

HOW TO ADD 10 AND ONE

**Some Reflections On Attaining Creative
Economic Interaction Between Southern Africa
And The "New" South Africa**

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AFRICA LEADERSHIP FORUM

**CONFERENCE ON THE CHALLENGES OF POST-APARTHEID
SOUTH AFRICA TO SOUTHERN AFRICA IN PARTICULAR
AND AFRICA IN GENERAL**

**Windhoek, Namibia
9-10 September, 1991**

HOW TO ADD 10 AND ONE - EXECUTIVE SUMMARY

South Africa And Southern Africa: Economic Interaction

The economic state of affairs and policies of the "new", post-apartheid South Africa will be of significant importance to SSA and of major importance to Southern Africa, the sub-region it has dominated economically for over three-quarters of a century. But real questions arise as to how structurally sound South Africa's economy is; the parameters of economic transition domestically and the viability of any attempt to restore the pre-1975 pattern of South Africa/Southern Africa economic interaction.

A Sick SSA Economy

The vision of the South African economy as a powerful locomotive which will by 1995 be surging down the Cape to Cairo track either (depending on the variant of this vision selected) pulling Southern Africa and SSA out of stagnation or crushing their weaker economies like stalled bicycles on a rail crossing is a grossly inaccurate perception of reality. South Africa is an economy in urgent need of structural adjustment and transformation. Its 1981-91 performance indicators are below the average for SSA and even more below the Southern African average for 1986-1990. In respect to most performance tests, Zimbabwe ((while much smaller) has been a markedly better managed and better performing economy.

Toward Transition

At least seven basic challenges confront the South African economy economic transition:

1. Achieving a broadening of access to basic services and to human investment for both social and productivity reasons;
2. reducing both absolute poverty and income differentials related to race;
3. maintaining a structure of wages and salaries consistent with avoiding an exodus of high and middle level personnel and also averting frequent, production crippling social unrest such as strikes and riots;

4. broadening access to reasonably productive wage employment and household enterprise (including family - or peasant - farms) employment to make absolute poverty reduction and differential narrowing sustainable;
5. creating a structure of labour relations (managerial, trade union and human) able to achieve sustained rapid increases in labour productivity;
6. narrowing the backlog in availability of directly productive and social (e.g. housing) infrastructure;
7. achieving the output growth, savings expansion and export development rates necessary for providing the resources, investible surpluses and import capacity the first six goals.

The initial five years after an agreed, legitimate government is achieved may - at best - achieve 5% annual growth and similarly, initial partial movement toward the other goals. Its maximum attainable aim is to lay a basis for fuller meeting of these requirements from 2001.

The Old Regional Hegemonic Order

It is agreed that the 1981-89 South African combination of aggressive, overpriced exporting with military and terrorist aggression to block alternative transport routes is no longer sustainable. What is not so widely realised is that the 1960-75 system cannot be restored because major elements in it are unacceptable to South Africa, to Southern Africa or to both.

What were the basic pre-1975 parameters?

1. High levels of South African exports (usually though not always high cost) to Southern Africa with very limited return flows of goods except from Zimbabwe, whose manufacturing sector was becoming disturbingly competitive in some lines, and from Namibia which was a low price source of fish and a buffer zone for balancing meat supply;
2. Substantial and growing RSA imports of transport services (pre-UDI, RSA handled little external traffic except for Lesotho, Swaziland, Botswana

and its de facto colony of Namibia), hydroelectric power and - in prospect - water as well as tourism;

3. A very large South African business presence at all levels from the RSA TNC groups through semi-permanently resident individual proprietors creating an information network (and a habit of using it) which channelled import trade to or through South Africa and produced substantial investible surplus flows from the Region to RSA for reinvestment there;
4. Large numbers of low cost, migrant workers to South Africa - perhaps 500,000 in the largely recorded mining sector and 1,500,000 overall including agricultural, domestic, manufacturing and casual;
5. Very large net hard currency transfers to South Africa because exports to the region exceeded imports of goods, services, labour and tourism;
6. A highly protective (of RSA industry) Customs Union nominally making compensation transfers to Botswana, Swaziland, Namibia (once its fiscal status was reorganised) and Lesotho but, in practice, probably yielding the first three economies less on a cash flow basis than an independent national tariff structure at comparable overall levels would have done.

The migrant labour component is increasingly unacceptable to South Africa; SACUA is terminally ill; importing overpriced South African exports for hard currency is unacceptable to Southern Africa and growth could not be afforded on the scale needed by the South African manufacturing sector even were the Southern African states passively accepting overpricing without seeking to resource them from other, lower cost suppliers.

Toward A New Pattern Of Economic Interaction

For the Southern African region and South Africa there are possibilities for a structurally transformed set of economic interactions which could provide more mutual benefit, growth and stability. Lesotho, as a long distance bed-sitting room for the Rand and the Free State mining belt is a special case. It needs economic union - a solution potentially in the "new" South Africa's interests as well.

For post-apartheid South Africa and Southern Africa a series of economic needs suggest a mutual interest in achieving a new dynamic of economic interaction:

1. South African manufactured exports will be crucial to its import capacity and domestic growth - whether as stimulant or constraint;
2. at present the main market for these exports - beyond a narrow range dominated by processed foods - is in Southern Africa;
3. that market is endangered by the present high prices of the exports, but also - perhaps even more - by the need to pay for the bulk of them in hard currency;
4. the Southern African states all need to consolidate, expand and broaden their manufacturing sectors;
5. to do so on a selective basis (to maximise acquired and to exploit natural comparative advantage) they need secure, initially preferential, access to a large market;
6. the most logical and potentially accessible of such markets is South Africa;
7. in areas beyond manufacturing - especially natural gas, electric power, water, tourism and transport services - substantial exports can be built up to mutual advantage, especially because in these sectors the overall balance is likely to be an export surplus by the 10 (albeit not by each of them taken separately).

This suggests that a coordinated approach to production validated by trade is possible if trade is interpreted broadly to include invisibles and market mechanisms are managed to create a facilitating and an enabling climate for Southern African-South African economic regionalism.

Among the relevant modalities are preferential access, affirmative action, identification of mutually perceived mutual interests, trade enabling measures beyond tariff reduction and commercial clearing, involving enterprises and civil society groups as actors in their own right and coordinating action within a macroeconomic perspective not only sector by sector or policy by policy. This set of parameters suggests that the

Preferential Trade Area of Eastern and Southern Africa is relevant as a broad market access and commercial clearing facilitating forum; the Southern African Development Coordination Conference as a coordinating forum for a denser cluster of enabling policies and actions and the Development Bank of Southern Africa as a basis for an 11 or 20 country trade and joint venture financing, merchant banking and external finance mobilisation institution.

One, 10 And Twentysome

PTA and SADCC are basically complementary - market access groupings have economies of scale whereas beyond a more limited range operation coordination enabling ones have diseconomies. The institutional structures of the PTA, SADCC and the DBSA are such that new accessions to link the "new" South Africa with its regional neighbours should be relatively simple.

SADCC's four basic goals are not inherently inconsistent with this. Indeed the changes necessary for mutually beneficial restructured regional economic interaction constitute reduction of unilateral dependence on South Africa even if the wording of that goal would at that point need rephrasing. The negotiating agendas will be complex and there are real issues to tackle and balances to be struck, but few evident basic contradictions.

However, this assumes the "new" South Africa does view regional economic relations from a more balanced and less South Africa centric perspective - a result which will not automatically flow from the end of apartheid, particularly in respect of enterprises. Because the "new" South Africa will have severe social and economic, as well as political problems, there is a danger it may turn to inward looking economic nationalism. This danger is increased by the fact that formal negotiations cannot begin until a legitimate government is in office. That increases the case for informal but informed dialogue toward exploration of issues and a mutual agenda for later negotiation.

The alteration of perceptions, building up of mutual trust and acquiring of the habit of dialogue leading to coordinated action is a sine qua non for structurally transforming Southern African-South African economic interaction on a purposeful mutual advantageous basis. The alternative to

such transformation is not continuation of the present pattern of relationships but its erosion and disintegration in a setting of growing acrimony and rising promotion of petty sectional or enterprise interests disguised as 'economic nationalism'. That route is not in the interests of the "new" post-apartheid South Africa, of Southern Africa or of Africa more generally. A realistic case for change and genuine mutual interest will not be adequate unless perceptions (especially Rand centric ones whether hegemonic or defensive), attitudes and mutual confidence and acquaintance levels among key actors (institutional and personal) are achieved.

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To plan is to choose.
Choose to go forward.

- Mwalimu J. K. Nyerere

The Simple Scenarios

The emerging orthodoxy is that South Africa will dominate economic developments throughout Sub-Saharan Africa and increase its domination of the economies of Southern Africa. The dating varies but usually assumes a transition to an internationally acceptable and domestically stable regime within two to three years and a subsequent high growth rate from savings on the Bantustan, multiple system and security costs of apartheid plus a tidal wave of net external investment, loans and grants.

This scenario posits high rates of growth of South African exports spearheaded by manufactured exports in SSA and the spread of RSA's dominance of Namibia, Lesotho, Botswana and Swaziland markets to consolidate its leading role in Zimbabwe, Malawi, Zambia and add Mozambique, Angola, Tanzania, Madagascar, Zaire, etc. with additional growth poles in Cote d'Ivoire, Nigeria, Kenya and Egypt. What South Africa is to receive in return is unclear - hard currency from exports elsewhere or from untied external aid (also from elsewhere) seems to be an implicit answer except for a few primary products - notably petroleum, electricity and water. Certainly South Africa's present regime's late dash for liberalised trade (including dismantling the Southern African Customs Union Agreements) points to such thinking.

There are two variants of this scenario as it applies to SSA and especially to Southern Africa. Each perceives the South African economy as a powerful locomotive in good working order and likely to have adequate fuel. Equally each perceives South Africa as continuing to dominate Southern Africa economically and to broaden that hegemonic influence further afield.

The difference is in how the results are perceived in SSA, and especially Southern Africa, outcome terms. The optimistic scenario sees South Africa's large, powerful, resurgent economy as the locomotive to restart the African economy train and to haul it out of stagnation. Similarly, it views South Africa's economic dominance being either automatically in the interests of its weaker partners or as being deliberately exercised to manipulate them 'for their own good'. Admittedly, what 'their own good' might be varies with whether the - usually South African - scenario drafter is a neo-liberal analyst, a businessman or a would-be Marxian planner!

The doomsday scenario identifies the South African economy as a locomotive too, but one which will crush the stalled SSA economies like road vans stuck on a crossing. The chatter of cheap South African goods will reverse or block economic transformation, at best shifting import sources while leaving overall exports only marginally enhanced. Further, it views South African domination - by trade, investment, technical assistance and serving as the centre for routing/wholesaling outside economic links with at least Southern Africa - as a near inevitability, but one in which backwash effects and invisible hands collecting all available investible surpluses for remission to South Africa will be dominant.

What is startling about this conventional wisdom is not just how much it views Sub-Saharan, and a fortiori Southern, Africa as a passive beneficiary or victim. That by itself is a remarkable vision when the propounders are non-South African Africans. It runs counter to the record of the 1980s in which the South African regional onslaught was held back and economic regrouping and recovery in general proceeded more firmly than in any other region of SSA. But even more curious are the assumptions that South Africa's economy is in good shape and that a negotiated, stable political solution will allow it to go into high gear.

This paper will examine - and challenge - all of these assumptions beginning with the present health and probably 1990s trajectory of South Africa's economy. That examination alone suggests that the locomotive

scenario is problematic to the degree of implausible. Further, the implicit patterns of interaction are almost more problematic. For example, in Southern Africa/South Africa, the old trade of overpriced manufactures and food for underpriced labour and hard currency cannot be kept in being, much less deepened and broadened, because it will be unacceptable both to any stable political dispensation in South Africa and to the relevant Southern African states who have (with one exception) - and indeed have demonstrated - rather more freedom to manoeuvre vis-à-vis South Africa than the emergent orthodoxy seems to suppose.

The following analytic sketch has a good deal in common with the Nedtrust/Old Mutual doomsday road show model but is not based on its particular ranking of the weaknesses both it and the present paper identify. In particular they fail to give adequate weight to the ghastly productivity record resulting from workplace apartheid practices and to how that heritage can be overcome. They do share the rejection of any complacency or assumption that with political transition to a reconciliation government broadly perceived as legitimate "business as usual" will lead to economic resurgence and transformation.

The divergence is even greater at the way forward or prescriptive level. Nedtrust/Old Mutual propose what, however intended, is likely in practice to be a wholesale Keynesian pump priming exercise to create some genuine changes in the human condition of black South Africans and a climate of economic euphoria leading to an attempted economic neo-liberal restructuring based on a basic misreading of Korean economic history and policy as predominantly laissez faire. This is little more than a mixture of desperate optimism and cargo cult populism manipulated by high finance - not a very likely recipe for success. Granted, it shows real social concern and its interim (pre legitimate government) phase is focused on housing and because more basic shifts are not attainable during the interim phase. The results are still likely to be high inflation and low social or productivity gains. For its purposes, even SSA as a whole is a bit-part player and Southern Africa a virtually non-speaking walk-on part.

South Africa - A Sick Economy

Over the 1980s the South African economy has grown less rapidly than the South African people and no more rapidly than the average of SSA economies. Over 1985-89 there has been virtual stagnation in the economy of RSA

(negative growth in 1985, 1990 and 1991) versus somewhat under 3% for SSA as a whole and about 3.5% for Southern Africa.

This is a dismal record. If one looks at selected South African structural characteristics it looks even worse. Both as to policy and as to physical structures, in respect to production, trade, productivity, human investment, physical infrastructure and income distribution, South Africa is an economy in urgent need of massive structural adjustment and transformation.

Manufacturing has grown slowly, even with stimulus from 'security' oriented import substitution. Its basic problem has been a near stagnant domestic market with the only bright spot the rise of real wages for black persons employed in the formal sector. Its profitability has been heavily dependent on export growth. Armscor and Sasol (armaments/artificial oil) are examples of serious distortions as - unless and until export markets can be secured to allow adequate scale - are most engine and vehicle related sub-sectors.

The nature of much of the 1980s export growth is - in enterprise terms - low quality and low security. Much of it has been to Southern Africa at prices far above those of alternative sources. It has been secured by destruction or crippling of transport routes which would have allowed free access to overseas sources, by SACUA, by providing export credits/credit insurance to buyers nobody else thought credit-worthy and by benefiting from the non-licit operations characterising economies with massive external imbalances and near import strangulation. The export credit and parallel market operations have been significant over a wider geographic range.

The risk of actual manufactured export declines is heightened by a near unique productivity achievement in South Africa in the 1980s. Real wages in large enterprises rose - doubled for black employees. Real labour productivity fell. Even with a decline from up to \$1.50 to one Rand to under \$0.35, South Africa's export competitiveness in manufactures does not appear to have risen and continuation of devaluation at that pace will surely lock in place a 15% or higher trend inflation rate, however draconic the monetary policy may be.

Further, gross domestic fixed capital formation has fallen - partly because net real resource transfer flows on interest and capital account have gone massively negative, but also because high interest rates and slow growth of demand have negative impacts on the perceptions (or, as Keynes put it, "animal spirits") of entrepreneurs. It is now under 20%. Using reasonable capital stock depletion estimates of 10% odd, that gives under 10% net fixed capital formation. That might be enough to sustain 3.0% to 3.5% real growth but hardly more after an initial spurt from using up existing excess capacity.

Defects in infrastructure (where it is publicly admitted deferred maintenance is being run up, or in clearer words roads are falling apart), in human investment (too low on average to sustain rapid growth in labour productivity or output), in water supply and in agriculture (where two-thirds of white farmers appear to be headed for bankruptcy) add to the litany of structural imbalances and weakness.

South Africa is an SSA economy and by no means one of the healthier or better performing. Zimbabwe for example, has achieved about a 4.5% growth rate from 1985 on with not dissimilar external and military expenditure constraints. It has a positive large enterprise labour productivity trend and probably a higher quality/stability record in export diversification toward manufactures. It does indeed have parallel inflation and fixed capital formation problems, but then nobody sees Zimbabwe as a continental locomotive or even as a particularly strong economy with non-problematic prospects.

Toward Transition: Conundrums And Constraints

Transition to transformation - economic, social and political in South Africa will not be easy, speedy, low cost or readily fuelled by external resource inflows whether grant, loan or equity investment. Once again the record of Zimbabwe and, in certain respects, the other Anglophone states of Eastern and Southern Africa should warn of that.

What are some of the most basic political economic challenges?

1. Achieving a broadening of access to basic services and to human investment for both social and productivity reasons;

2. reducing both absolute poverty and income differentials related to race;
3. maintaining a structure of wages and salaries consistent with avoiding an exodus of high and middle level personnel and also averting frequent, production crippling social unrest such as strikes and riots;
4. broadening access to reasonably productive wage employment and household enterprise (including family - or peasant - farms) employment to make absolute poverty reduction and differential narrowing sustainable;
5. creating a structure of labour relations (managerial, trade union and human) able to achieve sustained rapid increases in labour productivity;
6. narrowing the backlog in availability of directly productive and social (e.g. housing) infrastructure;
7. achieving the output growth, savings expansion and export development rates necessary for providing the resources, investible surpluses and import capacity the first six goals.

There can be no great precision about the answers but a reasonable middle estimate of the required output growth rate is 8%, of gross fixed capital formation 30% (20% net) of GDP with gross domestic savings of 25% to 27.5% of GDP and export (earned import capacity) growth 7.5% to 8% (the period of 'easy' import substitution is long past in time and in structure). These are daunting requirements and ones not likely to be attainable much before 2000 - if then.

The likely interim results are for much lower growth of GDP and exports and savings; fairly rapid attention to human investment, basic services, housing and - perhaps - absolute poverty reduction; disappointing wage employment and household employed real income growth; tension over maintenance of real non-black and raising of middle level black (union member) real incomes; a constant tendency to overcommit resources in a dash for social stability and growth with resultant precarious price, external account and fiscal balances; anybody's guess on achieving sustainable labour productivity growth (which may well be the most important single element); the intractable problem of a large uneducated (through the

interaction of the politics of apartheid and of resistance), virtually unemployable urban "underclass" with a horrifying (no matter how understandable) learned disposition to violence.

Massive net inward transfers of external resources are unlikely. Commercial banks will again provide revolving trade credit and modest net medium term project finance. Except for special opportunities direct private investors will hold off until they see sustained political stability and economic growth. Soft official development assistance is likely to be quite limited - South Africa is a middle income economy competing directly not with SSA but with Mitteleuropa and, prospectively with the "new" Russia and other successor states to the USSR. Positive capital account and official (grant) transfers can safely be projected but a 2% or 3% of GDP not 10% or 12%. Commercial export credits might well be available, but the prudence of using them to finance structural adjustment when the time lag to high growth and - especially - high export growth rates may well be over half a decade is very questionable.

With luck, skill, a relatively benign external economic and weather context, movement from negative growth to a somewhat annually erratic 5% trend rate might be achieved by the second half of the 1990s. That assumes a Zimbabwe-Namibia type pattern of speedy 'reconciliation' and redeployment of parallel administration and security spending. It is basically Zimbabwe plus because the South African economy is somewhat more flexible, has larger high productivity sub-sectors and would escape the destabilisation and terrorism blocking costs the South African state imposed on Zimbabwe.

Botswana is not a relevant precedent. At independence Botswana was at very low levels of productivity with no strong sectors: mining, preferential market access for high price meat, the human investment/basic services/infrastructure, their surpluses financed and basic industry have all been achieved over the past decade and a half. South Africa - for good and for ill - is not economically undeveloped so can enjoy/achieve no such era of regular, relatively unstressful 10% sustained growth.

The basic short term problem is that the costs of stable reconciliation are high (as are the very different costs of not achieving it). Reducing the real incomes of white professionals, managers, proprietors, civil servants and artisans rapidly is not practicable both because of domestic tensions and because the departure of key personnel before they could be replaced

would lead to severe output loss. Similarly, unionised black real wages cannot be reduced if an atmosphere conducive to achieving the massive management labour relations changes needed to enable a labour productivity increase dynamic to be initiated and sustained is to be achieved. Taken together with the need to remove racial differences in pay for the job and at the same time to expand basic service access and to improve their quality for black South Africans, the fiscal and the personal consumption implications virtually preclude massive short run savings increases. Enabling programmes for the black farming and artisanal sectors and strengthening the pension/social security system to keep aged and indigent households above the absolute poverty line will stretch resources even further. So too will attempts to re-integrate the "underclass" whose lack of education and tendency to violence are a threat to any society and one there are few precedents for overcoming. Potentially a hard line right wing white underclass problem will also emerge - with a smaller number of members but a dangerously high proportion of ex-'security' and special forces adherents.

To find a way through this highly demanding and potentially dangerous period will require great skill, goodwill and luck. If some progress on all fronts - especially labour productivity, manufactured exports and basic services/human investment - can be achieved and sustained, room for savings to be directed to directly productive fixed investment can emerge. But the basis for high sustained growth would appear to require at least half a decade following a national government under a new constitution, i.e. to be the potential agenda for the 2000s not the 1990s. A dash for growth about 1995 is likely to end in tears and stagnation, and in a socio-political implosion or explosion.

To set out the above problems and limitations is neither to be pessimistic nor to gloat. 5% growth fuelling partial but real basic services/human investment, infrastructure, employment, poverty reduction and productivity target achievement is a record of success - not of failure. Reversal over little more than half a decade of a heritage of economically damaging conflict stretching back for generations and of a decade of economic stagnation will - if achieved - be not merely a major human and economic victory but a speedy one. It is well to remember that the golden eras of capitalist world expansion over 1880-1914 and 1945-73 were marked by 2% and 4% annual GDP growth rates and at least the former was far less constrained

by universal access to basic services-human investment-poverty reduction requirements.

Nor is the dismissal of the locomotive hypothesis any cause for joy. It would be rather better were South Africa able to perform as SSA's - or at least Southern Africa's - economic traction power and the challenge was primarily how to structure relationships for mutual benefits, acceptably shared. But as sketched above no such scenario can be more than a daydream. Similarly, the crushing locomotive mirror image scenario is (barring South African use of force against its neighbours which appears most unlikely for the "new" South Africa) a nightmare of very limited plausibility. Neither rosy daydreams nor haunted nightmares provide usable foundations for beginning to formulate medium term regional and sub-regional economic strategies.

The Old Order Changes: Makes Way For What?

The present form of South African economic hegemony over its four Customs Union partners together with substantial influence in Malawi, Mozambique, Zimbabwe and Zambia is unstable, unsustainable and no longer overtly backed by anyone.

Its central operating principle has been to assure access for South African exports - especially of manufactures and transport services - through SACUA, the presence of South African firms, threats and - on a major scale - destruction of transport links to the ports of the 10. Force and the willingness to use it massively was central to this strategy - even if many South African businessmen were always unhappy with the stick side of the Constellation economic and political 'co-prosperity' sphere proposals, especially as modified in the face of Southern African resistance. Therefore, it cannot survive the 1988-90 demise of the "forward" policy of destabilisation, sabotage and terrorism. What is envisaged is a return to the pre-1975 model perceived, at least by South Africa's business - and part of its intellectual - community as a golden age. It is noteworthy that while the rejection out of hand of the Constellation gambit by Southern Africa did relate to the specific nature of the apartheid state, the critique of politically created economic hegemony and unequal regional integration was and is broader. SADCC's Lusaka Declaration pre-dates the massive use of overt violence. Indeed SADCC did not anticipate the extreme militarist adventurism practised by RSA over 1981-88. That Declaration

sets out a reasoned objection to the structures of regional political economic domination and a case for restructuring - structurally adjusting the economies of the 10 both severally and jointly. Because of apartheid the Declaration did not consider what South Africa-Southern Africa relations should be; negotiating economic transformation with Vorster and Co. was never on the agenda. However, by implication post-apartheid South Africa would be a welcome partner in constructing a new set of regional (or inter-regional) relationships, but restoring the old ones would remain unacceptable whatever the nature of the South African state.

What were the basic pre-1975 parameters?

1. Major South African exports (usually though not always high cost) to Southern Africa with very limited return flows of goods except from Zimbabwe, whose manufacturing sector was becoming disturbingly competitive in some lines, and from Namibia which was a low price source of fish and a buffer zone for balancing meat supply;
2. Substantial and growing RSA imports of transport services (pre-UDI, RSA handled little external traffic except for Lesotho, Swaziland, Botswana and its de facto colony of Namibia), hydroelectric power and - in prospect - water as well as tourism;
3. A very large South African business presence at all levels from the RSA TNC groups through semi-permanently resident individual proprietors creating an information network (and a habit of using it) which channelled import trade to or through South Africa and produced substantial surplus flows to RSA for reinvestment there;
4. Large numbers of low cost, migrant workers to South Africa - perhaps 500,000 in the largely recorded mining sector and 1,500,000 overall including agricultural, domestic, manufacturing and casual;
5. Very large net hard currency transfers to South Africa because exports to the region exceeded imports of goods, services, labour and tourism;
6. A highly protective (of RSA industry) Customs Union nominally making compensation transfers to Botswana, Swaziland, Namibia (once its fiscal status was reorganised) and Lesotho but, in practice, probably yielding the first three economies less on a cash flow basis than an independent national tariff structure at comparable overall levels would have done.

This was always a vulnerable system. Except for labour, tourism and Southern Mozambican transport, South Africa needed the markets and the profit flows more than the Southern African region needed specifically South African goods or businessmen. SACUA was coming to be seen as a losing, or at least doubtful, proposition by the RSA Treasury (focusing on the equivalent of import duty paid out on members imports from RSA) and by its independent African state members (who doubted whether the transfers were really generous and saw the barriers the union seemed to pose to industry in their countries).

Over 1975-1990, most changes have tended to erode the old order's structural strength. Increasingly South Africa - both for political nationalist and for defusing domestic unemployment reasons - has sought to cut back on migrant labour, not only in mining but even more outside it. It is inconceivable that any government of reconciliation would not be even more nationalist and concerned with domestic employment creation. That means of balancing exports and creating dependence is, and will become even more, unacceptable on the South African side.

Similarly, SACUA is almost certainly terminally ill. The South African as well as the Namibian and Botswanan Treasuries wish to see it wound up. How strongly they feel and how rapidly they wish to move varies. Similarly, if the Namibian/Botswanan reasons are correct, the South African Treasury perception of SACUA as handing out hundreds of millions of rand a year for no return is nonsense. But neither differences on speed nor opposite rationales for the same end alter the fact of SACUA's impending demise.

RSA regional transport and power imports have been ended for political reasons and by military action. Probably the South African transport and electricity entities will seek to revive them - at least as soon as the replacement facilities built in South Africa are fully used. But this will take time as will both the long delayed (basically by the climate of apartheid) Lesotho water export project and water rights negotiations with virtually all of South Africa's neighbours. Very real conflicts over scope, timing and capital cost sharing will arise (especially if that obstacle not foreseen) and in a water short region the water rights negotiations (especially with Namibia) have high potential risks unless South Africa accepts and acts on acceptance of more balanced riparian rights and water allocation positions than has been the case to date.

The overpricing of South African exports - relative to low cost global sources - has a complex set of causes:

1. historically the greater South African business community in Southern Africa sourced from itself while smaller Southern African firms had no capacity to locate low cost global sources or to arrange long distance transactions and therefore often literally consulted one or two catalogues before ringing Jo'burg wholesalers;
2. similarly, the Customs Union protected RSA exports both by tariffs and quantitative restrictions and, when the routing for global sources would have been via RSA ports, even more by that country's notorious "paper tariff", i.e. work to rule (and more) application of technical points to delay or block release;
3. the provision of export credits and guarantees to importers in countries with no other access to credit diverted sourcing and (as the costs to the seller of expected payment delays and defaults were presumably clawed back in c.i.f. prices) inflated costs;
4. crippling or blocking routes to landlocked Southern African states from their coastal neighbours ports reinforced the first three factors as did threats not to carry 'disapproved' cargos (including even famine relief grain).

Increasingly, Southern African states and larger enterprises in them wish to practice global sourcing (as some do to their advantage now). The end of sabotage to, and the advance of rehabilitation of, the Maputo, Beira, Nacala, Dar es Salaam and presumably - though after a severe time lag - Lobito Bay routes and the development of one to Walvis Bay (which seems certain to rejoin Namibia before 1995), will greatly facilitate such shifts and the probable demise of SACUA will increase incentives for carrying it out.

Further, to the extent RSA has used export guarantees as subsidies, the greater fiscal stringency recently imposed generally in South Africa is likely to reduce this avenue for holding markets open. There is reason to suppose a new government might take an even tougher line on subsidies to South African enterprises, whatever their purpose, even if for slightly different reasons.

In any event South Africa cannot expand and probably cannot sustain its manufactured exports to the region at present largely uncompetitive prices, especially if it continues to expect to be paid in hard currency rather than imports. The money is not there. Still less can it seek to reduce preferential access for competitive manufactures from Zimbabwe and Botswana - whether for economic nationalist or global neo-liberal reasons -, reduce the flow of labour remittances and continue to raise exports even if they do become somewhat more competitively priced.

The old order that existed up to UDI cannot be restored as a new order, any more than the combination of armed aggression with export aggression of 1975-89 can be sustained. Key elements are no longer acceptable either to South Africa, the 10, or either. The argument of dependence as an unbreakable cord is slightly unreal - South Africa can hardly be a source of substantial net capital transfers nor is a stance of exporting high priced goods for hard currency rather than imports from the export markets usually perceived as putting the exporter in a strong position. Because of its size and existing channels South Africa clearly can negotiate and defend some economic interests with the 10, but it cannot hope to dictate or to gain/preserve advantages without providing quid pro quos - notably by importing more.

Or rather it can do so only by bluffing both Southern Africa and the world as to the true weakness of present patterns and encouraging its businessmen to engage in trade practices which block resourcing of imports and diversification of economic partners and discriminate against those seeking to pursue it. That might work for a time, but at the cost of delaying structural change and creating a renewed pattern of Southern African hostility ill-suited to the "new" South Africa's medium term interests.

Lesotho: The Long Distance Bed-Sitter

Before exploring potential ways forward at a more articulated level, it is desirable to look at the special case of Lesotho. Supposing that Lesotho is economically similar to Swaziland or Botswana is inaccurate. The BLS grouping as used in discourse has far more to do with history and - especially - the struggle of their peoples to avoid incorporation into RSA and also to their being relatively socially and culturally homogeneous nation states than it does to economics or - in the case of Lesotho - post-apartheid political logic.

Lesotho has virtually no territorial economy not dependent on South Africa beyond a very weak household self-provisioning sector. The largest single source of household income is migrant remittances, the second government (financed largely by trade taxes on imports in turn financed by these remittances), the third tourism predominately from South African metropolises and the fourth local commerce serving largely the recipients of the South African source incomes. In effect, Lesotho is a suburb and recreation area for the Rand Triangle and the Free State mining belt. This is not necessarily a hopeless position. London's residential suburbs and country recreation facilities are high income areas even if they are, in a sense, just as externally dependent as Lesotho - admittedly in a higher income context and, crucially, with more voice in decisions affecting the employment zone.

There is no evident way to alter this bed-sitting room plus park pattern. Lesotho is ill-located geographically to become an export of manufactures-led newly industrialising country and has limited agricultural potential. As a major tourist destination too, it is inconveniently located for all major sources except South Africa. True, in respect to water and power it has a stronger hand but it really cannot halt the flow of the Orange River nor sell power other than to South Africa so this stronger position is relative. The systematic citizenisation of jobs - especially but not only in mining - in South Africa, even if phased over a decade, would be an economic catastrophe to which Lesotho could neither adapt nor overcome.

The case for Lesotho to seek an economic union - including free movement of workers - with the "new", post-apartheid South Africa is, therefore, very strong. In such negotiations Lesotho has a reasonable bargaining position because such an economic union would be useful to South Africa:

1. assured access to water and to hydro power - the former increasingly vital as demand increases in a dry to desert region;
2. preferential access to a not negligible (relative to South African exports) market;
3. avoiding transitional costs to enterprises and the mining sector of phasing out skilled and semi-skilled, long serving employees;

4. averting the emergence of an embittered, near starving territorial enclave within its boundaries. (Even Anton Rupert once remarked in support of job access for Basotho - "If they do not eat, we cannot sleep").

The cost to South Africa would be fairly low - primarily an increase in net job creation needs of up to 500,000 over two decades because Lesothan employment would grow rather than being phased out. Because arrangements are essential and urgent for Lesotho, but only desirable and needed in the medium term for South Africa, Lesotho should seek to institute negotiations as soon as a legitimate government is in office, lest internal transitional problems shunt Lesotho talks to a slow track.

The question of economic union is separable from that of political union. The latter, given the history of Lesotho from its founding during the Mfekane through the Gun Wars with the Frei Stadt to the long struggle to avert abandonment to the old South Africa and to limit the apartheid state's manipulation of what happened in Lesotho is unlikely to be a short term plausibility. It is quite reasonable to suppose a period of amicable, close relations in economic union with the "new", post-apartheid South Africa would be a precondition for serious consideration of political union. However, once that condition is met, there should be relatively few obstacles to Lesotho becoming either a fifth province (very unlike SWA when it was so titled!) or part of a Northeast Cape-Lesotho-Free State unit if new provincial lines with less unequal populations were by then thought to be desirable.

Toward Intra-regional Trade Expansion?

The key to whether economic linkages among South Africa and the 10 are likely to expand and to be perceived as mutually beneficial (and therefore to be underpinned by stable national enabling policy and praxis) is the achievement (or otherwise) of trade expansion which runs to, as well as from, South Africa.

The attainment of such a dynamic would be economically beneficial to the potential 11 both severally and jointly:

1. South African manufactured exports will be crucial to its import capacity and domestic growth - whether as stimulant or constraint;

2. at present the main market for these exports - beyond a narrow range - is in Southern Africa;
3. that market is endangered by the present high prices of the exports, but also - perhaps even more - by the need to pay for the bulk of them in hard currency;
4. the Southern African states all need to consolidate, expand and broaden their manufacturing sectors;
5. to do so on a selective basis (to maximise acquired and to exploit natural comparative advantage) they need secure, initially preferential, access to a large market;
6. the most logical and potentially accessible of such markets is South Africa;
7. in areas beyond manufacturing - especially natural gas, electric power, tourism and transport services - substantial exports can be built up to mutual advantage, especially because in these sectors the overall balance is likely to be an export surplus by the 10 (albeit not by each of them taken separately).

In both South Africa and the 10 it is necessary to recall that the basic purpose of exports is to generate earned import capacity, not to collect hard currency as such. True, hard currency does give command over import capacity from any source, but in the context of potential markets in economies with severe earned import capacity constraints the only realistic way to expand exports may be to expand imports. Further, it is a fact of life - however irrational economic theorists and exporters may assert it to be - that sustained, growing, gross trade imbalances based on manufactured exports lead to growing tensions and ultimately to threats to continued trade expansion, e.g. Japanese automobiles as a commodity and Japanese-EEC trade as an inter-regional case.

The prospects of Southern African manufactured exports to South Africa are not negligible. Zimbabwe and Botswana are competitive in certain ranges of goods, as in respect of processed marine products is Namibia. Most of the 10 could build up either niche or specialisation exports. That ways and means not simply to enable but also to facilitate such a dynamic be identified, articulated and set in motion is important. Repeated RSA

attempts to emasculate the trade agreement with Zimbabwe and to use fine print to query, e.g. the origin of Botswana products are steps in the wrong direction (not least for South Africa). SACUA probably has outlived its usefulness, but the same cannot be said of preferential arrangements of a more flexible nature.

However, manufactured goods exports overall are likely to show a significant South African export surplus. If trade expands rapidly that surplus may decline proportionate to total trade but is virtually certain to grow absolutely. The real choice is between building up other trade flows to finance some of Southern Africa's imports or to constrain (whether by quotas, tariffs, interest rates, undervalued exchange rates or "paper" tariff manipulations) the growth of that trade. Assuredly - given South Africa's own export problems - that process will become multidirectional and destructive of trade, amicability in relations among the potential 11 and of growth in most of them.

Trade in food and traditional raw materials, may expand but is hardly likely to be a practicable main route of achieving both acceptable trade imbalances and rapid expansion South Africa/Southern Africa trade flows. In the first place, if South Africa is to address its domestic nutritional imbalances more seriously, its overall food exports are likely to fall and in the second, only Botswana and Lesotho plus to a lesser extent, Namibia and Swaziland, are both 'natural' structural net food importers and able to finance substantial commercial imports. In respect to maize (the dominant traded food), Zimbabwe, Malawi and - on balance - Tanzania are also natural exporters as are Swaziland, Zimbabwe and Malawi in the case of sugar. Marine products from Mozambique, Namibia and Angola may be of significant - but limited - value to those economies in underpinning two way trade expansion with South Africa as, perhaps, could tea and coffee in the cases of Zimbabwe, Tanzania and Malawi.

Raw materials also present a patchy and limited picture. Oil and copper could at first glance be significant - South Africa is a substantial structural importer. But unless transport cost savings or preferential pricing can be made substantial, there is no significant net gain to Angola, Namibia, Zambia and Zimbabwe in routing those exports to South Africa. Each now is able to sell full production on the global market.

Therefore, equal access at equal prices to the South African market has, at most, minor diversification gains.

Other cases do exist and some, e.g. Sua Pan salts and minerals for Botswana, perhaps expanded pulp (and paper?) and specialty timber products for Swaziland, could be significant for certain countries or districts within them. However, at overall South African/Southern African trade level their potential, while not insignificant, is distinctly secondary.

Five areas in which several of the 10 could become substantial net exporters to South Africa are: water, electricity, natural gas (or its products), transport and tourism. These should be seen as part of the same overall trade context as manufacture, food and 'traditional' raw materials. Earned import capacity is earned import capacity and, broadly speaking, mutually beneficial two way trade expansion does not require separate balancing (or limiting imbalances) of visibles and invisibles.

Southern Africa and South Africa are, and will become, increasingly short of water. The situation is most acute in South Africa and Namibia. There are certain rivers, e.g. the Zambesi and the Limpopo as well as the Orange and the Kunene whose present utilisation patterns and location would allow them to be drawn upon to limit the constraints water availability and cost will place on manufacturing, urbanisation and irrigation. The Lesotho Highlands Project is an example of a way forward which probably has broader applicability. Clearly a pure market solution will not do - present highest bidder is an unsatisfactory basis for long term water allocation; financing - allocation of flows - fees to providing states need to be negotiated within the framework of national, and preferably regional (South plus Southern Africa), long term perspective water development - use - charging - conservation plans.

Electricity is capital intensive and readily transportable. Zambia, Mozambique, Tanzania, Namibia and Angola have sites for expansion or development of very large scale, low unit cost hydropower if these can be related to a regional market (and a transmission grid to reach it). Swaziland and Botswana can be efficient coal fired thermal electricity producers only if they produce on a scale requiring exports. The same probably holds for Mozambique and Namibia in respect to natural gas fired thermal power. South Africa's Electricity Supply Commission (ESCOM) clearly has done sums suggesting that production and capital cost

considerations favour significant imports - if supplies are dependable and reasonable rates and rate change over time formulas can be negotiated.

Natural gas is available in Namibia, Mozambique and Tanzania beyond national market needs. In the first two cases pipeline sales to South Africa could well be mutually advantageous and allow development on a scale adequate to provide low cost domestic fuel to those users for whom natural gas is preferable to electricity. In the case of Tanzania, the most viable option might be the export of ammonia and/or urea in both of which South Africa is a net importer and suffers from very high production costs (and therefore high farmer fertiliser prices) which cannot be lowered enough to be competitive with a full scale, coastal, gas based plant.

In the case of transport, the post-UDI years and especially the 1981-88 period have obscured the structural economic logic of South Africa being a net importer of services. The dominant element is the Maputo corridor (economically preferable - given equal facilities and utilisation rates - to any Natal or Cape port for much of the Transvaal). However, Walvis Bay is also potentially relevant as an Atlantic port which is closer both to Europe and to the Rand than is Capetown. Granted making good damage and a lost two decades in modernisation at Maputo and reprogramming Walvis Bay and routes to it will take time, but the economic potential is real. Since every major transport decision in South/Southern Africa over the past 150 years has had a major political as well as an economic component, it is reasonable to assume the achieving the potential of the transport trade sector will require strategic coordination at state and both investment/capacity and operational/rate coordination at national level.

Tourism is a sector in which much of Southern Africa (notably Lesotho, Swaziland, Namibia, Botswana and Malawi) needs to diversify sources to reduce dependence on South Africa, but perhaps more by increasing other arrivals and restructuring South Africa than by absolutely reducing South African arrivals. Angola and Tanzania per contra should logically perceive the "new" South Africa as their nearest large scale tourist source. In respect to this sector, substantial changes will result from changes in South Africa. Beyond that strategic and procedural coordination by national tourist authorities enabling/encouraging enterprise level operators to build up multi-country packages should facilitate South

Africa's smaller neighbours in attracting more industrial world tourists with little or no net loss to South Africa.

Labour remittances, as noted earlier, are likely to be a declining source of net earnings for those of the 10 to whom they are now significant. The unique case of Lesotho has already been addressed. The other significantly affected countries are Mozambique, Malawi, Swaziland and Botswana.

For Botswana, phased run-down over a decade could - if existing employment growth rates can be sustained - be managed, especially if a quid pro quo on border river water rights, co-finance of the Trans Kalahari late in the 1990s to carry both Botswanan and South African (as well as Zimbabwean) coal and perhaps a large coal fired electricity station selling half its output to South Africa were negotiated.

The other three countries certainly need a phased programme and preferential access for other exports (and perhaps co-finance for building capacity, e.g. on the Maputo-South Africa transport corridor). But they also need more specific domestic employment expansion (or rural productivity development oriented to household farms) cooperation. Even if the balance of payments effects can be offset by new (or in the case of Maputo restored transport, power and tourism) exports, the employment and household income effects will require specific, articulated attention. As over half the workers are in fact skilled, semi-skilled or clerical their return could give a stimulus to development if - and only if - parallel conversion training and employment opportunity expansion programmes were carried out.

South Africa could gain by such a phased transition. Quite apart from straining relations with its neighbours and threatening exports, rapid repatriation of substantial numbers of long service, semi-clerical and skilled workers would have serious negative labour productivity effects which is precisely what the "new" South Africa does not need. While co-finance of projects and of programmes may not be fully within South Africa's means, reasoned joint approaches by South Africa and the most affected states would have a good chance of attracting significant external finance. Given the surprisingly positive attitude of South African trade unions - notably in mining - to their regional brother workers (literally - except in domestic service and agriculture few are women), it would not appear politically impracticable for the "new" South Africa's government of

reconciliation to incorporate such a phased, negotiated approach into its regional economic and domestic employment expansion strategies.

Modalities: Markets And Management

Liberalisation and a 'free' market will not be adequate to achieve the goals sketched above. However, review of historically accreted structures of regulation and restriction to reduce unintended inertial effects and to remove barriers which - whatever their historic rationale - no longer serve (as opposed to hampering) building up mutually beneficial economic relations among Southern African states and South Africa would be useful. As noted this applies to South Africa as well as to the 10.

Several general principles for managing the expansion of cooperation in coordinated production and trade expansion can be set out:

1. selective, mutually beneficial preferential access;
2. with an affirmative action component so that the initially weaker parties do not lose (or reap what they perceive as hopelessly inadequate gains) leading to their giving voice to criticisms and complaints which hinder progress and - if not responded to - in the end, take the course of de facto or de jure exit from the arrangements;
3. identification (and expansion) of mutually perceived mutual interests better acted on together than separately as the highroad to dynamic coordination (as opposed to copying models from different contexts or from the simplified, second best, neo-classical regional free trade theoretical doctrines);
4. identifying what enabling measure other than tariff preferences are needed in the trade area, e.g. transport coordination; more interaction among national financial enterprises (private or public); promotion information flow development and educating to change producer and imported attitudes toward regional sourcing as well as marketing; co-financing of regional exchange related projects; clearing arrangements both of a normal commercial and a more flexible two way trade promoting nature; preferential "regional open general licensing";
5. looking at sectoral, commodity and project issues within a broader macroeconomic framework to facilitate perception of overall balances of

gains and costs and to help avoid a narrow economic nationalism which counter-productively seeks to exploit every gain to the full and to reject every cost (a danger which will probably be acute for the first, reconciliation government of the "new", post-apartheid South Africa);

6. involving enterprises and enterprise groupings not merely in dialogue with (and demands on or actions for) governments and inter-governmental bodies but also on their own for their own interests both at individual enterprise and enterprise based institutional levels;
7. encouraging serious interest, dialogue with governments and regional bodies and own action by social and/or civil society bodies. An obvious example is trade unions. The nature and content of such cooperation/coordination would vary but the emergence of operational components may be more likely than might be supposed. For example, in the trade union case coordinated bargaining with enterprises operating in several countries and coordination of strategies on safety conditions, worker participation (however structured), environmental health basic standards, job security and access to training and promotion would appear both potentially valuable (and not merely to union members) and potentially practicable even if rapid equalisation of real wages, fringe benefits and/or and differentials is neither attainable nor desirable.

To proceed from framework principles to a programme of action will entail institution transformation (or outlook modification) and/or creation at several levels. The basic one is national both governmental and enterprise/civil society group. The second is sub-regional and the third regional (or continental). Action at only one or two of these levels (or on the government front only with no serious enterprise and civil society group rethinking of attitudes and strategies and reorientation of policies and actions) is unlikely to lead very far.

There probably is a parallel distinction between broad market freeing/obstacle reducing - i.e. facilitating - measures and those requiring more detailed sectoral, sub-sectoral and policy or project coordination sometimes involving joint action - i.e. enabling. For the former, breadth is crucial but for the second, smaller groupings among states/economies with a dense network of common interests is likely to prove more practicable to institute and more efficient to operate.

That dichotomy is not unique to Southern Africa. A European Free Trade and Clearing area from the Urals to Greenland and from Spitsbergen to Cyprus is a desirable, plausible goal for 2001. An EEC seeking to involve all of these states in its much more detailed work by 2001 would grind to a halt or implode. The same applies to Cape Bon - Cape Agulhas, Rodriguez - Cape Verde African preferential trade and payments area and the quite different issue of attempting a 53 country detailed coordination grouping on lines analogous to SADCC.

The Continental aspects lie outside the scope of this paper and presumably turn on the "new" South Africa's development of links with the African Development Bank, the economic side of the OAU, the ECA and the process toward an African Common Market's emergence gestation from the Abuja Treaty. Realistically a parallel, and initially more important, strand will be bilateral economic linkage build-up between SSA economies outside Southern Africa (e.g. Algeria, Cote d'Ivoire, Nigeria, Cameroon, Madagascar, Kenya, Egypt) and the post-apartheid South Africa's government and enterprises.

Production As Goal: Trade As Means

Political economy is not about trade as an end in itself. Politicians understand that basic point better than trade theorists! Production (including knowledge), employment and human condition (at least of groups important to decision takers) are the central ends of any political economic process - not trade for its own sake.

Therefore, any strategy for mutually beneficial and dynamic economic interaction is ultimately more about production than about exchange. That has an empirical or functional basis as well. If no goods of appropriate types, qualities and prices are available there will be no trade. Similarly, the absence of adequate transport or indeed of financial infrastructure means little or no trade. These gaps can only be solved by coordination (whether by enterprises, by states or by both) related to production. Tariff reductions and clearing rule agreements by themselves are not enough and if goods-transport-commercial infrastructure do exist, lags on the tariff reduction and clearing front rarely strangle (even if they do distort or limit) trade expansion.

That is not to say trade is unimportant. It is vital to validating coordination and selection of production. The earlier presentation of broad lines toward SSA-"new" SA economic interaction are, in fact, focused on trade and on physical, institutional and outlook changes to facilitate its expansion.

A series of other areas for interaction/coordination are also trade related albeit in slightly different ways.

The first is coordination in the production and exchange of knowledge. There are economies of scale, of specialisation and of pooling/exchange in research, policy and specialised training as much as in producing pins, steel or ports. A number of SADCC's successes - notably in agriculture - fall into that area. South Africa has a good deal of knowledge and knowledge creation capacity potentially useful to SSA and vice versa. By the nature of the apartheid system, there are areas of knowledge and especially of policy/praxis (e.g. in respect to small family farmers or "peasants" and small household or workshop artisanal manufacturing or "informal sector") in which the "new" South Africa will begin with less knowledge and experience in how to generate it than many SSA states and institutions.

More broadly, knowledge transfers can be promoted through South African enterprise partners and South African technical assistance or direct hire personnel. There is certainly a case for drawing on a variety of sources for each but in several cases (especially Angola, Tanzania) that implies more, not less, interaction with the enterprises and personnel of the "new" South Africa.

In respect to manufacturing indicative planning in the particular sense of knowing what others (states or enterprises) intend to do as a means to avoid wasteful duplication (and to identify sources of needed imports) and also to locate promising gaps (and export prospects) is important both at state and at enterprise level. Indeed much of the value of SADCC's manufacturing sector coordination has been precisely in identifying non-viable parallel creation of export intended capacity and, thereby, averting wasted capital investment. The positive side - and not just in SADCC - is harder to achieve. Bureaucratic allocation of industries does not work. Creating an enabling climate (including source and market prospects) and relevant facilitating measures (e.g. joint ventures, coordinated

protection) has rarely gone far (with the notable exceptions of the European iron and steel sectors) via official institutions perhaps because there has usually been too much readiness to seek to substitute regulated allocation for providing information and perceived mutual interest building and too little involvement of enterprises in the process.

The potential is real. South Africa, let alone the smaller SSA economies, cannot afford to invest in producing everything and any attempt to do so tends to be cost raising throughout the economy and not just in the artificially protected sector. Therefore, targeted increases in production capacity coordinated to facilitate trade (in both directions) with partners does not so much foreclose production but rather restructures and increases it if validating trade flows take place.

Coal illustrates a third potentially fruitful area - product focused production, transport and marketing coordination. Southern Africa plus South Africa can be a major power in the world coal market by 2001. South Africa already is. The other potential (or small actual) Southern African exporters (Swaziland, Zimbabwe, Mozambique, Botswana, Tanzania and perhaps Namibia and Zambia) can at most be niche actors on their own. But their coordination with the larger South African sector (so long as that sector did not seek to dominate in ways leading to coordination destroying tensions) could be mutually beneficial.

First, the volume, timing and lumpiness of export expansion will affect not only saleability/viability of new production but also that of existing producers.

Further, an overall transport net to both the Atlantic and Indian Ocean ports would serve the South Africa-Botswana-Namibia-Zimbabwe-Mozambique range of exporters both better and more cheaply than a congeries of separate facilities. To build up adequate rail links and port facilities for 2001-2011 will require knowledge of global market prospects, regional production/export plans and probable mix of destinations ranges. If Richards Bay, Nacala and Walvis Bay/Swakopmund are to be the key (and Maputo, Beira, Mtwara the secondary) export terminals with adequate access from major coal fields at least to one Atlantic and one Indian Ocean terminal, states, coal producers and transport enterprises all need to negotiate a series of contractual, engineering, costing, financial mobilisation, physical operation and rate determination process issues.

Financial infrastructure and mobilisation development is important to facilitating both trade and production. The exact appropriate forms of commercial and merchant bank interaction and of trade credits will vary. What is clear is that the present dominant pattern of indirect dealing via non-African correspondents (with few external branches, representative offices, direct correspondent relations or joint ventures) and very meagre enterprise or public sector intra-African trade credit provision (especially medium term for capital goods) is an unsatisfactory one. It is also a pattern whose structural transformation could be facilitated by coordinated state and enterprise action based on trade and production (not just banking and credit) projections and goals.

Financial mobilisation in relation to global sources is crucial. The "new" South Africa will be a net capital importer as are all but one or two SSA economies. Joint ventures with SSA states (whether at enterprise or government level) will need to mobilise capital abroad. Joint approaches to sources and coordinated inter-state access and regulation provisions within Africa could increase flows, improve average terms and conditions and reduce intra-African tensions which are likely both to lead to mutually disadvantageous "competition" by potential recipients against each other and also to deter any external source which - for whatever reasons - sees regional economic coordination as economically or politically desirable.

The danger is that even the "new" South Africa will wish to be a regional wholesaler importing external finance for on-lending with rate spread and own enterprise outreach gains. Because of its size and its more sophisticated financial institutional and expertise capacity (as well as its history) that approach is superficially appealing and, up to a point, practicable. But the inevitable negative reaction of other SSA states - especially the 10 - to such a hegemonic and apparently narrowly exploitative approach would render it counterproductive as a main organising principle. SADCC's own coordination of mobilisation strategy may be more relevant. It is, after all, the only major recipient-source concessional finance consultative group organised by and operating on an agenda adapted (and from time to time modified) by the recipients.

Food security is certainly mediated by trade - if there are no stocks for shipment there is no short term physical solution other than external sources. South Africa is likely to remain a competitive (i.e. low cost)

source for maize, sugar and some other products. Several SSA states are structural food importers and most are emergency ones in drought years.

However, the scope for building on these facts is both smaller and harder to construct than optimists suppose. There are other SSA structural food surplus economies (potential exporters). Availability on limited notice is needed from the perspective of would-be disaster offset importers but is not happily married to forward planning and export optimisation strategies of structural exporters. No SSA state (including the "new" South Africa) can afford large, soft (grant or concessional loan) provision of food but - especially in food crisis years - that is precisely what most recipient states need.

SADCC experience is that that trio of issues does both limit and slow coordination of structural food security coordination. However, the rise of third party financed procurement (notably but not only from Zimbabwe) suggests that a coordinated approach could increase certainty/speed of arrivals to recipients and facilitate intra-regional exports to meet emergency survival needs even by states (notably the "new" South Africa) whose economic and financial position precludes them from being substantial donors.

One, Ten, Twentysome: Regional Institutional Processes

Southern Africa - "new" South Africa institutional dialogue, interaction and participation can usefully be focused on three: PTA, SADCC, DBSA. Each of these exists, has a genuine life, possesses comparative advantages and strengths as well as limitations and weaknesses, is at least potentially complementary with and supportive of the other two.

As noted earlier, market access and commercial clearing should be over the broadest feasible area. The same is true of general information flow development through state and enterprise channels designed to enable separate national (enterprise) decisions to be taken on the basis of reasoned projections and assessments (including stated intentions of other states/enterprises).

The logical regional group for South Africa to interact with in these areas is the Preferential Trade Area for Eastern and Southern Africa (PTA). At present it extends from Ethiopia through Lesotho. Given its Treaty

provisions accession both by a "new" post-apartheid South Africa and other states bordering present members (e.g. Sudan, Zaire whose accessions are in process) is fairly easy if mutual desire exists. On both preferential tariffs and commercial clearing, PTA is in business which means it is ahead of its Western, Central and Northern African analogues. It has a limited but positive record in associated fields such as harmonisation of transit and trade documentation, identifying transport-trade requirement linkages among member states not members of the Southern African Transport and Communications Commission (of SADCC) and providing trade finance.

The central problems in relation to South African accession to the PTA lie in respect to affirmative action. Neither unilateral South African removal of all tariffs (and alternative/complementary import restrictions) vis-à-vis PTA members nor its accession to the PTA preferences on a normal participant basis would appear optimal. South Africa could (and if it wishes to enable the two way flows crucial to achieving dynamic growth in its exports to the region needs to) go beyond the PTA preference schedule as to depth of most cuts and as to coverage. But in some cases it does need at least transitional continued preference vis-à-vis some PTA production.

Similarly, whatever the practicability, transparency and avoidance of conflict case for uniform preferences among the present PTA members, equal preferences by the old to the new member as by the new one to the existing members would be politically unattainable, analytically simplistic and probably economically mutually damaging.

In respect to commercial clearing, an analogous problem could exist if South African membership in the PTA Clearing House were followed by sharp reductions in South African export credit for more than 90 days. Whatever the merits of the present South African use of credit lines as carrots for overpriced exports, a sudden shift to 60 or 90 day automatic clearing is not feasible and could discourage the selective restoration of 90 to 360 day commercial credit based on bank (ideally banks within the region) confirmed letters of credit.

These are not points of principle, beyond the case for affirmative action. They are issues for empirical analysis, judgement and pragmatic negotiation. The PTA has a record of reasonable success at proceeding along those lines and - once mutual acquaintance and trust begin to develop

- provides a forum in which 18 to 24 (including Sudan, Zaire, the three currently non-PTA SADCC States and Madagascar) and 1 can proceed on similar lines.

In respect to closer, denser coordination spanning large numbers of articulated policies and of projects (whether at state or enterprise levels) the logical sub-regional forum is SADCC (and its related specialised institutional entities like SATCC in transport and communication and SACAR in agricultural research and information). This has two reasons. The general one is that diseconomies of scale arise as the numbers of members increase, especially if many are only peripherally concerned with most of the areas of coordination. The specific one is that a number of sectors including trade related ones, e.g. water, tourism, electricity and transport in which geographic and economic logic means that South African interaction in kind as well as degree will be very different with, e.g. Tanzania and Mozambique, than with, e.g. Egypt and Cote d'Ivoire.

Whether 11 is the optimal number now and - especially - whether over time it will remain so is a different issue. Practically (apart from the special case of Lesotho) 11 is the minimum number. SADCC will not agree to expel any present member State; on balance, economic logic is against it; any attempt in this direction would rekindle suspicions that in hegemonic economic aspirations the "new" South Africa had some unhappy continuities with the old.

Whether an early expansion from 11 is desirable poses problems of maximising institutional transformation issues if not only South African but other accessions have to be negotiated and run in at the same time. In practice the only two economies whose linkages with several members of the prospective 11 would justify it becoming 12 or 13 are Zaire and Kenya. The particular reasons that precluded their joining SADCC related to the perceptions several of its member States had of their systems of governance and their regional priorities/aims. In so far as these related specifically to their stance vis-à-vis the old South Africa they will fall away. But to the extent they were wider they may very well remain a barrier to early accession.

SADCC's framework of agreed (neither by majority voting nor by literal insistence on total consensus but by technical screening plus negotiation

toward acceptable balance/compromise) regional priorities as to policies and/or project agendas is one which would facilitate South African accession. Its larger size would not allow it to dominate while the stronger of the sectoral units and national delegations would provide enough impartial or non-South Africa centred analysis to avert the danger of the screening and negotiating processes being overwhelmed by South African delegations which were professionally stronger than those of most other members.

The danger would be a South African effort to secure a proportion of policies of particular interest to it, of agreed priority project lists and - especially - of coordinated external resource mobilisation equivalent to its share in the 11's regional domestic product (of the order of two-thirds).

It is that danger which would create a clash with the Lusaka Declaration principles. A transformed set of regional economic linkages would reduce unilateral economic dependence on South Africa allowing a mutually acceptable rephrasing of the (in any event apartheid linked) "especially" clause.

As a prospective net capital importer South Africa should not be excluded from coordinated resource mobilisation - especially for joint ventures with other regional actors. Because it has a third of the region's population and perhaps a fifth of its absolutely poor persons, South Africa might well argue that there should not be a 9% ceiling on its share in mobilisations and a fortiori in coordinated regional priority project lists. But the level must be negotiated in the same way as at present which is that first economically unviable or non-priority projects are rejected and the balance among others must, over time, be broadly acceptable to all members at SADCC at overall level - which may mean very different shares in different sectors.

If - as has been proposed - SADCC is moved by its member States into macroeconomic frame and policy information collection and analysis and limited coordination to relate to and to complement national structural adjustment and to provide a prism through which to view sectoral programmes of action and their interaction, this would facilitate South African - 10 coordination in respect to the non-tariff elements of sustainable two way exchange (trade) development.

In the present context of Southern and South Africa these complex, necessarily managed, areas of coordination are more important than preferential tariffs and commercial clearing. This relates to trade in particular (especially given both historic patterns and propinquity). While SADCC and PTA are basically complementary and mutually reinforcing, in the next decade the former probably is the frame in which the larger gains from "new" South Africa/Southern Africa interactions can be designed, negotiated and enabled for government or enterprise interaction.

Neither the PTA nor SADCC has a substantial, functioning medium term development funding and merchant banking financial institution. The Development Bank of Southern Africa is substantial, functioning and already active in several SADCC member States. Its institutional framework, historical evolution as an operating body and general outlook on development are broadly consistent with the probable goals and approaches of the "new" South Africa and with those of the Southern African states and regional/sub-regional organisations. Because DBSA was conceptualised as multinational bringing board members from among the 10 or the Twentysome in (and putting the Bantustan directors out) would be moderately easy.

If DBSA comes to be seen as a foundation for a financial institution of the 10 or Twentysome plus 1, several issues will need to be thought through and negotiated:

1. should DBSA spin off its basically domestic operations? South Africa cannot be expected to surrender a board majority so long as DBSA is a crucial domestic channel whereas neither the 10 nor the 19 can be expected to accept cameo roles in a South African led regional financial institution nor are they much interested in getting into the finance of small scale rural or of metropolitan area transformation in South Africa;
2. how should the new DBSA members subscribe - amounts, form/mix of payment, timing? Should external finance be sought for this purpose?
3. How can procedures and understandings be established to create a framework leading to fair shares (i.e. an ex post division of financial flows acceptable to participating states)? A formula prescribing fixed shares for 11 or 20 members is hardly attractive but neither is an open

ended one creating fears of 2 or 3 states (and especially 1!) receiving the bulk of the disbursements.

4. Which of the following areas should be high on a "new" DBSA's agenda:
- a. provision of finance for revolving funds (possibly nationally operated) to pre-finance the foreign exchange content of regional exports?
 - b. general foreign trade (or regional trade) finance either as a mobilizer and wholesaler or as that plus an operator and/or guarantor (an area in which overlaps with existing PTA and, to a lesser extent SADCC, operations)?
 - c. extended export credit - particularly in respect to capital goods and construction contracts - provision or guarantee for other financial enterprise provision of such credit either on trade among members or more generally on SSA (or even South) trade?
 - d. merchant banking in respect to project analysis, financial structure advising, financial mobilisation and limited stakes for projects of particular relevance to regional coordination especially when they build up joint ventures involving enterprises of more than one member state?
 - e. merchant banking in respect to active provision of technical assistance to enterprises, project identification to broaden the shelf from which entrepreneurs choose, sectoral analysis to improve the knowledge frame within which projects are selected and operate?

This is more a complex agenda than one likely to throw up basic conflicts of interest. Nor are differences of opinion necessarily likely to be on Southern Africa - "new" South Africa lines. Short and medium versus long term investment finance - absolutely or in terms of balance - is a crucial question on which reasonable persons can - and do - disagree but not necessarily on national lines. Negotiating substance and embodying it into institutional transformation form will take time and their success will relate significantly to the DBSA and its members/prospective convincing external funding sources both that DBSA is a priority instrument for regional coordinated economic development and that it is adapting a financially viable set of approaches.

In pure logic the trade finance aspects of a transformed DBSA probably fit best with PTA and the development/merchant banking ones with DBSA. Since splitting DBSA into two (especially if domestic South African operations had been spun off) and merging the trade finance wing with the PTA's operational trade bank might not facilitate expansion and extension of DBSA an early question for decision is whether a broader or narrower initial membership target is desirable. The easiest solution politically might be to aim for Twentysome members from the start. The disadvantage would be the greater difficulty of building up the merchant banking side which relates more directly to close, limited geographic area coordination rather than to looser, trade facilitating, broad geographic area cooperation.

Valediction And Cautionary Note

The above sketch is broadly inspiring. First, a number of institutions and processes transformable to building up relations between the "new" post-apartheid South Africa and Southern Africa already exist. In no case are there barriers in principle to membership broadening. Second, the PTA-SADCC underlying/potential relation of complementarity and division of labour is as relevant to the "new" South Africa as to the development of economic interaction among the present PTA and SADCC members. Third, while complex and raising issues of particular interests the questions needing to be answered and the means to acting on these answers seem to be normal balance of gains/negotiation of structures not basic conflicts of underlying interests.

However, euphoria would be ill advised and would weaken the chances of achieving potential gains. To do so requires first and foremost the achievement of mutual confidence among actors both at state level and among the persons who embody state and enterprise interactions with their counterparts in other countries. That requires not just contact (important as that is) but also a series of practical results in agreeing on concrete issues in ways which produce mutually perceived changes for the better.

A related precondition is a more accurate set of mutual perceptions of the strengths and weaknesses of all of the economies concerned - not least in respect to South Africa which is in fact a not so very atypical, except in size and sectoral make-up, Sub-Saharan African economy with a 1980s performance record as dismal as the regional average and a current one for worse than the average among its 10 Sub-Regional compatriots to be.

That structural adjusted set of perceptions should help reduce a tendency by South Africans (not necessarily supporters of the old order) to perceive their country as inevitably the sole metropolis and dynamic force for Southern Africa (or Africa more generally). Similarly, it should reduce other African misgivings that, even post-apartheid, South Africa is so strong and so self-centred that it can be supped with prudently only with the aid of a very long spoon indeed. However, those shifts are not merely rational ones based on data but psychological and personal ones related to positive face to face contact and successful experience of joint or coordinated problem solving.

The need for early discussion aimed at achieving a process of confidence building and agenda identification is reinforced by two special factors:

1. formal negotiations cannot begin until there is a legitimate (as perceived by black South Africans and by SSA) government in South Africa;
2. but then need to move rapidly because otherwise South Africa's transitional problems may lead it to put regional issues low on its priority list and/or to retreat into a narrow economic nationalism quite ill-attuned to transforming, broadening and deepening mutually beneficial economic links in the South African-Southern African regions.

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