Ser

Nordiska Afrikainstitutet

(The Scandinavian Institute of African Studies)

Working Paper

The Southern Africa Programme

The Role of Trade and External Finance in Southern African Economic Integration

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No. 6 1994

THE ROLE OF TRADE AND EXTERNAL FINANCE IN SOUTHERN AFRICAN ECONOMIC INTEGRATION

Introduction

This article[1] deals with two interrelated issues. One is the role of trade as instrument for regionalisation in post-cold war, post-apartheid Southern Africa. The share of intra-regional trade in both SADC and PTA has been stagnant or reduced since the organisations were formed. With South Africa included the share will double from around 5 to around 10 per cent, while the intra-trade value will quintuple. What are the prospects for further increased regional trade, and who will gain from such a development? Will free trade area/common market schemes be crucial instruments or will the development of intra-regional trade depend on other dynamics?

The other issue is the role of external finance and especially development aid to the region. Will the patterns and conditions of external finance increase or reduce the scope for increased regional integration?

The point of departure is the ADB study *Economic Integration in Southern Africa.* (ADB 1993, a,b,c.) The aim is to give further inputs to the discussion in the two fields.

Trade integration issues

Since the wave of independence around 1960 the dream of an African Common Market has been an important part of the Pan-African scheme, so strongly emphasized at the rhetorical level and in a number of important documents by OAU, ECA and other African organisations, the most recent one being the Treaty Establishing the African Economic Community in 1991 (OAU, 1991).

Trade integration has played a main role in suggested and attempted continental as well as sub-regional projects. So far no one—except SACU, with its special historical background, its roots dating back to the late nineteenth century and with its total South African dominance —can be caracterised as a success. Osmond Johnson wrote in an article a few years ago:

> "African countries seem unable to surmount the associated difficulties that have arisen in all their attempts at economic integration of the type that is supposed to end with the formation of a customs union - whether the defunct East African Community, or any of those still in existence, such as Ecowas, the Mano River Union, the Communauté économique de l´Afrique de l´ouest (C.E.A.O.), the Union douanière et économique de l´Afrique centrale (U.D.E.A.C.) or the P.T.A. The precise structure and details of the actual schemes being promoted have been unrealistic in light of the costs and sacrifices that African governments and their citizens seem willing to bear." (Johnson, 1991:3)

Why have so many African trade integration schemes failed in the sense that they have not been able to increase the share of intra-regional trade significantly? I would argue that there are three main reasons:
1) The production structure of most SSA countries fits very ill with the assumptions on which trade integration theory is based.
2) Non-tariff trade barriers (NTBs) are a much stronger impediment than tariffs to cross-border trade between most African countries.
3) The political will among the participating governments has for several reasons been weak, despite pro-integration rhetoric.

Trade integration theory and production structure

The market or trade integration theory was originally developed by Jacob Viner in the 1950s, mainly as a theory for customs unions (Viner, 1950). It addressed economic integration between industrialised countries, where markets for production factors, infrastructure etc. were functioning well. It concentrated on the concepts of trade creation and trade diversion.[2] It has been argued by many scholars, among them Bela Balassa, that the traditional theory of customs union is of little use for evaluating the desirability and the possible consequences of integration among less developed countries (Balassa, 1961). When applied to third world countries it has to be adjusted *inter alia* to the lack of functioning factor markets and infrastructure. In a case like Southern Africa it has also to be adjusted to the strong asymmetry due to the economic dominance of South Africa.

The critique focuses on the following aspects and underlying assumptions, which which very seldom are fullfilled in the case of African economies, including those in Southern Africa:
1) The nature of the static approach, as it is not open for changes in complementarity and creation of new comparative advantages, and as it assumes optimal resource allocation in the short term perspective.
2) The assumption that all factor resources are fully utilised and that they will be immediately absorbed in other parts of the economy if out- competed as a result of the integration.
3) The assumption that physical and human capital are non-sector specific.
4) The assumption that the trade between the members in the integration scheme is rather balanced.
5) The assumption that there is full competition at the national markets for goods and production factors.
6) The assumption that transfer costs for trade are low.

Carol Lancaster is one of the scholars arguing that most developing countries, particularly in Africa, have only limited potential for expanding trade with one another. What is more important is the stimulus integration can provide for expanded investment. Increased trade may be a consequence of expanded investment but it is not the ultimate end of regional integration schemes. Lancaster argues that this has often been confused in discussions of regional integration among African countries (Lancaster, 1991).

Bela Balassa has together with Ardy Stoutjesdijk pointed at the importance of making a distinction between different classes of goods and services according to their mobility when discussing market integration (Balassa & Stoutjesdijk, 1976). They classify goods and services in three categories: national, regional and international. Under the national category fall for instance perishables, construction, housing, retail trade, most government and private services which normally are not traded between countries. To regional goods and services belong electricity, roads, railways, water supply, education and research. International goods and services may be procured on national, regional or world markets and comprise most agricultural, mining and manufacturing products.

From a theoretical/structural point of view it is thus not surprising that the ADB study is cautious about the potential for trade integration with free trade area or common market scheme as the main instrument, mainly referring to the structural issues. "The structure and composition of the economies of the region have therefore been the principal limitation to the growth of trade." (ADB 1993b:40)

The study, however, argues that with South Africa included there is significant scope for replacing imports to PTA countries from the rest of the world with imports from South Africa and that there is a potential market for PTA suppliers in South Africa. In other words, the inclusion of South Africa will reduce the structural restriction on increased intra-regional trade. The argument is based on the implicit assumption that South African products are cheaper than those now imported from the rest of the world. This assumption is however not substantiated.

According to the PTA-statistics used in the ADB study, the share in total PTA exports of PTA intra-regional exports dropped during the 1980s, from almost 8 per cent to around 5 per cent, its intra-regional imports from almost 5 per cent to around 4 per cent and the total intra-PTA trade from 6 to 4.4 per cent.[3] In the case of SADC, the intra-regional trade is estimated at around a stagnant 5 per cent.

As the ADB-study points out, to this should be added the so called informal trade, smuggling and border trade across artifical national borders, originally drawn up by colonial powers. This trade is significant, and the ADB study estimates it to vary between 15 and 50 per cent of the registrered trade in the various countries in the region.

Non-tariff barriers (NTBs)

Benefits from the creation of free trade areas arise only when tariffs have been a major impediment to inter-territorial trade. In African countries non-tariff obstacles are often at least as difficult to overcome. Inefficient bureaucracy, licensing and payment systems together with other red tape create very burdensome obstacles to intra-regional trade in Southern Africa. This is pointed out by many, in the SADC context, for instance, by the Chr Michelsen Institute study on Intra-Regional Trade (CMI, 1986). It is also the most common complaint from practitioners, as exemplified in various articles in the *Southern African Economist*.

The ADB study puts strong emphasis on this issue. It states for instance that the tariff reduction schedule proposed by PTA is likely to be of limited significance to expanding intra-regional trade because NTBs are far more important impediments. The study mentions the following:

- Constrained 'ability to pay' for imports. The study points out that this is not only a question of purchasing power (forex) but also an effect of many aid donors' policy of tying aid to procurement in the donor country.
- Import licensing systems.
- Restrictions on trade finance. The study points out that the 'normal' trade finance system is letter of credit (LC). In many PTA countries the ability of the commercial banks to issue LCs is restricted by limited allocations of forex from their respective central banks. A complicating factor here is also tying of aid by the donor countries.
- High transport costs.
- Border controls and permit requirements
- Absence of market and price information, lack of knowledge of product availability.

The issues listed are interrelated. Transport costs are increased due to cumbersome and time-consuming border controls and permit systems, which is part of the forex scarcity. This scarcity is less strongly felt in some of the countries due to the liberlisation of the forex systems combined with significant import support financing as part of development aid programmes.

Two important NTBs, also interrelated with the others, are not discussed in the ADB study. One is the general low quality of the banking system and the other is corruption which affects all the other NTBs, Actually the corruption factor is an impediment to efforts to reduce all the other NTBs and an obstacle to those forces working for what in the aid jargong is called 'increased transparency'. It is supposed to be a 'sensitive issue', as soon as it goes beyond general statements and actions directed towards the 'small fishes'.

Political will

The quotation from Johnson above is one way of stating the issue of political will, which is very difficult to analyse, because its difficult to define and therefore to find any quantifiable indicators. It is also a question of political will by whom. Normally the discussion on political will implicitly refers to governments, but there are other groups, such as opposition parties, labour movements, enterprise organisations etc with diverging interests, and strong enough to be able to influence the governments.

A regional integration process implies a degree of supranationality. To give away part of what is perceived as national sovereignty is difficult for a government in a country where the national question has not been resolved. The importance of addressing the national question as a prerequisite for sustainable development in the case of South Africa and the region, has been emphasized by e.g. Mandaza (1991). If a resolution to the national question is a prerequisite for regional integration, Southern Africa has a weak potential for integration.

The tendency among the other SADC countries to cultivate their bilateral relations with the transforming South Africa can also be interpreted as reluctance towards integration. A structural force that will support further extention of bilateralism is "the old networks" from the sanction-busting period. Any ambitious regional integration project is thus bound to meet a certain "structural resistance". The tendency towards a "hub-and-spoke" pattern of regional relations can be compared with the CONSAS[4] concept from the apartheid era, although in a new guise.[5] A strategic choice for the region is between such a bilateralism or some kind of multilarism.

South Africa´s entry creates a new regional situation

The ADB study argues:

"The question of the impact of RSA exports on regional markets will be mainly determined by (a) the tariff regime vis-à-vis RSA; (b) the scope for the 'switching' of trade away from the ROW[6] suppliers to RSA and (c) the continued impact of the NTBs (non-tariff-barriers)".

According to the study, South Africa, to expand its regional trade further, would need to take advantage of a tariff regime vis-à-vis regional trading partners which is more favourable than that which has been applied to the rest of the world. Contradictory to this the study states in the concluding section of the trade chapter "... the existing low structure of tariffs on RSA type exports within the PTA makes it unlikely that tariff-free access would give RSA a decisive cost advantage over ROW suppliers." (ADB 1993b:40).

My own view is that from a regional point of view, the analysis in the ADB study can be used to conclude that the main effect of further trade integration in Southern Africa will be to give South African manufacturing sector an advantage compared to competitors in the rest of the world. In the short run this trade diversion is not necessarily to the advantage of the present SADC or PTA member states.

That development aid in the form of import support is an important part of the foreign exchange supply in some of the Southern African countries may further improve the position for South Africa-based companies. Namely to the extent that this type of aid is not tied to procurement in the aid-givning country. And such a tying is not the normal case in this type of aid, as it increasingly is put into market oriented systems of allocation.

As the ADB study points out, as long as South African imports replace imports from the rest of the world, this will not directly affect the domestic companies. It is not unlikely, however, that domestic companies will be outcompeted and closed down, which may create backlash effects for the idea of regional integration and generate demands for compensation. One example can be taken from Zambia, where the sole fertilizer plant has closed down, ostensibly due to import competition from South Africa.[7] Other examples may be taken from the textile sector in Zimbabwe.[8] These examples touch one prerequisite for a successful regionalisation, that of avoiding further increase of the South African domination. They also indicate problems when trade and capital liberalisation is implemented under national structural adjustment programmes without any regional coordination. This issue has so far been very scarcely investigated.

On the other hand, the agreement between South Africa and GATT will in the medium term perspective increase the export potential for the neighbouring countries in branches where they do not compete with NICs and OECD countries, which mainly means agricultural products and other commodities.

Together these two trends will aggravate the regional centre-periphery syndrome. The choice facing the countries in the region is wether they to a larger degree wish to constitute a periphery versus South Africa, which is closer and more accessible for negotiations on compensation schemes, or whether they want to continue their existence as periphery vis-à-vis the more distant core countries in the North and NIC countries in the East.

Which regional organisation is best equipped to be the instrument of trade integration?

Which of the existing organisations, if any, has the best potential to increase intra-regional trade and under what circumstances? The ADB study argues that PTA is too dispersed geographically, making transportation difficult and expensive and possible common interests diluted. South Africa became a member of SADC in late August 1994, which is in accordance with declared ANC policy. The ANC wording on possible membership of PTA is, however, more ambiguous.

> "A democratic South Africa should apply for membership in the SADC and possibly the PTA, and should support reforms in the SACU to enhance democracy and equity." (Reconstruction and Development programme, 6th Draft, 13 January, 1994)

It is difficult to envisage SADC in the foreseeable future developing into a trade integration instrument along the free trade area/common market line. Such a development would compete with the ongoing PTA tariff reduction scheme. To launch a competing scheme would be confusing.

The SADC summit meeting in late August 1994 decided that the PTA should be divided into 'PTA South', i.e. all SADC member states, and 'PTA North', comprising the rest. The PTA Summit meeting in Malawi in December 1994 seemed to have been split on the issue of future relations between the two organisations. It is reported that a joint PTA/SADC Summit meeting will be called in 1995 in order to try and resolve this issue.[9]

How government representatives of nine countries, members of both SADC and the PTA can take contradictory decisions in the two organisations is puzzling, but it has happened before. At the beginning of 1992, PTA decided that the two organisations should merge and SADCC (as it was then) that they should not merge.

Should, however, a division be decided, and upheld, this does not necessarily preclude all countries following the decided time schedule for PTA tariff reductions. Alternatively, SADC may decide on a new schedule, based on the reductions already implemented or the 50 per cent reductions that should be implemented by 1996, according to the PTA schedule.

A certain reluctance towards SADC as a former 'enemy' organisation is reported to exist in South Africa among the white political and economic leadership, surviving from the apartheid era, and with rudimentary knowledge about the organisation. This attitude could be traced for instance in a leading article in *Financial Mail* after the SADC summit Meeting when South Africa became the eleventh member of the organisation.[10]

The idea of adding some of the other SADC countries to SACU has been discussed informally and it has been indicated that there is some interest in this in Malawi, Mozambique, Zambia and Zimbabwe. These countries must in such a case get a transition period with gradual phasing out of their tariffs towards the SACU countries, especially South Africa. This method would probably be more interesting to South African economic interests than the SADC alternative. It could also be an alterntive to bilateral preferential trade agreements between South Africa and those countries individually.

The South African government has the power to decide on which organisation will be the main regional integration instrument. It has now joined SADC. This was a political decision, without too much technical or economic preparations on either side.

If South Africa in this situation decides not to join PTA[11], this would imply that PTA would be forced to try to survive as a regionalisation instrument for Eastern Africa. It is anybody´s guess how for instance the aid donors would react to such a development. Mine is that PTA as an Eastern African regional organisation, although weaker than SADC, would be more interesting than it is at present to the donor community.

Discussions on the reforming of the SACU agreement is also going on, as well as bilateral discussions between South Africa and some of the neighbouring countries on trade agreements. As the ADB study points out there are a number of bilateral trade agreements between the countries in the region, notably between South Africa and Angola, Zambia, Malawi, Mozambique and Zimbabwe. Only the three latter, however, include specific tariff provisions, according to the study. News media report that there is interest in all neighbouring countries for bilateral arrangements with South Africa. If this approach is further developed, the dominance of the South African companies in the regional trade is likely to increase more than if the negotiations were to be carried out in a regional forum.

Bilateral agreements give the individual non-SACU countries least leverage in negotiations. To link the non-SACU countries to SACU may give them slightly more leverage. If conducted within SADC, with South Africa as its eleventh member, transforming itself into a trade integration project would probably increase the leverage of the smaller countries still a bit more.

The ADB study also warns that too quick an opening of the region to industrial competition from South Africa may frustrate industrialisation of other economies in the region. It states that "immediate establishment of a free trade area throughout SAR is a political, financial and economic non-starter. A more practical alternative is for the non-SACU members of SADC to pursue their programmes for industrial restructuring, harmonising those with agreed PTA initiatives for tariff reform and the elimination of NTBs and phasing their bilateral agreements with RSA within a framework bounded by national and PTA-agreed parameters."

I interpret this as a recommendation to continue bilateral agreements with South Africa and PTA tariff reductions in accordance with the agreed PTA time schedule. Focussing on bilateral agreements is in line with the interest of many South African economic actors, as mentioned above. It is unclear how this would tally with a South African membership in SADC or PTA and what it means for the countries without bilateral agreements with South Africa. In the balance between dynamics and balanced distribution, ADB seems to favour dynamics, siding with the already strong interests.

The Uruguay Round of GATT

Since the conclusion of the Uruguay Round Agreement within GATT in the beginning of 1994 a number of estimates on the effects for various categories of countries have been made.[12] So far they have been at a high aggregate level and all of them are based on more or less well-founded assumptions. It is obvious that opinions on the distribution and character of gains and losses vary, depending on the time perspective and on various implicit assumptions outside the trade regime. In order to be slightly better based they have to be disaggregated to the individual country level. This also goes for Southern Africa. Some preliminary general points can, however, be made.

Firstly, there is general agreement that on a global level the results will contribute to increased trade, incomes and investment. Also critical scholars from Southern Africa such as Guy Mhone writes "There is no doubt in anybody´s mind that the world is better off with, than without, GATT" (Mhone 1994:34). Commentators also agree that the main winners will be the countries in the three major trading blocs and a few of the NICs. The third world countries that are expected to gain most are the textiles and clothing exporters, as this sector is expected to grow most. The multi-fiber agreement will be gradually removed and open markets even more. Theoretically this will give export potentials also for African countries, but competition from the "third or fourth generation" of NICs in East Asia will be stiff.

It is argued that the losses of the LDC net food importers, calculated by the OECD to around 7 billion USD "...is small compared to the gains and could be compensated for by a transfer of 3.5 per cent of the gains, equivalent to less than 20 per cent of official development assistance" (OECD, 1993:11). According to the same study the loss of SSA would be USD 2.6 billion, corresponding to around 7 per cent of total ODA. This may in principle be easily compensated for through aid, but to mobilise aid funds for this purpose will in praxis certainly turn out to be difficult.

Secondly, the most immediate losers among third world countries are estimated to be the net food importers, due to the expected increase of world market prices on grains as a result of reduced subsidies. According to these calculations, Africa is the continent where the losers predominate. (Bach, 1994). In years with "normal" rainfall - which are very rare - a number of countries in Southern Africa have been dependent on food imports, actually all except South Africa, Zimbabwe and sometimes Zambia. It can be argued that with peace in the region also Mozambique and Angola have a strong agricultural potential and would therefore in the long run be able to avoid imports. In the short run, on this account Southern Africa is certainly a loser. In the long run they may gain, however, if the destabilising effects on domestic producers of low-cost, subsidised grain from the North are reduced.

Thirdly, if the GATT agreement promotes trade and investment according to the calculations made, it will stimulate increased demand for metals and minerals in the core countries, which may increase world market prices, to the benefit of mineral and metal producers in the region, such as South Africa, Zimbabwe and Zambia.

Fourthly, some argue that the structural adjustment programmes and general liberalisation of many economies in SSA, together with democratisation of political systems will lead to increased investments. This trend, it is argued, is further strengthened by the TRIMS (trade-related investment measures) and TRIPS (trade-related intellectual property rights). The issue is how strong these arguments are when SSA countries are compared to countries in East and South Asia, Eastern Europe and Latin America. On the other hand, as Mhone points out, all this improves the environment for the TNCs and their global production strategies. Possibly it also strengthens the trend of increased competition for investments between the countries in the region. To counter such a development there is an obvious need for regional harmonisation, which could take place within SADC.

Taken together this would add up to a very preliminary and general assessment, according to which the GATT agreement for Southern Africa as an African sub-region may have slightly better effects than for the rest of SSA, but the region still being a loser. The Uruguay Round reduces the ACP countries preferences, compared to their other third world competitors, as exporters to the EU market. As all SADC countries belong to the ACP group (except the recent member South Africa), this may spur their interest for regional co-operation. Other global trends will, however, affect the region much more, such as technological development and global demand for minerals. Still more important is how political and economic stability of the region is perceived by companies, banks and governments in the core countries.

The GATT-agreement with South Africa will reduce the protection for South African companies in the SACU market and increase the competition for those companies both in the domestic market and in the rest of the SACU region. It may open up for increased imports to the BLNS from countries outside SACU. It may also make the South African market more accessible for companies in non-SACU countries, and thereby marginally reduce the present imbalance of the intra-regional trade flows.

The potential for increased intra-regional trade, creating exports from the Southern Africa region, will be improved if the EU accepts inclusion of South African produced inputs within the cumulative provisions of the rules of origin of the Lomé Convention, in spite of South Africa not being part of the Convention.[13]

External finance

Most observers agree that interest by the core countries of the North in Sub-Saharan Africa (SSA) has been reduced in the post-cold war era. It is also often stated that SSA is now facing increased competition for investments, commercial loans and development aid from Eastern Europe and the former Soviet Union in transition and from East Asia, including China, and South East Asia. Both for direct investments and commercial loans this has been a trend over the last 10-15 years, covering also the late cold war and apartheid era. In the field of development aid the opposite trend is discernable between 1986 and 1992 (the latest year for which data are available), as table 1 shows.

Development aid[14]

Development aid flows to the SADC member states have increased rapidly in nominal terms during the 1980s and especially so from 1986 to 1990, when it increased by 73 per cent in four years. This trend has continued in 1991 and 1992. Two important factors behind this increase are support to SADC co-operation and increased aid to those countries implementing IMF and World Bank sponsored or imposed structural adjustment programmes (SAPs). Mozambique and Tanzania, with SAPs under implementation and large investments in main SADC transport corridors, together received more than 60 per cent of the total aid increase in the 1986–1990 period.

The 1980s thus, with a debt crisis still looming, structural adjustment programmes and increased dominance of aid as a source for import finance and debt servicing, have for some of the countries in the region further increased their dependence on aid conditionalities, notably Mozambique, Tanzania and Zambia.

Public statements by aid agencies and government representatives indicate that new commitments will decrease, which will be reflected in lower disbursement figures in years to come. Significantly increased aid to some of the countries in the region during the late 1980s and early 1990s was also mobilised as support for structural adjustment and debt relief programmes and as emergency aid due to the effects of war and drought.

Table 1. Net disbursements of aid from all sources to SADC countries 1980, 1987–1992 (USD million at current prices and exchange rates.)

Country	1980	1987	1988	1989	1990	1991	1992
Angola	53	135	159	171	270	280	322
Botswana	106	156	151	160	148	136	113
Lesotho	94	108	108	132	139	124	142
Malawi	143	280	366	412	481	504	521
Mozambique	169	651	893	805	996	1.065	1,393
Namibia	(0)	(17)	(23)	(59)	123	184	140
Swaziland	50	45	38	29	55	54	49
Tanzania	679	882	982	924	1,147	1,125	1,344
Zambia	318	430	478	392	486	884	1,016
Zimbabwe	164	294	273	265	340	394	735
Total SADC countries	1,776	2,998	3,471	3,349	4,185	4,750	5,775

Source: For 1988-1992 - DAC 1993 Report *Development co-operation. Efforts and Policies of the members of the Development Assistance Committee.* For 1980 and 1987 - previous DAC Development Reports.

South Africa is a new entrant on the aid scene. During the apartheid period the country was not eligible for IMF and World Bank financing and excluded from many UN organisations. Support to the anti-apartheid struggle and humanitarian aid to the victims of apartheid were given via some UN programmes and by bilateral aid, both officially and via voluntary organisations. Around 1990 the volume of these resources could be estimated to between USD 250 and 300 million (Odén, 1993:235-236).

With South Africa back in the international community and with the good will enjoyed by the first democratically elected government of that country, aid flows can be estimated to increase significantly, at least for some years. Available information on the intentions of all main donors is summarised in Table 2. The total of that table is impressive—around 1.4 billion USD plus World Bank loans per annum. As is argued in the comments to the table, actual official and aid flows will be much lower.

There is also be some divergence of opinion in the South African government on to which extent World Bank and ADB funds on semi-commercial terms should be used. For investments in production and infrastructure loans on the international capital markets may be more flexible and certainly quicker to get.

Table 2. Estimated aid/loan commitments to South Africa by main sources (USD million)

Source	Total official.	Of which aid	Period
ADB	100	—	
Australia	8	8	3 years
Canada	20	20	3 years
Denmark	24	24	5 years
European Union	155	155	1995
Finland	6	6	1994-95
Italy	19	19	1994
Japan	650	150	2 years
Netherlands	17	17	
Norway	15	15	5 years
UK	95	95	
Sweden	30	30	
Taiwan	40	40	
Germany	33	33	1994
USA	200	180	3 years
World Bank	??	5	
Total	1412 + ??	797	

General comments:
Total figures are exaggerated,due to the difference between pledged and disbursed aid. Some of the large sums are only general commitments, where the Government of South Africa is expected to present elaborated projects etc. Major donors, such as EU, the ADB and the World Bank are (in)famous for the long time lag between commitments and disbursements. One guess is that the disbursed aid (grants and soft loans) during the next few years will be around USD 500 m. This on the condition that the OECDs Consensus Group within the OECD accepts South Africa as receiver of soft loans. If not, the figure may be further reduced. The figure for total official flow depends very much on the flow from the World Bank, which at present is very difficult to estimate. A guess for official flows would be around USD 1000 m.
Comments on individual donors:
USD 1300 m from **Japan**, consist of USD 500 m investment guaranties and commercial loans, USD 100 m trade credits, USD 400 m loans from the Export-Import Bank, USD 250 m soft loans (3 % interest, 25 års repayment period including 7 years grace), USD 30 m grants for education and health, USD 10 m for education of South Africans in Japan and USD 10 m for NGOs. Totally USD 300 m aid.
The figure for the **World Bank** has been used by leading figures in the staff. They have at the same time emphasised that much depends on if South Africa is able to carry out its part of the preparations. This together with the slowness of the World bank itself due to the many conditions to be fulfilled, makes it a good guess that disbursements will be much slower than indicated in the table. The World Bank loans are on IBRD terms, which means that they are semi-commercial.
The figure for **ADB** is more uncertain than that for the World Bank. ADB is in a management crisis. The aid donors threaten to postpone the replenishment of the ADF if ADB is not prepared to stop new commitments on any other terms than ADF to the poorest member states. It is probable that actual disbursements will be lower than the figure in the table.
The figure for **UK** is BP 100m and consist of BP 60 m bilateral aid. The remainder is UK's contribution to the Commonwealth Development Corporation and its part of the EU aid to South Africa. Also for other EU member countries there is a risk of double-counting of their contributions to the EU programme for South Africa.
EU and South Africa discuss their relations. More important than the aid for South Africa is to what extent it may get preferential access to the EU market, via the GSP system or some special agreement. ACP-status within Lomé IV may not be possible, but perhaps some type of special agreement. This issue was discussed at the EU and SADC (incl South Africa) foreign ministers meeting in Berlin on 5-6 September 1994.

Some of the bilateral aid donors are restructuring their previous, mainly humanitarian programmes channelled to anti-apartheid, human rights, church and other organisations into long term development support both to the new government and to NGOs. A few aid programmes are also expanded significantly, notably those of USA, UK and Japan.

Aid will in any case play a rather modest role as a financial source in South Africa, financing perhaps 2-3 per cent of the budget expenditure and perhaps 3-4 per cent of total investments.

<u>The ADB study</u>

The ADB study in its conclusions on external finance focuses on the debt problems of some of the countries in the region, the non-availability of "private sector general purpose finance" for most of the countries - with the exception of South Africa - and the strong aid dependency of many countries. Neither the first nor the third of these issues will be strongly affected by the changes in South Africa.

The ADB study states that external debt in some of the Southern African countries is a major impediment to regional trade and market integration. It suggests, therefore, that further debt relief is necessary. The aid situation for South Africa´s neighbouring countries may change, but the situation for those that are deeply aid dependent, will not change in the short to medium term.

The study shows that also the enhanced Toronto Terms[15] are insufficient. It suggests that the countries of Southern Africa need relief at least as favourable as that extended to Poland and Egypt in order to achieve bilateral debt reductions of the magnitude necessary to bring contractual payments in line with debt-service capacity. Here the study is clear and its recommendations should be followed, even though they have little to do with regionalisation or the changes in South Africa.

When discussing multilateral debt, which mainly means debt to the IMF, World Bank and ADB, the study is more ambiguous. One important issue is raised, however, for the special case of serious arrears to the IMF. The study suggests "a special issue of SDRs to accomodate, through a write-off, the special problems of countries in egregious arrears to the Fund." This can be interpreted as a minor step towards an opening for a discussion on how the IFIs should take at least some responsibility for their own lending, instead of being bailed out by bilateral development assistance, to a high opportunity cost. If this is so, it should be strongly welcomed.

This issue is still more relevant in the cases of the World Bank and the ADB. Of the few SSA countries with large IFI arrears, three are in the Southern African region (Zambia, Tanzania and Mozambique). It is absurd that the IFIs should not take at least some responsibility for their own activities. I am not convinced that debt relief provided by the IFIs will threaten their credit ranking if it is limited to the few of the poorest countries to which arrears on IFI debts are a major problem. For those countries this would improve the debt service and aid situation significantly. The issue of debt relief for IFI debts should not be allowed to continue to be sacrosanct.

The ADB study also discusses the debt owed to private creditors. Most of it is accounted for by South Africa and will probably not need unconventional solutions. For the other SAR countries discounted by-back schemes similar to what has been agreed in the case of Mozambique is suggested.

Debt relief is treated on a country-by-country basis, at the insistence of the creditors. The ADB study does not discuss the possible advantages of treating the issue on a regional basis. A SADC initiative to negotiate debt relief on a regional basis would be an innovation.

The persistent and increasing aid dependency of the countries in the region is of some concern to the ADB study, especially as it expects the ongoing changes in the global political economy to reduce the aid flow to Southern Africa, and correctly so. The prescription of the study is

a) to increase the efficiency of concessional aid
b) to increase domestic financial savings
c) to allocate these savings to productive investment in the private sector, instead of unproductive government borrowing
d) to ensure sharp increases in domestic and foreign investment in productive enterprise.

Reading this I would like to know how the domestic financial savings could be mobilised in Zambia, Tanzania, Mozambique and other countries. Experience so far with SAP liberalisation is mainly that investment is made in "non-productive, short-term enterprise".

The ADB analysis and recommendations in this section deal with individual countries in Southern Africa and has no regional perspective. Some of the statements are dubious, for instance that South Africa belongs to the countries in the region with excess indebtedness (ADB 1993b:192). Others are unrealistic, at least in the short term perspective, for instance the suggested strategy to reduce high level of aid dependence with sharp increase in domestic and foreign private investments.
The regional effects, such as the risks of increased South African dominance and how to address it is discussed for instance in the chapter on manufacturing. Other issues are not covered, for instance the increasing capital outflow from South Africa and the probable aid flow reductions for the former SADC countries, squeezed between the

declining general interest for Southern Africa in the North and increasing attention to South Africa.

The inflow of aid to South Africa will probably take place parallel to a gradual reduction of the volume of ODA to the SADC region. Factors behind such a development include the absence of the "anti-apartheid factor", the competing aid arenas, such as Eastern Europe, Middle East and emergency aid to other parts of SSA. The registrered aid flows to former Soviet Union and Eastern Europe were USD 7.8 billion for 1991 and USD 8.1 billion for 1992,[16] which corresponds to around 40 per cent of total aid flows to SSA.

The period 1990-1993 saw a rapidly increasing net capital outflow from South Africa, to a peak of Rand 16 billion in 1993.[17] A certain interest in portfolio investment and some joint ventures between companies from foreign countries have been agreed. New direct investments where foreign companies bring in large amount of financing are scarce. Many observers believe that for some time both international and domestic companies will be reluctant to make major new investments in South Africa, mainly due to the uncertainty surrounding the economic policy of the new, democratically elected government and the long period of slow economic growth.

It is possible for the new South African government to borrow from International Financial Institutions (IFIs), mainly the World Bank and the ADB, provided it is prepared to accept IMF and World Bank conditions. Both institutions have prepared themselves for significant lending to South Africa.

The development of links between South Africa and the outside world is likely to take place parallel to a continued weak interest for direct investments and loans from the OECD countries to the SADCC countries, with the possible exception of Angola, if peace eventually returns to that country.

Taking an optimistic view, the prospects of such an "economic marginalisation" may spur regional co-operation as a "strategy of last resort". In this regard, however, Stephen Wright suggests on a more pessimistic note:

> "The fear is that Western interest in the continent's plight is already leading to 'delinking by default'—rather than 'design'—of most African economies from the global capitalistic system. Africa's position within the New International Division of Labour (NIDL) is more tenuous than ever as the continent is forced to remain a producer of primary products with the ever growing deterioration in the terms of trade." (Wright, 1992:28)

The dominant conditions by aid donors—market economy and multiparty political systems—tend to affect the scope for regionalism in a contradictory manner in the case of Southern Africa.

Direct investments and other capital flows

When SADCC was formed in 1980, the economic strategies of the member states varied significantly, from the socialist planned economies of Mozambique and Angola to market economy systems in Malawi, Botswana and Swaziland, with the other countries in between, trying out various mixed economy models. The South African economy at that time had its apartheid dirigist state, combined with market economy. Since then, and especially from the mid-1980's, many of the former planned and mixed economy SADCC countries have introduced IMF and World Bank backed/imposed stabilisation and structural adjustment programmes, while global neo-liberal influences together with new strategies to prepare for "post-apartheid" by the white political and economic elite in South Africa has partly liberalised and privatised the South African economy.

Much can be said about the impact of SAPs at the national level. Looked upon from the regional viewpoint they have had at least two contradicting effects. The first is increased harmonisation of national economic policies in accordance with the market economy concept. This improves the potential for economic co-operation and opens up for increased co-operation between individual companies and civil society players in the region. The second effect is that the general liberalisation of trade in goods and services and capital flows opens up the economies for extra-regional forces, some much stronger than the regional ones. As already mentioned, national trade liberalisation schemes may create distortion if they are not coordinated regionally.

Individual companies, banks and institutions in the region can in this situation choose between linking themselves to other regional players or to TNCs in the North or both. IFIs, especially the World Bank and the ADB promote regional co-operation only as part of an outward looking, export oriented strategy. To what extent it is possible in the real world to promote regional co-operation in a third world region without temporary protection against stronger external forces remains to be seen. History does not offer any success stories, but on the other hand the inward looking successes are also scarce.

It can be assumed that those foreign direct investments that will take place in the region, will mainly be allocated in South Africa and not in the neighbouring countries. Private sector actors perceive South Africa as the main market which can be used as bridgehead for their penetration of Southern Africa and in some cases the whole SSA. This is contrary to the SADC perspective as well as what has been stated in ANC policy documents before the elections in South Africa. Market forces are thus likely to aggravate the existing imbalances in the region. This trend may be further reinforced by the aid donors, now focusing on South Africa and looking at SADC and PTA with a certain amount of scepticism, both due to their modest performance and due to the very slow progress towards a rational division of labour between them.

Conclusions

As I understand the ADB study, with its cautious recommendations in the field of trade integration, it is not too hopeful as regards the potential for trade integration, although the hopes for positive effects of sectoral co-operation are higher. The dynamics of the integration process will come not from the creation of a free trade area or a common market but through co-operation in fields like energy, water, transports and possibly agriculture. This in turn will improve the potential for increased exports from the SADC countries to South Africa and thereby reduce the present strong imbalance in the trade between South Africa and the rest of the region. Increased intra-regional trade is the result of increased integration in other fields, not the instrument to develop such integration.

Benefits from trade integration normally accrue overwhelmingly to the most developed economy in the region. Any extended trade integration scheme in Southern Africa with South Africa included will —without corrective scheme—give South African manufacturing companies an advantage over competitors from the rest of the world, with very few benefits to companies in the other participating countries. It will thereby further aggravate existing regional disparities. This may, in turn, threaten all other elements of a regionalisation project, unless compensated for or rectified by other means. Trade integration without compensatory mechanisms thus works against regionalisation in the comprehensive sense of the term.

The main task for the governments in the region will be to avoid that the present dominance of South Africa is further reinforced and thereby in the medium or long term perspective jeopardising the sustainability of regionalisation. At the same time the strength of South African companies and institutions is needed to inject dynamism in the regional economy. A successfull balance between these two factors presupposes 1) that the new government in South Africa is prepared to keep a long term regional interest in focus, rather than short-term national interests, 2) that the new government has the capacity to do so, given the enormous domestic tasks facing it and 3) that the governments of the present SADC countries are prepared to accept such a hegemonic position for South Africa.

Aid donors may influence the regional balance either by conciously supporting institutions and capacity in the weaker countries, or by "following the market" and thereby further widening the regional imbalance. The only reasonable alternative would be the former, as it increases the potential for sustainable regional development. The signs so far, however, point in the opposite direction.

For the non SACU countries in the region the choice is either to link themselves directly to the North in a classic and more or less permanent centre-periphery relation or to link themselves to the North via a regional scheme, where South Africa is the hegemon, but where the region has a better leverage than the individual countries would have. Thus the hope is that the sub-imperialist power from the cold war/ apartheid era will transform itself into a benevolent hegemon, improving the position for the whole region in the post-cold war international division of labour. Such a development would also have the potential of reducing the ongoing marginalisation of the region as regards direct investments, development aid and other capital flows.

Footnotes

1 This article is a revised version of a paper presented to a SARIPs Colloquium on Economic Integration in Southern Africa, Harare 28 September 1994. I am grateful for Arne Tostensen's constructive comments.

2 Very simplified this means that the welfare results of a customs union depends on whether *trade creation* (the replacement of higher-cost domestic production or imports by lower-cost imports from countries within the region) or *trade diversion* (replacement of lower-cost imports from third countries by higher-cost imports from within the region) dominates the trade pattern.

3 It is difficult to judge how reliable the PTA statistics, used in the ADB study, are. One example is the inconsistency between data for 1990 on individual PTA countries intra-regional trade in table 2A2 and 2A3 (ADB 1993b:44-45). In the former the individual PTA countries trade with the rest of PTA is given for all the other countries individually, while the latter shows aggregated figures on the trade of each PTA country with all other PTA countries as a group. For Kenya total export to the rest of PTA amount to USD 340 m in the first table and USD 190 m in the second. For Zimbabwe it is USD 29 m and USD 184 m, for Ethiopia USD 61 m and USD 18 m, and for Tanzania USD 56 m and USD 18 m.

4 CONSAS (Constellation of Southern African States) was a regional scheme launched by the apartheid regime in South Africa in the late 1970s. The objective was to make neighbouring countries more dependent on South Africa and thereby less inclined to support the anti-apartheid struggle.

5 This is pointed out in a comment by Arne Tostensen.

6 ROW is an abbreviation of "rest of the world" in the ADB study.

7 *SouthScan*, 19 August, 1994.

8 *African Economist Digest*, 5 December , 1994, reports on Cone Textiles, the country's biggest textile firm, seeking liquidation. Other factors may also lay behind this development.

9 *Financial Times*, 9 December, 1994.

10 *Financial Mail*, 2 September , 1994, p 19.

11 South Africa did not become a member at the PTA Summit in December 1994.

12 Examples are Hansson (1994), Mhone (1994), Stevens (1994) and Watkins (1994).

13 According to the Lomé rules of origin, ACP products qualifying for duty free access to the EU market have to use and process raw material which in large part are "wholly obtained" in either EU or ACP countries. There is, however an Article 34 of Protocol 1 of the Lomé Convention, which makes it possible for EU to accept a non-ACP country to be included.

14 The terms "development aid" and "aid" are used to cover the concept of "Official Development Assistance", ODA, as defined by the OECD. (Information from Paul Goodison.)

15 Toronto terms: A debt relief schedule according to which the poorest creditor coutries in the Paris Club negotiations may choose among three alternative methods for bilateral debt relief: 1) forgiveness of one-third of the maturity, 2) postponement of due date, 3) reduced interest rate. Enhanced Toronto terms: forgiveness of 50 % of the maturity on bilateral debts.

16 DAC 1993 Report *Development co-operation. Efforts and Policies of the members of the Development Assistance Committé.* Paris.

17 According to the South African Reserve Bank (Quarterly Bulletin, June 1994), the figures are: 1990 - 1.8 bn, 1991 - 2.2 bn, 1992 - 3.7 bn, and 1993 - 16.3 bn Rand.

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ISSN 1104-1056