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Europe and World Governance

The Political Economy of Regional Integration in Southern Africa

This policy paper completes *Notre Europe's* series of analyses of political and economic regionalisation trends, with previous papers on South-East Asia and South America.

Focusing on Southern Africa, and paying particular attention to the two main regional integration entities, the Southern African Development Community (SADC) and the Southern African Customs Union (SACU), it demonstrates how economic integration within SADC has been marked by severe economic imbalances among the member states. It reveals how these imbalances have been skewed in favour of the dominant South African economy. It shows that, whereas South Africa has adroitly legitimised its dominant role within SACU and positioned itself as the pivotal state around which the SACU integration process has revolved, such a scenario is unlikely to be replicated in an enlarged SACU arrangement because of ongoing differences and tensions within SADC. Finally, it analyses how the success of regional integration in Southern Africa depends on South Africa's ability to discharge its responsibilities in accordance with its hegemonic status.

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Executive Summary

This policy paper completes *Notre Europe's* series of analyses of political and economic regionalisation trends, with previous papers on South-East Asia and South America.

Focusing on Southern Africa, and paying particular attention to the two main regional integration entities, the Southern African Development Community (SADC) and the Southern African Customs Union (SACU), it demonstrates how economic integration within SADC has been marked by severe economic imbalances among the member states. It reveals how these imbalances have been skewed in favour of the dominant South African economy. It shows that, whereas South Africa has adroitly legitimised its dominant role within SACU and positioned itself as the pivotal state around which the SACU integration process has revolved, such a scenario is unlikely to be replicated in an enlarged SACU arrangement because of ongoing differences and tensions within SADC. Finally, it analyses how the success of regional integration in Southern Africa depends on South Africa's ability to discharge its responsibilities in accordance with its hegemonic status.

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Introduction

Regional economic integration has historically constituted an integral part of development strategies in Africa.¹ It has been viewed as a means to achieve sustained economic growth and development, and to overcome the region's structural problems such as political fragmentation, low per capita incomes, and small intra-regional markets. As such, political considerations have been as important economic ones in the drive to consolidate African regional integration: not only has regional integration been considered necessary to achieve meaningful industrialisation, develop intra-African trade, and participate effectively in the evolving global linkages, it has also been regarded as central to building African unity, consolidating regional political structures in the post-colonial period, as well as creating regional blocs for effective use in international political forums and in negotiations with advanced industrial nations.² It is against this backdrop that regional integration in Southern Africa has evolved.

This paper analyses the politics and economics of regional integration in Southern Africa. Specific attention is given to the two main regional integration entities,

¹ See Asante SKB. 1997. *Regionalism and Africa's Development*, Basingstoke: Macmillan Press Ltd, pp.17-44.

² *ibid.*

the Southern African Development Community (SADC) and the Southern African Customs Union (SACU). Three arguments are advanced in the essay. First, it is contended that economic integration within SADC has been marked by severe economic imbalances among the member states, which have been skewed in favour of the dominant South African economy. For this reason SADC originally pursued a strategy of developmental regionalism based on economic co-operation and integration, rather than the classical model of unfettered market integration.

However, the strategy of developmental integration has not yielded significant results in the SADC context. Although there has been greater regional integration and co-operation, this has proceeded without reference to the principles of equity, interdependence and mutual benefit that SADC originally sought to promote. In Southern Africa the processes of economic globalisation and political regionalisation have occurred simultaneously. These parallel processes have produced contradictions for the SADC integration process, which need to be resolved if SADC is to avert further regional polarisation and to achieve its goal of balanced and sustainable regional integration.

Second, this paper argues that, whereas South Africa has adroitly legitimised its dominant role within SACU and positioned itself as the pivotal state around which the SACU integration process has revolved, such a scenario is unlikely to be replicated in an enlarged SACU arrangement. This is principally due to ongoing regional differences and tensions within SADC over issues of security, leadership and democracy, as well as the historical legacy of South Africa's destabilising regional role.

Third, it is contended that regional integration in Southern Africa will not succeed unless South Africa, by far the largest and most diversified economy in the region, discharges its responsibilities in accordance with its hegemonic status. Whether South Africa can assume a hegemonic regional role will depend on three considerations: first, the extent to which the political elites are able to balance the country's regional obligations against domestic pressures; second, the manner in which the country deals with the legacy of apartheid South Africa's historical destabilisation of the region; and third, the degree to which the country's leadership credentials are accepted by other regional states.

The paper consists of five segments.

- The first sketches a broad conceptual overview of the relationship between globalisation and regionalisation processes in the world economy.
- This is followed by an examination of the dynamics of economic integration in Southern Africa, with a specific focus on the SADC and SACU regional schemes. In respect of SADC, the essay discusses South Africa's growing economic role in the region, while analysing the parallel trends of economic globalisation and political regionalisation. And in regard to SACU, it examines the dynamics of the customs union within the context of the debate about its possible expansion. In particular, it explores the question whether it is feasible to expand SACU beyond its current member states to include SADC member states and, if so, whether such enlargement could contribute towards strengthening regional integration in Southern Africa.
- The third section examines the implications of the new SACU Agreement.
- The fourth looks at how the reformed SACU fits into the ongoing negotiations on Economic Partnership Agreements (EPA) between the European Union (EU) and the African, Caribbean and Pacific (ACP) states. The fourth section considers the question as to whether SACU can act as a pivot around which regional integration can be built in Southern Africa.
- The concluding part assesses South Africa's contribution to regional integration efforts while drawing attention to the problems and challenges faced by this most dominant regional actor. These factors are likely to constrain its ability to act as a motor of political and economic integration in the region.

I - Regionalisation in the Age of Globalisation: Some Conceptual Issues

The twin trends of globalisation and regionalisation are playing an increasingly important role in shaping the world economy.³ Both concepts describe different but overlapping processes. The process of globalisation has “accelerated an integration of national goods, services, as well as capital and financial markets into a single global market.”⁴ Globalisation trends tend to reduce both national autonomy and the economic actors’ scope for action. As the functions of the national state are reconfigured, and in some cases diminished, problems are increasingly tackled at the supra-national level, where the approach can be both global and regional. Regionalisation, on the other hand, refers to those processes which “deepen the integration of particular regional economic spaces.”⁵ A number of factors are taken into account when measuring the extent and depth of regional integration, including trade flows, investment, aid and people. Like globalisation, regionalisation is usually uneven in its impact. As such, deepening integration might lead to growing polarisation if the issue of inequality and unequal development among regional states is not addressed.

3 Jakobeit C. 1997. ‘The theoretical dimensions of regional integration: have the motives for developing countries changed?’ in Heribert Dieter (ed.) *The Regionalisation of the World Economy and Consequences for Southern Africa*, Marburg: Metropolis-Verlag, pp.9-10.

4 Held D et al. 1999. *Global Transformations*, Cambridge: Polity Press, pp. 3-5.

5 Gamble A and Payne A. 1996. *Regionalism and World Order*, Basingstoke: Macmillan Press Ltd, p.258.

It is important to distinguish between policy-induced and market-induced regional integration processes. Policy-induced processes are arrangements based on treaties.⁶ In this context, regional integration projects are devised by policy-making elites in response to changes in the world economy. The resultant treaties codify the economic framework that has been agreed upon through negotiation and bargaining. State-driven regionalist projects seek to manage the substance and direction of social change represented by the globalisation and regionalisation trends. Market-induced integration, on the contrary, produces an economic regionalisation that is driven mainly by private actors.⁷ Consequently, it can be argued that regional integration represents not only a reaction to the increasing globalisation of the economy, but also as a reaction to growing problems in specific policy areas. Regional integration represents an attempt to strike a balance between, on the one hand, exploiting the advantages of free trade and growing markets and, on the other hand, safeguarding the ability of the state to craft and implement social policies intended to mitigate the negative aspects of economic globalisation.

One of the notable features of the contemporary global political economy since the end of the Cold War has been described as the rise of the 'new regionalism'.⁸ Propelled primarily by the forces of globalisation, the new regionalism has been a crucial catalyst in the breakdown of the old regionalism, which was characterised by the division between the capitalist and the socialist worlds. It has coincided with fundamental changes to the world economy. First, there has been a trend towards the triadisation of the world economy: the great majority of merchandise and capital flows in the world economy take place between the three poles of Europe, North America, and East Asia. Second, the new regionalism has been characterised by a growing integration of previously marginalised developing countries into the capitalist world economy – even though a large number of these developing countries are still excluded from the globalisation processes.

Third, global economic actors have become more diverse. Participation is no longer confined to state actors - it includes non-state actors as well. In this regard, transnational corporations have played an increasingly prominent role in the world

6 Dieter H. 1997. 'Regionalisation in the age of globalisation: what limits are there to economic integration in Southern Africa?', in Heribert Dieter (ed.) *The Regionalisation of the World Economy and Its Consequences for Southern Africa*, Marburg: Metropolis-Verlag, p.206.

7 *ibid.*

8 *ibid.*, p.201.

economy. Furthermore, integration projects in the new regionalism have been typified by trade strategies oriented towards the world market, rather than towards import substitution as was the case during the first wave of regional integration. This reflects the ascendancy of neo-liberal thinking, which has strongly influenced the operations of key international financial institutions such as the International Monetary Fund and the World Bank.⁹

Over the past years, the debate on the relationship between globalisation and the new regionalism has become more pronounced. Is the new regionalism an essential part of, or an alternative to globalisation? Does the new regionalism enhance or does it reduce commitments to multilateralism? Critics of regional integration see the new regionalism as a challenge to multilateralism. They argue that regionalisation strengthens disintegrative elements in the world economy, leading to the emergence of protectionist blocs.¹⁰ They also maintain that regional integration projects discriminate against third parties because of the regional preferences - for goods, services and capital - prescribed by such integration agreements. The proponents of regionalism, however, point out that regional and multilateral processes are not mutually exclusive. Regionalism does not only complement multilateralism, but it is also a vehicle through which countries can engage meaningfully with the process of globalisation.¹¹ Regionalist projects are not seen as rivals to globalism, but rather as forerunners to wider liberalisation and multilateral co-operation. Furthermore, the supporters of regional integration advocate open regionalism, which means that policy is directed towards the elimination of obstacles to trade within a region, while ensuring that external tariff barriers to the rest of the world are not increased. They argue that the central goal of economic policy ought to be the maintenance and improvement of international competitiveness: the economy must not be insulated from foreign competition.

The parallel dynamics of globalisation and regionalisation have gained ground in both the industrialised countries and the developing world. However, the previous experience of regional integration in the developing countries has highlighted a need for integration approaches that are sensitive to their unique deve-

9 Gamble and Payne, *Regionalism and World Order*, op cit., p.249.

10 Jakobeit, 'The theoretical dimensions,' op cit., p.17.

11 See Mistry P. 1999. 'The new regionalism: impediment or spur to future multilateralism?' in Bjorn Hettne et. al (eds.) *Globalism and the New Regionalism*, Basinsgtoke: Macmillan Press, pp.116-154.

lopment problems.¹² It has drawn attention to the danger of relying exclusively on integration approaches that have been too narrowly focused on the Western European experience. There has been, therefore, a growing recognition among developing countries seeking to integrate their economies at the regional level of the necessity to develop integration strategies that are responsive to their unique circumstances.

II - The dynamics of regional integration in Southern Africa

SADC

The demise of apartheid in South Africa created conditions conducive to regional political and economic co-operation. This culminated in the transformation of the Southern African Development Coordination Conference (SADCC) to SADC in 1992, and subsequently in South Africa's accession to the latter in 1994.

From its inception, SADC was essentially political in character. Its predecessor, SADCC, was established in 1980 with the objective of reducing the economic dependence of the region on South Africa, promoting equitable regional integration, generating resources for implementing national and inter-state policies, and garnering international support for the economic liberation strategy.¹³ It represented a collective response on the part of the Frontline States to the ravages of the apartheid state's regional destabilisation activities.

¹³ Mulaudzi C. 2006. 'The politics of regionalism in Southern Africa,' IGD Occasional Paper no.51, Institute for Global Dialogue.

¹² Jakobeit, "The theoretical dimensions," op cit., p.12.

...WHICH PROVIDES FOR...DEEPER ECONOMIC CO-OPERATION AND INTEGRATION, ON THE BASIS OF BALANCE, EQUITY AND MUTUAL BENEFIT, PROVIDING FOR CROSS-BORDER INVESTMENT AND TRADE, AND FREER MOVEMENT OF FACTORS OF PRODUCTION, GOODS AND SERVICES ACROSS NATIONAL BORDERS.

SADC was established through the SADC Treaty and the Windhoek Declaration of 1992, which affirmed the organisation's intention to establish a framework for co-operation:¹⁴

As its involvement in crisis-prone countries such as Lesotho, Malawi, Zimbabwe and the Democratic Republic of Congo has highlighted, the SADC has also concerned itself with matters of political development and regional security.

The SADC integration process has evolved against a backdrop of gross economic inequalities and imbalances among member states. Essentially, the region's economy is located within South Africa. South Africa makes up about 60% of SADC's

overall trade and about 70% of SADC's gross domestic product (GDP).¹⁵ It also has the most developed and diversified industrial base.

A striking feature of post-apartheid South Africa's political economy over the past decade has been the country's rapidly growing economic role across the African continent, and its emergence as the largest foreign investor in Southern Africa (see Table 1). Exploiting their relative competitive advantages – abundant investible capital, marketing and technological know-how, advanced public infrastructure, and human resources – South African companies have used the global push for economic liberalisation and deregulation to exploit business opportunities in Africa. South African direct investment in the SADC countries exceeded US\$5.4 billion by 2000.

¹⁴ Cited in Meyns P. 1997. 'From co-ordination to integration: institutional aspects of the development of the SADC,' in Heribert Dieter (ed.) *The Regionalisation of the World Economy and its Consequences for Southern Africa*, Marburg: Metropolis-Verlag, p. 167

¹⁵ Draper P, Kalaba M and Alves P. 2007. 'Deepening integration in SADC – South Africa's international trade diplomacy: implications for regional integration,' in Tony Bösl et al. (eds.) *Monitoring Regional Integration in Southern Africa*, Stellenbosch: Tralac, p.888.

Table 1 -- South African investment into other SADC countries: 1994-2003

COUNTRY	SA FDI AS % OF TOTAL FDI	SA RANKING AS INVESTOR
ANGOLA	1%	6
BOTSWANA	58%	1
DRC	71%	1
LESOTHO	86%	1
MALAWI	80%	1
MOZAMBIQUE	31%	1
NAMIBIA	21%	3
SWAZILAND	71%	1
TANZANIA	35%	2
ZAMBIA	29%	1
ZIMBABWE	24%	3

SOURCE: BUSINESSMAP FOUNDATION, 2004

A good example of South Africa's deepening economic engagement in the region is its relationship with Mozambique. Over the past decade has Mozambique emerged as the leading destination for South African investment. According to the Mozambican Investment Promotion Centre, more than 262 South African investment projects have been registered since 1985 with an accumulated investment value of US\$1,330 billion by the end of 2003.¹⁶ Although the bulk of South African investment in Mozambique has been in the industrial sector, there has also been sizeable investment in resources and minerals, construction, finance, agriculture and tourism (see Table 2).

¹⁶ See Games D. 2003. *The Experience of South African Firms Doing Business in Africa – A Preliminary Survey and Analysis*, South African Institute of International Affairs, Braamfontein: SAIIA.

Table 2 -- Number of South African companies per sector

SECTOR	1998	1999	2000	2001	2002	TOTAL
AGRICULTURE & AGRO-INDUSTRY	7	13	8	5	3	36
AQUACULTURE & FISHERIES	1	1	1		1	4
INDUSTRY	13	11	6	8	5	43
RESOURCES & MINERALS	1	1		1	1	4
TRANSPORT & COMMUNICATION	1	2	4	3	1	11
BANKING, INSURANCE & LEASING		1		1	1	3
CONSTRUCTION		9	10	7	6	32
TOURISM & HOTEL INDUSTRY	9	5	6	3	2	25
OTHERS	5	3	4	6	6	24
TOTAL	37	46	39	34	26	182

SOURCE: INVESTMENT PROMOTION CENTRE (MOZAMBIQUE), 2004

In Southern Africa, the two processes of economic globalisation and political regionalisation have proceeded simultaneously. The SADC integration project has evolved along two parallel tracks: namely a trade integration track (a strictly market-driven economic project that emphasises trade and investment) and a development integration track (a politically-driven process that stresses political and security issues).¹⁷ The proponents of trade integration – including large international and South African firms, private sector interests in the other SADC countries, donor agencies and mainstream economists – have pushed strongly for open regionalism and unrestricted movements of trade, investment and capital flows. Their influence has been evidenced by the significant neo-liberal market reforms that have been undertaken in the region and the relative rise in regional trade flows. Extensive liberalisation of trade and investment policies in the 1990s, most of which has taken place outside the formal trade integration scheme - has increased exponentially in recent years. Moreover, the region’s fledgling stock markets have become increasingly enmeshed in the global financial markets. This deep transformation in the region’s macroeconomics has demonstrated a growing, albeit still limited, incorporation of the region’s economies into the global economic system.¹⁸

17 Oden B. 1999. 'New regionalism in Southern Africa: part of or alternative to the globalisation of the world economy?' in Bjorn Hettne et. al (eds.), Globalism and the New Regionalism, Basingstoke: Macmillan Press Ltd, p.170.

18 Shaw T and Nyang'oro JE. 1999. 'African renaissance in the new millennium: from anarchy to emerging markets?' in Richard Stubbs and Geoffrey R.D. Underhill (eds.), Political Economy and the Changing Global Order, Canada: Oxford University Press, pp. 276-277.

The development integration track, on the other hand, has focused more on regionally based activities in areas such as regional politics and security.¹⁹ A large part of the work of the SADC Organ for Politics, Defence and Security has fallen within this purview. Based on the original SADC documents, the notion of development integration is primarily concerned with “creating a territorial identity and regional coherence.”²⁰ Development integration includes trade integration, but advocates less openness than what open regionalism demands. Instead, it calls for market integration that is based on the principles of “flexibility of multi-speed” and “variable geometry.”²¹ This means that integration is viewed as providing “an important framework within which to reverse gross social and economic imbalances within and between the countries of the region and, and above all, between South Africa and the surrounding countries.”²² The main social forces supporting developmental integration in the SADC region have been some labour unions, non-governmental organisations and representatives of sensitive industries such as textiles and clothing.

Although the SADC founding treaty and related policy documents embrace the integration approach of developmental regionalism, this position has gradually changed over the past few years.²³ Partly, this can be ascribed to the reality that the SADC member states stepped up the liberalisation of their economies in accordance with the strictures of structural adjustment policies and the World Trade Organisation (WTO). But the change also reflects concessions made by the countries to accommodate the demands of private sector interests, who have vigorously lobbied for a more open and liberal regime for the trade of goods, investments and capital flows. This is confirmed by the SADC documents,

TO UNLEASH THE PRIVATE CREATIVITY AND ENTREPRENEURSHIP, INVESTMENT INCENTIVES SUCH AS GUARANTEES AGAINST NATIONALISATION OF PRIVATE ENTERPRISE, THE RIGHT TO REPATRIATE CAPITAL, PROFITS AND DIVIDEND, LOWER CORPORATE TAX RATES, INCLUDING TAX EXEMPTIONS, HAVE BEEN EMPLOYED TO LOCAL AND FOREIGN INVESTMENT. THE DIRECT ROLE OF GOVERNMENTS HAVE BEEN MINIMISED WHILST THEIR MANAGEMENT CAPACITY, AS WELL AS THAT OF PROVIDING INFRASTRUCTURAL SUPPORT HAVE BEEN ENHANCED.

19 Southern African Development Community. 1993. Southern Africa: a framework and strategy for building the community, Gaborone: SADC.

20 ibid.

21 ibid.

22 Keet D. 1999. 'Globalisation and regionalisation: contradictory tendencies, counteractive tactics or strategic possibilities?,' FGD Occasional Paper no.18, p.35.

23 ibid., p.33.

which put a greater emphasis on the importance of open regionalism and the central role of the private sector in creating growth and development. As one document averred:²⁴

The rising support for the classical model of economic integration in SADC's rhetoric in recent years points to the increasing dominance of private sector interests in the regionalisation discourse. This raises questions about how SADC intends to reconcile its support for open regionalism with the positions enunciated in previous SADC documents, which endorse development integration and state intervention as a means of redressing regional imbalances. How will SADC deal with the social contradictions thrown up by the parallel processes of economic globalisation and political regionalisation? Given the deep regional imbalances, how will SADC ensure that the strident push by economic agents for classical market integration does not aggravate the marginalisation of the weaker countries? These contradictions ought to be addressed if SADC is to reverse the polarisation of the regional landscape, and to realise its original ideal of balanced, equitable and mutually beneficial regional co-operation and integration.

SACU

The erstwhile experience of the SACU shows that the region has not always been treated with respect by South Africa.²⁵ However, the arrival of democracy in South Africa in 1994 laid the basis for the revision of the SACU agreement and for deeper engagement between South Africa and its SACU counterparts. The impetus for transforming the SACU arrangement did not emanate exclusively from the BLNS states. South Africa was also keen to introduce changes to the existing agreement: the incoming African National Congress government was determined to underscore its regional credentials by backing SACU's democratisation and doing away with the 'colonial' tag associated with previous SACU arrangements.²⁶

24 Southern African Development Community. 1996. Towards enhanced trade and investment in the Southern African Development Community, SADC Consultative Conference on Trade and Investment, Johannesburg, pp.20-21.

25 Gibb R. 1997. 'Regional integration in post-apartheid Southern Africa: the case of renegotiating the Southern African Customs Union,' *Journal of Southern African Studies*, vol. 23, no. 1, p.75; See also McCarthy C. 1998. 'South African trade and industrial policy in a regional context – economic challenges and policies for the future,' in Lennart Petersson (ed.), *Post-Apartheid Southern Africa – Economic Challenges and Policies for the Future*, London: Routledge.

26 See Davies R. 1996. 'Promoting regional integration in Southern Africa – an analysis of prospects and problems from a South African perspective,' *African Security Review*, vol. 5, no.5.

The unveiling of the new Southern African Customs Union (SACU) Agreement in 2002, which came into force in July 2004, has been touted as a victory for regional democracy and balanced development.²⁷ It inaugurated far-reaching changes and established new democratic institutional structures for SACU. And it represented a culmination of economic reforms that have been undertaken by SACU countries since their trade policies were reviewed individually in 1998.²⁸ Central to these reforms has been trade and investment liberalisation, which has been spurred by the SACU countries' commitments in the WTO and their participation in bilateral and regional trade agreements. The reforms are designed to strengthen coherence in policy formulation, expand regional trade, and fulfil SACU's desire for deeper integration into the global economy.²⁹

In the wake of a protracted negotiation process, the five member states of SACU concluded in October 2002 a comprehensive, revised SACU Agreement. The new SACU Agreement – which came into force in July 2004 – inaugurated far-reaching changes. It established new democratic institutional structures for SACU.³⁰ The unveiling of the new SACU institutions has been touted as a victory for regional democracy and balanced development. One of the guiding precepts of the 2002 SACU Agreement is a 'desire for common and democratic institutions' within the customs union.³¹

The Council of Ministers is the central decision-making authority, charged with responsibility for overall policy direction and the functioning of SACU institutions, including the formulation of policy mandates, procedures and guidelines for the SACU institutions.³² The Council is required to make its decisions on a consensual basis. This represents a radical departure from the past, when key decisions resided exclusively with South Africa. It remains unclear, however, how consensus-based decision-making in the Council can be sustained, especially within the context of South Africa's dominance within the customs union. Past experience has shown

27 Erasmus G. 2004. 'New SACU institutions: prospects for regional integration, Tralac Brief, p.16.

28 See World Trade Organisation, 'Trade policy review – Southern African Customs Union,' minutes of meeting, Trade Policy Review Body, 23 and 25 April 2003.

29 *ibid.*

30 These are the Council of Ministers; the Secretariat; the Tariff Board; the Customs Union Commission; Technical Liaison Committees and the Ad Hoc Tribunal.

31 Erasmus, 'New SACU institutions,' *op cit.*

32 Article 8.

that forging consensus within SACU on sensitive trade policy matters is difficult.³³ Nonetheless, the key test facing the smaller SACU states is whether they can use their prerogatives within the Council to promote their interests.

Concerns have already arisen about South Africa's commitment to the principle of SACU collective decision-making.³⁴ This follows the country's decision late in 2006 to impose quotas on certain categories of Chinese clothing imports entering the South African market. It is a matter of conjecture whether the BLNS states, whose active support is needed to fully implement these quotas, were consulted about this decision. And it is not clear what impact the quotas would have, for example, on the CET and the common revenue pool. Similarly, questions have been raised about the possible ramifications of South Africa's national industrial policy framework on the broader SACU region.³⁵

Apart from the Council of Ministers, the new accord created another pivotal SACU institution: the Secretariat. The Secretariat is entrusted with a range of responsibilities, including the day-to-day administration of SACU, coordination and monitoring of the implementation of all decisions of the Council and Customs Union Commission, harmonisation of national policies and strategies of member states, and coordination of the negotiation of trade agreements with third parties.³⁶ Carrying out these obligations effectively, however, will require a high degree of pro-active coordination and capacity-building as well as the ability to institute corrective measures in cases where fragmentation within member states undermines integration within SACU.³⁷

The new SACU Agreement exhorts SACU countries to conduct future trade relations and negotiations with third parties as a single entity. It states that no SACU member state is authorised to undertake negotiations with or enter into new preferential trade agreements with third parties or alter existing agreements without the

approval of other member states.³⁸ This is of historic significance in that it commits South Africa to ceding sovereignty over trade policy formulation and implementation to new inter-governmental institutions. In effect, all the five SACU countries will be fully involved in all current and future negotiations, a clear break from historical practice whereby South Africa decided all tariff matters unilaterally.

Significantly, the new agreement considerably revises the revenue-sharing formula among the SACU nations: the new formula consists of a customs component, an excise component, and a development component. In terms of the renegotiated accord, customs revenues will be distributed according to intra-SACU imports, which implies that South Africa will provide compensation to its SACU partners for the trade benefits – the so-called polarisation effects – that flow to South Africa as a consequence of the customs union.

In response to concerns broached by Lesotho, Namibia and Swaziland about the decrease in real terms of the customs pool as a consequence of the Trade Development and Cooperation Agreement (TDCA) the growing use of duty rebates by South Africa, and additional rounds of multilateral trade liberalisation, the SACU member states agreed to include in the revised revenue-sharing formula a development component from which the smaller and fragile SACU economies would benefit most.³⁹ Although the revised SACU revenue-sharing formula provides greater security and stability to the BLNS states, it has triggered concerns about the reinforcement of continued dependence of especially Lesotho and Swaziland on SACU revenues.

Of crucial importance is how SACU intends to compensate for a possible decrease of its common revenue pool as a consequence of a decline in customs and excise revenues brought about by further tariff liberalisation initiatives, both at the WTO and preferential levels, particularly by the TDCA between South Africa and the EU. This could have enormous fiscal implications for SACU and underlines the need to undertake fiscal reforms and to develop clear policies to address the anticipated

³³ Draper P, 'Bigger Sacu could lead the way,' *Business Day*, 22 August 2005.

³⁴ See Erasmus G. 2006. 'Policymaking in SACU: From text to textiles,' in Tony Bösl et al. (eds.) *Monitoring Regional Integration in Southern Africa*, Stellenbosch: Tralac, pp.167-186.

³⁵ *ibid.*

³⁶ Article 10.

³⁷ Erasmus, 'New SACU institutions,' *op cit.*, p.19.

³⁸ Article 31.

³⁹ See Stern M and Flatters F. 2005. 'Implementing the SACU revenue-sharing formula: customs revenues,' a brief prepared for the National Treasury.

negative effects of further tariff liberalisation. Reforming the CET is not the only challenge; liberalising intra-SACU trade is important too. Non-tariff barriers, rules of origin in other trade agreements to which one or more SACU members are a party, infant industry provisions in the recently reformulated SACU accord, and a lack of tax harmonisation distort trade, undermine the utility of the CET, and increase the costs of doing business.⁴⁰

III - FTA and EPA negotiations

In so far as the SACU countries have decided to undertake multilateral and free trade agreement (FTA) negotiations as a single entity, they will be required to develop collective policies and negotiating positions on issues such as services, intellectual property matters, investment and competition law. In particular, SACU's negotiations with the United States (US) have highlighted the importance of internal policy coordination among the SACU states prior to engaging in external negotiations.

In keeping with its FTA strategy of 'competitive liberalisation,' the US wants a comprehensive FTA with SACU, encompassing liberalisation of trade in goods, services and investment, inclusion of labour and environment provisions, and tightening of intellectual property rights. On the contrary, the SACU Agreement covers a limited set of disciplines: trade in goods, agriculture, transport and the management of the common revenue pool. The main challenge is to reconcile these narrow disciplines with the comprehensive negotiating posture of the US. Intra-SACU expansion, combined with the unfolding global trade agenda, will increasingly necessitate an alignment of SACU policies and programmes with the demands of the contemporary global trade regime.⁴¹

⁴⁰ See Draper P. 2006. 'An overview of South Africa's trade negotiations agenda,' unpublished draft report, South African Institute of International Affairs.

⁴¹ Erasmus, op cit., p.9.

The ongoing sets of negotiations on EPAs between the EU and some countries in eastern and southern Africa present another challenge to SACU. Initially, South Africa was involved as an observer in the negotiations by virtue of its membership of SACU and SADC. However, the EU Council of Ministers decided in December 2006 to include South Africa in the SADC EPA grouping.

Undoubtedly, South Africa's involvement will have an important bearing on the negotiations. It is unclear, though, what the nature of that influence will be, and how this will affect the internal dynamics of the SADC EPA grouping. The parallel process of reviewing the TDCA, negotiated by South Africa and the EU, will also have implications for SACU. The BLNS countries have been part of the TDCA review process aimed at harmonising their EPA negotiations with the EU with the TDCA.⁴²

Likewise, the EU has been engaged in a process of recasting its rules of origin in order to create a single system for ACP countries to which South Africa could accede. A vital issue in this regard will be cumulation, particularly South Africa's cumulation with the ACP bloc and SADC. In addition, a review of trade defence measures germane to the TDCA has been proposed with the goal of rationalising them.⁴³ The evolving SACU trade architecture will also be shaped by the manner in which issues are tackled within the Co-operation Council set up by the TDCA. These include Article 18 of the TDCA, which provides scope for further liberalisation of tariff lines – spanning industrial goods, agriculture, and fish and marine products – that are either presently excluded or subject to partial liberalisation, quotas or backloading.⁴⁴

One of the key objectives of the EPA negotiations is to enhance regional integration among the ACP states. Whether this goal can be accomplished in the SADC context is doubtful, in light of the regional bloc's lukewarm commitment to deeper integration. Even so, the EPA negotiations are likely to compel SADC countries to make hard choices regarding their membership in the overlapping regional trade structures and agreements.⁴⁵

42 Draper, 'An overview of South Africa's,' op cit.

43 *ibid.*

44 Smalberger W. 2004. 'The future of SA-EU trade relations,' SAIIA Trade Policy Report, no.7, pp.40-42.

45 See Bertelsmann-Scott T. 2005. 'The impact of the Economic Partnership Agreement negotiations on Southern Africa,' in Peter Draper (ed.) *Reconfiguring the Compass – South Africa's African Trade Diplomacy*, Braamfontein: SAIIA.

SACU as the fulcrum of wider regional integration?

The revised SACU Agreement provides for accession by new members. The idea of expanding SACU is not new: it was previously mooted by the then apartheid regime as part of a policy to broaden South African hegemony and to counter anti-apartheid forces in the region.⁴⁶ But it has gained currency in recent years, largely in response to a number of strategic developments in Southern Africa including the current EPA negotiations between the EU and several countries in the region, and the increasing political and economic presence of external powers such as China and India.⁴⁷ This is particularly pertinent in light of SACU's ongoing parallel FTA and multilateral negotiations.

The prospect of expanding SACU triggers a number of questions. A number of SADC countries – notably Mozambique, Zambia, Malawi and Zimbabwe – have been touted as potential contenders for extended SACU membership.⁴⁸ Among other things, it has been suggested that enlarging SACU could overcome the 'spaghetti bowl' problem of overlapping regional membership of SADC countries; to this end, it has been proposed that SACU should swallow up SADC.⁴⁹ Given the revised SACU's patchy track record, coupled with the institutional difficulties that the new customs union has been experiencing since its inauguration, it is perhaps unrealistic to expect SACU to effectively and adequately cope with the consequences that would result from incorporating SADC into its structures. It has also been mooted that SACU expansion would advance domestic investment and economies of scale, even though possible industrial relocation effects would have to be properly assessed.⁵⁰

In spite of its allure, the idea of enlarging SACU is fraught with potential drawbacks. One of the important reasons for SACU's relative success has to do with the unique history of deep integration of the BLNS countries into the South African political economy. Historically, the economies of the BLNS states have been integral-

46 See Lee M. 2003. *The Political Economy of Regionalism in Southern Africa*, Boulder: UCT Press, pp.79-80.

47 Draper P, 'Bigger Sacu could lead the way,' *Business Day*, 22 August 2005.

48 Interview with a SACU Secretariat official.

49 See Qobo M. 2005. 'The political economy of regional integration in Southern Africa,' in Peter Draper (ed.) *Reconfiguring the Compass – South Africa's African Trade Diplomacy*, Braamfontein: SAIIA.

50 Draper P, 'Bigger Sacu could lead the way,' *Business Day*, 22 August 2005.

ly enmeshed into the South African economy. To be sure, successive apartheid governments tried without success to incorporate these countries politically too. This is not the case with other SADC countries which – notwithstanding their significant linkages to South Africa – developed different institutional arrangements and traditions to those of the BLNS states.⁵¹

Enlarging membership is also likely to run into difficulties as negotiations - in a democratised SACU setting – about the common revenue pool and the CET become bogged down by attempts to accommodate the needs and interests of countries at different levels of development. Moreover, it would spark debate about the revenue-sharing formula, especially in terms of how this should be restructured and extended to new members. This is particularly important in respect of the reconfiguration of the development component of the revenues, which would have enormous fiscal ramifications for South Africa. Moreover, proponents of SACU expansion have to overcome a perception among some SADC nations that SACU has been a hindrance to faster and deeper regional integration. Some SACU members are intent on clinging to, and safeguarding, their privileges within the customs union and are sceptical of the SADC-wide integration project.⁵²

Any changes to the size of the development component require the consent of all of the SACU states. Taking into account domestic constraints it is unlikely that South Africa, the only contributor to the development component, would agree to increase its contribution to make up for diminished tariff revenue, at least in the short-term. On the contrary, South Africa is more likely to put pressure on the BLNS nations to implement fiscal reforms so as to diversify their revenue base, while also revising their government expenditures.⁵³

51 Davies, op cit.

52 Interview with a representative of the Department of Trade and Industry, Cooperatives and Marketing, Lesotho.

53 Stern M and Kirk R. 2003. 'The new Southern African customs union agreement,' Africa Region Working Paper no.57, World Bank, June 2003, p.15.

South Africa and the burden of regional leadership

The Southern African region constitutes a central priority in South Africa's post-apartheid foreign economic policy.⁵⁴ This explains why post-apartheid South Africa has made the pursuit of regional economic rejuvenation – mainly through the instruments of regional trade integration – the keystone of its foreign policy.⁵⁵ In this respect, the South African state has used trade policy reform as a foreign economic policy tool not only to rebuild political and economic cooperation with African countries (damaged during the apartheid era) but also to advance its leadership ambitions, particularly in the Southern African region.⁵⁶

Yet foreign policy has not been preoccupied only with economic issues, it has also been concerned with political and security matters. As an active champion of the African Union (AU) and New Partnerships for Africa's Development (Nepad), South Africa has played an essential role in reshaping the security discourse on the continent. One of the crucial challenges that confronted the emerging South African democracy was the extent to which its foreign policy would reflect the ethical

54 See Mandela N. 1993. 'South Africa's future foreign policy,' Foreign Affairs, vol. 72, no. 5, 1993, p.90.

55 Dlamini-Zuma N. 2003. 'South Africa's International Relations 2002/3,' a report presented by the South African Minister of Foreign Affairs, Dr Nkosazana Dlamini-Zuma, to the South African Parliament, Cape Town, pp.1-2.

56 Interview with an official from the Department of Trade and Industry, South Africa.

and democratic values that had guided the anti-apartheid struggle. Albeit with limited success, foreign policy during the Mandela presidency strove to propound the cardinal tenets of human rights, democracy, justice and international law.⁵⁷

Under the leadership of Thabo Mbeki, South Africa has assiduously sought to cultivate a position as a 'natural' leader of the SADC region and, indeed, of the African continent. Invoking the rhetoric of 'African renaissance,' Mbeki has set out to reaffirm South Africa's African identity and legitimise its leadership ambitions. Although it accounts for the bulk of Africa's economic output, South Africa has been careful not to throw its weight around. The South African government has actively championed Nepad and has spent enormous financial and diplomatic capital on efforts to end conflicts in several African countries.⁵⁸

On Mbeki's watch, South African foreign policy assumed a strong multilateralist thrust: the emphasis was on working with other countries to fashion common solutions to global and regional concerns. South Africa sees itself as a bridge between the developed and developing worlds.⁵⁹ And it has used multilateral diplomacy to burnish its South credentials. Pursuing South Africa's national objectives through the multilateral setting has been seen as essential to providing the country with an avenue to "leverage its moral and political authority based on its democratic, non-racial and constitutional credentials,"⁶⁰ while also reversing the African continent's precarious position in world affairs. As such, foreign policy became more ever geared towards shoring up South Africa's international profile and towards using multilateral institutions to promote human rights and democratic global governance.⁶¹

In this context, the apartheid-era policy of regional destabilisation made way for a policy that emphasised dialogue and mediation as the key means of conflict resolution in the region. The new policy, which South Africa has sought to export to the rest of Africa,⁶² focused on finessing political solutions to conflicts and sponso-

57 Dlamini K. 2004. 'Ten years of foreign policy in the new South Africa,' SA Yearbook of International Affairs 2003/04, Braamfontein: SAIIA, pp.1-2.

58 'Come, let's be friends,' The Economist, 8th May 2003.

59 'South Africa's role in the world,' The Economist, 31st August 2000.

60 Dlamini, 'Ten years of foreign policy,' pp.1-2.

61 *ibid.*

62 Mda N. 2004. 'South Africa's role in conflict resolution in Southern Africa: prospects for cooperation with the US,' SA Yearbook of International Affairs 2003/04, Braamfontein: SAIIA, p.138.

ring initiatives designed to limit regional insecurity. This has entailed, among other things, promoting conflict prevention and conflict resolution, advancing human rights, providing assistance in monitoring and dealing with domestic issues, such as elections, that have a bearing on regional stability. It has also involved propagating regional cooperation through the evolving conflict resolution mechanisms of the AU.⁶³

Democratic South Africa's formative experience of conflict resolution dates back to 1996, when the country tried to broker a peace deal between the president of the then Zaire (which subsequently became known as the Democratic Republic of Congo), Mobutu Sese Seko and Laurent Kabila, who marshalled the rebel forces that deposed Mobutu from power.⁶⁴ In recent years, South Africa has actively championed a negotiated settlement to the Congolese conflict, and its mediation efforts resulted in the conclusion of the Inter-Congolese Dialogue in 2003 (which cost the South African taxpayer about US\$20m), initiated under the Lusaka Ceasefire agreement.⁶⁵

The emerging security doctrine was also evident when the country, backed by the United States (US), succeeded in discouraging the former Zambian president, Frederick Chiluba, from changing his country's constitution in order to seek a third term in office.⁶⁶ Controversially, however, the policy suffered a setback when South Africa bungled a military intervention in Lesotho in 1998. This sparked questions about South Africa's true intentions in the region.⁶⁷ Beyond its 'near abroad,' South Africa has been involved in mediating an agreement between Burundi's warring factions in that country's civil war. South Africa's mediation efforts culminated in the conclusion of a power-sharing agreement between the rebel forces and the government of Burundi.⁶⁸

Moreover, South Africa has committed material and human resources to bring peace and stability in Eritrea, Ethiopia, the Comoros and the Cote d' Ivoire. And it has

63 *ibid.*, p.136.

64 *ibid.*, p.138.

65 *ibid.*, p.139.

66 'Plunging in at the deep end,' The Economist, 1st November 2001.

67 Mda, 'South Africa's role in conflict resolution,' *op cit.*, p.138.

68 Initially, mediation efforts were led by the former South African president, Nelson Mandela. They were subsequently taken over by Jacob Zuma, the former deputy president who was axed by President Thabo Mbeki amidst corruption allegations. The current mediator is Charles Nqakula, the minister of safety and security.

continued to play a role in addressing the issue of “conflict diamonds” through the Kimberley process, which is designed to stamp out the use of illicit diamonds that have stoked conflict, particularly in Sierra Leone and Liberia. Central to these activities has been a determination to foster political stability, good governance and sustainable development across the African region as a prerequisite for general prosperity. To this end, Pretoria has, among other things, invested heavily in developing the AU and its constituent structures, including the Pan African Parliament. This is in recognition of the reality that South Africa’s destiny is inextricably tied to that of Africa. Leading the continent into an era of stability and prosperity – encapsulated in Mbeki’s ‘African renaissance’ doctrine – has thus become the leitmotif of South Africa’s external policy.⁶⁹

The idea of expanding SACU raises questions regarding what the attitude of South Africa, the dominant state within the current customs union, would be towards the new SACU set-up. Viewed through the conceptual lens of hegemonic powers, South Africa qualifies as a leader in the SACU region. Not only does it politically and economically dominate its SACU partners, it has the requisite material capabilities to advance their economic aspirations. South Africa accounts for virtually 93% of SACU’s GDP and is a key supplier of manufactured goods to the SACU market.⁷⁰ Barring some exceptions, South Africa has demonstrated its ability and willingness to provide public goods for its smaller SACU neighbours. This is manifested, for example, in the revised revenue-sharing formula, which recognises the fact that trade relations between South Africa and its SACU counterparts have continued to be skewed in favour of the former.⁷¹

But whereas South Africa has skilfully legitimised its dominant role in SACU and positioned itself as the pivotal state around which the SACU integration process has revolved, such a scenario is unlikely to be replicated in an enlarged SACU arrangement. This is principally because of the historical of the ongoing regional tensions within the SADC over issues of security, leadership and democracy. The failure of South Africa’s policy of ‘quiet diplomacy’ in Zimbabwe bears eloquent testimony to the limits of Pretoria’s regional power. It speaks to the constraints

69 ‘South Africa’s role in the world,’ *The Economist*, 31st August 2000.

70 Meyn M. 2003. ‘The TDCA and the proposed SACU-USA FTA: are free trade agreements with industrialised countries beneficial for SACU?’ Nepru Working Paper no. 89.

71 Ngwenya S. 2002. ‘Fair deal: the new SACU draft agreement,’ *Sisebenza Sonke*, 4: 24-32.

imposed on regional governance by SADC’s principle of non-interference in the internal affairs of member states.⁷²

In part, these constraints have to do with the fact that the new regional security paradigm propounded by South Africa has been challenged by some states within the region – notably Angola and Zimbabwe – which have refused to accept South Africa as the guardian of their interests.⁷³ Fundamentally, this has to do with power politics and relations among the regional states. As Mda observed:⁷⁴

NATURALLY, A GROUP OF NATION STATES WILL RESENT A COUNTERPART THAT DOMINATES, WHETHER BY DEFAULT OR DESIGN. PERCEPTIONS OF AN OVERWHELMINGLY POWERFUL SOUTH AFRICA COULD CAUSE FEELINGS OF UNEASE AMONGST ITS PEERS, IN A REGION THAT STILL EMPHASISES THE IMPORTANCE OF MILITARY PROWESS AS THE ULTIMATE MEANS OF ENFORCING AUTHORITY.

South Africa’s overwhelming economic dominance of the SADC region is a key reason why Zimbabwe opted to negotiate EPAs under the Eastern and Southern Africa configuration created by the Common Market for Eastern and Southern Africa (COMESA). COMESA’s attraction to Zimbabwe derives partly from Harare’s calculation that it has a competitive advantage over its COMESA regional partners that it does not have within the SADC.⁷⁵

Considering its historical role in the political and economic destabilisation of the region, South Africa has been anxious to prove that it is a good regional citizen and has striven to ensure that it acts in a manner that does not undermine the cohesion of the SADC. Over the past few years, South African regional diplomacy has focused on fostering regional unity and consensus-building, tackling SADC’s institutional problems, and on pursuing multilateral solutions to regional conflicts.

However, South Africa’s security role has been impeded by SADC’s steadfast observance of the principle of non-interference. Bar the ill-fated invasion of Lesotho in 1998, SADC has never intervened in an intrusive fashion in the internal affairs of a member state in the same way as, for example, the Economic Community of West

72 Alden C and Soko M. 2005. ‘South Africa’s economic relations with Africa: hegemony and its discontents,’ *Journal of Modern African Studies* 43, 3, pp.367-392.

73 Mda N, ‘South Africa’s role in conflict resolution,’ *op cit.*, p.136.

74 *ibid.*, p.140.

75 Masiwa M. 2007. ‘RECs in Eastern and Southern Africa: attractive aspects for Zimbabwe,’ *SAIIA Trade Policy Briefing*, no. 14.

African States has done in West Africa.⁷⁶ Furthermore, South Africa's position has been hampered by SADC's deficiencies, typified by institutional differences over leadership, security and democracy, as well as the problem of poor managerial expertise. As such, the regional body has not been able to perform its security mandate effectively, highlighted by the failure to ensure credible, free and fair elections in the region, notably in Zimbabwe.⁷⁷

An expanded SACU, which includes countries intent on challenging South Africa's leadership, is likely to be hobbled by the politics of power. And this, in turn, is likely to strain decision-making processes. Considering its long history of political and economic domination within SACU, South Africa has become accustomed to driving policy processes and wielding sway over its BLNS partners; the new democratic SACU structures notwithstanding.⁷⁸ As one commentator averred: 'The region is characterised by the dominance of the South African economy and a long history of more than a hundred years of co-operation in a particular kind of custom union that has existed since colonial days. SACU has not known supra-nationality up till now.'⁷⁹

The dictates of realpolitik suggest that South Africa (especially if it continues to underwrite the bulk of regional integration costs) will continue to demand exercising prerogatives commensurate with its contribution to regional integration efforts. As such, it is unlikely to allow its power to be eroded even in a larger SACU, particularly in cases where it feels that its fundamental interests are being threatened. To be sure, South Africa's enduring power and 'control' of decision-making remains a source of concern among the small SACU states.⁸⁰

Domestic concerns and interests are likely to impinge on South Africa's role in an enlarged SACU. Despite its political and economic primacy in SACU, South Africa still has to contend with the pressing domestic challenges of consolidating democratic transformation and redressing apartheid-inherited social and economic ine

76 See Aloa A. 2005. 'Managing regional security in times of change: lessons and conclusions from ECOWAS,' in Anne Hammerstad (ed.), *People, States and Regions*, Braamfontein: SALLA, pp.177-200.

77 See Matlosa K. 2005. 'Managing democracy: a review of the SADC principles and guidelines governing democratic elections,' in Anne Hammerstad (ed.), *People, States and Regions*, Braamfontein: SALLA, pp.153-176.

78 Interview with an official from the Ministry of Trade and Industry, Botswana.

79 Erasmus, 'New SACU institutions,' op cit., p.3.

80 Interview with an official from the Ministry of Trade and Industry, Namibia.

qualities. In light of these considerations, policymakers would have to work very hard to convince anxious domestic constituencies about the wisdom of increasing South Africa's contribution to SACU finances in order to absorb the impact of increased membership.

Already, South Africa's Department of the Treasury has questioned the continuation of payment on customs receipts and has called for the introduction of changes. As the Treasury's director-general, Lesetja Kganyako, warned:⁸¹

In sum, regional integration in Southern Africa will not succeed unless South Africa, by far the biggest and most diversified economy in the region, discharges its responsibilities in accordance with its hegemonic status. Whether South Africa can assume a hegemonic regional role will depend on three considerations: first, the extent to which the country's political and bureaucratic elites are able to balance the country's regional obligations against domestic pressures; second, the manner in which the country deals with the legacy of apartheid South Africa's historical destabilisation of the region; and third, the degree to which the country's leadership credentials are accepted by other regional states.

UNLESS THE FORMULA FOR SHARING THE UNION'S REVENUES IS CHANGED TO ALLOW FOR THE DISPROPORTIONATE VOLUME OF SOUTH AFRICAN IMPORTS COMPARED WITH THE UNION'S OTHER MEMBERS, THE INFRASTRUCTURE DEVELOPMENT AHEAD OF THE 2010 WILL PUSH SOUTH AFRICA'S PAYMENTS TO THE UNION EVEN HIGHER OVER THE NEXT THREE YEARS, EVEN WITHOUT AN INCREASE IN TRADE IN THE REGION.

81 Cited in Majara AM, 'Lesotho runs out of options for revenue growth,' *Public Eye*, 20 July 2007.

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