



# international UPDATE

11/95

## SOUTH AFRICA'S TRADE POLICY: REGIONAL PERSPECTIVES FOR GLOBAL SUCCESS

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South African regional trade and development policy is at a critical juncture in its unique history. Having broken from its apartheid past, South Africa is moving slowly towards charting new public policy. Trade policy is one facet set to undergo dramatic change as the government constructs a new regional trade policy premised on export-based growth. In line with this, South Africa is liberalising its trade relations according to WTO rules and gradually restructuring its own domestic economy in the process.

For the purpose of this paper the southern African region will be defined as encompassing the Southern African Development Community (SADC) states and the non-SADC Preferential Trade Area (PTA) states - now COMESA, because they represent a potentially contiguous economic and political region. However, from the South African perspective, proximity to South Africa and their individual economic power determines the relative importance of these states to South Africa's regional policy.

### SACU

At present, there are in the region a series of organisations with overlapping objectives. Historically of primary importance to South Africa is the Southern African Customs Union (SACU) made up of the BLNS states (Botswana, Lesotho, Namibia, Swaziland) and South Africa. SACU is a trade organisation which creates a common external tariff (CET) on all goods entering the Union, and theoretically allows for the free flow of goods within the Union. Administratively, SACU relies

on the South African government and has suffered from South Africa's *de facto* control over policy-making. This had two key results: price raising and major regional polarisation (as a result of the concentration in South Africa). The BLNS states have traditionally been compensated for the polarisation effect through a redistribution of customs revenues. Following South Africa's adoption of the new WTO rules of governing trade it is expected that the SACU revenues will fall.

Additional to the SACU agreement is the Common Monetary Agreement (CMA) signed in 1969, later renegotiated to become the Multilateral Monetary Area (MMA) - including Namibia at independence but excluding Botswana. The MMA establishes the Rand as common currency within the Customs Union. The MMA is administered by the South African Reserve Bank and makes South African monetary policy the *de facto* policy of SACU. There are some minor allowances which give Lesotho and Swaziland very slight monetary powers, but generally the BLNS have suffered from imported inflation and a lack of control over growth and contraction in their economies. The BLNS has, however, benefitted from currency stability, notably lacking in other countries.

### SADC

The second key organisation in the region is SADC, transformed in 1993 from the Southern African Development and Co-operation Conference (SADCC) and including South Africa since late-1994. SADCC was a politically motivated organisation created in 1980 to counter apartheid,

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whereas SADC is primarily development focused. Its clear institutional structure, aimed at promoting regional development and trade, is its greatest strength. However, SADC is not without its weaknesses: it lacks trade-oriented economic strategy, and has a poor record, often being accused of merely posturing as opposed to taking concrete action.

### PTA and COMESA

The third and least relevant body for South Africa is the PTA, Common Market of Southern and East Africa (COMESA). COMESA is an ambitious trade-oriented organisation with a developed institutional structure but is also widely criticised for its meagre achievements. South Africa is currently applying for Associate membership.

Due to these overlapping and in many ways competing organisations, careful planning is required by South Africa in developing a policy which takes cognisance of these factors.

As it is currently being reformulated, the government's regional policy stands on three principles: closer regional integration, economic growth through trade and regional development. The South African government favours a multilateral approach, as opposed to a bilateral one, in order to foster a sense of mutual gain. Ultimately the regional policy espouses the sentiment that 'states and societies must no longer view each other as adversaries in a zero-sum battle where what one gains, the other loses'.<sup>1</sup>

The roots of South Africa's new regional trade and development policy can be found in the basic tenets of the ANC's regional policy. According to Greg Mills, these are:

- \* The collective nature of the new regional order;
- \* An anti-militaristic and development-oriented approach to regional security and co-operation; and
- \* South Africa's renunciation of all hegemonic regional ambitions.

Thus the new regional trade and development policy aims to break with the past by accommodating the needs of the region's states while also maintaining a focus on the needs of South Africa itself. The new policy will attempt through integration to aid the development of South Africa's neighbours, while reaping economic

rewards for herself. A developmental thrust is envisaged as part of South Africa's wider African consciousness, with South Africa committed, on paper at least, 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.

This view is but one among many and has many critics but serves as a basis for this analysis. However, in formulating the new policy, the following elements among the regional realities warrant serious consideration.

### Regional Factors

The South African economy, in many ways, is an anomaly in the southern African region. The economy is so much bigger and more developed than those of her neighbours that it inevitably creates serious trade distortions. South African exports outstrip African imports by a factor of almost 5:1. SACU experience shows that 'industrial growth tends to gravitate towards the more developed economy and to the main industrial centres in this economy as the advantages of agglomeration take hold'.<sup>2</sup> This means two things: Firstly, South Africa will have to address the impact of polarisation if it wishes to see economic growth across the region. Secondly, as has been suggested by Robert Davies, if it is to facilitate development through regional integration, South Africa will need to provide strong leadership at the highest level, and establish processes of co-operation and co-ordination without the appearance of control. Only by such processes will South Africa be able to ensure the necessary conditions of growth and mutual reward. As with the internal RDP, it is essential that the other partners understand that there is no 'quick fix' solution.

### South African Policy

Given this background, South Africa's regional trade options deserve closer examination. A two-track approach to its regional policy seems highly desirable. Given the institutional and organisational realities in the region, South Africa is well placed to firstly, create a viable trade body and secondly, reorganise the existing development organisation.

The first step would be to assess the existing sub-regions' institutional arrangements in the light of this objective. A prime candidate for this would be SACU. South Africa currently faces renegotiation of the SACU and MMA agreements, providing an

opportunity for reform 'by building on the institutions that have been functioning tolerably well for a long period.'<sup>3</sup> SACU in particular needs to reflect both market driven and development aims of South African policy, in addition to becoming a more equitable body. According to Isaksen, a successful transformation could lead to applications from Mozambique, Malawi and Zambia to join SACU.

### *The SACU Option*

South Africa within the CUTT (Customs Union Transitional Team) working groups has pushed for a set of democratically oriented bodies. Currently the structure of the institutions under discussion comprise a secretariat, a council of ministers and a commission. The competencies of these bodies have not yet been determined, but the following are likely: The commission would determine tariff structures, govern the distribution of regional development funds and monitor competition, transportation and protection policy.<sup>4</sup> (As such the institutional capacity for trade management and development policy would be created at a regional level.) The secretariat would deal with all administrative matters and the council of ministers would grant final political approval. These new bodies would need to have flexibility to address national desires and yet be strong enough to motivate the use of resources of the member states.

However, within the Customs Union, only South Africa has a well developed infrastructure and a relatively large and advanced industrial sector. This means that the relationship in SACU between South Africa and the BLNS is complementary and not competitive, resulting in a large trade *diversionary* effect as opposed to *trade creation*. Ultimately, any conversion of the SACU amounting to a closer economic integration, 'would involve permanent movements of population. The net flows are likely to be one-way from BLSN to South Africa (especially to the major metropolitan regions)'.<sup>5</sup> The economic disparity propelling this migration flow could also cause the South African government political and economic problems requiring revision of the compensatory revenue sharing formula. As McCarthy suggests, the reformed SACU commission could rationalise national development programmes such as industrial planning, fiscal incentives to influence the location of industry, fiscal compensation (transfers), foreign investment codes, and selective protection within the common market to address the need for spatial distribution of new industrialisation. SACU could further address the problem of regional development by co-ordinating

the delivery of regional funds to trade and development projects.

### *Regional Overlap: SADC & COMESA*

Given the aforementioned reforms, SACU has the potential to become the vehicle that South Africa seeks for creating regional prosperity. However, SACU does not exist in a void, but has to share the regional economy with the two other institutions - SADC and COMESA. South Africa understands the regional imperatives and recognises SADC's own interest in becoming a key player in regional *trade* organisations while maintaining its position as the central *development* organisation in the region. South Africa also realises that SACU with exclusive BLNS membership is at best a temporary *step*, due to the *potentially trade-diverting* nature of the BLNS economies. Cohesive regional trade and development policy cannot be realised without the participation of the other SADC states which are not SACU members.

The problem of regional overlap with SADC could be resolved in an innovative manner. SADC's particular strengths and weaknesses mean the region would benefit from a functionally-based sector-specific development organisation. Unlike SACU, SADC has a clear and formalised institutional structure which has had experience in co-ordinating functional projects in such areas as transportation, water and electricity supply, investment and capital flow, and tourism. Yet SADC's weaknesses are multiple, starting with its 'current organisational structure and role' which 'have not proved effective in promoting cooperative regionalism'.<sup>6</sup> Funding has also been problematic. SADC has been unable to initiate the projects necessary to access the funds made available by the international community. Secondly, the SADC states' financial positions are at best shaky, resulting in a lack of indigenous funds. Finally, SADC has been accused of posturing, with little real commitment to action, excessive bureaucracy, and weak compliance mechanisms. Ohlson and Stedman state that the loose, lowest common denominator-type organisation structure is increasingly being seen as a major weakness.

With regional support and South African urging, SADC could perhaps be pushed to focus its energies more effectively on functional regional projects and offset the polarising effect that South Africa would exert. SADC could avoid the unnecessary hurdles of structural transformation to a trade organisation and rather concentrate on co-ordinating and completing internationally and regionally funded aid and development projects. In

fact it could counter the growing trend in sub-Saharan Africa that has seen the absorptive capacity of LDC's falling, 'for example under Lomé III only 20% of the available funds were used'.<sup>7</sup>

### *Bridging the Gap*

In terms of trade, the SADC states would have the two options of for developing relations with a revamped SACU. The first option would comprise a bilateral deal between the two regional organisations. It is questionable whether SADC would want to generate a common trade position which would require its role as a regional trade organisation to defer to a revamped SACU. In such an arrangement the SADC states would become linked to the SACU initially through a liberalised trade regime with participation in all of the relevant institutions of SACU. The alternative and less desirable option is that the 'transition would take the form of bilateral trade agreements and escalation clauses towards membership of a free trade area and then full SACU membership'.<sup>8</sup>

The third and final regional organisation is not of great relevance, because it is within the rules of the PTA that the PTA member states forge on to creating freer trade in the region. The PTA would hopefully be satisfied if there was a greater harmonisation of trade within the region.

The creation of a trade and development framework is, as mentioned earlier, only one component of the regional policy. The other component is the linkage of the region to the global economy. Regional trade will not flourish without an increasing level of exports to the outside world. In this respect the EU is of vital importance. If Southern Africa can integrate and develop its economies in the prescribed fashion they will be able to reap the benefits of both the relatively advanced South African economy and the preferences granted to the LDCs by both WTO and the EU through Lomé. The concept of free-trade can be utilised by Southern Africa to gain important ground in the international economy, coupling international aid to the prospects for export-led growth. South Africa sinks or swims on the success of the greater region and must use a potential regional trade and development organisation to fight for concessions both for herself and for the regional states, in order to promote regional integration and growth. Ultimately, this 'suggests that while all of the existing organisations (at least if transformed) could potentially provide elements of a new co-operative regional order, the need is for something greater than the sum of the existing parts'.<sup>9</sup>

This discussion has sketched out only in rough detail one of many scenarios in the coming regional trade debate and is aimed at provoking thought on alternative paths towards both economic growth in South Africa and regional development.

### Endnotes

1. Ohlson T & SJ Stedman, 'Towards Enhanced Regional Security in South Africa' in Odén B (ed), *Southern Africa After Apartheid: Regional Integration and External Resources*. Uppsala: Nordiska Afrikainstitutet, 1993, p.100.
2. McCarthy CL, 'The Southern African Customs Union in a Changing Economic and Political Environment', *Journal of World Trade*, 26, 4, August 1992, p.8.
3. Maasdorp G, 'Economic Co-operation in Southern Africa: Prospects for Regional Integration', *Conflict Studies*, 253, July/August 1992, p.26.
4. Davies R, et al, *Report of a Technical Working Group of the Transitional Executive Council on Southern African Co-operation*, 22 April 1994, p.12.
5. Maasdorp G, *op.cit.*, p.23.
6. Ohlson T & SJ Stedman, *op.cit.*, p.103.
7. Maasdorp G & A Whiteside, 'The 1990s and Beyond' in Maasdorp G & A Whiteside (eds), *Towards a Post-Apartheid Future*. London: Macmillan Press, 1992, p.14.
8. Maasdorp G, *op.cit.*, p.25.
9. Ohlson T & SJ Stedman, *op.cit.*, p.104.

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