 May 1992 the EEA agreement was signed in Oporto, Portugal; and bilateral agricultural agreements were signed simultaneously between the EC, and Austria, Finland, Iceland, Norway, Sweden and Switzerland. Iceland, Norway, and Sweden also concluded bilateral fisheries arrangements, and Austria and Switzerland road transit agreements with the EC.

Despite the success of the EEA, its future is very precarious. Constant problems regarding decision-making among member states have delayed developments. For example, Switzerland's rejection of the EEA in a referendum on 6 December 1992, delayed the implementation of the agreement. In addition, the EU membership offered in June 1994 to Austria, Sweden, Norway and Finland has irrevocably altered the nature of the relationship for both EFTA and EEA.

With a view to broadening regional economic co-operation, the EU signed the Europe Agreements with the Czech and Slovak Republics (CSFR), Hungary and Poland in December 1991. The Europe Agreements envisage, over time, a far-reaching association with the European integration process with a view to providing for a gradual implementation of the aforementioned 'four freedoms'. However, it must be remembered that this association agreement does not establish a customs union (as is the case in the EU association with Malta, Cyprus and Turkey). During the negotiations, the CSFR, Hungary and Poland made no secret of their long term goal to become full members of the EU.

These Europe Agreements were created as a model by which the EU could develop relations with other Central and East European countries. Trade and co-operation is seen as a logical first step. Thus far, Rumania and Bulgaria, the Baltic states and Albania have signed agreements with the EU; and Slovenia, Croatia and the former Soviet Union still await some form of formalised association.¹⁵

Since the end of the Cold War, a new situation of European interdependence has emerged. Regional economic co-operation is clearly an important element in this process. The efforts and initiatives since the signing of the EEA treaty provide hope for future regional endeavours. The EU has developed an integrated commercial policy and set up a customs union to regulate internal and external trade subject to common market regulations.

Also, the internal market project gave a decisive impetus for a true common market where goods, capital, services and people are to circulate freely.

In extending the single market to the EFTA states and the Central and East European countries, the EU has linked them to the EU trade regime, but not integrated them. Several characteristics of this regional co-operation are indeed noteworthy:

- * The EU has set the limits of integration, both in terms of the content and degree of influence granted.
- * By the unification of the laws and the commercial regulations (standards, rules of origin, safeguard clauses and anti-dumping measures) non-European business partners would be exposed to a fairly homogeneous trading regime.
- * As the internal market was extended to the EFTA states, the principle of financial support came to apply to the whole EEA in the shape of EFTA contributions to the EC cohesion fund;
- * Joint organisations have been set up to take on specific responsibilities. For example, the G24 was set up to afford financial assistance and aid to the Central and East European countries.¹⁶

There is debate as to whether the EEA should be extended to include Central and Eastern European countries. It is noted that the EEA would not open-up trade in the 'sensitive' products restricted by the Europe Agreements. While the EEA would permit the free movement of people and capital, critics have argued that the liberalisation of capital is not yet advisable and the free movement of labour might result in a drain of *qualified workers to the West which could weaken domestic economies and weaken prospects for integration*. It is also believed that a partnership would have to strike a difficult balance between a *qualified membership* and a *dependency relationship*, since it is clear that while considerable progress has been made towards opening a common trading area in Europe, the terms of trade in this area are far from uniform.

In order to foster regional economic co-operation, it is now planned to introduce a free trade area in industrial goods covering Western and Central Europe, Bulgaria and Rumania. In practice, however, the current degree of freedom of trade varies. EU member states are on their way to completing the single market; the remaining EFTA countries are to be integrated into the single market. The Europe Agreements hold the *Visegrad Four* - the Czech and the Slovak Republics, Hungary and Poland - at a distance, since they defer the free movement of people and capital until 1997. The southern applicants

(Malta and Cyprus) have association agreements leading toward a customs union, but to date have failed to fulfil the timetables stipulated in these agreements.¹⁷

The transition to a larger EU has not only affected political decision-making, but has hampered regional economic co-operation. The problem for the EU leaders is that they are not in agreement among themselves about what directions the EU should take. Countries such as the UK and Denmark tend to favour a broad Europe with loose links, while Germany and France have pursued deeper integration.¹⁸ Adding to the list of uncertainties at the EU Corfu summit in June 1994 was the failure of EU leaders to choose a successor to Jacques Delors as President of the European Commission. Despite this failure, plans were adopted in Corfu for trans-European energy and transport projects; accession treaties to the EU were signed with Austria, Sweden, Finland and Norway; and Boris Yeltsin of Russia signed a partnership and co-operation agreement with the EU that will pave the way for free trade talks to begin in 1998. The EU's future is destined to come to a head in 1996 when a review of its institutions is undertaken.

Asia-Pacific Economic Co-operation

Another regional economic grouping that has attracted a significant amount of attention and interest is APEC. The interest in Asia, and particularly East Asia, occurs at a time when this region is growing faster than any other region of the world. To capitalize on this economic miracle, in recognition of the increasing integration of trade and investment in the Pacific Basin, and to prevent other regions from drifting towards 'inward looking' trade policies, APEC was formed in November 1989. This giant grouping has gained momentum since first being proposed in 1979 by Australia in response to the growth of other regional trade blocs. APEC's original membership was twelve countries: Australia, Canada, Japan, South Korea, New Zealand, the US, Mexico, Papua New Guinea plus the Association of South-East Asian Nations (ASEAN) countries, namely Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. The admission in 1991 of the so-called *three Chinas* - the PRC, Hong Kong and Taiwan further boosted APEC's significance. Its main aim is to increase and promote trade and multilateral co-operation in the light of the Pacific nations' growing interdependence.¹⁹

APEC has an annual budget of US\$2 million, and it must be noted that it is purely a consultative forum, not a negotiating body. Its small Secretariat in Singapore is principally financed by the Singaporean government with an executive director whose nationality changes annually. Although it is run by public officials, businessmen and technical experts from the private sector are encouraged to attend. While the APEC charter calls for high-level ministerial meetings once a year, its principal work has

been done by working groups. APEC has now 10 such groups covering data in investment and trade, trade promotion, industrial science and technology, human resources development, energy co-operation, marine resource conservation, telecommunications, transport, tourism and fisheries.

The 17 nations with a population of two-and-a-half billion people have an economic output that has expanded six-fold in the past two decades, with intra-regional trade having risen twelve-fold in the same period. According to World Bank figures, the growth of exports from the US and the EU to the East Asia/Pacific countries averaged 11% and 10.1% per annum respectively in the years between 1981 and 1991. Correspondingly, the East Asian countries increased their exports to the US by 7.8% and to the EU by 9.4% annually. The growth of trade between the East Asia countries was much higher at an annual average of 14.3%.²⁰

After four years of informal consultation, APEC finally entered the world stage as a potential major regional player in 1993. The forum's first ever summit took place in the US city of Seattle in November 1993 at the request of President Clinton, who pledged America's help to create 'a new Pacific Community'.²¹ The significance of the summit was largely a matter of timing; it not only coincided with the US Congressional vote on NAFTA, but also preceded the run-up to the 15 December 1993 deadline for a final accord on the Uruguay Round of the GATT negotiations.

Despite its significance, little emerged from the APEC summit in terms of concrete commitments to free trade and economic collaboration. An 'economic vision statement' issued after the summit called for an international trading system to be made a priority; and trading relations between the US and the ASEAN to be improved. It was also agreed to create a non-binding code on investment and technology transfers and to establish an APEC Education Programme to broaden intellectual exchanges. On a general level, there was consensus to deepen regional economic co-operation across the fields of investment, APEC-business dialogue, private sector exchanges, education, energy, environment, small- and medium-sized enterprises and technology transfer.

The summit was preceded by a two-day meeting of APEC foreign and trade ministers at which it was decided to postpone consideration of a proposal by APEC's board of experts establishing 1996 as a target date for the creation of a 'free trade community'. Ministers agreed, however, to create a Committee on Trade and Investment to lower the cost of trading among Pacific Rim countries, and to strengthen working groups to develop uniformity in Asian rules on telecommunications, tourism and the environment.

Judging from these initiatives there appears to be a remarkable level of adjustment to

the economic and cultural scheme of things in the Asia-Pacific world which is indisputably a kaleidoscopic mix of new developmental capitalism and old Confucian tradition. As Indonesia assumed the chair of APEC in 1994, the outlook looks highly positive. The political and institutional advances of 1993 and the successful conclusion of the Uruguay Round have made APEC better equipped to produce commercially significant results. APEC's progress in 1994 was built on the momentum generated by the leaders and ministerial meetings held in Seattle. The strongly endorsed trade and investment facilitation agenda laid down an ambitious set of initiatives for 1994. Issues addressed as a result include:²²

- * The development of a set of regional investment principles.
- * The harmonisation of approaches to international standards.
- * The streamlining of customs procedures.
- * The continuation of a constructive dialogue on key trade policy issues.
- * Work to reduce the impact on regional non-tariff measures.
- * The development of a substantial post-Uruguay Round agenda.

These issues indicated that APEC had not yet included the concept of an Asian Pacific Economic Community, as proposed by the US, on its agenda. Even Australia, which sparked APEC's creation and remains its keenest promoter, made it clear at the Seattle summit that a suggestion by Prime Minister, Paul Keating, to change the 'Co-operation' in APEC's name to 'Community' did not imply it wanted to establish a free trade area. Although the 18 APEC attendees at the Jakarta summit in November 1994 are committed to establishing a free trade zone for developed countries by the year 2010 (2020 for developing nations), some argue that domestic political considerations will rule out an Asian free trade agreement.²³ Consequently, APEC is likely to continue to focus particularly on trade facilitation (as distinct from traditional tariff based liberalisation). In the light of the above, APEC's future is presently designed to improve the regional business environment through the harmonisation of practices and procedures and the consequent reduction of impediments to trade and investment flows.

The Bogor Summit in Indonesia on 15 November 1994 has now set into motion this vision through the standardisation of customs procedures and the computerisation of data. Furthermore, the institutionalisation of an annual APEC summit will, it is hoped, assist in the incremental liberalisation of trade between member states.

The North American Free Trade Agreement

The most recent publicly-debated and publicised of regional economic groupings has

been NAFTA. What NAFTA actually means and does, in a dense thicket of lawyerly prose ridden with caveats and codicils, is to set the *ground rules* among three countries - the US, Canada and Mexico - by which cross-border trade will be liberalised. The ultimate aim is to remove trade barriers among the countries. Within ten years nearly all restrictions on manufacturing trade and cross-border trade will be removed. After 15 years the last tariffs and quotas on agricultural goods will disappear.

The NAFTA process began with the Free Trade Agreements signed by Canada and the US in January 1988, which took effect in January 1989. The US-Canada FTAs cover a wide range of issues including trade policy, investment, and a limited degree of labour mobility. The FTAs call for the phasing out of tariffs within ten years and the elimination of many non-tariff barriers. The Agreements also provide for the temporary entry of professional workers.²⁴ Disagreements with regard to the FTAs are settled by an innovative settlement procedure, a so-called two-track process. The first track deals with disputes concerning treaty interpretation, while the second handles disputes over anti-dumping and countervailing duty actions.²⁵

These FTAs will now also affect trade and investment with Mexico. Following talks in February 1992 among the three countries, negotiations were completed with the initialling by Mexico of NAFTA. A formal signing took place on 17 December 1992. NAFTA is comprised of general provisions, side-agreements and other deals which are clearly illustrated in the table that follows. In broad terms, NAFTA covers all the issues in the FTAs with three new additions:

- * It breaks new ground on agricultural liberalisation.
- * It covers telecommunications and financial services.
- * It contains extensive environmental provisions.

NAFTA Text

General Provisions:

- * Tariffs reduced over 15 years, depending on sector.
- * Investment restrictions lifted in most sectors, with exception of oil in Mexico, culture in Canada, and airline and radio communications in the US.
- * Immigration excluded, except some movement of white collar workers to be eased.
- * Any country can leave the treaty with six months notice.
- * Treaty allows for the inclusion of any additional country.
- * Government procurement opened up over 10 years, mainly affecting Mexico, which reserves some contracts for Mexican companies.
- * Dispute resolution panels of independent arbitrators to resolve disagreements arising out of treaty.
- * Some snap-back tariffs if surge of imports hurts a domestic industry.

Industries:

- * Agriculture: Most tariffs between US and Mexico removed immediately. Tariffs on 6% of products - corn, sugar, and some fruits and vegetables - fully eliminated only after 15 years. For Canada, existing agreement with the US applies.
- * Cars: Tariffs removed over 10 years; Mexico's quotas on imports lifted over the same period; cars eventually to meet 61.5% local content rule to be free of tariffs.
- * Energy: Mexican ban on private sector exploration continues, but procurement by state oil company opened up to US and Canada.
- * Financial Services: Mexico gradually opens financial sector to US and Canadian investment, eliminating barriers by 2007.
- * Textiles: Treaty eliminates Mexican, US and Canadian tariffs over 10 years. Clothes eligible for tariff breaks to be sewn with fabric woven in North America.
- * Trucking: North American trucks could drive anywhere in the three countries by the year 2000.

Side Agreements:

- * Environment: The three countries liable to fines, and Mexico and the US sanctions, if a panel finds repeated pattern of not enforcing environment laws.
- * Labour: Countries liable for penalties for non-enforcement of child, minimum wage and health safety laws.

Other Deals:

- * The US and Mexico to set up a North American Development Bank to help finance clean-up of the US border.
- * The US to spend about US\$90m in the first 18 months retraining workers losing their jobs because of treaty.

Source: *The Financial Times*, 17 November 1993

There appears much optimism regarding the future success of NAFTA. Yet experts have pointed out that member countries will have to be prepared to undertake major adjustments in their trade and investment policies.²⁶ These include the lifting of import barriers, the stabilisation of currency, a reduction of state industry, deregulation of private business and an allowance for more extensive foreign investment. These and other issues stimulated vigorous debate, with opponents resorting to simplistic but politically effective rhetoric and NAFTA's supporters responding in kind if not in degree. NAFTA advocates believe the agreement will create hundreds of thousands high-paying jobs, do wonders for US competitiveness and assure the prosperity of North America. This picture is not as grossly false as that painted by NAFTA's opponents, but it does glamorise the reality considerably. As Paul Krugman has put it, the truth of NAFTA may be summarized in five propositions:²⁷

- (1) It will have no effect on the number of jobs in the US.
- (2) It will not hurt and may help the environment.
- (3) It will, however, produce only a small gain in overall US income.
- (4) It will probably lead to a slight fall in the real wages of unskilled US workers, and

- (5) From the US perspective, NAFTA is essentially a foreign policy rather than an economic issue.

One must also underline the importance of the agreement for the global trade system by pointing out that its members conduct about 60% of their total trade with countries outside the region. They, however, depend on GATT to safeguard access to foreign markets. Once extended to other Latin American countries who are awaiting membership, NAFTA could revolutionise their political, social and economic life - as they strive to become part of the 'North American Economic Community'.

Conclusion

Faced with a new world order and a new world view, countries are now more concerned about strengthening their individual roles in the international economy. As governments alone cannot produce significant results, their objective must be to promote interaction between the various private sectors and the pursuit of stable growth and development. Regional co-operation, especially regional economic co-operation is desirable in order to achieve a higher level of world welfare and better equity among nations.

These three groupings - in varying degrees of maturity - illustrate the ability of regional groups to make headway in this direction, and as noted, have also contributed significantly in areas where the GATT negotiations have stalled. In particular, regional groups seem better able to cover a wide range of issues, without excessive anxiety over the pooling of national sovereignty. The development of regionalism has thus far been very systematic. Each regional arrangement started out with modest sectoral accords that were relatively easy to conclude. These accords paved the way for broader agreements covering general trade barriers, which then opened the way for negotiations on economic integration. By the time a Free Trade Agreement had been concluded, the participants found themselves negotiating away non-trade barriers. The result was a somewhat greater harmonisation of monetary and fiscal policy, and somewhat less restrictive immigration laws and investment regulation. They also included the harmonisation of investment rules, labour laws, health and safety standards, and environmental protection.

Furthermore the convergence that results from deepening makes regional groups an appropriate forum for quicker trade liberalisation than GATT can achieve in sensitive sectors such as agriculture, textiles and transportation. Countries with similar economic systems and policies are more likely to make concessions in sensitive sectors both because firms can more easily relocate to the other country if its economic climate is

better, and because the higher probability of balanced two-way trade makes the adjustment easier.

The success of the systematic approach to regional economic co-operation achieved thus far makes regionalism a continuing trend in the years ahead. It becomes imperative to transfer this success to other regions of the world. In Southern Africa the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) are already promoting trade links in the sub-continent by breaking down tariff barriers. It is often stated that because of South Africa's (relative) technical and economic pre-eminence in the region its membership of these organisations will strengthen them, enhance their future prospects and improve their international bargaining power. However, without being too optimistic since a tremendous amount still has to be done in terms of political will, loyalty and confidence-building, the success of regional economic co-operation in Southern Africa should eventually spread throughout the continent. The governments of sub-Saharan Africa have already expressed their strong commitment to the co-operation and integration of the entire continent in an economic bloc. The first major formulation of this ideal was the Lagos Plan of Action of April 1980 which had virtually no practical effect. This objective was reconfirmed in the Abuja Declaration of June 1991, which envisaged the completion of an African Economic Community by the year 2034.²⁸

A truly unified Africa-wide market with the pooling and effective utilisation of resources, capital, labour, skills and technology will promote sustainable economic development. In the process the small domestic markets - mainly agricultural - could be transformed and diversified into industrial markets. The very modest accomplishments of sub-regional markets thus far can be seen as the initial steps for the foundation towards a continental market and, ultimately, bloc formation. The establishment of huge trading blocs in Europe, North America and the Pacific Rim has convinced African leaders that Africa, too, must speak with one voice in an increasingly competitive international environment.

However, there are two acid tests of the success of a regional group:

- * Does its economic magnetism attract applications from potential new members;
- * Are the members willing to broaden the group to encompass new countries?

By these criteria, the EU, APEC and NAFTA have been successful. Each regional group has attracted a growing number of prospective applicants. However, the acceptance of new members will, firstly, depend on the nature of their economies and their ability

to meet the admission requirements of that particular regional group. On the other hand, the regional group itself will want to see more success in their endeavours before enlarging. It is likely that following a pause of three to six years the process of regional broadening will continue, provided there is a commitment to mutualism, and multilateral co-operation and participation.

Undoubtedly we have entered the age of commercial co-operation and integration with global factories, markets, goods and labour on the increase. This economic-oriented environment will have to be nurtured with some lessons from the Japanese, who have constructed the most fecund production machine the world has ever known, resulting from a unique cocktail of long-term finance, committed human relationships and ferocious competition.

The transformation of society into a regionalised world economy will reduce international demands for problem-solving since regions themselves will focus on problems such as deteriorating food consumption, high unemployment, declining wages, ethnic violence, high population, nuclear proliferation and environmental devastation. The path to growth and development would require strong and determined leadership from individual states who can collectively unite in a region to promote global equitable welfare.

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Framing the Economic Future: South Africa's Relations with the IMF

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In assessing South Africa's relations with the twin institutions of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD or World Bank) it is essential to look beyond a simple chronology of loans, meetings and admonitions. To understand South Africa's place within these two international organisations one must take into account South Africa's place and perceived importance in the international financial community as a whole. Furthermore, it is necessary to examine not only the widely recognized role of the IMF and IBRD as institutions arranging loans and Structural Adjustment Programmes (SAPs), but as bodies that exert influence on political and economic thought and debate in the country.

Adopting a political economy approach that centres on international finance, this chapter focuses on an analysis of South African relations with the IMF from the early-1980s through to the present. Though mention is made of the IBRD, South Africa has but limited relations with that body as it is mainly concerned with issues of development, and South Africa is not viewed as a developing country by the Bank. However, since the end of fixed exchange rates in the early-1970s and the realignment of the IMF's activities in the running of the international economy, South Africa's relations with the Fund have been of great interest to the international relations scholar concerned with the work of international organisations. It is important to trace the often turbulent history of South African-Fund relations from the inception of the Bretton Woods institutions through the loans of the 1970s and early-1980s, the Gramm Amendment of 1983, and the return to full acceptance within the Fund with the December 1993 approval of a drawing under the Compensatory and Contingency Financing Facility (CCFF). Here an attempt will also be made to predict the future of South Africa's relations with the IMF.

Included in the survey is an assessment of the goals behind the activities of the Fund in South Africa. Between the passive and consultative (some may say redundant) role the IMF plays in the advanced capitalist economies and the active, often criticized role involving SAPs and loans in many developing nations, the IMF has performed a role of engaging and directing economic debate in South Africa at a time when foreign economic observers (and potential investors) saw it as most necessary. Furthermore, the Fund has

the chance to continue to play an active role in advising the fledgling ANC regime, though this could be overshadowed by the IMF's commitments elsewhere in the world. Two main points will emerge from this analysis. First, South Africa's relations with the IMF must always be examined in the light of its place in the international financial system, and thus one must look to the role of foreign banks and foreign investment in the country. In particular an understanding must be grasped of the importance of the 1985 debt standstill and the South African government's response to that crisis. To predict the future of those relations, this chapter argues for an analysis of future trends in international finance and investment. A second major concern is that the Fund be understood as an institution that does more than just lend money and impose SAPs. Of particular importance here is an analysis of the Fund's annual *Article IV* consultations, which along with working papers and the publishing of an IMF Occasional Paper on the South African transition, shall be seen to constitute an effort on the part of the Fund to engage economic and political actors in the country and to direct the debate on the economy along the route favoured by the IMF.

History of South African-IMF Relations

The official stated goals of the International Monetary Fund should not be confused with those of its sister institution, the World Bank. The Fund's purposes, as outlined in the IMF *Articles of Agreement* are concerned with international monetary co-operation; the expansion and balanced growth of international trade; the promotion of exchange stability; the establishment of a multilateral system of payments and the elimination of foreign trade restrictions; aiding member countries in the correction of balance of payments maladjustments; and shortening the duration and lessening the degree of disequilibrium in members' balance of payments.

However, with the end of the system of fixed exchange rates in the early-1970s, the Fund was forced to realign its economic priorities away from monetary and exchange rate goals in order to refocus on helping developing economies overcome balance of payments problems. The Fund stresses that this is not a development role - that of course is to be reserved for the IBRD. Nonetheless, as we pass the fiftieth anniversary of the founding of the Bretton Woods institutions, it is difficult not to see some blurring of the boundaries separating the mandates of these two bodies.

The goals of the Fund are, of course, centred on economic concerns. However, the Fund has acquired a distinctly political role as it has become involved in applying SAPs to developing economies. This role became increasingly criticized in the 1980s and though the open market doctrine espoused by the IMF appears to have become the

economic *lingua franca* of the post-Cold War period, one should not neglect the political/ideological bias inherent in the Fund's activities.

A founding member of the Bretton Woods institutions, South Africa maintained a very healthy and very 'normal' relationship with the IMF from its inception in 1945 until 1983. Though minimal use was made of the Fund's facilities before 1970, after this date South Africa became a regular and substantial borrower, the total of loans amounting to almost half of all borrowings by Southern African economies up to 1983.¹ It was at this point that the South African government's domestic policies first interfered with the country's international financial relations.

Throughout the 1970s and early-1980s, IMF approval of loans to South Africa had received increasing criticism from a wide selection of states, human-rights groups and international organisations, most importantly the UN. This criticism reached a peak with the 1982 approval of a US\$1,1 billion standby loan, when several Fund directors opposed approval on the grounds that apartheid severely impeded the efficient functioning of the South African economy. Nonetheless, South Africa retained access to IMF facilities, due largely to continued reluctance on the part of the US and UK to impose sanctions. The position of the US, however, was soon to change, and with it the ability of the IMF to make its loans available to South Africa.

Condemnation of apartheid on economic grounds continued in the IMF with the presentation of a staff report, the first such report in Fund history, that argued that apartheid seriously frustrated the medium- and long-term efficiency of the economy, particularly with regard to the labour market. The publication of this staff report showed that tolerance among board members was beginning to wear thin, a reflection of the growing public pressure on domestic legislators to act on the South African problem.

Yet 1983 proved to be a turning point for South African-Fund relations in more ways than this. For, in an amendment to a bill authorising an increase in the US quota to the Fund, the US Congress voted to 'actively oppose any facility involving use of Fund credit by any country which practices apartheid'. This decision, known as the Gramm Amendment, effectively put an end to further South African access to the Fund's facilities. The importance of this decision should not be underestimated. For by preventing access to Fund loans, South Africa was cut off from the international lender of last resort. Henceforth, in the event of balance of payments imbalances, the South African government would be forced to turn to the world's private capital markets.

The profile of South Africa's private financial relations had traditionally been a healthy one, the country receiving a steady inflow of capital throughout the post-war period.

However, at the beginning of the 1980s, the South African government turned increasingly to short-term borrowing both to overcome balance-of-payments problems, and because foreign banks' confidence in the country was no longer as strong as it once had been. Indeed it has been claimed that the IMF loan application of 1982 was made for the express purpose of reassuring private lenders of South Africa's creditworthiness.² Nonetheless, though this tactic was successful in attracting renewed private lending, the majority of new capital continued to be in short-term loans.

The problems of this concentration on short-term capital were compounded by the fact that the South African government was using much of this money to finance longer-term projects. This meant that the repayment of principal required the constant rolling over of loans, putting the South African government very much at the mercy of private creditors. In 1985 this vulnerability proved its potential to cripple the South African economy in the debt crisis of that year, which was sparked by PW Botha's disastrous 'Rubicon' speech.

As has been noted, since the beginning of the 1980s, South Africa had financed consecutive current account deficits by borrowing heavily from foreign creditors. Indeed the country had an enviable record of debt servicing that helped enable her to secure renewed access to foreign funds year after year. The events of August 1985 removed this option and reversed the country's position of net capital importer to one of net capital exporter. The debt crisis presented itself as the next step in the country's financial isolation, and as one of the most dramatic and far-reaching episodes in South Africa's economic history. Indeed it has been described as the 'single most important external factor affecting the South African economy' between 1985 and 1990.³

Beginning in July 1985 with the decision by Chase Manhattan bank not to roll over the short-term loans owed it by South Africa, other major US creditors rapidly followed suit and soon the country faced a crisis in which she found herself unable to repay most of the loans coming to maturity. Although banks from Europe and Japan at first seemed willing to take the place left vacant by US banks, it soon became clear that they too were unwilling to risk exposure to South Africa's political and, increasingly, economic vagaries. It became public knowledge that South Africa's foreign debt was hopelessly badly structured and that the Reserve Bank had been too liberal in its attitude to foreign lending.⁴ South African banks, it seemed, had long been engaging in unsound financial practices. At the end of August 1985 the foreign exchange markets were closed for three days and the government suspended repayment on foreign loans, but by the beginning of the next month the authorities had cobbled together a plan involving a 'standstill net' in which US\$13.63 billion of the total foreign debt of almost US\$24 billion was to be held. Interest would continue to be paid on all debt, but the capital of

the 'netted' debt itself would for the time being remain unpaid. Interestingly, but perhaps not at all surprisingly, the debt to the IMF was left outside the net, and thus repayments continued to be made.

There followed a series of 'Interim Agreements', up to the present day, in which conditions for the repayment of debt were negotiated and renegotiated. Of course a complete stop came to bank loans to South Africa, a situation that was only reversed in 1991 with a loan from the Export-Import Bank of Taiwan. Indeed for the two years following the debt standstill (1986 and 1987), South Africa made no borrowings at all on the international capital markets and was excluded from long-term borrowing until 1990.

At first glance the episode of this debt standstill may appear to have been a financial disaster for South Africa, and indeed it has been cited as one the major factors spurring the end of apartheid. With neither the option of IMF assistance nor that of private foreign borrowing, the South African government was forced to run a constant current account surplus to finance continuing capital account deficits. To achieve current account surpluses, the government implemented restrictionary measures to curb imports which contributed to the stagnation and contraction of the South African economy. Furthermore the capital stock in the country was only able to maintain a growth rate of 1% per annum, compared with a rate of 3% prior to 1985, which held back investment and growth.

However, if one looks at this part of South Africa's economic history from a slightly different perspective a new picture emerges. Rather than looking at the short- to medium-term effects of the debt standstill on the South African economy, it is perhaps worthwhile examining the medium- to long-term consequences of the events of this period for South Africa's financial relations. For, with the benefit of hindsight, one can see that the South African government's handling of the debt crisis of the mid-1980s was such that international creditors, both private and more importantly official, continued to view the country as a viable debtor. As for private creditors, the debt standstill agreement may not have given foreign banks what they required, namely repayment of all loans. However, unlike the crises afflicting Latin American economies in the same decade, South Africa was never forced into a default position. Furthermore, the government was able to impose its own debt repayment plan on creditors, a plan which proved successful in its ability to keep payments flowing from debtor to creditor. Lastly, by including creditors at regular intervals in the negotiation and renegotiation of interim agreements, South Africa has maintained a healthy dialogue with bankers from across the international financial community.

As for official creditors, the South African government wisely chose to keep official debt outside the standstill net. Thus, whilst only interest and a small percentage of principal of the moneys owing to private creditors would be paid, IMF repayments continued to be repaid in full. Clearly, the South African government was looking to a time in the future when official borrowing might be resumed. Therefore the handling of the 1985 debt crisis was instrumental in maintaining a healthy relationship with the international financial community.

Yet debt repayment is not the only way in which the government was able to keep in good standing with the Fund. Under Article IV, Section 3 of the IMF *Articles of Agreement*, which deals with the surveillance of exchange agreements, member nations are obliged to 'provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies'. With the reorientation of Fund priorities in the mid-1970s, the mandate of these consultations has been broadened to the extent that today they touch on most macro-economic issues with increased 'emphasis...on the appropriateness of a country's exchange rate policies, the medium-term implications of economic policies, structural reform efforts, and the stance of trade policies'.⁵ The staff report which emerges from these consultations holds a threefold purpose. The first aim of the report is to identify the current and the major problems; secondly, it seeks to outline what remedies that country's government is following to deal with these problems; and last, the report aims to assess the efficacy of these governmental responses.

Though of negligible worth and importance in most advanced capitalist economies, in developing countries these consultations provide a supposedly unbiased assessment of the short- and long-term health of the economy, and of course play an integral role in the formulation of Structural Adjustment Programmes. In South Africa's case, the information contained in these reports (officially confidential, though always leaked), has been of great importance for both domestic and foreign private investors as, during the years of apartheid, this information was generally not available from any other source.

Throughout the 1980s, many of the suggestions of successive Article IV staff reports appear to have found a clear echo in South African government economic policy, another indication that the National Party administration sought to maintain healthy relations with the Fund. Though it would be wrong to say that Fund and South African government views always dovetailed (examine for example the questions of the financial rand and tariffs), government direction of the economy was in the past generally consistent with IMF guidance.

Another point of interest in these consultations is the issue of who has been consulted. In most countries the Fund interviews government and bureaucratic representatives to build a picture of the economic health or otherwise of a nation. However, in South Africa the Fund has consistently included non-government actors in the consultation process. In the late 1980s and early-1990s the Fund attached increasing importance to obtaining the input of the ANC and COSATU. This reluctance to merely accept the official line on the economy may be viewed as an indirect aspersion on the South African government's legitimacy. Alternatively, it shows that the Fund has shown an interest in securing the long-term economic health of South Africa, something that required more than just the collaboration of the National Party. This interest proved to be of greater consequence, as will be noted, towards the end of the era of apartheid.

Since 1983 and the implementation of the Gramm Amendment which effectively barred South African access to the loan facilities of the IMF, the representatives of the South African government at the Fund's headquarters on 19th Street in Washington DC had only been allowed access to the deputy managing director of the organisation. However, with the 1990 release of Nelson Mandela from imprisonment, Michel Camdessus, managing director of the Fund, agreed to meet with Pretoria's representatives. This seemingly minor diplomatic shift in fact signalled a distinct warming in South African-Fund relations.

The Article IV consultations for 1990 painted a somewhat gloomy picture of the future of the South African economy. However, two events in the same year reinforced the idea that the Fund had a renewed interest in the economic affairs of the nation. First, a working paper, pulling no punches whatsoever, sought to outline the fundamental problems that lay at the heart of the South African economy. Second, the Fund's executive committee made the decision that from that year on, Article IV consultations would focus not merely on the effects of apartheid on the labour market but rather on a range of issues to produce a broad macro-economic picture.

1991-1992: Active Engagement

January 1992 saw the publishing of an IMF Occasional Paper entitled *Economic Policies for a New South Africa*. This document appeared at a crucial time in the process of negotiating South Africa's political and economic future and constituted the best example to date of the extent of Fund interest in the long-term health of the South African economy. Though the paper contained nothing that went beyond economic common-sense and in fact did little to prescribe the best future for South Africa, its success lay in refocusing debate in the country on economic issues which had been laid aside in the

midst of political wranglings.

The occasional paper in fact drew most of its substance from the Article IV consultations of 1991. During this year attention had come to fall on the possibility of renewed South African access to IMF facilities, and the consultations fostered this interest by adopting the attitude of examining a country in transition. Having met with a broad array of interested groups - including officials from the Ministry of Finance, the Reserve Bank, ANC, COSATU and Inkatha - the emerging report looked to the future of South Africa, laying out several scenarios for the future of the South African economy. This focus on the future, as opposed to an analysis of the past and present state of economic affairs, was a clear sign of a strong Fund interest in the country.

The paper itself centred its conclusions on the issue of redistribution in a post-apartheid South Africa. Recognising the political pressures pushing a future democratically elected government towards such policies, the paper claimed that 'poverty in South Africa is so severe that redistribution policies, which alone will not be adequate to counter it, must be supported by policies designed to place the economy on a higher growth path'.⁶

Almost as crucial for the paper's impact, it addressed issues ranging from taxation and government spending to wage policies and housing, from health and education to the current state of the country's capital stock. Though claiming to be an objective analysis of the consequences of a future government's economic policies, the paper brought with it a traditional Fund preoccupation with lower taxation, lower tariffs and absence of exchange controls. Together with the paper's wide circulation, its quality helped focus attention among political groups on issues of an economic nature.

The timing may be seen as having been somewhat fortuitous - the CODESA negotiation process was at that time stalled, bringing about an otherwise lamentable political stalemate that allowed a redirection of focus in political debate. The press response was largely enthusiastic, one paper describing the views contained in the paper as 'an encouraging voice of reason'.⁷ Nonetheless, this favourable acceptance in the mainstream press helped little in smoothing the paper's way with the ANC, COSATU and others generally to the left of the political spectrum.

Yet the general perception on the left was that the Fund had come up with nothing new and had focused too much on warnings against certain policies rather than offering positive, concrete alternatives. Furthermore, the ANC criticised the paper for being insensitive in its proposal that future governments should focus on job growth and productivity rather than wage increases. Moreover, the ANC's reception of the paper betrayed the belief that the IMF favoured white interests over those of the poorer sections

of South African society.

Academic attention became focused on the paper's conclusions through an article produced for London University's School of Oriental and African Studies which drew issue with its findings, going to the extent of claiming that *Occasional Paper 91* failed to 'make a serious contribution to the debate'.⁸ Yet this seems to have been the main contribution of the paper. For, in stirring controversy over economic issues, political debate in South Africa was redirected towards discussions of such fundamental matters as nationalisation and redistribution of wealth. As one ANC economist put it, the Occasional Paper 'put facts and figures on the table, around which the debate can take shape'.⁹

But what impact did the IMF have on ANC policy itself? Since 1991 there had been a distinct warming of ANC-Fund relations. This was partly due to the changing dynamics within the ANC's Department of Economic Policy, with a significant shift in personnel in favour of more business-oriented, centrist staff at the expense of those with more traditional, *dirigiste* policy preferences.

It might be going too far to say that this shift has been nurtured by the Fund, but an official visit in April 1992 by ANC staff members to 19th Street certainly contributed to this process. The party was welcomed by the deputy managing director of the Fund and then engaged in extensive discussions with Camdessus himself. These talks touched on the economic legacy of apartheid and the attainment of macro-economic stability. Camdessus sought to impress upon the visitors the need for 'sound economic policies and sustainable growth'.¹⁰ An offer of training by the Fund for future bureaucrats was welcomed by the ANC and this may have helped in the economic conversion of the party to more middle of the road economic policies. Indeed ANC policy has evolved over the past four years to the extent that it is now a quite different creature to the strongly interventionist dogma outlined in the Freedom Charter.

Since 1990, more attention has progressively been paid in ANC economic policy to macro-economic stability and sustainable growth. Moreover, ANC policy towards foreign investment has come full circle from hostility to a promise to 'establish a climate of political stability, economic growth and transparent, consistent economic policy', words that seem to echo successive IMF missions.¹¹ This change has of course also brought about a *rapprochement* between the ANC and white business. Traditionally enemies, this coming together has reached the point where an ANC economics' spokesperson recently described the party's relationship with white business as more important than that with white politicians.¹² Furthermore, the *entente* between the ANC and white business has become so cordial that some South African blacks fear that

white business is buying the co-operation of the ANC through business hospitality and exotic trips. It would be an exaggeration to say that this new atmosphere is true symbiosis - yet interdependence of this sort is a powerful motivation.

Of course causality is a problematic affair, and it would be naive to suggest that the influence of the IMF was the only force pushing ANC economic policy towards the middle of the political spectrum. Yet the impact of the Fund's activities at such a crucial time in negotiations for the future of the country should not be overlooked. Most importantly, the IMF's warnings seem to have helped the party realise that the redistribution of material wealth can only be successful if economic growth is fostered and sustained.

A central issue that has yet to be discussed in this chapter is that of whether a democratic South African government should turn to the Fund for financial assistance to smooth the transition process. The comparatively high profile of the IMF between 1991 and 1992 helped to fuel debate on this matter. Many had come to believe that upon readmittance to full membership in the Fund, Pretoria should seek a loan under one of the Fund's facilities. This would serve a dual purpose. First, it would provide a much-needed injection of capital to aid the transition directly; second, and more important in terms of the long-term prospects of the South African economy, it would inspire confidence among private creditors and investors that South Africa was a good bet for their money. This viewpoint was opposed by those who saw that any financial assistance from the IMF would likely bring with it certain costs, such as Fund interference, in the running of the economy.

This latter view may be seen in hindsight to hold more validity than the former. For in examining the Fund's activities over the period 1991-92, we may conclude that by engaging economic and political actors in South Africa, the Fund attempted to guide economic debate towards policies that would encourage long-term sustainable economic growth over those that aim for shorter term but transient results. In doing so, the Fund has tried to steer South Africa away from the need in the mid-1990s for a SAP that could have far-reaching political effects on an already unstable society. The logic behind the Fund's concerns seems to have been accepted by at least one ANC National Executive committee member, who noted 'if you want to avoid Structural Adjustment Programmes you have to avoid [the] pitfalls'.¹³

The Future of South African-Fund Relations

South Africa returned to full membership of the International Monetary Fund in

December 1993 with the approval of a drawing equivalent to SDR 614.43 million (about US\$849 million) under the compensatory and contingency financing facility. The request for assistance was made as a result of the severe drought of 1992 which lowered export earnings from agricultural crops and made necessary a sharp increase in cereal imports, most markedly the import of maize (South Africa normally exports 1-2 million tons/year). In addition to the effects of the 1992 drought, lower world market prices for precious metals and minerals brought a significant shortfall in earnings in this sector.

This drawing, made under the previous National Party administration, is comparatively small given the size of South Africa's economy. What's more, being the first use of Fund credit since 1982, it does not damage the country's financial well-being. But most importantly the IMF included in its press release (No. 93/52, 22 December 1993) a paragraph expressing faith in the direction economic policy is headed in South Africa and in the future of South African-Fund relations, which were described as constituting a 'constructive policy dialogue'.¹⁴

However, good feelings aside, Fund interest in South Africa appears to have diminished somewhat since 1992. This reduction in Fund attention to South African affairs coincides with an increase in the organisation's preoccupation with the economic affairs of countries of the former Soviet Union. Acting in conjunction with the G-7 (G-8?), the IMF has performed the role of co-ordinator for financial assistance to Russia and other CIS economies. The reasons for this are clear. The future economic and thus political well-being of these nations is of immediate consequence to those countries making up the G-7 and holding the large majority of votes in the IMF. In addition to the strategic implications of Russian economic stability, we should not forget that private companies from the Western nations and Japan have invested heavily in the former Eastern bloc economies, and that, without wishing to take on too mercantilist a perspective, the G-7 countries wish to protect their interests.

Yet this understanding of the motivation for Fund concern may also offer some hope for South Africa's future relations with the organisation. If we are to question the rationale for heightened Fund interest and activity in South Africa in the early-1990s, two possibilities emerge. The first is that the Fund is looking for an African country which might be called a 'success'. After a decade and a half of economic disasters and severe international criticism of Fund SAPs on the continent, the Fund may have been looking for an economy which, through its guidance, reaches a level of economic stability that would make it eligible to play the role of a 'showcase' of IMF work in Africa. This would lend credence to IMF economic dogma and show that, if called in early enough, the Fund may be able to prevent severe economic problems and hardship. Furthermore,

it has been suggested that South Africa has been seen as a potential economic locomotive or at least linchpin of political stability for Southern Africa, a role consistent with President Mandela's emerging diplomatic role in neighbouring countries such as Mozambique.¹⁵

However, the second possibility appears more consistent with the approach taken in this chapter. If one is to examine the composition of the IMF board, it emerges that banks and companies from the main shareholding countries, in particular the US, UK, Germany and more recently Japan, have maintained strong links with South Africa despite years of financial sanctions against Pretoria. Banking is of particular importance in terms of the sophistication of South Africa's financial community. South African banks match, even surpass in some areas, their counterparts in the G-7 nations in terms of size, sophistication and financial diversification. In addition, beginning with South Africa's official reintegration into the global financial system with a 1991 public bond issue that was well-received by the markets, the country's financial prospects seem healthy, if not absolutely rosy. It is to be expected that, to ensure the success of future foreign investment programmes in South Africa, the Fund will continue to engage governments to smooth their path. Crucial to this future will be the decision, on the part of the present and/or future administrations, regarding the future of the financial rand, long a bone of contention between the Fund and the Ministry of Finance.

Yet it is not just South Africa's future that is of interest and concern to the international financial community and the Fund. Sub-Saharan Africa remains one of the few areas offering opportunities for rapid economic growth, though this may not come for many years. The health of the South African economy and especially the nation's financial system and stock exchange are essential for the optimal allocation of capital to the sub-continent and it is to be expected that, as potential returns on investment grow in relation to those in other developing areas, Johannesburg will take its place as the financial gateway to Africa south of the Sahara.

Thus there is reason to expect the future of South Africa-Fund relations to be healthy. Much depends on political stability; even more on the direction and stability of the South African economy. However, the crucial point of reference will be the level of interest shown in South and Southern Africa by international investors. A surge of new investment remains improbable, yet continuing changes and innovations in finance, in particular the immense growth in mutual/investment funds and the allure of emerging markets felt on the part of private and institutional investors alike, may bring renewed interest in the affairs of the sub-continent. As of June 1994, six mutual funds in Europe and America were devoted to African markets, six more than at the beginning of the year. The focus of these funds on South African equities shows both the economic

dominance of the South African market and the belief that Johannesburg is a way into the sub-continent. As investors' confidence in Africa grows so should these funds; enormous returns have already been predicted.¹⁶ It is to be expected that the Fund will find a renewed interest in South Africa if this scenario comes to be.

Conclusion

This chapter has traced the history of relations between the International Monetary Fund and South Africa since the Fund's inception, and has sought to explain the health or otherwise of these relations from a political economy perspective. The Fund has been shown as an organisation that has the capacity, when the political will is present, to play an important role in the domestic affairs of a country. In addition to the well-known activities of granting loans and designing SAPs, the Fund performed the function of engaging and redirecting political debate towards economic affairs in South Africa in the early-1990s.

Furthermore, the history and future of South Africa's relations with the Fund has been examined in the light of that country's relations with international banks, financial institutions and, today, private investors through the mutual fund industry. The health of South African-Fund relations has been shown to be dependent on South Africa's place in the international financial system. A major concern of the IMF lies in keeping the machinery of international finance in good working order and South Africa is important to the Fund for that reason.

The future of South Africa's relations with the IMF depends on how sub-Saharan Africa is viewed by international investors. The Johannesburg stock exchange offers a well-established and sophisticated conduit for foreign funds to enter the sub-continent. If the time comes when the prospective returns on investment in Africa outweigh the risks entailed, we may see renewed interest on the part of the Fund. For now and for the near future, that seems improbable and the health of the Fund's relations with South Africa will likely remain in its current state, one of good feeling but little active involvement.

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The European Union: A Most Important Trading Partner?

Adrian Guelke

The European Union (EU)¹ is South Africa's most important trading partner. In fact, it might be considered slightly surprising that the dominance of the EU in the country's trade is not greater than it is. Further, despite the importance of the EU to South Africa as a trading partner, other dimensions of the relationship between South Africa and the EU are arguably of at least as much importance as trade. In some respects they are difficult to disentangle from the issue of trade. At the same time, the extent to which the EU dominates trade between South Africa and the rest of the world remains little appreciated in South Africa. Yet there is even less understanding of other dimensions of the relationship between the EU and South Africa.

Each of these statements can be justified; but taken together, they seem paradoxical, if not contradictory. The root of the problem lies partly in the difficulty that South Africans have in understanding the nature of the EU, and partly in the peculiar nature of the EU itself. It does not help that much of the information which reaches South Africa about the EU is filtered through the United Kingdom, the most sceptical and the least European-minded of the member states of the EU. Like much of the British media, the South African media has been slow to come to terms with the progress of European integration. That was most clearly reflected in the shallow coverage accorded to the signature in October 1994 of an interim framework agreement between the EU and South Africa.

The Extent of EU Trade

The inevitability of the EU's dominant position in trade with South Africa stems simply from the fact that the member states of the EU dominate world trade. Thus, in 1992 the member states of the European Community (EC), as it was then, accounted for over 40% of global merchandise trade.¹ Of course, that figure includes trade among the member states, which is over half of the total. Nevertheless, as a bloc, the EC in 1992 accounted for close to a quarter of world trade, which still made it far and away the largest trading

¹ **Editor's Note:** The EU has, in recent years, also been termed the 'Common Market', the 'EEC' and the 'EC'. Following the signing of the Maastricht Treaty, the EU came into effect on 1 November 1993.

entity in the world outstripping both the US and Japan. The EU/EC's share of South African imports and exports in 1992, 1993 and the first half of 1994 are shown in the tables below.

| Listed percentage share of South African imports from the European Union, its member states, and South Africa's other principal trading partners, January-December 1992, January-December 1993, January-June 1994 | | | |
|---|---|------|------|
| | 1992 | 1993 | 1994 |
| European Union | 40.2 | 40.3 | 42.8 |
| Belgium | 2.2 | 2.2 | 2.3 |
| Denmark | 0.2 | 0.4 | 0.5 |
| France | 3.9 | 3.5 | 3.2 |
| Germany | 16.3 | 15.7 | 16.3 |
| Greece | 0.0 | 0.0 | 0.0 |
| Ireland | 0.4 | 0.5 | 0.5 |
| Italy | 3.5 | 3.5 | 3.9 |
| Luxembourg | 0.1 | 0.1 | 0.1 |
| Netherlands | 2.4 | 2.3 | 2.7 |
| Portugal | 0.2 | 0.3 | 0.3 |
| Spain | 0.7 | 0.6 | 0.7 |
| United Kingdom | 10.2 | 11.1 | 12.2 |
| PRC | 1.2 | 1.7 | 1.5 |
| Taiwan | 3.4 | 3.5 | 3.4 |
| Japan | 10.6 | 12.6 | 10.7 |
| Switzerland | 2.3 | 2.2 | 2.7 |
| US | 13.6 | 13.1 | 11.8 |
| Zimbabwe | 1.4 | 1.1 | 1.3 |
| Unallocated | 12.4 | 9.1 | 6.4 |
| Source: | Calculated from Table 2, <i>Monthly Abstract of Trade Statistics</i> , Department of Customs and Excise, Pretoria. Note that these trade statistics cover the common customs area of Botswana, Lesotho, South Africa and Swaziland. | | |

**Listed percentage share of South African exports to the European Union,
its member states, and South Africa's other trading partners,
January-December 1992, January-December 1993, January-June 1994**

| | 1992 | 1993 | 1994 |
|----------------|------|------|------|
| European Union | 23.0 | 20.8 | 22.6 |
| Belgium | 2.9 | 2.9 | 2.7 |
| Denmark | 0.1 | 0.3 | 0.2 |
| France | 1.5 | 1.0 | 1.1 |
| Germany | 4.3 | 3.9 | 5.2 |
| Greece | 0.3 | 0.1 | 0.1 |
| Ireland | 0.4 | 0.4 | 0.3 |
| Italy | 2.4 | 1.8 | 2.1 |
| Luxembourg | 0.0 | 0.0 | 0.0 |
| Netherlands | 2.8 | 2.9 | 2.4 |
| Portugal | 0.4 | 0.4 | 0.4 |
| Spain | 1.4 | 1.2 | 1.2 |
| United Kingdom | 6.5 | 6.0 | 6.9 |
| PRC | 0.9 | 0.8 | 0.7 |
| Taiwan | 3.1 | 2.7 | 2.1 |
| Japan | 5.4 | 5.5 | 6.4 |
| Switzerland | 7.8 | 9.9 | 8.2 |
| US | 7.0 | 6.9 | 7.2 |
| Zimbabwe | 2.2 | 2.2 | 2.6 |
| Unallocated | 29.8 | 29.0 | 29.6 |

Source: Calculated from Table 3, *Monthly Abstract of Trade Statistics*, Department of Customs and Excise, Pretoria.

Taking the figures for 1994, the EU's share of trade (both imports and exports) was over three times that of South Africa's next largest trading partner, the US, and nearly four times that of Japan, the country's third largest trading partner. It is worth noting that, with the exception of Zimbabwe, South Africa's main trading partners mirror the leading countries in world trade. As a by-product of its natural resource base and the

impact of sanctions, South Africa has developed exports of goods 'which are relatively lightly restricted in international trade and has a relatively broad geographical dispersion of markets'.²

These tables also provide a breakdown of South Africa's trade in terms of the individual members of the EU/EC. This shows very considerable variation in the level of South Africa's trade with the individual countries, taking into account differences in population. Thus, the populations of the UK, Italy and France are very similar.³ However, South Africa's trade with the UK in the first half of 1994 was over three times that with Italy and over four times that of France. By contrast, since 1992 trade with the Netherlands has been more or less on a par with that of France, though the Netherlands has little more than a quarter of the population of France.⁴ This variation in the pattern of South Africa's trade with different members of the EU is readily explicable as a product of the country's historical ties with particular members of the EU.

Of course, the case of South Africa is far from unique in this respect. Indeed, to a greater extent than in the case of South Africa, the trade of other former European colonies tends to be dominated by the former metropolitan power. In fact, from this perspective, it could be considered slightly surprising, given both the country's history and the ethnic links between the most affluent sections of South Africa's population and Europe, that the EU's role in trade with South Africa is not a more dominant one. In a 1992 study of policy options for the EC in trading with South Africa, Page and Stevens pointed out that the Community took a smaller share of South African exports than of most members of the Lomé Convention, that is to say, former European colonies in Africa, the Caribbean and the Pacific (ACP), given preferential access under the Convention to the European market.⁵ They concluded that 'South Africa's relative lack of dependence on the EC'⁶ reduced the benefits available to South Africa from negotiating trading concessions from the Community.

At the same time, the asymmetry in the trading relationship between South Africa and the EU needs to be underlined. South Africa has a very open economy with foreign trade accounting for over half the country's gross domestic product. But the size of the South African economy is so tiny compared to that of the states making up the EU as to make trade with South Africa of marginal significance to their economies, particularly in the context of the formulation of trade policy at the European level. Furthermore, South Africa's share of world trade has been falling. In 1992, it was 0.6%.⁷ The importance of the European level in relation to trade policy tends to be underestimated because of the emphasis that continues to be placed on the national markets, particularly the relative share of trade with South Africa taken by the UK and by Germany. Total trade with the EU tends to be treated much as the total for Africa or Asia is treated. In

other words, as the sum of different markets.

The variation in South Africa's level of trade with different members of the EU encourages such a perspective. But of course national figures themselves represent the sum of different regional markets. For example, were South Africa's trade with the UK to be broken down into the country's trade with England, Wales, Scotland and Northern Ireland, the detailed pattern would certainly show up significant regional differences that would make the overall total appear a simplification of a more complex picture. What tends to be lost sight of in relation to the European Union is the issue of policy. In many areas of policy, the European institutions share power with the national governments. In fact, as the ambit of policy-making has grown, the initiative has tended to shift away from the European Commission to the Council of Ministers. In short, the intergovernmental approach has tended to become the dominant mode of policy-making. In many fields there has existed, as Loukas Tsoukalis has put it, 'a wide grey area where the division of authority between different levels of authority has been ambiguous but also changing'.⁸ However, in the case of trade, reflecting the pioneering role the creation of a customs union played in the process of European integration, the competence of European institutions to conduct policy is not only clearly defined but effectively exercised.⁹ That does not mean that policy is made without reference to the particular interests of the individual member states, but it does give the Commission a most powerful role in the process. Testimony to its influence is the size of the missions that small states such as New Zealand maintain in Brussels.

The Nature of South African-EU Trade

Before the implications of this position are examined in greater depth, the nature of South Africa's trade with the EU is worth examining. The breakdown of South Africa's imports from and exports to the EU by category for the first half of 1994 follow.

January-June 1994: South African Imports by Category in Rand millions and as a percentage of total imports; European Union's listed share as a percentage of total

| | SA Classification | Value | % Total | EU % |
|----|-------------------------------|----------------|---------|------|
| 01 | Live animals, animal products | 185.5 | 0.6 | 47.6 |
| 02 | Vegetable products | 702.7 | 2.1 | 17.5 |
| 03 | Fats, oils | 512.0 | 1.5 | 7.6 |
| 04 | Foodstuffs, beverages | 666.3 | 2.0 | 28.5 |
| 05 | Mineral products | 298.4 | 0.9 | 22.0 |
| 06 | Chemicals | 3,689.4 | 11.0 | 58.7 |
| 07 | Plastic, rubber | 1,467.5 | 4.4 | 53.7 |
| 08 | Hides, skins, leather | 180.7 | 0.5 | 25.5 |
| 09 | Wood, cork, straw | 263.4 | 0.8 | 16.5 |
| 10 | Pulp, paper | 1,002.4 | 3.0 | 50.3 |
| 11 | Textiles | 1,446.9 | 4.3 | 26.8 |
| 12 | Footwear, headgear | 193.5 | 0.6 | 15.4 |
| 13 | Cement, asbestos, mica, glass | 411.0 | 1.2 | 61.1 |
| 14 | Jewellery, precious stones | 1,195.3 | 3.6 | 57.0 |
| 15 | Base metals | 1,540.1 | 4.5 | 51.3 |
| 16 | Machinery | 11,110.1 | 33.1 | 49.8 |
| 17 | Transport equipment | 4,749.3 | 14.1 | 38.1 |
| 18 | Professional equipment | 1,452.4 | 4.3 | 45.5 |
| | | Not applicable | | |
| 20 | Miscellaneous Manufacture | 328.4 | 1.0 | 39.2 |
| 21 | Art, Antiques | 16.0 | 0.0 | 66.2 |
| 22 | Other unclassified | 2,174.3 | 6.5 | 1.8 |
| | | | | |
| | Total | 33,585.7 | | |

Source: Calculated from Table 2, *Monthly Abstract of Trade Statistics*, Department of Customs and Excise, Pretoria

| January-June 1994: South African Exports by Category in Rand millions and as a percentage of total imports; European Union's listed share as a percentage of total | | | | |
|---|-------------------------------|-----------------|----------------|-------------|
| | SA Classification | Value | % Total | EU % |
| 01 | Live animals, animal products | 535.0 | 1.3 | 43.1 |
| 02 | Vegetable products | 2,097.3 | 5.1 | 51.9 |
| 03 | Fats, oils | 58.6 | 0.1 | 6.0 |
| 04 | Foodstuffs, beverages | 980.8 | 2.4 | 27.6 |
| 05 | Mineral products | 3,599.7 | 8.8 | 45.6 |
| 06 | Chemicals | 2,057.6 | 5.0 | 24.3 |
| 07 | Plastic, rubber | 381.3 | 1.0 | 14.2 |
| 08 | Hides, skins, leather | 353.3 | 0.9 | 68.9 |
| 09 | Wood, cork, straw | 301.8 | 0.7 | 25.3 |
| 10 | Pulp, paper | 1,052.1 | 2.6 | 22.8 |
| 11 | Textiles | 821.9 | 2.0 | 46.1 |
| 12 | Footwear, headgear | 50.0 | 0.1 | 36.8 |
| 13 | Cement, asbestos, mica, glass | 202.8 | 0.5 | 28.5 |
| 14 | Jewellery, precious stones | 4,875.7 | 11.9 | 27.0 |
| 15 | Base metals | 5,052.4 | 12.3 | 20.8 |
| 16 | Machinery | 1,361.5 | 3.3 | 34.6 |
| 17 | Transport equipment | 1,316.7 | 3.2 | 47.8 |
| 18 | Professional equipment | 126.6 | 0.3 | 36.1 |
| | | Not applicable | | |
| 20 | Miscellaneous Manufacture | 259.5 | 0.6 | 59.1 |
| 21 | Art, Antiques | 19.3 | 0.0 | 28.2 |
| 22 | Other unclassified | 15,607.1 | 38.0 | 5.1 |
| | | | | |
| | Total | 41,111.0 | | |

Source: Calculated from Table 3, *Monthly Abstract of Trade Statistics*, Department of Customs and Excise, Pretoria

The main categories of listed South African exports to the EU were, in order of their importance: mineral products, jewellery and precious stones, vegetable products, and base metals. Together these categories accounted for over half of identified South African exports to the EU. By contrast, the main categories of South Africa's imports from the EU were, in order of their importance: machinery, chemicals, and transport equipment. These three categories accounted for very nearly two-thirds of South Africa's listed

imports from the EU. In short, South Africa largely exports primary products or products derived from its natural resource base to the EU, while importing machinery and manufactures. The composition of South African exports to the EU was such that even prior to the additional trading concessions made to South Africa in August 1994, over three-quarters of South Africa's exports entered the EU duty free.

Page and Stevens considered six different trade policy options for the EC in its relations with the new South Africa: from the standard Most Favoured Nation treatment as required under GATT to full membership of the Lomé Convention. After detailed analysis of the options, as well as consideration of the obstacles to their acceptance, the authors concluded that 'the gains from preferential trade regimes seem small' and they argued that assistance in restructuring the economies of Southern Africa 'could be more effective than providing improved trade access...'.¹⁰ At the same time, it needs to be borne in mind that the scale of South Africa's trade with the EU is such that even what seem relatively minor concessions affecting only a small fraction of the country's trade amount to huge sums in monetary terms that dwarf what is given, for example, as aid. Thus, the effect of the EU's inclusion of South Africa within its Generalised System of Preferences was to grant preferential access to the EU of a further R1,7 billion of South African exports.¹¹

Nevertheless, trade is only one dimension of the economic relationship between the EU and South Africa. As the EU Commissioner for External Economic Relations, Sir Leon Brittan, pointed out in an article on the eve of his October 1994 visit to South Africa, over half of all foreign investment in South Africa is from Europe, compared to just over 20% from the US and only 2% from Japan. Furthermore, Europe has been the most important single source of development aid to the country.¹² What is more, both foreign investment and aid are more susceptible to the political climate of relations than is trade. This was clearly reflected in the evolution of the EC's policies towards South Africa during the 1970s and 1980s. The issue of South Africa's racial policies was taken up by the EC during the 1970s in the context of the development of European Political Co-operation, an inter-governmental process directed towards the establishment of common ground in foreign policy matters among the member states. In fact, as Martin Holland pointed out, 'opposition to apartheid constituted the Community's longest collective foreign policy'.¹³

Holland identified four phases in the Community's policy towards South Africa: a phase of consensus between 1974 and 1984; one of conflict in 1985 and 1986; a phase of compromise between 1987 and 1989; and, finally, another of reformulation from 1990.¹⁴ To Holland's four phases, a fifth may be added of the beginnings of the institutionalisation of the relationship on a long-term basis, with the signature of the

interim framework agreement between the EU and South Africa in October 1994. The key development in the first phase was the EC's adoption of a *Code of Conduct* covering the behaviour of European firms in South Africa. This laid down guidelines for the conduct of business in South Africa that were designed to counteract policies of apartheid in the workplace. However, despite the setting of community-wide standards, the monitoring of their application was left in the hands of national governments. In practice, that resulted in many discrepancies on how the Code was applied. Implicit in the Community's approach during the 1970s was a rejection of economic sanctions. The consensus on this issue was disturbed by the unrest in South Africa in the mid-1980s. In this second phase of Community policy there was fierce argument over the merits of sanctions. Eventually, the EU was persuaded to adopt a policy of sanctions in a number of fields.

In September 1985, European foreign ministers agreed to a very limited series of restrictive measures designed to hasten the process of the abolition of apartheid. It included a ban on oil sales, ending military co-operation, and discouraging cultural, scientific and sporting links. In 1986 it was substantially strengthened with the addition of a ban on new investment in South Africa and an embargo on the importation of iron and steel products, and of gold coins from South Africa. The limited nature of the trade element of the sanctions was underlined by the fact that the embargo against South Africa affected only some 3.5% of the country's trade with the EC.¹⁵ Alongside sanctions, the Community also adopted a strategy of giving assistance to the forces of change within South Africa. In 1985 the EC launched the Special Programme to assist the victims of apartheid as the centre-piece of its positive measures. The Special Programme, which is run by the Commission, channels aid to South Africa through non-governmental organisations in five sectors: education and training; health; rural and agricultural development; community development; and good governance and democratisation. For example, under the last category assistance has been given to organisations monitoring the observance of human rights.¹⁶

The balancing of restrictive and positive measures helped to bridge the divisions with the EC over the issue of sanctions and was a central feature of EU policy during the third phase. President de Klerk's dramatic liberalisation of the political system in February 1990 brought about reconsideration on the question of sanctions, with most countries favouring the early lifting of sanctions. However, as in the process of their adoption, their removal was held up by lack of unanimity on the issue. Almost all the remaining sanctions against South Africa were lifted in September 1993 following a meeting of the European foreign ministers. By this time there had been considerable erosion of the sanctions in practice as a result of unilateral action on the part of some member states, unwilling to delay the process until consensus could be reached at the

European level.

South Africa's successful transition provides the context for the fifth phase of policy. The EU could claim that the measures it had taken, as well as its role through the transition itself, such as the provision of observers to the peace structures under the National Peace Accord and of monitors of the South African elections of April 1994, had made a modest contribution to the favourable outcome. European policy now is directed to the institutionalisation of relations between the EU and South Africa. It comprised two elements. First, it was agreed that a package of immediate measures to give further assistance to South Africa's transition should be presented to, and discussed with, the new government. Second, it was agreed that South Africa should be offered a comprehensive and long-term agreement with the EU. However, the Council recognised that the negotiation of such an agreement could be protracted, given the complexity of the task, and it was also agreed that an offer should be made to negotiate a simplified agreement with South Africa to provide a legal basis for co-operation in the interim. As part of the immediate measures to assist South Africa, the European Commission proposed that South Africa be included in its Generalised System of Preferences for developing countries. In their 1992 study Page and Stevens described this as 'likely to be the least attractive option for South Africa (apart from MFN)'.¹⁷ However, even this proposal encountered opposition was led by the French government which wanted the exclusion of a list of items from the arrangement where South African exports would have constituted competition for French producers. They were supported by a number of other governments pressing a variety of special interests of their own. The French attitude highlighted a much broader division within the EU over the question of protectionism. By and large, France and other states of Southern Europe have tended to adopt protectionist positions, while Britain, Germany and other states of Northern Europe have usually favoured movement in the direction of free trade.

The French attitude came as a shock to the South African government particularly after President Mitterand's visit to South Africa and his strong declarations of support for the new government.¹⁸ The lesson seemed to be that public shows of solidarity counted for little when it came to negotiations behind closed doors on issues of substance. However, the gulf between the French government's rhetoric and its stance in the trade negotiations did not go unnoticed. There was widespread criticism of the French government, not least in the European Parliament. The public reaction put pressure on the governments not to sink the whole proposal. As a result, a modified set of concessions, but completely excluding kraft paper at French insistence, was agreed to in August 1994.

The arrangement is in any event only an interim one as the EU is currently engaged in negotiations on a major revision of the operation of the GSP. In the longer term, too, the EU will wish to ensure that the other states in Southern Africa are not bypassed in any agreement with South Africa. It will want its trade policy towards South Africa to fit in with the objective of promoting regional integration in Southern Africa, given the importance that the EU attaches to South Africa's role in the recovery of the economy of sub-Saharan Africa. Preliminary discussions on this issue took place in September 1994 at a meeting between foreign ministers of the EU and SADC, including its newest member South Africa. At the conclusion of the two-day meeting a declaration was issued, setting out broad principles for future co-operation between the two regions. It emphasised the importance of democratic government and observance of human rights, while also underlining the desirability of regional economic integration. In this context, a means of linking South Africa to the Lomé Convention was proposed, through allowing South African companies to participate in EU development contracts.¹⁹

Membership of Lomé?

Full membership of the Lomé Convention would constitute the most favourable option for South Africa in trading relations with the EU. However, a serious objection to this option is that there are a number of areas in which it would substantially dilute the benefits received by existing members of the Lomé Convention. That would be hard to justify given their poverty in comparison with South Africa's. At the same time, it is difficult to disentangle this issue from the question of regional integration in Southern Africa, given the membership of other states in the region in the Lomé Convention. The task of reconciling the promotion of regional integration with the principle that other developing countries, particularly in the low income category, should not be harmed by concessions to South Africa, is likely to prove difficult. A partial answer may be found in the *principle of cumulation*. Under the Lomé Convention, rules of origin are applied liberally, permitting part production in other ACP or EU states. It might be possible to include South Africa as an associate member for cumulation purposes and in the process to provide a stimulus to regional trade and co-operation in Southern Africa. However, the negotiations that would be required for such special treatment would be difficult and complicated.²⁰

The EU's offer in April 1994 to negotiate a simplified agreement with South Africa to provide the basis of co-operation prior to the institutionalisation of their relations in a more comprehensive agreement was taken up by the new South African government. On 10 October 1994, Sir Leon Brittan, and the South African First Deputy President, Thabo Mbeki, signed such an agreement in Pretoria. Consisting of nine articles, the

agreement emphasised the importance the parties attached to human rights and democratic principles. It also laid stress on the importance of the Southern African region, with the parties undertaking to 'seek ways in which their co-operation could harmonise with, and enhance, the interests of the Southern African region and intra-regional co-operation'.²¹ Coverage in the South African press concentrated on the fact that the signature of the agreement paved the way for South African access to loans from the European Investment Bank, to the exclusion of both the actual content of the agreement or its significance for the development of the country's relations with the EU in the long term. Also highlighted was Brittan's use of the occasion of a meeting with President Mandela to press the EU's view that South Africa should 'dismantle the controls and restrictions that characterize the siege economy'.²²

Hitherto developments in South Africa have been the main variable in the political relationship between the EC/EU and South Africa. However, that seems unlikely to be the case in the future. In particular, the dramatic shift that has taken place in the country's standing in the world since the country's crisis of governability in the mid-1980s is unlikely to be replicated under any conceivable scenario of South Africa's future. The country's relatively smooth transition has greatly diminished the fear that the country might be engulfed in a race war that would lead to a exodus of whites. That fear has given way to worries that continuing economic stagnation might produce the same result over a longer period. These worries are a reflection of the fact that the white population contains considerable numbers of people who are citizens or who are entitled to the citizenship of one or other of the member states of the EU. This includes over one million potential British passport holders, and the 500,000-600,000 Portuguese in South Africa. Many more members of the white community have ethnic ties to member states of the EU and might seek to gain entry on this basis. The concern is also that white flight would signal, and contribute to, the breakdown of the South African economy, widely seen as providing the last hope for bringing about a reversal in the economic fortunes of the African continent as a whole. That is a very significant factor in the EU's stake in South Africa's success as a non-racial society. It is an important motivation for the EU to continue to give assistance to South Africa. But the change in South Africa's political circumstances does mean a switch in the objectives of the assistance and a reorientation of the Special Programme to take account of the fact that the country now has a fully legitimate government. Thus, the goal of providing support to the RDP is displacing that of giving aid to the victims of apartheid.

The Future Shape of the EU

But if one makes the assumption that the most pessimistic scenarios of South Africa's future can be ruled out, then it is reasonable to surmise that a progressive normalisation of the relationship between South Africa and the EU will occur. In that case, the future of relations seems much more likely to be driven by the potentially far-reaching changes taking place in the EU than by developments in South Africa (even if these might be judged revolutionary in relation to this country's past). To get to grips with the possibilities in Europe requires a brief description of the process of integration in Europe and its expected future direction. The EU came into existence on 1 November 1993, in accordance with the provisions of the Treaty on European Union itself, which provided that it would enter into force 'on the first day of the month following the deposit of the instrument of ratification by the last signatory state to take this step'.

Ironically, the last of the 12 member states to do this was Germany, the government of which was a strong supporter both of the Treaty and of progress towards European integration. German ratification was held up by a legal challenge to the Treaty in Germany's Constitutional Court (a model for the creation of the similar judicial institution in South Africa). The argument put to this court was that the Treaty on European Union violated guarantees of democratic accountability in the country's contribution. In rejecting this claim, the court indicated a measure of sympathy for the challenge by deciding that the matter would remain under review. In effect, this was a warning to proponents of vesting greater power in European institutions of the need to tackle what is known in Europe as the *democratic deficit*, the fact that the directly elected European Parliament wields comparatively little power in decision-making at the European level.

The contents of the Treaty on European Union was agreed at a summit meeting of heads of government of the member states of the European Community at the Dutch town of Maastricht in December 1992. This was the climax to a process that had been set in train by the Chancellor of the Federal Republic of Germany, Helmut Kohl, and the President of France, François Mitterand, when they launched a joint initiative in April 1990 proposing institutional reform of the EC to give further impetus to the process of political integration. Part of the purpose of the initiative was to allay fears of the impact of Germany's impending unification by ensuring that a united Germany would be firmly embedded within the context of Europe. Many in Europe still feared the emergence of a German colossus on the continent able to use its immense economic weight to dictate to others. Deeper integration of common institutions was intended to produce, as a widely quoted catch-phrase put it, a European Germany rather than a German Europe.

The main elements in the Treaty on European Union were the commitments to create a single currency and to establish a common foreign and security policy. However, events following the summit at Maastricht tended to undermine the credibility of both goals. Currency speculators caused successive crises in the Exchange Rate Mechanism of the European Monetary System, putting in doubt the feasibility of creating a single currency, let alone the time-table for doing so. At the same time, events in the former Yugoslavia made a mockery of the notion of a common European foreign policy because of the divisions it showed up among the member states and because of European impotence in dealing with conflict in the former Yugoslavia. These failures strengthened the case of the opponents of the Treaty and it seemed for a time as if popular opposition might prevent its ratification.

But in the end, the Treaty on European Union was ratified, with consequences that will affect citizens across Europe and beyond, even if some elements are not realised as speedily as some of the enthusiasts for European integration may have wished. Further, there was more to the Treaty than the commitments to establish a single currency and to develop a common foreign and security policy. It introduced the concept of European citizenship, making nationals of the individual member states European citizens in addition to being British, French, German, etc. It created provision for intergovernmental co-operation among the member states in the fields of justice and home affairs, with the objective of developing common policies on immigration, asylum, and related issues.

Another important element in the Treaty was the *Social Chapter*, laying the basis for achieving a standardised minimum level of working conditions. Britain opted out of this section, to the dismay of other member states. Anger at the British government was based on the belief that it was attempting to gain a competitive advantage over other member states in this way and because the other governments regarded the Social Chapter as complementary to the inauguration of the *Single Market*, which came into effect on 1 January 1993. Under the 1957 Treaty of Rome, which set up the European Economic Community, the six member states committed themselves to the removal of tariff barriers and quantitative restrictions on intra-Community trade and to the establishment of a Common External Tariff over a 12-year transition period. However, numerous non-tariff barriers and a target date of the end of 1992 was set for the achievement of the Single Internal Market. Its inauguration provides a further reason for focusing on South Africa's trade with the EU as a whole rather than the individual member states.

Finally, the Treaty on European Union contained a commitment to the principle of subsidiarity. What the term, *subsidiarity*, meant was that decisions should be made at the lowest level possible. The British government interpreted it to mean that in the absence of compelling reasons to the contrary, decisions should be made in London

rather than Brussels. Subsidiarity was intended to address fears of the over-centralisation of power within the EU. But just as importantly, it was intended to give encouragement to the devolution of power to regions within nation-states and it was linked to an important institutional development, the creation of a Committee of the Regions as a kind of second chamber to the European Parliament. The British government was decidedly unenthusiastic about this aspect of the principle. However, the trend elsewhere in Europe is towards giving greater power to the regions, so much so as to prompt speculation that eventually the current Europe of nation-states will be displaced by a *Europe of the Regions*. That perhaps underestimates the capacity of the nation-state to defend itself against such a transfer of power even in the long run.

While considerable uncertainty remains about future political relationships within the EU, what is clear is that the transformation from the European Community has done nothing to diminish the magnetic power that European integration continues to exercise on states outside the process. In 1994 four states, Austria, Finland, Norway and Sweden completed negotiations on the terms of their entry to the Union. Although Norway voted to reject membership despite government pleas, Finland, Austria and Sweden all joined on 1 January 1995. One effect of this expansion is likely to be a strengthening within the EU of supporters of free trade, as the new applicants incline in that direction. In particular, they can be expected to support granting the Eastern European states greater access to the EU market, seen by the proponents of this step as needed to ensure the entrenchment of liberal-democracy in the formerly communist states.

Behind the relatively affluent Scandinavian states and Austria, there is a long queue of much poorer states seeking to join the EU. They include countries in Eastern Europe that have signed association agreements with the EC, such as Hungary, Poland, Romania and Bulgaria, as well as the Czech Republic and Slovakia. Other candidates for membership are Turkey, Cyprus and Malta, while the Baltic states of Lithuania, Estonia and Latvia are also likely to apply. Already the EU has accepted the notion that states with which it has signed association agreements can in principle graduate to becoming full members. A precedent for the admission of poorer countries was set in the 1980s when Greece, Spain and Portugal were admitted on the basis that consolidation of their democratic institutions through membership of the EC should override the economic objections to their admission. Though the process of negotiating terms of membership is likely to be lengthy, and is bound to take far longer than was the case with the four due to join in 1995, in the long run, membership of the EU seems certain to expand and perhaps even to double.

However, it is widely recognised within the EU that the further enlargement will require change in the functioning of the Union and, in particular, the explicit recognition of a

hierarchy within the membership. Indeed, even without an expansion of membership, a division is likely to occur over the issue of the establishment of a single currency, with some members able to meet the criteria for participation, others not. A review of the EU's institutions is due to take place in 1996 and already the debate on this next phase of integration has begun, with the German Christian Democratic Union proposing a deepening of integration among an inner core of five states. The nature of the debate is reflected in the references made to a *Europe of variable geometry* or to a *multi-speed Europe*.²³

Another dimension of the magnetic pull of the EU has been the transformation of its members from countries of emigration to countries of immigration.²⁴ A troubling aspect of the transformation has been the growth of racist, right-wing parties round the issue of immigration, though their influence has waned somewhat following the adoption by a number of countries of measures to discourage immigration, including tough laws against illegal immigration. This has conjured up an image of a Europe as a wealthy citadel with high walls to keep out the poor of the world, especially from Africa. However, while this may be a useful image in the context of European attitudes towards immigration, it has less relevance to future economic relations between the EU and the Third World. These seem likely to be characterised by increasing interdependence as a consequence of the phenomenon of economic globalisation and the continuing progress of trade liberalisation. Nevertheless, the fact that a proposal is under consideration within the EU whereby visitors from most countries in the world, including South Africa, would require a visa to enter any country in the EU is an indication of the direction that immigration policy is taking in Europe.²⁵ Further, it is possible that attitudes on the issue of immigration may hold up the process of expansion of the EU, particularly in respect of the Mediterranean applicants.

Conclusion

What is not in doubt is the complexity of the rules that are likely to govern relations both within the EU and between the EU and the rest of the world in future. The task of negotiating access to the EU market is therefore likely to prove very demanding for the professionals involved in this technically highly complex area of policy. However, the rewards are potentially large and are likely to grow. While higher economic growth rates in East Asia may increase that region's share of world trade, that is likely to be offset by the expansion in the EU's membership. In short, it is reasonable to predict that the EU will continue to be South Africa's dominant trading partner. That deserves wider recognition in South Africa. Further, the primary role that the European Commission plays in shaping the terms governing trade with individual member states

of the EU such Britain and Germany also needs to be much more clearly understood, if South Africa is to give to relations with the Union the priority that they deserve.

Endnotes

Seamus Jeffreson of the European Commission's Office in Pretoria, Rika van der Walt of the Central Statistical Services Library in Pretoria, and Gordon Freer, a colleague in the Department of International Relations at Wits, have helped me to obtain material for this chapter. I am most grateful for their assistance.

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The Asian Example: What hope for an African Tiger?

Anthony Leysens and Lisa Thompson

Authoritarianism,... ultimately weakens state leadership, whereas democratic accountability, no matter how messy initially, ultimately strengthens it. This paradox is arguably one of the most valuable lessons that the Third World can derive from the NICs. To be ultimately successful, a strategy for economic development must be democratically chosen, democratically planned, democratically implemented, and democratically modified.¹

Introduction

The success of Asian economic development is widely accepted, both in academic circles and in the popular press. South Africa's precarious position in the world economy has stimulated an interest in drawing on the 'successful' examples set by the tigers. Justified as this interest may seem, it is vital to look at specific aspects of East Asian development to avoid simplistic interpretations of their experience. Related to this, the conceptual and theoretical reasoning as to why they are seen as successful needs to be scrutinised. This chapter focuses initially on what type of 'development' characterised the East Asian economic 'successes'. Taiwan, South Korea and Malaysia will be used as the main examples. The first section concentrates on both the theoretical and practical aspects of development, with a focus on both internal and external influences. Thereafter the example of, and/or lessons from the tigers which are relevant for South Africa will be dealt with. The second section focuses primarily on the efficacy of the RDP as a national development strategy.

Development and East Asia: what makes a tiger?

The success of the East Asian states cannot be understood without examining how they are perceived to have developed. In other words we need to ask what does 'successful development' mean? This of course relates to ideas of what development is in the first place. After the Second World War, modernisation was widely accepted in the West as the defining aspect of development, both economically and politically. Modernisation entails building up economic and political institutions which will enable the 'developing' state to function effectively within the world political economy. In the early days of the

development of the modernisation approach it was assumed that this would occur together with political development, that is, democracy broadly conceived. The 'modernisation' view has come under increasing critical scrutiny over the years, both from within the modernisation 'school' and from without. *Dependency* theorists and *Modern World Systems* theorists maintain that the 'structural inequalities' between the 'underdeveloped' South (periphery) and the developed North (centre), made development in the South impossible (earlier formulations) or very difficult (later formulations).²

Even modernisation theorists admitted that the early modernisation approach was somewhat simplistic.³ However, a crucial point in this debate is that while dependency theorists did put forward the idea of *autarkic* and/or *socialist* economic structuring, the underdevelopment of the periphery was cast in terms of the (capitalist) development of the core.

This brings us to the perception of 'success' with regard to the Asian tigers. They are seen as successes because these states managed to attain high growth rates and to produce for world markets. Production emphasised diversification (away from primary products, specifically in the case of Malaysia) into a range of manufactured goods which were priced competitively. In other words, they managed to gear their economies towards producing diversified 'surpluses' for sustained profit. These sustained growth rates were praised by analysts who used liberal economic indicators to evaluate economic progress: high levels of investment, balance of trade surpluses, increases in per capita GDP, etc.. The meaning of success lies in the fact that the tigers through their 'aggressive' economic performance became strong economic players within the world economy. Their success was heralded as the ultimate evidence of the flawed validity of dependency theory and correspondingly, proof of the possibility of modernisation in the twentieth century.⁴

Economic growth in the context of the Asian tigers was not necessarily synonymous with development. Their success was, however, measured very much in terms of the growth indicator. Only more recently have analysts started to emphasise that this type of 'development' has had a high price in terms of aspects such as environmental degradation, resource depletion and political repression (specifically in terms of labour). Other factors which contributed to the success of the tigers, which in the past were presented neutrally - such as low wages, restriction of trade union activity, government or party economic aggrandisement - are now also being critically scrutinised. However, the underlying measure of their development has remained fairly consistent. These countries are seen as successes because they can compete on a par with developed countries - they have 'made it' in the twentieth century. The myth of the Asian success thus overrides the problems which are inherent to their development process.

Given the economic problems which they now face, as well as the historical circumstances of their economic expansion, the example of the tigers may well be evaluated in terms of what not to do rather than the reverse. Development which is based on political repression, environmental degradation, and agricultural regression is self-evidently not a long-term solution. For this reason it is necessary to expand the conceptualisation of development to include social forces, and relatedly, the effect of capitalist development on the broader base of society. Secondly, it is necessary to question whether the dependency theorists' 'structural disadvantage' conceptualisation of capitalist development is rendered null and void as a result of the East Asian economic 'successes'. These questions can be addressed by briefly examining the strategies which the NICs used and their consequences, both in terms of domestic development and within the international context.

How to become a Tiger?

In the case of Taiwan and South Korea it is quite clear that development, in the sense of becoming powerful economic states in the world economy, rested to a large extent on the relationship between these two states and other more powerful states (primarily the US), the state of the world economy during their initial growth phase (particularly in the 1960s) and the relative autonomy of both states *vis-a-vis* domestic élites. These three points will be discussed in turn.

The high levels of economic aid and other forms of assistance from the US can, among other factors, be explained in terms of the geostrategic significance of Taiwan and South Korea, and not necessarily in terms of 'pulling oneself up by the bootstraps'-type economic development. Hence economic support from the US (directly and through USAID, the World Bank and IMF) did not have neoclassical economic conditionalities attached. In Taiwan, 70% of total imports and exports were financed by the US in the period 1953-62. In South Korea (US) foreign aid equalled 80% of total fixed capital formation in that period.⁵

However, both economies did **not** rely extensively on Foreign Direct Investment (FDI). This would apply equally to the Soviet 'bloc' in the same period under 'socialism'. It would be invidious to compare the relative growth in GNP and individual per capita incomes! Furthermore, both had a considerable advantage in that their military security was guaranteed by their importance as states who were in the frontline of East-West confrontation. As a result both states were provided the opportunity to concentrate on economic advance, thereby consolidating the political legitimacy of the authoritarian state. Furthermore, because of the absence of FDI and insulation from domestic interest

groups (capital and labour), both states were able to build up autonomy, particularly in relation to the formulation of economic policy.⁶

The early phase of economic growth in both South Korea and Taiwan relied on import-substitution industrialisation (ISI). The move towards export-orientated industrialisation was not motivated entirely by the economic foresight of government, but rather as the result of a mix of factors, including the perceived necessity of building up state power both politically and economically for geostrategic reasons. Taiwan's increasing concentration on trade was motivated by isolation in other spheres; economic policy became the one foreign policy option that remained open. In the South Korean case the demise of Syngman Rhee's government led to a realisation among the new military élite (headed by Park Chung Hee) that economic progress was essential to the maintenance of political power. The failure of the ISI strategy paved the way for the acceptance of advice from USAID, which stressed the need for an export-led growth strategy. Similarly in Taiwan's case, the problems which emerged during the ISI phase led to the receptiveness of advice from USAID and the World Bank.⁷

In both countries the export-led growth strategy did not follow the liberal economic orthodoxy of 'free' markets exploiting 'natural' comparative advantage. Due to the scarcity of natural resources, comparative advantage was carefully constructed (mainly through the exploitation of labour) rather than inherent. It was a question of deliberately getting prices 'wrong' instead of 'right'. Price competitiveness in, particularly light manufactured goods allowed for rapid growth in the 1960s and 1970s. This 'cultivated' comparative advantage was made possible by the economic upswing in the world economy during that period. The relative lack of protectionism also enabled these two countries to penetrate markets (particularly those in the US). Furthermore, given the geostrategic significance of the two states, little pressure, if any, was placed on them to democratise. While land redistribution had been encouraged by the US in the 1950s, labour rights and political participation were not placed on the list of preferred policy options.⁸ This of course stands in direct contrast to the policy advice given to developing countries today.

State direction and involvement in economic development was pronounced in both countries (as it was in Singapore). The only exception, or *laissez-faire* NIC, has been Hong Kong. This is another clear example of NIC deviation from modernisation theory, which links up with neoclassical economic theory with regard to the advocacy of a minimalist state role. State involvement was facilitated by the relative lack of intervention by outside forces in the two economies, as well as by the weak economic élite structure in both countries. In Taiwan the power of the landlords had been broken by land redistribution (particularly the enforcement of the Land-to-the-Tiller Act of 1953) and

indigenous urban élites had yet to develop sufficient political hegemony. In the South Korean case 70% of the land was redistributed after independence, and while there were some signs of an emergent 'comprador' class in the 1950s, the power of this class was broken in the 1960s, during the 'clean-up' of business corruption which was said to have led to the 1950s economic downturn.⁹

Lack of resistance to the export-led orientation gave these two states a unique capacity to implement the new policy direction. Other aspects which need to be taken note of, are the efficiency and commitment of the bureaucracy in both states, particularly in terms of economic growth.

It should be clear, from the thumbnail sketch given above, that the particular historical situation, specifically with regard to the domestic balance of forces, external support and a favourable world economy contributed to the success of the export-led growth path in Taiwan and South Korea. The historical situation has changed, and it is doubtful whether the 'example' set could be repeated. Furthermore, while both economies continue to grow, the balance of social forces within these states has shifted. Increasing labour unrest has led to an erosion of the 'cultivated' comparative advantage based on cheap labour. While both governments have tried to redirect their respective economies towards greater technological innovation, and have placed a concomitant stress on skilled rather than cheap labour, exploitation still occurs particularly in terms of women, who have arguably been the most exploited of all. That the reliance on cheap labour and repression of the working class is a short term strategy is self evident. The increasing political resistance which both states face adds further weight to this point, and will be discussed further below.

The Malaysian Example

Malaysia, one of the more recent recruits to the tiger category, is often quoted by analysts and in the popular media as the country which has the most parallels to South Africa's situation. The most obvious similarity lies in the challenge which both countries face in addressing the historical economic imbalances between ethnic groups which lie within a dual economic system. The disparities in economic distribution fall between a settled minority immigrant population (who, together with foreigners dominated the modern, industrialised sector of the economy) and the original inhabitants of the country (located in the rural and urban sectors of the economy, but with little or no ownership of the factors of production). In Malaysia the latter are referred to as the *Bumiputra* (sons of the soil), who make up the majority of the population. The Chinese and Indian minorities make up the bulk of the remainder.¹⁰

After independence (*Merdeka*) in 1957, the new coalition government (led by the United Malays National Organisation - UMNO)¹¹ inherited an economy from the British which was highly skewed and totally dependent on the export of primary products (tin, rubber and timber). The coalition remains the mainstay of Malaysian politics, and was made possible by mutual concessions between the parties. In essence the trade-off was made on the basis of the political supremacy of the Bumiputra and the economic prominence of the Chinese and Indians. UMNO guaranteed the citizenship rights of the non-Malays, while the latter accepted the special status of the Malays and their policy of socioeconomic advancement, which was seen as essential for nation-building and political stability.¹² The policy, however, has been subject to increasing criticism over the years, and remains a bone of contention as it is deemed to be discriminatory by the Chinese and Indians.

In 1969 the country was rocked by severe racial riots. These were the result of dissatisfaction among the Bumiputra, rooted in the fact that the stated aim of socioeconomic advancement for the Malays had not been achieved. The objective of economic parity, as set out in the bargain of 1957, was vague and had not been translated into practical policies. Discrimination against the Bumiputra continued, and appointments in the private sector were seen as tokenism. Following the riots, the government announced the policy of *Rukunegara* - an ideology based on tolerance of cultural diversity, racial economic integration and national unity. Nation building was equated with the twin goals of addressing poverty (specifically among the Bumiputra), and economic and social restructuring to assimilate the Malays into the modern sector of the economy. In effect, the strategy became one of the first examples of an approach which attempts to reconcile growth with redistribution.

The New Economic Policy (NEP) was formulated as the economic foundation of *Rukunegara*. The NEP, while having a strong orientation towards the economic advancement of Malays, was also careful to emphasise the maintenance of free enterprise (in order to pacify the Chinese) to ensure that the economically privileged groups would not suffer any loss of rights. Nevertheless, the role of the state in implementing the NEP was clearly spelt out. It was accepted that a strongly interventionist state was needed to set up institutions to monitor and implement various aspects of the plan.¹³ The NEP spelled out how the overall strategy would have to be implemented on a daily basis, thus providing bureaucrats with firm guidelines.

The NEP was implemented in a series of five-year plans.¹⁴ Each plan was subjected to a mid-term review to monitor the progress made in terms of the stated goals. The influence of the Department of National Unity (DNU) was most pronounced in the first of the five-year plans. The DNU's development strategy was based on four components:

land reform and support to small-scale farmers; land development; increased education; and rapid industrialisation. At this stage a strong emphasis was placed on the fact that economic growth was only one objective among many contained in the NEP. To achieve the objectives of the NEP, control was centralised at the highest level, that is in the Prime Minister's Department. The political reasons for the economic choices to be made was recognised and taken as a departure point, around which more detailed programmes were designed.

Put simply, an economic balance had to be maintained between the socio-economic objectives of the NEP and the objective of growth. While growth was seen as essential, it had to be consistent with the stated aim of reducing racial disparities in the areas of income, employment, and ownership of capital and assets. Where the objectives of growth¹⁵ and achieving a racial economic balance became contradictory, the latter would be given priority over the former. The industrial strategy focused on rapid industrialisation through (initially) labour-intensive projects, export-led growth, and later (from the late-1960s) industrialisation through Foreign Direct Investment.¹⁶

However, the Economic Planning Unit (EPU), supported by the Reserve Bank and the Malaysian Industrial Development Authority (MIDA)¹⁷ had a different approach on how to respond to the 1969 crisis. Economic growth was identified as the primary goal which needed to be achieved in as short a timespan as possible. This school, which had strong links with the IMF and World Bank, emphasised conservative macro-economic policies. Problems of unemployment and economic inequality would be resolved indirectly through the 'trickle down' effect of economic growth. The EPU's approach was supported by foreign corporations and domestic business, and began to influence development strategy from the Third Malaysia Plan (TMP) onward. In fact, only the Second Malaysian Plan carried the unadulterated stamp of the NEP as set out by the DNU. Subsequently, economic growth (of the EPU variety) reattained its prominence.

What then, did the NEP achieve in terms of the goals that were set, and what were the costs? One of the major drawbacks of the NEP was the absence of clearly stated quantitative targets to address the problem of ethnic economic inequality. The reason for this is found, not in the incapability of the responsible institutions, but in the political pressure which was put on the government by those who were opposed to the plan Malay Chinese Association (MCA), Malay Indian Congress (MIC) and those interest groups who supported the EPU's approach. The target which was set for 1990, *viz.* that 30% (compared to 2% in 1970) of equity capital had to be owned by the Bumiputra, was not efficiently monitored. No further targets, which would have enabled policy-makers to evaluate progress made in closing the economic gap between the Malays and non-Malays, were set. Quantitative indicators for evaluation were not sufficiently

developed. The mid-term review of the TMP (1976-80) indicated that although absolute poverty had declined and the incomes of all groups had increased, in relative terms the income gap between the Bumiputra and, specifically, the Chinese had widened.

After the death of Tun Razak (who as Prime Minister initiated the NEP) the EPU approach to development became more predominant. The Fourth Malaysian Plan, between 1981-85, had a strong export focus and economic growth was reinstated as the primary objective. The NEP, at the time, was criticised as racist by the other parties in the coalition government, who used obstructionist policies to hinder the continued implementation of the plan. As a result the NEP was effectively downgraded to a superfluous component within a broader framework of macro-economic policy which emphasised growth. International constraints, in the form of a global economic downswing during the eighties, increasing protectionism, and a decline in commodity prices put further pressure on the government to focus on the necessity of maintaining growth. This was reflected in the Fifth Malaysian Plan (1985-90) when growth once again took priority over balanced policies to attain the goal of economic equity through restructuring. On the positive side, strong incentives were extended to the private sector, in order to create a sound investment climate. This successfully moved the country away from its reliance on the export of primary products, and greatly increased the manufacturing and construction sectors' contribution to GDP. Major successes were also achieved through the incentives which were provided to attract FDI, and through the creation of Free Trade Zones (FTZs). The foreign companies which were attracted to Malaysia helped to absorb the surplus of labour which flowed in from the rural areas and also contributed towards the stated policy objective of export-led growth.

On the negative side, FDI showed that an influx of foreign capital can obfuscate the need to build up domestic industries, specifically in terms of small and medium scale enterprises. Furthermore, the disadvantages of going for export-led growth through FTZs are that usually parts are imported, assembled and re-exported.¹⁸ This does not stimulate a demand for local input. Secondly, a substantial amount of start-up capital was raised from local banks, thereby leaving less available credit for domestic industries. Technology transfer was limited because local workers and engineers were merely trained to service equipment, and not how to design innovative technology from the drawing board. Indirect costs to the Malaysian economy have resulted from environmental degradation, especially pollution and resource depletion.

Over a twenty year period, the NEP achieved notable successes in improving the imbalances in education and training, reducing the number of Malays who live under the poverty line, and shifting Malays from the lower productivity traditional sector to the higher productivity modern sector. However, the target of 30% ownership of capital assets was not achieved. Official figures show less than 20%, although this is deemed

to be an underestimate. The targets set in the original NEP remain, and will continue to form a substantial part of the challenge which Malaysia faces during the mid-1990s. The lesson to be learned from Malaysia is that the adjustment of racial economic disparities, even with the benefit of a bureaucracy which from the outset was dominated by the disadvantaged, requires balanced growth, institutions to implement and regularly monitor the effects of policies, and a supportive political coalition.

The Cost of becoming a Tiger

More recently, in the 1980s and 1990s, the negative aspects of the high speed growth policies followed in the three countries have become a focus point. It may well be that these negative aspects will lead to a changing perception of the success of the tigers' economic development strategies. The East Asians themselves admit that these negative aspects give cause to 'emphasise that...the basic message ... is not do the same as we did, but rather try to avoid our mistakes'.¹⁹

What were those mistakes? They are to be found in the consequences of a strategy which focused for three decades on fast export-led growth at all costs, *viz.* environmental degradation, the long term effects of the exploitation and repression of labour, the regression of agriculture, the consequences of dependent technological development, structural economic problems resulting from export-led growth, and the effects of late industrialisation, followed by late democratisation.

In Malaysia, South Korea and Taiwan, export-orientated growth was pursued with a focus on rapid industrialisation. However, strategies and regulations for combatting the environmental damage which this causes were not worked out. The resulting environmental damage will have long term consequences for these states. For example, in South Korea tap water is not fit to drink, the levels of atmospheric pollution dangerously high, and the dumping of industrial waste long ignored. Overuse of petroleum based and chemical fertilizers has led to large scale soil degradation, and to the production of food which is unsafe to eat. Massive application of fertilizers and pesticides was disconcertingly part of government policy directives towards agriculture to make production yields higher in the 1970s and 1980s. Bello and Rosenfeld state that given the high rate of food toxicity:²⁰

Many farmers have in fact become so distrustful of their methods of growing food that, as in Taiwan, they have taken up the practice of growing vegetables and rice organically for their own consumption while marketing the chemically grown produce.

Furthermore, all three states share the problem of polluted coastlines, where the dumping

of industrial waste into the ocean has caused fishing and aquaculture to be affected.²¹ Deforestation has also become a problem. In South Korea the only forests which remain are in unreachable mountainous areas, and in Malaysia extensive logging has led to soil erosion and flooding. While environmental action groups have become more organised in the 1980s and 1990s, the effects of environmental damage will take years to counter.

Another aspect of sustained growth rates has been reliance on cheap (particularly female) labour. NIC leaders openly admit that this has been a major contributor to their *comparative advantage* in manufacturing. However, union repression and/or co-optation has not been able to curb the gradual formation of worker resistance in all three states, which is manifesting itself to a greater or lesser degree. Growing worker consciousness, particularly in South Korea, has led to considerable resistance. While this resistance has been controlled by state coercion, it has substantially eroded the legitimacy of the state, particularly with regard to the enforcement of economic growth at all costs. Worker repression and exploitation aimed at maintaining the comparative advantage of cheap labour is not a long term solution, nor are military style relations between managers and workers. The development of resistance in the face of repression has occurred despite the 'trickle down' benefits of high speed growth, and attempts by the state to perpetuate a work culture based on loyalty and sacrifice. Even with democratisation in the late-1980s (Taiwan and South Korea), it will be difficult to build consensus between the state, capital and labour. Given the option of more open participation, the focus is now on equity and the formulation of an alternative development paradigm. The formation of new political coalitions which will be able to address the negative consequences of unadulterated growth, may result in a period of political-economic instability.

Although the land reform process in Taiwan and South Korea is widely regarded as one of the major successes of the NICs, the policy was motivated by a need to manage the rural classes politically. Furthermore agriculture has linked to export-led growth policy in a manner which has emphasised industrialisation. This has resulted in urban-biased development and a general decrease in rural incomes. The major problem with regard to agriculture is that once land redistribution had been completed this sector was exploited to ensure the comparative advantage of cheap labour in the cities. Grain prices were held artificially low in both countries. In Taiwan additional taxes were also imposed on farmers, eroding still further the gains which could be made from agricultural production.

The long term effect of the exploitation of agriculture has been a mass exodus from the countryside. Serious labour shortages have developed in rural areas as farmers and the

young leave to seek greater income opportunities in the cities. In South Korea the percentage of the population living in rural areas dropped from 56% to 17% between 1965 and 1988. In Taiwan almost two million people flowed from the rural areas to the cities between 1950 and 1982. Furthermore only 11% of Taiwan's farmers today actually farm on a full-time basis. The tendency in rural areas is to rely on farming only for a small part of total income.²²

Both countries have attempted to boost the productivity of agriculture through increased mechanisation, diversification of produce, the use of high yield grain varieties (such as 'miracle' rice) as well as the (over)use of fertiliser and pesticides. However the pressure placed on both countries to remove protective regulations on agriculture (particularly on the part of the US) has further undermined the agricultural base. The pressure has entailed a trade-off: to ensure continued access for South Korean and Taiwanese manufactured exports to the US market, protectionist policies towards agricultural imports have been phased out. This has led to the further decline of agriculture and to increased migration to the cities. Farmers have become the victims of export-led growth. Failure to integrate agricultural and industrial policies into a national development policy has undone the benefits of land reform. While the situation in Malaysia is not identical, there appears to be a similar pattern of sectoral prioritisation, and rising inequality between the urban and rural population.²³

One of the major problems now facing Taiwan and South Korea relates to the structural nature of their economies and the issue of technology dependence, which are legacies of export-led growth. The initial impetus for the growth of the manufacturing sector and its exports lay in the textile industry, which has since been overtaken by electronics, computers and heavy industry products such as shipping, steel and cars. Protectionist policies and technological advances made by developed states, as well as lower wages in other 'aspiring' South-East Asian tigers and China, have led to a crisis in the textile industries of both countries. The result has been relocation, by both South Korean and Taiwanese manufacturers, to lower wage countries in the region (Malaysia for instance) and the Caribbean, and attempts to move into higher quality clothing markets. This, however, needs a substantial capital outlay. Relocation has, for its part, resulted in increased unemployment.

The answer to the demise of the textile industry was seen to lie in technology, and the concomitant focus on the export of products such as computers, televisions and VCRs, semi-conductors and cars. While the tigers have undoubtedly achieved impressive results in these areas, there are underlying dynamics at work which are not apparent at first glance.

The South Korean car manufacturing industry, while having made some major inroads into the international market, is constrained by the fact that much of the technology, production methods and marketing outlets used by Hyundai and Daewoo is sourced from the major manufacturers in Japan and the US (eg. Mitsubishi and General Motors). Furthermore, both Taiwan and South Korea did not focus on the development of a domestic market for their car industry, a direct result of maintaining competitiveness through low wages. In essence, the industry in Taiwan has become (through shareholding) an extension of Japanese and American manufacturers, who have ensured technology dependence.

Technology dependence (through joint manufacturing) is the prevalent norm in the other high technology sectors of the tigers' economies. In Malaysia, as stated above, lucrative investment incentives for foreign corporations have not led to the transfer of technology. South Korea has managed to move into the forefront of high technology production of semiconductors. Companies such as Samsung, Daewoo and Goldstar are, however, highly dependent on Japanese technology through licensing and have upgraded their products by going into joint ventures (instead of local R&D). The same is true for component manufacture. For example, the majority of parts in a South Korean television set are still sourced from Japan.

Dependence on foreign technology has brought with it a new dilemma - stronger actions taken against the infringement of copyright and patent violations. American tolerance of such infringement by its strategic Cold War allies ended with Washington's uncompromising stance on this aspect in the recently completed Uruguay Round of GATT negotiations. This will have serious implications for the long-term viability of the Taiwanese and South Korean computer industry. The inability to innovate, because of technology dependence, coupled to the rise in wages, puts a question mark over the decision to compete with the US and Japan in traditional markets. With access limited to outdated technology provided (under stringent conditions) by the tigers' rivals, their exports have been reduced to focusing on the lower end of already saturated markets.

Given the above, the tigers face some major challenges during the remainder of the 1990s which will determine whether they revert to the status of *developing* countries, or maintain their position as NICs. Malaysia has achieved notable successes, in terms of addressing economic imbalances and the diversification of its economy. Notwithstanding this, the goals set out in the original NEP remain relevant today: ameliorating ethnic economic disparity and reducing poverty, and sustaining economic growth. With the structure of its economy, the challenge will be to develop a viable domestic market - based on small- and medium-sized enterprises - using local skills and resources. South Korea and Taiwan have to confront the effects of high-speed

export-led growth imposed from above. This will require tackling the problems of environmental degradation, the agricultural crisis and the structural crisis in the economy.

Economic strategies were carried out by exclusivist political coalitions and a state which was highly autonomous. Late democratisation has made the reaching of consensus around a new development strategy a difficult process. To ensure survival, policy-makers will have to follow a balanced strategy which requires the development of the domestic market combined with a selective export policy. Sustainable development, in terms of the environment and agriculture, will mean accepting a lower growth rate.

Lions for Africa?

As can be seen from the above, there are a number of reasons which make the development path of the tigers both an improbable as well as an undesirable one to follow in order to achieve development. This does not imply that South Africa cannot benefit from the experience of these NICs. But one must bear in mind that the high growth rates of the tigers were achieved within a unique international and domestic context. The global political economy has changed radically since the growth take-off of the NICs. As such, formulating policy innovatively is of crucial importance.

What can South African policy-makers learn from the experience of the tigers? First, selective export orientation can contribute to national development, as long as this strategy fits into a holistic development approach which does not sacrifice other sectors on the altar of export-led growth. Secondly, land reform (although undertaken for the wrong reasons in South Korea and Taiwan) should form an integral aspect of South Africa's national development strategy. Thirdly, a strong interventionist state is required to guide and implement national strategy, with the proviso that it should not insulate itself from the major societal interest groups. The democratic process, which emphasises inclusion and participation, may be more cumbersome, but it will prevent the alienation of the rural population, urban workers and the private sector.

It must also be remembered that South Africa's case is not one of late industrialisation and late democratisation. The country has an industrialised economic base on which to build, albeit one with structural deficiencies. What must be corrected is the inward orientation of industry, as well as the economic imbalances that are the result of South Africa's previous isolation and the extended period of import substitution. In this sense the RDP rightly stresses the need for an export orientation, but one which is coupled to social spending. Previous state intervention tended to provide incentives for production which focused on the internal market. Furthermore, state policy reinforced market

failures in areas such as education, skills training and other public goods. The effect of this was that the black majority were only nominally or partially integrated into the market economy. In rural areas, for example, most of the black population have hardly any cash income at all. The RDP is aimed at strengthening and diversifying both internal and external aspects of the economy through a process of growth and redistribution. Whether or not this balancing act is possible, remains to be seen.

In terms of turning the economy towards outward orientated production, the previous system of protecting uncompetitive established industries and manufacturing will have to be changed. As Lall points out, unlike the NICs South Africa has tended to carry on protecting mature industries, instead of using protection as a *start-up* policy aimed at future international competitiveness. In relation to this, present production patterns in South Africa emphasise export of surplus production rather than production specifically geared towards external markets. The orientation of business has to change in line with government incentives which stimulate external competitiveness. Tariffs need to be selectively phased out or adjusted, giving companies enough time to alter their production orientation.²⁴

In relation to this, the RDP provides us with the basic guidelines as to how development strategy will be structured in the future. The RDP in many ways resembles Malaysia's NEP, with some important differences. Perhaps the most important of these is the fact that the NEP was formulated and implemented with the help of a bureaucracy which was staffed by the same group who were the target of the programme. In South Africa's case the disadvantaged black majority still have to be integrated into the civil service. This process will take time, and leaves the way open for obstructionist policies within the public service and parastatals by opponents of the RDP. Another difference is that growth with redistribution is linked to a strategy of upliftment in all sectors but with disadvantaged groups disaggregated for policy purposes. Women, particularly those in rural areas are an example of a specifically targeted group. However, as the Malaysian case illustrates, it is much easier to formulate policy than to implement it. Without target setting, monitoring and continuous quantitative evaluation, policies can turn into artifacts.

In the South African context there are also two approaches to development which mirror the Malaysian case. As pointed out in earlier research,²⁵ the ANC advocates growth *and* redistribution, whereas its major partner in government, the National Party, and the private sector emphasise redistribution through growth. As the Malaysian case exemplifies, the latter approach leads to very slow change in terms of achieving economic parity. The trickle-down from growth takes generations to make a qualitative difference to the poor. Furthermore, as has been illustrated, growth in itself does not necessarily

provide successful development. The growth indicator should not therefore be elevated to the position of prime determinant of 'success'. Another key aspect highlighted above is that the neutralisation and exploitation of labour is not a long term solution. It is often stated that South Africa is not competitive because of the relatively high cost of labour. However, low wages or wage restraint policies do not imply either sustained long term growth or development more broadly conceived. In fact, the repression of labour can lead to both political and economic instability. In this light the RDP makes good sense in stressing the need for sound relations between the state, business and labour.

A brief overview of the RDP, reveals that most of the 'lessons' that can be learnt from the experiences of the tigers, have in fact been incorporated into the document.²⁶ Whether some policies are sustainable or affordable is, of course, another question.

The RDP has been structured around six principles: (1) that it should be an integrated and sustainable programme; (2) it must be a people-driven process, (3) it should ensure peace and security for all; (4) it must facilitate nation-building; (5) reconstruction and development must be linked; and (6) it should lead to the further democratisation of South Africa. The first and second points stress the importance of a coherent and co-ordinated strategy, incorporating government and all the major societal interest groups. Points three to five emphasise the need to develop a stable political and economic environment for the implementation of the programme. The goal of national unity is equated with the need to address economic imbalances through a balanced growth strategy which must be targeted at both the traditional and modern sectors of society. The importance of an integrated approach to restructuring and development is also stressed. The assumption is made that growth and development are not contradictory. Growth, however, should be coupled to policies which ensure sustainability, distribution and human resource development. The last principle links the RDP to democratisation by stressing the importance of participation in the decision-making process.

How do specific aspects of the RDP relate to the experiences of the tigers? Firstly, in terms of basic needs, the RDP provides a policy framework to address the poverty problem. Interestingly, the need for accurate statistics and the capability to monitor and evaluate any progress made is stressed from the outset. A public works programme is proposed to alleviate high unemployment, but this is linked to other labour-intensive projects and the restructuring of industry and agriculture. The point needs to be made, however, that there is a limit to the benefits which can be derived from a labour-intensive strategy. In South Korea and Taiwan the initial phase of industrialisation was characterised by state incentives to encourage low-wage labour-intensive manufacturing. In an economy where there is a surplus of labour, if feasible, corporations will exchange

labour for capital. This increases the demand for labour, reduces unemployment and leads to a rise in real wages.²⁷ Currently the global economy is characterised by technology intensive production, having moved into a *post-Fordism* phase.²⁸ This requires semi-skilled and high-skilled labour and managers. It is thus unlikely that foreign investors will be prepared to move into low-skilled labour-intensive manufacturing - coupled to relatively high wages - as we have in the modern sector of the South African economy.

As in South Korea and Taiwan, land reform is seen as the most important aspect of a rural development programme. The following aspects are stressed in the RDP: land redistribution through a demand-driven process, security of tenure for small-scale farmers, state funding for land redistribution, a land tax, promoting the access of women to land, and the provision of services. However, to be successful the envisaged programme will have to lead to income parity between the rural and urban sectors of the economy. This will prevent further large-scale urban migration, and the demise of agriculture as happened in South Korea and Taiwan. But will the equivalent of the tigers' landlord class in South Africa take compensation from the state? Although the RDP describes white agriculture as being in 'a state of crisis' and debt ridden, the government can hardly afford to buy out white farmers by issuing them with bonds which they can turn into industrial assets.

The RDP's focus on basic needs emphasises the importance of providing the poor with access to basic infrastructural facilities such as housing, water, electricity, telecommunications, transport, a clean environment, health care, and social security and welfare. Nevertheless, the state's input in financing these goods for the poor will be substantial. In this respect, redirection and more efficient use of government expenditure will not be sufficient to raise the capital required for this. Additional sources of revenue will have to be found through private sector involvement and foreign aid/loans. Loans which are accompanied by stringent conditions (in the case of the IMF/World Bank), will directly affect government's ability to channel expenditure in order to achieve the social goals which the RDP has set itself. The proposed national economic, development and labour council which has been proposed, should ensure that in partnership with labour and the private sector, the state can negotiate as favourable a loan package as possible.

The need for fundamental restructuring is the departure point for 'Building the Economy.' In the introduction a number of fundamental problems are identified. These are: the economic disparities between blacks and whites, regional economic imbalances, a manufacturing sector which has been created by following a policy of import-substitution industrialisation, the inability of the manufacturing sector to compete globally, capital

flight, dependence on primary product exports, domination of the economy by a few large corporations, a weakly developed small business sector, the centrality of low wages for profit-making, the shortage of skilled labour, discrimination against women, the rural crisis, the privatisation (started by the former government) of parastatals which provide basic services to the poor, high tax rates, the budget deficit, and the absence of a common development strategy in the region.

The RDP emphasises that these problems must be addressed by starting from the assumption that neither a centrally planned economy, nor an unbridled free-market system will resolve the country's problems. Because the market will not, if left by itself, lead to the restructuring of the economy as set out in the RDP, the state needs to play an enabling and leading role in guiding the economy and the market. This has to be done, however, in a transparent manner, and with the co-operation of the private sector, labour and other elements of civil society. Intervention, therefore, must be balanced and efficient. The RDP identifies human resource development, to enable the country to integrate into the global economy, as essential. Education and training is accepted as being of crucial importance as a prerequisite for the development of the economy particularly in terms of the development of skills to produce quality goods.²⁹ Furthermore, it is recognised that integration into the regional and global economy requires the maintenance of a strong domestic manufacturing capacity and an increase in the potential to export manufactured products. The RDP aims at achieving a 5% growth rate within five years.

Some observations should to be made at this stage. While the programme correctly identifies the major structural problems of the South African economy, the major challenge lies in trying to address these simultaneously within the context of the global political economy and the limited resources which are at the disposal of government. In his address to the National Foreign Trade Council in October 1994, President Mandela committed the government to a reduction of protectionism and the implementation of the results of the Uruguay Round.³⁰ This point is also accepted within the framework of the RDP (see below). It is however important that this be done in a phased manner, so that local industries can adapt to the intense competition which characterises the current international trading order. If not, the stated goal of maintaining a strong domestic market will be severely hampered.

The RDP further proposes an increase in national investment particularly by stepping up public sector investment which is deemed to be essential for the advancement of industry, trade and commerce. Enhancing technological capacity is necessary to ensure that South Africa becomes a substantial exporter of manufactured goods. Industrial policy should support internationally competitive industries as they emerge. At the

same time industries in the mining, chemical and energy sector, as well as other capital-intensive industries which already have a competitive advantage, must be expanded. Furthermore, 'downstream' linkages between mineral extraction industries and other industrial sectors need to be created. In terms of trade policy, the RDP states that trade relations with states in Southern Africa, if balanced and mutually beneficial, will strengthen the region's position *vis-a-vis* other major trading blocs in the world. South Africa's responsibilities within the GATT, in terms of tariff reductions, are accepted.³¹

In terms of the stated goal of democratisation and participation, the importance of the National Economic Forum to ensure co-ordination between labour, the private sector and the state regarding macro-economic policy, is fully recognised. It is envisaged that the NEF, if need be, could be restructured to increase participation and its powers. In particular, the forum should be a key institution to arrive at consensus regarding such issues as how the costs of adjustment should be shared for the identification of potentially competitive sectors in the economy and in the development of aspects of trade and industrial policy.

Furthermore, within the corporate sector anti-trust legislation will be enacted to ensure fair competition. Ownership of assets in the corporate sector should be deracialised through a policy of black empowerment. Credit institutions must be encouraged to provide support to micro-, small- and medium-sized enterprises. Foreign investors should be treated on a par with domestic investors. Such investment should lead to a real transfer of knowledge, increase technological capacity, and allow for participation by workers in decision-making. Technology acquired from foreign sources should include a commitment to train domestic workers to use, maintain and extend such technology. Excessive payments of royalties and licence fees must be avoided, and where possible technology should be sourced from other developing countries. The development of local technology will be supported through incentives.

With reference to the primary products industry, which earns the major share of foreign currency, the RDP states that it needs to be diversified. This requires the promotion of mineral beneficiation through disincentives and incentives. The practice of import-parity pricing (selling raw materials to domestic producers at prices which are higher than international prices), makes it difficult for downstream industries to become internationally competitive and should be discouraged through appropriate mechanisms.

With regard to labour, the RDP provides for labour rights which include the right to strike, to organise and the right to information from corporations and government. The RDP proposes a substantial input by labour in the industrial decision-making process. This should include an obligation by management to negotiate matters relating to

production on a national level. Disparities between management and labour will be addressed through a committed programme of affirmative action.

For the effective implementation of policy, the RDP emphasises that the state and society need to be democratised, while central government must have sufficient powers to co-ordinate and implement the programme. In this respect, it is envisaged that the public service, as the primary mechanism for the implementation of the RDP, will have to be restructured. This will involve the use of quotas to ensure that public service employees reflect the profile of the national population. Furthermore, civil servants will have to be trained and retrained to ensure that they are fully conversant with the objectives of the RDP. Top-down imposition, however, should be avoided by allocating an important role to civil society. In this respect, civics should be encouraged to develop RDP *programmes of action* at the community level.

In summing up this overview of the RDP, a number of comments can be made. Firstly, while the programme emphasises the merits of export-led growth, it should be realised that finding niche markets in a global economy (which is characterised by protectionism and trading blocs) will be very difficult. In addition, the limits of diversifying into high technology products should be taken into account. The tigers have shown that technology acquisition through FDI - or even joint ventures - is extremely limited, and that the use of imported technology to clone or even improve on products is restricted to bottom-end products. The market for these products is quickly saturated, and reliance on foreign components leads to technology dependence. For South Africa, it would be wiser to combine a strong domestic market (which will require an increase in the buying power of the poor) with a selective export policy. In this respect South-South trade, in medium- to low-technology products, may offer an alternative. The Southern African market, where South Africa has an advantage because of cheaper transportation costs, provides an option in this regard.

The RDP correctly emphasises the democratic process and the dangers of top-down development. However, the reference to the need for strong powers to be vested in central government to 'co-ordinate and implement the RDP effectively' is somewhat worrisome. It is absolutely crucial that development policies are legitimate and are perceived as such. The stated need for co-ordination between the state, labour, and the private sector within appropriate structures is laudable in this regard. The new government is, unlike the state in the tigers, endowed with democratic legitimacy. This is a strong point which must be used in the process of economic restructuring. One of the challenges which the tigers now have to deal with after their rapid industrialisation phase, concerns the dismantling of the Chaebol and Kuomintang-supporting business monopolies in South Korea and Taiwan respectively. They have dominated the national

economies of these countries, and the RDP's emphasis on breaking-up local monopolies will contribute to the development of a strong small- and medium-sized business sector. Lastly, the benefits of a strong developmentalist state is clearly indicated in the case of the tigers. This does not, however, necessitate the need for authoritarian rule. In this respect the negative implications of late industrialisation and late democratisation have been pointed out above.

Conclusion

While the broad policy guidelines of the RDP need to be further refined, it is clear that, if properly implemented, it will substantially improve upon the development model of the 'tigers'. The problem lies not only in implementation, but also in the response of economic élites, both foreign and local. Malaysia, of the three tigers discussed here, has received the greatest amount of Foreign Direct Investment, and government has found élite resistance to balancing growth with redistribution particularly problematic due to the potential danger of disinvestment. The South African RDP quite rightly does not overemphasise the importance of FDI, which while necessary, does not provide an all-encompassing solution to economic development. However, the need to attract and retain foreign investment will be a restraint on government. Furthermore, South Africa's integration into the world economy is still based primarily on primary product exports, making the country extremely vulnerable to shocks and downswings in the world economy.

Thus even if the RDP was implemented to the letter, the long-term success of reconstruction and development depends to some extent on circumstances beyond the control of the state and majority of society. Yet moves to decrease that vulnerability, through the policies outlined in the RDP, will at a minimum ensure a measure of political stability and economic development. The emphasis on local skills development and the growth of local business will also help to decrease vulnerability. It remains to be seen, however, whether the state will be able to avoid the trap of becoming involved in economic sectors for political and economic aggrandizement, and not for the good of the majority. This has been the case in the three NICs discussed here, and in South Africa's very recent past. Will it be development for the majority by the majority? Or development of the minority by the majority? Unfortunately, the owl of Minerva flies only at dusk....

Endnotes

1. Bello, W & S Rosenfeld, *Dragons in Distress: Asia's Miracle Economies in Crisis*. San Francisco, California: Institute for Food and Development Policy, 1990, p.346.
2. For an overview of these approaches see Higgott, R, *Political Development Theory*. London: Routledge, 1983. Some of detail of the development of modernisation can be found in Weiner, M & SP Huntington (eds) *Understanding Political Development*. Boston: Little Browne and Co., 1987. On dependency theory and its applicability to NICs see Evans, P, 'Class, State and Dependence in East Asia: Lessons for Latin Americanists' in Deyo, F, (ed) *The Political Economy of the New Asian Industrialism*. Ithaca: Cornell, 1987.
3. See, for example, Almond, G, 'The Development of Political Development' in Weiner, M & SP Huntington (eds) *Understanding Political Development*. Boston: Little Browne and Co., 1987.
4. For this type of validation see Barrett, RE & S Chin, 'Export-Orientated Industrialising States in the Capitalist World System: Similarities and Differences' in Deyo, *op.cit.*.
5. Haggard, S & T Cheng, 'State and Foreign Capital in the East Asian NICs' in Deyo, *op.cit.*.
6. In relation to this, Koo mentions that economic incorporation into the world system was facilitated by the prior incorporation of these two states into the world state system based on military and geopolitical competition. See Koo, H, 'The Interplay of State, Social Class, and World System in East Asian Development: The Cases of South Korea and Taiwan' in Deyo, *op.cit.*.
7. *Ibid.*
8. This stands in contrast to the position taken by the US in Japan, where labour unions were legitimised and strengthened by the US to weaken the power of the Japanese government. Scalapino, RA, 'The Foreign Policy of Modern Japan', in Macridis, R, *Foreign Policy in World Politics*. New Jersey: Prentice Hall, 1992, p.195.
9. Koo, *op.cit.*.
10. In 1988, the total population of Malaysia was 16,9 million, of which 13,9 million were located in Peninsula Malaysia. The population distribution in this region was, at the time, 8 million Bumiputra, 4,4 million Chinese, and 1,4 million Indians. See Faaland, J, JR Parkinson & R Saniman, *Growth and Ethnic Inequality: Malaysia's New Economic Policy*. London: Hurst and Co., 1990.
11. UMNO represents the interests of the Bumiputra; MCA - Malaysian Chinese Association, represents the interests of the Chinese; and MIC - Malaysian Indian Congress, represents the interests of the Indians.
12. This aspect of the bargain is included in the constitution under Article 153.
13. State involvement included entering into joint ventures with foreign corporations, phasing in the different stages of industrial strategy, implementing social policies to prevent ethnic friction, and developing and implementing a full employment policy.
14. Second Malaysia Plan - SMP, 1971-1975; Third Malaysia Plan - TMP, 1976-1980; Fourth Malaysia Plan - FMP, 1981-1985; Fifth Malaysia Plan - FMP, 1985-1990.

15. The growth rate was targeted at 6.4% up to 1985.
16. Crucial to the monitoring of progress in terms of set targets, was the creation of mechanisms and institutions which could quantify employment ratios in the various productive sectors of the economy, the ethnic composition in the management echelons, rural/urban productivity and employment, and capital investment flows in the economy.
17. Formerly FIDA (Federal Industrial Development Authority).
18. This problem has been encountered in Taiwan and South Korea as well. Koo, H. *op.cit.*
19. Duck-Woo Nam, 'Trade Policy and International Competitiveness: The South Korean Experience' in Baker, PH, *et al.* (eds), *South Africa and the World Economy in the 1990s*. Cape Town: David Philip, 1993, p.71.
20. Bello, W & S Rosenfeld, *op.cit.*, p.98.
21. *Ibid.*
22. *Ibid.*
23. Hart, G, 'The New Economic Policy and Redistribution in Malaysia: A Model For Post-Apartheid South Africa?', *Transformation*, 23, 1994.
24. Lall, S, 'What will make South Africa Internationally Competitive?', in Baker, *op.cit.* p.61-70.
25. Leysens, A & L Thompson, 'A Paper Tiger?: Political Implications of an Export-Led Growth Strategy for South Africa', *The South African Journal of International Affairs*, 1, 2, 1994.
26. African National Congress, *The Reconstruction and Development Programme: A Policy Framework*. Johannesburg: Umanyano Publications, 1994.
27. Haggard, S, *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries*. London: Cornell University Press, 1990, p.224.
28. McGowan, PJ, 'The World Political-Economy in the 1990s: Character, Trends, and Implications for Southern Africa'. Paper prepared for the *Conference on Southern Africa into the 1990s and Beyond*, Johannesburg, April 15-19, 1991, p.16-17.
29. Important aspects of education policy include an integrated qualifications framework (recognising experience and qualifications obtained in the various sectors of the educational system), adult education and training, and compulsory school education for a period of ten years.
30. *Cape Times*, 4 October 1994.
31. This needs to be done, however, with sensitivity, particularly taking into consideration the possible repercussions on employment and the effects on the region.

Current Trends in International Defence Spending

Martin Edmonds

The Cold War Background

No examination of current trends in international defence spending has any relevance without first establishing the point in time after which those trends commence, or indicate a point of departure in a new direction. Further, it is equally necessary to put such trends within a frame of reference. For the purposes of this chapter, it will be taken as the time when it was generally accepted by both sides of the East-West ideological divide that the Cold War had effectively ceased.

To be more precise, the NATO London Conference in July 1989 is taken as the point of departure for this examination of the new trends in international defence spending. It was at that Conference that the NATO Allies accepted that the need to maintain high and constant defence budgetary levels was no longer an imperative. The risk of a major war with the Soviet Union was judged to have diminished to such a degree that only a range of less menacing 'uncertainties' within Europe remained, which taken individually did not require standing forces permanently at high levels of readiness. Accordingly, they resolved to reduce levels of defence spending, review future NATO strategy, and further the process of arms control. They also agreed to accelerate the implementation of existing arms reduction agreements, in particular the Conventional Forces in Europe (CFE) Treaty with the former Warsaw Pact nations.

More by its actions than by any declaratory statement, the former Soviet Union, likewise, initiated a radical shift in its defence spending priorities not only by withdrawing its forces from Eastern Europe and releasing its control over Warsaw Treaty allies but also by focusing attention on the deteriorating political and economic situation within the Russian Federation and the Soviet Republics of the Union. One element of this change in policy was to recognise that it was the high level of defence expenditure (some estimate it as high as 60% of Soviet GDP) that had contributed much to the precipitate decline of the Soviet economy. Another was to reduce the size of the Red Army from its earlier peak of four million men to a figure about half that number.

With regard to frames of reference, it has to be acknowledged that defence spending is

a global phenomenon within which there are discernible patterns of expenditure according to given sets of criteria. The forty-year period of the Cold War was one in which the confrontation between two uncompromisingly competitive ideological power blocs overwhelmingly dominated both the pattern of overall global defence spending and the weapons inventories of most of the states in the world. Indeed, the provision - or denial - of military and financial aid to countries within and outside the two principal Cold War alliances were two of the main mechanisms in that confrontation. So pervasive was the East-West bipolar structure that even those states which defiantly attempted to assert their 'non-aligned' position nevertheless came under its influence when matters of defence equipment and issues of regional security arose.

Trends in international defence expenditure since 1989 are thus dictated: first by the structures and mechanisms of the Cold War period and secondly, by the speed and direction of the dismantling of those structures. The two superpowers and their principal allies had influenced patterns of international defence expenditure over the previous forty years; by bringing an end to the Cold War, they have correspondingly had the effect of influencing new international patterns of defence expenditure, though not in quite the same direct and partisan way. Their new priorities remain significant equally as pointers to what each has discarded, as much as to what each continue to treat as essential. Moreover, in effectively drawing away from East-West global confrontation and extended foreign interests, the former superpowers have to a considerable degree released medium-power states to pursue more independent defence and security policies. The prospect therefore is one in which the superpower arms race of the post Second World War era has been transposed to a number of regions, and that within those regions mini-arms races are likely expected to manifest themselves. Arms-producing states have not been slow to recognise this prospect.

The Ending of the Cold War

Militarily, the epicentre of the Cold War was in Central Europe. The NATO and Warsaw Pact Alliances concentrated their contingency plans and standing forces in the region; and it was in terms of these operational requirements that the salient performance characteristics of Soviet Union, United States and West European major weapons systems were principally defined. Only in the area of offensive and defensive strategic weapons were R&D efforts pointed that fell outside immediate European theatre requirements. The disappearance of this Central European focus and agreements to reduce the total holdings of major conventional weapon systems have meant that advanced, sophisticated and expensive front-line weapons systems have become available on the international arms market not only in number, but also at significantly

reduced - even knockdown - prices.

Even in 1989, few people could have anticipated the rate at which the principal Cold War states have adjusted to the new circumstances for which they themselves had largely been responsible. The five years since 1989 have witnessed radical changes in the patterns of defence expenditure in the NATO countries, the states of the former Warsaw Treaty Organisation, and in the relations between them. Within NATO, every member state, other than Greece and Turkey, has significantly reduced its total defence budget and the size of its armed forces. Reductions in expenditure of 25% have been commonplace throughout; there are examples of even higher figures, though these are confined to the smaller NATO members and the new independent states of the former USSR whose economies cannot sustain the burden of a large defence effort.

The numbers of men and women under arms have also rapidly declined and in some cases are merely half the number of five years ago.¹ Past assumptions about military service being for life have gone, with forced redundancies in armed forces becoming an accepted possibility. Correspondingly, spending on defence equipment has dropped and has precipitated among those states with established armaments industries, reductions in employment and forced a restructuring of their defence manufacturing base. Reductions in both the uniformed services and in the defence oriented industries have 'released' thousands onto the civilian labour market adding pressure on the levels of unemployment. Since most will have received compensation for redundancy, defence budgets will have been required to meet substantial one-off payments in the short term.

The United States

The United States should be treated, to some extent, separately from the rest of NATO since 1989 - for three main reasons. First, and perhaps self-evidently, the US has emerged from the Cold War as the only effective superpower with the financial, technological and military capability to support its foreign and strategic policies with all levels and types of military force. It has retained the capability (as a matter of policy) to intervene simultaneously in two major regional conflicts. Secondly, the US has signalled that many of the political and economic problems that have beset Central and Eastern Europe should essentially be the responsibility of the European states as a whole, and the current Administration has signalled that the US should distance itself from them. Last, though 'downsizing' the scale of its armed forces and reducing the size of the Federal defence budget, the US has reaffirmed a commitment to support international organisations or international coalitions in peace-keeping and peace-maintaining operations. Such reaffirmation has been seen as essential if such international peace-keeping and

intervention operations are to have any meaning, or are to be militarily credible at all.

This extensive global security commitment has arguably only been made feasible through the diminished importance of the European Central Front to US strategic planners. It is accepted worldwide that the success of internationally-brokered military operations is conditional on US military, financial and organisational involvement, something that would not have been contemplated during the Cold War period. The 1991 Gulf War was a graphic demonstration of what was and was not possible without US military commitment, as demonstrated by the civil war in Bosnia-Herzegovina. The problem for the US is that without the stability of the bipolar system and the rigidity of the superpower relationship, not only are conflicts breaking out throughout the world, but the United Nations is also involved (or expected to be) in more and more of them. Currently it is engaged in 19 peace keeping operations, more than the total number over the previous forty years.²

States of the Former Soviet Union

With the ending of the Cold War, the tight grip with which the Soviet Union held together both the members of the Warsaw Treaty under the so-called 'Brezhnev Doctrine' and the constituent elements of the USSR slackened with the result that both rapidly drifted apart and finally disintegrated. The Warsaw Treaty was dissolved in 1991. Then, the Soviet satellite states in Eastern Europe consecutively shed their communist governments and constitutions in name at least, and fifteen of the former Soviet Republics declared their independence. By forming a Commonwealth of Independent States, the Russian Federation and these newly independent former Soviet Republics sought both a new security arrangement, since the Soviet Army no longer served them all, except in the maintenance by common consent of a frontier guard along the international boundaries of the old USSR, in the Central Asian Republics and as a basis upon which to restructure their fledgling market economies.

Much of the defence equipment and many of the military units which previously came under the former Soviet forces' command were retained by the new Republics. These developments alone sparked not only several differences between the Russian Federation, the largest of the CIS Republics, and some of the other members, such as Kazakhstan, Belarus and Georgia, but also with non-CIS former Soviet Republics. These include the three Baltic States, Moldova, and, perhaps most importantly Ukraine, on whose territory many former Soviet nuclear installations and missiles were located. Differences with Ukraine went beyond those governing the ownership and targeting of nuclear missiles and included the ownership of the Black Sea Fleet based at Sevastopol

and Odessa. The disintegration and reorganisation of the former Soviet armed forces into CIS related or national forces also released vast quantities of war-making matériel onto the international arms market, partly as a byproduct of redundancy, partly as a consequence of conventional arms reduction agreements, and partly as a direct and quick way of generating hard currency income.

As in the West, the impact of these reductions and restructuring on the former Soviet defence manufacturing base was profound. In the case of the former Soviet Union, however, the effects were to prove greater and of more significance because of the structure and centrally planned nature of Soviet defence research, development and manufacture. The problem was less one of contraction, but of disintegration, once the components of the Soviet manufacturing base had changed ownership. Furthermore, there was the problem of the scale of Soviet defence production, and the extent to which it had absorbed most of overall Soviet manufacturing capacity, and human and financial resources.

Ukraine is a case in point. On independence in 1991, its military industrial base comprised 3,594 establishments, of which 750 were concerned with weapons design alone and 400 in defence electronics. The industry as a whole employed 3 million people (6% of the total work force and 40% of its total manufacturing output) in military research development and manufacture of parts and components of missiles, space systems, armoured vehicles, defence electronics and ammunition, though no combat aircraft or infantry weapons. Only 3% of the whole industry was structured to design, develop and produce a complete weapon system as a consequence of the USSR's centralised planning system and segregated military industrial structure. 80% of parts for military equipment assembled in Ukraine were supplied from factories located outside the Republic. The same applied to the other Republics in varying degrees, with the exception of the Russian Federation itself, which had a more self contained and self sufficient defence-manufacturing complex.³

The trend towards equilibrium in Central and Eastern Europe provided the basis for the massive aggregate reductions by the major Cold War defence spenders. The military-based stability born of confrontation and mutual deterrence has been replaced by a more political and flexible approach. This in turn has brought about a closer association between former Warsaw Treaty states and NATO, itself with a significantly changed role and strategy. Under the Partnership for Peace programme (PFP), the North Atlantic Co-operation Council (NACC) and the broader Conference on Security and Co-operation in Europe (CSCE), former antagonists are working closely to monitor and manage crises within Europe, and promote greater political, economic and political co-operation. Many consider that it is only a matter of time before the applications received from the

Czech Republic, Poland and Hungary to become full members of NATO are accepted.

Post-Cold War Defence Trends : Nascent Regional Arms Races

The first and most obvious post-Cold War trend is that the East-West, bipolar, global ideological confrontation and the Europe-centric defence and security agenda no longer dictate or influence to the same degree the actions of other states with regard to their defence and security priorities. There is no longer a superpower to 'offend', and no 'side' to placate. Moreover, there is ample evidence to suggest that throughout the world, states are able, and prepared, to articulate and prosecute independent military strategic policies, as dictated by their perceived (enlightened) national self interests. Thus, the wealthier countries, principally Japan and a united Germany, have taken their first steps towards breaking away from the former self-imposed ordinances that limited their defence spending and military deployment only on home defence forces. Within the past year both states have introduced constitutional changes that have enabled their participation in international peace-keeping and peace-maintaining operations abroad. There is also pressure for them to be made permanent members of the UN Security Council, a move which, under the terms of the Charter, will oblige them, at least in theory, to retain standing military forces in number. Simply financing UN military operations would no longer be sufficient.

Three immediate post-Cold War trends can be isolated which are having, and will probably continue to have, an impact on the trends in defence expenditure among the world's states: the first follows in the wake of the global 'stability' that the superpower bipolar balance of power system introduced and broadly sustained for forty years. This is the emergence of major regional 'uncertainties' and 'instabilities', born of the reluctance of the former superpowers to be involved in the absence of special 'interests'. The ensuing partial or total power vacuum leaves the door open to regional powers, with the wealth, military potential or political ambition to attempt the imposition of their own military-political agendas.

These essentially medium-powers in world terms, though 'major' within a regional context, have begun to emerge in recent years; they represent the sort of destabilising forces which the US Pentagon had in mind when it drafted its 'Bottom-up' Defense Review in late-1993. The Review was quite specific in that it focused on the United States' concern over the possible development of regional instability, in some areas more than others. Correspondingly, the Department of Defense formulated its strategy and defence policy objectives around the principle of adequately armed US forces in sufficient number *in extremis* to intervene concurrently in any two such major regional

conflicts. The Pentagon envisaged, however, that such intervention would generally occur in coalition with other friendly states.

The corollary of these US perceptions of possible regional conflicts on a significant scale is demonstrated by the assiduous build-up of military forces within those regions by politically ambitious states. In general terms, the regions where potentially destabilising military build-ups are in evidence include: the Near East (from the Caucasus to Turkey and Eastern Mediterranean as far as Libya), the Middle East (broadly the Gulf region reaching eastwards to the Pakistan and Kazakhstan borders); South Asia (the Indian sub-continent); South-East Asia (including parts of India and China and the countries surrounding the South China Sea); North-East Asia, (Japan, China, Taiwan, the Koreas, and Philippines); (potentially) the Russian Federation and its 'near-abroad' states; and in less evident ways, Africa, North and South. South America would seem to be relatively stable, though Central America for different reasons, is showing signs of instability.

North-East Asia

Within each 'region', one state, or a number of them, would appear to be emerging as (a) dominant military forces, not only marking themselves out as relatively high defence spenders, but also as states that are stimulating regional arms races. In the examination of trends in international defence expenditure, each region warrants a brief overview. Perhaps the first region which demands closest attention, and which has been giving rise to most international concern, is North-East Asia. Arguably this is in part because the last vestiges of the old ideological Cold War divide are still in evidence, and in part because two politically and economically powerful states are located there. North and South Korea remain byproducts of the Cold War and of the failure of the superpowers to find accommodation after the defeat of Japan in 1945 and the Korean War in 1954.

South Korea is a relatively wealthy and expanding economy; its future is closely bound with the West and its access to the international market place where it has proved both competitive and successful is crucial for its future. North Korea is a relic of the former Stalinist system, which has left the North Korean economy poor and vulnerable and the population politically and socially constrained. However, it has also (it is believed) achieved with outside help the capability to develop and manufacture nuclear weapons, and continues, for all its recent undertakings, assiduously to refuse IAEA inspection of its civilian nuclear installations or co-operate with international nuclear agencies.

Whether North or South, the Koreans have sustained their wariness of one another and

their mutual dislike of Japan - the former colonial power - a disposition that well predates the Second World War. The steady increase in Japan's economic and military wealth has heightened their awareness of the need for some regional balance of power. These have been contributory factors in both states maintaining a high level of military expenditure, of numbers serving in the Koreans' forces and reserves, and of a significant modernisation of their defence equipment. South Korea is also engaged in rapidly improving its indigenous defence manufacturing and research base. Taiwan is in a similar position, though it has to keep a close check on relations with mainland China. In recent years Taiwan and China have had strained relations with the former pressing the United States hard to release modern combat aircraft to strengthen its defences.

Japan, a major stimulus behind the regional arms race in North East Asia, faces a huge dilemma: the steady withdrawal of US forces from the region, when set alongside Japan's economic near-super-power status, has placed on it a burden of responsibility for regional security. It is a burden that some within Japan do not welcome; nor do many states outside the region. However, Japan's economic interests through world wide trading interests and overseas investments necessitate some military defence and protection. This requirement has been well demonstrated in the recent build-up and improvement in the Japanese Naval and Air Forces. With an annual defence budget ten percent higher than that of the United Kingdom, despite Japan's 'self-defence' provisions, the trend is very much one in the direction of a wider regional, and through the United Nations, global military presence.

China, which spreads across both the North-East and South-East Asian regions, is a dominant force and source of perpetual concern among the other members. With the current leadership about to change, China's future political stance, particularly in respect of the North-East region, is very uncertain. The decision to test nuclear weapons in the face of international protest does not auger well for the future. With a rapid economic growth rate to sustain it, China's defence expenditure is likely to increase; adding significantly to its neighbours' sense of insecurity and increasing the likelihood of an acceleration of the arms race already evident in the region.

South-East Asia

Though not on the same scale, the South-East Asian region is one where there is clear evidence of an arms build-up, and some international tension. The source of rivalry would appear to be the disputed ownership of the islands in the South China Sea - coral atolls beneath which there are understood to be immense fossil fuel resources. Already, the small but wealthy independent state of Brunei has access to these assets, and has

made claim on some of the nearby Spratly Islands. Its size precludes it from having any impact, though for security Brunei has allied itself to its neighbours: Malaysia and Indonesia in particular. Malaysia, itself, also lays claim to the Spratlys, as do Vietnam and China, and is actively engaged in significantly increasing its defence budget. In the past two years the Malaysian government has taken decisions to modernise its military and naval forces with substantial foreign purchases of aircraft, frigates and armoured vehicles.

These military expenditure increases reflect, as with Northern Pacific Rim (PIMPAC) countries, their recently flourishing economies relative to those in Europe and the Americas in general. Modest increases in defence expenditures have also been recorded by the Philippines, Indonesia, Singapore and Laos, but the most significant defence budget increases are those of Thailand and Vietnam. The latter's defence budget is up by 25% in 1994 over that for 1993. Worry over China's more menacing posture, given a 14% increase in the Chinese defence budget for 1994 and differences with China over the Spratly and Paracel Islands are given as reasons. Thailand's budget is up by approximately 17% over the same period. The only state within the region to mark a decline in defence spending is Cambodia, reflecting perhaps the presence of UN forces and the improving domestic situation.⁴

Central and South Asia

Unlike South-East Asia, Central Asia is a region where little reliable statistical information is available, largely due to the relatively recent emergence of the newly independent Republics, previously constituent parts of the former Soviet Union. Not only are the military forces of these states hard to quantify and define, emerging as they do from the former Red Army, but the economic situation in those countries and their industrial infrastructures are also so precarious that it is their military weaknesses more than their strengths which are most significant. Indeed, they are more likely to sell their military equipment in the interests of gaining hard currency than to commit limited public funds to increase their military capability.

Kazakhstan is probably the most significant of these Central Asian States by dint of its nuclear arsenal, a legacy of former Soviet days. Though committed to return its nuclear warheads to Russia for decommissioning and to dismantle the missile delivery systems under the US Co-operative Threat Reduction programme, the numbers of warheads and bombs remaining in the country is still not clear. Nevertheless, inflation and economic dislocation have combined to force down defence spending, which stands at half the estimated figure for 1992. Defence expenditure figures for the remaining Muslim

former Soviet Republics in the region reveal either that they have remained at a constant level, or have registered a slight decline. Neither set of figures is very helpful, for the levels of unemployment and degree of economic dislocation in those countries are such that retaining people in the armed forces is a way of holding on to some degree of stability.

Regional instability in Central and South Asia is more likely to concentrate on Indo-Pakistan relations, relations which are exacerbated by long standing differences over Kashmir and the borders between them. The Indian defence budget has increased over the past two years by 15%, and is now twice that of Pakistan. Both countries have bought equipment heavily abroad. Pakistan has added ex-UK frigates and destroyers to its fleet, and India recently acquired first generation aircraft from the Russian Federation.⁵ Most relevant in this context is the advance both states have made in missile technology; neither side has yet signed the Nuclear Non-Proliferation Treaty (NPT), and India opposes a regional version of one. The overriding consideration within the region is the religious divide between the predominantly Hindu India, and the surrounding Muslim states to the North, East and West. Further, China is a potential destabilising influence over differences with Kazakhstan over their shared border and the latter's concern with China's military build-up. For this reason, the Kazakhstan government is seeking a regional collective security system, tied preferably to the CIS. It is an area where the trends in defence expenditure are decidedly upwards with an emphasis on weapons of mass destruction.

The Persian Gulf and Arabian Peninsula

The two most likely regions for a major conflict, according to the Pentagon, are North-East Asia and the Gulf region.⁶ Indeed the Gulf has been the focus of military conflict since the early-1980s and was the location of the United Nations' largest military operation since the Korean War to repel the Iraqi invasion of Kuwait. The lesson of that conflict was that the UN's limited military success did not ultimately resolve the outstanding political differences; the region remains far from stable. More importantly, the principal dispute between Iran and Iraq is still unresolved, and further differences among the other Gulf states combined with politically immature regimes threaten to make the region as a whole even more unstable. Correspondingly, the states in the region are among the largest defence spenders per capita on defence equipment from abroad, much of it of a highly sophisticated nature.

The state with the largest defence expenditure in the region is Saudi Arabia which has the dubious distinction of being involved in a border dispute with every neighbouring

state. Currently, Saudi Arabian forces are deployed along the borders of the Yemen, a state which, in its turn, has still not finally resolved the internal differences between its North and South sections. Though the Saudi defence budget has ostensibly declined since the Gulf War, overall defence expenditure has gone up, largely to meet the US\$20 billion of orders for military equipment from abroad. Owing to a decline in the price of oil and serious difficulties with the Saudi economy, the delivery of and payment for many of these have had to be rescheduled.

Though it spends but a fraction compared to Saudi Arabia on defence, Iran is, without question, the most influential power in the region. It is also understood to be the most likely source of regional instability. This is not a function necessarily of levels of defence expenditure, but of the nature of the current regime and its foreign policy. It is well understood that Iran is 'exporting' Islamic revolutionary fervour throughout the Middle East and North Africa, and generously supporting, training and equipping active Muslim revolutionary cadres whose principal targets are other Islamic state governments and leaders. Some of these training grounds are to be found in the Sudan and Libya.

The Iran-Iraq war ended in a cease-fire in 1988 after eight years of costly and destructive fighting for both sides. Further, in 1991 Iraq suffered a major military defeat over its invasion of Kuwait at the hands of the UN forces under US Command. Although its losses were perhaps not to the degree or extent that estimates suggested at first, all three branches of the Iraqi armed forces suffered major setbacks. Nevertheless, and in spite of overflying by UN aircraft, a strict international embargo on trade, an all but collapsed economy, and the harshness of treatment of the population by the regime, the general consensus is that Iraq has all but restored its military capabilities to a level equivalent to that prior to the Gulf War. Certainly, it was sufficient for President Saddam Hussein to posture and military threaten the Kuwaiti borders a second time in early-1994. The region has moved inexorably towards greater instability, and this situation, given the crucial importance of its oil reserves, will be one to which the Western and allied democracies will be giving close attention.

Central and Eastern Europe

As a region, non-Nato Europe, including the Russian Federation, is something of a novelty. At one time squarely within the Soviet Empire, it now constitutes a region of more or less independent states, each of which is struggling to find its feet in a new and strange world environment. They also have to sort out their own respective domestic economic, political and social problems, difficulties born of a discredited and defunct centrally planned *dirigiste* system. The volatile mix of internal instability and external

differences has rendered the region potentially unstable.

Broadly speaking, the region's difficulties, all of which threaten its overall stability, can be divided into two sorts: those which revolve around those states which became post-Second World War satellites of the former Soviet Union and those which, historically, were part of the Tsarist Empire and which Moscow now refers to as the 'near-abroad'. Among the former, the running conflicts between the erstwhile constituent republics of Yugoslavia, and those threatening such as Macedonia and Krajina, are indicative of the potential for further fighting which could spill over into neighbouring states including Greece, Bulgaria, Albania and Hungary. Comparatively speaking, the Czech Republic, Slovakia, Poland and Romania are relatively stable.

Recent events in Armenia, Nagorno-Karabakh, Georgia, Chechnya, and Ukraine have revealed that the CIS and the Treaty on Collective Security have not in the short run served their intended purposes. Moldova and Belarus have still to work out their differences with the Russian Federation, as must the Baltic States. Perhaps most critical is the Ukraine. Though still a nuclear state, Ukraine has recently agreed to dismantle its nuclear weapons, and has accepted the division of the former Soviet Black Sea Fleet with the Russians, though the future status of Sevastopol remains unsettled. Neither decision was achieved without strong opposition from within Ukraine, which has a significant ethnic Russian population in the East of the country. Russia's undisguised interest in the future status of the Crimean peninsula, a problem fuelled by the return of the indigenous Crimean Tartars from their places of deportation under Stalin, has the potential for generating regional instability, even violent conflict.

Estimates of the levels of defence expenditure in these Eastern European states are virtually impossible to make, other than to assume that with current levels of inflation and their economic difficulties, whatever their defence budgets may be, represent little of substance. More important, however, is the degree to which their internal instabilities prompt other states to increase their defence expenditures in order to contain conflict within the region.

Sub-Saharan Africa

The stability of sub-Saharan Africa and the Southern African region is centred on two fundamental issues: the first is the strategic importance in terms of the rich mineral resources and geographical location of Southern Africa and especially the Republic of South Africa, to the economic growth and well being of the region; the second is the ethnic mix of the region, both in terms of tribal and political divisions and the racial

divide between white and black. South Africa is the dominant state in the region, with the largest, best-equipped and -organised defence forces. However, these forces are undergoing a lengthy process of restructuring in the wake of political change following the abandonment of apartheid and fundamental constitutional change. The speed and success of these changes will bear directly on whether or not the state can influence benignly the extent of internal conflicts in neighbouring states.

Behind the progress that has been made in the region towards greater stability - supposedly marking an end to conflict in Namibia, Angola and Mozambique - there is the underlying question whether or not these advances have been more apparent than real. Many contradictions and tensions remain beneath the surface, for example, between South Africa on the one hand, and UNITA in Angola and SWAPO in Namibia on the other. If tensions between the African National Congress and the National Party should be allowed to intensify, and the South African National Defence Force falls prey to internecine conflict, the region could well become unstable and conflict break out.

Defence Expenditure and Expectation of War

This survey of potential regional arms races does not presuppose the outbreak of military conflict, but merely seeks to identify areas of tension and states which have embarked on increased levels of defence spending. Indeed, as with the Cold War, an arms race can do as much to enhance regional stability - a premise often used by the world's leading arms producers to justify the sale of weapons - as to cause instability and conflict. Nevertheless, it has to be recognised that as the numbers of independent states in the world increase, the potential for disputes over such issues as access to resources, definitions of state boundaries, and protection of ethnic minorities living outside traditional 'homelands', will also increase.

Furthermore, even before the dramatic changes to the world's political complexion after 1989, there were numerous latent sources of conflict overshadowed by the Cold War. Using public statements and policy positions by the various protagonists, the following are seen as critical flashpoints for open conflict: between Israel and the Arab world; India and Pakistan; Egypt and its neighbours; within the Russian Federation; in sub-Saharan Africa; in the Gulf; across Central America; over the future of Transylvania; around the Korean peninsula; and, perhaps most disturbingly, between China and Russia over border alignments.⁷

Whether or not these issues erupt into war, they do point to a further distinction regarding trends in world defence expenditure: the defence costs of states currently at war have

to be separated both from those which are at a state of armed readiness and also those which do not envisage more than the need to maintain an adequate 'normal' level of defensive military capability. The question follows therefore: what constitutes 'normal' commitments and whether they have changed over the past few years which suggests there may not have been increases in the total amounts but rather new trends in the content of defence expenditure.

Trends in the content of defence expenditure

Nuclear

One of the more promising signs for world peace is the attention that has been given in the aftermath of the Cold War to control over weapons of mass destruction. The success that has been achieved in getting Kazakhstan and Ukraine to dismantle their nuclear weapons and sign the Nuclear Non-Proliferation Treaty, albeit in return for economic assistance from the United States under the Co-operative Threat Reduction Agreement, has helped reduce tension in Eastern Europe. No such progress, however, has been made with North Korea or Japan, and neither Pakistan nor India show any inclination towards reducing their nuclear ambitions, either qualitatively or quantitatively. Other nuclear powers, namely the United States, Britain, France, the Russian Federation, Israel and South Africa have ceased to develop such weapons with the degree of urgency of the past; manifestly the requirement is no longer there.

Under START I and II nuclear warhead limits, the Russian Federation and the United States are committed to reducing their nuclear arsenals significantly. In the US, despite the START Treaty provisions having scarcely come into force, there has been a major programme under way since 1993 which has decommissioned and eliminated numbers of strategic bombers, Trident SSBNs and Minuteman II ICBMs. Within the START ceilings, a nuclear modernisation programme is under way which is expected to be complete by the year 2003. As with the US, Russia has started its nuclear decommissioning programme ahead of the START I and II ratification, and has ceased to target nuclear weapons on the US or Western Europe. As with the US, Russia is continuing to develop new generation ICBM and SLBM missiles within START limits.

Britain and France have been left untouched by the START agreements, though even combined they do not constitute a significant proportion of the total number of nuclear weapons worldwide. France, however, has made no change to its nuclear policy, and continues to refuse to sign the NPT. Britain has just introduced the first of its next generation Trident SSBN nuclear deterrent force, but cancelled its air-launched stand-

off missile programme. Closer co-operation between the two countries is evident in the conventional field, but not as yet in the nuclear.

The more worrying signs are the potential for nuclear proliferation, particularly if, as has been rumoured, there have been inadequate controls over the sale and distribution of fissionable material to medium-sized conventional military powers. Iraq has never disguised its nuclear ambitions, and has gone about trying to acquire an indigenous nuclear weapon capability surreptitiously in the international arms market. Earlier progress was halted by Israeli intervention and since the Gulf War by UN inspectors. Nevertheless, it is generally assumed that its nuclear development activities have continued and that it is likely that they have taken full advantage of nuclear materials on the black market. Iran is likely to be in a similar position, and Libya not far behind.

It is for this reason, coupled with the sale of Scud-type missiles and the ability to build and improve them, that has prompted increasing interest in anti-ballistic missile systems. Britain for example has embarked on a feasibility study for such a system, and the US is putting research effort into Theatre Missile Defence systems for its three armed services. There is manifest concern in the West over so-called 'rogue' states equipped with relatively crude, but effective, missile systems against which some meaningful counter will be an increasing priority. Expenditure in this area will certainly increase in the near future, and the international market for reliable and cost-effective systems will enlarge. An alternative, which the UK and France are pursuing in the interim, is a cruise missile system targeted on potential missile launching sites and facilities.

Conventional Developments

The major trend in expenditure on conventional weapons since 1989 has been the flood of surplus conventional weapons and equipment on the international market. These have been made available by a combination of factors: conventional arms control ceilings, the UN conventional arms register, pressure for hard currency among the former Soviet states, the downsizing of weapons inventories among the major allies, and, seemingly, an increase in demand. Thus, emerging states have found relatively easy access to sophisticated equipment at bargain prices which they would previously have had to wait a further decade to acquire second-hand. One example would be the recent purchase by Chile of upgraded MIRSIP Mirage F-5 aircraft from Belgium at US\$2 million a copy; the purchase of six Type 21 (Amazon Class) Frigates by Pakistan from Britain at UK£1 million each is another. The deals made for ex-Russian equipment come to light at frequent intervals.⁸

A second trend in defence equipment acquisition is the degree to which there is a buyers' market. Not only can states looking for equipment drive prices down, they can also strike hard bargains which include: a substantial amount of technology transfer; reciprocal trade; off-sets; links with foreign aid, job sharing; and extended warranties and guarantees. Indeed, there is a case to be made that some weapons purchases have more to do with these 'value-added' incentives than specifically with the suitability of the sale itself. France, for example, in the interests of selling over 400 Leclerc tanks to the United Arab Emirates has agreed offset and transfer agreements which in purely financial terms amounts to handing the tanks over at virtually no profit.

As greater emphasis is being placed among the major military powers on co-operative UN-backed or initiated intervention in peace-keeping operations throughout the world - what NATO used to refer to in the past as Out-of-Area operations - so their own weapons inventories and force structures will focus on extended reconnaissance, mobility, amphibious capabilities and power projection. Past emphasis on anti-submarine warfare, air-defence systems, and massive armoured warfare will be replaced by more lightly armed, more sophisticatedly equipped, and flexible sea- and air-mobile military units. These might well be smaller in size and number than the big battalions of the past.

Smaller nations, however, confined to their immediate region, will reflect more and more the heavy conventional structures and weapons of NATO and the former Warsaw Pact. If this scenario is correct, it could come to the point that the advanced states of the Western world, should they choose to intervene in a major regional conflict, may well find themselves facing more conventional line infantry and mechanised forces. The lessons of Italy in the Second World War, when more lightly armed élite airborne forces encountered regular German troops to their cost, might give rise for reflection.

Unconventional and Support Forces

There are many who argue that the traditional use of military force in support of political objectives has had its day. Whether or not this view is correct - and there are persuasive arguments for and against - it is evident that many states, within and outside the framework of customs unions, supra-national political arrangements, free trade areas, etc., are becoming increasingly concerned with such modern phenomena as international crime networks, drug trafficking, piracy on the high seas, state sponsored terrorism, and illegal arms smuggling. At present, the response has been to give additional training to existing forces when the need arises, or counter these developments with agencies or organisations, such as Coast Guards, Border Guards, the Police, Customs Services and

Special (Elite) Task Forces.

Whether the scale of these threats, or their implications for the security of the state is such that defence forces need to be involved remains an open question. The trend, though not financially a significant one as yet, is in the direction of military forces taking on more of these tasks. If illegal immigration assumes the scale that, for example, France and Spain anticipate, military units will likely have to provide a first line of 'defence'.

Conclusion

Trends in world defence expenditure patterns since the end of the Cold War have taken some time to establish themselves. In terms of how money is being spent, there is a clear distinction between the former NATO and Warsaw Pact states, and the rest of the world. Whereas the former states are reducing in size and number and changing their equipment and force structures towards mobility, flexibility and interventionary forces, the rest of the world, especially those which are major actors within particular regions, are following a more traditional path. Paradoxically, the advanced nations are assisting in this direction partly by making redundant equipment and more modern weapons available at 'silly' prices under conditions, and partly because they have withdrawn their military presence from most of the regions of the world.

Regional stability throughout the world will be difficult to maintain; the potential therefore for regional arms races, prompted by longstanding and latent differences and conflicts between the constituent states, is considerable. Only time will tell whether these races will enhance regional stability or precipitate open military conflict. Should it be the latter, it is highly debatable whether the traditional military powers of the Cold War period have either the forces, the capability, or the will to do anything about it.

Endnotes

1. Aside from the reductions agreed under the CFE Treaty, all NATO members have reduced their defence budgets in real terms by up to 25% and in some cases - notably Denmark, Belgium and Holland - in excess of that figure. The UK, in real terms, has reduced its defence budget from 4.1% of GDP in 1989 to 3.1% in 1994. MOD *Departmental Report on the Government's Expenditure Plans 1993/4 to 1995/6 CM 2201*. London: HMSO, 1994, pp.4-5. In contrast, France is the only country not to have made any reductions in defence expenditure; see Lanxade, J, 'French Defence Policy after the White Paper', *RUSI Journal*, April 1994, p.21.

2. The figure at the beginning of 1994 was just short of 90,000 (made up largely of UNPROFOR) personnel deployed on UN peace-keeping missions, compared with the previous high of 21,000 in 1961 (ONUC-Congo), and 13,000 (UNIFIL-Lebanon) in 1987. None of these figures includes the Korean War (UNC, 1949-53) involving 394,000 UN personnel or the Gulf War involving approx. 500,000 troops. See Table 1.1 'UN peace-keeping personnel deployed 1945-93', Smith, H, *Peacekeeping: Challenges for the Future*. Canberra: Australian Defence Studies Centre, 1993, p.7. For details of current UN peace-keeping operations, see also *ISS, Military Balance, 1994-5*. London: Brassey's, 1994, pp.268-274.
3. Kakovenko, N, *Ukrainian Security*. Lancaster: Bailrigg Memorandum 13, 1995, pp.16-17.
4. For figures and tables of defence expenditures, 1985-94, see *ISS Military Balance, 1994-5* and *1993-4*. London: Brassey's 1993 and 1994. See also, 'East Asian Security beyond ASEAN' in *ISS Strategic Survey*. London: Brassey's, 1994, pp.171-178.
5. SIPRI *Arms Watch: SIPRI Report on the first year of the UN Register of Conventional Arms*. London: OUP, 1994, p.81.
6. Department of Defense, *Defense Bottom-Up Review*. Washington: Defense Department, 1993.
7. Vertkin, D, 'Kazakhstan: Independence and Armed Forces', *Defense Analysis*, 10, 1, April 1994, p.72.
8. Examples of such sales abound, but some are more prominent than others: the Belgian sale of 20 MIRSIP F-5 Mirage aircraft to Chile for a total price of US\$40 million is one. See, *Jane's Defence Contracts, 1994*. Rumours and speculation of prices asked for former Soviet equipment abound, but figures of around 20% of the real costs for Mig-29s and Sukhoi 27s are common. See also, Blank, SJ, *Challenging the New World Order: The Arms Transfer Policies of the Russian Republic*. Carlisle: SSI, 1993.

Africa's Economic Prospects

Douglas Rimmer

Perceptions of the African Condition

'I speak of Africa and Golden Joys', said Pistol, as a preliminary to the glad news he was bringing Falstaff. But any equating of golden joys with the area between the Limpopo and the Sahara would nowadays seem incongruous, and it might be thought the metaphor was possible only when as little was known about Africa as Shakespeare knew. By the middle of 1994, the massacres in Rwanda, and the flight from that country of one-third or more of its population, appeared as only the latest manifestation of devastating and seemingly irremediable maladies long affecting the whole region. 'Horrific though it is', declared an editorial in the London *Financial Times*, 'Rwanda is only one symptom of Africa's decline, as it pays the price of 30 years of disaster, man-made and natural'. An article two days later by the paper's chief Africa correspondent was headed, 'The sounds of a continent cracking'.

It is not always recognised that such *Afro-pessimism* (to use the term in vogue) is of fairly recent origin - even if, as may be, the grounds for pessimism were present earlier. The departing imperial powers had been almost obliged to take a sanguine view of the prospects for the independent states they had created. Otherwise why were they abdicating responsibility? And, economically, grounds for optimism were not unfounded about the time the British, French and Belgian territories were decolonised. At the conference on 'Sub-Saharan Africa' staged by the *International Economics Association* in 1961, attention was drawn to 'the very rapid current economic growth' of most countries in the region, and it was claimed that 'such a marked and continuous growth' as that recorded in the Belgian Congo ever since the end of the First World War had 'rarely been attained elsewhere in the world'. Later, the World Bank economist Andrew Kamarck observed rates of economic growth between 1945 and 1960 in the Congo, the Rhodesias, Kenya and Gabon to have been 'among the highest in the world' at 6% to 11% per year. The level of income per head at which growth became self-sustaining was, he believed, 'within striking distance' for such countries as Ghana, Senegal, the Côte d'Ivoire, Gabon and Rhodesia. He was confident that 'for most of Africa the economic future before the end of the century can be bright'.¹

Again, over the quarter-century ending in 1975, the annual growth rate of GNP per head in tropical Africa was over 2.5%, according to David Morawetz's study for the

World Bank. This rate was about the same as the Latin American rate and much exceeded the South Asian; it was also, incidentally, above the South African rate. The Bank subsequently noted economic growth to have been significantly above the world average in several African countries during the 1970s. Because African population growth since the Second World War has been rapid, rates of growth appear much higher in the GNP totals than in GNP per head. In West Africa, for instance, the former rates averaged over 6% per annum in Nigeria, over 7% in the Côte d'Ivoire, and about 4% in the Economic Community (ECOWAS) as a whole, in the period 1960-79.²

Growth rates of GNP in the aggregate or per capita measure changes in real output. Available income increases faster if the external terms of trade move favourably. These terms have shifted erratically from year to year but, for tropical Africa as a whole, the trend was upward between the end of the second World War and the beginning of the 1980s, thus adding appreciably to the purchasing power of exports over imports over the longer term. The improvement was especially pronounced in the 1970s, the decade during which booms in the prices of several principal exports helped raise the terms for the region as a whole by an estimated 76%. Illustrative of the prosperity of some African governments at that time is the official view in Nigeria in the mid-1970s that finance had ceased to be a constraint on plans of national development and that the country could even take a place among the donors of aid.

Advancement in the region is also shown by demographic data, and, remarkably, it is believed in these respects to have continued in the 1980s, although the economic indicators then generally turned down. According to figures published by UNICEF, the crude death rate on the median average of 38 Sub-Saharan countries fell between 1960 and 1990 from 25 to 15.5 per thousand, and the infant mortality rate from 173 to 102. Life expectancy accordingly lengthened - again between 1960 and 1990, and taking the median value, from 39 to 51.5 years. And in the shorter period 1970 to 1990 there was a median rise in literacy rates, according to the UNICEF figures, from 29% to 56% for men and from 12% to 31% for women.³

Economic and demographic data of these kinds cannot be taken as accurate measurements of change. They have been accepted, however, as the bases of perceptions of the African condition. Having regard, then, for the economic progress that was observed for thirty or more years after the Second World War, and for the falls in mortality rates and increase in life expectancy that are believed still to continue, why is our present understanding of the state of Africa so dire?

The Economic *Malaise*

One reason is that the boom in African export prices in the late-1970s was followed by a sharp contraction. Although in retrospect this cycle is hardly surprising, there lingered at the time a belief, fostered by the postulated 'limits to growth', that higher relative prices for primary commodities had come to stay. On the strength of this belief, and because international credit was then freely available at low or negative real rates of interest, many African governments had followed expansionary fiscal policies and made large external borrowings. Even when they encountered the break in export prices, the momentum of their spending was for some time maintained, with consequential increases in fiscal and external deficits; and this at a time when real interest rates were fast recovering.

The combination of rising obligations to service external debts with falling earnings of foreign exchange exposed past errors in policy. Exporting capacity had been reduced or held down by fiscal discrimination in favour of industries supplying domestic markets, and by the overvaluation of the exchange rate that monetary autonomy tended to produce where it had been adopted. Between 1970 and 1985 the share of sub-Saharan Africa (excluding South Africa) in world markets for primary commodities had fallen from 7% to 4%. Had the market share been maintained, African export proceeds at the end of that period would have been about one-third, or US\$10 billion, larger than they were.⁴ At the same time, import-dependence had been scarcely relieved, the newly-established industries and services being as hungry for imported supplies and equipment as the people had earlier been for imported consumer goods.

The pressure of external deficits obliged most African governments to seek credits from the IMF, rescheduling of their debts, and balance of payments support from multilateral and bilateral donors. The price of this assistance was the adoption of programmes of structural adjustment, approved by the Fund, with the object of unravelling the distortions in resource allocation that had been produced by previous policy choices. The external debts meantime continued to grow, even though most of the governments had ceased to be commercially creditworthy; through credits from the Fund and soft loans from the International Development Association and bilateral donors, through the terms of the rescheduling agreed, and through the refinancing of short-term trade credits and the capitalization of missed interest payments. The total external debt for the sub-Saharan countries other than South Africa grew from US\$56 billion at the end of 1980 to US\$161 billion at the end of 1992.

Servicing these debts, so far as they were serviced, added to the import strangulation exerted by the drop in export proceeds. The contraction of the domestic economies,

uncertain prospects in the markets for tropical agricultural produce and the overhang of uncleared debts combined to deter foreign direct investment, save in the oil and gas sector. The region notably failed to share in the forward surge of such investment into developing countries in the early-1990s.

Much of the writing and debate on tropical Africa nowadays addresses the Structural Adjustment Programmes - for what reasons they were adopted, how far they have succeeded, what faults in design there have been, what impediments to execution, what unforeseen consequences and whether they are fundamentally misguided. With such considerations in the foreground - with diagnoses of the currently persisting economic *malaise* absorbing attention, along with controversy over how that *malaise* might be removed - the record of economic success over an earlier and longer period tends to be disregarded, as also does the approval that expert opinion used commonly to give the policies that are now denounced as having been retrogressive.⁵

Civil Unrest

The World Bank's latest appraisal of structural adjustment in Africa, focusing on the period 1987-91, excludes from consideration Angola, Ethiopia, Sudan, Liberia, Somalia and Zaire, on the ground that they were 'countries with civil unrest'.⁶ The euphemism is glaring. There was large-scale warfare in three of these countries during the period in question; in the next two, any semblance of national authority had collapsed under the weight of the conflict of armed factions; and in the sixth, in the judgement of some observers, the mechanisms of the state had all but vanished by the early-1990s.

However it may be construed, 'civil unrest' rather than the vicissitudes of world markets or the burden of debt is what chiefly influences popular perceptions of the condition of Africa. The record is a long one. Insurrection began early in the era of freedom in the Congo - notoriously - and even anticipated independence in Rwanda and the Sudan. The Eritrean war began about 1961 and lasted thirty years. That in the southern Sudan began in 1963, was suspended in 1972, renewed in 1983, and still continues. The surrender of colonial power in Angola and Mozambique did not end the fighting in those countries; in Angola, indeed, the conflict had acquired the status of a civil war even before the Portuguese left. There has been long-running strife in Chad, Somalia and Uganda, a war of shorter duration in Nigeria, and periodic irruptions in Zaire, Burundi and Rwanda. A liberation war was fought in Zimbabwe. Liberia became a cockpit in the early-1990s, and the fighting spread into Sierra Leone.

Estimates of the deaths resulting directly or indirectly from these wars run into millions.

The conflicts have also engendered massive flows of refugees. At the end of 1988 the US Committee for Refugees estimated that 3,89 million people were displaced in countries other than their own in sub-Saharan Africa, the largest numbers having moved from Mozambique, Ethiopia, Angola, Somalia, Sudan and Burundi. According to the UN Economic Commission for Africa, 1,5 million people from Mozambique and Angola were refugees in neighbouring countries in 1989, and a further 6,1 million displaced internally. In July 1994, over half of the Rwandese population of 7,2 million was believed to be displaced. Probably a similar proportion had earlier been reached in Liberia.

War has also engendered famine, the severest manifestations of 'drought' in the semi-arid areas having been in countries suffering civil war or insurgency. Of the five countries generally agreed to have been worst affected by the famines of 1982-84 (Ethiopia, Sudan, Mozambique, Chad and Mali), only the last was at peace. Again, while the drought of 1992 was general throughout Southern Africa and was experienced as far north as Kenya, the countries in which famine was reported to be most acute were those (Ethiopia, Sudan, Mozambique and Somalia) in which fighting was going on or had been recently concluded.

African wars have undoubtedly been fomented by outside powers having interests of their own to pursue directly or by proxy. But the record shows the societies of the region to be prone to internecine conflict even without the benefit of this external encouragement. Even in countries supposedly at peace, large-scale violence has been common - common enough, indeed, to excite little outside notice. In 1980 artillery and aircraft were used to extirpate religious revolutionaries in the Nigerian city of Kano and 4,000 deaths resulted. Forty-six 'major' urban riots, involving 'considerable violence and destruction', were counted in the ECOWAS region during the period 1977-85.⁷ A thousand people were declared to have been killed, another 150,000 displaced, and 144 villages destroyed through conflicts over land and chieftaincy in northern Ghana early in 1994. In Kenya, turmoil in the Rift Valley is said to have cost 1,500 lives and the displacement of 300,000 people since 1991. Casual violence - the murders that accompany burglaries, the highway robberies, the hijacking of vehicles even in the city centres - is endemic in the big African cities. Personal security and the authority of the law have followed a diminishing trend during the years of independence. In the 1950s, it was possible to stroll unannounced into the houses of the well-to-do in the cities of West Africa; now, such dwellings are fortified and constantly guarded.

Along with war, famine and the erosion of law and order, the insecurity of governments strongly affects perceptions of Africa. Governments, even military governments, appear regularly exposed to attack, and often to displacement, by factions within their own armed forces. Here again the record goes back a long way. The first military coup in

Sudan occurred late in 1958; the first in francophone Africa early in 1963. By the end of 1985, 60 successful and 71 unsuccessful coups were counted in 37 of the independent sub-Saharan states, and there have been many more since. Seizures of power by armed men have continued to occur even during the phase of democratising these states that began in 1989. Another measure of political insecurity is the finding that, of 485 persons identified in 1991 as political leaders in sub-Saharan Africa, by 1993, 86 had been executed or murdered or had died in prison, and another 202 had suffered imprisonment, exile or both.⁸

Of economic importance is the tendency of investments and policy decisions to be reconsidered at every change of rulers, since the newcomers in power distrust the plans of their predecessors and have their own clients to look after. In Nigeria, for example, a scheme for the liquefaction of natural gas for export was first proposed in 1970. After many revisions and deferments of the plan, which have led the World Bank to question its economic viability, the target date for production is now 1999. In the same country, establishment of an iron and steel industry was first proposed in 1958. In 1994 the main steelworks, at Ajaokuta, was still being built - and at capital costs now estimated to have reached four times those of competitive new plants elsewhere in the world.

The combination of insecurity and political instability with relative economic retardation, the latter having become more pronounced and general in the region since about 1980, has led to the emigration from Africa of large numbers of people, especially, but not exclusively, those possessing advanced educational and professional qualifications. In 1989 the World Bank cited reports of 'more than 70,000 trained Africans who have opted to remain in Europe', and '10,000 highly trained Nigerians ... reported to be working in the United States'.⁹ In 1991 the UN reported a 'brain drain' from Africa of 50-60,000 during the preceding five years. About one-fifth of the population of Ghana is believed to have decamped during that country's period of rapid political degeneration and economic decline from the mid-1970s to the early-1980s. Although most of these migrants went temporarily to nearby countries, especially to Nigeria, Ghanaian communities also sprang up in places as distant as Papua-New Guinea. There were similarly large flows of Sudanese and Somalis into the Gulf states during the oil booms of the 1970s.

The export of capital has proceeded alongside the exodus of people. One-half of Tanzania's windfall earnings from the coffee boom of the late-1970s is estimated to have been illegally exported through over-invoicing. Capital flight from sub-Saharan Africa (excluding South Africa) was reckoned in a UN report to be nearly US\$30 billion in the years 1986-90. In 1993 the total of flight capital from the region was equal to 80% of its GDP, according to a World Bank report.¹⁰ It is likely that in several

African countries the total of the government's external debt is matched by that of assets privately held abroad.

Any view of economic prospects in tropical Africa must be coloured by the conditions that have been briefly reviewed above - the prevalence both of warfare and of less organised violence, the refugee movements and associated famines, the withdrawal of such productive factors as are internationally mobile. Where such conditions are acute, economic life regresses, and the development of productive forces, if it occurs at all, is confined to defensible enclaves such as offshore oil extraction.

Politics in Africa

It appears, then, that the prospects are in the first instance politically determined - that consideration of resources, enterprise, techniques and the like are secondary to the questions of whether public peace can be established and confidence in the future ensured. Some recognition of this truth - some 'rediscovery of politics', as it has been called - has been made with respect to Africa by the donor agencies since 1989. The need of 'good governance' has been urged. Governance has been defined by the World Bank as 'the manner in which power is exercised in the management of a country's economic and social resources for development'. It may be doubted that governance in that sense exists at all in several African countries, where the chief exercise of power lies in killing political opponents and anyone else who gets in the way. But where such governance does exist, its implementation means both a greater aptitude for its achievement and its cleansing qualities - both in the building of institutional capacity and the removal of corruption. The attributes of good governance, according to the Bank, include the government's accountability, and openness and transparency in its procedures and transactions.

Like war, refugees and famine, bad governance has become a byword of Africa. Indeed, corruption and mismanagement are often held to be intrinsic to the politics of the African states, rather than an aberration from their regular administrative practice. State power is the royal road to personal aggrandisement. Loyalty is secured by the distribution of fiefdoms, for which candidates compete on the understanding that the powers they seek will be used for the benefit of themselves and their own supporters. Subordinates are no less ready to use public authority to serve their private ends. Politics is about personal enrichment, not the attainment of national objectives, and parties and factions are formed on the basis of expectations of material reward. The nexus of public life is neither shared ideologies, nor any ethos of service, but rather the relations of patrons and clients. So 'the administrative decay in Africa is rooted', it has been ruefully

concluded, 'in the pervasive clientele politics'.¹¹

There is a puzzle in this characterisation. Not only in Africa are politics driven by personal ambition. Everywhere, men and women seek office in the state for the sake of power and prestige - and often also for the opportunities thus created, not necessarily directly, for material gain. Their foremost political enemies are usually to be found among their own colleagues, who vie with them for the same preferments. They are supported by clients in the form of electoral constituencies, ethnic or religious communities, or economic interest-groups, and are expected at least to protect and, if possible, to arrange the favouring of these clienteles. The declared policies of governments and the platforms of parties are required for public relations, but their role in decision-making is secondary since priority must be given to retaining office, holding together the party or faction, and humouring the clienteles. As to the holders of subordinate public office, they strive to build or enlarge their little empires, and they too do not invariably distinguish public duty from private advantage.

So 'in many respects Africa is a mirror'.¹² What are often taken to be traits distinctive of its politics are really matters of degree. The same motives and behaviour as rule elsewhere are carried to lengths beyond the experience of many outsiders, and consequently are mistaken as qualitatively different. If there are differentia in Africa, they are not corruption but the enormity of corruption, not competition for power but the ferocity with which it is conducted, not patronage but its disregard of any norms, not the alienation of those excluded from favour but the depth of their alienation. On another formulation, what distinguishes African politics is the absence of constraints, the gross lack of inhibition, on the use of public power for private ends.

Inhibition is most conspicuously absent from the military. The principle of political neutrality in the armed services of the state has been so little upheld that ambitious men now seek military commissions with a view to making political careers. The gun has proven a short cut to power. The presidential flywhisk rather than a field-marshal's baton are what these soldiers hope to find in their knapsacks.

The lack of inhibition has several explanations. The average age of the population is low; medieval Europe, where the same was true but for a different reason, was also an arena of violent reactions. The African states are still without historical substance. They attract little loyalty, in some cases none at all, while individuals do feel obligated to their own kin or clan and their communities of origin - and safer, too, in that company and in those places. Further, the competition for resources within the large states created by colonial power encouraged the formation of defensive social coalitions, each struggling to secure a bigger slice of the 'national' cake, and typically defining itself as

an ethnic identity. The claims and recognised needs of family, community and ethnic group are strong and concrete; those emanating from the nation weak and abstract. There is morality in looking after one's own. Corruption can be 'solidaristic'. Hence it is, within limits, popularly tolerated.

Poverty also contributes to the weakness of inhibition. To use the imagery of Chinua Achebe, only a few have been able to come indoors out of the rain, and they have no wish to get wet again.¹³ The sources of wealth may be sparse, but, such as they are, they are chiefly accessible through political power, as duties on foreign trade, royalties on mining, taxes on the profits of foreign enterprises, the exactions of state monopolies, and receipts of international aid. Enrichment beyond the circles of power and patronage is hard to come by, and often has been actively discouraged. Exclusion is disastrous. Business and politics consequently converge, the former becoming politicised and the latter commercialised. At lower levels, the need of state functionaries to augment their salaries by extortion and embezzlement has grown as real earnings have been eroded by inflation (itself a measure of weakness in constraints) or by the failure of payments due actually to materialise. Hence the high value placed on employment in the Customs and the border guards. Combinations of extensive bureaucratic controls of economic life with increasing economic hardship have produced large 'second economies' fuelled by illicit dealings, as in Tanzania, Ghana and Zaire in the late-1970s. At the extreme, a disinterested concern for the public weal simply becomes impracticable. Officials and their dependants cannot survive on those terms.

The concentration of wealth in the public domain explains the bitterness of the 'outs', of those people debarred for one reason or another from shares in patronage. In the first instance at least, patronage has been allocated among members of the social élite, or what is sometimes termed the political class, selected for their personal influence over ethnic, communal and other interest groups. Opposition to government has typically emerged when the system was inadvertently maladministered, or when it appeared to have become intentionally and permanently biased against people who expected to be among its beneficiaries. It 'has inevitably been led by dissident élites: people who, though qualified (at least in their own eyes) for position of leadership, have nonetheless been excluded on ethnic, regional, ideological or even personal grounds'.¹⁴ Often this opposition has eventually been accommodated: today's political prisoner becomes tomorrow's cabinet colleague. Otherwise, the object of opposition becomes supersession - not the reform of government but the replacement of the governors. In the political order that has generally obtained in post-colonial Africa, such supersession has seldom been peaceably attainable. Dissidents seeking power and without other means of winning it have resorted to violence. The apotheosis of these politics has been found in places such as Angola and Chad, Rwanda and Liberia.

Good Governance and Economic Reform

Can economic reform make governance better? Reform, as envisaged by the aid donors, has meant the replacement of *administered by market prices*, reassertion of the principle of comparative advantage in production, and the winding up or privatisation of state enterprises. Underpinning these changes are the closing of the fiscal deficit and the reduction and subsequent control of the rate of inflation. One consequence is expected to be the more productive use of resources. Another would be contraction in the share of resources which the government and its agencies command and a corresponding expansion in the share available for private disposal. This shift in balance, along with the deregulation which had helped produce it, would lessen the economic importance of politics. Businesses could prosper without patronage. What producers received would be closer to what they earned, and what consumers paid nearer to what their purchases cost to produce. As the opportunities for corruption diminished with deregulation, so would corruption become less necessary for survival.

An obstacle to the creation of this new economic order is that the people who undertake the work are also those who are the chief losers from the disappearance of the old order. They are the 'political class' and the officials administering the economic controls, manning the parastatals, and supported by the fiscal deficits. Thus, the principal price distortion - the fixing of the exchange value of the domestic currency at an unrealistically high level - has benefitted those who could obtain foreign exchange from official sources. They included the holders (and the dispensers) of import licences and the persons allocated foreign exchange to travel abroad and to pay medical and school bills abroad. Little of the implicit subsidy on foreign exchange penetrated to people beyond the charmed circle of patronage, who paid market-determined prices for imports and for the goods produced locally with imported inputs. Similarly, loss-making parastatals have been a burden on the population at large but a boon to their personnel, and particularly to the individuals appointed to direct them.

Democracy has been proposed as one route of escape from this paradox that reform had to be executed by those who lost by it. Democracy in the sense of multiparty competition in elections was not included in the World Bank's original precept of good governance, but from 1990 was added by such luminaries as the British Foreign Secretary, the President of France, and the Commonwealth Heads of Government. Precedents had already been set for tying financial assistance to democratisation in Eastern Europe. Events in that part of the world, and also in South Africa, had encouraged opposition to the single-party regimes in tropical Africa. A 'second liberation' was believed imminent. Governments could be made accountable, and the rule of law established, by free political competition, a free press, and regular free and fair elections.

Patronage and corruption would thus be curtailed. And democracy, through giving power to the mass of the population, would buttress economic reform, since the interests served by the distortions in prices and resource allocation had always been sectional, not general.

In the early-1990s democratic institutions appeared in most African countries. Opposition to government was tolerated, newspapers proliferated, new parties were founded (often in large numbers), elections were held. Governments were toppled by the voters in countries including Benin, Zambia, Congo and Malawi, while elsewhere, such as in Côte d'Ivoire, Cameroon, Ghana and Kenya, elections confirmed them in power. Democratisation was not universal. The trend was defied in Nigeria, Sudan and Uganda, miscarried in Angola, had little practical significance in Zaire, and in 1994 was still to be embraced in Ethiopia and Tanzania. But setting aside such cases, it was not clear that the democratic transition had produced governments more accountable and transparent in their dealings than their predecessors had been. In Zambia, for example, a state of emergency was declared within six months of the elections of October 1991; in Kenya corruption appeared even grosser after the elections at the end of 1992. 'In regard to governance', wrote one authority in 1993, 'it is hard as yet to discern any improvement ... To date, there are no signs that democratization has recast political constituencies in a new mode. They continue to be formed in terms of clientelism ...'.¹⁵

A further disappointment was the lack of popular support for economic reform. Programmes of structural adjustment might work for the benefit of the poor majority, more particularly in the countryside, but they were not people able to organise their collective interest and articulate their common wants. Reactions to reform were felt rather in the towns, among the now disadvantaged salariat, wage-earners and students, and public opinion was shaped in the universities and the media of mass communication by people also penalised by reform. 'I am not allowed to finish a sentence', said Ishrat Husain, the World Bank's Chief Economist for Africa, of his attempts to justify structural adjustment on the Nigerian campuses. Far from being welcomed, adjustment was manifestly resisted in most countries through strikes and rioting.

An alternative means proposed for the improvement of governance and promotion of adjustment is the delegation of policy making and execution to powerful technocrats who are insulated from social pressures and political exigences. By some accounts, this is how the rapid economic development of South Korea was achieved. It is, of course, strikingly reminiscent of the *modus operandi* of colonial government in Africa. The personnel to staff such technocracies are available, in people who have been trained abroad, usually in economics, including some of whom have worked for the Washington agencies. Several have in fact been appointed to senior positions in African governments.

The principle of administration free of politics has appealed to political leaders such as Jerry Rawlings in Ghana and Yoweri Museveni in Uganda, and to the makers of military coups. Further, the multilateral agencies find congenial a country in which economic decisions are taken, and can be adhered to, by people who are, so to speak, on their own wave-length, rather than distracted by the needs to patronise, to hold the party together, to placate uninformed critics, and to win elections. However, even if the desirability of technocracy in Africa were to be accepted, its feasibility must be doubted. It squares neither with the long-established attitudes toward power and politics that are expressed through clientelism nor with the democratic reforms for which so much support has been mustered in the last few years. In Nigeria, the technocrats Kalu Idika Kalu and Paul Ogwuma, newly appointed as Minister of Finance and Governor of the Central Bank respectively, proved unable to prevent the final abandonment of the structural adjustment programme at the end of 1993.

Can better governance and economic liberalisation be enforced by donor conditionalities? A distinction is required between the political and the economic variety. The former appeared in 1990 and is explained by the disappearance of Soviet power, after which donors found it no longer necessary to support corrupt and tyrannical regimes on the ground that they were friends of the West. Political tests began therefore to be applied in the allocation of aid; it was granted, or withheld, according to progress made in the extension of civil rights. Now that aid was no longer needed to repel communism, and granted its failure in Africa to propel economic take-offs, its real purpose was discovered to be the promotion of democracy.

Some success has been achieved. The national conferences in the francophone countries owed something to French encouragement, though not as much as to domestic pressures. In Côte d'Ivoire the astute Houphouët-Boigny anticipated the changing mood of donors by calling (and winning) multiparty elections in 1990. Donor pressure may have been instrumental in reinstating party politics in Ghana in 1992. The elections in Kenya at the end of 1992 were undoubtedly an effect of the withholding of programme aid a year earlier. Coercion from outside also produced the Malawian referendum on multiparty politics in 1993 and the elections in May 1994. On the other hand, the power of donors has been vitiated in several respects. Elections may be held, but, in cases such as Kenya, Cameroon and Togo, external powers have shown themselves unable to ensure that elections are free and fair, and unwilling to face the consequences of declaring them not to be free and fair. Again, donors have different notions of how much must be done to satisfy the conditionalities. In any donor country there are business, professional and charitable lobbies with stakes in the flows of aid. Consequently, the governments whose nationals have substantial interests in an aided country, such as the British in Kenya or the French in Cameroon, tend to be most indulgent of infraction of

conditionalities; while those keenest to punish transgression tend to direct their wrath towards the country which matters least to them. As for the international financial institutions, neither by purpose nor by inclination are they agencies of political reform, and they have not shrunk from supporting such governments as those of Uganda and Sierra Leone, notwithstanding the hostility of the one to party politics, and the take-over of the other by soldiers in 1991.

Economic conditionalities might appear more firmly based, given acceptance of the IMF as arbiter of performance, although even here the varying interests of donor countries in any particular recipient state make the maintenance of unity difficult. Conditionalities relating to the exchange rate, the fiscal deficit, the money supply, the import regime or the composition of public expenditure might seem objective and clear-cut, relative to determining the fairness of an election. They have, however, grown in number and uncertainty. Those imposed by the World Bank on its structural adjustment loans grew three-fold on average between the early- and late-1980s. In Burundi, the first such credit listed 45 conditions, the second 94. In Kenya in 1991 the total reached 150. Many of these conditions are difficult, and some perhaps impossible, to monitor, so that compliance becomes doubtful and disputable. The responsible personnel in the international financial institutions are in any case reluctant to acknowledge that their efforts have been frustrated, while donors keen to maintain their aid relations with the country concerned are disposed to find excuses for infringement of the conditions. Even when the patience of the Fund and Bank has snapped, and adjustment aid is suspended, no one regards the breach as final: the doors remain open for further approaches and fresh promises by the delinquent government. The evidence suggests 'an ever-expanding set of conditions placed upon donor resource flows to Africa' to have been accompanied by 'increasingly less donor influence over policy outcomes'.¹⁶

The World Bank has tried more than once to demonstrate empirically the success of structural adjustment in Africa by comparing the economic performances of countries. The argument depends on the selections of countries and time-periods and the choice, weighting and accuracy of performance indicators, and is bound to be less than totally convincing. More significantly, however, the Bank acknowledges little headway in adjustment actually to have been made. Thus, in the recent report on *Adjustment in Africa* in 1987-91, the claimed success of adjustment, according to the criteria primarily used, depends entirely on Nigeria, Ghana and Tanzania. The Bank's case-studies show, however, that in the first of these countries, economic growth in the review period was partly attributable to the enclave character of the oil industry - and in that country the reform programme has subsequently lapsed. In the second country, dubbed by the Bank 'frontrunner in adjustment', the subsidisation of more than 300 public economic enterprises continued, the civil service remained overstaffed, investor confidence was

generally low, and conditions for the attainment of growth without foreign aid were judged unpropitious. The third retained even more loss-making parastatals, depended heavily on aid for its budgetary expenditures, still had an overvalued official exchange rate, had failed to liberalise trade in its traditional exports, and experienced little return on investment. Yet these three were deemed the relatively strong and successful reformers. In three others, reform was also strong (relatively) but by 1991 had not produced growth. In a further twenty, adjustment had made even less headway, or no headway at all. Among the several explanations of this disappointment of expectations, the chief is the tenacity of political control and state institutions within the economic life of Africa. 'The global wind of change that is redefining the role of the state has not yet swept these countries'.¹⁷

In short, neither in their politics nor in their economics have African states been rendered malleable by external views of how their affairs should be conducted. As is now generally recognised, good governance will not be established nor economic life liberalised unless power within the states shifts toward groups whose interests are served by political freedom, the rule of law, an impartial bureaucracy and private enterprise, with the consequent institutionalisation of inhibitions on the use of state power. External pressures and inducements could strengthen this shift, but they can neither initiate nor alone sustain it - and no such shift is imminent.

Development Prescriptions

Judging by experience elsewhere in the world, however, illiberal politics and a statist economic ideology do not preclude economic growth and development, provided a sufficient degree of peace and public order is maintained. Nor, as has been observed already, was growth in many African countries precluded by such conditions during the late colonial period and the early years of independence. Even widespread political corruption seems in some places to have been compatible with economic progress. So from where does progress come? History, as Walt Rostow acknowledged, provides little ground for generalisation.¹⁸ Except at their most proximate, the sources of progress are not uniform among places, times and peoples, and they are more easily discovered retrospectively than prospectively.

This is not a palatable conclusion for politicians claiming or officials charged with responsibilities for the economic development of countries, and it is not surprising that they should have sought some powerful variable, control of which could transform the potential of any economy with which they are concerned. The variable commonly selected for this role is, of course, capital formation. This choice is governed by the

possibility of doing something about it. Investment can be raised by fiscal reforms that increase revenue or reduce recurrent spending, by inflows of funds from abroad, and possibly by tax concessions. It is not difficult to show a positive relationship between investment in the aggregate and economic growth in the longer term, but as a guide to action this relationship is recognised to be defective, since not all investments are equally productive and some not productive at all, while other outlays plausibly argued to be conducive of growth have not always been recognised as investments. The variable has therefore had to be refined in various ways - for instance, by stipulating 'productive investment', by allocating quotas of investment among economic sectors or industries in a national plan, or by adding investments in 'human capital' to those in material assets. In one direction the argument then tends to become tautologous: economic growth is accelerated by whatever kind and mix of investments accelerate economic growth. In another, it becomes merely empirical, yielding formulae expressing averages of past experience, the relevance of which to the future of any particular country can only be conjectural.¹⁹

In developing countries, the investment thesis (or 'fetish', as it has also been called) was greatly strengthened by the availability of international aid. Investment was basically the explanation of economic progress because investment was what aid could increase. True, the uses of aid have since diversified in Africa. It is now used directly to relieve want and to provide balance of payments support as well as to finance capital works. But this has not affected the belief that economic progress depends on infusions of aid, and, indeed, that attainment of a particular target rate of economic growth 'requires' a specifiable annual inflow of resources, the bulk of which must come as aid.²⁰ The gap which aid is now seen as filling is in foreign exchange receipts rather than in domestic savings.

Aid is bad news for Africa, notwithstanding the strong dependence of many governments upon it, its supposed necessity for future economic growth, and the insistence in many quarters that it should be increased. Not only is it the predominant form in which external resources are being transferred, but also its concessionality has been increasing, so that it now consists predominantly in bilateral grants and the very low-interest and long-term loans disbursed by the International Development Association and other multilateral 'soft windows'. One obvious implication is that most of the aid transfers are not required to show a return on capital, or are required to show only a small return in the long term. Another implication is that they are not *expected* to perform any better. Otherwise they would be priced, or priced higher. They are hand-outs serving the foreign policies of donor governments and, perhaps more importantly, the domestic politics of those governments and of the multilateral institutions. They help maintain in being the recipient governments and the services they provide, but there is no confidence that they can do

more than that. Tacitly there is an understanding that their role in fuelling economic growth cannot be more than very doubtful.

As a means of increasing importing capacity with a view to promoting economic growth, aid is therefore a poor substitute for greater export earnings, for foreign direct investment, and for commercial borrowing from abroad - that is, for external resources that have to be earned through the actual or prospectively profitable use of domestic resources. The most promising 'strategy' of development for African economies lies neither in stoking up the investment ratio (which has been tried and has failed already in, for example, Ghana and Madagascar) nor in securing even more aid (another proven failure, in Tanzania for instance) but in further integration into the world economy. Development would be promoted by a high ratio of foreign trade to total output, extensive employment of foreign-owned factors of production, and access to world capital markets.

While this conclusion might be readily accepted in South Africa, where foreign markets, business interest and capital funds are actively sought, it runs counter to ideas that have prevailed in many of the other sub-Saharan countries. As noticed earlier, the tenor of policy before 1980 was often to discourage exporting. In addition, there was long-standing distrust of the motives of foreign-owned businesses, and resentment because part of the income produced domestically was remitted abroad as factor earnings. Foreign trade and foreign investment were judged to be exploitative of African peoples. Self-sufficiency in production and self-reliance in the means of production were therefore generally to be preferred. These populist views were intellectually buttressed by neo-Marxism, 'dependency theory' and nationalist ideology. Although their influence has declined, it has by no means disappeared. Self-sufficiency still makes wide appeal. Making some recognition of practicality, however, the self has been broadened from the individual African state to groupings of states. Half-a-dozen customs unions or preferential trade areas have been created, sometimes of necessity because of the land-locked situation of some of the members, but also with the idea of lessening the costs of self-sufficiency in some forms of production. Within the Organisation of African Unity (OAU) and the UN Economic Commission for Africa, aspirations of continental union have also been expressed, through the Lagos Plan of Action of 1980 and the Abuja Treaty of 1991. The objects are not only to integrate the economies of neighbouring, or of all African, states, but also to insulate them from the world outside by contriving the substitution of African markets for foreign, and of African for imported goods, inputs and factors. The consequences, if these schemes were effective, would be gains in income from trade creation that were overwhelmed by losses from trade diversion, and new productive possibilities arising from intra-African dependence that were dwarfed by the sacrifice of the possibilities present in extra-African dependence. From an economic standpoint, therefore, disengagement from the world economy has

nothing to commend it, and unsurprisingly, therefore, schemes of integration so motivated have done little to alter patterns of trade and production; they have failed not so much for want of political will as because they are economically inappropriate.

A development prescription for Africa to which great weight is currently attached by everyone except most Africans themselves is slowing the rate of population growth. The conjunction of mortality rates which have fallen rapidly, especially in early childhood, and fertility rates which have declined slowly if at all has produced a rate of natural increase which is believed to have reached 3% annually in the region as a whole by the 1980s. The estimated economic growth rate in the same period was less, hence people on average were becoming worse off. Further, expectations of the attainable rate of economic growth rate in the near future suggest little possibility of improvement unless population growth slackens.

It is a truism that a smaller divisor will give a larger quotient. This assumes, however, that the dividend is independent of the divisor. Were that generally true, impoverishment would have been the rule wherever population has increased, not the exception which in fact it has been, at least during modern times. The general experience in modern times has been that growth in population either raises the dividend at least commensurately, or at any rate is compatible with such a rate of increase in the dividend. Far from tropical Africa having been exceptional in this respect, it has been in the 20th Century a prominent illustration of the usual pattern, because of its historic thinness of population and labour scarcity. Thus the economically faster-growing coastal areas of the tropical region have not been able to rely on natural increase, but had also to import population from the slower-growing interior.

Predictions of the course of production in relation to population, and the inference that population growth must be slowed if income per head is to be raised, are therefore not based on experience. They depend on implicit assumptions about the potential of Africa: that the rate of increase of which a population is capable, if voluntarily unrestrained, cannot be matched by the rate of growth in output, so that misery must deepen. Such assumptions were made also by Malthus, it will be recalled, of England at the end of the 18th Century.

Rapid population growth, and the large proportion of young people associated with it, undoubtedly give rise to economic and administrative difficulties in social provision, and to social problems of adjustment. These explain the tendency to believe the worst of the increase in numbers. But evidence to support the view that population growth retards the growth of output is difficult to find, even in Africa, and in no diagnosis of the current economic malaise is population more than a background factor.

Conclusions

The conclusions of this paper may be briefly stated. First, economic prospects in tropical Africa have appeared generally poor only since about 1980, and are explained partly but not wholly by cyclical changes. Second, from the standpoint of those prospects, the most obvious need in several African countries is peace. Third, throughout the region peace requires the absence not only of organised violence but also of what Hobbes called 'the known disposition thereto'. Fourth, removal of that disposition requires the institutionalisation of inhibitions in political conduct, as also do more general improvements in governance and the maintenance of a liberal economic order. These inhibitions have, however, proven difficult to erect, and policies of structural adjustment have therefore made little headway. Fifth, mechanistic prescriptions for economic growth in the region, in terms of investment ratios and aid inflows, are illusory. Of no more relevance to economic growth prospects is the anxiety about population increase. Sixth, the most promising route of future growth is closer integration into the world economy through exporting and the employment of foreign-owned factors of production. Schemes of regional integration could complement this movement, but are retrogressive so far as they are intended to substitute for it.

Endnotes

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2. Morawetz, D, *Twenty-five Years of Economic Development 1950-1975*. Washington, D.C.: World Bank, 1977, Stat. Appx., Table A1; *Toward Sustained Development in Sub-Saharan Africa*. Washington, D.C.: World Bank, 1984, p.14; Rimmer, D, *The Economics of West Africa*. London: Weidenfeld & Nicolson, 1984, pp.55-56.
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5. Thus Tony Killick was able to title as *Development Economics in Action* his study of economic policies in Ghana in the 1960s. London: Heinemann, 1978. And according to Hans Georgeson and Michael Homman, writing in the London *Financial Times*, 27 July 1994, a confidential report in 1990 of the World Bank's relations with Tanzania states that the Bank 'since 1967 and at least until 1980' regarded Tanzania 'as coming close to being a model developing country'.
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18. Rostow, WW, *The Stages of Economic Growth*. Cambridge: Cambridge University Press, 1960, p.46. Rostow wrote of his concept of the take-off that 'There is no single pattern. The rate and productivity in investment can rise, and the consequences of this rise can be diffused into a self-reinforcing general growth process by many different technical and economic routes, under the aegis of many different political, social and cultural settings, driven along by a wide variety of human motivations'.
19. *Adjustment in Africa: Reforms, Results and the Road Ahead*, *op.cit.*, p.22. For example, we are told in a passage that marries the investment thesis with structural adjustment that 'a reform package that in the long run raised [school] enrolments by 10 percentage points, eliminated a parallel market premium [on foreign exchange] of 20%, raised the ratio of equipment investment to GDP by 3 percentage points, and increased financial depth (the ratio of M2 to GDP) by 10 percentage points would likely raise the annual per capital growth rate by 2.6 percentage points'.
20. See *Sub-Saharan Africa: From Crisis to Sustainable Growth*, *op.cit.*, pp.173-184, and Husain, I, 'Trade, Aid and Investment in Sub-Saharan Africa', in Rimmer, 1984, *op.cit.*, pp.97-98.

The Politics of Structural Adjustment Programmes in Africa

Haroub Othman

The World at Present

South Africa has rejoined the international community at a particularly significant time for humanity. The Cold War and the rivalry between East and West, which at one time seemed to have even consumed South Africa, has now ended. South Africa also rejoins the international arena at a time when the whole world has really become a small village: whatever happens in one part of the world affects the rest. We have seen this in Somalia and the former Yugoslavia; and we see it in Burundi and Rwanda.

Even though the present world no longer faces the danger of a nuclear holocaust, there are still many dangerous flash-points. Unless the question of Palestine is justly resolved, the Middle East can still flare up; and if the policy of brinkmanship is pursued against North Korea, the Far East may burst into flames.

In the present world it is not only weapons that are posing a threat to our planet: poverty; disease; drugs; national, racial, ethnic and religious intolerance; unemployment; corruption and crime are also major threats, and in some places they have already caused havoc and devastation.

Africa in the last 35 years

At the time South Africa was forced to withdraw from the international community, much of Africa was still under colonial rule. Now with the installation of a democratic government in South Africa, almost the whole continent is free from colonial bondage and white minority rule. The only areas that are under dispute at present are the Western Sahara, occupied by Morocco; Réunion, still considered to be a department of France; Mayotte, under French occupation; and Diego Garcia with which Mauritius is seeking reunification.

But independence has not fulfilled all African dreams. Nkrumah's clarion call that 'seek ye first the political kingdom and everything else will follow' has not come to be. Instead the continent has witnessed a whole series of wars, killings and assassinations,

hunger and starvation, refugees and displaced persons, natural and man-made disasters - all of which have caused damage of enormous proportions to African society.

Debates on the development path

More than thirty-five years ago, as each African state was shaking off the colonial yoke and emerging into independent statehood, the questions facing each of them were: where do we go from here? What development path do we follow? Debates raged; sometimes heated, sometimes fierce. Socialism, African or scientific; mixed economy or *laissez-faire* capitalism; *Ujamaa* or *Négritude* were some of the ideologies propagated.

With the exception of Malawi and the Côte d'Ivoire, no African country could admit openly that it was building *laissez-faire* capitalism. Many of the African states came up with different versions of 'mixed economy' and different faces of 'African socialism'. Some African leaders such as Kwame Nkrumah in Ghana and Julius Nyerere in Tanzania, were genuinely convinced of the relevance of socialism to their societies; but many others got on to the bandwagon because it was fashionable at the time to be seen as 'socialist'. Moreover, socialism then could be used as a way of easing the pressure from the internal popular forces, and as a card to play against West and East in their ideological rivalry. By the end of the 1960s, several of these 'socialist' regimes had been overthrown via military coups.

With the decline of 'populist socialism', the 1970s saw the rise of 'scientific socialism' and the establishment of the so-called vanguard parties. Congo Brazzaville, Benin, Madagascar, Somalia, Ethiopia and Burkina Faso, all under military rule, declared themselves followers of 'scientific socialism' and in all these countries the parties hoisted by the military regimes were self-professed as 'Marxist-Leninist'. In Angola and Mozambique, where the liberation movements came to power after prolonged armed struggles, the nationalist parties were also declared 'Marxist-Leninist'. But all that is history now, because popular discontent has swept away all those military regimes. Though FRELIMO is still in power in Mozambique, the devastation caused by the South African destabilisation, the cruelty of the war with RENAMO, and pressures from the United States, Portugal, the IMF, the World Bank and others, have forced it to abandon its Marxist garb. The MPLA government in Angola, no doubt because of the peculiar situation it has been thrown into as a result of the war, seems to be reluctant to throw away its leftist posture. However, it has in its programme replaced 'scientific socialism' with 'democratic socialism', and no longer calls itself a 'Marxist-Leninist' party.

The State in Africa

The African state was very important in the development of capitalism. Not only did it direct research into the development of science and technology, but also increased the accessibility of remote areas through road, rail and sea transport. It not only decided on *avenues* for investment but also on *priorities*. The welfare programmes of the modern bourgeois state were all propelled by an interventionist state. The countries of recent capitalist transformation, the so-called Asian tigers, could not have achieved what they did without a strong interventionist state. At present it is in the countries of the North that one finds the strongest presence of the state in the economy.

The modern African state is a colonial creation. During the colonial period the colonial state did everything: it organised labour; directed it to farms and mines; compelled it to build roads and railway lines; and specified for the farming communities what to produce. At independence, the colonial state was adopted and legitimised.

Despite differing political stances of the African regimes, what was generally agreed was that the state had an important role to play in the transformation of society. And until the 1980s this position was accepted by the international financial institutions and the donor agencies; and massive support was given through the state to various development projects.

The expectations of the African masses at the time of independence and the aspirations of the new classes in power served to elevate the state to the forefront of all national endeavours. The state had to be developmentalist. It took upon itself the task of integrating into a cohesive nation different ethnic and linguistic groups, and went further into developing physical infrastructure and providing social services.

One must concede, though, that there were times when the state embarked on the construction of grandiose development projects which were of no benefit to the poor, either urban or rural. Vast public funds have either been syphoned off of the countries to private bank accounts abroad or been diverted to support the ostentatious life-styles of the ruling élites.

The hopes of the 1960s were shattered in the 1970s. With the rise in the oil price and the drastic decline of commodity prices, African economies were faced with an acute crisis. By the end of the 1970s real commodity prices were, on average, 13% lower than their levels in the 1960s. This collapse imposed a foreign exchange loss of US\$2,2 billion during 1979-81.¹

The solution, recommended at the time very strongly by the international financial institutions, was to borrow from commercial banks and to revise loans from Western donor countries. It must be remembered that, at that time, banks were overflowing with petro-dollars, and were more than willing to off-load these to whoever wanted at very low interest rates. This counsel of the 'wise' was followed religiously by African states. The result was that African countries found themselves heavily in debt. Since most of this borrowed money was not put to good use to produce more wealth, there were serious problems when it came to repaying the loans. In the 1980s these borrower countries were caught in a squeeze when debt-obligations became due at around the same time as interest rates soared.

To make a long story short: African countries are constrained by debt to the extent that they spend from US\$25 cents to US\$2 on debt servicing, for every dollar that they earn overseas. According to the UN Economic Commission for Africa, the continent paid out US\$200 billion in interest in 1983-91. This was more than the entire debt it owed in 1982. And this debt has been soaring.² By 1992 it stood at US\$289 billion. These countries cannot pay their debts. Some of these African countries have an external debt four times the value of their GNP. They have chosen between paying this debt and feeding their populations, providing desks to their school-children, fertilisers to their peasants, chloroquine and other medicines to their sick, and clean water to the rural poor. In any case, as Cheryl Payer and many others have pointed out, the dominant causes of the debt crisis are external, and Africa cannot therefore be held responsible for the debt crisis.³ But the commercial banks, the international financial institutions and creditor governments insist that these countries can, and must, pay. And the World Bank and the IMF have become the principal debt-collecting agencies.

An obvious response is thus to repudiate these debts. This will cause no ripples in the financial world. For one thing, Africa has long ago repaid its original debt. For another, the cancellation of Africa's debts will be no big loss in a world where, as Susan George observes, five times that sum can easily be lost on Wall Street in an afternoon without undue stress.⁴ Morality demands that Africa's debts be cancelled.

The economic crisis of the late-1970s and early-1980s, led to a serious crisis of political legitimacy. The solidarity and unity that was manifested during the struggle for independence and soon thereafter, was not being questioned by demands originating from different social groups. The national movements had to give way to political formations with diverse and sometimes opposing interests. It is from this background that calls for political pluralism and multi party democracy started to be heard.

IMF and World Bank Response to the Crisis

Africa's continuing economic crisis in Africa has highlighted the reasons behind such problems. While there is agreement as to the causes, there are differences as to who has been mainly responsible for the predicament. It is true that the undemocratic nature of the international economic system and natural calamities have contributed to the crisis. But what about the bad development policies pursued by different African regimes of various political colourings? Are the donor countries, aid agencies and international financial institutions also not to blame?

The IMF and the World Bank have come out with blueprints for Africa's development. These prescriptions for Africa's economic ills are known as the Structural Adjustment Programmes (SAPs).

The histories of these two Bretton Woods institutions, namely the IMF and the World Bank, are very well known. Founded in 1944, as the Second World War was coming to an end, their main mission was to revive the devastated European economies. Only with the appearance of African, Caribbean and Asian states on the international arena in the 1960s, did the IMF and the World Bank start taking an interest in the Third World. Today that interest has become an obsession. In the *Articles of Agreement*, the IMF is supposed to provide short-term loans to address foreign exchange problems and finance trade; and the World Bank's role is that of providing long-term loans for development projects. As far as Africa is concerned, the distinction between them is rather blurred, and more and more are they acting in unison, presenting an united face to Africa. According to the World Bank, the term *structural adjustment* is defined as meaning reform of policies and institutions covering the micro-economic (such as taxes and tariffs), the macro-economic (fiscal policy), and institutional intervention, designed to improve resource allocation, increase economic efficiency, expand growth potential, and increase resilience to shock.⁵ What is now required for development in Africa is:⁶

that the state foster a general sociopolitical and legal framework conducive to market relationships. An environment of security of property and predictability is basic to encourage investment; in turn, this requires political stability and a minimum degree of social harmony. Otherwise, investors cannot calculate that an investment today will bear fruit tomorrow. A legal code that protects the prerogatives of the owners and is officially respected (and hence calculable) is another element. Such a code must, of course, create and protect a unified national market by limiting the taxation power of local authorities. And it should foster a stable and rational taxation system that encourages investment. Also vital is the protection of the institution of private property through such steps as: limiting the claims and powers of employees, abolishing traditional land tenure, safeguarding the sanctity of contracts, and guaranteeing full compensation in the event of nationalisation.

The SAPs set up in Africa by the IMF and the World Bank usually have the following conditions:

- * Currency devaluation.
- * Domestic demand management.
- * Freeing of prices.
- * High interest rates and credit squeeze.
- * Import liberalisation.
- * Privatisation of state and para-statal enterprises.

As we can see these are not just economic policy measures, but are highly political too. Yet the Managing Director of the IMF argued in 1984, that 'An international institution such as the Fund cannot take upon itself the role of dictating social and political objectives to sovereign governments'.⁷ This 'package' also touches on questions of distribution in society, and yet the Fund's Director of External Relations told the governors of African central banks in 1985 'that distributional issues are so highly political that for an international institution to seek to influence these issues would be regarded by most, if not all, governments as an intolerable violation of national sovereignty'.⁸

The basic assumption in the SAP approach is that reforms will increase savings (and hence investment), productivity and exports - all of which in turn will raise the incomes of the working poor. SAPs require a greater reliance on market forces to determine prices and allocation of production inputs and finance. There are so many shortcomings to this approach. Numerous recent studies have shown the fallacy of the intellectual arguments behind such a strategy. What is important for us to note here is that the SAPs are not working. In fact these are causing more problems than this approach is supposed to solve.

Africa's relationships with both the World Bank and the IMF go back a long way. With a few exceptions such as Mozambique and Angola, most African countries joined the two organisations at independence. In some places, like mainland Tanzania, the World Bank helped formulate the first development plans, and this relationship continues up to now. This truth, that it is the World Bank and the IMF that are formulating and prescribing policies for Africa, was affirmed last year by Edward Jaycox, the World Bank's Vice-President for Africa. He told the annual meeting of the African-American Institute that the US\$20 million economic research fund allocated annually by the World Bank for research on Africa is used by Northern scholars to prescribe for Africa. It is inexplicable, therefore, that the World Bank blames a country like Tanzania for its so-called *failures* when in fact the World Bank was there and helped in formulating plans

and financing the construction of such 'failed projects'. The IMF has been in the frontline in Africa over the past fifteen years.

Almost forty African countries are implementing a SAP of one sort or another. The notable exceptions are Botswana, Libya and South Africa. Botswana is still enjoying a honeymoon with its diamonds; and no one wants to be seen consorting with Libya. Even as the imposition of a democratic government in South Africa became imminent, both the IMF and the World Bank started issuing blueprints on South Africa's economic development path. One can only say to South Africa: with 'friends' like the World Bank and the IMF, you will not need enemies!

None of the countries following the IMF and World Bank structures to the letter can show overall success. Without learning from the negative experiences of the lost decades, the Bretton Woods institutions are instructing the African countries to emphasize export promotion of primary products, privatisation, user charges, etc. None other than the United Nations Development Programme (UNDP) in the *1993 Human Development Report*, shows the fallacies of some of these directives.⁹

This UNDP report states that it is not true that private enterprise can deliver better results, for 'not all public enterprises lose money, and not all are always more inefficient than private sector firms'. This report referred to a recent study on Kenya which showed that several public manufacturing firms performed better than private sector companies according to a number of indicators. It also makes mention of the state-owned steel industry in South Korea which is among the most efficient in the world, and tells us to bear in mind that privatisation may not be the only way to reduce losses in public enterprises. This is not to say, however, that we should continue with loss-making public sector enterprises. It only cautions us that privatisation is no panacea, and if it is hastily conceived or executed, it might achieve very little. But what is important is the admission that privatisation is not merely a technocratic exercise but also a political process.

Other studies which indicate that many of the experiences of privatisation in the South are really instances of de-nationalisation. They often lead to an increase in the oligopolistic-monopolistic power of the dominant groups, whether state-owned or private. They enhance market concentration, not market democratisation.

Great emphasis is placed by the IMF and the World Bank on export of raw materials and, as part of the drive to boost exports, governments are required to raise producer prices for export crops. As a result, countries with no food security export pyrethrum, cut flowers and tobacco. In the case of Zimbabwe, the producer price mechanism, as per World Bank

and IMF advice, encouraged farmers to abandon food production and instead expend efforts on the production of tobacco and cotton. Thus even when the extent of the drought was clear and the prospect of hunger loomed very high over the country, the Zimbabwe Grain Marketing Board still exported grain, thus honouring the World Bank and IMF requirement to balance its books. Zimbabwe, which was once a surplus maize producer, ran a deficit of one million tonnes in 1991. In 1992, more than half the population required food aid assistance. Because of the incentives given to the farmers in Madagascar for the cultivation and export of corn as part of the export-oriented logic, forests are burnt in order to obtain more land. One would not be surprised if in the near future the World Bank and IMF advise African farmers to embark on the cultivation of poppy, coca or marijuana, since a hectare of such crops yields 10 to 20 times more than coffee or cotton, and demand for them is growing and the profits much higher!

The other emphasis placed by the IMF and the World Bank is in the area of trade liberalisation. In many countries this has led to the collapse of local industries. In the case of Zimbabwe, which has a stronger industrial base than any other country in the Southern Africa region except South Africa, its manufacturing output in the first half of 1993 was 19% lower than in 1992, which was in turn 12% lower than in 1991.

The effects of SAPs are keenly felt in the social services, particularly in health care, education and the provision of clean water. The following statistics speak for themselves: in 1980 there were 13 doctors per 100,000 people in Zambia; by 1985 this number had dropped to seven doctors per 100,000. Ghana's expenditure for health care dropped 47% between 1978 and 1988, while that of Côte d'Ivoire decreased by 43% over the same period. In Madagascar, the per capita spending for health care fell 400% between 1980 and 1987.

Many countries are experiencing increasing rates of infant mortality, and infectious and poverty-related diseases. And with the introduction of user fees in hospitals, more and more people are avoiding hospitals and clinics and are resorting to traditional medicines. With the inability of governments to provide new water schemes, or even to maintain old ones, high mortality rates, especially among children, is noted. In 1973, the percentage of deaths of admitted children attributed to malnutrition was 11.8%. By 1982, the percentage doubled to 22%. This increased to 40% in 1988. The poor communities have been hit hardest with the removal of price controls on essential items and the removal of subsidies on food. All this has resulted in social unrest, and we have seen what have come to be called 'IMF riots' in several countries.

In the field of education, we can see not only the present effects of SAPs, but can visualise also the long-term impacts. While the international community has recognised education as a right, it is becoming more and more of a privilege for a tiny but wealthy

minority in Africa. Take, for example, Tanzania which introduced compulsory primary education in 1974, and which since independence has provided completely free education up to university level. There has been a recent drop in the intake of primary schoolers and students leave university for non-academic reasons. This is the effect of the introduction of user fees in education. Bonard Mwape, in his study on the social and political implications of SAPs in Zambia, reports that with the introduction of fees, many children from poor families have lost their school places. The number of illiterates in Africa has increased from 124 million people in 1962 to 165 million in 1985, and now it is estimated to be over 180 million. Tanzania, which in the 1980s prided itself on having a literacy rate of over 85% - the highest in Africa - and was singled out by UNESCO as an exemplary case, now has a literacy rate below 70%.¹⁰

Ghana: The illusion of success

Is there no 'success story' then? Ghana has been paraded as one illustration in sub-Saharan Africa. An article in *The Washington Post* of 7 September 1992 quoted a Western diplomat as saying, 'We need a winner in Africa, and we are all hoping that Ghana is the one'.

Since 1983 the country has adopted an Economic Recovery Programme (ERP). It is one of the longest-running IMF/World Bank-sponsored programmes in Africa. Ghana has unquestioningly followed all the classic IMF edicts: liberalised consumer prices, reduced and rationalised import duties and trade taxes, several devaluations of the currency, improvement of the banking system, establishment of the stock exchange, liberalisation of the foreign exchange and the foreign exchange market, elimination of several subsidies and tax structure reform. But the result is far from impressive. There has been no substantial investment, and most of what has come in is concentrated in the gold mining sector; the remainder is geared towards profits. Despite an improved banking system, many people are holding their savings outside its banking system. The divestiture programme is not yet a financial success, and privatisation has not adequately stimulated the local capital market or attracted the interest of domestic and foreign investors to the extent expected. Devaluation, cuts in wages and public spending has resulted in an increase in malnutrition, disease, unemployment and adult illiteracy is on the rise. When the minimum daily wage of 218 cedis was announced in 1990, the Ghana Trade Union Congress calculated that an average family needs 2,000 cedis a day for food alone.

By the end of 1990 Ghana had received and disbursed over US\$1,75 billion in World Bank loans and credits. Ghana has been one of the most favoured aid recipients in the

developing world, having received US\$1,35 billion from the IMF and US\$8 billion for other bilateral and multilateral sources. In 1988 Ghana, with a population of 16,5 million, was the third largest recipient in the world of credits from the International Development Association, surpassed only by India and China with a combined population of two billion. After nine years of ERP, Ghana's total external debt has risen from US\$1,4 billion to almost US\$4.2 billion; current investment and savings are too low to sustain the GNP growth rate (in the absence of foreign funding), and capital flight has become a serious problem. Whenever the World Bank and the IMF speak of Ghana's 'success story', they often refer to a real GDP growth rate which averaged 3.88% annually between 1983-90. Yet this is less impressive when set against a background of an annual population growth of 3.1% and a huge inflow of foreign exchange from donors. All indications are that the long-term prospects for Ghana's recovery are bleak. None other than Ghana's Head of State himself, Jerry Rawlings, stated in a 'New Year Message to the Nation' in 1990 that 'Ghana's economic recovery programme has not solved the country's economic problems as its gains have yet to be felt in most households and pockets'. And this was further confirmed by the *UNDP 1993 Report* which states that the statistics on Ghana show clearly that the 'so-called success story has not yet been translated into improved living conditions for the majority of the people'.¹¹ With some luck, Ghana might, by the year 2000, be able to attain the levels of output which it had in 1960.

But this is not to say that there are no people in Ghana who benefited from SAP. These include:

- * Top executives in the public services, who, owing to the technocratic demands of the SAP, are called upon to attend numerous conferences, workshops and seminars and are also engaged as consultants and advisors.
- * Top executives in private business who deal with foreign capital and have benefitted from the injection of foreign exchange in the economy.
- * Local agents of foreign business and institutions providing specialised services such as hotel and advertising agencies.
- * Beneficiaries of divestiture measures who are able to buy up or buy into state-owned enterprises.
- * Large land-owners and big-time commercial farmers who benefit from higher producer prices and other incentive packages.

The Politics of SAPs

What then, are the politics behind SAPs? It has been pointed out that the main object of the SAP is to reintegrate the African countries into the global capitalist economy, but only within narrowly defined roles. The intention is not to turn Nigeria into another Japan which will compete with the US, but to turn most African countries into the role of suppliers of primary products for the world market. The second object is to dismantle state control of the economy and reduce the role of the state. The intention is to confine the state's role to the maintenance of law and order; and as Sandbrook has implied, the state is required to prepare the grounds for the raping of the continent. The third purpose is the extraction of surplus through various mechanisms.¹²

Africa at the Crossroads

Years of SAPs and World Bank and IMF policies in Africa have not lessened the economic and social hardships of the African societies. The OAU Secretary-General, Salim Ahmed Salim, has illustrated the point:

- * Between 1981 and 1990, the number of LDCs in Africa rose from 21 to 28.
- * Between 1978 and 1988, the GDP dropped from 3.0% to minus 0.7%.
- * The deficit of Africa's balance of current accounts rose from US\$3,9 billion in 1978 to US\$20,3 billion in 1988.
- * External debt rose from US\$48,3 billion in 1978 to US\$230 billion in 1988 and stood in excess of US\$260 billion in 1990.
- * The increase in unemployment rose from 5.3% in 1980 to 13% in 1990.

In most countries implementing SAPs, the result has been increasing poverty. The World Bank's report on *Implementing the World Bank's Strategy to Reduce Poverty* has admitted that even with the use of optimistic growth projections, poverty in sub-Saharan Africa will continue to worsen during the 1990s, as it has throughout the 1980s. Restructuring in the private sector has led to retrenchment of millions of workers.¹³ A recent study done by the Organisation of Rural Associations for Progress in Zimbabwe illustrates how SAPs exacerbate agricultural problems and undermine efforts at promoting food security. In Mozambique most found themselves cumulatively poorer as the first SAP unfolded from 1987-89. The word at the grassroots was that the SAP brought to the

cities the suffering that RENAMO created in the rural areas. Already in 1987, former Zambian President, Kenneth Kaunda, was referring to structural adjustment as 'a killer programme that has brought misery to many Zambians'. And in 1990, the Mozambique Christian Council lamented: 'They say that the economy is recovering - but the damages that this entails... Economic growth implies thousands of children dead. Countless families without any means for supporting their children.'

The policies of the 1960s of the founding fathers of Africa's independence movement and those of the 1980s of the international financial institutions have all exposed our inability to organise internal political and economic policies which would make African countries economically self-reliant. A continent that has all the potential of feeding itself now depends on food hand-outs. The export-led strategy has not worked, and all indications are that it will fail. If these trends continue, we will see, as Susan George has put it, the continent being 'force marched' into the 21st century.¹⁴ I suggest that we will see the further marginalisation of Africa with the continent becoming a periphery of the periphery.

Some people looking at Africa's predicament think that a Marshall Plan for Africa could be a solution; or that Africa can imitate the so-called Asian tigers. It is unlikely that such options are available to us. Global capitalism itself is in a deep structural crisis, and the West does not have the political will nor the resource capacity to remove Africa from its predicament. As I stated before, the idea has never been to let Africa develop into another Japan. The Asian Tigers option is also not available for the simple reason that the international context in which those societies developed, in particular the Korean and Vietnamese wars, is no longer there. Those societies developed precisely in the kinds of conditions which are now denied by the World Bank and the IMF to African countries.

Nor should we think that direct aid is the solution. What should be clear is that even in the post-Cold War era aid is still given with strategic and political considerations in mind. More than half of the US bilateral assistance in 1991 was earmarked for five strategically important countries: Israel, Egypt, Turkey, the Philippines and El Salvador. With a population of 116 million and a per capita income of only US\$210, Bangladesh received less US assistance than El Salvador with 5 million people and a per capita income of US\$1,000. Egypt with an income twice that of India received in 1991 aid worth US\$370 per person, compared to US\$4 per person for India. As most observers of development assistance know, most of the aid returns to the donor countries in one way or another. Of the US\$15 billion in technical assistance given to the developing countries, most of it was spent on equipment, technology and experts from the industrial countries. No serious effort has been made at national capacity-building in developing countries.

What are the alternatives?

Various studies on general economic and social trends in Africa, and of individual African states, have shown that SAPs are not working. If anything they are in fact exacerbating the problems in Africa. These programmes cannot resolve the legacy of underdevelopment. As the deposed former President of Algeria, Ahmed Ben Bella, has stated: 'although colonialism only died yesterday, officially at least it weighs still heavily, crushingly, on our future and we have not finished dressing its wounds'.

Everyone agrees now that food security is very important in maintaining political independence. Africa must feed itself, though this cannot be achieved through dependence on the hoe and by leaving the individual peasant to fend for himself. State intervention in agriculture is necessary.

Countries of the North subsidize their agriculture at the rate of US\$200 billion annually. Norway alone in 1993 spend some US\$1,9 billion state subsidy for agriculture. The European Union spent 60% of its 1992 budget on the Common Agricultural Policy. Where then is the rationale in demanding that African countries, for whom even food security is still a dream, should abolish subsidies on agriculture?

Market forces seem to be the fashion now, but can market forces market development and alleviate poverty? Do markets know equity?

The democratisation process taking place in Africa at present is a positive development. But it should not end with the establishment of multipartyism and the right to elect who should rule. Democracy is all-embracing, and its human rights criteria include the right to life, food, work, education, health and so on. It requires a political culture of tolerance and an atmosphere in which a 'hundred flowers blossom and hundred schools of thought contend'. The state cannot shirk from its responsibilities. The insistence, therefore, by the World Bank and the IMF that the African state is 'overburdened' and should be stripped to a skeleton, cannot be supported.

African politicians, planners and economists must understand that *development* is not the copying of the production and consumption patterns of the North or replication of the experiences of Japan and the Asian tigers. Development is not a mere technical and administrative process, it is also a political process. Democratic development in Africa is about bread and shelter, chloroquine and *kitenge*, schools and clean water, better roads, and state intervention in agriculture. It means involving the majority of our people in definition and control of political issues and the political process, in the decision-making over resource allocation, policy design and execution. The outlines for that kind of strategy cannot be found in the documents from the IMF and the World

Bank, but in the *African Alternative Framework to Structural Adjustment Programme* adopted by the UN Economic Commission for Africa (ECA), the *Lagos Plan of Action* adopted by the OAU, and the recommendations of the report of the South Commission, *The Challenge of the South*. The philosophy behind such a strategy is self-reliance, national independence and regional co-operation.¹⁵

Conclusion: Lessons for Africa?

The ANC, founded in 1912, is the oldest nationalist movement in Africa. It has in front of it more than forty years of experience of Africa's independence movement. One hopes that the ANC would be able to avoid Africa's past mistakes. Both the IMF and the World Bank have already come out with studies on South Africa, and have no doubt prepared blueprints ready to give to the new government. But as Dot Keet informs us, every policy for South Africa is diplomatically being 'pre-cooked and served up in such a way as to cause the minimum of controversy, much less trigger protest' against the Bretton Woods institutions.¹⁶ If the ANC-led government is to be heavily involved with the IMF and the World Bank, it would not be hard to imagine, as Patrick Bond predicts, the 'enormous power exercised over the South African economy from Washington'. If that happens, South Africans may as well forget about the Reconstruction and Development Programme.

By way of conclusion, one should note the words of former Tanzanian President Mwalimu Julius Nyerere:

Nothing which I have said should be allowed to leave the impression that Africa's problems can be solved easily, quickly, or without great pain and some sacrifices - especially for those of us who have grown accustomed to living in the economic South as if we were citizens of the economic North.

Endnotes

This chapter is based on the Tenth Bradlow Lecture delivered by Professor Othman at SAIIA, 4 May 1994. The footnotes have been prepared by Anthoni van Nieuwkerk.

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Aid and Poverty in a Time of Rapid Change

Tony German and Judith Randel

Introduction

This chapter is based on the perceptions of Non-Governmental Organisations in each of the world's 21 major donor countries who contribute to the annual *Reality of Aid* report. These NGOs start from the view that aid ought to be about the sustainable reduction of poverty. Their experience is that building human capacity, investing in the hard work and productivity of poor people, can have impressive results.

Historically, aid has been a battleground between commercial, foreign policy and sustainable development interests. It is now under pressure. It is reducing in volume, increasingly being spent on humanitarian relief and having to find resources for new needs in Central and Eastern Europe and indeed in the donor countries themselves. In times of recession, the need to promote exports and the opportunity for hidden subsidy offered by aid, increases the pressure to use Official Development Assistance (ODA) to support commercial ventures.

In addition to explaining how the stated commitment of donors to poverty- focused aid has, as yet, not resulted in a reorientation of aid efforts towards the poorest, the chapter underlines the danger that public support for aid will be eroded if aid is not allocated to human priorities.

The chapter also argues that aid is not a panacea. Alone it cannot reduce poverty or trigger economic growth. Indeed in some circumstances it may have helped to postpone necessary reform. But used as a catalyst, aid can enable poor countries to invest in their human resources and infrastructure in a way that will help to attract investment. For countries trying to adjust and integrate themselves into the global economy - often struggling with a huge debt burden - aid can help to underpin policy reform and provide a critical source of finance for social safety nets.

A few countries have now graduated from being substantial aid recipients. Indeed some, such as South Korea, have become aid donors themselves. Others especially in Africa, are likely to need aid well into the next century, because they will simply not be able to mobilise adequate resources without development assistance.

As economic globalisation continues and as issues such as migration, drugs and nationalism come increasingly to occupy the agenda of the international community, so the distinction between aid and foreign policy becomes blurred. This chapter suggests that these challenges, added to the needs of more than a billion people in poverty, reinforce the case for a more energetic and coherent approach by the donor community to human security and the imperative of poverty reduction.

The Significance of Aid

A substantial increase in the resources for fighting poverty in the poorest countries appears entirely affordable. It is a matter of political commitment and the reassessment of donors' priorities.¹

AT US\$60,4 billion, Official Development Assistance represented just over a third of the net flow of resources from Development Assistance Committee (DAC) countries to developing countries in 1992.² But the importance of ODA to individual recipient countries varies considerably.

Generally speaking, aid flows remain very critical in sub-Saharan Africa, where they represent on average over 13% of GNP. Aid represents over 90% of GNP in Tanzania and Mozambique, 43% in Uganda and 16% for the 8 countries of the Sahel. By contrast figures for aid receipts as a percentage of GNP is less than 1% of India and only 6.5% in Bangladesh, although for Cambodia, Laos and Vietnam, aid was over one third of GNP in 1991-92.

| Estimated Effects of Trade Barrier Liberalisation in OECD Countries on Developing Country Exports ³ | |
|---|--|
| Aid Receiving Country | Projected percentage increase in exports as percentage of 1991 ODA |
| Bangladesh | 46 |
| China | 568 |
| Haiti | 214 |
| India | 188 |
| Jamaica | 282 |
| Malaysia | 423 |
| Pakistan | 126 |
| Philippines | 229 |
| Sri Lanka | 430 |
| Thailand | 623 |

Globally, aid flows are dwarfed by trade. As the above table shows, improvements to the world trade regime, and to trading relations between developing countries and both individual donors and trading blocs such as the EU, could bring far greater benefits to poor countries than increased aid.

But while the potential benefits of trade liberalisation to developing countries such as the Philippines, Sri Lanka and Jamaica are very substantial, the present reality is that for many countries, aid flows are still a critical addition to current export earnings. In 1987, aid receipts for many Low Income Countries were substantially greater than earnings from exports to OECD countries, while in countries such as Kenya, Pakistan and India aid, at 60%, 18% and 12% respectively, still represents a significant resource flow in relation to OECD exports.⁴

While the fast growing economies of Asia and the Pacific Rim are now able to secure substantial amounts of foreign investments, most low income countries, and in particular countries in sub-Saharan Africa, are very heavily dependent on aid flows. A recent UNCTAD document commenting on aid noted its 'indispensability in poor countries unable to mobilise sufficient domestic resources on their own'.⁵

Aid is, and is likely for the foreseeable future to remain, the main source of external finance available to fund policies and programmes designed to address poverty directly - including the provision of basic needs and the promotion of income generating activities for the poor. But in addition, aid can play an important (and unique) role in helping to encourage and support progressive broad-based growth policies aimed at poverty reduction.

The IMF asserts that one of the factors critical to economic growth in Asia and the Pacific has been the high level of human development. The *1990 World Bank Poverty Report* underlined the need for investment in people below the poverty threshold to ensure that they participate fully in economic growth and share in its benefits. NGOs would like to see an increasing proportion of aid directed away from large-scale capital investment (which can attract commercial finance) and towards investment in human potential, in education, health and population.

Aid has a critical role to play in areas such as promoting small-scale enterprise among low income groups. It can be effective where market mechanisms are not yet adapted or sensitive enough to address need - for instance in the provision of small-scale credit.

The Dutch Government has recently highlighted the need for investment in the poor so as to increase their effective demand and bring about a virtual circle of economic growth.⁶

In this regard,

It has long been assumed that the fight against poverty is just a matter of providing assistance and simply costs money. Gradually, however, the realisation has dawned that reducing poverty can make a real contribution to economic growth... If their productivity is increased, the poor can be better paid for their labour. And better pay increases their effective demand. Enlarged demand of this kind may often in turn benefit other poor people in the neighbourhood or village concerned. Supply and demand will often have to be developed in the form of a spiral. In this process, the growth of demand from the neighbourhoods or villages where the poor live will be just as important as external demand for the products and services of the poor.

Throughout its history, aid has been used as a crude makeweight to tip the balance and win a contract. Donors frequently assert that poverty reduction will not occur without economic growth, but give little attention to the crucial issues of what sort of growth is most favourable for poverty reduction and to how the capacity of poor people could be harnessed to the achievement of economic growth.

In the future aid should play an increasingly valuable catalytic role. It should help to articulate the needs of the poor and to integrate them into the mainstream of economic activity, fostering local economic development and growth. By financing investment in human resources it can enable poor people to fulfil their own potential and use their productive capacity to achieve their own development. By enhancing human capacity, aid can enable poor countries to attract direct foreign investment.

The Impact of Recession on Aid Volume

In 1993 the DAC reported an increase in aid from DAC donors of just 0.5% in real terms between 1991 and 1992 to a figure of US\$60,4 billion. It seems that even this modest increase may overstate the case and that the era of slowly increasing aid allocations is coming to an end.⁷ In this, the performance of individual DAC donors was mixed, with twelve showing aid increases and nine registering decreases between 1991 and 1992. As a percentage of DAC GNP the 1991 figure was unchanged at 9.33%.

But the latest figures and forecasts from NGOs suggest that aid levels, and with them the prospects for the poor, are about to be hit hard by a combination of concern to cut public expenditure in the OECD countries and increasing calls on DAC members for assistance, which they are choosing to meet from more or less static aid budgets. NGOs who have looked at aid spending for 1992 and 1993 and aid plans for 1994, now expect in real terms a fall in volume or GNP percentage for the majority of DAC donors: Australia, Austria, Belgium, Canada, Finland, Germany, Italy, Netherlands, Norway, Sweden and the UK. Only four countries present anything like an optimistic picture.

Japan, which delivered on its last target to disburse US\$50 billion, has now set a target to spend between US\$70 billion and US\$75 billion over the period for 1993 to 1997. Since Japan currently provides almost one-fifth of DAC aid, this commitment is very significant and may well have the effect of masking a declining performance by other donors.

In addition to Japan, only three other donors - Denmark, Ireland and New Zealand which together account for just 2.6% of DAC aid - have presented plans which avoid a decline. Denmark's commitment to 1% of GNP is being maintained, with Ireland and New Zealand the only countries reporting potential increases. In Ireland, the Government appears to be sticking to its programme of an annual 0.05% increase leading to a target of 0.4% of GNP by 1997, and NGOs report that New Zealand 'appears to be on the verge of moving in a more positive direction...with a recognition that aid levels cannot fall any lower'.⁸

While the statistics on future aid trends look bad at face value, they are worse still when seen in the context of steps by several donors to add into their ODA totals export credit bad debts and items such as the donor country costs of assistance to asylum seekers. In 1990, only five countries counted debt forgiveness for non-ODA export credits in ODA totals. But by the end of 1992, the number of countries including these sums had increased to ten and the total amount had increased six-fold to US\$1,319 billion - equivalent to the whole of the Danish aid programme or 2.2% of DAC aid. In Norway over US\$80 million is being set aside for the care of foreign refugees, more than 6% of total ODA. In Finland, refugee costs now take more than 20% of ODA. Across the DAC, care for asylum seekers and export credit forgiveness now account for 5% of ODA.

At their December 1993 High Level Meeting, DAC members expressed continued commitment to improving their aid volume performance. Yet such statements of intent contrast sharply with what is actually happening in donor countries. In 1993 Ireland and Denmark set or reaffirmed previously targets. Other donors have explicitly broken pledges or effectively abandoned GNP targets. The Australian Labour Government's pledge to reach 0.4% by 1995 was broken within six months of the election. Now it is aiming for 0.4% 'as soon as possible'. In Austria the government no longer quotes the target. It states the volume of aid that would be necessary to reach DAC average. Canada reports that the target of 0.7% was virtually jettisoned by the last government. Thus, taken as a whole, the prospects for aid volume in the mid-1990s appears bleaker than at any time in the history of development assistance.

Scarce Resources, New Choices: The Rise in Spending on Humanitarian Relief and Peace-making

Helping to prevent and alleviate conflict and repair its ravages has become a primary interest for the donor community.⁹

It is clear that a growing share of ODA is now being devoted to relief spending. In 1988 2.26% of DAC members' bilateral aid was spent on emergencies and relief. In 1991 it was over 7%. Emergency aid has risen from 2% of Netherlands bilateral aid in 1988-89 to over 10% in 1992. Germany spent US\$36 million on emergencies and relief in 1988. In 1992 the figure was US\$680 million.

According to the International Federation of the Red Cross (IFRC) the average number of people affected by disasters (man-made and natural) has risen from an average of 50 million per year in the early-1970s to 125 million in the early-1980s and 250 million in the early-1990s, with over 320 million affected in 1991. Refugee numbers have more than doubled to 17,5 million over the decade to 1992 and in the same year the number of internally displaced people stood at 24 million in 31 countries.

The reason for the dramatic rise in the numbers of people affected by conflict and disaster are complex. A primary reason is poverty itself. As the number of extremely poor people in the world has risen (from 770 million in 1975 to 1 billion in 1990), so according to the *World Disasters Report*, many more people become vulnerable to and victims of natural disaster and environmental deterioration. But in addition to increased poverty, according to Stockholm International Peace Research Institute (SIPRI) the extent, duration and complexity of conflict, particularly internal conflict has increased worldwide, as has the extent to which civilian populations are affected by such disputes. The impact of the end of the Cold War has been mixed. It has hastened the end of some disputes but exacerbated others. It has broken the logjam in the Security Council, and resulted in increased UN activity, but it has also lifted the lid on a number of underlying tensions (such as in the Balkans) and left an enormous supply of cheap arms readily available.

The Case for Spending on Humanitarian Security

Two important points should be made here. More and more, NGOs are being called upon to play a critical part in implementing relief programmes in areas of instability. They are also heavily involved in the aftermath of war and disaster, helping families and communities to rebuild their lives. Many are deeply concerned that increasing

provision for humanitarian relief is being found from aid budgets to the detriment of long-term development programmes. NGOs are committed to helping those in acute need, but do not feel it is acceptable that the needs of the destitute in emergencies should be met at the expense of people living in chronic poverty.

To a considerable extent, 'the cost of not acting, of having to deal with the global impact of imploding societies and failed states, will be far greater than the cost of effective action'. Investment in development is investment in prevention.¹⁰

NGOs therefore believe that there is a strong case for the increasing costs of instability and acute need to be met from outside existing aid budgets. DAC members have decided that for the time being the present arrangements, whereby peace-keeping costs are excluded from ODA, should continue. This is a welcome decision. There is a need now for serious attention to be given to a new definition of security, which recognises the threats to all, not just from conflict, but from poverty and environmental decay. 'The basic line of division in the world today is no longer between East and West', it is determined, says SIPRI, 'by the growing economic gap between North and South - between the worlds of the rich and the poor'. The case for military spending to be translated into spending on humanitarian security is overwhelming.

Aid to Central and Eastern European Countries (CEEC) and the Newly Independent States (NIS) of the former Soviet Union

Aid disbursements to the CEEC and NIS amounted to US\$8,1 billion in 1992 - equivalent to over 13% of aid to developing countries and a marginal increase on the 1991 figure of US\$7,8 billion.¹¹

Germany was by far the largest donor, contributing US\$3,9 billion - almost half the total - followed by the United States, Italy and Austria. While this support is said by DAC donors to be additional, it is clear that the substantial assistance now being provided must have an impact on the availability of funds for developing countries. Austria gave 0.22% of GNP in aid to the CEEC and NIS - US\$412 million compared with its ODA of US\$556 million. In the Netherlands there has been a major shift in the orientation of government policy towards the CEEC and the NIS since 1993. Not only have the DAC developing countries of Albania and the five republics of the former Soviet Union become the responsibility of the Minister of Development Co-operation but also three countries not yet identified by the DAC as developing: Bulgaria, Romania and Moldavia. 'Countries in Transition' have become one of the priority groups for Dutch co-operation.

A decade ago, before the end of the Cold War brought these new demands for aid, DAC members were providing 0.35% of GNP in ODA to developing countries.¹² At their High Level Meeting in December 1991, donors noted the 'strong competing financial demands' from the former Soviet bloc, and recognised that 'given the strong efforts towards democratisation and economic policy reform throughout the developing world, substantial additional aid efforts will be required both quantitatively and qualitatively'. Since then, donors have managed to find 0.04% of GNP to devote to the CEEC and NIS with Russia and Poland as the main beneficiaries, but they have allowed aggregate aid to stagnate at 0.33%, lower than it was ten years earlier.

Resources are scarce, and a real choice has clearly been made. With a few exceptions, donors have not chosen to increase their development assistance to low-income developing countries where it is needed most. They have found resources, both financial and human, for development in Central and Eastern Europe and the NIS.

The Multilateral/Bilateral Balance

As the pressure on aid budgets grows, so governments must, increasingly, make choices on spending.

An area where the 'aid pinch' does seem to be causing concern among donors, is in the balance between bilateral and multilateral commitments. Multilateral obligations, especially those such as EU contributions, which are locked into a pattern of growth, can sometimes appear to be a cuckoo in the nest, in the context of stagnant or falling aid budgets - squeezing out bilateral priorities.

In many countries, payments to multilateral organisations are being scrutinised as never before and donors are examining their contributions to different multilateral agencies on a case by case basis. Australia is concerned that payments to development banks are at the expense of aid to other areas such as refugee and women's programmes.

In Austria, Norway and Finland there has been about the potential impact of joining the EU on bilateral aid. In Finland, for example, EU commitments would represent about one-third of aid for 1994. Aid from Denmark and Belgium to UN agencies will be increasingly dependent on the quality of their work. The German Parliament has suggested putting a ceiling of 30% on multilateral contributions and has also suggested that German companies should get a share of contracts under the European Development Fund (EDF), proportionate to Germany's 27% contribution. But it is in the UK where concern may be highest - as EU commitments push multilateral spending over the 50%

threshold, raising concern about the long-term viability and indeed survival of a meaningful bilateral programme.

The question is whether the choices that donors are making are good or bad news for poverty reduction.

In general, multilateral aid is better targeted on the poorest countries than bilateral aid, with 90% of multilateral, compared to 60% of bilateral aid, being devoted to low income countries in 1991. But the picture is complicated. Some bilateral donors, such as Sweden and the UK, devote 80% of their aid to low income countries whereas for others such as France, the figure is half that amount.¹³ Neither is it sensible to generalise for multilateral agencies as a whole. The impact of changes in donor contributions to the World Bank and the EU, for instance, will be very different. NGOs in Finland and Sweden have commented with concern that UN agencies are taking the brunt of cuts, with contributions to the World Bank relatively protected.

In theory, multilateral aid ought to be more insulated from narrow commercial or political interests than bilateral aid, and it should also place less of an administrative burden on the recipient. But a recent study for Danida (the official Danish aid agency) pointed out that some bilateral donors have clear comparative advantages over multilateral agencies in the area of directly targeted projects aimed at poverty alleviation.¹⁴

For NGOs, the key issue which should determine the balance between bilateral and multilateral spending is the impact on the poor. The quality of aid management and the degree of commitment to poverty reduction are thus of greater significance than whether funds are bilateral or multilateral.

Aid and the Poor: Just Rhetoric on Poverty?

Most DAC donors include poverty reduction among their aid objectives, but very few put poverty reduction at the top of their list of priorities.

Only a minority of donors, the Netherlands, Switzerland, New Zealand, Denmark, Germany and the UK, now have written guidelines on the application of poverty-focused criteria to aid decisions. Such guidelines should mean that, for example, in the Netherlands, poverty is considered at all the different stages of aid administration. A few donors have, since 1990, taken specific and welcome steps to focus more effectively on the needs of the poor. In the UK systems are being developed to monitor aid allocations to specific policy objectives including poverty reduction. Germany has set

a target to allocate 10% of its aid to self-help projects to alleviate poverty. Danish NGOs saw the selection in 1993 of countries for Danish development co-operation as 'a triumph for poverty orientation'.

But in spite of these bright spots and a great number of assertions by donors in innumerable brochures that poverty focus is the priority, there is very little hard evidence that spending is following the rhetoric. Nor is there evidence that bilateral donors are giving poverty the sustained political commitment and attention that is necessary if most aid administrations are to become properly poverty focused.

Donors have shown in the case of structural adjustment (with mixed results), that they can identify an overriding policy objective and can act in concert so that, overtime, a particular policy approach becomes almost universally adopted. In recent years, donors have pursued human rights and governance conditionality with similar doggedness. But at present it does not seem that the donor community is prepared to put the same level of commitment behind poverty reduction. Is this because donors ultimately think that ending poverty is less desirable or achievable than other economic or political goals? It is true that many developing country governments, especially those with weak or non-existent democratic credentials, have themselves placed little emphasis on poverty reduction as a priority. But this hardly excuses the donor community for failing to make poverty a key agenda item in donor recipient dialogue.

In the 1980s donors made adjustments the overwhelming focus of their development assistance. They could and should back poverty reduction with the same level of commitment.

No Good Measure of Aid to the Poor

Very few donors make any attempt to record systematically the proportion of their aid aimed at poverty reduction. At present, the absence of an agreed definition or measurement of aid means two things. First, that governments can claim to be spending much more on aid to those in need than may be the case. Second, that in lieu of proper statistics, a variety of proxies have to be used by anyone wishing to compare donor performance on poverty: geographical distribution, sectoral allocation and such comparisons as aid to basic needs or aid to social priorities.

None of these measures uses a common definition and the huge variation suggests that none is a very reliable estimate of aid spending on poverty reduction. A real accountability gap exists which needs to be filled.

Geographical Allocation

The geographical allocation of aid is one indicator of poverty orientation but it is a fairly crude one. Reaching poor countries does not necessarily mean reaching poor people. Many donors claim to have strong poverty focus on the misleading basis that their aid goes to the poorest countries - but within those countries their aid may provide no direct benefits to the poor at all.

Overall, DAC donors allocated around one quarter of their aid to the Least Developed Countries in 1992, compared to roughly one third of their aid to LDCs a decade earlier.¹⁵ Aid to sub-Saharan Africa rose over the decade 1981 to 1991 from 33% to nearly 37%, though very recently, its share of total ODA has declined, as aid flows to Africa as a whole have fallen sharply since 1990.

Aid to South Asia, where the world's largest concentrations of poor people live, has fallen substantially over the same period from 23% to 14% of DAC aid.¹⁶ In 1991, just 60% of total net ODA disbursements were allocated to low income countries.¹⁷

Several major donors, including Austria, Switzerland, Canada, United Kingdom, Belgium and the EU, provide development assistance to more than 100 recipient states. Perhaps surprisingly, there is little evidence to date that donors are reducing the geographical spread of their aid in response to reduced budgets. The shifts in geographical emphasis which are taking place seem to be driven by a variety of other factors including governance conditionality, economic policy reform, poverty orientation and even a willingness to repatriate nationals who are living illegally in the donor country. It is difficult to see how such wide distribution of aid can be justified by donors on the grounds of efficiency or effective focus on poverty (although it is easy to see how it brings political and commercial benefits).

Chad receives aid from 12 bilateral and 8 multilateral donors, all operating different procedures, all requiring the completion of different forms, all with slightly varied conditions (see table below). From the point of view of improving donor coherence, and the need to assist recipient states to absorb and manage aid effectively, there must be a strong case for donors to work together to reduce the number of states they assist, and focus on areas where they are able to make a particular contribution.

| Number of Bilateral and Multilateral Donors to Selected LICs in 1991 ¹⁸ | | | |
|--|--------------------|------------------|---------------------|
| | Total ODA received | Bilateral Donors | Multilateral Donors |
| Gambia | \$ 100.6m | 15 | 10 |
| Burundi | \$ 254.2m | 14 | 10 |
| Nepal | \$ 453.5m | 16 | 11 |
| Indonesia | \$5225.9m | 13 | 12 |

Sectoral Allocation

Just as geographical allocation can only provide a very broad picture of aid to poverty, so sectoral allocation figures are also an unreliable means of seeing whether the poor are likely to benefit from aid spending or not. A look at recent sectoral financing decisions under the EU Lomé Conventions shows how misleading the sectoral information can be. Rural feeder roads are counted as 'Agricultural and rural development' when analysed by economic sector (which looks at the target of aid), but they are counted as 'Transport and communications' when analysed for content by technical sector. To the lay person, 'Agriculture and rural development' sounds much more poverty oriented than 'Transport and communications' but in fact the project might be exactly the same. The key issue is - who benefits from the road? This underlines the critical importance of evaluation and, in particular, *distributional evaluations* which focus on which income groups are the main beneficiaries.

Even where aid is allocated to a human priority such as education, there is no guarantee that it will provide help to those most in need - in fact the probability is that it will not. A recent analysis showed that only three DAC donors - New Zealand (63%), Sweden (53%) and the USA (42%) - spent more than one quarter of their education aid on basic education and adult literacy - the type of education most likely to be important to poor people. Several major donors, including Canada, Germany, Japan and the UK spent less than 5% of aid on education in these areas.¹⁹

Basic Needs and Human Priorities

Basic needs remain a powerful concept in aid. Many countries use it as a category within their ODA. However, problems of definition apply to this as well. For instance Japan has a category called 'Basic Human Needs' which purportedly gets 33% of total ODA. This covers social infrastructure, agriculture, rural development, food aid and emergency relief. But education is skewed to higher education, health to modern hospitals and agriculture to high input methods.

In 1992, UNICEF estimated that 12 DAC donors spent an average of 9.3% of their aid on basic needs. In 1993, UNDP quoted a figure of 6.5% as the OECD average for aid to social priority areas. When geographical and sectoral information is looked at in the context of reports from NGOs, these low estimates of aid to poverty priorities do not seem out of line - and yet they are often rejected by governments, many of whom make little or no effort to produce more accurate data.

There is a clear need for the donor community to develop an agreed definition of poverty and clear standards by which the allocation of aid to the poverty sector can be measured. Developing these should become a priority for the DAC.

Conditionalities and the Poor

The extent to which donors prioritise poverty reduction in their policy statements is not just a question of semantics: policy statements affect the way in which aid administrations make choices, for example between funding a project which is backed by a strong domestic commercial lobby and a project which benefits the landless poor.

A 1992 study of donor conditionality²⁰ showed both a proliferation and diffusion in donor objectives. Of the ten most commonly articulated donor aid priorities, the top three agreed upon by most donors - efficient economic management, environmental protection and human rights and the rule of law - did not include poverty reduction. NGO reports confirm that policy statements and guidelines frequently fail to establish a clear hierarchy of priorities in favour of the poor. They contain many inconsistencies and change frequently. The result is aid administrations which lack a clear sense of direction - and a series of shifting goalposts for recipient states to aim at.

When considering conditionality and the extent to which donors actually follow through their stated policy commitments, it is instructive to look at two recent policy pre-occupations - governance and gender - to see what lessons might be learned which might enable donors to focus effectively on poverty reduction.

The need to address the development needs of women and the role of women in the development process has been axiomatic for many years. Many donors list women in development (WID) or gender issues as a priority concern. Gender training is available in almost every donor aid administration and is mandatory in about a third. In the Netherlands and Germany, WID officers can veto project proposals which are returned because inadequate attention has been given to WID aspects. In Canada, Denmark, Japan and Norway overseas missions have WID officials. Bilateral donors now report

on WID to the DAC, whose *Principles for Effective Aid* manual lays out agreed good practice on WID issues. But does all this welcome action by donors mean that global aid flows have been substantially reoriented to reflect the needs of women in developing countries who still shoulder the bulk of the development burden? Clearly not. The fact is that some priorities are more equal than others.

Governance, democracy and human rights issues have moved swiftly up the donor agenda since 1990, with Norway and Sweden recently joining the list of donors stressing good governance. There are now numerous examples of donors halting aid on human rights and governance grounds: Sudan, Sierra Leone, Zaire and Myanmar (Burma) are among the countries which have had aid withdrawn. Some countries, such as Kenya, have had aid suspended on governance grounds, and then satisfied the donor community enough for it to be restored.

In other cases, notably China and Indonesia, a mixture of political weight and commercial potential seems to have persuaded many donors not to suspend aid, helping to reinforce the impression of a rather selective approach to implementing governance criteria. German NGOs suggest that the government may be quicker to react on governance in an African country where Germany has limited interests, than in the case of a country such as China whose economic significance is much greater.

DAC members have recently released a new set of donor orientations on participatory development and good governance.²¹ This is a welcome step towards increasing transparency which should help to ensure that governance criteria are applied consistently.

One of the issues addressed in the DAC orientations is military spending in poor countries. While Japan and the Netherlands both state that military spending will be a factor in determining aid allocations, many other donors have not chosen to place great emphasis on this issue. The *Reality of Aid 1993* highlighted NGO concerns about the extent to which development co-operation policies were often undermined by other donor policies such as the promotion of arms exports. It is therefore encouraging to see specific references in the DAC orientations to the need for donors to address this issue.²² It is interesting to note from the table below, that in 1990, the value of arms exports to developing countries from the UK, USA and France respectively were equivalent to 37%, 38.6% and 15.4% of overseas aid.²³

| Arms Exports to Developing Countries as a Percentage of ODA 1990 and 1991 Average | | | | | | | |
|---|----|--------|---------|-------|-------------|-------|--------|
| USA | UK | France | Germany | Spain | Netherlands | Italy | Sweden |
| 38.6 | 37 | 15.4 | 7.0 | 4.8 | 4.4 | 3.1 | 0.25 |

The Poverty Challenge Facing Donors

A great deal of progress has already been made by multilateral agencies such as IFAD, UNICEF, UNDP and the World Bank, towards analysing poverty and developing strategies by which it may be reduced. It is clear that implementing such strategies will present enormous challenges to both donors and recipient states. Of course the primary burden will fall on developing countries themselves. Without their commitment to reducing poverty, the international community can do little. But the challenge to donors is to support the efforts to developing countries by placing poverty reduction fairly and squarely at the heart of their aid policy - and to translate their policy statements into changes in practice. The difficulties of doing this should not be underestimated, as the experience of the World Bank shows.

The 1992 *Wapenhans Report* was commissioned by the World Bank because of a widespread view, supported by the data, that the Bank was not achieving its objectives. Wapenhans recommended that a fundamental cultural change was needed if the Bank was to understand and focus on its development impact and to learn from what really works and what does not. This change would depend on sustained leadership from management; incentives, recruitment and career paths designed to reflect the Bank's concern with development impact; better project analysis and appraisal methodology and, fundamentally, attention to actual development impact.

While some bilateral donors have particular strengths in areas such as health, education, population or small-scale enterprise, few if any would claim that they have the in-depth capacity in poverty reduction which would equip them to make poverty the central theme of their co-operation with recipients of bilateral aid.

Therefore, if donors want to fundamentally shift their aid programmes into line with the broad consensus that has emerged in favour of the *twin-track* strategy of labour intensive growth, investment in human development, plus social safety nets, they will have to contemplate major change. This would involve a re-orientation of aid agency staff towards poverty, a refocusing of aid towards countries pursuing credible poverty reduction strategies and a reassessment of policies and procedures which contain a

bias against poverty reduction (for instance aid tying and the reluctance of donors to fund recurrent costs).

Public Opinion

Recently, donor attention has been focused on the issue of public support for aid - with some donors suggesting that it will be difficult to increase or even sustain aid budgets if aid fatigue becomes widespread. Some donors, notably the EU, appear to be talking down expectations for future aid levels on the basis that public support is on the wane.

This picture of universal aid fatigue and substantially falling public support for aid is not borne out by opinion polls and NGOs' direct contact with the public. Public support still far outstrips criticism of aid although in some countries recession appears to be increasing people's preoccupation with domestic need and therefore reducing enthusiasm for increased aid - 'charity begins at home' is being heard more often.

Among politicians and commentators, there appears to be a lack of confidence in aid which translates itself into nervousness about public support. Politicians clearly feel uncomfortable about asserting the needs of the poor overseas in a time of austerity at home.

NGOs believe that governments have a responsibility, not just to respond to public opinion, but to help shape it. Several donors do provide substantial support for development education; most do not. Governments see it as their responsibility to lead public opinion on issues such as environment, drug abuse, AIDS, race relations and road safety. By the same token they should invest in public understanding of development and aid. It is the proactive approach taken by Norway which is credited with the substantial increase in public support for Norwegian development co-operation from 77% in 1990 to 84% in 1993.

Governments must also recognise the immense damage that can be done to public perceptions of aid, when it is clearly being used for political or commercial purposes out of line with the core humanitarian impulse which is the bedrock upon which most public support for aid is based.

Conclusions

The reality of aid in the 1990s is depressing. With a few exceptions, donors appear to be failing to live up to their commitments on aid volume. On poverty reduction - for NGOs the overriding objective of aid - governments are not making the transition from rhetoric to action. DAC members still appear to see economic adjustment and governance reforms as being the essentials of development. It is as if the alleviation of poverty is a bonus which is sure to follow.

Until donors make poverty reduction their first priority - until improvements in the quality of life for the world's poorest people are seen as the benchmark of success for aid - billions of dollars a year will continue to be diverted away from families for whom underemployment, disease and malnutrition are everyday realities.

Endnotes

This chapter has been excerpted, with permission, from German, T & J Randel (eds), *The Reality of Aid, 1994*. London: Action Aid on behalf of EUROSTEP and ICVA, 1994.

1. *World Development Report 1990*, World Bank.
2. The exact figure is 34.8%, Table 1, DAC 1993. The DAC is comprised of 20 OECD and EU members: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK, USA and the EU. The aim of this group is to monitor aid flows and to consult on ways of improving the quality and effectiveness of aid.
3. Table 5.3, *Global Economic Prospects for Developing Countries*. World Bank 1993.
4. *World Development Report on the World Bank*, 1990. Table 8.2.
5. 'Mobilisation of external resources for poverty alleviation', *UNCTAD PA/4*, 1993.
6. *A World of Dispute*. Netherlands Development Co-operation Department, December 1993, p.110.
7. See DAC 1992, p.23. ODA growth averaging between 2% and 3% in real terms over the last two decades.
8. *Reality in Aid 1994*. New Zealand: CID.
9. DAC HLM December 1993, point 6.
10. USAID's Strategy Papers, Draft LPA, 10 May 1993.
11. OECD/GC(94)11. Aid and other resource flows to the CEEC and the NIS of the FSU in 1991 and 1992.

12. 1982-84 average DAC 1993, Table 5.
13. 'Global economic prospects and the developing countries', *World Bank 1993*, p.47.
14. *Effectiveness of Multilateral Agencies at Country Level*. Danida, 1991.
15. DAC 1993, Table 42.
16. DAC 1993, Table 44.
17. OECD, *Geographical distribution of financial flows*, 1988/1991, p.314/6; and UNCTAD *Mobilisation of external resources for poverty alleviation*, PA/4 1993 Table 2.
18. OECD, *Geographical distribution of financial flows*, 1988/1991.
19. OECD, *International aid to basic education: flows, policies and modalities*, May 1992.
20. Hewitt & Killick, Mimeo, International Economics Department, World Bank, 1992.
21. OECD, *DAC orientations on participatory development and good governance*, GD/(93)191.
22. *Ibid.*, paragraphs 10, 54 and 86.
23. Figures derived from *SIPRI 1992 Yearbook*, Table 8.1; and DAC 1992, Table 1.

An Overview of South Africa's Future International Economic Relations

Thomas Scott

Introduction

The end of apartheid presents a major opportunity to launch South Africa and its region onto a new, higher path of growth and development. Yet, moving onto a higher growth path and accelerating the development of South Africa is impossible without major involvement of the foreign sector. Trade, capital and technology inflows, knowledge, information and skills from abroad, are all essential if the economic potential of the country is to be raised and its people are to enjoy rising standards of living. In this regard, South Africa's international economic relations hold the key to both its future and that of the Southern African region.

South Africa has a responsibility as the dominant economic force to ensure the region becomes a zone of economic prosperity. Moreover, South Africa has a clear self-interest in the prosperity of its neighbours. Apart from complementarities and opportunities for synergy between the economies of the region, economic hardship and poverty in neighbouring states is a political destabiliser which the region can ill afford. As has already been experienced, instability and hardship in the region adds to social and economic pressures in South Africa, as refugees seek to escape to an area of relative prosperity and stability. The success of the region depends on how well and on what terms the principal economy, South Africa, reintegrates into the global community.

An emphasis in international economic relationships is required which supports the raising of the long-term growth potential of the South African economy and those of its neighbours, as well as the sustainable development and improvement of the quality of life of the peoples of the region. These relationships should also facilitate a better distribution of growth and welfare in the region.

The question arises as to how South Africa's international economic relationships can be structured to best advantage with the above considerations in mind? The indirect answer is that they should be based on a sound understanding of the characteristics, dynamics and significance of global developments and an appreciation of the realities and challenges facing the South Africa's economy. Any strategy to reinternationalise

South Africa's economy should also be based on a realistic appreciation of its strengths and weaknesses.

International Perspective on South Africa: No Time for Illusions

It is not a time to harbour any illusions however. The drawing of major enduring benefits for South Africa and the region from the country rejoining the global community, is not a foregone conclusion. It will require realism, good planning and sound management of the country's reintegration into the global economy.

Put bluntly, South Africa does not add up to a great deal in global economic league tables. Undeniably, in the full glare of the international spotlight, the country is engaged in a remarkable political and social transformation, the success of which has special significance for the world at large. Undeniably also, the country has many positive attributes and significant unrealised potential. However, despite the importance of South Africa's peaceful revolution and current world interest in newly opened 'market space', it cannot be forgotten that South Africa is currently a pedestrian middle-income developing country with rather specific structural characteristics and problems, and engaged in a difficult political transition. Furthermore, the new political order has no established track record open for inspection.

The country has a small economy in global terms with some tough structural, social, political and economic problems to solve. In a nutshell, South Africa has inherited a racially deeply divided society with extremes of wealth and poverty. It also has a strongly dualistic economic structure with a core modern formal industrial economy and a large underdeveloped Third World informal economy, the latter being characterised by chronic poverty and high unemployment. The modern industrial economy has also suffered increasingly from a lack of international competition, investment and technological renewal during the years of isolation. Today it finds itself uncompetitive in many areas. South Africa needs an open society and an economy fully integrated into the global community if it is to address these structural problems, overcome its limitations, and realise its potential. In short, it requires international trade and foreign participation in its economy.

Unfortunately, even in these last mentioned areas, the country must vie for foreign interest in a competitive international marketplace. So, despite its considerable advantages in its large and diversified natural resource base and its core First World economy with a developed, albeit ageing infrastructural framework, South Africa needs to work hard to foster foreign participation in its economy. A particular burden rests on

politicians and regulators to shape an hospitable policy and business environment for foreigners and locals alike. Although globally there is some current interest, it would not take much to change that. In a fast moving world, attention spans are increasingly short and South Africa must make the most of its 'window of opportunity' to engage the international community to mutual advantage. The structuring of South Africa's international economic relations must be based on realism and a sound understanding of what it takes to succeed as a country in the global environment of today.

Preconditions for Successful (Re)Internationalisation

Two requirements are essential to promoting the reinternationalisation of the South African economy. The first is the encouragement of an outward-looking mindset and informed international perspective amongst important groupings in society. The second is the creation of a business- and foreign investor-friendly climate in the country. To do this some bad habits need to be unlearned. Two in particular need to be addressed. They are: an inwards focus which leads to a lack of global perspective; and, an emerging culture of entitlement - the antithesis of meritocracy and a work ethic.

An inwards focus is a most limiting bad habit. It comes as baggage from the 'old South Africa' and its origins are not difficult to identify. They are the legacy of geographical remoteness and, more especially, the political isolation of the apartheid era. On the latter point, over the 1960s, 1970s and 1980s South Africa was progressively shifted from the mainstream of the global community out towards the periphery, as cultural, trade, financial, economic and political sanctions tightened. The country became slowly but progressively delinked from the family of nations. Sanctions and boycotts encouraged self-sufficiency and a 'siege' mindset. They interfered not only with trade and finance but also with cultural and intellectual exchange. The effects were both insidious and pervasive. Apart from the more obvious direct economic effects of sanctions and boycotts, there were possibly even more harmful indirect attitudinal effects. Amongst these were: a lack of global perspective and insights into global developments and their significance for South Africa; a lack of general understanding of what it takes to be a successful nation in the world; and an inappropriate national chauvinism born of isolation. In this latter context, during the years of isolation South Africans were increasingly 'protected' by boycotts and sanctions from international competition and the resultant often sobering comparisons. In that climate illusions could go unchallenged.

A second bad habit: the emergence of a culture of entitlement (while emotionally understandable) shows signs of becoming a feature of the 'New South Africa'. Entitlement was a political dynamic in some newly independent developing countries

in the immediate post-colonial era. It has also been present in some industrial countries, as an undesirable fellow-traveller of socialist dogma. The notion prevailed, that blame for many social and economic ills could be laid at the door of exploitation by some past élite. The injection of resources into the community or country as compensation was demanded as a right and seen as a major part of the solution to the problem. There was a lack of appreciation, or alternatively, a reluctance to accept, that the economic welfare of a country or people depends ultimately on intrinsic qualities and attitudes such as initiative, energy, skills, a work ethic, and morality in public and private affairs. In the long run it is these intrinsic attitudes and qualities which determine the destiny of a community or country.

An entrenched 'entitlement culture' is a habit South Africa can ill-afford in the competitive world of today. It can easily lead to a paralysis of the growth and development dynamic of an economy and can scare off foreign investment. An entitlement mindset can manifest itself in many ways but its effect is to shift the focus of energies and endeavours from creating and producing wealth to redistributing and consuming it. This path leads ultimately to international political and economic marginalisation and impoverishment.

There is evidence of an entitlement mindset emerging in South Africa on two levels. The first is internal, in the redistribution processes at work in the reconstruction and development of South Africa. Entitlement appears to be developing a significant domestic political dynamic in the exercise of power and allocation of opportunity and resources. Groupings across the spectrum of society are all guilty to some extent or another. The new 'progressive, democratic' forces embodied in such organisations as trade unions and civic associations are by nature, and given South Africa's history, understandably, prone to the entitlement culture. Among the potential areas for concern are: affirmative action in public spending and labour practices; prescriptive foreign investment codes; land invasion and land reform; taxation; organised labour demands; and corporate ownership and governance. Negotiating an understanding between the major role players in society of the limits to entitlement is very necessary. Such an agreement or social contract can go a long way to managing the reconstruction and development of the country so that an entitlement culture does not run rampant. For it to do so is a sure way to undermine South Africa's economic prospects.

There are also signs of an entitlement mindset in South Africa on another level too. Although it is generally recognised and accepted that influence, aid and investment has to be earned in a competitive world environment, an entitlement tone is nevertheless sometimes heard from members of the new political establishment in dealings with the international community. This does not cut any ice today. From the latter part of the

1980s the message went out to the developing world that fundamentally, developing countries were not entitled to compensation for being poor. In short, they had to earn foreign investment and earn a sympathetic ear for funding and aid by doing the right things. They had to: learn from international experience; listen to good advice; and, adopt internationally credible policies and subscribe to acceptable attitudes and values. Countries who did not comply, could not expect to fare well in competition for a limited pool of aid funding and investment.

Fortunately for South Africa, both bad habits - the inwards focus and the entitlement mindset - are under pressure, and there are gratifying signs of change. The process of reinternationalisation of the country is thrusting South Africans into the international mainstream across a wide front. Rebuilding links and exploring opportunities in the wider world and increasingly having to deal with foreign interest and competition in their own country is placing locals under pressure to get up to speed and in step with the global environment. Signs are that this is happening. However, the process must be accelerated.

As far as the entitlement mindset is concerned, there is an increasing awareness amongst key players of how great a threat it poses to future prosperity. Initiatives to achieve national consensus in important areas of economic policy and the crafting of a social contract between major role players in the economy and society are encouraging. They do however need to be continued and extended. The message is percolating through, that the vision, initiative, energy and most of the resources to make South Africa a success have in the long-term to come from within. Furthermore, in the economic and social realm the right balances have to be struck between development, upliftment and the stimulation of wealth generation. These messages do however need constant reinforcement.

It is clear that a successful South Africa needs international economic relations built on three principles: a global awareness and perspective with a firm grasp of international realities; an outwardly orientated society open to international exchange on all levels; and, an awareness that the keys to the success and prosperity of the country lie in its own hands.

The International Environment: Isolation into a New World Order

A major challenge South Africa faces in its reintegration into the global community is understanding the world as it finds it and then responding appropriately. It is a long time since South Africa was a full member of the global community and the country is

emerging from the isolation of the apartheid years into a world much changed since South Africa's progressive isolation began some thirty years ago. However, the challenge is not just one of catching-up with the changes the passage of time has brought.

There is more. South Africa's return to the international fold coincides with an episode of accelerated global political and economic change surely unparalleled in living memory. Across the globe, nations attempt to come to terms with the implications of major changes in politics, economics and technology. The vestiges of the old world order are disappearing and a new world order is taking shape. South Africa's challenge is therefore not just one of catching up with the old order, it is also one of joining the global community in finding out where the world is going and carving-out a niche for itself in the new order. The country's future prosperity depends to a large extent on how well it understands the field of play and rules of the game of this new world order.

Significant Aspects of South Africa's International Environment

There has been so much dramatic political change internationally over the past five years it is easy to forget that deep-seated changes in technology, politics and economics have been shaping a very different international environment over the past twenty years. Briefly, what are the most significant aspects of the international environment that need to be taken into account in the shaping of South Africa's international economic relations? Six characteristics are especially important.

* *The Global Economic Village is a reality.* Great leaps in transport, electronics and communications technology made a Global Economic Village technically a possibility, while a trend towards deregulation and the lowering of barriers between national markets for production factors and goods are making it a reality. Production factors, especially the capital elements, wash around the globe seeking out the most attractive opportunities, and multinational corporate conglomerates operate increasingly without hindrance across national borders. In this world, governments and regulators in countries seeking foreign investment, compete with one another to establish the most attractive conditions for foreign investors. Regulatory competition is an active word in the international policy lexicon. South Africa comes into this new, more seamless world as something of a curiosity as previously forbidden territory, and in its new guise, as something of an unknown quantity. International capital and entrepreneurs will explore the country and, if there is something to hold their interest, they will no doubt invest and trade. However, the global players know what they want and know what they can get in other parts of the world. South Africa will have to 'earn' its trade and investment by being a competitive producer of goods and services and by creating an environment hospitable to business.

If South Africa is not competitive in the 'market' for business location or equity investment, the waves of capital and entrepreneurial interest will either bypass its shores or simply wash out again.

* *Market economics has become the unchallenged global orthodoxy.* The collapse of the communist states of the former Soviet Union and its satellites, signalled the end of centrally planned command economics as a serious policy option. It also ended the Cold War - an era of ideological tension and global competition between the West's market economies and the Eastern Bloc command economies. New global dynamics were introduced, namely the political and economic transformation and reconstruction of these societies, and the end of the arms race. For South Africa there are a number of direct implications. Some of these are: a socialist command economy is no longer a policy option if the country is to have international credibility and if it is to develop a viable and prosperous economy; the process of economic and political reform in the former Eastern Bloc introduces more uncertainty and potential for volatility to international commodity markets and, the possibility of more competition for South African commodity producers; the former centrally planned economies need vast investment to build an internationally competitive economy and are in direct competition with South Africa for foreign aid, loan funding and foreign direct investment; and, the reconstruction of the former East Bloc economies open-up new possibilities for trade, technology and skills transfer, investment and collaboration between that part of the world and South Africa.

* *The centre of gravity of world economic activity is shifting to the Pacific Basin.* Economic, political and social fundamentals point to South and South-East Asia, China, Japan and the Eastern Pacific seaboard as being the most dynamic economic zone on the globe in the first part of the coming century. Competitive economies, large and growing markets and complementarity between countries in the region signal rising prosperity and the emergence of major global trading axes within the region. The significance of this development for South Africa is that it must expand its economic linkages with that region if it is to benefit from this major future growth dynamic in the global economy.

* *There is a worldwide shortage of funds.* For some time now the capacity of the traditional major surplus producing economies to generate surplus savings has been deteriorating. At the same time the demand for capital is rising as a diverse group of 'savings deficit' countries make large demands on global capital resources. Many of these countries especially in the former East Bloc and the developing world require foreign funds to support development and economic restructuring and adjustment. South Africa urgently needs injections of capital but it has to join the queue and compete for these scarce global capital resources.

* *There is a trend to regional bloc formation in the world trading system.* Despite apparent general acceptance of the intellectual arguments for free trade, the world nevertheless appears to be drifting towards a pattern of partly closed, competing regional trading blocs. Moves towards economic integration in Europe, North America and South-East Asia are tangible evidence of the trend. Even if protectionist interests do not succeed in raising barriers around the blocs, intra-regional trade is likely to grow faster than before. Countries could well find themselves ultimately 'locked-in' to mutually advantageous trade with complementary partners within their own bloc. Potential trading partners outside the bloc might for practical reasons find it more difficult to compete. The main implication for South Africa, falling as it does outside all the emerging major trading blocs, is, that it must cultivate links with these groupings to secure a solid position in the world economy of the future. Furthermore, it must develop intra-regional trade in its own part of the world.

* *Technology and skills rather than natural resources and raw labour are what gives a country a competitive edge in the global economy of today.* Resources need to be extracted efficiently and they need to be beneficiated - that is, value needs to be added. Given entrepreneurial spirit, availability of capital and an hospitable policy environment, it is an educated, responsive and motivated workforce, and technology that makes the difference between successful and unsuccessful economies. Countries with a poorly educated workforce or inadequate access to technology, especially process technology, will be at a severe disadvantage no matter how strong their natural resource base is. South Africa which has a strong resource base but a shortage of skills and a somewhat dated industrial technology base, has much to do to secure a good position in the global economy of the future. It needs to secure access to technology to renew its industrial base, and upgrade its skills levels to draw maximum advantage from the development of its natural resources base.

Economic Strategy and South Africa's Objectives

South Africa then needs to develop and raise the quality of life of millions of its newly enfranchised people as rapidly as possible. Here the country's international economic relations have a key role to play.

The Government of National Unity must deliver tangible benefits to its constituency sooner rather than later. Government is under pressure to do so and it is no doubt a temptation to focus on the short-term and perhaps quick, but ultimately unsustainable, delivery methods. Growth and development needs to be ongoing if a political order is to survive in the longer-term. There are no quick ways of delivering development and

upliftment. Resources will need to be intelligently deployed over a sustained period of time.

Even if the use of existing under-utilised domestic funds is improved, massive additional resources will be required. Over the long term, at best only a tiny proportion will come from international aid and other 'soft' sources. The South African economy will have to generate the bulk of the resources internally. Foreign funds and production factors associated with direct and indirect investment, lending, aid and other forms of foreign involvement in the economy can however play a crucial triggering and leveraging role in raising the growth potential of the country and in accelerating its economic activity.

Delivering development on a sustainable basis requires a well-conceived economic strategy which exploits the strengths of a country and strikes the right balance between social development and upliftment, and the need to preserve and enhance the capacity of the economy to create wealth over the long term. Mechanisms to redistribute wealth and opportunity and channel resources into social development are needed, but so are measures to nurture the growth and employment creating capacity of the economy.

An economic strategy to meet these requirements and which would ensure South Africa's survival, development and prosperity in the global environment of today would require at least three discrete elements.

- * The first, is the strengthening of the growth performance and raising of the growth potential of the South African economy. Eliminating poverty, economic development and upliftment and other objectives can only be pursued in a sustainable way from the base of a well-structured, growing economy.
- * The second element is the linking and development of the economies of the Southern African region so that complementarities, regional development and the potential for synergy can be realised to the benefit of the region as a whole.
- * The third and final element of the strategy is the promotion of an explicit 'outward' orientation of the economies of the region to draw advantage from international trade, and attract inflows of international capital and other production factors.

South Africa's future international economic relations should be structured to support these three strategy elements. In short, international economic relationships should be geared to three prime objectives:

- * Promoting and deriving maximum benefit from international trade for South Africa and its region.
- * Attracting production factors and resources to South Africa and its region.
- * Promoting greater economic integration of the Southern African region as a method of raising prosperity and development and achieving a more balanced distribution of economic activity and welfare in the region.

The Focus of Future International Economic Relations

The three prime objectives (outlined above) are all equally important in the long run. However in the shorter-term the first two, namely, promoting the country's international trade, and attracting production factors and resources to the region, are particularly urgent.

Promoting South Africa's International Trade

Promoting South Africa's international trade, in particular its exports and competitiveness enhancing imports, is central to the easing of the growth constraints on the economy and the raising of its growth potential. The South African government and its agencies and South African non-governmental groups need to energetically pursue the country's interests in bilateral and multilateral negotiations on trade. The most favourable possible terms of trade and other economic relations need to be secured. Furthermore, South Africa's interests need to be well-represented on international forums and statutory bodies. As far as trading relations are concerned South Africa needs to be positioned to benefit from economic activity in all the major enterprise areas on the globe.

- * Trade relations need to be reactivated, consolidated and expanded with all the major global trading blocs - the European Union, the North American Free Trade Agreement and South America, and the emerging Asian trading area. In particular, relationships need to be strengthened with Pacific Rim countries if South Africa is to benefit from the expected growth in that region in coming years. The next century is already being labelled as the 'Pacific Century'.
- * Another grouping of countries that should be on South Africa's trade development agenda are those of the reforming command economies such as those of Eastern Europe,

the former Soviet Union and the People's Republic of China. These economies form natural clusters from a trade development point of view.

* A third focus for trade development for South Africa is its own region. In fact the concept of 'region' should be widened to mean a trading zone consisting of Equatorial and Southern Africa and the Indian Ocean basin. The latter would include Madagascar, the Seychelles, India and Pakistan. Further east, the inclusion of Indonesia would also seem justified. Such a trading zone would yield a large market and a broad and attractive range of complementarities between constituent countries which could provide a basis for healthy intra-regional trade.

* Finally the Middle East also deserves attention as a geographical market area presenting trading opportunities.

Attracting Production Factors and Resources to the Region

A second focus for South Africa's international economic relations is the attraction of production factors and resources to the country and its region. A major focus for international relations should be the motivation of international funds towards the South African economy and the promotion of inwards investment. Furthermore, the importance of technology and skills in building a competitive, winning economy means that an added focus of international relations should be the securing of access to essential technology, and facilitating the development and accumulation of skills in the South African economy.

Foreign aid, soft loan funding, commercial lending and direct investment all need to be encouraged, channelled inwards and deployed to good effect. Relationships need to be consolidated and further developed with multilateral agencies, individual country governments and with the financial and business communities of potential sources of capital, knowhow and technology.

The global economic village and internationally-mobile production factors have created competition between countries for foreign resources. South Africa needs to demonstrate a competitive streak if it is to attract its share of investment and other resources to the region. If the country is to be a serious contender for international investment, an investment code is needed which reconciles domestic political and social agendas with international competitive realities. In short, social objectives cannot be allowed to overshadow economic and business realities if the country is serious in its efforts to attract foreign resources.

All the major roleplayers in the economy have a part to play in attracting foreign resources and encouraging foreign participation in the South African economy. In this regard,

* Government and regulators need be aware of the importance of establishing international economic credibility for the new order in South Africa. They also need to be aware of the necessity of competing with other countries for foreign resources on the policy and regulatory level. The international credibility and attractiveness of South Africa's economy rests on the survival and strengthening of a market-based economic system and private enterprise. Political and social objectives and the reconstruction and development of the economy must be seen to be achievable within a market-based economic framework if the new order is to have credibility. Discipline and conservatism in the conduct of macro-economic policy are also required as they are perceived by the international community as the only values which can ensure a stable macro-economic climate - a desirable condition to attract foreign investment. International economic policy and relations on governmental level should therefore promote and facilitate the functioning of a market-based economy and support conservative economic management in addressing the development challenges facing the country.

* Organised labour needs to be conscious of the impact of the industrial relations' climate and labour productivity on foreign investor perceptions of the country. Trade unions have a role to play in establishing an hospitable climate for investors on national level and in the workplace. The keys to establishing such a climate lie in consensus rather than adversarial industrial relations where unions and employers agree on legitimate objectives and provide mutual support to achieve them. Trade unions can also be actively involved in lobbying internationally for inwards investment.

* The business sector also has its role to play in drawing in foreign investment. Business needs to engage foreigners in various forms of mutually advantageous collaborative ventures. New technology, new products, knowhow, management skills, capital and market access can be secured in this way for South Africa. A further contribution business can make is to view competition in the international marketplace and the entry of new international players into the South African marketplace as an inevitable, challenging and constructive development. Such competition presents the spur to raise the level of performance of South African industry to international level. South African business would in the process become better equipped to compete successfully in the international marketplace.

Regional Integration and Prosperity

The third objective of South Africa's international economic policy should be to promote prosperity and more balanced development of its region through greater regional integration. If responsibly executed, greater economic integration should lead to higher levels of regional welfare, a more balanced distribution of economic activity and better balance in the development of the region. Responsible regional integration would require mechanisms to prevent stronger countries from monopolising the benefits of integration.

The destinies of countries in the region are ultimately closely interlinked and many of the problems faced are shared. Furthermore, there are significant potential synergies and other advantages in pooling resources and markets. There are also benefits in the greater co-ordination of economic development. Moreover, greater integration would increase the political and economic leverage of the region in the international community - more important in a world increasingly characterised by trade blocs and other forms of economic regionalism. Successful regional integration will require its benefits to reach all the participating countries.

As the dominant economy in the region, South Africa needs to play a responsible leadership and community building role in Southern Africa. South Africa can strengthen the voice of the region on world councils and in negotiations on such vital issues as international trade relations. South Africa can also become an important international gateway to the region. The country's developed institutional and physical infrastructure, its skills base and its well-established and efficient links with the global trading and financial community equip it well as a conduit to mobilise and channel international investment, trade and aid into the region. South Africa's communications, transport and financial infrastructure as well as the strength and international respect many of its institutions command, are a great asset to the region.

South Africa's international economic relations should focus on three areas to promote balanced development and prosperity in South Africa.

The *first* is the encouragement of the internal strengthening of the individual economies of the region. The contributions South Africa can make in this regard include:

- * Ensuring South Africa makes the right economic policy choices for itself. A healthy, growing South African economy is crucial as a locomotive for the region. It is clear that: without a successful South African economy, the region cannot prosper.

- * Encouraging other countries to follow economic policies which will give them the best chance of developing and prospering in a competitive world environment.
- * Working to establish social and political stability in the region - a necessary precondition for economic prosperity and rising welfare.
- * Facilitating the flow of foreign resources to the region for infrastructural development and the expansion and strengthening of the industrial base of the countries of the region.
- * The projection of technical skills and management expertise into the neighbouring countries. This can be of great value in building up infrastructure, agricultural and industrial capacity and generally in facilitating regional economic activity.

The *second* area in the promotion of balanced regional development and prosperity, should be the linking of the economies of the region. South Africa needs to be involved in:

- * Linking the region's transport, communication and electricity and water utility supply networks.
- * Addressing obstacles to intra-regional economic activity such as tariff and non-tariff barriers to trade and impediments to capital flows. South Africa should also work on minimising bureaucracy in the region and harmonising legal and other frameworks where they limit the realisation of regional economic potential.
- * Developing synergies and complementarities within the region by promoting intra-regional specialisation and decentralisation in production and intra-regional trade. Production should be looked at on a regional rather than national basis, and decentralisation of production within the region on an economically rational basis should be encouraged. Intra-regional trade should be developed in utilities such as water and electricity supply; communication, transport and financial services; and, in primary commodities, as well as in intermediate and finished goods.

The *third* area lies in building an outward looking regional economy. There are two main contributions South Africa can make:

- * First, in strengthening the capacity of the region to compete internationally. This can be achieved through a number of actions: by identifying and co-ordinating the development of the region's comparative advantages; by development and pooling of

regional infrastructure; by co-ordinating the marketing of the region internationally; and, most importantly by lobbying for economic policies which will promote international competitiveness. These policies should be geared to developing an open, export-orientated market economy, with stable domestic prices, a stable exchange rate and only the minimum of exchange controls.

* Second, by initiating the development of an enlarged regional trading bloc and developing relationships with the major global economic and trading blocs and growth nodes. This involves expanding trade, investment and other links with traditional partners and developing the potential for new links opened up by political change both globally and in the Southern African region.

Postscript on South Africa's International Economic Relations

International economic relations need to play their part in positioning South Africa on the international stage. What role, what niche should South Africa be seeking to fill in the global arena? The short answer to that question is that there would seem to be at least three possible roles. South Africa should position itself as an African power and see for itself a leadership and catalyst role in the economic renaissance of Equatorial and sub-Equatorial Africa. Furthermore, South Africa could take the initiative in developing an Indian Ocean Basin trading zone. Finally, South Africa should also see itself as an important facilitator and intermediary in relationships between the industrial world and the developing world.

Political reform in South Africa has already brought about many changes in society. There is a new constitution with universal suffrage, the political leadership has changed, new government structures are in place, and there are new power groups and players bringing new dynamics to politics and economics. Although a good start has been made on reforming South Africa's deeply divided society and dualistic economy, the real work and great challenges still lie ahead. It must be clear from the preceding discussion that international economic relations have an indispensable and constructive role to play in the reconstruction and development of South Africa's new society and economy.

The History of Regional Integrative Attempts: The Way Forward?

Greg Mills

South Africa cannot escape its African destiny. If we do not devote our energies to this continent, we too could fall victim to the forces that have brought ruin to its various parts.

Nelson Mandela, 1993.

I am dying as I have lived, beyond my means.

Oscar Wilde

Introduction

Following the inauguration of Nelson Mandela as the first democratically-elected South African President on 10 May 1994, the Republic has continued with the process of re-entry into the international fold begun after 2 February 1990. As part-and-parcel of this process, South Africa, it is anticipated, will fully involve itself in the problems of the African continent. Pretoria is expected to play an important role in the activities of a rejuvenated OAU, and in the goal of regional economic co-operation and closer integration through a variety of regional bodies. This is expected to make, unrealistically or not, a positive impact on living conditions for the inhabitants of the broadly-defined Southern African region.

Such proposals are neither unique or new. The concept of a Southern African Common Market was mooted even prior to the Second World War. Yet, primarily due to the political alienation of South Africa from the remainder of the region, especially after the independence of Angola and Mozambique in the mid-1970s, such attempts were subject to strong criticism and even ridicule.

Now the concept of formalised Southern African regional economic and security structures is again being proposed, and various existing organisations are being examined as feasible conduits or building-blocks for such interaction. Of course, unlike the case with white South Africans who attempted to use South Africa's economic muscle and the realities of economic development in Southern Africa to their best political advantage, in this new era relations are construed around an 'interdependent but non-hegemonic' philosophy. But as in the past, areas of common interest could be seen as

the catalyst to bring the states of Southern Africa close together; whether this be around the mutual development of water resources in Southern Africa, the use and conservation of the land and water, through the need to improve communication and in the planning for a Southern African electricity power-grid, in boosting two-way trade, in the eradication of stock disease or through a reduction in cross-border criminal activity.

As the power possessing an economic and military might not matched elsewhere in the region, it is anticipated that South Africa's influence over regional events will be exercised in a more positive manner than in the past. Yet obviously internal and regional stability will influence South Africa's patterns of trade and diplomacy with its neighbours. Certainly, it will be impossible to consider areas of potential regional interaction without identifying the insecurities present which will need to be addressed.

Yet the hope is for Southern Africa to ultimately fashion a new political and economic relationship which will not only set the region apart from what is not being achieved in the rest of Africa but in this way act as a model for future co-operation. This is beyond question a tall order for a state that already has an overburdened domestic agenda and responsibilities heightened by the high expectations following from the elections. These expectations are arguably a result of the continuing emphasis on *apartheid* as the source of all woes in South and Southern Africa. But it is nonetheless desirable for South Africa to engage itself in the region, given that its development and security are inextricably linked - in economic and military matters and in terms of external (particularly Western) consciousness - to the affairs of Africa. This African policy will arguably be built around economic and security co-operation, though there is no denying that historical political commitment will also play a part.

This chapter sets out to examine the potential for inter-regional co-operation in Southern Africa. In doing so, an overview of previous integrative attempts will be provided, and a general assessment made as to the past characteristics of South African-Southern African relations. A second section looks at the nature of insecurity in Africa, which has relevance for what South Africa could offer Africa (and specifically, Southern Africa) and *vice-versa*. Finally, an assessment will be made as to the prospects for co-operation between South Africa and the rest of Africa, the form this could take and how functionally-based liaison might impact on broader co-operation.

Past South African Integrative Attempts

Economic Imperatives

The most successful and longest-standing of all South African attempts (and let it be said, *all* other attempts) at regional integration is the Southern African Customs Union (SACU) agreement of 1910. Today membership includes South Africa, Botswana, Lesotho, Swaziland and Namibia. This provides for the duty free movement of goods and services between member countries and for a common external tariff. With a formula for distributing excise duties between member states, SACU is arguably the only *working* economic arrangement in Southern Africa. Yet, with the political benefits from such formalised co-operation no longer needed in the manner of the past, a post-apartheid South Africa could seek to renegotiate the customs revenue formula to the disadvantage of the other members. But, while arguably the most successful, SACU certainly has not been the only South Africa-centric attempt at formalised integration.

In the period immediately after 1945, South Africa, by virtue of its status an independent state with the most developed economy in Africa and with a large white population, entertained the notion of itself having a role to play - through inter-imperial co-operation - in shaping the course of events in the dependent African territories. Field Marshal Jan Smuts suggested the formation of a commission, composed of the colonial powers as well as others with military and economic interests in Africa, that would devise a common policy for Africa. This idea provided for a 'regional foreign policy heritage'¹ of closer regional co-operation, intent on, in the words of Smuts, knitting together 'the parts of Southern Africa that belong to each other, parts that most necessarily work together for a stable future on the continent of Africa'.² However, these schemes of a regional or Pan-African Union with South Africa as the dominant partner did not materialise as Pretoria began to find itself isolated and alienated from the world community over its domestic policies.

These cracks in relations with the international community were, of course, exacerbated by the advent of DF Malan's National Party government in 1948. During Malan's tenure as Prime Minister (1948-54) the foundations for apartheid were laid with the enactment of the Prohibition of Mixed Marriages Act, 1949; the Immorality Act, 1950; and the Group Areas Act, 1950. The concept of apartheid also found expression in Malan's *Africa Charter* which proposed guidelines for the development of the continent along the lines of 'Western European Christian civilisation'.³ As Malan enquired rhetorically at the time:⁴

If Africa is not preserved for Western European civilisation and if Russia obtains the ascendancy in Europe, as it may obtain it, and if the whole African continent is thrown

open for communist propaganda and South Africa is the magnet for natives from the north, then I ask what the future of South Africa is going to be?

Already, by this time, South Africa was finding that its domestic political order was proving 'a formidable if not insurmountable obstacle to improving the country's foreign relations' in a changing international climate of opinion.⁵

The independence of the colonial territories from 1957 onwards brought home to white South Africa the realisation that its future lay not in exclusive identification with the old imperial order, but rather as an independent African power. As South Africa had consistently attempted to persuade the Western powers not to decolonise the rest of Africa and had identified itself with the European powers, these events left Pretoria without any formal policy towards the new states.⁶ In March 1957, External Affairs Minister Eric Louw stressed South Africa's future as one of an Africa power, though - taking care not to break all ties with the West - at the same time it could become a 'permanent link between the Western nations on the one hand and the populations of Africa south of the Sahara on the other'.⁷ As during Verwoerd's subsequent premiership, Prime Minister JG Strijdom's (1954-58) policies emphasised the promotion of technical co-operation between South Africa and African territories, and on South Africa's ability to provide assistance in such fields as agriculture, medicine and communications. Louw argued that, by making its scientific and technical expertise available to black African states, South Africa would be able to preserve its white identity and establish mutual trust and understanding.⁸ This potential role in Africa, which it was envisaged would surmount political impediments to improved relations, was given effect through South Africa's participation in such organisations as the Commission for Technical Co-operation in Africa South of the Sahara (CCTA) and its auxiliaries, the Scientific Council for Africa South of the Sahara (CSA) and the Inter-African Bureau for Soil Conservation (BIS). But these were disbanded or absorbed by the OAU in the mid-1960s, with the result that South Africa was denied membership of virtually all the inter-African functional organisations. The efforts of the Union's leaders to promote the 'export' of apartheid - this was particularly the conviction of Strijdom's government which held that apartheid provided the only formula for relations between black and white - and persuade the Western powers not to grant independence to black Africa were, of course, related to fears about the impact of decolonisation on its domestic political *status quo*. At the same time it was this very *status quo* that was creating problems for Pretoria's international relations.

A most significant change in South Africa's international position came with the creation of a Republic on 31 May 1961, a decision which had earlier led to the (enforced) withdrawal of South Africa from the Commonwealth in March that same year. Under

increasing attack in the UN from the newly independent African states, particularly over Namibia, and not a member of any multilateral defence organisation, outside the security of the Commonwealth the Republic's position was described by the Leader of the Opposition, Sir de Villiers Graaf, as 'undergunned and underprovisioned, ...[and]... very alone on very stormy seas in a very dangerous world'.⁹ The acknowledgement that it had to adjust to new realities in the continent coupled with the need to offset Pretoria's growing international isolation, were evident in HF Verwoerd's (1958-66) policy of separate development or 'grand apartheid'. By providing for Bantu 'homelands' which might ultimately become independent states, Verwoerd tried to associate this policy with the decolonising trend in Africa. However, though the existence of the various ethnic groups within South Africa's borders could not be denied, their functional sustainability and political suitability was questionable. For one, the lack of voluntary self-determination in these areas contrasted markedly with the colonial situation elsewhere.

Verwoerd also outlined plans for regional co-operation, initially focusing on South Africa, the homelands and the British High Commission territories (Botswana, Lesotho and Swaziland - known collectively as the BLS states), though he envisaged a relationship of economically dependent states covering the sub-continent as far north as what is now Zaire.¹⁰ Verwoerd foresaw a commonwealth 'at the southern tip of the continent between neighbour and neighbour, the one white, and the other black, a commonwealth in which no state will lord it over another state [where] permanent common interests can be built up by means of economic links'.¹¹ This reformulation of Smuts' ideas on regional co-operation was to re-emerge in PW Botha's later proposals for a Constellation of Southern African States (CONSAS) in 1979.

The concept of maximising this strange form of 'integration' and stressing the primacy of economic considerations over political differences was thus manifest in Verwoerd's policy towards black Africa; the hope being that such a functional approach would 'spill-over' to the benefit of diplomatic relations. Ironically, the greatest improvement in relations came with the white regime in Southern Rhodesia. Despite continuing National Party distrust of what was seen as primarily an expatriate population, the dissolution of the Central African Federation (CAF) in 1963 paved the way for a new identification of a commonality of - especially economic - interests.¹² However, any formal economic alliance with white Rhodesia was later rendered improbable by the Unilateral Declaration of Independence (UDI) in 1965, as such an officially stated *entente cordiale* with the rogue state would have irreparably damaged Pretoria's search for new, formal international relationships.

Verwoerd's *politics of security* which followed from Sharpeville and the resultant

international opprobrium, effected the restoration of white confidence in South Africa through the suppression of internal violence and the stress on economic growth. This stimulated the economy to produce a growth rate similar to that of Japan and West Germany. For the crisis of 1960 had severely undermined economic confidence, and led to a large outflow of foreign capital.¹³ By contrast, 'The Great Boom' years of 1961-65 led to an increase in GNP of some 48%.¹⁴ The mood of optimism created during this period of consolidation enabled Prime Minister BJ Vorster (1966-75) to embark on the *outward movement* phase of South African foreign policy which sought rapprochement and dialogue with black Africa. By this time the pattern of regional economic interaction had shifted as a result of a number of factors, including: the decision by the Portuguese to open up their territories to investment; the independence of the British territories; and, the collapse of the CAF which was followed by Rhodesian UDI. This was supposed to make the region more receptive to the offer of South African investment and expertise.

Pretoria hoped that better relations with black Africa would improve the Republic's international status and position. Though the outward movement was not primarily associated with Southern Africa, but directed instead at those black ruled states to the north, Pretoria hoped to capitalise on its economic hegemony in the region. By seeking to maintain close economic and technological co-operation amongst all the countries of the area, Vorster sought the eventual creation of a Southern African economic community. Unlike Verwoerd, who had attempted to provide a domestic policy consistent with the requisites of South Africa's foreign policy, Vorster insisted that each country involved should retain 'the right freely to choose its own political, racial, cultural and economic systems'.¹⁵ Thus formal regional interaction would have to be structured on the existing political *status quo* in South Africa.

This thinking was rooted in the belief that: 'The Republic's economic pre-eminence gives her a pre-eminence in all other spheres'.¹⁶ Such technological and economic interaction would, in Vorster's eyes at least, be to the 'mutual benefit' and 'joint development' of the other states in the region.¹⁷ Some analysts, however, interpreted this somewhat differently; in that South Africa 'sought to increase the security and wealth of the Republic by surrounding her with dependent territories which would put political stability as well as economic and technical co-operation high on their list of priorities'.¹⁸

Emphasis was nonetheless given to South Africa's potential regional development role. In 1968, for example, it was planned that some R5 million of Pretoria's budget surplus would be transferred to a loan fund to promote regional economic co-operation through low-interest loans for development projects. Echoing Pretoria's official sentiments on the Southern African Development Co-ordination Conference (SADCC) twenty years

later, Foreign Minister Dr. Hilgard Muller explained:¹⁹ 'It is in the interests of all of us that Africa should be a prosperous continent. After all, it is better to have a prosperous man for a neighbour than a beggar. You cannot trade with a beggar.' Such a belief that South Africa cannot hope to be an 'island of prosperity in a sea of misery' is the macro-economic vision that still drives the process of economic integration in Southern Africa.

In the event, the outward movement achieved little progress towards formalising relations either with black Africa, or with the newly independent states in the region. Yet diplomatic relations were established with Malawi in 1967, at the time a major breakthrough for the outward policy, despite strong internal opposition from *verkramptes*.

The independence of Botswana and Lesotho in 1966, and Swaziland in 1968 offered the opportunity and catalyst for the promotion of a regional common market-type relationship. Indeed, this concept received limited support from Pretoria's neighbours, most notably Lesotho and Malawi. Chief Leabua Jonathan of Lesotho noted in this regard that: 'I look forward to sometime in the future when we in the southern region can sit down at a round table and work out an economic community for the whole of our region'.²⁰ These states certainly recognised that good relations with the Republic were crucial to their survival. On Swaziland's independence day, Prince Dlamini declared: 'Swaziland must be constrained by its geographic and economic circumstances to follow a policy of enlightened self-interest, relying upon a maximum of acumen and minimum of heroics'.²¹ However, these events provided only for closer links with the BLS states through a revision of the SACU agreement in 1969.²² Against this trend, and despite pressing regional problems which demanded Pretoria's attention, *via* Presidential summit meetings in the mid-1970s formal talks were opened with the Côte d'Ivoire, Senegal and Liberia. And in 1974, the Rand Monetary Area (RMA) agreement was struck between South Africa, Botswana, Lesotho and Swaziland. This was later superseded by the Common Monetary Area (CMA) in 1986 and led to the Multilateral Monetary Agreement (MMA) of 1992 which now includes Namibia. This most recent agreement is designed to implement common exchange controls, and a free movement of funds among member states.

The *outward movement* was lost in the crises that befell Rhodesia and the Portuguese colonies. The increase in guerrilla hostilities had, by the early-1970s, drawn the Republic and the northern white-ruled territories closer together. Various financial sectors in South Africa contributed funds to the construction of the Ruacana Falls (Angola) and Cahora Bassa (Mozambique) hydro-electric schemes,²³ and signed long term agreements to purchase power from them. In addition, mandatory UN sanctions against Rhodesia made the survival of the Smith government subject to the maintenance of the economic

links provided by South Africa, and provided rich opportunities for South African businessmen.

The failure of Pretoria's attempts at dialogue with northern black states was expressed in black Africa's opposition to this initiative as stated in the Lusaka Manifesto of April 1969 and the Mogadishu Declaration of October 1971.²⁴ It was clear that the black states and Pretoria had diametrically opposed objectives in supporting the dialogue initiative: 'the former saw it primarily as a means of persuading South Africa to abolish apartheid; the latter's main objective was rapprochement with black Africa' which in part would be 'an opportunity for South Africa to explain - and hopefully justify -the policy'.²⁵

This failure, the unresolved nature of the SWA/Namibian and Rhodesian independence issues, and particularly the threat posed to its *cordon sanitaire* by the *coup d'état* in Portugal in April 1974, forced Pretoria to concentrate its diplomatic energies on the regional arena. This became known as the *détente* phase of South African regional policy. This was intended to bring stability to the area through prevention of the spread of further radicalism and ensuing chaos, thereby maintaining the security interests of South Africa. Furthermore, settlement of the Rhodesian 'problem' would, it was hoped, enhance Pretoria's international standing as well as the outward movement, if only by reducing criticism of South Africa for keeping Rhodesia's economic lifelines open. However, this short period of co-operation and expectation was effectively ended by the collapse of the Rhodesian peace-initiative and by the SADF's intervention in Angola in 1975-76.

Thus, although *apartheid South Africa's* economic power allowed it to pursue an active policy in aiding the white-run neighbouring territories as well as those well-disposed black governments, this could not be effectively formalised into politically advantageous co-operative schemes nor into acceptance of South African leadership in Africa. For there existed a fundamental ideological contradiction between the racial basis of apartheid and the 'wind' of African nationalism. And as South Africa's full political integration as an African nation depended on a change of perception on the part of the white population whose sympathies lay with racial settler and colonial rule in Southern Africa, during this period South Africa moved steadily and inexorably towards African and international estrangement.

Yet despite the lack of a formal arrangement, even during the Botha years - characterised as they were by the 'policy' of destabilisation towards the neighbouring states -South Africa maintained formal economic and trading relations with the region. The operation of the railways network and the various trade arrangements such as SACU, and the Zimbabwe-South Africa Preferential Trade Agreement in force since 1964, as well as

technical co-operation in, for example, the veterinary, educational and agricultural sectors, illustrate this point well. While PW Botha would have preferred, principally for political and *not* functional reasons, to include these within a Constellation-type structure, things worked well enough without it.

Security Imperatives

As with the utility of economic factors, military security imperatives were also in the past seen as common factors of interest in driving regional/international arrangements. General Smuts, for one, had a strategic vision of distant horizons. Smuts was concerned with the threat of a 'non-African major power' standing aside the critical land-sea approach to South Africa. For much of the post-Second World War period, communism was portrayed as this major military threat, though not in the form of a massive conventional attack as Smuts perhaps envisaged, but in the guise of radical black nationalism infecting and politicising the black population. This would create political upheaval and anarchy. This perception was hardened by the prominence of South African communists in the struggle for racial equality, and by the vocal and military support given by communist states to African guerrilla movements.

For South Africa the strategy of the 1940s and 1950s had 'three main objectives'.²⁶ First, that South Africa should enter into a defence alliance with the West, second, that the West should be tied to the defence of Africa; and, third, 'In the event of a general war against communism, the enemy should be engaged as far away as possible from South Africa'. There was thus little concern over the Union's regional security interests.

South Africa's search for international alliances in the 1950s was conditioned by a 'view of a world divided between communists and anti-communists', by Pretoria's particular interests in Africa and also by their - albeit increasingly unpopular - position in the Commonwealth.²⁷ By presenting the internal and external threats to South Africa's security as part of an international communist offensive, Pretoria would ideally have liked NATO to extend its cover into the South Atlantic, either in the form of a broader African alliance, or later as a South Atlantic Treaty Organisation including several South American states. With this in mind, Pretoria welcomed the formation of any Western defence arrangement such as South-East Asia Treaty Organisation, and the ANZUS pact between Australia, New Zealand and the United States. As a result, South Africa agreed to join the Middle East Defence Organisation which was promulgated by Britain in the early-1950s in an area which was seen as the 'gateway to Africa'.²⁸ South Africa specifically purchased extra tanks and aircraft as part of her proposed contribution to this alliance.

Though the Middle East proposal was abandoned due to a lack of enthusiasm on the part of the Commonwealth countries involved, this did not appear to deter the South Africans who continued in their quest for a broader African alliance, a proposed African Defence Organisation. Conferences intent on facilitating military co-operation between the South Africans, Rhodesians and the colonial powers were held at Nairobi in 1951 and Dakar in 1954. However, partly because of Western antipathy towards apartheid as well as other strategic considerations, no African alliance emerged.

With the white-ruled territories to the north constituting an effective *cordon sanitaire* against politically hostile black states which, it was viewed, might in some way assist the communist states in their scramble for territory, in the 1950s there was no immediate threat emanating from the regional arena to counter. This remained the case well into the 1960s, although there was some relatively modest involvement by the South African defence and police forces in support of Rhodesian and Portuguese counter-insurgency operations.

After this period, there was low-level assistance given to the Portuguese and Rhodesian forces and regional involvement through the forays into the neighbouring states, particularly Angola, which escalated with the South African intervention in that civil war in 1975 and continued throughout the 1980s in the region in the form of 'destabilisation'. Yet save for the attempts at security co-operation through various formal (Nkomati with Mozambique; Swaziland) and informal (Botswana and Zimbabwe) security liaisons, after the failure of the CONSAS proposal in 1980, there was little real chance that such contacts could be translated into some sort of regional security structure.

Non-South African Government Inspired Co-operation

The Southern African Development Community is today the primary non-South African inspired regional economic grouping in the region. Established in 1980 as SADCC, the organisation was formed primarily to reduce the region's economic dependence mainly on South Africa, by acting as a conduit and a co-ordinating centre for international aid and investment, rather than promoting formal integration. The founding membership of SADCC was: Angola, Botswana, Lesotho, Malawi, Mozambique, Tanzania, Zambia and Zimbabwe. Namibia joined on independence in 1990; South Africa in 1994.

Contrary to its objectives, SADC has not succeeded in reducing economic dependency on South Africa. And while trade with the Republic during the 15 years of the SADC's existence has increased, donor financing accounts for 86% of all income.²⁹ Although

the organisation has suffered from a lack of financial and development resources, its activities have also been characterised by a lack of managerial proficiency. Moreover, the approach of allowing each country to be responsible for the co-ordination of one sector of the Conference's *Programme of Action* has proven to be extremely unwieldy. For example, in SADCC Angola was responsible for Energy Conservation and Development, Tanzania for Industry and Trade, Swaziland for Manpower Development, Mining was Zambia's responsibility, Lesotho for Tourism, and Mozambique Transport and Communications. These factors - and a failure to prioritise projects - hampered attempts at any degree of self-sufficiency. Greater political solidarity was, however, fostered through these activities and those of the Community's related political organ, the so-called Frontline States (FLS) grouping set up in 1970.

The FLS was intended to bring together the already independent states of Southern Africa, notably Zambia and Tanzania, to lobby for the liberation of Namibia, South Africa and Zimbabwe. Lesotho, Swaziland and Malawi were never members of this organisation for 'security reasons'. While the FLS had some success in assisting the anti-apartheid struggle by supporting the national liberation movements in South Africa, it is now unclear what the future holds for this body. On this note, according to the Zimbabwean Foreign Minister Nathan Shamuyarira, the FLS will become the political and security wing of SADC with the title, the Association of Southern African States (ASAS). According to this argument, given the FLS role, the grouping is the most suitable framework for new sectors dealing with political co-operation and joint security.³⁰

Related to the role of the FLS during the apartheid years, in a political and military sense, was the role of the South African liberation movements. It is useful to remember that while 'official' South African government policy sought specific regional objectives during this time, an 'unofficial' policy conceived and nurtured primarily by the ANC, but also the PAC and AZAPO, sought often the opposite in the fight against apartheid. In this there movements were supported by the majority of South Africans; hence such a distinction between 'official' and 'unofficial' policy ('upstairs'/'downstairs' as some analysts have referred to it) is seen as confusing and misleading, and perhaps inversely misrepresentative.

As this grouping was concerned principally with the political and military liberation of South Africa, economic strategies for interaction in Southern Africa generally followed the SADCC line: one of detachment from and isolation, through sanctions, of South Africa. Economic vision, where it was expressed, was generally limited to what could be described as the 'utopian school' - where Southern African nations free from the barriers of apartheid - would prosper together. Perhaps this reflected a genuine belief

or was a 'sop' to the supporters of the 'struggle' in the region, but it was not rooted in economic realities.³¹

Established in December 1981, the Preferential Trade Agreement for Eastern and Southern Africa (PTA) was set up to promote economic co-operation and self-reliance among its now 23 Eastern and Southern African members. Created as the first step towards the establishment of a Common Market for Eastern and Southern Africa (COMESA), the PTA aimed to liberalise trade, foster co-operation in industry, agriculture, transport and communications, and create a regional common market through the breaking down of tariff barriers by the year 2000. At the time of the formal absorption of the PTA into COMESA in December 1994, the PTA was the largest sub-regional grouping in Africa: Angola, Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe are all members. Zaire has subsequently joined COMESA leaving only Botswana and South Africa as the only non-members from Southern Africa. The PTA/COMESA obviously overlaps with both SADC and the SACU, as well as the Common Monetary Area in its aims and objectives. As a result, the possibility of a merger with SADC has been discussed, but with no concrete outcome (see the following chapters which discuss in detail the future of the PTA/COMESA and SADC whose complementarities threatened, in early-1995, to spark a rift in COMESA).

Lessons from Past Experiences

With respect to South African-inspired efforts at integration:

1. Co-operation continued *despite* apartheid and, more relevant, *despite* the absence of an overarching structure and South African exclusion from African institutions.
2. Factors of common interest remain central to intra-regional relations and essential to the normal functions of member states. These, from past experience, include:³²
 - * Tariff/Customs arrangements.
 - * Water, electricity, agricultural, forestry, education, health, veterinary, etc. sectoral co-operation. Notable here are the R4 billion Lesotho Highlands Water Project and the Botswana Sua Pan Soda Ash agreements, both struck during the 1980s, as well as the Eskom power-grid which links the BLS states, Zimbabwe and Mozambique with South Africa.

* The functioning of the Southern African railways concatenation.

* The conduit along which normal, corporate business is conducted among Southern African states. The Anglo-American Corporation, for example, has always had important trans-border involvement either through De Beers Central Selling Organisation, as a result of international investment (such as those with Minorco or Charter Consolidated), or where Anglo is directly involved in mining or through one of its many subsidiary interests. The latter category generally includes the countries of Southern Africa whose economies are closely integrated with South Africa's, notably Botswana, Lesotho, Namibia, Swaziland, Zambia and Zimbabwe. The importance of corporate-driven linkages was illustrated by the alliance PW Botha attempted to forge with this sector in the pursuit of the CONSAS regional scheme, viz. the 1979 Carlton and 1980 Good Hope Conferences.

* The extent of corporate involvement is illustrated by the rate of increase in South African trade with African countries during the 1980s. The bulk of direct trade (as opposed to that through third parties) was still with the SADC countries, in particular the BLS states. Exports to Africa accounted for 10% of South Africa's total exports (though this has increased to around 13.5% in the mid-1990s). Approaching R1,6 billion in 1985, this figure excluded exports to the BLS states (as official South African trade figures referred to the Customs Union as a whole) which were estimated at R2,25 billion in the same year. In return, South Africa imported goods worth some R675 million from its African trading partners (excluding BLS) in 1985.

* South Africa's dependence on foreign, migrant labour. In 1986 over 70% of mine workers in the most senior grades came from the neighbouring countries (notably BLS and Mozambique). Conversely, only 30% of the lowest, unskilled jobs were held by foreigners, who in turn held 40% of all jobs on the mines. The number of foreign migrants numbers 378,125 in 1986, providing over R1,05 billion in remittances and deferred pay in 1985.

* Security-co-operation continued even during the 'bad, old' 1980s, where unfavourable security relations to some extent necessitated liaison.

With respect to non-South African government-inspired efforts at integration:

1. Southern African co-operation (that not involving South Africa) focused around the common goal, at a political level, of eliminating apartheid; at the economic

level, of reducing dependency on South Africa in order to realise the former objective. Whilst successful at mobilising international support and achieving political solidarity (principally through the Frontline States), this did not translate into effective and co-ordinated strategies for economic development on the home ground. Military defence was extremely limited, for example, in protecting ANC houses against South African Defence Force (SADF) incursions, or in assisting the Angolan government or SWAPO against UNITA and the SADF. Notable exceptions to this include Zimbabwe's contribution to anti-RENAMO operations in Mozambique and the FLS' military assistance over Rhodesian incursions into Mozambique in an earlier age.

2. Moreover, even during the destabilisation years, there were disagreements among SADC member states which affected trading relations. In the 1980s these included the dispute between Botswana and Zimbabwe over the local content in textile manufacturing, attempts by Tanzania to impose high harbour handling tariffs on Zambian goods exported on the Tanzam line, the failure of Zimbabwe to renew a hydro-electricity purchasing agreement with Zambia and the dispute between Zimbabwe and Mozambique over the Beira oil pipeline tariffs.

What Hope for Africa?

The worth of and scope for any future Southern African or continent-wide security and/or economic co-operative structure is intimately tied up with the political, social and economic future of the continent including, of course, South Africa. Although the international jury is still out (and will be at least until after the next election) on South Africa, the Republic's ability to co-operate effectively and to positively influence African affairs is dependent on its own efforts as much on the future capabilities of Africa's 'other' states. This symbiosis then depends as much on South Africa's willingness and ability to influence events, as it does on the continued existence of African state structures. In the latter regard, as the post-Cold War era has shown, the prognosis is not good, unless a degree of compulsion becomes acceptable - hardly likely given the suspicion and resentment this would arouse among the recipients. From a South African perspective, the diversion of funds from desperate domestic needs that this might involve, is also a crucial determining factor.

The imposition and legacy of colonial state structures is held by some to be the root cause of Africa's woes. Yet this, of course, was not the case in the 1960s - the era of liberation - which was a period of intense and extreme confidence in the ideological, administrative and technical competence of the state. The African state would, as Julius

Nyerere noted then, 'run where others walk'. Yet as the priority of leaders and government with rare exceptions, regardless of whether they claimed Marxist, socialist or just plain populist antecedents, became that of staying in power (and making those in power rich), one could soon see the shaky foundation of the nature of the African state, of the social contract, delinking state and governance from the people. This undermined the potential for security, stability and legitimacy.³³

In this era of 'Africa's Second Liberation' where 'an emboldened and deeply disillusioned civil society has confronted and ousted many of the continent's military and one-party dictatorships',³⁴ there however continue to exist conditions of insecurity, perhaps more apparent now than during the Cold War years. Yet few - if any - are of a direct external military nature, a feature which will undoubtedly shape future institutions and relationships. Factors which serve to create conditions of civil strife and threats to state security include:

- * Africa has an annual economic growth rate of around 1.5% - the world's lowest - against a population increase rate of 3.2% annually, versus the 2.1% economic growth for Latin America and 1.8% for Asia.³⁵ This has been exacerbated by conditions of environmental and agricultural degradation (although the chicken or the egg analogy springs uncomfortably to mind); drought; disease (especially AIDS, malaria and cholera); rampant corruption and mismanagement; refugee crises which relate to conditions of civil strife and famine; and a debilitating debt burden which has grown from under US\$150 billion in 1981 to \$290 billion in 1992, swallowing some 90% of the continent's GDP (110% for sub-Saharan Africa) and 30% of export earnings, although this debt figure is small in global terms. This burden - described by UN Secretary-General Boutros Boutros Ghali in December 1992 as 'a millstone around the neck of Africa' - required \$26 billion's worth of servicing in 1991 alone, an amount four times greater than health-care spending.³⁶
- * Africa has become, despite the fashionable over-use of this word, increasingly *marginalised* in terms of the world's consciousness. The relaxation in superpower competition ended the ability to play one side off against the other and to secure lucrative financial arrangements as a result. Added to the difficulties experienced in the transition process in the former Soviet Union, Central/Eastern Europe and in the Middle East, and with massive opportunities in the Far East, the Cold War 'peace-dividend' has not brought with it a diversification of resources, but instead donor fatigue and fiscal conditionalities. With competition at a peak and good opportunities elsewhere, coupled with a miserable record of thirty-something years of post-colonial rule (the colonial episode, too, a fast-fading memory for most in

the West), the criteria for assistance have changed dramatically to a focus on good governance.

- * This re-examination of the obligations of the African state has come also at a time when closer attention is now being paid to the very future of that state racked by ethnic conflicts and secessionism. The hold that the OAU has managed to place on border adjustments is now more shaky than ever, and negotiated settlement to the continent's frontiers may be an option 'infinitely more preferable to decades of debilitating civil war'.³⁷ The outcomes of Eritrea and Walvis Bay do not augur well for the continued border sanctity of Zaire, Tanzania, Angola, Somalia and perhaps even Nigeria. With the possibility of intensified ethnic conflict heightened now by political pluralism, there is a potential for the collapse of the state into competing and divided units.
- * Finally, with the end of apartheid, there is little good moral/ethical reason for the international community to remain engaged with Africa's problems.

There is, however, some glimmer of hope amidst all this pessimism. There have been free elections in some two dozen African states since the end of the Cold War. Such political gains are complemented also by the long-term structural economic readjustments made through the World Bank and IMF programmes. Yet at the same time, it is these policies which make political and, by implication, state fragmentation all the more likely in the short term. Perhaps it is necessary, in this regard, to ignore the current bout of baleful 'Afro-pessimism', and to seek out instead, as Michael Chege³⁸ has put it, 'What is right with Africa'. Indeed, when it comes down to a comparative test of per capita income or living conditions, Africans are no worse off than those in areas of Asia. There is a need to get rid of generalisations when dealing with Africa, turning instead to look at individual cases - and here it is important to take those cases which appear unique (because of their relative success) - in order to understand the norm (which is commonly seen as failure). In this way too it is necessary to temper the general picture of overall economic decline, of poor educational results, by looking at the success stories. There are also trends towards democratic sustainability - such as Anglo-Southern Africa; and those opposite, particularly the Lusophone countries. The reason behind such trends should be examined and the 'winners' not necessarily tarred with the same brush of failure, though this is unlikely to improve shorter-term prospects for co-operation.

Regional Integration Now

The end of the ideological climate of the Cold War, coupled with the simultaneous end of apartheid and the liberation struggles, presupposes a new era of mutually-beneficial and 'non-hegemonic' regional relations.

Since 1990 the debate around regional integration has followed, broadly speaking, a pattern of discussion which has examined, in turn, the merits and demerits of the various regional bodies: PTA/COMESA, SADC, SACU, CMA, etc. Initially concerned with the impact of a post-apartheid South Africa on these bodies and *vice versa*, and how these bodies might be redesigned to accommodate the security aspirations of Southern African states, the debate shifted to the means/method of the inevitable accommodation of South Africa. This concluded, in the economic arena, with the ANC's Macro-Economic Research Group (MERG) recommending that South Africa should seek membership of both SADC and the PTA/COMESA 'as a step towards working as a partner from the inside to develop an appropriate institutional framework for a development orientated regional programme, embracing elements of both sectoral co-operation and integration'.³⁹ This was also the position of the ANC's Department of International Affairs.

The ANC's working document on foreign policy which was presented in its final form in March 1994, although utopian in outlook provides an understanding as to the future commitments and directions of the foreign policy of the Government of National Unity.⁴⁰ From this it can be ascertained that much emphasis will be given to South Africa's role in the region and the African sub-continent. This document has identified 'a special relationship with the peoples of Southern Africa, all of whom have suffered under apartheid'. This, it is explained, is intertwined with the suffering caused by the years of apartheid and related regional destabilisation, making Southern Africa 'a pillar upon which South Africa's foreign policy rests'. Regional policies are to be based upon three principles of foreign policy:

- * The collective nature of the construction of a new regional order:
- * An anti-militaristic and development-oriented approach to regional security and co-operation.
- * South Africa's renunciation of all hegemonic regional ambitions.

The focus is thus on balanced regional economic development, intent on transforming the currently 'exploitative and socially undesirable features of the existing regional economy'. In this South Africa will, in the view of Nelson Mandela, have to exercise

self-restraint and sensitivity if patterns of co-operation and conflict can exist side-by-side in the region. A developmental thrust is envisaged as part of South Africa's wider African consciousness, with South Africa committed to offsetting the growing international divide between the rich 'North' and poor 'South'. According to this view, a prosperous and stable South Africa will provide 'the engine of growth' for Southern Africa.

As the most powerful state in Southern Africa, the country will undoubtedly have a strong international voice in that it will be in a position to exert a decisive influence on the destiny of the region. No longer constrained by the political barriers of apartheid, trade should take place more freely and openly with African countries. Although this scenario presupposes the survival and relative prosperity of South Africa in political and economic terms, there are still a number of inhibiting factors in this relationship.

For one, while the ANC's vision provides a guide to a future foreign policy, it is debatable also whether much of the above could practically be implemented. Indeed much about the conduct of foreign relations does not allow great scope for manoeuvre: much of international diplomacy is routine, where neither the policy-makers nor the practitioners have much latitude. As the earlier quotation attributed to Oscar Wilde suggests, in the future it will be necessary to strike a balance between ideals and reality. A failure to recognise South Africa's limitations with regard to its role in the global economic system, in providing for African development and with respect to the needs to focus South Africa's developmental resources internally, can only lead to frustration and disappointment. This pragmatic view was reinforced at an early stage in his Foreign Affairs' career by Minister Alfred Nzo's reference to the paramountcy of 'national interests'.

South Africa's dominance is going to be difficult to avoid. The table below illustrates the relative extent of its economic power. In 1992 South Africa exported some R17,35 billion worth of goods to its neighbours, but imported only R4,12 billion from them; it has 23,000 of Southern Africa's 42,000 kms of railway lines; 58,000 of 87,000 kms. of paved roads, and over 5,1 million of the region's 6 million motor vehicles; it handled nearly 16 times more tonnage of goods through its harbours than those of the region; and it creates 75% of sub-Equatorial Africa's total installed electricity capacity.

Second, alongside such power and dominance - often in itself a source of annoyance to Pretoria's neighbours, particularly Zimbabwe - is the continued existence of insecurities in the region. The end of apartheid will not result in the end of regional frictions. These relate to political factors, and also centre around a lack of resources (particularly for the land-locked nations), the movement of legal labour migrants (160,000 in 1992) and

illegals/refugees (over 1,5 million), as well as the focus of aid, investment and general international attention on South Africa presently.

| Southern Africa: Population and GNP (1992) | | | |
|--|-------------------|-------------------|--------------------|
| Country | Population ('000) | GNP total (US\$m) | GNP per cap (US\$) |
| Angola | 9,732 | 6,000* | 620* |
| Botswana | 1,360 | 3,797 | 2,790 |
| Lesotho | 1,860 | 1,090 | 590 |
| Malawi | 9,085 | 1,896 | 210 |
| Mozambique | 16,565 | 1,034 | 60 |
| Namibia | 1,529 | 2,502 | 1,610 |
| South Africa | 39,763 | 106,019 | 2,670 |
| Swaziland | 860 | 930 | 1,080 |
| Tanzania | 25,965 | 2,561 | 110 |
| Zambia | 8,589 | 2,580 | 290 |
| Zimbabwe | 10,352 | 5,896 | 570 |
| * Refers to 1989 | | | |
| Source: Esterhuysen, P (ed), <i>South Africa in Sub-Equatorial Africa: Economic Interaction</i> . Pretoria: Africa Institute of South Africa, 1994, pp.3, 14. | | | |

Third, the world that Southern Africa is entering into is appreciably different from that of 1985. A new region will have to take into account the absence of order in the new world, where the Third World - with Africa at the bottom of the pile - is increasingly marginalised, and where the formation of regional economic groupings is the primary focus of the industrialised powers, with little beyond a casual genuflection towards the betterment of mankind as a whole to justify the rearrangement.

Fourth, as can be gauged from the increases cited in the table below, South African-African trade has grown considerably in recent times. Yet further improvements in this trade relationship with Africa will demand that African countries have something to offer South Africa both in terms of credit facilities as well as resources and know-how. While there are undoubted opportunities north of the Limpopo, these are constrained by the finances available as well as by the domestic developmental demands made internally on Pretoria's own scanty financial means. Here it is relevant to note that, in 1992, South Africa's trade with Africa outside of the Customs Union amounted to only 7% of its overall foreign trade. By comparison, trade with the EU was over 5 times that amount.⁴¹

Fifth, the advocated method of integration favoured by the ANC and others including the African Development Bank (ADB), is a 'top-down' approach where governments take the lead through the creation of institutional frameworks. In this, integration is often seen as an 'end' in itself, rather than as the means to facilitate the goal of improved living standards. A 'bottom-up' approach stressing the need to solve common problems and the importance of private sector regional interaction has become a political casualty in this process. Such bureaucratic autism could impede rather than facilitate closer co-operation.

| Country/Region | Exports | | Imports | |
|---------------------|----------|-----------|---------|---------|
| | 1990 | 1992 | 1990 | 1992 |
| Total Africa | | | | |
| Excluding SACU | 3,855.0 | 5,976.5 | 727.7 | 1,306.4 |
| Including SACU | 13,290.0 | 17,348.0 | 3,012.0 | 4,120.0 |
| SACU ¹ | 9,437.0 | 11,372.00 | 2,285.0 | 2,814.0 |
| Botswana | 3,343.0 | 4,392.0 | 139.0 | 164.0 |
| Lesotho | 1,540.0 | 1,700.0 | 102.0 | 100.0 |
| Namibia | 2,840.0 | 3,200.0 | 690.0 | 900.0 |
| Swaziland | 1,714.0 | 2,080.0 | 1,354.0 | 1,650.0 |
| <i>Rest of SADC</i> | 2,576.4 | 4,434.8 | 575.0 | 1,004.5 |
| Angola | 50.6 | 365.2 | .. | .. |
| Malawi | 424.2 | 698.0 | 82.0 | 134.0 |
| Mozambique | 466.8 | 678.3 | 30.5 | 51.0 |
| Tanzania | 21.7 | 27.7 | 2.6 | 10.3 |
| Zambia | 512.9 | 1,112.2 | 7.5 | 44.6 |
| Zimbabwe | 1,100.2 | 1,553.4 | 452.4 | 762.6 |
| <i>Rest of SEA</i> | 1,083.4 | 1,223.8 | 75.4 | 62.2 |
| Burundi | 5.8 | 12.0 | 0.00 | .. |
| Comoros | 21.9 | 31.7 | 0.3 | .. |
| Congo | 6.4 | 24.7 | 15.5 | 4.4 |
| Gabon | 7.6 | 14.0 | 8.3 | 3.8 |
| Kenya | 10.2 | 151.0 | 11.8 | 23.7 |
| Madagascar | 51.5 | 53.5 | 1.3 | 6.6 |
| Mauritius | 311.6 | 391.6 | 14.5 | 12.3 |

| South Africa's Trade with Africa (1990 and 1992) R million (continued) | | | | |
|--|-----------|-------|------|-------|
| Reunion | 131.6 | 181.3 | 0.4 | .. |
| Rwanda | 0.4 | 8.2 | 0.9 | .. |
| Seychelles | 45.4 | 61.9 | 0.4 | 0.9 |
| Uganda | 2.3 | 2.9 | 0.1 | 0.1 |
| Zaire | 488.7 | 291.0 | 21.9 | 11.4 |
| <i>Rest of Africa</i> | 195.2 | 317.9 | 77.3 | 238.7 |
| Note 1: | Estimates | | | |
| SOURCE: Esterhuysen, P (ed.), <i>South Africa and Sub-Equatorial Africa: Economic Interaction</i> . Pretoria: Africa Institute of South Africa, 1994. | | | | |

The Regional Security Debate

Given the complementarity between security and development, it is important to note what form the debate around the creation of a Southern African security regime has taken, and how it has impacted on the parallel debate surrounding the formulation of a new integrative structure in the region.

Until recently, actual attempts at promoting regional security have occurred at two different levels.⁴² Institutional attempts at formalised regional security pacts thus far have been of a largely bilateral nature and have incorporated efforts at crisis resolution *and* prevention. These include: the Nkomati and Swazi Accords; the Lusaka Agreement; informal meetings among Southern African states during the Botha years; the New York Accord signed on 22 December 1988, and finally a bilateral agreement in June 1993 between South Africa and Mozambique on curbing cross-border criminal activity. By contrast since 1990, non-state, mainly academic, efforts have proposed relatively all-encompassing terms of collective regional security, in which multilateral arrangements would include non-military concerns.

The debate over the construction of a Southern African security alliance has essentially taken two forms: on the one hand, the advocates of a conversion of an existing institution to service these needs; on the other, those who favoured the setting up of an entirely new regional body. While not necessarily mutually exclusive, these two schools have been heavily influenced, it would be fair to say, by the CSCE-approach which has found expression in the Kampala Document prepared at the Conference on Security, Stability, Development and Co-operation in Africa (CSSDCA) held in May 1991. Reflecting such discussion a parallel school has appeared for the establishment of an all-African security regime, incorporating peace-keeping and disarmament mechanisms. The proposals were endorsed at the 29th OAU Summit in Cairo in June 1993.

Issues around the collective security debate up until now have covered a wide range of policy issues. These include:

- * Whether the CSCE approach - that of collective security rather than a defensive military alliance such as NATO - was the most apt for Southern Africa.
- * How far security was to be defined beyond purely military matters to conflict mediation and arbitration, confidence-building measures, disarmament, food and health security, etc., and which of these should be targeted for co-operation.
- * Should there be an African or regional effort, linked to an existing organisation such as SADC or the OAU or perhaps in the hands of an entirely new body?
- * Whether co-operation should include a peace-keeping force and non-aggression pacts.
- * Who was to take the initiative? Here South Africa potentially stood accused of 'giantism' or 'hegemonic behaviour' if it took the lead.

This course of enquiry largely has depended on a number of related factors such as the nature of the insecurities faced by Africa, both military and non-military. Also the record of existing regional efforts at peace-keeping and military co-operation (such as ECOWAS and also the FLS grouping) as well as the past record of economic integration attempts has to be looked at. Finally, the ability of African states to contribute to security arrangements, whether bilateral or multilateral, in the form of administrative, technical and military skills, or economic resources is also seen to be crucial.

The answer to such questions appears to lie in the current shift in favour of a 'piggy-back' approach to a Southern African security mechanism. Yet the preferences of the various key political players in Southern Africa is hazy, and it is not clear who is fully committed to this process. While the Presidents of South Africa, Zimbabwe and Botswana appear to have outwardly formed a close working partnership as was evident from the handling of the Lesotho crisis before the South African election and at the World Economic Forum in Cape Town in May 1994, President Mandela appears understandably reluctant to commit his government beyond just the rhetorical to any future SADC programmes. Rather the RDP is *the* programme of the new government, the success of which is seen as crucial to the future development of the whole of Southern and not only South Africa. It is clear, too, that the energies and preoccupation of other Southern African leaders are focused inwardly: Dos Santos and Savimbi over the Angolan *impasse*; Dhlakama and Chissano with post-election development in

Mozambique; President Bakili Muluzi with consolidating his Malawian power-base and improving the lot of his 9,5 million citizens; Chiluba is sorting out a myriad of crises which threaten to engulf him even before the next Zambian election in 1996; the seemingly ongoing constitutional and military crisis in Lesotho; the looming pro-democracy civil unrest in Swaziland, and so on. Given these considerations, it is unlikely that a committed and well thought through *Southern African* position will emerge for the foreseeable future.

Yet as a result of the deliberations and resolutions of a SADC workshop on 'Democracy, Peace and Security' held in Windhoek from 11-16 July 1994, the Development Community looks, in the words of one participant, 'set to enter into the fields of security co-ordination, conflict mediation and even military co-operation on a grand scale'.⁴³ The Windhoek conference recommended a non-aggression and mutual defence pact for the region, and a new role for military forces and defence industries to meet civilian needs.⁴⁴ These proposals were refreshing by the logical linkage between security and development. But no longer is economic development a *sine qua non* for security, rather the reverse: that regional economic integration depends on political and military stability. As the SADC Executive-Secretary Kaire Mbuende has said:⁴⁵ 'Economic development cannot take place in an insecure environment, and now is the time to consolidate democracy and peace in Southern Africa'.

The proposals of the meeting, which were referred to the Council of Ministers, thus envisage the creation of new SADC sectors to deal with defence, security and political co-operation. According to senior SADC officials, South Africa, ironically - but realistically - was likely to be allocated the responsibility as co-ordinator of security matters which included the creation of an environment for information exchange on defence matters, and joint forging and co-ordination of military policies. Within the compass of the latter was envisaged the creation of a regional Interpol office and full co-ordination in the tackling of cross-borders crimes.

Although there were misgivings expressed about these arrangements which some saw as effectively giving SADC the powers to usurp national sovereignty, whilst potentially overburdening South Africa, Deputy-President Thabo Mbeki was quick to placate such fears. He argued that events in 1994 in Rwanda demanded the existence of a regional security system which had the agreement of members to intervene in the interests of peace and democracy. Noting that the carnage in Rwanda had its roots in an 'African paralysis' and internal conflicts, Southern Africa needed a 'regional security system. We must show our neighbours that we are non-threatening. It is necessary to go beyond such statements'.⁴⁶

Yet despite such platitudes, there are many questions about this approach. Importantly,

- * The proposal to group economic and security/conflict resolution structures together is arguably inappropriate. Functionally these require different skills and tasks, while organisationally SADC has thus far not proved to be the most efficient or effective framework for even economic development, especially bearing in mind its historic fragmentational approach to sharing out the hypothetical foreign aid spoils (and even less likely to arrive now given the removal of the root cause: assistance in combatting apartheid-sourced losses).
- * Given the past regional excesses and difficulties in prioritising domestic needs, SADC member states are understandably cautious about the effects of agreements which might constrain freedom of policy and drain severely limited resources.
- * Finally, a case could also be made from a purely South African perspective that too close or complex a relationship at this stage would impose an unnecessarily severe burden on South Africa's administrative skills, already in short supply, which would become bogged down in a regional morass of inertia and underfunding - unless, God forbid, South Africa was to pick up the tab!

The Way Forward?

What then might be the way forward in the vision of regional economic integration? Here we should consider the reasons why there should be regional integration at all before one debates suitable methods. Alan Hirsch has identified both 'insufficient' and 'justifiable' reasons for integration.⁴⁷ Those deemed 'insufficient' are that:

- * The rest of the world is doing it.
- * It will lead to significant gain through complementarities and economies of scale.
- * It is required by international donors.
- * It fits in with a spirit of Pan-Africanism.
- * It is a way of South Africa 'paying-back' its economic and moral debt to the region.

Alternatively, 'justifiable' reasons are that:

- * Southern Africa's trade, labour market and transport system are already integrated.
- * There are certain advantages - particularly in terms of infrastructural developments - through operating as a region and not as an individual state.
- * An integrated region provides a more formidable international lobby.
- * Most importantly, an integrative ideal could drive co-operation to create a regional system which provides a sound basis for economic development.

Thus, regional co-operation will depend on the working-out of a 'common interest'. Integration should, realistically, as in Europe, take place by stealth rather than with the imposition of a top-down integration ideal. Here interlocking relationships will develop through bilateral and multilateral (particularly functionally-based) agreements. Economic factors - such as co-operation in the areas of trade, finance, manufacturing, agriculture, wildlife and tourism, labour, education and training, health, forestry, transport and telecommunications, water, the environment and energy - will, if a focus on areas of common interest is adopted, play a role in stimulating co-operation in the region. Here non-state institutions (especially the business community) will play a prominent part. The formation of the Eastern and Southern African Business Organisation (ESABO) in August 1994 linking this community from the Sudan to South Africa is a step in this direction. Incorporating the membership of national business organisations such as the Chambers of Commerce as well as Associations representing, *inter alia*, banking, manufacturing, agriculture and tourism sectors, ESABO is expected to operate alongside the PTA/COMESA, SADC, SACU, the Indian Ocean Community (IOC) and the East African Community (EAC). Its goal includes the removal of all tariff and non-tariff barriers, and the 'pooling' of common services, information, skills, resources and goodwill.

However, what is the best initial step forward? Here it could be argued that a focus on the security difficulties between and within states should precede rather than follow economic integration. Without this, it will be difficult to conduct normal interstate relations with many neighbouring countries at the present time. Economic growth will hinge on the creation of stable economic and political systems in the region with which the West, and local businessmen and governments can confidently do business.

South Africa will obviously involve itself fully in regional matters as they pertain directly to domestic security. In this regard it is relevant to ask what exactly constitutes 'security' in South Africa? Sources of insecurity are felt in different ways and at different

intensities. In South Africa's case, the stability of popular sentiment (both those for and against) and viability of the new constitution is potentially the greatest area of threat. Therefore this becomes an *internal security* issue - without economic and social progress and development, the stability of the constitution is not assured. The key areas that threaten positive socio-economic development or contribute to slow economic growth include:

- * Continuation of high levels of criminal activity.
- * Political instability.
- * Lack of investment and aid.
- * Regional instability which increases levels of violent crime, numbers of refugees/illegal immigrants and curtails regional trading opportunities.
- * High population growth rate.
- * Inflated and/or expensive and/or inefficient government.
- * Structurally misconceived and mismanagement of reconstruction programmes.

All these factors are obviously interrelated.

In this regard, the centrifugal forces of security are greater than the political and economic forces in the region which have acted, at times, to push countries apart. While multilateral arrangements best express broad political solidarity, countries of the region might be well advised also to focus their attention at first on small-scale (bilateral-trilateral) agreements.

The potential areas for inspiring security and thus wider regional co-operation include:

- * Arms and Drug Smuggling (which like any of the below is linked to illegal immigration).
- * Contraband and violation of customs regulations.
- * Cattle rustling.
- * Nature and Game conservation.
- * Vehicle theft.
- * Disaster relief.
- * Security training and co-operation.
- * Sea fisheries and maritime exclusion zone policing.
- * The lifting of land mines.
- * Peace-keeping and monitoring operations.

Conclusion: *Plus Ça Change?* or 'Nature Abhors a Vacuum'!

The Kampala document previously mentioned illustrates how security, stability and development are intertwined in Africa and suggests that these issues have to be resolved simultaneously. Conflict resolution and prevention remain the key foci of this approach. Alongside there exists the challenge and dilemma of rethinking norms of intervention and state sovereignty which is still required as a form of 'preventative diplomacy'. In Southern Africa such diplomacy can be fostered through emphasis on the security concerns of states, and could - as has been argued - act on a catalyst for wider integrative co-operation. Yet, due to the limited ability of many Southern African states to contribute effectively to such institutionalised co-operation, this process will necessarily have to proceed at a low and even rudimentary level and pace.

The fears of economic domination by South Africa alongside a weakening (and increasing dependency) of the region, rather than the hope of economic development and prosperity through the Republic's philanthropy, is a legacy of the years of colonial misappropriation and, most recently, destabilisation. Although ultimately South African domination is perhaps an 'undeniable inevitability', the sensitivity of approach and the terms on which future co-operation is built will be important to breaking down past prejudices and to better understanding of needs and abilities. A focus on military-security issues is likely to be a cornerstone in this approach, with obvious socio-economic benefits to all.

Though regional suspicions still run high, the new South Africa will necessarily play a central role in facilitating normal patterns of regional security co-operation and economic integration. However, in doing so, South Africa could have to exercise its regional responsibilities in a manner which will not always be appreciated by its neighbours. Here the refugee crisis and cross-border theft rings immediately spring to mind both as issues which could improve co-operation between South Africa and its neighbours, yet also contain the possibility of aggravating existing tensions.

Ultimately the effectiveness of any regional institutions set up will be dependent on the coherence and legitimacy of emergent state formations in Southern Africa. This, in turn, relates to the nature of the domestic processes and the tolerance of diverse political cultures, and hinges on the success of conflict resolution and reconciliation efforts. As in the past, the future of the region depends on what happens in South Africa. *Plus ça change....?*

Endnotes

Much of this chapter is based on presentations made at two conferences: the biennial African Studies Association (ASAUK) Conference held at Lancaster University from 5-7 September 1994; and the AIC Conference on Defence held at Midrand, South Africa, 11-12 October 1994. The assistance of the British Council towards enabling participation in the Lancaster Conference is gratefully acknowledged. I am grateful also to Peter Henshaw, Jack Spence, Alan Begg and Anthoni van Nieuwkerk who read and commented on the early drafts. The usual disclaimer applies, however.

1. Prinslow, KE, *Transportation as an Element of Foreign Policy in Southern Africa or the Ties that Bind*, Naval Postgraduate School, Monterey, California, unpublished M.A. dissertation, 1985, p.48.
2. Barber, J, *South Africa's Foreign Policy 1945-1970*. London: OUP, 1973.
3. Geldenhuys, DJ, 'South Africa's Regional Policy'. Paper presented at the South African Institute of International Affairs Golden Jubilee Conference on the topic *Regional Co-operation: The Record and Outlook*. Cape Town, 6-7 March, 1984, p.3.
4. *House of Assembly Debates*, vol.52, col.3956 in Nolutshungu, SC, *South Africa in Africa*. Manchester: Manchester University Press, 1975, p.46.
5. Geldenhuys, *op.cit.*, p.10.
6. See Jaster, RS, 'South African Defense Strategy and the Growing Influence of the Military' in Foltz, WJ & HS Bienen (eds), *Arms and the African*. New York: Yale University Press, 1985, p.124.
7. Geldenhuys, *op.cit.*, pp.4-5.
8. Barber, *op.cit.*, p.106.
9. *House of Assembly Debates*, 12 March 1961, col.4385 in Cockram, GM, *Vorster's Foreign Policy*. Pretoria: Academia, 1970, p.16.
10. Geldenhuys, *op.cit.*, p.6; and see Barber, *op.cit.*, p.174.
11. Quoted in Cockram, *op.cit.*, p.131.
12. In 1964 the Republic of South Africa and (Southern) Rhodesia signed a five-year trade agreement, lowering trade tariffs, which saw a rapid increase in trade between the two countries. See Barber, *op.cit.*, pp.175-180.
13. Between January 1960 and May 1961, gold and foreign exchange reserves fell by over half: from R312m. to R153m., *ibid.*, p.202.
14. From R5,200m. to R7,700m. By 1967 this figure had risen to R9,600m.. Barber, *ibid.*, p.203.
15. *Rand Daily Mail*, 26 September 1967.
16. Barber, *op.cit.*, p.247.

17. Quoted in Geldenhuys, *op.cit.*, p.10.
18. Barber, *op.cit.*, p.243.
19. *Star*, 11 September 1968 and *Rand Daily Mail*, 12 September 1968.
20. Cockram, *op.cit.*, p.131.
21. *Ibid.*, p.129.
22. The December 1969 SACU agreement which is more favourable to the BLS states than the 1910 version, provides, *inter alia*, for: unrestricted and duty-free interchange between the four countries of their domestic products and of goods imported from outside the common customs area; common tariff and uniform trade regulations with regard to goods imported from outside the customs area; a common revenue pool of customs, excise and sales duties which is divided according to a revised formula that contains a measure of fiscal compensation for the disadvantages suffered by the BLS states; the imposition of additional duties to protect the BLS states' new and vital industries; and, general and special consultations between the member states. Geldenhuys, *op.cit.*, p.11. See Republic of South Africa, *Government Gazette*, 54, 2584, 12 December 1969 for the text of the 1969 agreement; and see also, Maasdorp, G, 'The Southern African Customs Union: An Assessment', *Journal of Contemporary African Studies*, 2, 1982, pp.87-103. For an up-to-date assessment on the pros and cons of SACU, see Mayer, M & H Zarenda, *The Southern African Customs Union: A Review of Costs and Benefits*. Midrand: DBSA, March 1994; and Sisulu, M, *et.al.* (eds), *Reconstituting and Democratizing the Southern African Customs Union*. Johannesburg: National Institute of Economic Policy, 1994. Mayer and Zarenda note (p.ix.) that there are 'broadly four alternatives available to SACU in the post-apartheid era'. These are for SACU: to remain as it is ('unsustainable' because of pressure from GATT); to be terminated as downgraded to a free-trade area (which would lead to a loss in benefits to BLSN with an increase in labour migration to South Africa); to broaden its membership (unaffordable with the current revenue-sharing formula); and to be 'retained and reformed' -especially with regard to the current formula.
23. For a background to these projects, see Cockram, *op.cit.*, pp.165-167; and also 'Co-operation in Southern Africa on Water Resources', *Southern African Facts Sheet*, 113, November 1988.
24. Geldenhuys in Clough, *op.cit.*, p.135. For the full text of the Lusaka Declaration, see Hough, M, Booysse, W & M Van der Merwe, *Current Selected South and Southern African Agreements and Declarations*. Pretoria: ISSUP Ad hoc Publication 22, 1985, pp.62-69.
25. Geldenhuys in Clough, *op.cit.*, p.135.
26. Jaster in Foltz, *op.cit.*, p.123.
27. Barber, *op.cit.*, p.81.
28. *Ibid.*, p.83.
29. The Africa Institute puts the figure at 90%, others slightly less. See Esterhuysen, P (ed), *South Africa in Sub-Equatorial Africa: Economic Interaction*. Pretoria: The Africa Institute, 1994, p.19; also 'New Focus on Southern Africa's Search for Economic Viability', *Southern African Facts Sheet* 110, August 1988. For a complete summary of the future of the various regional institutions, see Potloane, J, 'Integrating Africa', *Indicator SA*, 11, 3, Winter 1994, pp.63-68.

30. See *The Star*, 1 August 1994.
31. See, for example, Hanlon, J, *Beggar Your Neighbours*. London: Indiana University Press/James Currey, 1986, esp. pp.67-79; Brittain, V, *Hidden Lives, Hidden Deaths: South Africa's Crippling of a Continent*. London: Faber and Faber, 1988; Smith, S, *Front Line Africa: The Right to a Future*. Oxford: Oxfam, 1990, esp. pp.99-133; and Johnson, P & D Martin (eds), *Destructive Engagement: Southern Africa at War*. Harare: ZPH, 1986, esp. pp.221-281.
32. For figures on migrant labour and remittances, see Leistner, E & P Esterhuysen (eds), *South Africa in Southern Africa: Economic Interaction*. Pretoria: The Africa Institute, 1988, pp.123-126. Africa has 93,000km. of rail line, of which 42,000km. (45%) is in Southern Africa, and 23,162km. (25%) in South Africa. Not surprisingly, over half the funding sought and number of projects of SADCC were for the upgrading of the transport and communications sector, most of this to Mozambique. In 1987, it was claimed by the South African Transport Services (SATS) that there were ten times more SATS trucks over the border than there were trucks in South Africa from the neighbouring states. In 1983, the daily average was 5,883 SATS freight cars in Southern Africa, with some 936 foreign waggons on South African lines; compared against 6,000 outside and 1,000 in South Africa in 1986. SATS income derived from traffic to and from the neighbouring states was estimated in 1985-86 to be between R180-R300m. per annum, the latter figure representing some 3% of total SATS revenue. SATS income from the sale of service and expertise to the neighbouring states amounted to between R12-R15m. per annum in the mid-1980s. There was also considerable consultation between SATS and South Africa's neighbours. In 1987, it was acknowledged by SATS that regularised liaisons included, *inter alia*, daily conferences with Zimbabwe over the telephone; meetings with Mozambique every two months; meeting with Southern African railways at Assistant General Manager level; and, an Annual General Meeting attended by the General Managers of all Southern African railways (excluding Angola) rotating annually between Zaire, Malawi, South Africa, Swaziland, Zimbabwe and Zambia, and attended by all these countries as well as Botswana and Mozambique. See Leistner, *ibid.*, p.45. Other information was derived from material supplied by SATS and interviews during October 1987.
33. See Young, C, 'The African State and the Post-Colonial Crisis'. Paper delivered at a conference on *The New Stage of Political Development in Africa*, Beijing, 23-26 May 1994.
34. Baynham, S, 'After the Cold War: Political and Security Trends in Africa', *Africa Insight*, 24, 1, 1994, p.38.
35. *Ibid.*
36. This burden has promoted the argument for the scrapping of all Africa's debts. Those who favour this move contend that the debt figure is small in global terms, and thus such action would only affect a small number of countries and would not be harmful to the global economy. Riley, S, 'Africa's Second Liberation'. Talk given at SAIIA, Jan Smuts House, 29 July 1994. See also 'African Debt Crisis: A Continuing Impediment to Development'. New York: UN Africa Recovery Unit, 1993.
37. Baynham, *op.cit.*, p.41.
38. Chege, M, 'What is Right with Africa?'. Paper delivered at a conference on *The New Stage of Political Development in Africa*, Beijing, 23-26 May 1994.
39. Davies, R, 'Approaches to Regional Integration in the Southern African Context', *Africa Insight*, 24, 1, 1994, p.11.

40. This and other essays on the foreign policy debate can be found in Mills, G, (ed), *From Pariah to Participant: South Africa's Evolving Foreign Relations, 1990-1994*. Johannesburg: SAIIA, 1994.
41. In 1993, 47.5% of South Africa's exports went to Europe, 30.1% to members of the EU (R16,4bn.). Of imports, 49.1% were from Europe and 44.4% from the EU (R23bn.). See *The Citizen*, 2 July 1994. According to these statistics, South Africa's total foreign trade (exports and imports) is worth some R105bn. annually, with nearly R40bn. of this with the EU and R7,3bn. with non-SACU Africa.
42. For a concise summary of the development of the debate around a regional security regime, see Breytenbach, W, 'Conflict in Southern Africa: Whither Collective Security', *Africa Insight*, 24, 1, 1994, pp.26-37; Baynham, S, 'Towards Peace and Security in Southern Africa', *Africa Institute Bulletin*, 34, 3, 1993; also, Mills, G, 'Searching for the Eye of the Needle: South Africa and Southern African Security', in Mills, G (ed), *op.cit.*, pp.70-90.
43. Cilliers, J, 'Future Challenges for the Security Forces'. Paper delivered at a conference on *Rethinking South African Security Architecture*, Midrand, 28 July 1994.
44. *The Citizen*, 18 July 1994.
45. *Ibid.*
46. *Sunday Times*, 24 July 1994.
47. These thoughts were put forward at the African Development Bank Seminar on *Economic Integration in Southern Africa*, Midrand, 7-8 February 1995.

Big or Small, Open or Closed?

A Survey of Views on Regional Integration

Anthoni van Nieuwkerk

In the new world order, Southern African states will have very little room to manoeuvre.

Fantu Cheru, 1992

Introduction

For economic policy-makers in Southern Africa, whether in the state or private sector, the question of regional economic co-operation is no longer academic. There is general agreement on the necessity for closer co-operation to co-ordinate policies of a regional nature, including those relating to trade, investment, development and security. There is however no clarity yet on the preferred route to further regional economic co-operation. Economic integration is not even on the short- to medium-term agenda; it is seen as an eventual product of such co-operation. This uncertainty is reflected in the strained relations between the PTA/COMESA and SADC, a situation compounded by South Africa's recent decision to join SADC, seemingly leaving the PTA in disarray. Intra-organisational strife has also not been eased by the decision to create a 'PTA North' and 'PTA South'. It furthermore appears as if the South African government is not agreed on any forward strategy, or, if it is, not ready to implement concrete strategies. Some commentators ascribe this state of affairs to a lack of vision on the part of the respective leaders as to what must constitute regional economic co-operation and integration.¹ Another view holds that the process must of necessity be a slow one, given the enormous dimensions of the decisions and commitments involved.

This chapter will attempt to 'unpack' the thinking behind the various approaches to regional economic co-operation and integration. In doing so, the arguments for and against regional economic co-operation will not be repeated. Nor will the process of closer co-operation be discussed - this will be dealt with in chapters twelve and fourteen. Rather, an attempt will be made to assess the multitude of views on the theme, and to explore commonalities and differences. Three related aspects will be examined: perspectives on the impact of recent international developments; regional perspectives; and views on regional integration from within South Africa. The conclusion will look at the extent to which views tend to converge and on what issues.

Two related theoretical notions underpin this chapter: the agent-structure distinction; and the assumptions found in the world-systems perspective. These will not be expanded upon, except to explain the former briefly. I believe one cannot analyse the political economy of Southern Africa and the policies and interests of the actors in this region (agents) without an understanding of the concrete historical circumstances that determine the possibilities for action and influence its course (structure).² When thinking about the (limited) economic and political choices facing the Southern African region, Karl Marx's premise comes to mind: 'Men make their own history, but they don't make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given, and transmitted from the past'. This does not mean that Southern Africans cannot make decisions; nor should they allow others to make choices for them. On the contrary, appropriate choices and optimal strategies must be pursued or struggled for. Some of these tensions will be highlighted in the discussion.

The Impact on Southern Africa of International Developments

A number of significant recent global developments are shaping, and constraining, the contours of the political economy of Southern Africa. Although most analysts would agree that these factors are significant for the region, there is no consensus on the impact of these developments.

On a macro-political level, it seems clear that the demise of the Cold War has heralded a revolutionary restructuring of world politics. The 1990s are witnessing the beginnings of a new international system, structured by disintegrative trends such as environmental degradation, weapons proliferation, the end of bipolarity, and the resurgence of nationalism and ethnic conflict. Restructuring is also suggested by integrative trends. As Kegley and Wittkopf recently commented,³ the nations of the world are drawing more closely together in communications, ideas, economics, and even peace and security. Together, the countervailing forces of integration and disintegration point toward a transformation in global politics that matches in extent and importance the upheavals following the Second World War.

These developments have already had a major impact on the Southern African region - most immediately felt in the area of conflict resolution and political restructuring. The impact on this region of the demands of the post-Cold War world economy⁴ will be felt gradually, but is already evident. East-West confrontation has been replaced by a North-South divide, likely to be consolidated by the emergence of competing trading blocs. As South and Southern Africa clearly form part of the South, it means that Southern

Africa will be at the receiving - and not the determining - end of the process of global economic restructuring, as witnessed by the implications of the Uruguay Round and the new GATT.⁵ Southern Africa, a region of the South, is caught in a global tension, the dynamics of which will largely determine its future well-being. This tension was expressed by economist Robert Heilbroner when he remarked:⁶

The world is still hopelessly split into areas of wealth and poverty, with little prospect of narrowing the gap. The politics of international economic affairs in our lifetimes must therefore be a politics of inequality, inherently a politics of mutual suspicion and struggle.

Most Southern Africanists who work with, or on, issues related to the politics of international economic affairs, are under no misconception as to its nature: it is, they would agree, 'a politics of inequality'. The efforts of Africa to define for itself a place in the world economy and to improve its standing within that global system, are well known. It includes post-colonial socialist projects, joint efforts with the UN General Assembly to create a New International Economic Order, and failing those, 'home-grown' responses to the demands of the world economy: ambitious plans to forge an African economic community, embodied in the Lagos and Abuja initiatives. Latest responses have one thing in common: a desire to moderate the perceived harsh impact of the demands of the world economy, especially the new trade regime, by promoting closer economic co-operation and integration amongst African states. These responses will be discussed shortly.

In the meantime, it has become clear that the process of global political and economic restructuring has produced new international responses to developments on the African continent. Africa, despite having to endure a multitude of crises, is not yet fully marginalised (or totally bankrupt), as many pessimists would lead us to believe. Indeed, a range of powerful international actors are promoting the objective of regional economic co-operation and integration in Africa, including the Southern African region. These actors include international financial institutions and multilateral donor agencies, clearly all with a vested interest in the future stability of the region. The question that needs to be asked, therefore, is why this involvement, and to what end?

In line with the 'new consensus' on the rules of global interaction - free markets and democratic governance - it appears as if powerful international actors are actively promoting a particular economic model in the countries of Southern Africa. This model, or paradigm, can be described as market-driven *laissez faire* integration, and is intended, as recently described by Dot Keet, 'to push forward a rapid process of liberalisation throughout Southern Africa'.⁷ This strategy must be seen against the broader involvement of the World Bank, IMF and donor countries in Africa in terms of imposed economic

restructuring, usually involving liberalisation measures such as structural adjustment programmes.⁸ According to Cheru, the stipulation of trade liberalisation by bilateral and multilateral aid agencies as part of their conditionalities, and the global negotiations through GATT to liberalise world trade, will be counter-productive for Southern Africa, and he advises that 'well thought-out protection measures against the major trading blocs' must be considered.⁹ A discussion of three examples of externally developed programmes for integration in Southern Africa should explain Cheru's cautious advice.

External views on regional integration

Two particular examples of external intervention from the 'market' perspective are the World Bank study on *Intra-Regional Trade in sub-Saharan Africa*; and an initiative of the World Bank and IMF, the African Development Bank and the Commission of the European Communities described as the *Cross Border Initiative* and published as a Concept Paper.¹⁰

*The World Bank study on Intra-Regional Trade*¹¹

The starting point for the World Bank study is the strengthening and deepening of structural adjustment processes in sub-Saharan Africa. The thrust of this study is for domestic liberalisation programmes in Africa to be extended rapidly into broader liberalisation of all cross-border economic relations. It therefore attempts to link sustained increases in regional trade to the dismantling of the barriers that limit cross-border investment and labour flows. To this end, there should be forward movement from selective tariff cuts in trade between African countries towards more sweeping measures which promote factor mobility and support the free movement of goods and services across African borders.

The World Bank also emphasizes that regional co-operation should result in increased openness and less protection against the rest of the world. Within its central aim of the greater integration of Africa into the world trading system, the World Bank analysts are prepared to countenance regional preferences that are temporary and reasonable provided they are part of general and significant lowering of external protection.

Thus, the World Bank agenda on regional integration is for rapid and extensive liberalisation of economic relations within and between African countries, and between them and the rest of the world. In the view of Keet,¹² the Bank proposals go further to promote and secure the implementation of liberalisation programmes in that it proposes

that liberalisation measures must actively foster a private enterprise constituency and develop such forces into local pressure groups in favour of yet further liberalisation measures.

It appears therefore that the main aim of the World Bank study is to get African economies to open up totally to international trade and investment. It is also clear about where its institutional preferences lie. It notes that since a number of regional economic organisations already exist in Africa, these must be used to implement the Bank's new initiatives. This would, however, have the fundamental purpose of promoting factor mobility and the free movement of goods within the respective regions as well as generalised trade liberalisation with the rest of the world. Indeed, the Bank prefers avoiding inward-looking and protectionist agreements in favour of unilateral liberalisation.

*The Cross-border Initiative*¹³

As Keet points out, the 'unilateral liberalisation' scenario is now in the process of being promoted over large parts of Africa, embracing the countries covered by the PTA/COMESA, SADC, the Indian Ocean Community, and others. This initiative is a continuation of the World Bank's programme for accelerated and substantial economic liberalisation, and 'seeks to build on the progress achieved under national structural adjustment programmes'.¹⁴ This latest initiative places its emphasis on 'unilateral action and self-selection' by African countries to join in on the programme of liberalisation outlined in the Concept Paper. Such self-selecting countries obtain access to targeted donor support if they are willing to cooperate with the bodies set up and resolutely implement the policy packages created through the initiative.

The bases for 'country-specific programmes' are elaborated in a Common Programme of Action. This covers liberalisation of intra-regional and international trade in both goods and services as a priority, as well as deregulation or liberalisation of domestic and foreign investment policies. Trade liberalisation includes a much-needed dismantling of all non-tariff barriers on imports from all countries, but also the elimination (by 1996) of tariffs on intra-regional trade, and the reduction of the external tariffs of regional groupings to the level of the member country with the lowest tariffs. Sponsoring these country-based programmes will be the European Commission, the World Bank Group and the African Development Bank. The IMF's contribution will be to provide the 'requisite macro-economic and structural frameworks'.

For whose benefit? Some critical comments

I must agree with the critical observations of Keet, Sethai, Cheru and others that these initiatives are problematic, especially when viewed against the processes advocated by the region. Saasa¹⁵ questions the relevance to Third World developmental conditions of the neo-classical theory of regional economic integration. He is of the view that for developing countries, export promotion through trade liberalisation does not necessarily lead to growth. It should also be added that economic growth *per se* is no guarantee for economic development to necessarily follow. It would be unwise, Saasa believes, to assume that trade and its liberalisation should be the driving force behind integration among developing countries. He argues for increased, planned and co-ordinated industrial infrastructural development that recognises the efficiency and developmental roles of industrial complementarity, specialisation, external economies and economies of scale.

Cheru's comments regarding the cross-border investment initiative are sobering. In his view, under this initiative, the basic role of donor support will be toward overall, collective economic liberalisation of PTA/SADC countries by improving conditions for a more active role by private agents across the frontiers of the region. Such market-led integration and across-the-board trade liberalisation are inconsistent with the *raison d'être* of both SADC and the PTA. According to Cheru, 'If fully implemented, South Africa will obviously be the main beneficiary and little progress will occur in intra-PTA trade'.¹⁶ There are other problems with this initiative. It is a disruptive intrusion cutting across complex ongoing processes within the region (such as the current process of renegotiating the Southern African Customs Union agreement). It also effectively sidelines existing regional organisations (it has the potential to reduce the PTA to a mere advisory body). Furthermore, following on from the World Bank's earlier proposals, this initiative is designed to ensure that regional organisations in Southern Africa do not become what the Bank considers 'inward looking and discriminatory against third parties'. Both interim preferential tariff agreements of the PTA type, or regulatory measures for the defence and development of vulnerable economies, supported by SADC, are considered by the World Bank to be inimical to the free trade 'openness' needed for growth. Thus, co-ordinated programmes for gradual, multi-speed and differentiated lowering of protections in different economic sectors, and selective external liberalisation are in danger of being swept aside by the Common Programme of Action.

Finally, there is a danger that the cross-border initiative could undermine the possibilities for developing regionally balanced investment strategies in Southern Africa. The sweeping liberalisation measures being promoted by this initiative are inimical to the

regulatory interventions that will be required for the development of regional programmes of co-operation in manufacturing, mining, energy, transport, tourism and much else. Reliance on the operations of competing business interests is totally inadequate to the region's strategic need for consciously structured reconstruction and development programmes. To be effective - and accepted - these have to be negotiated between governments, business, organised labour and other interests in the region. These arguments are also advanced in the MERG study on regional integration.¹⁷

The EU - Southern Africa Initiative (The Berlin Declaration of Intent)

In September 1994, the foreign ministers of SADC and the EU met for two days in Berlin to discuss political and economic co-operation between the two regions. The meeting issued the so-called Berlin Declaration of Intent, according to which the EU and SADC agreed to co-operate in the areas of, *inter alia*, political dialogue, regional integration, and trade and economic co-operation.¹⁸ The motivation for this initiative was provided by German Foreign Minister Klaus Kinkel, who recently explained that it was in response to the 'positive developments in Southern Africa that have opened up entirely new prospects to this part of the continent'.¹⁹ In his view, successful democratisation and market-economy orientation in the entire region have created the prerequisites for peace, co-operation and economic and social progress in Southern Africa, and 'the Europeans want to give moral and practical support to the SADC in its development'.²⁰

The question of course is what form this 'moral and practical support' will take. There are two schools of thought: on the one hand, this initiative is viewed as somewhat of a breakthrough, given that the EU had granted Southern Africa substantial support in the past and appears to continue to do so - over the past 20 years US\$5,6 billion had been made available and increasingly large amounts of untied resources are believed to be on the way. According to one source, the EU has recently made 362 million Ecus available to the SADC itself - seen as an indication of 'the importance attributed by the EU to regional co-operation'.²¹

On the other hand, this initiative is viewed by some as a public relations exercise, intended to reassure the countries of Southern Africa that the EU still keeps an interest in regional developments. Underlying this sentiment is the EU's interest in their investments in the region. According to this view, there seems to be no serious commitment in the Berlin conference beyond that of words. A reading of the Declaration, it is pointed out, tends to confirm this view. More important, this second view complements that of Nancy Thede who recently wrote that in light of the political

developments during 1975-90, none of the countries of the region is capable of articulating a coherent set of policies with the goal of transforming patterns of domination in the future regional order. This happens in the context of increasing external dependency. Indeed, in her view, there is a tendency in the region to rely more heavily on Western policy orientation and towards progressive abandonment of attempts to promote internal capital formation; and secondly, SADC had accepted policies favouring Western capital - a result of political and economic changes in the global order over the last decade.²²

Views from the region

The most significant recent Southern African responses to the challenges of the global political economy seem to cluster around the PTA (at the time of writing, it was unclear whether COMESA was going to survive) and SADCC (now SADC). Since the evolution and performance of these organisations are discussed in detail elsewhere in this book, this section will focus on a related, more recent response: that of the African Development Bank. However, it is important also to take note of the most recent PTA/SADC developments.

The PTA/COMESA and SADC divide

In August 1994, the Summit of the Heads of State of SADC decided, after considering the study of the PTA/SADC Joint Committee of Ministers on harmonisation and rationalisation of activities of the two organisations,²³ that the PTA region should be divided into two regions, namely:

- * A Preferential Trade Area for the South which will comprise all SADC members (PTA South); and
- * A Preferential Trade Area for the North comprising non-SADC members and the IOC (PTA North).

This decision (Option Three as outlined by the Joint Report) was made in the hope that it might put an end to the inter-organisational conflict that has increasingly annoyed both SADC and the PTA. It was not received without criticism, however. One of the authors of the Joint Study, Ibbo Mandaza, is of the opinion that in light of this decision, SADC and Southern Africa (or 'PTA South') will be seen by the PTA and East African partners (that is, 'PTA North') 'as seeking to establish a regional identity as a basis of

staking a larger claim of the declining donor resources earmarked for Africa'.²⁴ Mandaza is also of the opinion that implementation of this option might be problematic: how must SADC members who are also PTA members disengage from the latter and its institutions such as the Clearing House, etc.? Underlying these comments, however, appears to be an ideological critique: Option Three is viewed as a choice for regionalism over Pan-Africanism and runs therefore counter to Pan-African imperatives of regional co-operation. As Mandaza commented: 'The Abuja Treaty and its goal of the African Economic Community should be placed at the centre of the African Struggle'.²⁵ The quest for unity, it seems, continues.

*The ADB Study on Economic Integration in Southern Africa*²⁶

The ADB, assisted by the Nordic countries, has undertaken this study 'in order to explore the prospects and opportunities for the economic integration of the Southern African region'.²⁷ According to Babacar N'Diaye, President of the ADB, in the face of the emergence of regional trading blocs around the world, 'Africa must transform its weak production structures and fragmented markets by embracing economic integration ... The alternative is that the continent would risk becoming increasingly marginalised in its participation in the global economy'.²⁸ In his view, even though the experience of African economic integration schemes has been poor, the regional and ultimately the continental market must be integrated to achieve economies of scale and efficiency in promoting investment, to enhance value-added production, and to stimulate and expand intra-regional and international trade. This, he claims, must be pursued in line with the objectives of the Abuja treaty.

In the light of the dismal experience with integration, the Study has taken a different approach in emphasising that preoccupation with trade liberalisation is insufficient to support economic integration; there must be corresponding emphasis on stimulating productivity and investing in production in all sectors. In the view of the ADB Study, the clear lesson is that for the region's overall welfare gain to be distributed among countries more equitably than the market would by itself achieve, a regional policy will be required that would ensure that all countries register net gain as a result of co-operation and progressive integration.

Six main 'messages' or propositions flow from the ADB's mammoth investigation:

- * First, in sector co-operation, co-ordination and harmonisation, action can proceed in one sector as fast as circumstances allow, without the pace of progress necessarily depending on what happens in other areas or sectors. This would involve the use

of multi-speed co-ordination across different sectors.

- * Secondly, the economic integration process must accord priority to investment in production, to expand productive capacity in all sectors and to build the necessary infrastructures. This approach represents a fundamental departure from past attempts at African economic integration which have placed overwhelming emphasis on trade liberalisation.
- * Third, at the macro-economic level, the financial stabilisation and Structural Adjustment Programmes currently being implemented in the region would need to be sustained and regionally co-ordinated in order to facilitate the economic integration process. Particular attention would need to be paid to reducing tariff barriers; and achieving greater economic convergence and stability among the countries, particularly in their fiscal and monetary policies, their inflation rates and their exchange rate regimes.
- * Fourth, the private sector has a key role to play in this process, since it is essentially private entrepreneurs who produce and move goods and services for intra-regional and international trade.
- * Fifth, a variable-geometry approach to economic integration, which delineates a core group and a non-core group of countries, is propagated. From this perspective, Southern Africa comprises a core of eleven countries around which integration could initially be focused; while a looser relationship is developed with other neighbouring countries based on co-operation arrangements in specific sectors. This approach is proposed as offering a flexible concept of the region in terms of investment co-ordination.
- * Sixth, institutional rationalisation to facilitate economic integration is important, particularly in respect of the operations of SADC, SACU and the PTA. These major institutions would need to co-ordinate to avoid duplication.

In terms of an appropriate integration strategy, the Study points out that certain preconditions will have to prevail. First, every country must be a net gainer from the economic integration enterprise; there must be no losers. This would require detailed country-specific cost/benefit analysis of economic integration. Furthermore, there is considerable merit in adopting a multi-speed approach that allows one group of countries to move faster than others in implementing the integration agenda. The principle of equitable distribution of the benefits would need to be adopted as a key feature of the integration strategy. According to the Study, unless governments are convinced that

integration will assist them with domestic problems better than they otherwise would, they are more likely to focus on national preoccupations, to the downfall of the potential advantages of regional co-operation.

Related to this is the need to generate the political commitment to economic integration. The countries in Southern Africa would have to accept that the pursuit of economic integration would inevitably involve concessions on national sovereignty for the common interest of the region.

Indeed, the Study points out that it would be political will and commitment that would determine the degree of success of the process.

The ADB Study - Way to Go?

Keet argues, in my view correctly, that the ADB Study is based fundamentally on a market-driven agenda - itself premised upon the implementation of SAPs and other liberalisation measures in the countries of Southern Africa.²⁹ Her assessment of the ADB Study (based mainly on earlier - 1992 - preparatory documents) is that it is notable for being a genuinely regional programme (its proposals favour regional solutions) and for being a thoughtful endeavour to lay out the basis for a necessarily balanced development process. The earlier ADB documents propose some 'compensatory mechanisms' so that 'the pattern of accrual of gains from regional integration are not left to market forces alone'. This earlier ADB document talks of 'the delayed free market option'.³⁰ But reading the 1993 Executive Summary, it appears the ADB Study modified its language somewhat. On the issue of the strategic approach to economic integration, the Study proposes that the thrust towards regionalisation must recognise the need for reciprocity, interdependence and compensation for the weaker parties which might not otherwise share equitably in gains from regionalisation and thus lose their commitment to it. Such compensation can be achieved by an appropriate design of investment and development finance arrangements to favour the weaker parties. It further notes that, regardless of how the issue of equity is handled,³¹

any strong interventionist thrust towards planning on a regional basis needs to be avoided. It would be impracticable, inconsistent with Structural Adjustment Programmes and it would be opposed by donors on whose support any initiative will have to depend. Public intervention should be limited to establishing a regional policy environment which enables market-based integration to work.

It appears that in line with the thinking from the external interventionists from the 'market' perspective, the ADB Study promotes the idea that economic integration will

not be a regionally determined programme. Whatever is done to advance integration, must unavoidably be within the limits set by the international financial institutions and the international donor community. This is an approach which does not go unchallenged, though. At least one influential writer from the region is challenging these assumptions. Guy Mhone recently argued in favour of an evolving 'dirigist developmentalist orientation' at both the national and regional levels, without which 'meaningful regional economic co-operation' is likely to be unattainable.³² The argument is in favour of the importance of the role of government at the national level or the role of a central organ at the regional level for co-operating developing countries, 'in order to precipitate a developmentalist orientation and to move the economy on to a developmentalist path'. This is clearly not an argument that will find favour in international donor community circles.

On the issue of the route to economic integration, the Study recommends a two-track approach. The first track consists of *sector co-ordination and co-operation* on project investment and policy harmonisation in power, transport, telecommunications, tourism, banking and the like. Progress in all these areas can proceed almost immediately; it is not contingent upon, nor should it await, progress being made on a more intensive agenda of regional market integration. Sector co-ordination will necessarily mean accepting the notion of 'multi-speed' co-ordination across different sectors.

Market integration constitutes a related but separate track. The market integration agenda includes not only the reduction of tariffs, which the PTA is currently addressing, but also a vast array of issues involved in the elimination of non-tariff barriers and in achieving greater convergence and stability in fiscal policies, in monetary policies and performance, in inflation targets and in exchange rate and currency convertibility regimes.

Most analysts would agree with the ADB Study's cautionary note that these issues are more complex than the first track and go to the heart of national economic policy-making. They involve questions about subordinating sovereign national interests in the short term to achieve regional benefits in the long term. Also, severe macro-imbalances which characterise the region's economies, combined with relative political flux, will tend to slow the process down.

Crucially important is the observation that 'the ramifications of regional integration will need to be much more clearly understood than they presently are by national governments, parliaments and publics'.³³ A number of analysts are increasingly arguing that the establishment of a regional identity - whether through political, economic or security means - will be severely handicapped as long as civil society is not included in the process.³⁴ This approach is informed by the notion that the post-Cold War, post-

modern times are increasingly being characterised by people-to-people centred foreign affairs. This phenomenon will not replace state-to-state relations, but strengthen and sustain it. This new face of foreign relations will also be felt in the region, hence the insistence that civil society be accorded a central role in the development of closer regional relations. For economic integration to succeed in Southern Africa, not only governments, or business, but representative institutions - parliaments and NGOs - must become part of the decision-making process. To date, this has not happened in a co-ordinated and planned fashion.

On the issue of regional institutions (SADC, SACU, MMA and PTA), the ADB Study raises the question of choosing the optimal route to a single institutional framework within which South Africa and neighbouring countries can productively co-operate without excessive disruption of present arrangements. According to the Study, several criteria must be met, including:

- * The process of change must be politically sustainable. The Study recommends a series of incremental moves, from a small number to a larger number of countries, and from simple and loose arrangements to more complex and formal forms of integration.
- * The need for different regional institutions to avoid duplication. In the Study's assessment, SADC/PTA competition will harm the cause of integration. SADC should therefore rather carry project and sector co-ordination to the next stage by involving South Africa in key sectors such as power, transport and communications and joint river basin management. The PTA framework should be retained for the eventual enlargement of sub-regional communities into a Pan-African community, as envisaged by the Abuja Treaty, 'even though that process may prove much slower and more tortuous than presently envisaged'.³⁵ SACU members meanwhile need to negotiate a new agreement covering a transitional period of 5-7 years allowing sufficient time for SACU economies to adjust to fit in with a wider free trade area or common market framework involving other Southern African countries.

Views from South Africa

South Africa's political transition has brought a new government, but with it, considerable discontinuity in policy formulation and output, and consequently, some uncertainty in terms of future policy direction. The Government of National Unity must simultaneously deal with the challenges of law and order and stability, and implement the RDP. Under these conditions, and also not forgetting the effects upon bureaucratic and business mindsets of decades of apartheid and isolation, the 're-

evaluation' of South Africa's foreign policy objectives³⁶ takes place at a rather slow pace. This is also true for South Africa's regional relations. Although the ANC has expressed its preferred regional policy objectives in a recent policy document,³⁷ and although South Africa has since joined SADC in August 1994, much detail remains to be clarified. In the meantime, a survey of the literature reveals that among the key players, such as political parties, business, and academics, there is no consensus on what basis South Africa ought to cement its new regional relationship. This state of affairs is perhaps not surprising given the nature of the transition in the country. The section below will draw together a number of categorisations of these different approaches.

Keet recently argued that for the progressive movement inside South Africa, economic development debates are situated within three broad strategic approaches.

- * An externally oriented economic strategy premised upon internal restructuring and growth with or through redistribution, with an overall industrialisation emphasis, and fundamentally oriented towards the markets, technology and capital investments of the industrialised North.
- * A national economic strategy incorporating the above but combined with South Africa's own capital investment, technical and other services, and trade relations with the sub-continent; whether on the existing *de facto* and mainly unilaterally determined bases or some form(s) of future bilateral or multilateral agreements.
- * A regional development strategy conceived from the outset within the framework of, and fundamentally oriented towards, an integrated, balanced - and therefore negotiated - strategy, encompassing all the countries of the region, as the basis for South Africa and them to interact with the world economy.³⁸

Davies, writing on emerging South African perspectives on regional co-operation,³⁹ makes a distinction between 'quantitative' and 'qualitative' perspectives. One perspective, in his view, has tended to view future co-operation as little more than a return to a somewhat modified version of the old (pre-1970s) 'normality'. Past or existing patterns of regional relations tend to be viewed rather uncritically with the fundamental problem of the past often seen as little more than the existence of political and regulatory barriers in other countries which prevented South Africa from playing its potential role as 'engine of growth' in the sub-continent. The progressive dropping of political barriers is thus seen as potentially providing a significant boost to South African trade. Attempts to theorise from within this type of perspective generally favour a rather rapid move towards a regional common market allowing both free trade and unhampered capital

movement. This perspective has been criticised as South Africa-centric and indifferent to the concerns of the rest of the region concerning the acute imbalances in existing relations or to the appalling heritage of destabilisation. By focusing on short-term benefits flowing from the new political situation, it also fails adequately to recognise that this will not be consolidated into a longer-term growing trade relationship unless the rest of the region sees some benefit to itself in granting preferences to South African goods and unless South African exports become more competitive. Many of the specific schemes and proposals advanced within such a perspective tend, whatever their professed intentions, to seek in practice to enhance South African hegemony.

The alternative perspective, emerging within the democratic movement, is based on the view that regional trade and other economic relations need to be restructured as an integral part of a process of transforming the existing growth path. The restructuring of regional relations was initially seen largely as a matter of equity, but is increasingly also seen as an essential component of a new growth strategy.

Intersecting concrete needs and interests make it possible, in Davies' view, to envisage a mutually beneficial, negotiated restructuring of regional economic relations after apartheid, which would address several of the key problems of the inequity and longer-term unsustainability of existing relations. This would centre around a trade-off in which South Africa would be granted greater access to regional markets and inputs in return for co-operating with the region in restructuring key sector relations. These would include,

- * Granting other countries greater access to the domestic South African market.
- * Accepting the need to grant favourable terms to regional suppliers of inputs like water and hydro-power.
- * Participating in a process of restructuring regional transport relations.
- * Committing itself to finding mutually acceptable, regional solutions to problems arising from labour migration.
- * Investigating the possibilities for a minerals-based regional industrialisation strategy.⁴⁰

In a later research project, Davies *et al*⁴¹ identified three broad categories within which regional relations may be pursued. A 'neo-mercantilist' path would focus on promoting partisan and immediate evident interests, while remaining indifferent to the needs and demands of neighbouring states. At best, this option would seek to use the new-found

political legitimacy as a basis for perpetuating the more or less unchanged relations of the past. A second option is 'hegemonic bilateralism'. While more open to bilateral functional co-operation, this option would resist any multilateral integration on the grounds that the latter implies compromising 'national sovereignty'. Thirdly, 'co-operative regionalism' would entail becoming a full and active partner in a programme geared towards regional reconstruction and development. It would involve some process of negotiating new regional relations, a programme of institutional reform and development, and an equitable and mutually beneficial pattern of new regional relations.

Finally, it is important to acknowledge that within South Africa there are a multitude of views and approaches to regional integration. The above section highlighted a few of these. Recent research⁴² identified the following key actors involved in the regional foreign policy debate: Firstly, within the state, Parliament, the Executive, and state departments such as Foreign Affairs, Trade and Industry, and Finance; second, organised business, including SACOB, the AHI, SAFTO, and major banking groups; third, the democratic movement, including the ANC and COSATU; and fourth, disparate groups including the media, academics and public opinion. If, in this discussion, views from the left appear to be over-represented, it is because writers and academics on that side of the spectrum have been quite productive over the past few years in articulating the growing consensus within the democratic movement for the building of a new regional relationship based on principles and values that are qualitatively different from those which guided policy in the past. It is surprisingly difficult to obtain a representative view from organised business, perhaps because of its tendency to approach regional relations from an individualistic perspective.⁴³ It is not uncommon for significant South African business interests to pursue their own 'regional policies'. An exception to this perceived trend would be the work of Leistner and Maasdorp. In a discussion on regional integration, the latter recently argued that 'there is a growing consensus ... that the SACU and CMA represent a core around which economic integration in the wider region needs to be built'.⁴⁴ Such an approach, calling for the widening and deepening of SACU, would make sense only if viewed from the perspective of renegotiating the present arrangement to the satisfactions of all members. Such an agreed process of renegotiation in fact started in 1994, and should produce results by March 1995.⁴⁵

Conclusion

How will the future relationship between the peoples and governments of Southern Africa be determined? Writing in late-1994, no obvious answers seem to present themselves. But that should not be surprising, given the momentous regional developments of the past seven years. In 1994 alone, political developments brought

the beginnings of democratic governance to South Africa and Mozambique, but failed to achieve peace in Angola, in spite of the signing of the Lusaka Accord. Given the turmoil and flux in the region and in the global political economy generally, it is to be expected that many debates and conflicting views and demands will exert influence on the form and extent of regional co-operation and integration. Some of these debates have been outlined above.

On the question of how decisions will be reached inside South Africa, the same insight applies. As Keet observed, given the variety of approaches and debates,⁴⁶

Which of these broad approaches becomes dominant in South Africa will depend largely upon economic developments and debates, and the evolution in the overall political balance of forces and the political negotiations within South Africa. But which of these options gets to be - or should get to be - implemented in a post-apartheid South and Southern Africa will depend also on complex factors and forces operating *within* the Southern African region, and *upon* the region from the rest of the world.

In terms of policy, it seems that South Africa's future regional foreign policy will not be easily decided. Nor will that policy, when eventually made, clearly reflect the preference of one actor or interest above others. In the words of Nolutshungu, foreign policy will rather be about negotiating a path between necessity and preference; between domestic needs and external constraints; and about bargaining with other actors. Thus, even though consensus begins to appear regarding the nuts and bolts of regional co-operation and integration - as witnessed best by the ADB Study discussed above - the end result will most probably appear in different format. It will be the product of a long, perhaps even drawn-out process of negotiation and bargaining, hopefully in the end reflecting more than the prevailing balance of political forces - a product based on the advancement of the interests of the greatest number of people living in the region.

Endnotes

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5. See Page, S, 'GATT and Its Impact on Developing Countries', in Baker, P, *et.al.* (eds), *South Africa and the World Economy in the 1960s*. Cape Town: David Philip, 1993, p.152; and 'The Uruguay Round: Implications for South Africa', *Trade Monitor*, 1, 1993.
6. Kegley & Wittkopf, *ibid.*, p.115.
7. Keet, D, 'International Players and Programmes for - and against - Economic Integration in Southern Africa', *Southern African Perspectives*, 36. Cape Town: Centre for Southern African Studies, June 1994, p.16.
8. According to the latest advice from the World Bank, African governments must follow three principles to restore growth and reduce poverty: Getting macro-economic policies right; encourage competition (by deregulating, trade reform, and privatisation); and minimise government involvement in markets. *Adjustment in Africa: Reforms, Results and the Road Ahead*, World Bank, Oxford University Press, 1994, p.9.
9. Cheru, F, *The Not So Brave New World! Problems and Prospects of Regional Integration in Post-Apartheid Southern Africa*, Bradlow Series 6. Johannesburg: SAIIA, 1992, pp.5-6.
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11. World Bank, *Intra-Regional Trade in Sub-Saharan Africa*, Economics and Finance Division Technical Department, Africa Region, Report No.7685-AFR, 1991.
12. Keet, *op.cit.*, p.9.
13. World Bank, the African Development Bank, the IMF and the Commission of the European Communities, *Concept Paper - Initiative to Facilitate Cross-Border Private Investment Trade and Payments in Eastern and Southern Africa and the Indian Ocean*. Brussels: Mimeo, 1993.
14. Keet, *op.cit.*, p.11.
15. Saasa, O, 'Economic Co-operation and Integration Among Development Countries: An Overview', in Saasa, O (ed), *Joining the Future: Economic Integration and Co-operation in Africa*. Nairobi: ACTS Books, 1991, pp.7-26.
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18. Declaration by the EU-Southern Africa Ministerial Conference on 5-6 September 1994 in Berlin.

19. 'Break Down Borders to Aid Development', *Sunday Times* (Johannesburg), 4 September 1994.
20. *Ibid.*
21. Address by Kinkel to the Berlin conference, as reported by *Business Day*, 6 September 1994.
22. Thede, N, 'Introduction: Post-Apartheid in Southern Africa - A Era of Change?' in Thede, N & P Beaudet (eds), *A Post-Apartheid Southern Africa?* London: Macmillan, 1993, pp.5-7.
23. Mandaza, I, Mudenda, G & C Chipeta, *The Joint PTA/SADC Study on Harmonisation, Rationalisation and Co-ordination of the Activities of the PTA and the SADC*. Harare, 1994.

The study recommended the following five options:

1. Maintaining the *status quo* - which allows both organisations to continue with the proviso that they work out a firm mechanism for harmonisation;
2. The creation of four regional groupings to operate within the broader framework of PTA/COMESA - the so-called 'Ushewokunze Compromise';
3. Splitting of the PTA/COMESA region into two: PTA North including the IOC, and PTA South comprising SADC members (including South Africa);
4. The PTA/COMESA and SADC Secretariats themselves meet and resolve the issue towards rationalisation and harmonisation of activities;
5. That PTA/COMESA should provide the institutional framework for the Abuja Treaty, and as such, assist in the establishment and co-ordination of the five regional blocs which constitute the building blocs of the African Economic Community.

The option of a merger of the two organisations was rejected outright by the SADC Secretariat as well as by some SADC member states.

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25. Mandaza, *ibid.*
26. African Development Bank, *Economic Integration in Southern Africa*, 1994.
27. African Development Bank, *Economic Integration in Southern Africa*, Executive Summary, 1994, p.v.
28. *Ibid.*
29. Keet, *op.cit.*, p.2
30. Keet, *op.cit.*, p.3
31. African Development Bank, *op.cit.*, p.53.
32. Mhone, G, 'The Quest for Regional Co-operation in Southern Africa', *Occasional Paper Series*, 4. Harare: SAPES Books, 1993, p.30.
33. African Development Bank, *op.cit.*, p.52.

34. See for example, Nkuhlu, M, 'The State and Civil Society in South Africa: Transition to Democracy, Social Reconstruction and Implications for Regional Relations in Southern Africa', *Southern African Perspectives* 28. Cape Town: Centre for Southern African Studies, 1993.
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36. Speech by the Minister of Foreign Affairs, Mr. Alfred Nzo, in Parliament, 8 August 1994.
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40. Davies, *ibid.*, p.83.
41. As quoted by Nkuhlu, *op.cit.*, pp.18-19.
42. Van Nieuwkerk, A, 'The Outlook for Regional Foreign Policy under a New Democratic Government', in *The New Regional Foreign Policy of South Africa*, Joint Research Programme Series No.107. Tokyo: Institute for Developing Economies, 1994.
43. Interview with Mrs. Robertson, Trade Manager, SACOB, 14 November 1994.
44. Maasdorp, G, 'Current Regional Institutions for Integration' in Baker, *op.cit.*, p.245.
45. For a comprehensive overview of the issues involved, see Sisulu, M, Setai, B & R Thomas (eds), *Reconstituting and Democratizing the Southern African Customs Union*. Braamfontein: National Institute for Economic Policy, 1994; and Mayer, M & H Zarenda, *The SACU: A Review of Costs and Benefits*. Midrand: DBSA, 1994.
46. Keet, Regional and International Factors, *op.cit.*, p.2.

Considering the Methods and Effects of Regional Integration

Erich Leistner

Why Integration?

The small size of the domestic markets of African countries - small in terms of population and purchasing power - is a major impediment to the development of most African economies. Since the early-1960s, the UN Economic Commission for Africa (ECA) has therefore encouraged African countries to combine into more substantial sub-regional markets. The OAU's Lagos Plan of Action of 1980 was adopted in response to the ECA's urging.

The Lagos Plan effectively remained a dead letter, but developments in world trade induced African leaders to adopt the Abuja Treaty in June 1991. The emergence of huge trading blocs in Europe, North America and around the Pacific convinced them that their continent, too, must unite or become utterly irrelevant in the increasingly competitive international environment. Leaders believe that unless Africa speaks with one voice, it will continue to be exploited and its vital interests ignored by the industrialised world.

The continent's international bargaining power is expected to be strengthened significantly by the accession of South Africa to an African bloc. Quite apart from the relatively more parochial interest of SADC and PTA/COMESA in South Africa joining their respective organisations, the deep-seated urge for African unity is an important factor that Pretoria's policy-makers need to reckon with.

The integration of several national economies into substantial markets may be expected to yield important benefits by promoting a more efficient allocation of resources. This is brought about by a number of factors coming into play.

These include an environment that enables industrialisation and modernisation through higher levels of productive investment; generation of economies of scale in production; rationalisation of infrastructural investment; exploitation of natural comparative advantage in production and trade; regional self-sufficiency in products that are crucial for the satisfaction of basic needs; strengthening of the bargaining position of the group

vis-à-vis the rest of the world; reduced distortions in consumption patterns; minimisation of negative externalities emanating from certain projects and policy actions; and creation of an environment conducive to non-violent forms of conflict resolution.¹

The disappointing record of African integration schemes, however, shows that substantial obstacles stand in the way of successful implementation. Foremost among them are the unequal distribution of benefits between member countries; curtailment of sovereign national decision-making; gains may be visible only in the medium- to long-term while costs have to be met in the short-term; and, last but not least, lack of political commitment to integration.

In view of pressing domestic concerns, it is understandable that South Africa's Government of National Unity has not yet formulated a long-term policy concerning co-operation with other countries in the region. Although it has opted for membership of the SADC, rather than of PTA/COMESA, many difficult questions still call for an answer. This chapter deals with the nature and significance of these questions.

South Africa's Interest in Closer Regional Links

The GNU has more than once stressed its commitment to closer economic and other ties with neighbouring countries on the basis of equity, mutual benefit and non-domination. But while it favours the greatest possible extent of regional co-operation, the implementation of the Reconstruction and Development Programme remains its uppermost priority.

Informed public opinion in South Africa, as expressed through the serious press, trade and professional organisations, academic writings, and so forth, generally supports the government's attitude. This broad consensus is rooted in the awareness that:

- * South Africa's national interest demands economically and politically stable neighbours.
- * The region is an important market for the Republic manufactured products.
- * South Africa will increasingly have to rely on neighbouring countries to supplement its water resources and power supplies.
- * Foreign business tends to view South Africa's future prospects in the light of trends elsewhere in the region while, at the same time, it appreciates the country's

possibilities as a bridgehead into Africa.

- * An active role in promoting closer regional economic links serves to strengthen South Africa's bargaining power *vis-a-vis* the European Union in negotiating arrangements for mutual relations.

For the mass of South Africa's recently-enfranchised population, regional issues understandably do not feature prominently. There are, however, signs that the massive inflow of foreign Africans in quest of a better life is increasingly resented. Organised labour is also concerned that South Africa's high labour costs might induce manufacturers to relocate to lower-wage neighbouring countries.

Some Practical Considerations about Closer Regional Links

Regardless of its positive attitude towards closer regional ties, South Africa is hampered by a number of practical considerations:

- * The country's economic well-being depends primarily on its ability to compete on world markets, and it would harm itself if regional commitments were to weaken its position in the rest of the world. (Exports to African countries - approximately 90% going to Southern Africa - represent about one-fifth of South Africa's exports world-wide.)
- * The Southern African region is still volatile economically and politically, and South Africa might endanger its economic welfare and security by tying itself too closely to the destinies of its neighbours.
- * The large disparities in economic development between South Africa and its neighbours will unavoidably make it difficult to agree on common objectives. Beyond that, the neighbours fear the possibility of South African 'hegemonism' and disregard of their interests, while they are concerned that South Africa might attract foreign investment and aid at their expense.
- * Whereas the other ten members of SADC are highly dependent on financial and technical aid from overseas donors, South Africa wants to avoid financial dependence, especially on the World Bank, at all costs.
- * As South Africa must carefully husband its manpower and financial resources if it

is to have any chance to implement the RDP, it will not be able to provide financial and other aid to neighbouring countries on a substantial scale.

- * South Africa cannot agree to the free movement of labour in terms of integration arrangements because even at present, large-scale immigration from other African countries is causing growing problems.
- * South Africa has not yet succeeded in formulating a long-term strategy for its own economic development, and hence cannot, at this stage, commit itself to far-reaching structural changes in pursuance of regional integration. Much will depend on the outcome of the negotiations concerning the Southern African Customs Union.

A two-track route to regional integration?

The unimpressive performance of SADCC/SADC, the PTA as well as other African regional economic schemes has led to doubts in South Africa and elsewhere about the wisdom of the Republic joining either SADC or COMESA - or both - as currently constituted.

The reason is that at the present stage of their economic and political development, African countries are overtaxed by schemes that impair their sovereignty while imposing short-term sacrifices for the promise of benefits in an uncertain future. It is therefore argued that, rather than embarking on grandiose but impractical designs, African countries should take steps that yield more or less immediate benefits for all participants and do not have a notable impact on national decision-making. This implies narrowly focused measures of a sectoral or project nature, generally described as *sector co-ordination and co-operation*. The African Development Bank mentions the following aspects:²

Sector co-ordination and co-operation on project investment and policy harmonisation in power, transport, telecommunications, river basin management, environmental management, sharing of agricultural technology and research, the regional rationalisation of food production, development of the region's key mineral resources and beneficiation, tourism development on a regional scale, and the establishment of a regional network of commercial banking, development finance and capital market institutions.

Progress in co-ordination and co-operation in all these areas can proceed almost immediately and is not contingent upon progress being made on a more intensive agenda of regional market integration. Co-ordination in each sector can proceed as fast as

circumstances within that sector allow without attempting to regulate or control the pace of progress in step with what happens in other sectors (that is, 'multi-speed co-ordination'). What is more, countries need not participate in respect of all sectors at once, but can join when circumstances permit them to do so.

Whereas sector co-ordination and co-operation suggests itself as a step towards increasingly close regional economic links and ultimate market integration, the ADB views it as a separate track to be followed at the same time as *market-integration*. The Bank acknowledges that movement on the market integration agenda must needs be slower and more cautious because it involves issues that go to the heart of sovereign national interests such as fiscal and monetary policies, exchange rate and currency convertibility.

The ADB, nevertheless, recommends that an agenda for regional integration be 'formulated urgently'.³ The need for urgency is difficult to understand because experience in Southern Africa and beyond provides ample reason for not contemplating comprehensive, region-wide schemes - beyond SACU - until sectoral co-operation has convincingly shown that participating countries have the political will and ability to meet their obligations under the less demanding sectoral agenda.

No harm will be done, and it may in fact be politically opportune, if the states of the region do commit themselves to full political and economic union as the ultimate goal, as long as they do not set a timetable for the steps towards that ideal. However, firm commitments must be demanded with regard to specific measures and dates if countries declare their intention to participate in sectoral co-operation. If participants fail to meet these obligations, it would be futile to pursue the far more ambitious objective of market integration.

Existing Regional Institutions

For South African policy-makers, the choices are not as clear-cut as the foregoing may suggest. Apart from political considerations, they have to take into account four existing institutions, all of them important in their own right. These are the SACU, the Common Monetary Area, SADC and the PTA/COMESA. In view of their relevance for South Africa's relations with the rest of the region, they warrant a closer look.

The Southern African Customs Union

The fact that, despite complaints, none of the members has left SACU, indicates their belief that the benefits of staying outweigh the drawbacks of leaving. The agreement governing the functioning of the organisation is currently being renegotiated, a process that may well take longer than the anticipated one year.

South Africa is dissatisfied with SACU because of what it considers an unsustainably generous revenue-sharing arrangement, and because revenue shares feature much more prominently than the promotion of economic development. In the past, as long as South Africa was subject to international sanctions, it valued the Customs Union as a forum for official contacts with OAU member states. This is no longer a consideration, but SACU remains important to the Republic because the smaller members (Botswana, Lesotho, Namibia and Swaziland, 'BLNS') are in effect a captive market. In 1992, for example, South African exports to them amounted to R12,93 billion, a figure more than double that for exports to the rest of Africa (R5,98 billion) and equal to about 15% of total South African exports (R82,13 billion). An estimated quarter (by value) of South African manufactured exports go to its SACU partner countries.

The BLNS countries' complaints being dealt with in the renegotiation of the SACU agreement include the two-year delay in revenue payments which, in effect, means interest-free loans to South Africa; insufficient provision for the protection of BLNS infant industries; inadequate measures against South African dumping; and unsatisfactory arrangements for consultation. South African complaints about the burdensome revenue formula have raised fears about their future share of revenues among the smaller countries.

Up to the present, the South African government has given no indication as to how it sees the future of SACU. In any case, SACU is of considerable importance to all participants and will not be lightly abandoned. While some observers propose that the organisation should be disbanded and its members join a SADC free-trade area, others see the Customs Union as the nucleus around which regional integration could take place.

Thus, according to a background document issued by the South African Department of Trade and Industry in March 1994, SACU could form the base around which there could simultaneously be:⁴

- * An economic union between South Africa and Lesotho.
- * A common market between that economic union, Swaziland and Namibia.

- * A common market between that economic union, Swaziland and Namibia.
- * A free-trade area between SACU and Zimbabwe.
- * A preferential trade area between the free-trade area and the rest of the region.

These possibilities will presumably be borne in mind in the negotiations for a new SACU agreement, and it is conceivable that the agreement will provide for a transition period of, say, five to seven years, in order to enable member countries to 'grow into' new trade arrangements.

The Common Monetary Area (CMA)

An appropriate payments mechanism - ideally a common currency - is essential for effective market integration. Southern Africa is fortunate in that the successful functioning of the CMA gives it a basis to build on in the process of establishing closer links between the economies of the region.

The CMA complements the operation of SACU and, except for Botswana, has the same members. In addition to the Multilateral Monetary Agreement concluded in 1992, bilateral agreements between South Africa and each of its partners vary the precise terms of monetary integration. Each of the three smaller partners has its own currency which is at par with the rand, although Swaziland is entitled to delink its currency. Common exchange controls apply. There is free movement of funds between member countries; and the smaller members have access to South African capital markets.⁵

According to the ADB, the CMA has worked very well in stabilising internal policies and maintaining a high degree of currency purchasing power among its members. The Bank adds that, apart from Botswana, the other Southern African economies which have not had the benefit of such a stabilisation arrangement, 'have witnessed excessive volatility in their exchange and interest rates as well as in their inflation rates, as a result of the removal of checks and balances on their fiscal and monetary policy decisions'.⁶

The Botswana pula is stronger than the rand and is convertible. As Maasdorp has pointed out, the SACU area therefore is the only part of Southern Africa with convertible currencies and 'the SACU and CMA together give Southern Africa a degree of integration hardly matched anywhere else in the world'.⁷

Careful study would be needed to determine the conditions under which a common

ADB, it is unrealistic to believe that the CMA could be expanded to include the whole region because it is 'exceedingly unlikely' that South Africa would be prepared to incur the risks and costs involved in doing so.⁸

The Southern African Development Community

The Development Community's parent body, SADCC, had been established in response to South African plans for a Constellation of Southern African States and was predicated on reducing its members dependence on the Republic. It was liberally supported by Western governments opposing apartheid.

After February 1990, South Africa's move towards a democratic order placed a question mark over SADCC's *raison d'être*. At the same time, the Preferential Trade Area argued that SADCC should be merged into the PTA on the ground that SADCC's objectives overlapped those of the PTA while being far less comprehensive. These considerations appear to be the foremost reasons for SADCC being transformed into SADC with objectives that largely duplicate those of the PTA.

Since the signing of the SADC treaty in August 1992, virtually nothing has happened to give concrete shape to the new objectives, nor are there signs that the organisation's weaknesses have been addressed. Thus SADCC'S patently inefficient system of allocating sectoral responsibilities to particular member countries remains. SADC itself has acknowledged the lack of clear lines of authority and accountability; different traditions, management and administrative procedures, and different standards, qualifications and performance criteria; and the often inadequate provision of staff and other resources for the co-ordination and management of the regional programme.⁹

Instead of reducing members' dependence on South Africa and the rest of the world, dependence on both has increased - for example, 80% to 90% of SADCC projects are funded by outside donors. Donors have become increasingly critical of political platitudes and bureaucracy and are looking for more purposeful attention to the needs of the private sector, and a commitment from member governments to implement the organisation's agreed policy.¹⁰

Political commitment to the objectives of the organisation is weak. It became even weaker once South Africa became an internationally acceptable partner and several member governments entered into bilateral dealings with that country - rather than seeking a collective approach - in the hope of gaining special benefits. In the words of Rob Davies, the situation of both SADC and the PTA could be summed up as 'weak

Rob Davies, the situation of both SADC and the PTA could be summed up as 'weak commitments by weak states to weak organisations'.¹¹

South Africa joined SADC in August 1994. At that time, there were no indications as to whether South African membership is subject to special conditions; what role it is expected - and expects - to play in the SADC; and exactly how the organisation planned to pursue the objectives to which it committed itself in August 1992.

The PTA/COMESA

By October 1994, nine member states of the PTA had ratified the COMESA treaty which requires eleven signatures to become effective. With Zaire being admitted as the 23rd member, the common market was officially launched in December 1994.

Whereas it is sometimes held against SADCC/SADC that it originated in an extra-African initiative,¹² the PTA has impeccable credentials in that it constitutes one of the five sub-regions that the ECA has indicated as building blocs for the proposed African Economic Community. It has a much larger expert staff than SADC and can point to concrete achievements such as the Clearing House, the Trade and Development Bank, the Regional Reinsurance Company and the UAPTA Travellers Cheques. Unlike SADC, it has involved the private business sector in its activities.

The organisation's practical impact, however, has been limited for a number of reasons:

- * Most governments fail to live up to their treaty obligations. Thus, progress in implementing the agreed-upon tariff-cuts has been extremely slow with more than half the members not yet having implemented the 1990 round of reductions by mid-1993. The record is equally poor with regard to the ratification of PTA and PTA-recommended protocols.
- * The geographical spread of membership militates against intra-regional trade, not least because of the poor state of transport and communications, within (and outside) the sub-region and because most members operate trade barriers. Intra-trade averages around 5% of total trade and has actually decreased during the 1980s.
- * During the 1980s, the average rate of inflation for members varied from 4% to 185% - far too large a variation for countries seeking to form an economic community.

high inflation and high levels of unemployment.

Apart from these and other economic weaknesses, the functioning of the PTA/COMESA also suffers from the fact that most member states belong to one or more other regional organisations, while five of them - Angola, Mozambique, Rwanda, Sudan and Somalia - are afflicted by serious internal conflicts.

The Problem of Overlapping Institutions

The existence of two organisations committed to regional integration and with largely overlapping membership creates an untenable situation. With the exception of Botswana and South Africa, all SADC members also belong to the PTA/COMESA (although Zimbabwe resolved to withdraw from COMESA in January 1995, joining Botswana and South Africa on the sidelines). The representatives of member states in both organisations frequently take conflicting decisions on a particular issue. As both lurch towards closer economic interaction, confusion is bound to increase.

A PTA document issued in December 1992 lists the following common objectives with SADC.¹⁵

- * Facilitation of the restructuring of industries and the realisation of economies of scale through the establishment of a single market.
- * Promotion of sustainable growth and development of member states on an equitable basis with the object of raising the standard of living of their people.
- * Promotion of co-operation in science and technology.
- * Promotion of peace, security and stability.
- * Harmonisation of macro-economic policies and programming with the aim of facilitating the implementation of the respective treaties.
- * Creation of an attractive investment area with free movement of capital, goods, labour and services.
- * Establishment of a single currency.
- * Human resource development.

* Co-ordination and harmonisation of international relations of member states.

In view of this broad identity of objectives, the PTA - including its SADC members - has voted in favour of SADC being merged into the PTA. However, when wearing their SADC hat these same states have rejected this, arguing only for co-ordination and harmonisation. That has in fact been attempted several times, always without success. The latest attempt, a study in 1993-94 by a committee of ministers from both organisations, did nothing to ease the tensions prevailing, especially between the two secretariats.

The ADB has commented:¹⁴

A situation in which most Eastern and Southern African states belong to more than one sub-regional organisation (and, in some instances, three) has led to conflicts of allegiance and divided loyalties, which must, sooner rather than later, be decisively resolved if regional integration efforts are to proceed on a rational footing.

Prior to the emergence of a democratic order in South Africa, it was widely expected that the Republic's entry into the regional equation would trigger the rationalisation of the present framework of overlapping institutions. By joining SADC, Pretoria appears to have signalled that, next to SACU, it regards SADC as the most important regional organisation. In any event, with South Africa a member, a revision of the organisation's pattern of activities will presumably become inevitable sooner or later.

Above all, the effectiveness of the secretariat will have to be strengthened. And while the system of allocating sectoral responsibilities to member countries clearly calls for attention, too much national prestige is at stake for that system to be given up easily.

The South African government has still to indicate how it envisages future relations with the PTA/COMESA. However, by opting for membership of SADC, South Africa has significantly strengthened that body's position *vis-à-vis* the PTA and - at least for the time being - has delivered a heavy blow to the latter.

Pretoria not to be anxious soon to play an active role in regional affairs at this early stage. However, the country's economic and political weight will automatically lead to many aspects of regional relations being reshaped, including the functioning of the two organisations under discussion.

Future institutional arrangements

respect to regional economic co-operation and integration when it left office in May 1994, nor - as indicated - had the GNU done so before the end of 1994. Rather than analysing the likely impact of government policy on the future pattern of regional institutions, the following therefore can only outline the principal policy options open to South Africa in this regard.

The ADB study on Southern African integration expresses concern over what it perceives as a strong possibility; that is, that a democratic South Africa will be so heavily occupied by domestic issues that it will adopt 'a passive and inward-looking regional policy under which it continues to benefit from the existing and newly-created flows of surplus value (which are, in turn, a result of the dominance-dependence relations that have characterised the region for a long time)'.¹⁵

The Bank specifically mentions bilateral trade agreements that are 'either paternalistic or result in disproportionate gains to South Africa as aspects of such an approach...',¹⁶ because the ADB is aware of the widely held view that South Africa should, for the time being, continue to rely on bilateral trade agreements rather than committing itself to comprehensive trade integration schemes. At the same time, though, there are also those who feel that the existence of diverse bilateral treaties will pose problems once South Africa decides to become part of a multilateral trade arrangement.

From an analytical viewpoint, the complications involved in gradually moving from bilateralism to integration, are likely to be fewer than those of fitting South Africa into the COMESA or the proposed SADC trade integration scheme. The issue, however, may well be decided on political considerations.

The alternative to an inward-looking approach, in the words of the Bank, is for South Africa to adopt 'an active, multilateral, outward-looking and accommodative approach to regional issues', entailing 'a conscious effort to enhance national and regional security on the one hand, and genuine, equitable and mutually beneficial economic relations on the other'.¹⁷

The GNU faces a dilemma. Partly out of a sense of obligation towards African states that had supported the liberation struggle against apartheid, it will favour the outward-looking option while, naturally, long-term economic considerations also count. On the other hand, the demands of the RDP on the country's financial and other resources are so vast that an 'active, outward-looking and accommodative' policy towards the region may be beyond the country's capacity.

One can expect that in practice the government will approach regional aspirations in a spirit of goodwill and accommodation but cautiously and in step-by-step fashion.

spirit of goodwill and accommodation but cautiously and in step-by-step fashion. Whatever it may propose to do, has to reckon with the existence of the four regional institutions dealt with above - the Customs Union and the CMA, SADC and the PTA/COMESA.

Furthermore, if the region is to make meaningful progress towards integration, the creation of a unified institutional framework is essential. This will entail options ranging from a radical overhaul of the existing framework to an evolutionary process of modification and merger.

According to the ADB, five conditions or criteria have to be satisfied in choosing a particular option.¹⁸

- * The first is the political sustainability of the change process which in turn argues in favour of step-wise or incremental movement, which entails, amongst others, moving from a small to a large number of participating countries, and from simple and loose to complex and formal forms of integration.
- * The second is internal consistency in the membership of regional institutions. There should be no contradictions in the institutional arrangements caused by overlapping membership.
- * The third concerns the avoidance of duplication in the activities of different regional institutions.
- * The fourth - and probably most important - criterion is political will and commitment to co-operate and integrate on the part of national governments. Above all, participating countries must be prepared to sacrifice some of their sovereignty in the interest of regional co-operation.
- * A fifth determinant regarding the choice of a regional framework, is the extent to which it observes principles of equity, mutual benefit and interdependence.

Apart from the position of SACU, the future relationship between SADC and the PTA/COMESA poses a politically sensitive problem for all concerned. As pointed out above, efforts at harmonising their activities have all failed. Until now, member governments have studiously avoided making a choice between the two organisations - giving rise to doubts as to whether they are seriously concerned about the well-being of either the one or the other. However, it is quite conceivable that, with South Africa apparently favouring SADC, that organisation will also be the first choice of countries belonging

In that event, awkward questions would arise with regard to the position of PTA/COMESA institutions such as the secretariat in Lusaka or the clearance house in Harare. Equally crucial, it would mean that SADC would have to duplicate the macro-economic capabilities in respect of fiscal, monetary, exchange, trade and labour policies that are currently vested in the PTA/COMESA.

In view of considerations such as these, the ADB has put forward an interesting proposal. The Bank believes that 'it would be quite in keeping with the wider thrust of eventual continental integration' if SADC were notionally or formally to become a part of the evolving PTA - 'a PTA South so to speak'.¹⁹ To quote the ADB:²⁰

The SADC institutional structure does not need to lose its established 'southern' regional identity or its painstakingly developed institutional capability at the sector level under such an arrangement. Nor does the PTA need to lose its legitimate involvement in the market integration enterprise for SAR [i.e. the Southern African region]. It could continue to provide an umbrella and set the agenda for progressive harmonisation and integration.

Under such an arrangement, the sectoral co-ordination activities of the PTA/COMESA, insofar as they affect the Southern African countries, could be merged into those of the existing SADC sector unit structures, while the PTA/COMESA would continue to act as the agenda-setting authority on trade liberalisation and the evolution of a common market.²¹

Reflecting its own doubts about the universal acceptability of its proposal, the Bank states that with the 'right set of working relationships' - notably, one must presume, between the respective secretariats - the two organisations could indeed become complementary.²² Even if accepted, though, that would still leave open the future of the SACU.

With respect to the SACU, the ADB suggests four conceivable options (which need not be further elaborated here): (1) merger between a renegotiated SACU and an enhanced SADC prior to deepening of the integration process; (2) deepening of a reconstituted SACU and reconstituted SADC followed by merger; (3) elimination of the SACU simultaneously with a restructured SADC joined by South Africa; and (4) an expanded SACU open for membership to other countries in Southern Africa leading to an implosion of the SADC.²³ (Also see the suggestions given earlier in the background document of the South African Department of Trade and Industry).

Conclusion

While the foregoing has indicated the appreciable benefits to be expected from closer

While the foregoing has indicated the appreciable benefits to be expected from closer economic ties between the countries of Southern Africa, it should have left in no doubt as to the vexing political and economic problems that need to be faced in moving towards the goal of regional integration. If meaningful progress - as distinct from empty declarations of intent - is to be made, that goal must be approached in a pragmatic, step-by-step and politically sustainable fashion.

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17. *Ibid.*, para 3.151.
18. *Ibid.*, para 3.158 - 3.161.
19. *Ibid.*, para 3.163.
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21. *Ibid.*, para 3.165 and Executive Summary, p 51.
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Glossary

| | |
|--------|---|
| ACP | Afro-Caribbean Pacific Grouping |
| ADB | African Development Bank |
| AFTA | Asian Free Trade Area |
| AII | Afrikaanse Handelsinstituut |
| AIC | Advanced Industrial Country |
| AIDS | Acquired Immune Deficiency Syndrome |
| ANC | African National Congress |
| ANZUS | Australia, New Zealand, United States Treaty |
| APEC | Asian-Pacific Economic Co-operation |
| ASAS | Association of Southern African States |
| ASEAN | Association of South-East Asian Nations |
| AZAPO | Azanian People's Organisation |
| | |
| BIS | Inter-African Bureau for Soil Conservation |
| BLNS | Botswana, Lesotho, Namibia and Swaziland |
| BLS | Botswana, Lesotho and Swaziland |
| | |
| CAF | Central African Federation |
| CCFF | Compensatory and Contingency Financing Facility |
| CCTA | Commission for Technical Co-operation in Africa South of the Sahara |
| CEEC | Central and East European Countries |
| CFE | Conventional Forces in Europe |
| CIS | Commonwealth of Independent States |
| CMA | Common Monetary Area |
| CMEA | Council for Mutual Economic Assistance |
| CNN | Cable News Network |
| CODESA | Convention for a Democratic South Africa |
| COIN | Counter-Insurgency |
| COMESA | Common Market for Eastern and Southern Africa |
| CONSAS | Constellation of Southern African States |
| COSATU | Congress of South African Trade Unions |
| CSA | Scientific Council for Africa South of the Sahara |
| CSCE | Conference for Security and Co-operation in Europe |
| CSFR | Czech and Slovak Republics |
| CSSDCA | Conference on Security, Stability, Development and Co-operation in Africa |
| | |
| DAC | Development Assistance Committee |
| DNU | Department of National Unity |
| | |
| EAC | East African Community |
| EC | European Community |
| ECA | Economic Commission for Africa |
| ECOWAS | Economic Community for West African States |
| ECSC | European Coal and Steel Community |
| EDF | European Development Fund |
| EEA | European Economic Area |

| | |
|---------|---|
| EEC | European Economic Community |
| EFTA | European Free Trade Association |
| EPU | Economic Planning Unit |
| ERP | Economic Recovery Programme |
| ESABO | Eastern and Southern African Business Organisation |
| EU | European Union |
| FDI | Foreign Direct Investment |
| FLS | Frontline States |
| FRELIMO | Frente de Libertação de Angola |
| FSU | Former Soviet Union |
| FTA | Free Trade Agreement |
| FTAA | Free Trade Area of the Americas |
| FTZ | Free Trade Zone |
| GATS | General Agreement on Trade in Services |
| GATT | General Agreement on Tariffs and Trade |
| GDP | Gross Domestic Product |
| GEIS | General Export Incentive Scheme |
| GNP | Gross National Product |
| GNU | Government of National Unity |
| GSP | Generalised System of Preferences |
| IAEA | International Atomic Energy Agency |
| IBRD | International Bank for Reconstruction and Development |
| ICBM | Inter-Continental Ballistic Missile |
| IFRC | International Federation of the Red Cross |
| IMF | International Monetary Fund |
| ILO | International Labour Organisation |
| IOC | Indian Ocean Community |
| ISI | Import Substitution Industrialisation |
| ITO | International Trade Organisation |
| LDC | Least Developed Country |
| MERG | Macro Economic Research Group |
| MFN | Most Favoured Nation |
| MIDA | Malaysian Industrial Development Authority |
| MMA | Multilateral Monetary Agreement |
| MNC | Multinational Corporation |
| NACC | North Atlantic Co-operation Council |
| NAFTA | North American Free Trade Agreement |
| NATO | North Atlantic Treaty Organisation |
| NEF | National Economic Forum |
| NEP | New Economic Policy |
| NGO | Non-Governmental Organisation |
| NIC | Newly Industrialised Country |
| NIEO | New International Economic Order |
| NIS | Newly Independent States |

| | |
|--------|--|
| NP | National Party |
| NPT | Non-Proliferation Treaty |
| NTB | Non-Tariff Barrier |
| | |
| OAU | Organisation of African Unity |
| OAS | Organisation of American States |
| ODA | Official Development Assistance |
| OECD | Organisation for Economic Co-operation and Development |
| | |
| PAC | Pan Africanist Congress |
| PF3P | Partnership for Peace |
| PIMPAC | Northern Pacific Rim |
| PRC | People's Republic of China |
| PTA | Preferential Trade Agreement for Eastern and Southern Africa |
| | |
| R&D | Research and Development |
| RDP | Reconstruction and Development Programme |
| RENAMO | Resistência Nacional Moçambicana |
| RMA | Rand Monetary Area |
| RSA | Republic of South Africa |
| | |
| SACOB | South African Chamber of Business |
| SACU | Southern African Customs Union |
| SADC | Southern African Development Community |
| SADCC | Southern African Development Co-ordination Conference |
| SADF | South African Defence Force |
| SAFTO | South African Foreign Trade Organisation |
| SANDF | South African National Defence Force |
| SAP | Structural Adjustment Programme |
| SAPS | Structural Adjustment Programme Service |
| SATS | South African Transport Services |
| SDR | Special Drawing Rights |
| SEZ | Special Economic Zone |
| SIPRI | Stockholm Peace Research Institute |
| SLBM | Submarine Launched Ballistic Missile |
| SSBN | Nuclear-Powered Ballistic Missile Submarine |
| START | Strategic Arms Reduction Talks |
| SWAPO | South West African People's Organisation |
| | |
| TMP | Third Malaysia Plan |
| TRIM | Trade-Related Investment Measure |
| TRIP | Trade-Related Intellectual Property |
| TVE | Township and Village Enterprise |
| | |
| UDI | Unilateral Declaration of Independence |
| UK | United Kingdom |
| UMNO | United Malays National Organisation |
| UN | United Nations |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Programme |

| | |
|--------|--|
| UNECA | United Nations Economic Commission for Africa |
| UNESCO | United Nations Educational, Scientific and Cultural Organisation |
| UNICEF | United Nations Childrens Fund |
| UNITA | União Nacional para a Independência Total de Angola |
| US | United States |
| USSR | Union of Soviet Socialist Republics |
| WID | Women in Development |
| WTO | World Trade Organisation |

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ISBN 1-87490-50-7



9 781874 890584

THE SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS
PO BOX 31590, BRAEMFONTEIN 2017, SOUTH AFRICA