Southern Africa and Mercosur/l: Reviewing the Relationship and Seeking Opportunities

24–25 October 2000
São Paulo
Brazil

Programme

Tuesday, 24 October 2000

09:00–09:30	**Welcome** Luiz Felipe Lampreia, *Foreign Minister, Brazil* Joachim Zahn, *DaimlerChrysler* Carlos Mariani Bittencourt, *President: Brazilian Chapter, Latin American Business Council (CEAL)*
SESSION 1	**REFLECTIONS ON THE 1998 JOHANNESBURG SADC-MERCOSUL CONFERENCE**
09:30–10:45	CHAIR: AMB. OTO MAIA, *BRAZIL IN SOUTH AFRICA* **Speakers** Greg Mills, *National Director, South African Institute of International Affairs (SAIIA)* Amb. José Botafogo Gonçalves, *Special Representative for Mercosul, Brazil*
SESSION 2	**RECENT DEVELOPMENTS IN SADC AND MERCOSUL: AN OUTLOOK FOR INTER-REGIONAL COOPERATION**
11:00–13:00	CHAIR: BOLIVAR LAMOUNIER, *IDESP, BRAZIL* **Speakers** Marcelo de Paiva Abreu, *Professor of Economics, Department of Economics, Catholic University, Rio de Janeiro, Brazil* Margaret Nyireda, *Senior Economist, SADC Secretariat, Botswana* Ian Phillips, *Special Adviser to Jeff Radebe, Member of Parliament, Minister of Public Enterprises, South Africa* **Discussant** Sean Cleary, *Managing Director, Strategic Concepts, South Africa*
SESSION 3	**REGIONAL INTEGRATION, GLOBALISATION AND DEMOCRATIC STABILITY: A SOUTH–SOUTH PERSPECTIVE**
14:00–16:15	CHAIR: JONATHAN STEAD, *SAIIA* **Speakers** Aziz Pahad, *Deputy Minister of Foreign Affairs, South Africa* Tshediso Matona, *Chief Director: Trade Negotiations, Department of Trade and Industry, South Africa*

Roberto Giannetti da Fonseca, *Camex, Brazil*
Discussants
Salvador Carbó, *Chairman, CEAL, Argentina*
Agostinho Zacarias, *Senior Policy Adviser on Governance and Special Assistant to the UN Under Secretary-General responsible for Africa, Mozambique*

SESSION 4 **SHARED REGIONAL CHALLENGES: ECONOMIC REFORM AND STRATEGIC ISSUES**

16:30–18:30 CHAIR: AMB. PEDRO HERRERA, *ARGENTINA IN SOUTH AFRICA*
Speakers
Mark Shaw, *Research Fellow: Crime and Political Transitions Project, SAIIA*
Andrés Rebolledo, *Ministry of Foreign Affairs,Chile*
Discussant
Armando Castelar Pinheiro, *Institute of Economic, Social and Political Studies (IDESP), Brazil*

Wednesday, 25 October 2000

09:00–09:30 **Opening**
Amb. Mbulelo Rakwena, *SOUTH AFRICA IN BRAZIL*
Amb. Boris Yopo Herrera, *CHILE IN SOUTH AFRICA*

SESSION 5 **TOWARDS A SOUTH ATLANTIC FREE TRADE AREA? THE BUSINESS, TRADE AND INVESTMENT DIMENSIONS**

09:30–12:00 CHAIR: AGOSTINHO ZACARIAS, UNDP, *MOZAMBIQUE*
Speakers
Heinz-Michael Stahl, *Advisor, SADC Secretariat, Botswana*
José Antonio Marcondes de Carvalho, *Director-General: Department of Latin American Integration: Ministry of Foreign Affairs, Brazil*
Discussants
Roberto Macedo, *Economist and Consultant, Brazil*
Moeletsi Mbeki, *Businessman: Construction, South Africa*
Joe Mollo, *former career Lesotho diplomat; Manager: Public Policy, Billiton plc*
Vilmar Coutinho, *Special Advisor for International Affairs, Secretariat of Production Development, Ministry of Development, Industry and Trade, Brazil*
Zavareh Rustomjee, *Adviser to the Minister, Department of Trade and Industry, South Africa*
Guy Young, *Executive Director: Latin American Operation, Anglo American, (1993–2000)*
Mark Pearson, *Advisor to the Comesa Secretary-General, Zambia*

SESSION 6 **CONCLUSIONS: TAKING THE RELATIONSHIP FORWARD**

12:00–12:45 CHAIR: GREG MILLS, *SAIIA*
Speakers
Neil van Heerden, *Executive Director, South Africa Foundation*
Roberto Teixeira da Costa, *past President CEAL, Brazil*

Message from the Brazilian Foreign Minister

It is with great pleasure that I welcome all participants to this Southern Africa–Mercosul conference. I wish to extend my congratulations to the conference co-hosts, namely: the South African Institute for International Affairs (SAIIA), the Latin American Business Council (CEAL), the São Paulo–based Institute of Economic and Social Studies (IDESP) and the South Africa Foundation.

Strengthening cooperation between the Southern African Development Community (SADC) and Mercosul is important for further economic and social development. This will make it easier for both regions to become more globalised, as well as favouring regional and international stability. I believe it is essential that governments, financial organisations and academia in both Mercosul and SADC, concentrate on building an agenda for cooperation between the two regions.

A framework agreement for free trade between SADC and Mercosul will, I hope, be signed at the next Mercosul Summit in Florianopolis on 15 December 2000, and this in the presence of the South African President Thabo Mbeki. Such an agreement will be an important step towards realising the goal of inter-regional cooperation.

In welcoming you all here, I would like to express my wish that your debates be interesting and fruitful, and that this conference be a tool for greater integration between Brazil and South Africa, as well as between SADC and Mercosul.

Luiz Felipe Lampreia
Brazilian Foreign Minister
24 October 2000

Opening Remarks

Joachim Zahn

INTRODUCTION

On behalf of DaimlerChrysler – which is a sponsor of this conference on South–South dialogue – I am very pleased to welcome you all here today. I would also like to welcome you in my capacity as Vice-President of the South Africa–Brazil Chamber of Commerce, which has become a useful and important tool in helping to improve information flows between our two regions.

1. A STRONG PRESENCE IN BOTH REGIONS

DaimlerChrysler (or Mercedes Benz do Brazil, as it is still called here) is exceedingly honoured to be involved in this seminar, especially considering that the company has a strong presence in both the Southern African Development Community (SADC) and Mercosul regions.

In terms of South America, DaimlerChrysler has a factory in San Bernado as well as a bus chassis manufacturing facility in Campinos. Over the past four years we have invested US$850 million in our Brazilian car factory, which shows our high level of confidence in the region. We also have a Sprinter factory in Argentina and Chrysler factories in the south of Brazil and in Argentina.

In Southern Africa, DaimlerChrysler has a manufacturing facility in East London, South Africa. This facility has recently received a large investment for the worldwide production of righthand-drive C-Class passenger vehicles.

2. STRENGTHENING ECONOMIES, STRENGTHENING LINKS

Bearing this in mind, we feel obligated to help our guest countries strengthen their economies. This means we are strengthening the buying power of our clients, which, of course, is also to our advantage. We are therefore engaging not only in “good corporate citizenship” but in “corporate business”.

We believe that one way to help these economies is to strengthen the links between the regions. This process was started with the 1998 Johannesburg seminar organised by the Brazilian Ambassador in South Africa, Oto Maia, and Greg Mills of the South African Institute of International Affairs.

Although a highly successful meeting, this time round, we should aim to come up with some solid plans and results. We need to develop some definitions for concrete cooperation – for a tradable basket between our two countries – as well as to discuss and define common interests in products specific to our regions.

3. INDIGENOUS PRODUCTS

In his speech at the last World Economic Forum held in Rio de Janeiro, the Indian Minister of Transport asked if emerging countries needed the same products as the developed world. He questioned whether it would not be better rather to evaluate and respect our indigenous needs in order to have, among other things, adequate cost structures. This would also lead to own expertise, which would give a specific value to our economies.

I think the question of “indigenous products” is important in terms of negotiations regarding inter-regional cooperation, and is highly pertinent when it comes to the automotive industry.

I believe that the automotive industry is generally emotionally charged, especially in emerging countries. Each country sees its automotive industry as a yardstick by which to measure its developmental success.

The result, and Brazil is no exclusion, is over-capacity, and this leads to the need to export – with costly subsidies usually involved. (South Africa's C-Class exports are a different case in point, since the righthand-drive market is more niche.) This means that instead of supporting each other, developing countries land up competing with each other on world markets. There is therefore a certain amount of fear involved in possible cooperation.

There are, however, other areas of cooperation that would not involve competition. The defence industry is one such field. As I see it, our defence forces have similar functions. Unlike the American or European defence forces which, in many respects, have taken on the role of the international police, our forces can afford to be more involved with infrastructural projects and should cooperate in this regard, especially considering the many socio-economic similarities between the two regions.

CONCLUSION

By the end of this seminar, I would like us to have developed some questions to, and suggestions for, our governments. These will, I am sure, be helpful in preparing for the December 2000 Mercosul Presidential Summit, which will be attended by South African President Thabo Mbeki.

We should urge our governments to conclude free trade negotiations as soon as possible, and we should aim for cooperation regarding, among other things, the South Atlantic.

I wish you all fruitful deliberations, and thank you again for participating in this seminar.

Reflections on the 1998 Johannesburg SADC–Mercosul Conference

Greg Mills[1]

INTRODUCTION

This paper sets out to achieve three objectives:

- To locate this conference in the context of what was discussed and the parallels drawn at the first Southern African Development Community (SADC)–Mercosul conference held at the South African Institute of International Affairs (SAIIA) in Johannesburg in October 1998.
- To sketch out some of the shared challenges facing these two regions, and those, in particular, confronting Africa.
- Finally, in the course of what I have set out to achieve in the two areas already highlighted, to provide some pointers for future debate in terms of inter-regional linkages.

1. THE JOHANNESBURG MEETING: PARALLELS AND PROCESS[2]

SADC comprises 14 states with a total of 185 million people and a market of some US$190 billion. By comparison, the Southern Cone market of Mercosul is made up of four full members – Argentina, Brazil, Paraguay and Uruguay – and two associate members – Bolivia and Chile – with a combined total of 230 million people and a market of US$1.2 trillion.

As such, both regions present significant opportunities for their member states as well as to others who want to trade with and/or invest in Southern Africa and South America.

In the case of SADC, however, continued regional instability and, in the case of Angola and the Democratic Republic of Congo (DRC), even outright civil war, have thus far hindered the realisation of the competitive advantage that regional bloc formation offers in the global economy.

By comparison, despite subsequent economic difficulties and a downturn in regional trade from a peak of US$22 billion in 1998 to US$15.4 billion in 1999, Mercosul has forged ahead in comparative leaps and bounds since its formation in 1991. Established in a regional context of democratic governments intent on trade liberalisation and macroeconomic reform no longer shielding behind protective tariff barriers, Mercosul – it was learned at the first

SADC and Mercosul in Perspective[3]

	GNP (US$m, 1997)	*Population (m, 1997)*
Angola	3.012	11.7
Botswana	5.070	1.5
Congo	5.201	46.7
Lesotho	1.368	2.0
Malawi	2.129	10.3
Mauritius	4.444	1.2
Mozambique	2.405	16.6
Namibia	3.428	1.6
Seychelles	537	0.8
South Africa	130.151	40.6
Swaziland	1.458	1.0
Tanzania	6.632	31.6
Zambia	3.536	9.4
Zimbabwe	8.208	11.5
Argentina	319.293	35.7
Bolivia	7.564	7.8
Brazil	784.044	163.7
Chile	70.510	14.6
Paraguay	10.183	5.1
Uruguay	20.035	3.3

SADC–Mercosul seminar held in October 1998 – quickly took shape in a two-step process.

In the first phase until December 1994, tariffs were removed from 85% of regional trade. In January 1995, the member countries embarked on the second phase of their integration project as Mercosul's customs union came into effect with the adoption of a common external tariff.

Though Mercosul is still only an incipient customs union – each country was allowed to temporarily exempt a small number of sensitive products with a convergence deadline by 2006 – the progress achieved thus far is remarkable. Intra-regional trade jumped five-fold over the decade. Foreign direct investment (FDI) in Mercosul grew ten-fold from US$2.6 billion in 1990, to US$26.6 billion in 1997. As the second largest foreign investment recipient in the developing world after China, Brazil, in particular, has gained enormously from this process. There has also been a corresponding improvement in the region's international image.

In step with the concept of "open regionalism", Mercosul is not only about increasing intra-regional trade links, but also about making the grouping more competitive internationally – about creating a "stepping-stone" to full global participation and competitiveness. Moreover, Mercosul has entered into various extra-regional agreements to extend its international reach. In its immediate neighbourhood, Mercosul drew in Chile and Bolivia as associate members in 1996. More recently, Mercosul member states also concluded association agreements with the Andean Community. In addition to these regional initiatives, Mercosul is seen as an important axis in the efforts towards establishing a Free Trade Area of the Americas (FTAA), having already concluded agreements with Mexico and Canada.

2. LESSONS AND OPPORTUNITIES FROM MERCOSUL

With this background in mind, the 1998 conference considered the lessons for SADC from the Mercosul experience. The following 10 issues, in particular, were identified as of importance and are worth repeating and highlighting:

- The success of Mercosul clearly shows that the so-called *hypothesis of conflict* has to be removed to allow the meaningful consolidation of regional integration efforts. Central to the success of Mercosul has been the strong Argentine–Brazil axis, built on the renunciation of historical differences. Conflict in Southern Africa, by comparison, has not been eliminated – and, indeed, despite strenuous diplomatic efforts, may have increased recently, notably in the DRC, Angola and Zimbabwe.
- Regional integration in Latin America has gone hand-in-hand with democratisation and increasing domestic and regional stability. A commonality of purpose and values is a basic prerequisite for meaningful regional partnership. The restoration of democracy and the changed nature of the military's role in Latin American politics helped to subvert traditional rivalries. The fact that Mercosul's member countries had all democratised, allowed the breaking down of historical barriers, which in turn greatly facilitated constructive regional dialogue. It should be added that the democratisation "clause" in Mercosul not only raises questions, however, about its parallel application in the SADC region; but for both regions there is the conundrum about its applicability when large states fail to adhere to these principles. In other words, it might be comparatively easy to apply in the case of Lesotho and Paraguay, but may not be with more powerful states.
- Related to the above point, trade integration is about much more than can be captured in economic models or bilateral trade statistics. Put differently, regional integration is not merely a mater of economics, but politics too, where successful trade integration is partly the result of political vision and statesmanship. Sound personal relationships can help to overcome hurdles.
- From an economic perspective, it was perceived that the success of Mercosul is based on countries' individual efforts to liberalise and reform their domestic economies. In this way, Mercosul locked its constituent countries into the process of completing economic reform. Mercosul thus contributed significantly to clear, transparent and immutable political and economic rules of the game that are crucial to attract investment and foster growth. It should also be noted in this context that Mercosul benefited at the time of its development from the free availability of international financial resources to developing countries.

- Even though Brazil and Argentina together account for some 97% of gross domestic product (GDP) of the full members of Mercosul, the Southern Cone Market has shown that fear of regional dominance can be overcome. Economic asymmetry need not always be seen as an obstacle to meaningful regional partnership. In fact, at times it helps integration. For example, better access by Argentina of Brazil's comparatively large market has assisted the Argentine economy, thus strengthening intra-regional links. This factor is of particular importance in a Southern African context given South Africa's domination of the region's economy, where it accounts for over 75% of the GDP of SADC's 14 member states.
- Mercosul has also illustrated that starting small may indeed be beautiful. Unlike SADC's emphasis on widening before deepening membership (and extending its membership on the ground of political rather than economic logic), Mercosul's step-by-step approach enabled a deeper commitment to free trade allowing a natural, functional partnership to develop between the countries involved.
- In the case of Mercosul (and latterly, SADC) the role of intra-industry regional initiatives has been critical in boosting trade and investment and in seeing a commonality of purpose, particularly in Mercosul's case in the automotive sector.
- Mercosul's successful emphasis on pragmatism is further seen in the fact that decision making is vested (for now) in an intergovernmental process, rather than a cumbersome supranational bureaucratic body or "Mercosureaucracy". This made the process of intra-regional trade expansion relatively cheap.
- Through its agreements and accords with a myriad of other countries, Mercosul has shown the importance of forging close relationships with strategic partners in its region and beyond, to stay one step ahead in the global economy. The overlay of regional ties through the FTAA, the free trade areas (FTAs) with Chile and Bolivia, and potentially the free trade agreement with the European Union, plus one with South Africa/SADC, are examples of this.
- Related to the last point, the 1998 Johannesburg meeting also considered ways in which improved inter-regional ties between SADC and Mercosul might progress as a way of linking the southern cones. These links, the conference noted, did not only begin and end with trade and investment. There are shared experiences in dealing with transnational crime issues, particularly drug and weapons smuggling and money laundering, along with peace support operations. But what conceptual shape should a closer relationship between Southern Africa and South America possibly take and how can additional progress be made beyond just trade and investment facilitation?

3. FACING CHALLENGES IN AFRICA

The above raises the question: what can a second conference hope to achieve beyond highlighting the shared challenges and various strategies employed. Before considering the possible regional and especially business linkages (which are a central focus of this event), it is necessary first to sketch out the background to Africa's challenges – some of which might be shared by other developing states and which can therefore best be resolved in partnership.

Here there are three areas of challenges facing South Africa in particular, and Southern African states in general:

First, in the domestic arena, the principal challenge facing South Africa is to create conditions of economic prosperity in an environment where unemployment is greater than 30%, 500 000 jobs have been lost since 1994, and where there are growing expectations of – and thus political pressure from – many South Africans. Without tangible progress towards socio-economic delivery, the danger of a populist political reaction remains omnipresent.

In this regard, there is a need to attract FDI to offset particularly the lack of domestic savings. However, of the US$10 billion in FDI flowing to the continent in 1999, South Africa received just US$1.4 billion, or one per cent of GDP, whereas it is estimated to require around 2–3% FDI/GDP to obtain four per cent real GDP growth. (The global FDI total in 1999 was US$800 million, of which developing countries received 25%.) Instability and small market size were the key inhibitors for African investment, even though the rates of return on African investments were estimated to be 25% above the global average.

Second, at the regional level there are the essential challenges of ridding Africa of those factors which deter investors, such as the high costs of doing business and the associated political risks. The answers in this area lie in a concerted effort to deregulate economies, improve infrastructure and solve conflicts. As a recent United States (US) State Department Report confirmed, “Africa has more armed conflicts than any other continent”.[4] During 1998, according to this report, approximately 8.1 million of 22 million refugees worldwide were in Africa, with millions more internally displaced. Africa also needs to attract investors though improving access to its own markets, particularly to the regional giant, South Africa.

In this regard, it should be noted that the combined economic output of sub-Saharan Africa’s 48 states equals that of Belgium’s or Argentina’s, totalling just US$300 billion. And trade between African countries amounted to US$25.1 billion in 1999, falling from the previous year as a share of total trade from 10.5% to 10%. Again, this value was pushed down by a number of factors, including persistent regional conflicts and the absence of market complementarities.

It is in the third area, however – that of the global environment – where arguably the greatest longer-term challenges lie. These centre around the answers to the need for national delivery in an age where economies are driven by global and digital technological realities, and the consequently inevitable balance with the imperative for total liberalisation and the implementation of a “Washington consensus”. Put differently, this challenge might best be expressed in the conundrum in finding a solution to Africa’s problems which may be expressed in terms of lying between trying to take full advantage of the opportunities offered by globalisation and trying to meet the challenges of marginalisation it poses.

Thus from an African perspective, areas for potential action (and discussion at this conference) hinge around two closely related issues:

- The shared challenges faced by both regions in an age of globalisation, and especially the social and economic options for both in this environment.
- The possibilities for strengthened inter-regional partnership, given the mooted framework agreement to negotiate a South Africa–Mercosul FTA, presented in March 2000 to South African Minister of Trade and Industry Alec Erwin, by Brazilian Foreign Minister Luiz Felipe Lampreia.

4. POSITIVE POSSIBILITIES?

How then can we deal with these challenges? Here the investigation of two areas may provide some answers.

4.1 An agenda for sustained domestic economic reform in an age of globalisation

The answer to the challenges facing developing countries apparently lies at least in part in promoting good governance. In Africa, how we get there will relate to whether the continent can manage both internal governance and external relationships.

There is, in this regard, a need to create conditions of political stability through both the principle and practice of democratic inclusivity. As Kofi Annan has argued: “Divided and conflict ridden, I don’t think Africa stands a chance to move on to economic and social development.”[5] Greater commitment, in terms of energy, resources and the political bottom-line (and not just rhetoric) has to be made to end conflicts by negotiation.

There is also a need for internal reform towards creating a combination of a law abiding society, a strong governmental system, a functioning economy, good infrastructure, and an honest, limited and effective government. In this regard, institution building is a necessary and complementary process to that of structural adjustment. This process has, however, to build effective bodies in accordance with the needs of African states – institutions that can enhance the quality of governance and do not try to intervene in or distort the markets as a way of distributing political favours, as happened in East Asia in the late 1990s. Nor should the need for an effective state dedicated to improving the quality of governance be used as a pretext for a large state bureaucracy. If anything, its goal should be to implement systems that reduce the presence of government, a goal which demands selfless and committed leadership. In this, too, there is a need for outward- rather than inward-looking economic policies.

There is a critical role in this for the external community, especially given the impact of globalisation on developing countries.

Inasmuch as this relationship relates to preferential aid flows and trade terms, these preferences are not much good in the absence of governance.[6] However, the need for cooperation between developing states in restructuring the global trade and investment terrain must be highlighted.

There is a need to improve the collective leverage of those in the South not currently responsible for determining the rules of globalisation. Here, inter-regional cooperation – whether this be in the form of SADC–Mercosul, or in the Cairns or Valdivia groupings – offers opportunities.

4.2 Regional initiatives

In meeting these challenges, in the external domain, regional linkages can assist not only in developing joint approaches in dealing with the socio-economic conditions specific to developing states, but, as Mercosul has in the past illustrated, can also afford growth opportunities both in terms of increased markets and improved global competitiveness – through, *inter alia*, the pooling of skills, resources, infrastructure and, critically, markets.

In terms of intra-regional links, Africa's relatively small markets mean that regional trade barriers need to be broken down. We need arguably to move away, as Mercosul has shown, from fanciful schemes (such as a single currency for SADC) to more practical initiatives (such as the progressive extension of the Southern African Customs Union). South Africa can help here in leading the way through comparatively rapid tariff dismantlement, thereby assisting in allaying regional fears of domination and hegemony.

The benefits of regional industrial cooperation helped to spur formalised trade relationships in Mercosul. It is also important to highlight the role that business can play in facilitating regional development in sub-Saharan Africa and further afield. Already South African businesses are making a real difference in sub-Saharan Africa. In 2000 alone, Anglo American opened the Sadiola gold mine in Mali, returned to copper mining in Zambia, and opened a new zinc mine in Namibia. Gold Fields has started mining in Ghana, and in September the Mozal aluminium smelter in which Billiton is involved was opened in Mozambique. There are many areas also of retail activity, including Wooltru, Pep Stores, SA Breweries, as well as in the number of South African fast-food outlets that have opened continent-wide.

Business operating in conceptual partnership with government offers practical developmental scope beyond Southern Africa too. An inter-regional free trade framework could boost intra-industry functional cooperation, for example in the aerospace, automotive, defence, electrical and mining industries, as well as the agricultural and tourism sectors.

Moreover, beyond the opportunities as highlighted by Minister Erwin's metaphor of a trade "butterfly" linking South Africa with its Eastern and Western partners in Asia and Latin America respectively, this logic gives content to otherwise often rhetorical notions of "South–South" cooperation.

It does not, however, de-emphasise the importance of multilateral and bilateral political partnerships – if anything it turns the trade butterfly into an African eagle (or is that the Latin American condor?) spanning the dimensions of trade, investment, politics and security cooperation. Put simply, we need a political vision and strategy of cooperation if this relationship is to bear fruit.

This wider relationship is critical for developing countries given their socio-economic circumstances, and the interrelated challenges of globalisation and marginalisation in the global economy, as well as the need for the construction of new norms, regimes and global architecture to deal with these problems.

CONCLUSION

As Mercosul clearly exemplifies: the rewards are impressive for those willing to work together. This applies both across and between regions. But there is first a need to answer successfully two questions to which the conference on which this publication is based, has to address:

- What are the advantages of closer inter-regional cooperation?
- And how might closer ties proceed?

ENDNOTES

1) I am grateful for the contribution to an earlier version of this paper made by Claudia Mutschler, SAIIA Anglo American Chairman's Fund Latin America Researcher.
2) This section draws on Greg Mills and Claudia Mutschler, 'Linking the Southern Cones' in Greg Mills and Claudia Mutschler (eds.), *Exploring South-South Dialogue: Mercosul in Latin America and SADC in Southern Africa*. Johannesburg: SAIIA, 1999, pp.1-15, esp. pp.5-7; also, Séan Cleary, 'Mercosul's Experience: Implications for SADC', *South African Journal of International Affairs*, Vol.6, Number 1, Summer 1998, pp. 53-59.
3) From World Bank, *World Development Indicators CD-Rom*, 1999.
4) Bureau of Intelligence and Research, *Arms and Conflict in Africa.* Bureau of Public Affairs, July 1999 on http://www.state.gov/www/regions/ africa/9907_ africa_conflict.html.
5) Cited in 'Secretary-General Says Conflicts in Africa Overshadow Economic Gains', *UN Department of Public Information*, 11 February 1999.
6) For example, Africa is already receiving a higher percentage of aid than did Europe from 1949–52. By 1996, African countries (excluding South Africa and Nigeria) received on average more than 12% of GDP in aid. For Mozambique, for example, the GNP–aid ratio was 43%, but for Sao Tome and Principe this was 117%, Guinea Bissau 71% and Rwanda 49%. Moreover, the Africa, Caribbean and Pacific's (ACP's) share of the EU market fell from 4.7% in 1990 to 2.8% in 1994 in spite of the existence of the Lomé preferences. By comparison, total flows to Europe under the Marshall Plan never exceeded 2.5% of Europe's GDP. See See Carol Lancaster, 'Africa in World Affairs', and Nicolas van der Walle, 'Africa and the World Economy: Continued Marginalisation or Re-engagement?', both in John W Harbeson and Donald Rothchild, *Africa in World Politics: The African State System in Flux.* Colorado: Westview, 2000, p.212 and p.271.

Reflections on the 1998 Johannesburg SADC–Mercosul Conference

José Botafogo Gonçalves

INTRODUCTION

An important observation made at the 1998 Southern African Development Community (SADC)–Mercosul conference in Johannesburg, was the need to focus and to find a common, concrete agenda between the two regions. We all wanted to develop closer cooperation between SADC and Mercosul, yet it was difficult to ascertain exactly what direction to take.

Much progress has been made during the past two years and I believe that the main reason for this, is the existence of political will: both regions want to, and have to, cooperate. This political will must now be translated into economic reality.

1. POLITICAL WILL

Political will is also the guiding principle in the development of Mercosul. If we have the political will to develop, to deepen and to consolidate Mercosul, then it is a simple task to solve any of the problems arising out of this regional project.

Since 1998, Brazil's Ministry of Foreign Relations has been committed to continued dialogue with South Africa and its surrounding states. I would like to stress the important work done by Ambassador Oto Maia in Johannesburg and Pretoria, as well as the particular interest shown in this regard by Brazilian Foreign Minister Luiz Felipe Lampreia. It was Minister Lampreia who decided to present to South Africa a concrete proposal for a framework agreement and instructed us to present it to Mercosul. This historic framework – which, I believe, will be signed in Florianopolis in December 2000 – is an expression of the political will for cooperation that exists between the two regions. This is a concrete step that will surely show results in the near future.

2. INDUSTRY EXPANSION

Two years down the line, we are now much better prepared to focus our efforts. The automobile industry is an example in this regard. Since 1998, Brazil's automobile industry expanded rapidly throughout Mercosul. The problem, however, is that there is now overcapacity, but this problem can be addressed by expanding exports: not Brazilian exports, but rather Mercosul exports to third markets.

Another important area for cooperation is mining. Brazil's latest changes in mining activity regulations provides fertile ground in the general area of mining, facilitating cooperation between Southern African countries and Brazil.

3. LOGISTICS

The question of logistics is also extremely important. It is the fundamental element that will promote trade, both among regions and within a large region like Mercosul, which covers 45% of South America.

In our discussions on cooperation between Southern Africa and Mercosul, I believe more attention must be given to logistical issues. This includes how we can provide services (such as port facilities) that lock into and enhance the already existing flows of trade around the world. Brazil and Southern Africa are much closer than we believed. With sound logistics, we can move much more rapidly and quickly, crossing oceans or any other geographical obstacle. I believe this is an areas that deserves much attention from all sectors on both sides of the Atlantic.

4. DIALOGUE

Another reflection is the importance of dialogue among academic institutions, the private sector and government. Important and long-standing academic and research institutions exist in South Africa, Chile and Argentina.

Brazil is trying to make up for lost time in this regard. The Brazilian government made many mistakes in the past. One big mistake was not looking to the interests of the private sector. This was normal considering Brazil was basically a state economy. Now that Brazil is rapidly moving towards privatisation, it needs, however, to develop these institutions, in order that they can help government to take more concrete and useful decisions regarding international trade and internal development.

5. THE RELAUNCH OF MERCOSUL

Intrinsic to the comparison between the experiences in Mercosul and SADC, is the apparent dilemma between going deep into regional integration – deepening cooperation between member countries – or expanding horizontally.

From a Mercosul point of view, I do not believe this is a dilemma at all. I think both movements should exist. For obvious geographical and political reasons, Mercosul started with four founding member countries – Brazil, Argentina, Paraguay and Uruguay. After concluding free trade agreements with Chile and Bolivia, Mercosul is now seriously considering the inclusion of Chile as a full member. Negotiations in this regard are under way, but some problems do exist regarding the convergence in tariff and commercial policies. I must stress, however, that solutions can always be found where political will exists, and it certainly exists in this case.

The result of expansion is not an accident only decided by political will, although political will is fundamental. It has internal logic and this is the result of the deepening and consolidation of Mercosul itself. When we decided earlier this year to "relaunch Mercosul", we decided to define concretely the agenda that will be developed in this relaunching. We came to the conclusion that after the first expansion of trade – essentially as a result of the elimination of tariff and many non-tariff restrictions – we must now move to more complicated and productive issues.

One of these is the real convergence of macroeconomic policies. For the first time in independent Latin America, Ministers of Finance and Presidents of the Central Banks of six countries (Chile and Bolivia are members of this exercise) are defining common goals in terms of inflation, fiscal deficit, internal and external indebtedness. This is historical and shows that Mercosul regional integration is a serious business.

We understand, however, that in order to make this macroeconomic coordination more effective, we must consider how it affects those who are not members of the union, for example, Chile. Chile is working in this macroeconomic group and its inclusion gives more credibility to the exercise of pursuing common goals. The same applies with Bolivia.

6. REGIONAL INTEGRATION

The application of regional integration will therefore indicate whether we need to deepen or expand horizontally. It is not a question of one or the other, but rather a matter of being pragmatic and attentive.

In this regard, Mercosul is going to renew negotiations for a free trade zone with the Andean community, which will then cover all southern South America in a network of free trade agreements.

Such an agreement may not have been possible in the past, as the ideas were not mature and the political and economic reality was not conducive to such negotiations. However, new international circumstances and the resumed growth capacity of Brazil, may allow for these difficulties to be overcome and for agreement finally to be reached.

I want to reiterate that the "dilemma" between horizontal expansion or the deepening and consolidation of a regional scheme, is in fact false.

7. ISSUES IN FOCUS

The relaunching of Mercosul covers a very large agenda. Many of the issues are highly complex, but I would like to stress two fundamental points.

The first is the emphasis that the four countries are giving to market access. In spite of the elimination of many tariffs, there are perceptions – some true, some false – that Mercosul is not fully confident in private markets – i.e., trade with no non-tariff restrictions besides those that usually exist, such as those regarding health and security. There is the perception that work still needs to be done here, and this is true.

This extraordinary expansion of trade inside the zone – increasing from US$6 billion in 1994 to US$20 billion today – has, paradoxically, created many problems for customs mechanisms.

Another problem is the excessive autonomy of certain bodies at high administrative levels, which sometimes take decisions or sign rules or by-laws that do not necessarily conform to the spirit and letter of Mercosul agreements. There have been a few such cases, but guidelines and rules are being formulated to restrict the excessive freedom of officials.

An important idea being developed in the relaunch of Mercosul is the concept of the integration of productive chains. Within the Mercosul region, we have opened markets, and eliminated tariff and non-tariff restrictions. We now need to go one step further, i.e., to integrate the economic structure, especially in certain sectors. The furniture, paper, cellulose, steel and automobile industries are being discussed in this regard.

I believe that Mercosul's experience in terms of civil society participation will be most useful for Southern Africa, and that a better understanding of how this works should be promoted. Our Economic and Social Consultative Forum functions very well and includes entrepreneurs, consumers and trade unions. The forum provides good input and will, I believe, help enormously in establishing cooperation with SADC.

CONCLUSION

I would like to comment finally on Mercosul's relations with Argentina. If agreement is reached in the automobile industry (and I believe this is highly likely) we would have solved the only important problem facing Mercosul, since automobiles represent 25%–30% of Mercosul trade. Although we have not yet agreed with Argentina on some issues, trade flow is normal and is nonetheless recovering to 1998 levels.

We therefore need to be critical when academic groups or the press speak of a "crisis" in Mercosul. Problems have existed in terms of chicken and shoes, but this trade represented no more than five per cent of total trade between Brazil and Argentina. What then is this crisis that is being referred to? The United States and Canada are continually squabbling, and their commercial fights are far more serious than what we are experiencing with Argentina. But nobody says the North American Free Trade Area (NAFTA) is in crisis.

Lastly, and as a political reflection, we need to decolonise our thinking. We are far more competent to solve our own problems than many give us credit for.

We must also ensure that political decisions taken to develop Mercosul and Mercosul relations with Southern Africa, are realisable and implementable.

Despite difficulties and a lack of historical precedent, the high level of political will that exists for Mercosul–SADC cooperation will surely lead to its success.

Success is also assured because this political will coincides with the interests of the private sector and with the general desire to develop alternatives.

Recent Developments in SADC and Mercosul: An Outlook for Inter-regional Cooperation

Marcelo de Paiva Abreu

INTRODUCTION

When examining the historical links between countries on both sides of the South Atlantic, there is precious little to record, beyond the horrors of the slave trade.

What first comes to mind are William John Birchall's beautiful drawings of early 19th century Brazil, deposited almost by accident in the Johannesburg Public Library.

There is, further, the spectacular expansion of trade between Brazil and South Africa during the Second World War. As Britain could not supply South Africa with textiles, Brazil stepped in. But its presence disappeared just as suddenly when the war ended. (It seems that the tradition of quality was not a high mark of Brazilian textiles at that time.)

A third instance of such links is the almost forgotten implicit cooperation in UNITAS naval exercises, inspired by the United States (US) as a Cold War initiative to control politically the South Atlantic in the 1960s and 1970s.

A fourth "link" is connected with the political scene in Southern Africa in the 1970s, in terms of which Brazil began adopting a more assertive foreign policy, especially concerning the Angolan War. The fact that so few links exist, however, must be addressed.

The project to strengthen ties between Mercosul and the Southern African Development Community (SADC) has been gaining ground on both shores of the South Atlantic.

In this presentation, I will attempt to assess realistically where Mercosul and SADC stand today and what their prospects are. I will then address the outlook for inter-regional cooperation or, more precisely, inter-subregional cooperation – an exotic conception, even with the proliferation of regional–subregional initiatives.

1. MERCOSUL DIFFICULTIES

In discussing Mercosul's achievements and difficulties, I will concentrate my comments on Brazil and Argentina, especially in light of the recent problems facing these countries.

Brazil has a long list of achievements, namely: stability of democratic institutions; very low inflation – if taken in terms of a historical comparison; a rapid recovery after the foreign exchange crisis of 1999; and fair chance of sustained recovery in a country where income per capita is at about the same level it was in 1980.

One therefore sees an important new phase in Brazilian economic history – but problems still exist. These are in part connected with the Argentine affair – and also with vulnerability concerning balance of payments, especially the slow response of exports related to the change in the foreign exchange regime at the beginning of 1999.

There is much political pressure for reversion of the prudent fiscal stance adopted by the Brazilian government in recent years. This is illustrated by recent discussions on civil servant salaries and the minimum wage.

A related problem is the lack of any credible economic programme from the opposition party, which is quite powerful politically and has shown its strength in recent local elections. They are, however, unable to present an alternative economic programme for long-term stability on the road to reform.

Added to this is the so-called "social debt". Social indicators in Brazil have been out of pace with gross domestic product (GDP) per capita levels. The social indicators are much lower than could be warranted by international experience and income distribution is severely skewed. These problems place pressure on the government to improve conditions rapidly – an especially difficult task in the context of public expenditure constraints.

Mercosul's main difficulties are, however, now concentrated in Argentina. Problems of economic, and especially macroeconomic, coordination between the two big members of Mercosul are being acknowledged. The basic problem remains how to reconcile the central role of convertibility based on the fixed exchange rate in Argentina, with the required degrees of freedom by other members of the customs union.

It is indeed unusual for a smaller partner to establish a non-negotiable feature concerning macroeconomic coordination. It seems that Brazil has had to adjust to a permanent feature of Argentine macroeconomic policy, i.e., the dollar parity of the domestic currency.

A related problem is the asymmetrical perception between partners concerning the permanent consequences of the Mercosul Agreement in terms of the imbalance of bilateral trade. Until the Brazilian foreign exchange crisis at the beginning of 1999, this consistently favoured Argentina. The reversal of this bilateral balance is provoking wrangles in bilateral relations.

Argentina is now facing a difficult situation. It must ensure that financial adjustments occur between the central government and the provinces. It seems, however, that the government lacks the political clout to ensure that provinces adjust.

There are also unfavourable market developments concerning evaluations that have, in the past, consistently treated Argentina very favourably.

A serious situation exists, which impacts on the vulnerability of Mercosul. Although it is believed that more permanent arrangements will help put up some resistance, from a macroeconomic perspective, there is much strain, and this has important sectoral implications.

Take for instance the sugar and automotive sectors. In terms of sugar, when relations concerning macroeconomic coordination between Argentina and Brazil are deteriorating, those who resist the creation and strengthening of a common market, turn out to have relatively more influence.

The automotive industry has been a large source of sectoral difficulties between Argentina and Brazil. This is strongly related to macroeconomic problems that enhance the possibility of confrontation at the sectoral level.

I believe, however, that many of the menaces facing Mercosul are related to the fact that the 2005 deadline for the coming into effect of the Free Trade Area of the Americas (FTAA) is imminent. There are only four years to go, and latent conflict exists between the creation of the FTAA and Mercosul. Is Mercosul going to survive?

It is well known that Argentina favoured the FTAA idea at the beginning of the 1990s and that the temptation for these leanings to recur, is very high.

Another element which illustrates the difficulties facing Mercosul is that, despite the political will to expand Mercosul to include Chile, there is a large differential between the average tariff in Chile and the average tariff in Mercosul countries. It is unclear which country will concede, but I do not see the Chileans accepting a higher tariff just for the sake of becoming full Mercosul members. And the road to substantial tariff reductions in Mercosul, specifically Brazil, is fraught with difficulties.

2. SADC DIFFICULTIES

I should have stressed the remarkable achievements of Argentina and Brazil, but we are not here to repeat what is well known. Similarly, we can speak of South Africa's magnificent achievements in terms of its political transition to true democracy, but – perhaps by professional deformation – we specialise in finding problems rather than stressing achievements. So we should turn to the possible difficulties related to SADC, as seen from this side of the South Atlantic.

The first difficulty concerns relations between South Africa and other SADC members. The problems involved in creating a free trade area (FTA) in SADC have been solved after a long delay. Some crucial members on the fringe of SADC have, however, been left out. The question remains to be answered concerning the absorption of these economies, in particular, Angola.

Another problem is that SADC's rules of origin seem to be even more intricate than those found in the North American Free Trade Area (NAFTA). Another worry is Southern Africa's political climate – as made explicit by the political difficulties in Zimbabwe – and how this could affect South Africa/SADC markets, or relations between South Africa and other SADC members.

Also of a political nature, are problems facing the South African economy due to the loss of skilled labour and the migration of South African companies to financial centres other than Johannesburg, in order to improve access to funding. This trend is worrisome since it goes against the desire to attract capital. To face this menace, the South African government has taken measures to constrain capital moves. However, the movement continues – for example, in the information technology field – and is disturbing in terms of regional stability.

Other problems affecting both sides of the South Atlantic include crime and public health.

3. SOUTH ATLANTIC INTEGRATION

An interesting feature of SADC's trade structure is that a high proportion of South African exports (mainly manufactured goods and consumer durables) are absorbed by other SADC members. This could be an important trade flow area in which Mercosul producers could compete.

One may ask what the impact of creating a SADC–Mercosul FTA will be, based on present trade flows and estimates. If we stick to static analysis – conventional economic analysis based on trade diversion and trade creation – the results are mediocre. Other methods are therefore needed to determine the possible impact of this liberalisation.

A possible solution is as follows: since so little trade exists between the two regions and we have such limited knowledge about the actual results of trade expansion, I suggest we be very daring in the initial moves concerning liberalisation. One could then find ways to cope with difficulties raised by the over-expansion of some trade flows.

Having visited South Africa and having talked with South Africans in Brazil about possible trade flows, I have compiled a small list of possible SADC exports. This list includes wines, defence and security material, steam coal and metallurgical coal.

Specialised Brazilian construction companies have been involved in Southern Africa, especially Angola. There are many initiatives in Southern Africa concerning access to ports, which could be a basis for joint ventures. Similar symmetrical projects could be found in Brazil. Some investment opportunities also exist in terms of mining, air transport and other big business, for example, breweries.

From the above, it is clear that there is scope for cooperation between SADC and Mercosul. Even if there are doubts about the economic basis for such cooperation, the political argument is strong. In both cases the diversification of interests is to be welcomed.

In the case of South Africa, the Minister of Trade and Industry Alec Erwin's "butterfly" idea, comes from the basic fact that South Africa needs to cross the ocean in trade and investment terms. The "butterfly" has today rather asymmetric wings.

Its main trading partner, the European Union (EU), showed peculiar priorities when negotiating on important matters such as the South African production of rare spirits. Although a trade agreement has finally been negotiated with the EU format, South Africa cannot count on being high on Brussels' list of priorities.

Mercosul's diversification of interests is all important because of the FTAA schedule and because the possibility of Mercosul reaching an agreement with the EU is, at this stage, remote. There is therefore incentive for Mercosul to pursue closer links with SADC.

In terms of the relative sizes of its members, Brazil is too big in Mercosul. I believe that the entry of an economy the size of South Africa, would create a more balanced format in the South Atlantic community. This would allow it to approach the EU, which is preferable to the NAFTA-type model based on one larger economy.

Furthermore, SADC and Mercosul have similar outlooks on many issues. Cooperation already exists in the World Trade Organisation, and a common stand is expected on other topics. This includes pressure on other countries to reduce their trade barriers, as well as for the reduction of protections in own markets.

Cooperation also exists in terms of ensuring that, in the name of policy harmonisation, developing countries are not forced to undertake commitments on labour and environmental standards that could work against the interests of their populations and serve as a pretext for further protections in developed markets. It is in the interests of Mercosul and SADC to make sure that developing countries as a whole, take a realistic and strong stand at Geneva. South Africa and Brazil are playing an important role in this regard. Both regions are also involved in the Cairns Group of agricultural fair traders.

CONCLUSION

Kas Maine is the hero of *The Seed is Mine*, Charles van Onselen's magnificent book on share cropping in South Africa, set in the first half of the 20th century. The hero's enormous agricultural talents were persistently thwarted by the increasingly restrictive regulations that culminated in apartheid.

The task of governments in SADC and Mercosul should be to ensure that the Kas Maines on both shores of the South Atlantic, can contribute freely to the social and economic progress of their countries.

Closer ties between the two regional groupings can impact on the consolidation of efforts in both Mercosul and SADC to reach steady economic growth rates as well as to reduce poverty.

Recent Developments in SADC and Mercosul: An Outlook for Inter-regional Cooperation

Margaret Nyirenda

INTRODUCTION

After undertaking major policy reforms in the past decade, Southern African Development Community (SADC) member states have opened up their economies to global trade and foreign investment. Nearly all member states have liberalised markets and prices, eliminated most subsidies, removed exchange controls and, overall, tightened monetary and fiscal policies. These policy reforms have created an enabling environment for the private sector and commercial actors both from outside and within the region to increase investment and trade in SADC.

This paper describes the above issues in detail: it gives a brief background, argues the case for increasing investment in the region, presents the investment climate, illustrates potential areas for investment and makes some concluding remarks.

1. BACKGROUND

By way of a brief background, SADC comprises 14 member countries with a population of nearly 200 million people and a combined gross domestic product (GDP) at current market prices of US$183.85 billion in 1999. SADC changed from the Southern African Development Coordination Conference (SADCC) to the Southern African Development Community with the adoption of the Declaration and Treaty in August 1992.

SADCC, the Coordination Conference, mostly addressed issues pertaining to infrastructure deficiencies at the time (such as transport networks, telecommunications) which were exacerbated by the South African apartheid regime. A decentralised project approach was adopted to implement programmes and this later changed to a sectoral approach.

SADC, on the other hand, recognises that member states require a higher level of cooperation and integration in order to address issues of national development, as well as to cope more effectively with the challenges of the dynamic and increasingly complex regional and global environment.

The main objectives of SADC (the Community) are to:

- achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the peoples of Southern Africa and support the socially disadvantaged through regional integration
- evolve common political values, systems and institutions
- promote and defend peace and security
- promote self-sustaining development on the basis of collective self-reliance, and the interdependence of member states
- achieve complementarity between national and regional strategies and programmes
- promote and maximise productive employment and the utilisation of resources
- achieve sustainable utilisation of natural resources and effective protection of the environment
- strengthen and consolidate the long-standing historical, social and cultural affinities and links among the people of the region.

To realise the above objectives and to operationalise the SADC Treaty, an institutional mechanism for cooperation and integration has been set out, using the various Protocols that are being negotiated and concluded. Of the 21 sectors of SADC, Protocols have been negotiated and signed in 13 of these, namely: Energy, Trade, Tourism, Shared Water Course Systems, Transport, Communications and Meteorology, Mining, Education and Training, Combating Illicit Drugs, Wildlife Conservation and Law Enforcement, Health, Culture, Information and Sports, and Legal Affairs. However, only nine of these have entered into force, including a Charter of the Regional Tourism Organisation of Southern Africa (RETOSA).

2. THE CASE FOR INCREASED INVESTMENT IN THE SADC REGION

The SADC region has high levels of poverty ranging from 40% to 73% of the population in some member states and a fast-growing population estimated at an average of 2.6% a year (*see Table 1*).

With the economic growth rate ranging between 1.2% and 4.8% in the past five years, more effort is required to make a dent in the lives of the masses in the region (*see Table 2*). It is for this reason that the region's vision calls for sustainable economic growth rates of about 6.2% a year, the free movement of goods and services, the creation of business opportunities and employment, and an overall increase in productivity to reduce poverty. In order to achieve the stipulated economic growth rates, a substantial increase in investments and trade will be required.

The increase in investment depends, however, on the ability to mobilise domestic savings in the region. This has unfortunately been one of our major bottlenecks as most member states have been unable to mobilise sufficient domestic savings to support the investment needs. It is estimated that SADC requires a domestic savings average level of not less than 20% of GDP in order to finance investment needs on a sustainable basis. At present, this figure stands at an average of 12.6% of GDP. The average rate of investments is also low at 16.3% of GDP (in 1999) when it is argued that the region requires an investment rate of between 25%–30% of GDP to grow at a rate of 5%–6% annually. Our low level of exports leading to insufficient foreign exchange reserves to meet the import of investment goods and technology, has compounded this situation (*see Tables 4 and 5*). The mismatch between domestic savings and investment requirements can be bridged by an increase in foreign direct investments (FDI) as well as further mobilisation of domestic savings.

The region is also suffering from the scourge of HIV/Aids, which has become the single largest threat to development. Although reliable figures are difficult to find, it is estimated that the prevalence of HIV/Aids may be as high as

Table 1: Basic indicators

Country	*Land Area (km²)*	*Population (Million) 1990*	*1995*	*2000*	*Population Growth Rate (%) Average*
Angola	1 247 000	10.02	11.55	12.87	2.7
Botswana	585 000	1.30	1.46	1.62	3.3
Congo D. R.	2 345 409	37.44	43.90	47.70	3.0
Lesotho	30 355	1.78	1.93	2.15	2.6
Malawi	118 484	9.14	9.37	10.92	3.2
Mauritius	1865	1.06	1.12	1.16	1.0
Mozambique	790 380	14.80	15.40	19.68	3.0
Namibia	824 269	1.34	1.69	1.73	3.0
Seychelles	455	0.07	0.08	0.91	0.7
South Africa	1 223 201	33.27	39.48	40.38	1.9
Swaziland	17 000	0.77	0.91	1.00	2.7
Tanzania	945 000	24.30	28.40	31.51	3.0
Zambia	752 614	7.80	9.10	10.04	3.2
Zimbabwe	390 757	9.80	11.53	11.67	3.1
Total/Average	9 274 789	152.91	175.92	192.48	2.6

Sources: 1990 and 1995 CSOs of SADC member states and ECA. 2000 UN, World Population Prospects, 1999 Revision.

Table 2: GDP growth rates, 1996–2000 (%)

Country	*1996*	*1997*	*1998*	*1999*	*2000*
Angola	**11.9**	**7.7**	**5.5**	**4.0**	**7.0**
Botswana	6.6	7.0	7.5	4.2	6.5
Congo, DR	0.9	-6.4	-3.5	-5.0	5.0
Lesotho	9.9	8.1	-4.8	2.0	4.0
Malawi	10.5	6.6	3.3	4.2	3.0
Mauritius	6.0	5.2	5.6	5.4	5.0
Mozambique	6.8	11.3	12.1	9.0	8.0
Namibia	2.1	2.4	2.6	2.4	2.5
Seychelles	5.0	11.0	5.0	1.2	2.0
South Africa	4.0	2.6	0.6	1.2	3.2
Swaziland	3.9	3.8	2.5	2.0	3.0
Tanzania	4.2	3.3	4.0	4.8	5.5
Zambia	6.5	3.5	-2.0	2.5	3.0
Zimbabwe	8.7	3.7	2.5	0.5	-3.0
SADC	**4.8**	**2.8**	**1.2**	**1.4**	**3.5**
SS Africa	**5.1**	**3.5**	**2.5**	**2.2**	**4.2**
Africa	**5.6**	**2.9**	**3.1**	**3.2**	**4.4**

Sources: SADC member states, Secretariat. IMF, World Economic Outlook, May 2000.

one in five people in some of the member countries in the region. The impact of the epidemic at family, corporate, community, national and regional levels is devastating and is worse in women, who are more vulnerable. Our integration agenda and competitive position in the global economy are under severe threat as the region continues to lose its most skilled and productive people. In order to combat the Aids pandemic, the region has formulated a multisectoral programme, which recognises that Aids is not just a health problem but a multi-

Table 3: SADC external debt indicators, 1995–1999 (US$ million or otherwise stated)

Country	*Total External Debt*					*Debt Service Ratio (Payment %)*				
	1995	*1996*	*1997*	*1998*	*1999*	*1995*	*1996*	*1997*	*1998*	*1999*
Angola[a]	11.3	11.5	10.5	10.2	10.5	11.7	15.1	15.5	26.2	19.5
Botswana	703	614	562	549	531	3.2	5.3	2.8	3.9	2.8
Congo D. R.[a]	12.3	13.2	12.8	12.3	...	1.2	1.4	2.7	0.9	...
Lesotho	659	654	660	675	683	6.9	6.1	6.4	6.5	6.5
Malawi	2242	2312	2206	2222	...	26.2	16.2	12.4	24.5	...
Mauritius	1756	1818	2472	1894	9.4	7.1	10.9	7.0	7.7	
Mozambique	5751	5842	7300	7150	7.7	27.5	28.1	24.9	33.5	...
Namibia	380	308	146	128	146	...	...	...	1.2	3.4
Seychelles	159	148	149	145	...	8.3	4.7	4.0	4.4	4.2
South Africa[a]	25.4	26.1	25.2	24.7	27.7	9.5	11.6	12.6	12.7	12.3
Swaziland	235	222	368	251	290	1.8	2.9	2.7	2.1	2.5
Tanzania	7447	7412	7177	7253	...	21.0	19.5	...	...	...
Zambia[a]	6.6	6.9	7.2	6.8	6.7	31.4	195	20.5	20.7	31.8
Zimbabwe	4537	5053	5005	4961	5501	25.4	23.2	21.6	21.6	18.6
Total[a]	79.5	82.1	81.7	79.2						

Sources: EIU, Country Reports various issues; Economic Report on Africa, 1999 and national sources.
... = Data not available
[a] = US$ billion

faceted emergency. A multi-sectoral task force has been set up and has adopted a SADC HIV/Aids Strategic Framework and Plan of Action (1999–2003). Implementation of this programme will start before the end of this year. The main challenge for the region is to mobilise adequate resources for effective implementation of the programme.

3. INVESTMENT CLIMATE IN SADC

The region's macroeconomic instability and political insurgencies have been the main cause of the low level of domestic savings and investments in the past. This situation has changed a lot recently as most member states have attached great importance and priority to the attainment and maintenance of macroeconomic stability. Most member states have introduced measures to contain inflation, which was down to single digits for nine of the member states in both 1998 and 1999. Fiscal discipline has become the main feature of fiscal policy in all member states. Liberalisation of foreign exchange, exchange rates and pricing have further opened up the region to domestic and foreign investments.

SADC member states have also liberalised exchange controls and there is free remittance of profits and dividends by foreign companies. Clearance, payments and settlement systems are constantly improving, which facilitates the flow of regional and international transactions

Table 4: SADC external trade (US$ million unless otherwise stated)

Country	*Exports Fob*					*Imports Fob*				
	1996	*1997*	*1998*	*1999*	*2000E*	*1996*	*1997*	*1998*	*1999*	*2000E*
Angola	5095	5008	3510	...	...	2041	2477	2014	...	...
Botswana	2218	2820	2061	2651	2911	1468	1925	1983	2015	2050
Congo D. R.[b)]	592	533	604	...	...	424	318	322	...	...
Lesotho	187	196	193	200	...	999	1024	866	910	...
Malawi	518	546	455	476	492	618	597	537	503	560
Mauritius	1813	1639	1738	1723	1810	2293	2313	2184	2146	2287
Mozambique	226	234	255	280	307	802	855	965	1553	1234
Namibia	1404	1343	1278	1400	1575	1531	1615	1451	1500	1600
Seychelles	41	70	91	...	...	379	340	403	...	...
South Africa[a)]	30.3	31.2	29.2	28.7	31.5	27.6	28.8	27.2	26.6	30.3
Swaziland	850	864	790	825		1050	1041	941	1050	...
Tanzania	704	703	660	...	...	1350	1312	1273	...	...
Zambia	1093	1135	905	900	1000	965	1144	980	1020	1150
Zimbabwe	2496	2424	2047	2050	2200	2247	2654	1968	2010	2130

Sources: EIU, Country Reports various issues; ECA, ERA, 1999 and national sources.
E = Estimates *a) = US$ billion* *b) = Imports cif.* *... Data not available*

Table 5: FDI flows to Africa by sub-regions, 1991–1996 (US$ million)

Sub-region	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*
Central	659	442	362	355	477	423
Eastern	80	71	129	205	388	454
North	886	1582	1679	2364	1265	1633
Southern	**489**	**227**	**32**	**560**	**681**	**649**
West	850	779	1470	2350	2215	2120
Africa	2964	3109	3672	5834	5026	5279
Developing Countries	41 696	49 925	73 045	90 462	96 330	128 741
World	158 936	173 761	218 094	238 738	316 524	348 227

Source: UNCTAD, World Investment Report, 1997 on trade in goods and services. In addition, current accounts have been fully liberalised in all member states, while significant progress has been made on the capital accounts. In fact, Mauritius, Zambia and Botswana have fully liberalised the capital accounts. Financial sector reforms have increased capital market institutions in the region such as stock exchanges, stock brokerage firms and issuing houses. SADC today is home to nine of the 17 or more stock exchanges in Africa. These measures have increased investors' confidence and reflect the public-private sector partnership that is required in developing the region.

Another important factor affecting investment decisions is the availability of basic infrastructure. SADC has invested much in infrastructure, to the extent that all member states are well linked by all-weather roads. Further infrastructure developments are taking place, such as the Maputo Development Corridor and the Walvis Bay Corridor, which will improve further the quality and efficiency of the transport network. Similar developments relate to the telecommunications networks.

On the political front, the ideals of democracy, good governance, respect for the rule of law and respect for human rights underpin SADC's integration agenda. Although in recent years the region has continued to enjoy relative peace and stability, conflicts and acts of violence unfortunately continue to prevail in some parts of the region. Countries most affected by this are the Democratic Republic of Congo (DRC), Angola and more recently, Zimbabwe (the last elections) and Namibia (cross-border banditry activities). The region has therefore established a number of initiatives to address the various conflict situations.

In addition, it will be noted that most member states have adopted democratic principles while the democratic structures are continually being strengthened. For instance, several member states have undertaken constitutional, political and electoral reforms in recent years to ensure that they are transparent, accountable and impartial. A new development has been the participation of the SADC Parliamentary Forum as election monitors (recently in Mauritius), which will assist the region to entrench a democratic culture.

It will also be noted that most member states have established national institutions to fight against corruption (e.g. anti-corruption commissions in Malawi, Zambia, etc.). This reflects the seriousness and commitment to attract investment in the region.

Regarding the free trade area (FTA), the region is committed to establish this within the next eight years as part of Trade Protocol implementation launched on 1 September 2000. It is expected that the SADC FTA will stimulate investment into the region, particularly through the creation of new opportunities. The enlargement of the market for domestic companies also means that producers have to gear themselves up for increased production. This obviously entails new investments in some cases, and particularly in the textiles and clothing sector where some countries are expected to graduate to a higher level of manufacturing in five years. At the same time, regional companies will have to re-examine themselves in terms of improving their capacities, technology and quality of output in order to be able to compete. We hope partnerships and collaboration will develop between our two regions to fill in the gaps in this area.

4. POTENTIAL AREAS FOR INVESTMENT

Despite positive growth of the region's exports in the 1990s (except 1998) total products exported to Mercosul remain insignificant. Only two countries (Brazil and Argentina) seem to have some significant trade with the region (mostly South Africa). SADC imports also show a similar trend with very few originating from the Mercosul region. The insignificant amounts traded between the two regions reflect the high potential that exists for increased trade and investments on both sides.

Below are some highlights in selected sectors.

4.1 Food Agriculture and Natural Resources

This sector plays an important role in this region since around 80% of the region's population and labour force is still dependent on agriculture for subsistence, employment and income. As the region proceeds with industrialisation, agriculture is crucial in providing raw materials and purchasing power, which facilitates this transformation. In the area of natural resources, the main issues of concern relate to the management and conservation of exploitable natural resources in a sustainable manner, in particular for the marine fisheries, inland fisheries, forestry and wildlife resources.

With favourable climates and abundant labour and space, the region requires foreign investments in the form of capital and technology into this sector. Opportunities are in horticulture and floriculture development, livestock production, animal disease control, and fisheries and forestry utilisation developments and the promotion of biotechnology.

In addition, the region recognises that processing raw/primary products will add value per unit capital invested and will provide high returns especially on adapted technology which is labour-intensive. SADC also realises that the terms of trade for agricultural primary goods have not been favourable in recent years. High priority is therefore accorded to the processing of products such as animal hides and skins, blood meal, blood serum, fruit canning and mohair. Other priority areas include the production of fertilisers, particularly phosphates, and animal vaccines, and the assembly of manufactured agricultural equipment/machinery.

4.2 Transport, Communications and Meteorology

These sectors play a key role in enhancing the provision of services, supporting industrial development and growth and promoting intra-regional trade. The main focus is on the development of integrated transport, communications and meteorology systems with a comparative level of performance and efficiency. The region has developed programmes to improve roads such as the Trans-Caprivi Highway, the Trans- Kalahari linking the ports of Walvis Bay with the landlocked states of Botswana, Zimbabwe, Zambia, the Maputo Corridor, the Beira Corridor and Nacala.

In the Railways sub-sector, SADC has developed programmes including the Benguela Railway Project, the establishment of dry ports in Malawi at Kanengo and Chirimba, dry ports in Lesotho at Maseru, dry ports in Botswana, the Beira port and rehabilitation of the Nacala railway. In the Telecommunications sub-sector, there are now direct links among member states.

Opportunities exist for investment in technologies that address the tremendous telecommunications needs and demands of SADC member countries. The cellular telecom sector, for instance, offers major opportunities because it is characterised by a relatively quick infrastructure set-up and rate of return.

4.3 Energy

In the Energy sector, the region has opened up trade in electricity across borders through a programme that interconnects member states' electricity grid (Southern African Power Pool). This has created an effective unification of the regional electricity market allowing producers to reap substantial benefits by drawing from other member states' surpluses. At the same time, it has lowered production costs, increased the competitiveness of regional producers and can play an important role in attracting foreign investment. Opportunities for further interconnection of power generation grids exist, especially in Angola, Botswana, Namibia, Malawi, Tanzania and Zambia.

Other opportunities are available for gas exploration in Mozambique, Tanzania and Namibia. The use of wind and solar energy has been identified as alternative energy sources with a huge market potential in the region. Coal mining and coal methane thermal energy opportunities are also available in Botswana, South Africa, Tanzania, Zambia and Zimbabwe. Energy utensils such as pre-paid meters and handling facilities are also needed.

Other opportunities exist in the manufacturing of aluminium smelters, fertiliser facilities and mineral processing, which have ready markets. It will also be noted that since energy is relatively inexpensive in the Southern African region, it makes sense for high-energy demand manufacturers to locate facilities in the region.

4.4 Capital Markets Development

The opening up of the goods market through the SADC FTA will also open up new and viable opportunities for cross-border investments as capital moves to those areas where competitive production can be achieved. Already, capital markets development has been an area where many regional activities are taking place – notably, the stock exchanges, which are rated as being among the most active emerging markets in the world. Cross-listing between stock exchanges is a common on-going activity.

4.5 Tourism

This is another sector being given high priority in the region, particularly due to its contribution to employment.

With its unique scenic beauty and unspoiled wildlife and natural resources in most member states, the region provides opportunities for development and growth. In recognition of this, a Protocol on Tourism has been developed to facilitate growth in this sector.

Opportunities exist in the development of the tourist infrastructure and joint ventures, such as the construction of hotels, lodges and safari game parks. The region can be easily "packaged" and marketed to tourists. In addition, air transport is continually being improved to facilitate this industry.

CONCLUSION

SADC–Mercosul cooperation presents great opportunities for private sector collaboration and partnerships to both regions. The investment climate is ripe and priority areas have been highlighted above. Promoting investment in competitive lines of production, use of modern technologies, capacity building and greater involvement of stakeholders, remain among the top priorities for the region. The investment gap highlighted above is a major concern for SADC and it is expected that strengthening South–South cooperation might assist the region to bridge this gap, as well as contribute to the overall attainment of SADC goals and objectives.

Regional Integration, Globalisation and Democratic Stability: A South–South Perspective

Aziz Pahad

INTRODUCTION

While travelling here from Johannesburg, it struck me once again that the flight time from South Africa to Brazil is less than that of a flight from South Africa to Europe; Southern Africa and Mercosul are practically neighbours.

It is exciting and challenging to be here because not only are we close in a geographical sense, but we are bound together first and foremost by our shared values, our commitment to democracy, social responsibility, job creation, transparency, sustainable economic growth and the eradication of poverty. Values that are increasingly important in an ever faster evolving world; values that need to be actively pursued, not only by our political leaders and governments, but also by civil society and the business community.

Our belief in progressive governance in the 21st century further binds us as southern neighbours and entrenches the principles of South–South cooperation and dialogue, so eloquently elaborated on by Julius Nyerere as early as 1982:

> "Politically, economically and technologically, we the Third World countries, are locked into the economies of the North. Moving towards self-reliance of the South, or any member of it, does not mean that the North is not there. What is needed, is that we shift the emphasis of our development plans, and in the future decide to base them on our own roots and our own resources."

Why is it that nearly 20 years later we are still grappling with the same challenges, notwithstanding the fact that the demise of the Cold War, together with the process of globalisation resulted in the rapid dismantling of political, economic, cultural and ideological barriers. The reality is that while globalisation represents an opportunity to fast-track development, it has also resulted in the increasing marginalisation of the underdeveloped. President Cardoso of Brazil recently encapsulated the challenges presented by globalisation (on the occasion of a luncheon given in honour of the Heir Apparent and Vice Prime Minister of the Kingdom of Saudi Arabia) by saying:

> "We must make the globalisation process more symmetrical by making capital movements and access to the market into effective development tools. Only thus will we be able to prevent the crystallisation of hegemonies and the aggravation of inequalities."

President Cardosa was reflecting on statistics which pose a major challenge to us all.

1. MAJOR CHALLENGES

Since 1950, exports have increased tenfold. Foreign exchange flows have increased dramatically at a now startling $1.5 trillion a day.

Mega multinationals have become a reality. A recent transnational communications takeover in the United States (US) created a company whose market value exceeds a gross domestic product (GDP) of nearly half of all United Nations (UN) members, and this particular firm is only the world's fourth richest company.

According to a task force sponsored by the New York Council on Foreign Affairs, the assets of the three top billionaires are more than the combined GDP of all least developed countries and their 600 million people. At the end of 1997, there were more than 50 developing countries with entire banking systems that were smaller than the Credit Union for World Bank and International Monetary Fund (IMF) employees.

A one per cent shift in the international (not the total) portfolios of G-7 institutional investors would amount to roughly US$60 billion.

According to the 1999 UN Human Development Report, more than 80 countries have per capita incomes that are lower than they were a decade or more ago.

Since 1990, 55 countries – mostly in sub-Saharan Africa, Eastern Europe and the former Soviet Union – have had declining per capita incomes.

The income gap between the fifth of the world's people living in the richest countries and the fifth in the poorest was 74 to 1 in 1997, up from 60 to 1 in 1990.

The richest fifth accounted for 86% of the world's GDP while the bottom fifth shared one per cent.

UN Secretary General Kofi Annan's Millennium Summit report states:

> "Nearly half the world's population still has to make do on less than US$2 a day. Approximately 1.2 billion people – 500 million in South Asia and 300 million in Africa – struggle on less than US$1 a day. People living in Africa – south of the Sahara – are almost as poor today as they were 20 years ago."

The number of Africa's poor has grown relentlessly and Africa's share of the world's absolute poor increased from 25% to 30% in the 1990s.

Africa's share of world trade has plummeted since 1960. It now accounts for less than two per cent of world trade and if South Africa is taken out of the equation, the figure for Africa is a mere 1.2%. Africa is the only region to see investments and savings decline after 1970. Savings rates in many African countries are the lowest in the world. Tax revenue declined in poor countries from 18% of GDP in the early 1980s to 16% in the 1990s.

In 1997 Africa's debt was estimated to be US$159 billion and in 1999 this increased to US$201 billion. We are faced with the reality that outstanding external debts in many African countries exceed the entire GDP, and debt service requirements exceed 25% of total export earnings. No heavily-indebted poor country (HIPC) can achieve sustainable economic development if the debt issue is not resolved. Overseas development assistance has dropped more than one-fifth in real terms since 1992. Diseases such as HIV/Aids, malaria and tuberculosis are causing havoc.

This is also a new world order in which we are experiencing an unprecedented scientific technological revolution. In 1993 there were 50 pages on the Internet's worldwide web; today there are more than 50 million. In 1993, 143 million people used the Internet; by 2001 there will be 700 million users. In 1996 the e-commerce market was US$2.6 billion; it is expected to grow to US$300 billion by 2002. There are more computers in the US than in the rest of world put together. Electrical power consumption per person in Africa is the lowest in the world; Africa has 14 telephone lines per 1000 persons – Tokyo has more telephones than the whole of Africa; less than half of one per cent of all Africans have used the Internet.

Many of our countries have taken steps to create a climate conducive to foreign direct investment (FDI). Either through structural adjustment programmes or as country programmes, they have put in place trade liberalisation policies; the strengthening of the rule of law; improvements in legal and other instruments; greater investment in infrastructure development; privatisation; greater accountability and transparency; greater financial and budgetary discipline; and the creation and consolidation of multi-party democracies. FDI has, however, not flowed sufficiently to Africa.

Why are we faced with such a reality? Some of the answers can be found in the World Bank and other study findings, *inter alia*, that Africa's economies are generally characterised by narrow commodity exports with little benefaction of diversification. The result is that Africa's economies are highly vulnerable to market fluctuations and commodity prices. Primary markets are limited to the North, to which African countries are highly dependent for their imports.

2. GLOBALISATION

It is increasingly being accepted that regionalisation and regional integration cannot be explained solely with economic formulas such as economic stabilisation, tariffs or fiscal and monetary harmonisation. The UN Millennium Summit was to a great extent dominated by deliberations on globalisation, underdevelopment and poverty.

South Africa's President Thabo Mbeki, speaking at the Millennium Summit, said:

> "… billions struggle to survive in conditions of poverty, deprivation and underdevelopment … The question these billions ask is – what are you doing to end the deliberate and savage violence against us that, everyday, sentences many of us to a degrading and unnecessary death … will we, at last, respond to this appeal! All of us, including the rich, will pay a terrible price if we do not, practically, answer – yes we do! The fundamental challenge that faces this Millennium Summit is that, credibly, we must demonstrate the will to end poverty and underdevelopment."

In his report, the UN Secretary General said:

> "The central challenge we face today is to ensure that globalisation becomes a positive force for all the world's people instead of leaving billions in squalor."

Annan went on to say that "inclusive globalisation must be built on the enabling force of the market" but, significantly, he mentions that "market forces alone will not achieve it, it requires a broader effort to create a shared future based on our common humanity in all its diversities". He identified six shared values: freedom, equity and solidarity, tolerance, non-violence, respect for nature and shared responsibility.

The Millennium Summit Declaration gives us a strong foundation to meet the challenges of globalisation:

> "The central challenge we face today is to ensure that globalisation becomes a positive force for all the world's people. While globalisation offers great opportunities, at present its benefits are very unevenly shared, while its costs are unevenly distributed. We recognise that the developing countries and countries with economies in transition face special difficulties in responding to this central challenge.
>
> Thus only through broad and sustained efforts to create a shared future, based upon our common humanity in all its diversity, can globalisation be made fully inclusive and equitable."

The Summit identified certain fundamental values to be essential to international relations in the 21st century. These include:

- *Freedom.* Men and women have the right to live their lives and raise their children in dignity, free from the fear of violence, oppression or injustice. Democratic and participatory governance based on the will of the people best assures these rights.
- *Equality.* No individual and no nation must be denied the opportunity to benefit from development. The equal rights and opportunities of women and men must be assured.
- *Solidarity.* Global challenges must be managed in a way that distributes the costs and burdens fairly in accordance with basic principles of equity and social justice. Those who suffer, or who benefit least, deserve help from those who benefit most.
- *Tolerance.* Human beings must respect each other, in all their diversity of belief, culture and language. Differences within and between societies should be neither feared nor repressed, but cherished as a precious asset of humanity. A culture of peace and dialogue among all civilisations should be actively promoted.
- *Respect for nature.* Prudence must be shown in the management of all living species and natural resources, in accordance with the precepts of sustainable development. Only in this way can the immeasurable riches provided to us by nature be preserved and passed on to our descendants. The current unsustainable patterns of production and consumption must be changed, in the interests of our future welfare and that of our descendants.
- *Shared responsibility.* Responsibility for managing worldwide economic and social development, as well as threats to international peace and security, must be shared among the nations of the world and should be exercised multilaterally. As the most universal and most representative organisation in the world, the UN must play the central role.

The negative aspects of globalisation have also resulted in the mobilisation and organisation of millions of people who are campaigning for a more caring and equitable social order. This is illustrated by the growing number of non-governmental organisations around the world, and the unprecedented demonstrations in Seattle and Prague.

3. REGIONAL INTEGRATION

The process of globalisation is sustained by, and produces, national and regional interdependencies. By contrast to the Cold War focus on regionalism as a means of collective security arrangements, there is a new emphasis on political and economic regional groupings committed to people-centred economic development, to democratic consolidation, transparency, efficiency, social responsibility, equity, scholarship, peaceful resolution of conflicts and protection of the environment.

This conference's stated aims are to focus on the perspectives of developing inter-regional forms of association, specifically in the commercial and economic fields with a view to advancing an agenda of cooperation between the two regional blocs (the Southern African Development Community [SADC] and Mercosul) that may eventually lead to a free and more intense trade and investment flow across the South Atlantic.

More often than not, regional cooperation/ integration and intra-regional integration are seen against the backdrop of economic and trade concerns. In fact, regionalisation is mostly perceived as having only economic benefits for countries.

We believe that regional associations or integration must also be based on a sense of belonging; a shared value system of like-minded associates. In this shared vision of peace and stability, democracy, human rights, equity and social responsibility lie the roots of economic growth and prosperity and the improvement of the quality of life of our peoples.

We in Africa, who represent the poorest of the poor, are seeking to learn from the experiences of others in the South.

The Association of Southeast Asian Nations (ASEAN) evolved from a security-type organisation towards an ASEAN Free Trade Area (AFTA). Interestingly, ASEAN's success has been determined by its original objective to provide a regional forum for peaceful intra-regional conflict resolution and to strengthen the bargaining power of its member states in international negotiations.

Inter- and intra-regional trade agreements and the cooperation, synchronisation and convergence of economic policies provide additional momentum to propel and deepen regional integration. The initial vehicle to reaching this phase is, as mentioned earlier, a political commitment, shared values and vision.

4. SOUTH AFRICA AND THE ROLE OF SADC

There are still some people in South Africa and abroad who seem to cling to the notion that South Africa is a European outpost on the African continent. It is vital for all of us to accept that South Africa is an African country and that South Africa's future is inextricably linked to the future of SADC, and the continent of Africa.

There is a close synergy between the issues and challenges facing South Africa and the region as a whole. While we grapple with some of the challenges and problems of integration we must, as has been stated so often, accept that South Africa cannot exist as an island of prosperity in a sea of poverty. If we do not engage with the region and the continent, we will eventually have to face the negative consequences in the form of cross-border crime, drug and weapons smuggling, economic migrants and refugees from conflict, environmental degradation, and diminished trade, tourism and economic interaction opportunities.

Conversely, regional integration and intra-regional cooperation will provide a rich crop of rewards, such as the promotion of economies of scale, the development of comparative and competitive advantages, the creation of a climate conducive to investment, and the efficient utilisation and joint management of resources and infrastructure to the benefit of all.

Regional integration is a sine qua non for the continent's renewal. SADC is therefore the foundation on which we seek to achieve economic growth, prosperity, peace and stability and to improve the quality of life of the masses of our people. The countries of the Southern African region can achieve their full potential only through close cooperation in the exploitation of natural resources in a coordinated fashion, the pooling of technical expertise, the harmonisation of trade practices and the promotion of economies of scale. This is one of the principal tasks of SADC.

The aim of SADC is to create a community, providing for regional peace and security, sector cooperation and an integrated regional economy. As a regional institution, it has laid the basis for regional planning and development in Southern Africa. It could not be otherwise.

Since the late 19th century South Africa has been an integral part of a Southern African regional economy. This involvement – whether as providers or recipients of migrant labour, transport services, hydropower or in trade – has been of considerable significance both to South Africa and most other SADC member states. For over a century, South Africa has been a leading member of a customs union with four neighbouring countries (Namibia, Botswana, Lesotho and Swaziland), as well as part of a monetary union with three of these countries.

The region is characterised by acute imbalances, unevenness and inequities. Not only are the sizes and levels of development of the various countries' economies very different, but the historical pattern of economic relations in the regional economy has also been severely skewed. Essentially, as many analysts have noted:

> "The main poles of accumulation were located in South Africa, while the economies of the other countries were incorporated in subaltern roles as providers of migrant labour, services and as 'captive markets' for higher priced South African exports. These imbalances were exacerbated in the years of conflict and destabilisation that characterised the late apartheid period."

South Africa is the largest and most sophisticated economy within SADC and indeed within Africa. In SADC, the level of wealth, social and human development differs significantly between the various countries as they are at different stages of development.

During the 1990s the distribution of consumption in the SADC countries, for which data is available, has been relatively skew. In South Africa the wealthiest 20% of the population had a 64.8% share of total consumption, followed by Zimbabwe with 62.3%, Lesotho with 60% and Zambia with 54.8%.

The generally accepted international standard for gross domestic fixed capital formation in developing countries is around 25% of GDP. In 1998, only four SADC countries exceeded this standard, namely Lesotho (49.4%), Zambia (37.4%), the Seychelles (35.2%) and Swaziland (33%). In 1998 total FDI in the SADC countries amounted to 22.5% (US$821 million) of the total for sub-Saharan Africa (US$3.6 billion) in that year.

In terms of the Southern African Custom Union's (SACU, which comprises Botswana, Lesotho, Namibia, South Africa and Swaziland) trade with the SADC region, Zimbabwe is the most important trading partner. In 1998, SACU's exports to Zimbabwe amounted to 34.6% of total exports to SADC countries, followed by Mozambique (16.4%), Zambia (13.4%), Malawi (7.6%), Tanzania (7.0%), the DRC (6.7%), Angola (6.6%), Mauritius (6.5%) and the Seychelles (1.1%). With regards to imports, 60.8% of total SACU imports from the SADC region came from Zimbabwe in 1998, followed by 17.5% from Malawi, 9.6% from Zambia, 8.2% from Mozambique, 1.3% from Mauritius, 1.0% from both the DRC and Tanzania, and 0.3% from the Seychelles. The major products exported by SACU to the SADC region in 1998 were machinery and equipment (12.6% of the total), mineral fuels and products (9.0%) and vehicles, parts and accessories (8.3%). SACU imports from SADC in 1998 consisted mainly of cotton (14.3% of the total), tobacco and tobacco products (8.4%) and certain apparel and clothing articles (6.8%).

Integrated overall regional development is a sine qua non for growth and development in any of our countries. Increased regional trade, sectoral cooperation programmes and joint development of regional resources and infrastructure have to be achieved.

To date, SADC has successfully negotiated and signed 14 Protocols, of which seven have entered into force.

5. PROTOCOLS AND TREATIES SIGNED AND RATIFIED

Signed

- SADC Treaty
- Shared Watercourse Systems
- Immunities and Privileges (South Africa has not signed)
- Combating Illicit Drug Trafficking
- Energy
- Trade
- Transport, Communication and Meteorology
- Education and Training
- Mining
- Tourism
- Wildlife Conservation and Law Enforcement

- Legal Affairs
- Revised Protocol on Shared Watercourse Systems
- Health
- Tribunal and Rules of Procedure Thereof
- Charter of the Regional Tourism Organisation of Southern Africa (RETOSA)
- Declaration on Gender and Development
- Declaration on Productivity
- MOU on Southern African Power Pool
- MOU on Cooperation in Standardisation, Quality Assurances, Accreditation and Meteorology (SQAM) in the SADC
- MOU between SADC and the Association of SADC Chambers of Commerce and Industry (ASCCI)

Ratified
- Shared Watercourse Systems
- Combating Illicit Drug Trafficking
- Energy
- Education and Training
- Mining
- Transport, Communications and Meteorology
- Trade
- Health

Entered into Force
- Immunities and Privileges
- Shared Watercourse Systems
- Combating Illicit Drug Trafficking
- Energy
- Transport, Communication and Meteorology
- Mining
- Trade
- Charter on the Regional Tourism Organisation of Southern Africa

SADC Protocols under development, are the following
- Protocol on Fisheries (zero draft stage)
- Protocol on Forestry (zero draft stage)
- Protocol on Culture, Information and Sports
- Protocol on Environment and Land Management
- Protocol on Small Arms (being developed)

6. DEVELOPING A REGIONAL ECONOMIC ENTITY

There has been some progress over the past year towards building a regional community. Most encouraging, despite the conflicts in Angola and the DRC, is the growing sense of political will, determination and urgency which SADC members are displaying in tackling the difficult challenges that confront us.

Slowly but surely, the SADC region is developing into a regional economic entity. Far-reaching economic reforms are being implemented by SADC member states, in pursuance of their shared vision of creating a single economic space through deeper economic integration. Through the implementation of appropriate macroeconomic policies, a number of SADC countries have managed to put themselves on a sustainable economic growth path.

The organisation came into existence in 1980 as the Southern African Development Cooperation Council (SADCC). One of its major objectives was to reduce the dependence of its members "particularly, but not only, on the Republic of South Africa". Its original programme has been described as "integration through project coordination" or "functional integration", based on the view that the main barriers to intra-regional trade among its members were not tariffs or non-tariff regulatory barriers, but underdeveloped production structures and inadequate infrastructure. Its programme of action, accordingly, focused on coordinating efforts to jointly promote infrastructural development.

The adoption of the 1992 Windhoek Treaty of the Southern African Development Community reflected an important new departure. It committed SADC to widening its agenda by negotiating protocols of cooperation in a number of areas where it had hitherto not been particularly active. These included trade and security.

Some members of the organisation have also come to see a need to move beyond "functional integration" to embrace a programme of "development integration".

Development integration is the appropriate approach in a region in which there are countries with economies of very different sizes and levels of development. In these circumstances it is argued that trade integration measures should be complemented by:
- efforts to promote coordinated regional industrial development, through the establishment of regional industrial policies
- measures to give less developed members greater preference in access to regional markets and facilities and a longer period to reduce tariffs through asymmetrical trade agreements

- some coordination of macro-policies at a relatively early stage, particularly in relation to fiscal incentives for investment.

Let's look at some of these elements:

7. INTEGRATION MEASURES

Since 1994 South Africa has championed spatial development initiatives (SDIs). SDIs are concerned with unlocking the inherent under- and unutilised potential of economic development of specific spatial locations and corridors within certain sectors. SDIs in the SADC region are specifically designed to enhance economic integration and cooperation between the various countries and different sectors.

An SDI may be executed on a bilateral basis or a multilateral basis. For example, SDIs which span more than five states should even be restricted to one country only, with the eventual option of crossing into neighbouring states.

The key to the success of an SDI includes access to labour, transport, innovative economic and product development, competent government support at a local and national level, as well as access to technology. It is a partnership between governments, developmental institutions and the private sector.

The Maputo Development Corridor (MDC) is one of the most ambitious and exciting development initiatives undertaken within the Southern African region. The vision was to rehabilitate the core infrastructure in the corridor (notably road, rail, port and dredging, and border posts), through public-private partnerships (cognisant of state fiscal limitations), thereby re-establishing key linkages and opening up inherent underutilised economic development opportunities. Common to both countries was the importance of the initiative to the respective reconstruction and development programmes (specifically to achieving GDP and employment growth targets, increasing local and foreign fixed investment and improving exports). Underlying this vision was the desire to see this initiative contributing to other key policy areas – notably regional economic integration, international competitiveness and a broadening of the ownership base in the economy of the corridor.

7.1 The current status of the key MDC infrastructure projects

- Witbank to Maputo toll road. Concessioned for 30 years to TRAC (Trans African Concessions). Project value US$400 million. Financial closure December 1997, with construction having commenced in March 1998. Recognised internationally for the well-structured contract and for the speed of delivery.
- Rehabilitation of the Port of Maputo. Preferred bidder (Merseyside Docks and Harbour Co.) now identified to establish a joint venture (public-private sector) company to manage, operate and maintain port and dredging. Value US$85 million. Negotiations still in progress.
- Rehabilitation of the railway network of Maputo. Preferred bidders (Spoornet on Ressano Garcia Line and Consortia 2000 on Goba–Chicualacuala lines and marshalling yards) identified to establish a joint venture (public-private sector) company to manage, operate and maintain southern Mozambique rail network. Value US$70 million. Negotiations still in progress.
- Ressano Garcia–Komatiepoort border post. Bilateral agreement being developed for a single facility/one-stop border post. Project value US$33 million. Preliminary design completed. Three-year construction programme planned. Parties currently looking at a rapid procurement programme for short-term actions.
- There is a continual process of project identification and preparation in the MDC. Some 180 projects are currently under consideration, in all economic sectors, with a total value of US$7 billion and a potential to create an estimated 35 000 permanent new jobs. Potential contributions to foreign exchange earnings are also substantial. Of the above, approximately US$4 billion has now been committed, with the creation of 12 000 jobs. Beyond these very tangible impacts, the MDC has also had a strong bridge-building function – stimulating new bilateral agreements, restoring trust and addressing trade imbalances. The MDC is also playing a significant role in the regional economic integration debate.

8. NEW REGIONAL TRADING RELATIONSHIP TO PROMOTE EQUITABLE AND MUTUALLY BENEFICIAL DEVELOPMENT INTEGRATION

South Africa's policy was to work towards a multilateral, regional agreement with flexibility to take into account bilateral specifics. We were conscious that the new rules created by the Uruguay Round of the Global Agreement on Tariffs and Trade (GATT) could pose problems for a purely bilateral route.

As Rob Davies said in the first SADC–Mercosul seminar:

> "The draft protocol prepared by international consultants commissioned by the SADC secretariat envisaged a rather mechanical timetable for tariff phase-downs, leading to the establishment of a free trade area. According to the proposal, countries were to be divided into categories according to the existing levels of overall tariff protection. Those with higher incidences of overall protection were to phase down more rapidly than the others. This formula was criticised as taking no account of the variations in capacity of the individual countries, nor of concrete conditions in specific industries or sectors. The proposal was also vague as to whether the region was a World Trade Organisation (WTO)-legal free trade area, which requires only the removal of duties on 'substantially all' trade."

We were concerned about the consultant's approach because a study by the South African Industrial Development Corporation and other studies suggested that the introduction of literal free trade would exacerbate rather than reduce polarisation. South African access to the markets of other SADC countries would therefore need to be carefully structured and phased.

We needed an asymmetrical arrangement (which could nevertheless qualify as a WTO-legal FTA), in which South Africa opened up its market to a greater extent than would be required by other countries, and which operated on a somewhat differentiated basis, country by country.

South Africa also argued that the other SADC members should identify products for which they wanted better access into the South African market, and that they should stop the debate about the comparative average tariff levels – whose was lower than whose. This was, however, seen by several other countries as South Africa's attempt not to open up its markets to their exports.

The negotiations became protracted and it was only four years later – in September 2000 – that the SADC Free Trade Agreement was signed by all members except Angola and the DRC.

The signing of the Trade Protocol marked an important milestone in our region's history. It will increase regional trade through the removal of tariff and non-tariff barriers and discard other restrictions that block entry or increase the cost of doing business in the region.

This marks an important stage in the realisation of a region-wide market. Intra-regional trade is still relatively undeveloped, currently standing at 10% of total exports (as compared to 24% for Mercosul, 70% for APEC, 55% for the EU, and 52% for NAFTA).

This is only the beginning. The agreement is very complex and aims to achieve regional cooperation by asymmetrical reduction of trade barriers over a 12-year period, and by achieving harmonisation, *inter alia*, in the financial institutions, customs and excise systems, investment policies, capacity building and macroeconomic strategy.

Given the vast imbalance in trade between South Africa and other SADC members, it was agreed that South Africa would meet 96.7% of its obligations within five years, while the others will drop tariffs on 97.6% of South African imports within eight years.

Like any other regional grouping, SADC will have to deal with issues such as border control, duty evasion, tariff abuse, falsified certificates of origin, subsidies, potential job losses and corruption. The agreement introduced "specific sectors" to deal with "sensitive sectors", notably clothing and textiles. The intention is to encourage the adding of value in the production chain and to encourage competitiveness. The goods will have to go through two converting processes: for example, natural fibre will have to be converted to fabric and then to garments.

Some countries – such as Tanzania, Zambia and Malawi – were allowed provisional concessions to supply in accordance with specific quotes. The sugar and wheat industry will also function on a basis of quotas because of the European and US subsidies policy.

We have to look also at the implications of SACU to the European Union (EU)–South Africa agreement. We believe that the effects will only be indirect, i.e., the SACU countries need to prepare for competition from Europe. However, we have tried to cushion the effect by tackling the problems of subsidised products.

Another issue that has to be tackled is the fact that the SACU countries have depended on customs and excise revenues from trade. We must seek ways to cushion the effects of the loss of such revenues. SACU will, however, continue to exist as an organisation.

Given our commitment to mutually beneficial economic development that entails more than trade, we have taken steps to encourage joint partnerships and South African investments into SADC.

In this regard we have taken several concrete measures, *inter alia*, South African investors have been given a higher threshold for capital export to SADC; and institutions such as the Industrial Development Corporation and the Development Bank of Southern Africa are undertaking developmental projects in other SADC countries.

Another problem we must tackle is the overlap of membership of SADC and Common Market for Eastern and Southern Africa (Comesa) trading blocs. SADC envisaged that there would be dispute between trading partners and has therefore strengthened the dispute resolution mechanisms.

The next phase and challenge for SADC will be the implementation of the Protocols in order to make regional integration a reality. This means that the existing SADC structures need to be strengthened in order to have the capacity to assist member states with implementation.

We are therefore entering one of the most important phases of SADC's history. At its Summit in 1999, SADC decided to review its institutional structure in order to become a more effective and efficient delivery-oriented regional organisation. The SADC Review Committee, comprising the Troika plus one (Mozambique, South Africa, Namibia and Zimbabwe) completed their work and presented a report with recommendations to the Council of Ministers in Windhoek earlier this year, for consideration and recommendation to the Heads of States and Government.

If the Review Committee's recommendations are accepted by SADC members, the organisation is poised to become a catalyst for the stabilisation of the region, effectively dealing with political, security and socio-economic challenges, allowing economic growth and development.

We are concerned that there are some countries that do not accept the recommendations. If there are genuine concerns these must be accommodated, however, it is not in SADC's interests to oppose change simply because countries are comfortable with the old.

United Kingdom's Prime Minister Tony Blair speaking at the Millennium Summit said:

> "There is a dismal record of failure in Africa on the part of the developed world that shocks and shames our civilisation ... Nowhere are more people being left behind on the wrong side of the growing digital and economic divide, ... 30 years ago the same depressing analysis might have been made of parts of Asia or Africa ... There can be hope for Africa. There is political leadership, business opportunity and above all the will of the people for a better future in Africa. We must be partners in the search for change and hope."

It is imperative that we halt this marginalisation and that we forge a place for ourselves in the global community, that we facilitate Africa's effective integration into the global economy, and that we leapfrog into the new technological and information age. Ensuring our rightful place in the global community will entail, among other things, the reform of international institutions and will ensure our participation in the global decision-making processes and mechanisms. The current configuration of international institutions still continues to favour the developed world. This is true of all of the major international institutions, such as the World Bank, the IMF, the WTO, and the UN Security Council.

As indicated earlier, Africa has to accept its responsibilities. We must strive for the establishment of deeply entrenched democratic and political systems in our sub-region and the African continent as a whole. The protection of human rights and the establishment of institutions and procedures will ensure that we deal collectively with peace and stability, thereby creating more favourable conditions to achieve sustainable economic development and improved living standards.

Conflicts are inextricably linked to underdevelopment. Regional integration and the African developmental agenda therefore cannot be achieved without peace and stability on our continent. As Kofi Annan has argued:

> "In intra-state conflicts in Africa, the main

> aim increasingly, is the destruction not only of armies but of civilians and entire ethnic groups. Preventing such wars is no longer a matter of defending states or protecting allies, it is a matter of defending humanity itself."

He was referring to the shocking reality that from Sierra Leone to Angola, from the streets of the DRC to Sudan, from the killing fields of Ethiopia and Eritrea, to the killing fields of Rwanda and Somalia, violent conflicts have become the scourge of our continent. We cannot accept the fact that over the past three decades over eight million Africans have perished in the fires of ethnic and racial hatred, religious intolerance, political ambition and material greed. We cannot accept the fact that over 15 million refugees and displaced persons live in terrible conditions. This is the highest number of refugees anywhere in the world. We cannot accept the fact that landmines are indiscriminately planted, injuring and killing innocent citizens and that the infrastructure of many countries is systematically destroyed and their agricultural land laid to waste.

The Report of the Panel on UN Peace Operations (Brahimi Report) and the UN Secretary General's Millennium Report categorically underscore the need for all who are involved in conflict prevention and development – the UN, the Bretton Woods Institutions, governments and civil society organisations – to address these challenges in an integrative, comprehensive way.

To give meaning to this conclusion, we should look at some of the root causes of conflict. This, *inter alia*, includes the legacies of the past which have resulted in weak and dependent institutions of government and civil society; the ethnicisation of politics; the imposition of models of governments by former colonial powers; corruption; and the "privatisation of conflicts" – put simply, people in Africa and internationally are profiting from the conflict.

We must seek to achieve the repositioning of the African continent in the international fold. This envisages a continent whose peoples are finally free from need, poverty, violence and disease; a region with a culture of human rights, good governance and respect for the rule of law; an area with investment flows and trade that sustains economic growth and development to such levels that Africa becomes an equal partner within the community of nations.

In essence this demands that we do not diverge from the values and vision we share with our Mercosul neighbours. Africa alone cannot achieve the African Renaissance. We need to call on our neighbours in Mercosul to deepen and strengthen existing South–South relations in order to re-align and restructure South–North relations.

The similarity of development challenges between Southern Africa and South America – and indeed among other countries of the South – makes it imperative for our countries to adopt and present common positions in multilateral forums, including the democratisation of the UN and the Bretton Woods Institutions and the reform of the global political and economic order.

Both the Southern African and South American regions have commodity-based developing economies, with large and growing populations. Strong mining sectors in both regions offer not only the possibilities of investment, but also the sale of specialist knowledge and equipment. The agro-economies of South America and Southern Africa serve to draw the regions together in cooperating in multilateral fora, with shared membership of initiatives such as the Valdivia and Cairns groups. Common problems and shared strategies include social issues such as underdevelopment, crime, poverty, unemployment, educational reform and illegal immigration.

Our common national and international approaches further provide fertile ground for cooperation in jointly combating globalised threats to human security such as drug trafficking, trans-national crime, environmental degradation, poverty, disease, etc. Governments cannot, however, contribute to this end alone. Civil society, and specifically the private sector, need to join governments in their endeavours. I am heartened by the fact that the private sector supports this conference, thereby stimulating cooperation between our two regions.

Regional integration and the increased prominence of multilateralism represent two major global trends. Regional and continental integration and cooperation is essential in making us more competitive globally. However, further alliances and relationships need to be developed with regions, states and organisations in the South, as well as in the North. In this way, understanding, acceptance and support can be generated for a common agenda for the South, while support and material backing can be generated for the issues under this common agenda in the developed North.

This conference is held at an opportune moment. South Africa's President Mbeki has been invited to attend and address the Mercosul Presidential Summit to be held in Florianopolis, Brazil on 15 December 2000. The only other foreign Head of State afforded this honour was former President Mandela, who attended and addressed the 1998 Mercosul Presidential Summit in Ushuaia, Argentina.

It is envisaged that negotiations for a Framework Trade Agreement with Mercosul will have been finalised for signature during the December Mercosul Presidential Meeting in Florianopolis.

CONCLUSION

In a world where we – the countries of the South, and specifically Southern Africa and South America – could potentially be further marginalised, we must seize the initiative to ensure that we are treated as equals by the North. If not, we will remain marginalised spectators in the events of the international arena. As political and economic groupings, SADC and Mercosul will be better positioned to tackle the negative effects of globalisation while reaping the advantage of its positive aspects. Here the South Summit Programme of Action should guide us:

> "We the Heads of State and Government of the developing countries which account for almost four-fifths of the world's population, have assembled here in Havana for the first South Summit at a truly historic moment in the evolution of human society. At the dawn of a new millennium, our countries and people stand at the crossroads of history, poised between the achievements of the past and the hope and expectations of a yet uncharted future.
>
> Rather than be passive witnesses of a history not of our own making, we in the South will exert every effort to shape the future through the establishment of a World Order that will reflect our needs and interests while also laying the foundations for a more effective system of international development cooperation. To this end, we undertake to pursue a sharply focused action-orientated agenda geared to implementing a number of high priority initiatives within specified time frames."

Regional Integration, Globalisation and Democratic Stability: A South–South Perspective

Tshediso Matona

INTRODUCTION

As I see it, the topic of this session is about governance; about the issues and challenges that confront governments seeking to integrate economies at both regional and international levels, with the focus on the Southern African Development Community (SADC) and Mercosul.

The notion of governance employed here is a comprehensive one. It refers to the economic and political norms of behaviour and responsibilities of governments at the domestic level, as well as in regional and global contexts. In the domestic context, the norms of governance are negotiated with domestic constituencies, while regionally and globally, they are negotiated with other governments.

Indeed, the theme of this session draws attention to some of the same issues that were addressed at the first SADC–Mercosul conference held in South Africa in 1998.

In attempting to articulate the pertinent issues of this session, I shall therefore build on some of the themes addressed at that first conference. In particular, I shall seek to build on the perspectives expressed at that time by South African Trade and Industry Minister, Alec Erwin. His articulation remains undoubtedly valid.

At the first conference, much ground was covered in identifying some of the issues and challenges of governing the integration processes in SADC and Mercosul. Recent developments in both regions confirm that these are best understood and addressed as issues and challenges of governance that confront economies seeking simultaneously to integrate at regional and global levels.

I believe that SADC and Mercosul's integration processes will benefit if – in terms of recent difficulties experienced by each region – the governments of the respective blocs consciously distil from these experiences, common values, norms and binding rules of conduct, which must underpin the next phases in the integration process.

Indeed, this seems to be the direction in which Mercosul is moving, judging from member governments' current efforts at "renewal" of the bloc after recent tensions.

In SADC, there has been progress as well as new challenges in the drawn-out and difficult process of putting in place SADC's free trade regime, while new political and military tensions have emerged in key parts of the region. At the same time, the proposed restructuring of SADC has been postponed owing to a lack of consensus.

A contrary view could argue that governance should be no big deal in the integration process, because the very imperatives and rewards of economic integration should naturally lead governments to behave rationally and consistently with the imperatives of successful integration.

In reality, however, it is easy to find governments that are both voluntary partakers in an integration project, while simultaneously not seeing themselves as bound by regional responsibilities.

It is logical therefore that explicit and purposeful engagement with governance of economic integration issues has become the decisive and interesting feature of these processes. Evidence of this is the increasing institutionalisation of summits of ministers and heads of government, which are frequent events in these processes. In this regard, it is often remarked how Mercosul has successfully adopted the norm established by the European Union (EU). SADC, for its part, is painstakingly finding its own way to this norm.

Even in the context of the World Trade Organisation (WTO), it was believed necessary to institutionalise a two-yearly ministerial conference – although this has been severely tested by the failure of the Seattle ministerial conference last December.

In addressing some of these issues regarding the governance of integration, I shall ground myself in the South African national experience, and then attempt to extrapolate our issues and challenges to the regional and global level where our government is actively engaged.

This approach follows from the fact that the nation-state remains central to the processes of integrating economies regionally and globally, since the most critical decisions are made at this level. In short, regionalism and globalisation do not remove the need for, nor the responsibility of, national policy making.

1. GLOBALISATION AND REGIONAL ECONOMIC INTEGRATION – GOVERNANCE IMPLICATIONS

In his intervention at the first SADC–Mercosul conference, Minister Erwin articulated the dynamics of globalisation that are impacting on governments' economic policies in domestic, regional and global aspects. He pointed to the immense technological changes, particularly information technology, that are transforming production processes and causing a collapse of boundaries between the domestic and global economies.

In the past, governments – using tariffs – could afford to separate trade from production, and national output from world output. These barriers now have a marginalising effect on economies as trade, investment and communication have become the lifeblood of participation in the global knowledge economy.

Minister Erwin said: "... any economy that is unable to adjust its systems to take advantage of this explosion of knowledge and technology ... will be marginalised."

The Minister went on to discuss the economic adjustments South Africa was making to adapt to globalisation. These included stabilising the financial system, cutting tariffs to bring the cost of production closer to world benchmarks, and creating a labour market dispensation compatible with the country's manufacturing potential.

Turning to the regional dimension of this adjustment, Minister Erwin said: "South Africa cannot adapt to globalisation as 'South Africa' alone. We have to do it as SADC, in the first instance, and then as Africa as a whole".

On the same point, but addressing a 1996 meeting of the WTO General Council, the Minister had argued that:

> "From the region's point of view ... the best option is to generate synergy between the economies of the region. This must require increased cross-border trade and investment. For the rest of the world SADC is a relatively small player and not a major destination for inward investment from world capital markets. But for South Africa and its partners there is no real choice – we have to create a dynamic interdependence."

But Minister Erwin could have been more comprehensive and cogent in his articulation of the challenges and dilemmas posed by South Africa's globalisation-induced adjustments, both from a national and a regional perspective.

First, these challenges for South Africa were not exclusively economic, even though the effects of globalisation expressed themselves more immediately in the economy. The political dimension is also important as it can be a source of counter-productive effects on governments efforts to adapt to globalisation. This poses dilemmas for governments, and I shall share South Africa's experiences with some of these.

Second, South Africa's regional responsibilities make it increasingly imperative that governance in the region be directly and multilaterally addressed by SADC.

Let me start with the domestic political dilemmas South Africa confronts in the process of adjusting to globalisation.

It can be argued that ours are unique historical circumstances within which the South African government is effecting structural economic adjustments. This is because the end of apartheid, the beginning of democracy, and reconstruction and development in South Africa coincided with the world's engagement with the meaning of globalisation – and with the challenges of economic policy and governance it poses.

This coincidence is both an advantage and a challenge. It is an advantage because the democratic "fresh start" that South Africa has been making has also provided the opportunity to simultaneously address domestic, regional and global economic imperatives in an integrated manner.

The challenge is that the government's response is mediated by democratic processes which can slow down the response, even as they potentially impart it with necessary legitimacy and sustainability.

Yet the dilemmas of domestic governance in South Africa are real and telling. Take, for example, the (somewhat cynical) view in this regard of South African business journalist Ann Crotty:

> "It would be difficult to figure out how governing this country could be made even a little more challenging. A coincidence of global trends and local factors appear to be conspiring to deprive the African National Congress (ANC) government of any real power to govern ... Every single group within our society is loudly demanding the rights granted to it by the constitution that makes the UK look like a totalitarian state ... In addition to the racial and religious groups there are the traditional leaders who are demanding their place in the sun. And then there's the black business community that vigorously argues the case for wealth transfer. And, of course, there's the ANC's partners – Cosatu and the Communist Party – who vigorously argue that workers deserve a living wage and decent working conditions. Last but not least, is the white business community which appears to be settling into its perceived role as victim and so withholding its contribution to the economy".*

It is accepted, however, that our history denies us options. Nor is this necessarily an unfortunate circumstance. The sustainability, and therefore the success, of any present-day transformation process of the South African scale will need to be underpinned by a strong democratic consensus.

Adjustment results in winners and losers, particularly in the short term. This places the social fabric and political stability under pressure, requiring that consensus be continually negotiated and renewed to keep the process moving. Expedient alternatives have in the longer term proven potentially costly for the economy and society.

A good case study is with respect to the recent tripartite process (involving government, labour and business) of addressing the structural adjustment of the clothing and textile industry. This involved a drawn out and often tense process of developing a common strategic vision for the sector, and areas where the social partners could work together to improve the competitive position of the sector.

Given that the same industry exists in a number of the region's countries, one might ask what the implications are in the situation where the industry is restructured in one economy but languishes elsewhere in the region, especially where these economies are also having to open each other's markets in the same industry?

It is easy to see how this disjuncture could hamper integration as the efficient allocation of resources and scale economies are impeded, and the gains of restructuring efforts are reduced.

Yet the potential exists for South Africa, Zimbabwe and Mauritius to establish collectively a clothing and textile industry that can compete with the best in the world. This would involve the use of Zimbabwe's cotton, combined with the expertise and industrial capacity of South Africa to develop advanced value-added products.

It is obvious that achieving such regional sectoral synergies requires, in the first instance, shared vision.

The situation in SADC is compounded by the huge imbalance in trade flows, whereby South Africa's exports to the region outstrip its imports from the region by the order of 7 to 1.

Integration in SADC therefore has to involve intense coordination of policies in which trade liberalisation is combined with regional industrial restructuring and the promotion of intra-regional and inward investment in production and infrastructure.

This raises the challenge of the governance of interdependence in SADC. One must ask whether it is justified for citizens of one or more countries in a region to make macroeco-

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nomic sacrifices in order to attract investment for the benefit of the region, only to have the resulting gains stripped overnight by political effects emanating from other regional neighbours.

The costs are not only in terms of discouraged foreign investors, but regional investors too. A recent study of cross-border investment in the region by the consultancy KPMG has found that of the 19 outward investments from South Africa in the first half of this year, all except one (in a resource deal in Mali) went to the developed economies. The study concludes that, just like Europeans and North Americans, South African investors are shying away from the region.

At the last SADC–Mercosul conference, Minister Erwin called on SADC member states to work together and not undermine each other. At the time, South Africa's chief negotiator in SADC Mfundo Nkuhlu, suggested there may be a need to "ring-fence" problematic SADC member states.

But more than moral suasion or threats, what SADC urgently needs is the codification of strong multilateral norms of governance in its founding protocols. Such norms will provide the incentives and penalties necessary to maintain integrity and progress of the integration exercise.

The experience of problems in SADC's integration process – such as the failure of some member states to comply with implementation protocols, and other problems referred to above – should be seen as opportunities for negotiating strong regional rules of conduct, rather than as causes for doubt or disillusionment.

It is ironic that in trading arrangements with the EU and the United States – for example, post-Lomé agreements, the Generalised System of Preferences, and the Africa Growth and Opportunity Act – SADC and other developing countries have agreed to be bound by governance norms which cover such areas as investment regimes, democracy and human and labour rights. Yet there is a seeming lack of enthusiasm to being bound by the same norms in their own regional formations where it matters most immediately.

2. A SOUTH–SOUTH PERSPECTIVE

Minister Erwin said at the 1998 conference that for South Africa, "the Mercosul model of regional integration is one we should like to emulate to a high degree".

But he also envisioned direct links with Mercosul. The Minister's rationale is that with growth rates in the matured economies of the North having levelled off, it is only in economies such as Brazil and Argentina (and India and China in Asia) that high growth rates are conceivable and achievable after centuries of underdevelopment.

This represents a huge potential for developing countries to contribute to each other's development, in much the same way as did the industrialised countries.

This can only be realised if developing countries have the political will to liberalise trade between themselves. In this regard, countries with manufacturing capacity – such as South Africa, Brazil and Argentina – have to lead.

In pursuit of this, the government of South Africa and the countries of Mercosul agreed early this year to initiate a process of exploring reciprocal liberalisation and cooperation between the respective economies.

3. THE WTO AND GLOBAL GOVERNANCE

As the supreme agency in the governance of global trade, it is necessary to bring the WTO into the picture . For SADC and Mercosul, engaging with the WTO is not only unavoidable, but a strategic imperative.

As member countries of SADC and Mercosul develop the capacity to trade regionally, they are simultaneously also acquiring the capacity to trade globally.

For this reason, member countries of SADC and Mercosul – which are also members of the WTO – need to defend continually the view that their regional integration projects are stepping stones to their integration into the global trade system.

The WTO is strategic for SADC and Mercosul in terms of the security and predictability its rules provide for small- to medium-sized trading nations such as South Africa, Brazil and our regional trade partners.

But WTO rules also provide the framework for globalisation. In this way, the WTO has become implicated in the process of globalisation and its consequences.

It has therefore become imperative that WTO rules are designed to achieve clear and equitable objectives. If there is no clarity and agreement on these objectives, the real danger is that the functioning of the world trade system will rely on the interplay of power, under the guise of rules.

Indeed, the current set of agreements and rules that emerged with the creation of the WTO exhibit imbalances and inequities which reflect the exploitation of power imbalance by developed countries in negotiations, frequently in the interests of particular lobbies and transnational corporations (TNCs). These agreements favour holders of intellectual property, exporters of financial and telecommunication services, and other TNC investors who reside in developed economies.

In contrast, in sectors of interest to them, developing countries gained only limited liberalisation, such as in textiles and clothing. Tariff and other barriers to their trade (e.g. antidumping) persist, while they are being prejudiced by the extensive subsidisation of agriculture by the likes of the EU.

Developed countries – having over the past four decades secured most of the trade liberalisation they needed – currently appear to lack the political will to continue to lead global trade negotiations.

However, for developing countries that have adjusted their economies and improved their competitiveness, the WTO remains an important instrument to promote their trade and development through wider and deeper market access, particularly into the developed economies.

CONCLUSION

In light of this, developing countries are the main losers from the failure of the WTO's Seattle ministerial conference to launch new negotiations. This means that the redress and improvements they seek in the trading system have effectively been delayed.

In these circumstances, it is imperative that developing countries build coalitions to effectively step up the momentum to launch new negotiations.

New negotiations must contribute to structural adjustment, particularly in the developed economies, and stimulate an appropriate relocation of production in the global economy. Such restructuring implies substantially improved market access for developing countries and the elimination of a range of protective and supportive measures that shield inefficient industries. This will lay the basis for a new round of global economic growth from which all countries can benefit.

The apparent absence of visionary leadership in the management of the global economy in a way that unlocks growth and development, offers an opportunity for the South to seize the initiative.

Regional Integration, Globalisation and Democratic Stability: A South–South Perspective

Agostinho Zacarias

INTRODUCTION

The logic of regional integration is somewhat contrary to the logic of globalisation. The main objective of regional integration is to maximise the political, economic and social potential contained in a certain region, thereby creating a centralised locus of power that can be used in negotiations and exchanges in relations with extra-regional members.

The basic theory advises to go from a customs union to a free trade area into an economic union with a common market and then to a political union. This sequencing implies preferential, regulated relations among members of the groupings through trade agreements and the relaxation of tariff barriers, also including common legislation and policy guiding relationships with members outside the region.

The logic of globalisation, however, is to transcend regional arrangements and boundaries in the search for better opportunities and effective mechanisms to yield better results across regions. Indeed, globalisation of communications, financial systems, markets and technology, is happening at a very fast rate. It does not wait for countries that are not prepared, nor does it wait for countries to go from one stage of integration to the next. The crude reality is that one is either prepared for globalisation and adjusts, or one is not and then risks marginalisation.

1. TENSION BETWEEN GLOBALISATION AND REGIONAL INTEGRATION

This is a reason for the existence of tension between globalisation and regional integration: logic dictates that one should wait for regional integration to complete or to reach the threshold before attempting global integration. The other source of tension is that today's globalisation is driven by markets and not by people's concerns and inspirations. Profit is the driving force in a historically unequal world, both in terms of resources, knowledge and skills.

Historically disadvantaged governments and states fear globalisation because, on the one hand, they are not prepared to take full advantage of it and to reap the benefits it offers while on the other hand, globalisation further undermines their power. Poor states do not have the level of political and administrative organisation required to take advantage of globalisation. They do not have the financial and human resource bases to absorb technology made available through the process of liberalisation of the global market. Still others lack strategic natural resources and an adequate political environment to attract foreign investment.

Governments find it hard to compete with big corporations in providing employment, education, health care and social security for their citizens. They are not equipped to control the free movement of goods and capital – including laundered money, which is often used to undermine citizens' allegiance to the state. Globalisation of information and communication empowers civil society and makes it more conscious of alternative policies, better living standards, and different modes of social and political organisation.

2. GLOBALISATION'S DISADVANTAGES

The most worrisome aspect is that present globalisation is driven by profit and market expansion that pays little attention to peoples' needs and the particular interests of least developed countries. Competitive markets and profit may be the best incentives for economic growth but they do not guarantee equity within and between countries. It is therefore imperative to think of institutions that can preserve the advantages of globalisation and share them fairly and widely.

If globalisation implies maintaining the status quo or confirming the present trends, the implications are indeed very serious for African countries. The 1999 United Nations (UN) Human Development Report shows an increasing gap between the fifth of the world's people living in the richest countries and the fifth in the poorest countries. One-fifth of the people living in the richest countries produce 87% of the world's gross domestic product (GDP). Organisation for Economic Cooperation and Development (OECD) countries with 19% of the world’s population, control 71% of global trade .

There is also an imbalance in the flow of culture from rich countries to poor. The film industry is dominated by giant corporations in Hollywood that pay little attention to the importance of local cultures.

If we buy the argument that culture shapes behaviour and that people respond well when they are in their own cultural environment, then the protection of local cultures becomes an imperative.

Globalisation therefore threatens to override local cultures and it risks destroying the diversity that makes up the world. Globalisation also weakens the policy autonomy of weak states, especially those that have liberalised their markets and financial systems, thereby increasing their vulnerabilities.

The 1997–1999 Asian financial turmoil demonstrated the perils of a global financial system. Until the mid-1990s, net capital flows to Indonesia, the Republic of Korea, Malaysia, the Phillipines and Thailand sky-rocketed, reaching US$93 billion in 1996, only to decline overnight with an outflow of US$12 billion. Real wages in countries such as Indonesia fell some 40–60%.

On the other hand, privatisation, mergers and acquisitions have caused dismissal conditions and unemployment. Indeed, economic growth has not provided definite answers to unemployment and poverty.

3. THE IMPACT ON AFRICA AND THE OPTIONS

The pressing question for Africa is what the continent can do in the wake of eminent marginalisation, given that Africa is the least industrialised continent in the world. The cumulative impact of the economic reform policies pursued by most countries has pointed towards the de-industrialisation of the continent. Factories that are still operating generally do so at less than 30% of installed capacity. These factories are affected not only by a shortage of skills, but by poor product competitiveness, both on the international markets and at home, where they have to compete with better quality goods.

Globalisation has not done much to improve Africa's share of private foreign direct investment (FDI). Statistics show that this has continued to decline from a peak of US$10 billion (1982) to about US$5 billion (1996). Moreover, the debt burden on African countries compounds the problem. Whereas in the late 1970s, Africa's external debt stood at a mere US$48.5 billion, the figure is now well over US$300 billion. The picture is even gloomier when one looks at Africa's exports and imports as a share of total world trade. These have declined from 4% to about 2% in 1992. A recent World Bank study shows, however, that 37% of Africa's private wealth is held outside Africa, whereas for Asia the share is 3% and for Latin America it is 17%. This implies that even those resources diverted from the public use are not re-invested in the continent, but outside it.

This gloomy picture forces one to examine the options available for the African continent and Southern Africa in particular. Unfortunately, they are not many. As indicated above, the option is not a choice between globalisation or regional integration. Whether one likes it or not, globalisation is taking place and if it has to leave large numbers of countries marginalised, it will. The challenge we face is therefore how to tailor regional integration, or to speed it up in such a manner that it can mitigate the negative impact of globalisation and maximise the benefits offered by it.

4. OPEN REGIONALISM

A solution to this challenge is open regionalism, which should open doors to those aspects of globalisation that are more relevant to the region's needs and conditions. Open regionalism conducted in a variable geometry fashions could promote the growth of domestic and regional markets while offering the necessary protection to the home industry, enabling it to acquire confidence, adequate technology and expertise while accumulating capital.

In order to effect an open regionalism there is, however, a need to get our house in order, both at domestic and regional levels. Violent conflict, HIV/Aids and other issues undermine further the region's ability to embark on regional and global integration. Adebayo Adedeji's 1999 study on conflict in Africa concluded that out of 45 sub-Saharan African countries, 18 were experiencing armed conflict while 11 faced deep political and social crisis. Only 14 countries enjoyed relative political stability. It is worth adding that many in this group are still on the edges of economic reconstruction and none of them enjoy economic prosperity. Economic growth even in the post-apartheid giant South Africa has remained minimal.

Conflict is one of the main causes of this lack of growth. In Southern Africa, Angola and the Democratic Republic of Congo (DRC) are in armed conflict, while Zimbabwe bears much resemblance to a society in armed conflict. Zimbabwe's political volatility is a disincentive for investment flow into the region. Its domestic situation and the fact that three major countries with an enormous potential are involved in armed conflict does not inspire investors to come to the region. Investors also fear that the Southern African Development Community (SADC) split with regard to the DRC conflict, undermines further the possibility of attracting FDI to the region.

The record shows that state institutions still work inefficiently. They often do not respect meritocracy and make no effort to improve the quality of service delivery. Customs, trade authorities, security and investment promotion authorities, among others, still operate under deficient investment codes with complex administration procedures.

Much needs to be done for the region to improve its competitiveness to attract investment and to optimise the use of resources. That main battle is at the domestic level of each state.

There is a need for states to improve their democratic record. Although the region talks much about democracy, it is still uncertain whether all leaders mean the same thing. Still others, like Kabila in the DRC, have done everything to cripple opposition. The relationships between opposition parties and those in power are far from ideal. Often they cannot be seen to represent different perspectives in the attempt to build the same country, but relations between groupings inhabiting different planets and driven by different sets of values and motivations. Democratic governance is very weak, while loyal opposition is yet to be born.

What is required, however, is a move away from traditional ways of thinking and doing business, such as increasing the participation of the private sector in a closed partnership with the government.

5. THE EFFECTS OF HIV/AIDS

In its first session in 2000, the UN Security Council declared HIV/Aids a threat to international peace and security. This is because in 1998 alone, Aids-related illnesses killed ten times more Africans than conflict, while an estimated 24.5 million people in sub-Saharan Africa are infected with virus.

The HIV/Aids pandemic has far reaching implications beyond the affected individual. It challenges human rights and gender relations, it reverses developmental gains and it exacerbates economic crises and human security. HIV/Aids affects the labour force, teachers, the military and entrepreneurs. The UN Development Programme (UNDP) estimates that in 20 years, African GDP will decrease by one-third as a consequence of the HIV/Aids pandemic. The UN also estimates that in 10 years, over 25–50% of personnel in the health, education, security and civil service will die as a result of the disease.

Africans do not yet have access to expensive treatments that may reverse the impact of HIV/Aids, nor do their living conditions mitigate against the impact of the disease. Many countries in the region have not adopted comprehensive strategies in fighting HIV/Aids, in the face of evidence that this disease breeds easily in conditions of poverty.

There is a need to expand cooperation in this area with Mercosul countries, since many have adopted programmes that successfully reversed the impact of HIV/Aids and have reduced levels of contamination. Among other things, this may convince partners in the North to put more resources into development work as a strategy to combat Aids, rather than largely concentrating in the development and production of drugs.

CONCLUSION

If Southern Africa does not improve its governance record it will not be able to attract more investment. FDI is unlikely to flow into the region if it is perceived as problematic and torn by war and conflict. FDI will not increase if Southern African countries do not work towards enhancing the confidence of investors by improving service delivery and provision of incentives to attract investment, thereby creating an enabling environment for economic growth. This requires a transformation of institutions and capacity, in other words, improvements in governance. Public sector reforms introducing better management systems in terms of the civil service, accountable and participatory systems, independent judiciary, and transparency especially in budgeting and in the management of financial resources are part and parcel of building an enabling environment for economic growth.

In order to accomplish the above, SADC needs to restructure and adopt more dynamic working methods. It needs to move away from a sector coordination structure to a more organic structure in which members can harmonise their policies and be held accountable for their implementation. If SADC cannot restructure and tackle all the problems of governance and HIV/Aids, regional integration and inter-regional cooperation will remain a wonderful but unattainable dream.

Shared Regional Challenges: Economic Reform and Strategic Issues

Mark Shaw

INTRODUCTION

The increase in crime across Southern Africa, but particularly in South Africa, since the late 1980s is becoming one of the region's key policy challenges. Yet, the necessity of confronting criminal activity (in particular violent crime) and the reform of the institutions of law enforcement are not confined to the Southern African Development Community (SADC) region alone and also has important implications for Latin American countries. Indeed, crime is one of a broader basket of security and socio-economic challenges that hold out the possibility of greater interaction between the two regions.

High levels of inequality combined with the residues of an authoritarian or colonial past in many of the countries of both SADC and Mercosul suggests significant areas of similarity in the causes of crime. Importantly also, key states in both regions have emerged from periods of authoritarian rule and continue to experience dramatic economic, social and political changes.

While these factors have been shown to be conducive to crime, there have been few attempts for societies that have undergone these to learn from the experiences of others with similar problems.

Apart from similar causes, however, it is worth noting that there are significant (and probably growing) criminal networks between Latin America and Southern Africa – particularly in respect of the illegal trafficking in narcotics – which could constitute important areas of cooperation in the longer term between the two regional blocs. These factors suggest the very real necessity of building stronger law enforcement links across the South Atlantic.

The paper explores four areas:

- The similarities between the causes of crime in the two regions.
- The nature of direct criminal linkages between Southern Africa and Latin America.
- The response of the state and citizens in both areas.
- By way of conclusion, some important areas where region-to-region dialogue could and should be expanded are suggested.

1. COMMON CAUSES

A recent meeting on the challenges of crime and policing in societies in transition held at the South African Institute of International Affairs (SAIIA) in August/September 2000, provided a powerful illustration of the degree to which the causes of crime in countries that have experienced dramatic economic, political or social changes are similar. The conference was attended by representatives from a number of Latin American countries, including Brazil, Argentina, Chile and Peru. Southern Africa was represented by South Africa and Mozambique. The list of attendees was, however, limited only by funding constraints, and a number of additional societies from both the SADC and Mercosul regions – whose experience mirrored those who attended – could have also been included.

A review of the growth of crime in these societies at the meeting suggests that the breakdown of community and related principles of social organisation – including the crime control arrangements and reduced risk for punishment, as well as an increase in opportunities, targets and motivation – are key factors to be taken into account.

The breakdown of social and state controls appears, however, to be the most common factor leading to the growth of crime in diverse transitional societies. Traditional forms of internal social cohesion in such societies are replaced by (or mutate into) a different set of organising principles, including criminal organisations or gangs. In communities threatened by a growing group of criminals, this may take the form of vigilante groups which come to play an important role in local community cohesion.

These factors are exacerbated by high levels of poverty and inequality, an often easy availability to lethal weaponry, high alcohol consumption levels, the disruption or closure of local educational institutions, and a general weakness in the state agencies of law enforcement.

The nature, scale and distribution of crime differs considerably within the states of both regions. While the wealthy are often the victims of property crime, the vast majority of violent crimes are concentrated in the periphery of the large cities, where problems of unemployment, lack of basic housing and social services, including policing, are acute. Brazil and South Africa clearly fit this pattern. In both cases, rising levels of violent crime are partly a result of the increase in the availability of firearms and the growth of criminal organisations that trade in illegal narcotics.

These causal factors are exacerbated by the difficult economic decisions that must be made. Post-authoritarian and post-conflict societies are increasingly subject to structural changes in their economies. While a number of approaches are followed in this regard, transitional societies tend to share the experience of changes in their ownership structure (privatisation), the multiplication of economic actors and the influences of globalisation.

Many transitional societies in both regions also seek to redefine the role of the state by reducing or altering its role in economic activity. In such states, access to newly created opportunities are not equal for all. This factor – combined with the requirement for political legitimacy, and the need to attempt to meet popular expectations – creates contradictory pressures. In societies such as South Africa, these pressures are complicated by the necessity (and stated commitment) to improve the lot of previously disadvantaged groups.

Such frictions are common to states in both Southern Africa and Latin America. There appears to be an abundance of both structural and motivational factors for the involvement of people in “alternative opportunities” both in the context of the informal and the criminal economy. Such recourse to the illicit is facilitated by the breakdown of the mechanisms of formal and social control, including the diminished risks of punitive and/or resocialising reactions. If, over time, poverty and marginalisation are perceived to be a likely reality, the recourse to the illicit is often (particularly for the youth) perceived as the most efficient and low risk avenue to live better now, rather than wait for the uncertain prospects for improvement promised by the state. No amount of political rhetoric about building a new democratic society (except perhaps at the initial stage of collective enthusiasm) matches the economic reality of the unequal access to the new opportunities for wealth.

These factors provide some illustration of the extent to which the causes for crime in the two societies are similar. Despite this, and the fact that current state responses to crime in both regions are largely proving ineffective, there has been little cooperation or sharing of lessons on issues of social crime prevention and law enforcement. On the contrary, crime prevention experience is often drawn from states in North America or Europe – regions that do not have comparable experiences of socio-economic conditions.

Moreover, in both SADC and Mercosul the regional dimensions of crime – represented most clearly by the growth in criminal organisations whose operations span a number of states – are critical in understanding the growth in criminal activities more generally. In Southern Africa, the trend towards regional economic integration has brought with it a growth in the operations of increasingly sophisticated criminal syndicates.

This – combined with the ongoing connections between crime and conflict in the region and the weak capacity of states to counter the problem – means that organised crime has become a significant regional threat. It is these criminal organisations that are providing a more direct link between criminal activity in both regions.

2. CRIMINAL LINKS

Apart from similarities in respect of the causes of crime, there are a number of important and more direct criminal linkages between the two regions. These are based both on historic connections between countries in each of the regions as well as the development of new criminal networks.

One example will suffice. Law enforcement sources both inside and outside of Angola have long identified the country as a source of cocaine entering Southern Africa. Originating in South America, and trafficked via Brazil – with which Angola has strong historic, cultural and language connections – powdered cocaine enters the country mainly by air on the weekly Angola Airways flight from Rio, according to a recent unpublished United Nations Office for Drug Control and Crime Prevention report.

It is difficult to put an accurate estimate on the extent of the problem. What is clear, however, is that Luanda is used as a transit point for drugs destined for the wider markets of Southern Africa, and particularly of South Africa. Seizure figures give only an indication that movement is occurring and are not consistent enough to provide any conclusions as to whether law enforcement interventions are successful. However, anecdotal evidence and interviews with street users in Luanda point to an increase in drug availability over recent months.

Trafficking routes from Latin America appear to be relatively sophisticated. Police sources suggest that Luanda serves as a "portal" into Southern Africa. Smuggling routes from Luanda into the region are seldom direct; police records indicate that narcotics are transported by air to Windhoek or Maputo and then forwarded on to Johannesburg by road, rail or air. Nigerian trafficking groups have in documented cases recruited Angolan citizens to go to Brazil, where they link up with other Nigerians resident there, bringing back cocaine destined for South Africa.

The extent and nature of organised crime in the region means that criminal groups actively seek foreign opportunities (as the above example illustrates) to acquire goods such as drugs, and once acquired, distribute them to the most lucrative regional markets. A brief examination of the rise of organised crime in Southern Africa shows the complexity of the phenomenon and the degree to which it has been linked to political and economic change.

The origins of these extensive criminal networks in Southern Africa are complex. According to police undercover agents, most criminal syndicates had their origins in the late 1980s. These were the result of both foreigners coming into the region to establish legitimate import/export type operations as well as local entrepreneurs. Locals had contacts through which they could acquire a range of resource products such as cobalt, ivory, diamonds or drugs.

From these early relationships, complex networks of crime and profit have been forged. While criminal groups (in many cases just a loose affiliation of individuals) varied in size, they tended to be small, and were based on family, community or tightly constituted ethnic links. For example, Portuguese nationals resident in South Africa used old contacts in war-torn Angola, or newly peaceful Mozambique, to secure their business interests. These contacts in turn used local networks to procure minerals, drugs or weapons for the external contacts. Over time, these networks themselves became sources in their own country, in a growing local market for stolen goods such as motor vehicles.

Developments in Southern Africa have, of course, not occurred in a vacuum. An important parallel development has been the growth in transnational criminal activities during the 1990s. The past decade has seen unprecedented developments in criminal activity that spans national borders. This is the result of a complex inter-relationship between a number of factors. At the most basic level, it is an unhealthy outcome of the process of globalisation – improved trade, communication and financial links have made the world a smaller place, not only for licit, but also for illicit activities. A key element of this has been the growth in the global drug trade.

These factors suggest that crime in both regions must be seen as an integrated phenomenon. National borders are of little importance, or ironically, serve as a means of protection for criminals who skip easily from one jurisdiction to another.

The growth of a network of criminal activity in Southern Africa in particular cannot be separated from political developments in the region. Regional instability, including both weak and unstable states and ongoing conflicts, serve as important drivers of illicit activity.

Despite the strength of organised criminal activity in each region, criminal linkages between Southern Africa and Latin America are not as strong as between Latin America and North America or Europe (although some narcotics are trafficked through Southern Africa to European cities). However, it is likely that if left unchecked the problem holds the potential of expanding.

This underscores the necessity for good regional cooperation among police agencies in each region as well as cooperation between the regional blocs themselves.

It appears that cooperation is currently on a country-to-country basis (for example, between Angola and Brazil, or South Africa and Brazil) and significant region-to-region links in respect of law enforcement do not exist.

3. STATE AND CITIZEN RESPONSES

Whatever the criminal linkages across these states, post-authoritarian states are often, as in South Africa, attempting to secure their hold on the levers of the security establishment.

Multiple challenges exist here. The most common (present in both Southern Africa and Latin America) is the desire to legitimate the old forces of order to ensure that citizens look to the police for safety.

What appears clear is that no amount of urging by political leaders that the police are now legitimate is enough; agencies of law enforcement have to prove their legitimacy through effective operation. A key to building the legitimacy of the police is to ensure effective forms of local control and accountability – in effect, to make citizens believe that the police are responsive to their needs. Here, all transitional societies have to balance the requirement of ensuring local accountability (which remains weak in almost all cases) with centralised control – the desire to manage change from the centre to ensure that it occurs uniformly and that local groups (who in some cases may oppose the central state) do not obtain control of the police in their area.

In the majority of states in both regions, serious problems exist with regard to the standard of police investigations (which have often been reliant on confessions in the past) and poor cooperation with prosecutors, in systems where not much weight has been placed on the presentation of evidence in front of the courts.

The absence of social and community controls and the establishment of a democracy, therefore bring paradoxical forces in countries like South Africa and Brazil. On the one hand, conditions for the growth of crime are enhanced and, on the other, citizens look (as they have never done before) to the state for protection. Given the very real constraints on the post-transition state in delivering effective systems of criminal justice (such as low skill levels, lack of representative institutions and poor resourcing), citizens are likely over time to seek alternative forms of protection such as vigilante groups, and for the wealthy (including the business sector), the increased privatisation of policing and crime prevention.

The parallels among countries in the two regions is striking. In both cases, probably one of the most effective means of controlling and preventing crime in the longer term is the one least open to the state: the re-establishment of effective means of community and social control. Key to the process is the establishment of effective local systems of democracy through which people can exercise their rights and express their grievances, as well as the support of institutions such as churches, schools, sport and youth activities which assist in the building of stronger and more cohesive communities. The difficulty of implementing such projects in poor and fragmented communities is great, since there is the added problem that such initiatives are often difficult to link to reductions in crime in the short term.

The danger in such societies, however, is that responses to crime become increasingly militarised. In many post-authoritarian states this results from the dual pressures of increased public insistence on government to be seen to act against lawlessness as well as pressures from within the security establishment. In respect of the latter, policing organisations which have undergone dramatic processes of transformation (as is the case in South Africa) seek security in operations which they know and are comfortable with, and in any event may be urging as an appropriate response to crime.

The dangers of such approaches in post-authoritarian states is that important gains in respect of human rights may be undercut over time. Such militarised responses to crime control, while they may be often sold as such, should not be seen as the same as problem solving and/or saturation policing in more advanced democracies. The case of the decline in crime in New York in the recent past and the policing approaches used in this respect, are drawn upon in a surprising number of post-authoritarian states (among others, South Africa and Chile) as potential solutions to crime problems. Yet implementation in often fragile democracies carries dangers (or more likely, perceptions to this effect) of a return to authoritarianism.

Comparative experience suggests that while the state is good at breaking down forms of local social control and cohesion, it is notoriously bad at reconstructing these. What is clear, however, is that a concentration on improved law enforcement alone (however necessary) will not stem the long-term crime problems of states in Southern Africa and Latin America. This suggests that the implementation of crime prevention projects as understood in the developed world (and often marketed in transitional and developing societies) is not the most appropriate route. Instead, comparative experience indicates that much greater debate and effort is required to seek alternative ways of rebuilding the social fabric in post-conflict, post-authoritarian and developing societies.

4. BEGINNING A REGION-TO-REGION INTERACTION

All of these factors suggest significant parallels and some connections between states in the SADC and Mercosul regions. High levels of inequality, a history of authoritarian rule and significant problems of security sector reform characterise almost all states of the two regions. In particular, the direct parallels facing South Africa and countries such as Argentina and Brazil in respect of these factors is evident.

Six issues of comparative interest between the two regions would be worth exploring:

- The comparative workings of regional policing arrangements. Regional police cooperation is notoriously difficult to manage given different levels of policing development and complex regional politics. Surprisingly, however, and for a number of very specific reasons, the regional policing arrangement in Southern Africa is comparatively successful and holds important lessons for other such structures.
- Cooperation between SADC and Mercosul would be greatly facilitated by a clear idea of the actual criminal linkages between the two regions. While it is clear that they exist, their actual extent and their impact in each region is poorly understood, as the variable data for illicit narcotics passing through Luanda into Southern Africa illustrates only too well. A study of this nature would also allow a clearer prioritisation of which problems should and could be confronted first.
- The debate on crime prevention and crime control policies has been driven strongly from North America and Europe. Yet, conditions in many developing countries, particularly those experiencing dramatic political, economic or social transitions, are significantly different. In particular, crime prevention is closely associated with the rebuilding of the institutions of local governance and the improvement of community participation. There has been barely any debate between such states, and regional cooperation at the level of SADC and Mercosul would provide a useful initial framework.
- Comparative issues of police transformation common to both regions would be worth exploring. These include the problems of ensuring local level police accountability, the balance between human rights and law enforcement and between law enforcement and crime prevention, as well as curbing problems of police brutality.
- In almost all states in both regions, cooperation between the police and prosecutors is weakly developed. Thus, the problem is acute in both South Africa and Brazil. This is an area of critical importance given the requirement to build effective judicial systems in the context of democracies.
- The development of alternative forms of non-state policing has occurred in both regions, although it varies in strength between countries. Linked to this is the extensive growth in private policing services. Comparing frameworks for the regulation and control of private policing, which have been widely debated and implemented in a few states in both regions, could serve as a useful point of departure in this regard.

CONCLUSION

Whatever the usefulness of inter-regional engagements on law enforcement and crime control might be, they are likely to be subsumed by the more important task of strengthening regional policing arrangements themselves.

It should be emphasised, however, that contacts in this respect do not have to begin at a region-to-region level, or even between governments; non-governmental organisations and academic institutions have an important role to play. The comparative analysis of policy developments in countries and regions with similar causal drivers for crime in the post-Cold War period has developed rapidly in the past number of years. This is likely to yield important discussions as to future policy options for crime control in developing and post-authoritarian states.

Whatever the formal law enforcement links between the two regions, the SADC and Mercosul countries are likely to stand at the centre of these debates.

Shared Regional Challenges: Economic Reform and Strategic Issues

Andrés Rebolledo

INTRODUCTION

I will discuss Chile's experiences with economic reform, referring specifically to the management of its trade policy during the late 1990s.

1. BACKGROUND

From an economic history perspective, Chile's open regionalism trade policy of the 1990s heralded far-reaching change. In explaining how and why Chile moved to open regionalism, allow me to sketch a brief background.

In the 1970s and 1980s, Chile underwent serious economic change. Its model of economic reform rested on four pillars: the first was privatisation, which was fundamental to economic reform and which is still emphasised today. Substantial privatisation took place in the second half of the 1970s and throughout the 1980s. From numbering 400 state companies, there are today only about 35.

The second pillar was macroeconomic fiscal reform, with an emphasis on controlling inflation. The main elements in this regard were therefore control of public spending and social expenditure.

The third pillar was the overall deregulation of the economy in the goods, capital and labour markets. Chile believed strongly in the power of market regulation and that prices should be left to free market forces.

The fourth pillar, and the one I will stress, involves the opening of the Chilean economy. This is also relevant in terms of Chile's negotiations with Mercosul.

In 1970, stiff protective tariffs ranging from 100–150% existed in Chile. When the country began opening its economy, however, gradual tariff reductions were introduced. Today, duties stand at 9% and the intention is for this to be reduced further to 6% for the year 2003. The objective of decreasing customs duties to extremely low levels is a core element in Chile's policies.

In terms of its foreign trade model, Chile's goal was to develop foreign trade in order to improve exports, with exports being the foundation for economic growth. Based on this, Chile's foreign trade policy has been very successful.

The foreign trade sector has become extremely important. From 1970 to 1989, Chile had 900 exporting companies. Today it has more than 5000. Exports during this period increased from US$1 billion to US$9 billion.

Another important issue is the diversification of Chile's export basket. Historically, Chile has always been an exporter. In the past, exports represented 80% of the economy, but their importance has over time decreased, now standing at 40%. This area therefore needs to be addressed.

2. RECENT HISTORY

We come now to the year 1990, where the main elements for this period will explain why Chile opted for open regionalism.

Firstly, the restoration of democracy in Chile at that time allowed it to reclaim its place in the international and Latin American economies. (Chile's main trade partners are in Latin America.)

Secondly, Latin America had had some experience in terms of economic reform, with many countries in the region having made much progress in this area. From the perspective of opening the regional economy, it was therefore important to begin negotiations and the process of economic reform.

Third was the ending of unilateralism.

Chile initially opened up its economy without taking into account its economic partners. By 1991 it realised that, after 15 years of opening, the allocation of resources and profits had been fully achieved. Chile was at the time also the country with the lowest customs duty, at 11%.

Taking all these factors into account, Chile wished to enhance its exports within Latin American. As a result, Chile’s trade policy was completely changed and focus was placed on negotiating free trade agreements (FTAs) with most of the countries in Latin America. This was achieved between 1991 and 1997, and an FTA was also concluded with Mexico during this time.

Today, Chile has 10 FTAs with 16 Latin American countries, creating a market of some 500 million people in which exports have increased 25 to 30 times.

Based on the following three indicators, Chile’s policy design seems to have been successful:

- Latin America is an ever important market for Chile.
- Latin America is the region that buys most of Chile’s manufactured products.
- Although this was not one of the intended goals, Chile is investing abroad. This is a completely new process, and is concentrated in Latin America.

3. ECONOMIC INTEGRATION

Having consolidated our activities, Chile is now in the process of designing its new trade policy for economic integration. This policy includes becoming a full member of Mercosul, thereby broadening the FTA and reducing customs duties.

Although Chile is not formally part of Mercosul, based on its Agreement of Association, it does participate in several political instances, including the Summit of Presidents which is held periodically. Chile also participates in several working groups as an observer.

There is, however, a political commitment on the part of our President for Chile to become a formal member of Mercosul. For Chile, Mercosul is a project of the utmost importance. Chile's integration into Mercosul is seen as being fundamental at the economic, commercial and political levels.

Chile also believes that such trade blocs reinforce democracy, reducing conflicts in the medium- to long-term, and that these factors further impact on trade relations.

From an economic perspective, Mercosul is important for Chile because of the development of its manufactured products. At present, 70% of Chile’s imports are non-traditional products and are different to the products that Chile exports. They are labour-intensive and produced largely by small- and medium-sized companies.

From the political and economic viewpoint, it is difficult to foster this type of sector in a domestic economy. Furthermore, it is an interesting market, both in terms of trade and investment. As already mentioned, 60–65% of Chilean overseas investment – US$45 billion in the past few years – has been geared towards the markets of Latin America, and more specifically, Argentina and Brazil.

Another reason why Chile is keen to become a full member of Mercosul is because the bloc is presently undergoing change what with its “relaunch” a year ago. This means that many matters are pending and, politically, it is wise to take part in Mercosul and to become part of this relaunching process.

Some other issues involved have already been discussed in the bilateral fora between Mercosul and Chile, and these will be vital for Chile in the future. These include institutional issues – i.e., mechanism that will enable us to solve problems jointly, and that will allow for private sector participation.

Another issue is the coordination of macroeconomic policies. The goals in this area are fixed, and all that is now needed is enforcement. Clear monetary and fiscal policies must be designed based on criteria that have been previously agreed by both Mercosul and Chile.

4. MAIN POINTS OF NEGOTIATION

The main points of negotiation in terms of Chile’s entrance to Mercosul include the following:

Based on what has been mentioned regarding Chile’s tariff policy, the difference in tariff levels between Chile and Mercosul poses difficulties. Greater convergence is required in terms of these tariffs and customs duties, and the challenge is to reach a common objective in this regard.

A second point is the harmonisation and coordination of public policies in general, not only macroeconomic policies. These policies must be clear and compliance must be enforced. Regarding public policies, we are referring to, for example, taxation, labour and environmental policies.

The concept of an open market implies the existence of competition. This will also be relevant in terms of Chile's joining Mercosul.

Another topic being debated – and one that will need a great deal of creativity to solve – refers to the compatibility of Mercosul and Chile working with third markets.

Interestingly, significant negotiations with third markets have been undertaken jointly by Chile and Mercosul. I refer here to our negotiations with the European Union and the Free Trade Area of the Americas. Once again, this is one of our greatest challenges and we need to coordinate policies in this area.

A final issue refers to restrictions in the Chilean economy, for example, regarding agriculture. Negotiations on agriculture have been, and continue to be, important worldwide and are pivotal in the Chile–Mercosul negotiations.

CONCLUSION

The Chile–Mercosul negotiations are at a crucial point. We believe our inclusion in Mercosul will have important future economic and political consequences. Chile is therefore taking this process very seriously and is confident of positive results.

Shared Regional Challenges: Economic Reform and Strategic Issues

Armando Castelar Pinheiro

INTRODUCTION

During these proceedings, three possible avenues of cooperation between Mercosul and the Southern African Development Community (SADC) zones have been discussed.

The first was trade along a classical basis. The consensus, however, is that the similar resource bases in the two regions meant there is apparently little room for increased trade along these lines.

The second avenue for cooperation is investment, but prospects here are seen as not very good either.

The third, more popular avenue and the one that has the most potential for close cooperation between the two trading blocs, is cooperation in multilateral fora, such as the World Trade Organisation (WTO), the United Nations (UN) and the Cairns Group.

Fourth, Mark Shaw has discussed the possibility of cooperation around policies in general, citing crime fighting and law enforcement as particular examples. He has pointed out how similar the two regions are and stated that much could be done together, either by copying best practices or cooperating directly through law enforcement agencies.

1. STRIKING SIMILARITIES

I would like to reiterate what Shaw mentioned regarding the relevant differences and similarities between Mercosul and SADC. The differences, of course, include the number of countries comprising the blocs as well as per capita incomes within the two blocs. I think, however, that we have tended to overlook the many similarities between the regions. Per capita income is very different across blocs, but if one examines Brazil and South Africa, one is struck by the fact that these countries have about the same per capita income, in purchasing power parity terms. Both regions, too, are natural resource-rich countries, and share similar income distribution and crime patterns. In terms of geographical location, the blocs are closer to each other than to the main economic regions in Europe or North America.

After hearing Andrés Rebolledo's presentation, it struck me that the history of two regions over the past 50 years is quite similar. Both regions spent a large part of the 20th century living under non-democratic regimes.

They also pursued similar economic policies, including import substitution, and some countries in SADC went even further to adopt altogether socialist models of production.

Widespread state ownership – large government intervention in policy in general – is another feature that characterised both Latin America and Southern Africa.

The presence of totalitarian governments in the two regions explains, to a certain extent, why links between the two blocs were in the past so weak. During that time, Brazil and other Latin American countries had no close diplomatic relations with countries in Africa; close political links did not even exist in (what was to become) SADC itself.

Trade flows across regions were, of course, not encouraged under these closed economic policies. In this respect, therefore, the move towards trade liberalisation in both regions is the reason behind the desired increased cooperation.

Trade liberalisation throughout Latin America is very important to Southern Africa. Although privatisation has gone further in Latin America than in Africa, it is current policy in both regions.

Deregulation of the domestic economies is also under way and rules preventing free economic activity have been discontinued over the past 10 years, creating an environment that is much more favourable to inter-regional cooperation. The two regions also share similar agendas on policy reforms to be carried out in the next few years.

2. FURTHERING COOPERATION AND REFORMS

This brings us to the issue of cooperation on government policy. An example here, as Shaw mentioned, is law enforcement.

Much still needs to be done in both regions in terms of consolidating democratic regimes. Recent experiences in Colombia, Equador, Peru and, to a much lesser degree, Bolivia point to this, and similar examples can be found in Southern Africa.

I also believe that both regions still have much to do in terms of furthering their economic reforms. Firstly, and as top priority, income distribution must be improved. This should be aimed at attacking the high rates of poverty in both the Mercosul and SADC regions. Previous attempts have met with little success. In this regard, there is room for close cooperation; the regions can jointly examine policies that will target the more efficient use of resources.

Secondly, good public governance – read fiscal discipline – is required. This includes low inflation, market-oriented policies that encourage accountability in the use of government subsidies. Again, I think cooperation between the two regions could be successful in this area, and that such cooperation would create greater commitment to pursuing these policies.

Thirdly, is the need for similar market reforms in both SADC and Mercosul. More needs to be done by way of trade liberalisation. Included here is the need for further privatisation, as well as labour market, social security, tax and capital market reforms to bring about better corporate governance.

The need for institution building is the fourth area of concern. The relatively recently established democratic regimes on both sides of the Atlantic need time and room to consolidate. In terms of this, regulatory agencies need to be strengthened, making them more independent and efficient, with a better understanding of their role in a democratic, market-oriented economy.

Lastly, the high levels of crime and corruption in both regions must be stamped out.

CONCLUSION

Since there are many common problems, policies should have a high degree of complementarity. It is also important in this regard to pursue best practice, thereby reducing risk, specifically to investors.

If such policies are perceived as commitments established at international level, I believe they will have more impact. This has been shown to be true in the trade area, where there is a perception that openness is here to stay because it has been entrenched in so many international agreements.

Conclusions: Taking the Relationship Forward

Boris Yopo Herrera

INTRODUCTION

Why are we looking sideways? By this, I mean why are Mercosul and the Southern African Development Community (SADC) changing focus from intra- to inter-regional trade?

1. WHY ARE WE LOOKING SIDEWAYS?

I believe there are three main answers to this question. First, both regions are now facing the challenges posed by globalisation.

Second, we have discovered a commonality of history and interests. The countries comprising SADC and Mercosul are, among other things, both going through economic reform programmes, they have both recently opened their economies, regained democracy and are trying to reconcile their societies.

Third, all countries are today looking for new partners and alliances in a world that is rapidly changing. In the context of this emerging new global order, it is therefore imperative to seek new partners within a "flexible geometry" strategy that maximises the capacities of the nation-state. In other words, countries are seeking to coordinate a multiplicity of actors at different levels to promote their national interests.

This means that although priority is still given to regional neighbours and main trading partners, many countries – including those in SADC and Mercosul – are seeking to work with other "like-minded" countries. That is, countries that share common views and foreign policy goals, and that by working in a concerted manner, have a more powerful voice in the shaping of the international agenda.

In this sense I believe Mercosul and SADC share global approaches to international problems. There may be small differences of perspective when debating complex issues such as democracy and economic reform, but basic commonalities and convergences exist.

2. FOCUS

To begin with, it is essential to focus and to identify areas where concrete cooperation and advancement of trade is possible. In this regard, we should seek ways of giving more support to, and promoting the interests of, small- and medium-sized enterprises (SMEs), as well as involving them more in the dialogue between Mercosul and SADC.

Large companies usually have their own networks and do not need much support, but SMEs – especially exporting companies interested in establishing themselves in Southern Africa or in the southern cone of Latin America – should be promoted and encouraged. Specific steps should therefore be taken to facilitate business and investment for SMEs, especially considering that these are labour intensive and, proportionately, create more jobs in comparison with large transnational companies.

The issue of political will has also been addressed several times in these proceedings, and in this respect, the President of South Africa as well as the presidents of Mercosul countries share common political ideas and are generally supportive of the process of globalisation. They have met several times this year in different fora throughout the world.

It is no accident that President Mbeki has been invited to address the December 2000 Mercosul Heads of State summit in Florianopolis.

There is, I believe, strong feeling among the presidents regarding preferred approaches and policies that must be implemented sooner rather than later, to face the challenges of globalisation. At the same time, however, they are concerned about the negative effects that some globalisation trends have on the poorest sectors of society. They therefore see a role for society, government and civil actors within market economies in order to address the challenges posed by the so called "digital divide" that is increasing the gap between the haves and the have not's in today's world.

However, to advance in this "horizontal" relationship between SADC and Mercosul in the near future, it is important to devise new strategies that are realistic about current possibilities and opportunities, and at the same time flexible and adaptable to take advantage of the changes that are taking place in the economies of both regions. As has been stated before, the "step-by-step" or "building block" approach seems the most plausible and effective means of achieving concrete goals in the following years, because as other cooperation experiences show, it is success that breeds success in a long-term relationship. In this regard, it is important to focus by identifying areas where cooperative efforts and advancement of trade and investment is possible, a process that can be strengthened by, among others, facilitating customs and administrative regulations that often tend to be an important obstacle for potential investors and exporters. It is also relevant to think of more effective "promotion policies" that put both regions more permanently on the "cognitive map" of government and business leaders.

Another point I would like to raise is the issue of joint ventures. Although the two regions compete in many areas such as mining and wine production, this does not rule out future cooperation. Today's global world is about the co-existence of rivalry and cooperation.

CONCLUSION

We must now define a working agenda for the next few years, which takes into account the complexities and limitations of the relationship. It must be specific about exploring future opportunities to further strengthen the bonds that already exist between Mercosul and SADC.

Finally, much work must still be done around democracy issues. The South American southern cone countries and Africa (through the Organisation of African Unity and SADC) have over the past ten years both made much progress in this regard, but there is still some way to go.

Free and fair elections are the essence of democracy, but an effective Parliament, an independent judiciary system and a free press, are essential to achieve this. Grey areas still persist and must be addressed.

I would encourage further dialogue on consolidating democracy, because this is an essential issue for the development and the well being of our societies.

Towards a South Atlantic Free Trade Area? The Business, Trade and Investment Dimensions

*Heinz-Michael Stahl**

BACKGROUND

The first conference on "Mercosul[1] and SADC[2] – Regional Integration in the South", held in Johannesburg, South Africa during October 1998, resulted in a plea for closer South–South cooperation between the two regional blocs. The two groupings have common historical and cultural links and shared interests in many fields. The economies of the countries of the two blocs seem to be characterised by a significant degree of complementarity, which could serve as a basis for an intensified commercial exchange of goods and services, mutually beneficial to both blocs.

Over the past two years, significant developments have brought about considerable changes for both Mercosul and SADC, particularly in the area of trade. This paper undertakes to review these changes with respect to SADC, and draw conclusions on how these developments may have a bearing for the scope and prospects for trade integration between the two blocs in the form of a Trans-South Atlantic Free Trade Area (FTA).

1. TRADE DEVELOPMENTS IN SADC SINCE 1998

Over the past two years, SADC experienced fundamental changes in its trade environment, emanating from such cornerstones as the:

- entering into force of the SADC Trade Protocol
- European Union (EU)–South Africa Trade and Development Agreement
- expiry of the Lomé IV, replaced by the Cotonou Agreement
- Comesa (Common Market for Eastern and Southern Africa) Free Trade Area
- African Growth and Opportunity Act (AGOA).

In what follows, the paper reviews the significance of each of these agreements and identifies the relevance for SADC and Mercosul–SADC trade relations.

1.1 SADC Trade Protocol

1.1.1 Evolution and content

The SADC Trade Protocol was signed by 11 SADC Member States (all except Angola, the Democratic Republic of Congo (DRC) and the Seychelles) and was implemented on 1 September 2000. Through the implementation of the Trade Protocol, SADC Member States will create a SADC FTA. It is expected that by 2008 some 85% of intra-SADC trade will be liberalised. Tariffs on sensitive products will be phased out by 2012.

After intense negotiations among Member States from early 1999 to September 2000, SADC reached agreement on a critical mass of the difficult technical provisions regarding the implementation of the SADC Protocol on Trade. As a result, Member States were able to ratify the Protocol and agree on 1 September 2000 as the start for the gradual liberalisation of intra-SADC trade. At the centre of the negotiations were the rules of origin determining the products considered of SADC origin, thus enjoying preferential treatment under the Trade Protocol. The most important implementation provisions so far approved, can be summarised as follows:

- Intra-SADC trade will be governed by product-specific rules of origin, determining on a chapter-by-chapter – and sometimes a prod-

uct-by-product basis – the requirements for substantial transformation of imported materials from third countries.
- For products for which the required inputs are available in the region in the necessary quantities and quality, the negotiated rules of origin establish that products must be "wholly originating" – i.e., the inputs have to be from the SADC region. This applies, in particular, to agricultural products.
- Most important in the context of the negotiation of the SADC rules of origin, were textile and clothing products (chapters 50 to 63). The negotiated agreement for SADC trade in these products is as follows:
  – In principle, intra-SADC trade in textile and clothing products under the Trade Protocol's rules of origin requires two-stage transformation.[3]
  – Exports into the Southern African Customs Union (SACU) of such products originating in non-SACU developing countries – Malawi, Mozambique, Tanzania and Zambia – will be exempt from the two-stage transformation requirement for a period of five years, subject to quota limits. No final agreement has yet been reached whether such imports into SACU within the quota limits are duty free, or not.
  – Specific exports of clothing products produced with man-made fibres originating in Mauritius and Zimbabwe may also be exempt from the two-stage transformation condition (negotiations ongoing).

  A Textile and Clothing Committee will monitor the agreement and continue negotiating on specific pending issues. The agreement paves the way for gradual tariff reduction for intra-SADC trade in textile and clothing products.
- Negotiations on rules of origin for trade in milling products (chapters 11 and 19), fuels (chapter 27), electrical machinery and equipment (chapters 84 and 85) and optical, photographic and medical equipment (chapter 90) are ongoing.
- For sugar, an agreement was reached providing for a gradual increase in the sugar producing non-SACU SADC Member States' market access into SACU, based on quotas.
- Member states will liberalise tariffs on trade according to three product groups: products for immediate and gradual liberalisation, respectively, and sensitive products, for which tariffs are liberalised only towards the end of the transition period to the SADC FTA.
- Tariff liberalisation in SADC will be effected in an asymmetrical fashion, whereby the more developed member states liberalise tariffs more quickly than the less developed ones.
- Non-tariff barriers will be eliminated according to a time schedule still to be agreed upon. The emphasis will be on the elimination of core non-tariff barriers (e.g. export subsidies, import licensing).
- In view of the importance of trade in agricultural commodities in SADC, a Coordination Committee on Sanitary and Phytosanitary and Technical Barriers to Trade (CC-SPS/TBT) was set up to work towards eliminating trade barriers in this area as well as harmonising national SPS/TBT measures.
- SADC legal experts have elaborated an interim dispute settlement mechanism to underpin Trade Protocol implementation pending the coming into force of the SADC Tribunal.

SADC has therefore made considerable progress in the quest for an integrated trade bloc for the region, although negotiations among member states continue with a view to reaching agreement on the outstanding issues.

1.1.2 Implications

A very large share of intra-SADC trade has been carried out duty-free even before the coming into effect of tariff liberalisation under the SADC Trade Protocol. The reasons for this are the existence of:
- SACU, a long-standing customs union of which five SADC members are party, accounting for some 82% of the Trade Protocol signatories' gross national product (GNP). By far the largest part of total intra-SADC trade takes place among SACU members
- a Comesa FTA as of November 2000, eliminating tariffs on a large part of trade among non-SACU SADC member states[4]
- a number of bilateral agreements between SADC Member States, covering a large amount of intra-SADC trade among members of the two sub-blocs, SACU and non-SACU SADC.

For the remaining trade flows, the implementation of structural adjustment programmes in non-SACU SADC Member States has provided for quite low tariffs on trade flows from SACU into non-SACU countries. As a result, the most important practical significance of the SADC Trade Protocol is to liberalise access to the SACU market for non-SACU SADC countries' exports.

One can go a step further and say that the SADC Trade Protocol focuses basically on the preferential liberalisation of access for non-SACU SADC countries' exports into the market of South Africa. The smaller SACU member states are comparatively insignificant in terms of market size, compared with that of South Africa: South Africa's economy accounts for 91% of SACU's gross domestic product (GDP) and, indeed, even for no less than some 75% of the GDP of SADC.[5]

Furthermore, a significant share of the trade flows between the BLNS countries (Botswana, Lesotho, Namibia and Swaziland) and non-SACU SADC countries are covered by bilateral agreements.[6] Finally, non-SACU SADC countries have a similar production structure to the BLNS but a complementary one to South Africa. This results in a much larger scope for enhanced trade relations with the latter. Thus, as a consequence of the Comesa FTA and the structural factors outlined, the SADC Trade Protocol predominantly plays the role of a mechanism to liberalise non-SACU SADC countries' access to the relatively huge market of South Africa.

Regarding trade flows from SACU into the non-SACU SADC subgroup, member states of the latter subgroup are not so much concerned about imports from the BLNS states,[7] but about imports originating in the huge and highly diversified economy of South Africa. Non-SACU SADC Member States raise by far the largest part of import tariff revenues from intra-SADC trade on imports from South Africa. At the same time, they see their industries threatened by competition mainly from South African exports.

The SADC Trade Protocol negotiations took this fact into account by allowing non-SACU SADC Member States to formulate differentiated tariff reduction offers to their SADC partners. One offer is directed towards South Africa's exports and provides for a relatively slower tariff phase-down, while the offers covering exports originating in all other SADC Member States are more liberal.

Non-SACU SADC Member States see their most significant comparative and competitive advantage in the SACU and South African market in the textiles and clothing sector. This sector has clearly demanded the most difficult and long-lasting negotiations; a final agreement has not yet been reached. On the side of non-SACU SADC, this is the area in which SADC Trade Protocol implementation has the potential to provide real tangible benefits.

On the side of SACU and South Africa in particular, two parallel impacts have to be weighed against each other. Higher imports of textiles and clothing products from non-SACU SADC into SACU, and South Africa in particular, could kick-start long-term growth and development processes in the relatively less-developed member states and ease pressure on the South African labour market emanating from immigration. Furthermore, such development in the less developed parts of SADC will increase demand for South African/SACU exports and enhance the attractiveness for (foreign) investment in the region as a whole. At the same time, however, increased non-SACU SADC exports of textiles and clothing products into South Africa/SACU may result in unemployment in sensitive labour-intensive sectors for an economy with chronic social and unemployment problems.

The prolonged and difficult negotiations on the SADC Trade Protocol yielded good insights into SADC Member States' trade policy stance at national and regional levels, which can be summarised as follows:

- There is more than one camp influencing and determining South Africa's trade policy. These camps do not have a similar or coherent position on South Africa's trade policy stance, in particular with respect to the priority of the long- relative to the short-term impacts of SADC trade liberalisation (see above).
- Among the non-SACU SADC countries, attitudes towards regional trade integration are also divided in two different camps. In the case of non-SACU SADC, however, the controversy is not over priorities regarding short- and long-term effects, but between fiscal versus competition and growth effects. The fiscal camp looks upon trade integration warily, since it will have a negative bearing on the government's budgetary revenues

from tariffs. The competition and growth camp considers SADC trade integration a must for small economies to be able to reap economies of scale, enhance productivity and competitiveness and pave the way for these economies' integration into the global economy. The predominant position of the Ministry of Finance in a country's government tends to give more weight to the fiscal camp.
- SADC as a whole seems not yet to have embraced the potential growth and competition benefits of deep integration (irreversible locking-in of trade liberalisation commitments). As a result, dynamic growth benefits of trade integration resulting from new (local, regional and foreign) investment are less likely to materialise quickly. Most countries tend to see all their industries as candidates for protection on the basis of "infant industry" considerations, rather than accepting shrinkage in some, expansion in others (adjustment of production structures).
- The SADC Trade Protocol negotiations are far from over. Very difficult compromises on highly sensitive issues (textiles and clothing) still need to be reached. Even after having struck such compromises, the SADC Trade Protocol can only be considered a first step towards real and deep intra-SADC trade liberalisation. It is hoped that member states will lose their fears of integration once they have gained some experience with the new trade dispensation and have reaped some initial dynamic benefits.
- The SADC Trade Protocol dispensation, as negotiated now, represents a highly complicated agreement. It remains to be seen whether customs administrations and private businesses are able to take advantage of the implementation provisions, particularly with respect to the product-specific rules of origin. The real trade liberalisation impact of SADC Trade Protocol implementation awaits empirical evidence.
- The administrative and human resource costs of negotiating an implementation agreement for the SADC Trade Protocol were fantastic. At times, member states' shortage of specialists able to formulate national negotiating positions, and the regional institutions' insufficient capacities to organise meetings and to facilitate the negotiations, represented a major hurdle for progress.

1.2 EU–South Africa Trade, Development and Cooperation Agreement

1.2.1 Evolution and content

The EU committed itself to assist South Africa in its democratic transition initiated after the elections in 1994: in October 1994, an interim agreement was signed between South Africa and the EU, involving access to the European Programme for Reconstruction and Development (EPRD), European Investment Bank (EIB) soft loans and support to small-, medium- and micro-sized enterprises (SMMEs), extension of industrial generalised system of preferences (GSP) and – in January 1997 – agricultural GSP. South Africa's request to be granted preferential market access based on the Lomé Convention, enjoyed by all of South Africa's neighbours, was turned down by the EU in 1995. Instead, the EU Council of Ministers formulated a Negotiating Mandate for the European Commission, offering South Africa "to initiate a process leading to progressive and reciprocal liberalisation of trade with a view to establishing a FTA". The objectives of such an agreement should be to:
- support South Africa in the consolidation of the economic and social foundations of its transition process
- promote economic cooperation and contribute to sustainable economic and social development
- encourage the smooth integration of South Africa into the world economy.

South Africa accepted the EU proposal to negotiate an FTA on three conditions: the agreement should provide for an asymmetrical trade dispensation; it should address the impact on the other SACU economies; and it should go beyond a mere trade agreement and incorporate a development assistance programme.

After protracted and difficult negotiations, South Africa and the EU, in September 1999, signed a Trade, Development and Cooperation Agreement (TDCA). The implementation of the TDCA was threatened even after its signing due to vested interests of the EU's southernmost member states of Portugal, Spain and Greece opposing the use of trade names (port and sherry) for fortified wines and spirits produced in South Africa.

The TDCA entered into effect on 1 January 2000. It opens up the South African market to 86% of EU exports, progressively lowering tariffs over a 12-year period; the 15 EU economies, on the other hand, would phase out tariffs for 95% of South African exports over a 10-year period (asymmetry). The EU, South Africa's largest export market and most important source of foreign investment and development assistance, pledged to drop average duties on South African exports from 2.7% to 1.5%; South Africa, for her part, agreed to cut average duties on EU exports from 10.0% to 4.3%.

The TDCA provides for significant exceptions from tariff liberalisation for a large number of products. For agricultural products, South Africa had to accept to scrap tariffs on some 95% of EU agricultural exports, while the EU agreed to unrestricted access to only some 61% of South African farm products and a partial liberalisation on another 13% (including table wine). This discrepancy is a result of the EU's protective Agricultural Policy. The effect is further compounded by the generalised practice of subsidisation of agricultural production in the EU. Overall, South Africa has not been granted as wide and deep market access to the EU in the area of agricultural products, where her producers have their strongest comparative advantage, as had been initially hoped for. This is of concern in view of the agreement's initial objective of providing a vehicle for EU support to South Africa's post-apartheid economic and social transition and consolidation.

1.2.2 The impact of the agreement

In view of South Africa's membership in a customs union with her four smaller partners (Botswana, Lesotho, Namibia and Swaziland), South Africa's trade liberalisation agreement with the EU de facto exposes not only her own producers, but also those of the BLNS countries immediately and directly to stiffer competition from EU producers. This will have a special bearing on Lesotho as a least developed country (LDC). On the other hand, studies have argued that competition between EU products and BLNS products is quite limited since quality and technological characteristics make EU products and BLNS products different and not competing for the same market segments.

Another important aspect of the TDCA is the fiscal impact. As a customs union, the five SACU countries share a common pool of customs revenues levied on imports from third countries. Customs revenues are divided among the five SACU members according to a revenue-sharing formula, which was revised recently. Customs duties provide about half of total government revenue in the case of Lesotho and Namibia, about one-third in the case of Swaziland's budgetary revenues and some 14% in the case of Botswana. Thus, the TDCA signed by South Africa and the EU has far-reaching repercussions also on South Africa's SACU partners with respect to the funding of these countries' overall government expenditures, particularly after 2005. The EU has committed itself to providing support for SACU governments and the private sector to cope with the challenges emanating from the TDCA.

Regarding the wider impact of the TDCA on the 14 SADC countries, the gradual and linear tariff liberalisation provided for under the TDCA as from year one – including for certain sensitive products with which SADC Member States' producers compete in the South African and SACU market as a whole – is particularly relevant. The TDCA's implementation of tariff cuts for EU products as of January 2000 represents an erosion of those preferences which South Africa and SACU can and will extent to her non-SACU SADC partners under the SADC Trade Protocol. To minimise this erosion of preferences for South Africa's SADC partners, the SADC Trade Protocol has to be implemented as quickly as possible.

The erosion of preferences and the revenue loss effects resulting from the TDCA for South Africa's partners in SACU and SADC respectively, are obviously not limited to an agreement with the EU. They would result, *mutatis mutandis*, from a potential free trade agreement between SACU and Mercosul or between South Africa and Mercosul, or one or two of its member states (Brazil and/or Argentina).

1.3 Expiry of the Lomé IV and its substitution by the Cotonou Agreement

1.3.1 Evolution and content

The Lomé IV agreement provides for preferential market access into the EU for all SADC countries, except South Africa. The agreement expired in March 2000. The Cotonou Agreement signed in June 2000 agrees, however, that the Lomé preferences will be upheld during the period 2000–2008. The EU will reduce tariffs to zero by 2005 on almost all imports from LDCs on the basis of GSP. The Sugar, Beef and Veal Protocols will remain unchanged, but will be subject to a review in the context of negotiations for a new trading arrangement.

The African, Caribbean and Pacific (ACP) countries will start negotiations with the EU on Regional Partnership Agreements (REPAs) by September 2002. Market access into the EU for non-LDC ACP states which decide not to enter into a reciprocal trade agreement with the EU will be assessed in 2004.

Progress of the negotiations on REPAs will be assessed in 2006. The new trading arrangements will enter into effect in January 2008. It is expected that ACP countries will begin liberalising their trade with the EU from 2008 over a 12-year period.

The period 2000–2002 is considered a preparatory period during which the ACP countries will step up regional integration efforts and develop capacity for the forthcoming trade negotiations with the EU.

The EU envisages that the trade negotiations to be undertaken between 2002 and 2007 will result in a World Trade Organisation (WTO)-compatible agreement, characterised by the principle of reciprocity. The EU believes the TDCA between South Africa and the EU could serve as a prototype for a REPA between the EU and SADC.

All SADC countries are signatories to the Lomé,[8] and all but South Africa to the Cotonou agreements. Within SADC, levels of economic development vary widely. In terms of WTO classification, South Africa is classified as a “developed market economy”; Botswana, Namibia, Mauritius, Seychelles, Swaziland and Zimbabwe are classified as “developing countries”, while Angola, the DRC, Malawi, Mozambique, Tanzania and Zambia are “least developed countries”.

1.3.2 Implications of the REPA negotiations

SADC is considered a logical partner in Africa for the EU to enter into a REPA, since SADC represents a relatively strong regional grouping of countries bound together by cooperation agreements in many areas (20 sectors), as well as close historical, cultural, social and political links. Negotiations by SADC Member States with the EU on a REPA will, however, be significantly complicated by the startling differences in economic development within SADC; overlapping multiple trade agreements to which SADC Member States belong simultaneously (SACU, Comesa, IOR, EAC); and the limited human and institutional capacities at the regional and national levels, which severely hamper the ability to negotiate a complicated new trade dispensation with the EU.

SADC Member States will not be able to accept the notion that the EU–South Africa TDCA can serve as a prototype for a REPA between SADC and the EU. The different classification applying to SADC Member States in accordance with the WTO differentiation of development, as well as the EU’s own policy to extend qualitatively different concessions in terms of market access to LDCs, LLDCs, island and landlocked economies, confirms this position.

On the other hand, the traditional and entrenched trade, financial and political links which SADC countries maintain with the EU as a regional grouping, and with individual EU member states, will make the complicated negotiations with the EU on a REPA a very important event for SADC. All human and institutional capacities will have to be engaged for the negotiation of a new and beneficial trade dispensation with the EU.

The Lomé and Cotonou agreements may not have changed the technical provisions underlying SADC Member States’ trade relations with the EU at present. But the fact that the trade relations with the EU are absolutely vital for SADC and that the respective trade dispensation will be subject to a fundamental renegotiation, will leave only very restricted technical and human capacities available for the negotiation of potential new trade agreements with other regional groupings, such as Mercosul.

1.4 African Growth and Opportunity Act

1.4.1 Evolution and content

In mid-2000, the United States (US) Congress and Senate approved the African Growth and Opportunity Act, which adds to the US’ GSP[9] a special eight-year programme designed to enhance market access for designated sub-Saharan African countries. It provides duty-free access to the US market for exports from Africa, with the exception of some agricultural products. AGOA entered into effect on 1 October 2000. The new export opportunities for sub-Saharan countries are likely to prevail beyond the initial eight-year period, either through extension of AGOA, or through its replacement by an FTA.

AGOA represents the most liberal non-reciprocal preferential market access dispensation the US has ever extended to a group of countries. The benefits are not automatic, however, as the US may rule that certain eligibility requirements are not met by some sub-Saharan or SADC countries. The eligibility requirements include those basic commitments which form part of the US's GSP, such as the commitment to foster open trade, avoid acts discouraging investment and uphold internationally recognised labour rights. In addition, AGOA eligibility is conditional on further commitments, such as the elimination of certain forms of child labour; market-based economic policies (minimal government interference in the form of price controls, subsidies and ownership of assets); rule of law and political pluralism; elimination of barriers to US trade and investment (national treatment, intellectual property rights); economic policies to reduce poverty, improve health care and education services, and to develop private enterprise; policies to combat corruption; and recognition of labour rights (right of association, collective bargaining, prohibition of forced labour, minimum age for child labour, acceptable standards for minimum wages, working hours, health and safety standards). The US President must determine that an African country observes these six requirements or, as a minimum, is making progress towards achieving them, for it to become eligible under AGOA.

Furthermore, the US President must determine that an eligible African country is in complete conformity with international human rights standards and does not support acts of international terrorism. Finally, the US President must determine that a given country does not engage in activities undermining US national security and foreign policy interests. It is obvious that judgements particularly on the latter two conditions are bound to be subjective and controversial. It cannot be excluded that a SADC country may be ruled ineligible for AGOA preferences.[10]

Among non-textile products, certain agricultural African exports, including cotton, rice, sugar and groundnuts are not eligible for duty-free access to the US market under AGOA. Other products may be ruled by the US President to be ineligible, upon advice from the US International Trade Commission.

African non-textiles exports must meet certain rules of origin criteria to become eligible under AGOA. AGOA requires that at least 35% of a product's value is of African content, i.e. contains inputs from AGOA-eligible African countries or represents direct cost of processing carried out in the beneficiary country itself.

AGOA extends preferential market access into the US for African apparel, even if produced from third-country fabrics. This is a major concession. Complicated rules of origin requirements have, however, to be met by an eligible country to be able to take advantage of the AGOA concessions. The paper will not undertake to elaborate on the complicated AGOA rules of origin for textiles and clothing.

1.4.2 Significance and hurdles of AGOA for SADC

AGOA represents a major trade concession by the US to eligible producers in Africa. Thus, AGOA contains important potential benefits for Africa to enhance exports and penetrate a vast international market, thereby boosting growth and development. On the other hand, an active policy will be required on the part of African countries to try to convince the decision making US authorities that a given African country is eligible for AGOA concessions. Even more complicated and expensive in terms of required specialised human resources will be for African countries to analyse and understand the large number of implementation regulations and acquire visa certificates enabling exportation under AGOA. No less important, in terms of competition in the US market, necessary marketing skills and price competitiveness will represent formidable challenges for African exporters.

Another even more serious hurdle which SADC countries will face in benefiting from AGOA are supply constraints hampering their export potential, at least in the short- to medium-run.

For SADC, and particularly SADC LDCs, these hurdles may imply that it could prove more promising to adopt a strategy of developing enhanced export capacities in the context of the much more limited and less demanding integrated Southern African market as a first step to international competitiveness. The penetration of the more demanding US market may only be feasible during a second stage.

It is interesting to note the similarity of the recent US moves towards opening up their market to African exports with what the EU has been practicing in the form of Lomé preferences. AGOA seems to follow the Lomé strategy. Similarly, the US strategy to substitute, sooner or later, the belated AGOA preferences for African exports by a reciprocal FTA arrangement closely resembles the EU move towards REPAs.

For Africa and SADC policy makers, this should be taken as a clear sign that reciprocal trade dispensations with the developed world will have to be taken as a fact, which will come sooner or later. The question seems no longer to be *if* Africa has to export under reciprocal trade arrangements, but *when*. Some studies suggest that the preferences of the Lomé Convention have brought only limited benefits to most sub-Saharan African countries. Taking this into account, a reciprocal trade dispensation may even prove to be in Africa's own interest, at least in the longer run.

1.5 Comesa Free Trade Area

Comesa[11] has reached agreement to establish an FTA as of 1 November 2000 and plans to have a customs union in place by 2004. Since the SADC Member States of Malawi, Mauritius, Namibia, Swaziland, Zambia and Zimbabwe are simultaneously members of Comesa, they will be in a position to trade duty-free under the Comesa FTA.

The non-SACU SADC member state of Mozambique is no longer a member of Comesa and will therefore not be able to enjoy the benefits of the Comesa FTA with respect to its trade with the other non-SACU SADC members. A similar situation holds with respect to Tanzania, which submitted cancellation of its Comesa membership last year. The cancellation will become effective before the end of 2000. Lesotho, a member of SACU, is also no longer a member of Comesa, with similar implications for its trade with non-SACU SADC.

One implication of the Comesa FTA is that it will contribute to providing effectively for free trade among a large subgroup within SADC. A second implication is that with the SADC Trade Protocol having entered into force, countries belonging simultaneously to SADC and Comesa will have the right to choose which of the two trade dispensations suits them better when trading with another country member to both SADC and Comesa.

Probably the most important consequence of the Comesa FTA is that it shifts the most important practical significance of the SADC FTA to opening up the SACU market to non-SACU SADC countries' exports. This is so since SACU's access to non-SACU SADC countries is already fairly open due to the implementation of non-SACU countries' structural adjustment programmes, in the course of which they had to liberalise their trade unilaterally.

This is one of the roots for the huge trade balance surplus South Africa runs with each and every non-SACU SADC country.

2. IMPLICATIONS FOR AND CONCLUSIONS ON A SOUTH ATLANTIC FREE TRADE AREA

We have focused on the profound change in the trade environment experienced in the SADC region over the past two years, and likely to continue over the next few years. What are the implications of this for the feasibility of a vibrant South Atlantic Free Trade Area? What would be the costs and benefits of such an undertaking?

It is difficult to see how the SADC Member States' national government and/or the regional SADC institutions would have capacities to spare to negotiate an FTA between, say, Mercosul and SADC. The opportunity costs of such an undertaking would be very high, taking into account the important and difficult trade negotiations in which such human resources could otherwise be engaged in.

Trade flows presently recorded between SADC and Mercosul member states reveal that significant volumes of trade occur only between South Africa and Angola on the SADC side, and Argentina and Brazil on the Mercosul side. Thus, in the case of SADC, only two out of 14 countries and governments are potentially interested in such an agreement. Most SADC Member States would probably not find the negotiation of such an agreement a high priority at present. This must be quite different from the point of view of Mercosul, where two out of four members record significant trade flows with SADC, although such flows are basically directed at just one SADC country, South Africa.

One can argue that past trade flows are not a good indicator for the volume of new trade potentially to be created by removing existing tariff and non-tariff barriers. While this is economically correct, it must be kept in mind that the smaller SADC economies, i.e. excluding South Africa, encounter massive supply-side constraints. These economies simply cannot step up export levels commensurate with potential relatively massive demand resulting from the elimination of trade restrictions in such huge economies like Argentina and Brazil. If market access restrictions are effectively eliminated in South Africa and customs administrations prove able to cope with the SADC Trade Protocol implementation provisions, the non-SACU SADC Member States will be at pains even to respond to the challenge emanating from South African demand, given their short- to medium-term supply constraints in stepping up production.

One may conclude that it may well prove of economic interest to South Africa to negotiate a free trade agreement with Argentina, Brazil and/or, perhaps, Mercosul as a whole. In fact, there exists a commitment on the part of the governments of Brazil and South Africa to explore the viability of a trans-South Atlantic FTA.

In that context, it may be interesting to look at the evolution of trade flows between South Africa, on the one hand, and Argentina and Brazil, on the other. Between 1989 and 1998, South Africa's imports from Argentina have risen by an average annual rate of 29%.[12] During the same period, South Africa's exports to Argentina have expanded by an annual average rate of 35%. The figures are no less impressive in the case of Brazil: South Africa's imports from that country have risen by an annual average rate of 18%, while her exports to Brazil have expanded by 31%.[13] True, the base for these rates of growth in trade flows is small. But still, these figures reveal that bilateral trade flows between South Africa and Argentina, and between South Africa and Brazil, have expanded substantially over the past decade, even without an FTA in place.

Argentina, Brazil and South Africa's trade barriers have gradually, but significantly, reduced over time as a result of their commitments *vis-à-vis* the WTO. Thus, even without negotiating a bilateral FTA, these countries undergo de facto trade liberalisation among each other.

This process of trade liberalisation in the WTO context increases the opportunity costs of negotiating a formal FTA dispensation for Argentina, Brazil and South Africa. While South Africa may not encounter the same human resource constraints as other SADC countries, such constraints are still significant, given the challenges of future trade negotiations with SADC, SACU, the EU, US and WTO. South Africa's experience of negotiating the TDCA with the EU has clearly demonstrated the huge costs that such a negotiation can involve.

It must also be added that a South Africa–Brazil (or –Mercosul) FTA could represent a significant obstacle to the SADC Trade Protocol's objective of enhancing non-SACU SADC Member States' market access into South Africa. A South Atlantic FTA (between South Africa and Brazil or Mercosul) would erode the smaller SADC countries' preferences in the South African market significantly more, as is the case as a result of the South Africa–EU TDCA. Thus, a South Atlantic FTA could well undermine the significance and positive impact of the SADC Trade Protocol and contribute to the marginalisation of SADC LDCs.

CONCLUSION

The proposition of this paper that a South Atlantic FTA does not represent a priority at present should not be misinterpreted as an argument against closer cooperation between SADC and Mercosul. On the contrary, political cooperation could yield significant benefits, increasing the SADC and Mercosul member states' bargaining power at international fora (e.g. the WTO) and enhance the effectiveness of policies through policy harmonisation. The fight against illicit drug trafficking, illegal arms trading and learning from each others' policies in such important fields as programmes to reduce the Aids pandemic, are clear cases where close policy coordination between Mercosul and SADC could pay off. An FTA between both regional blocs does not, however, seem to represent a priority at present.

ENDNOTES

* The findings, interpretations and conclusions expressed in this paper are entirely those of the author. They do not necessarily represent the views of the SADC Secretariat or SADC Member States.

1) Mercosul has four members: Argentina, Brazil, Paraguay and Uruguay. Bolivia and Chile are associate members.
2) The Southern African Development Community (SADC) has 14 member states: Angola, Botswana, the DRC, Lesotho, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Eleven SADC member states have signed the SADC Trade Protocol: Angola, the DRC and the Seychelles have not signed it.
3) A minimum of two transformation steps must be effected in the production chain of fibres to yarn to cloth and to clothing to be eligible under the rules of origin (RoO).
4) See, 1.5 Comesa FTA.
5) SADC, excluding the member states which did not sign the SADC Trade Protocol (Angola, the DRC, and the Seychelles).
6) Most notably the bilateral agreement between Zimbabwe and Botswana.
7) Botswana, Lesotho, Namibia and Swaziland, the smaller countries of SACU, besides South Africa.
8) However, South Africa was excluded from the trade provisions of Lomé.
9) The US generalised system of preferences (GSP) is in effect only until 30 September 2001, but may be extended.
10) The list of AGOA-eligible countries – published by the US government in October 2000 – classifies four SADC member states as non-eligible: Angola, the DRC, Swaziland and Zimbabwe.
11) Twenty countries belong to Comesa, spread from north (Egypt) to Southern Africa.
12) Trade and Industrial Policy Secretariat (TIPS), ‘Bilateral Trade between South Africa and Argentina’, 8 June 2000.
13) Trade and Industrial Policy Secretariat (TIPS), ‘An Overview of the Brazilian Economy and its Trade and Trade Relations with South Africa’, April 2000.

Towards a South Atlantic Free Trade Area? The Business, Trade and Investment Dimensions

Roberto Macedo

INTRODUCTION

I share Heinz-Michael Stahl's scepticism – at the macro level – of having a South Atlantic free trade area (FTA) between the Southern African Development Community (SADC) and Mercosul.

1. FREE TRADE SCEPTICISM

Some of the reasons for this on the SADC side, include the fact that there is no tradition of trade between SADC and Mercosul, only between the countries of Brazil, Argentina, South Africa and Angola. As a group, there is thus a high opportunity cost involved for SADC in negotiating another agreement. There is also fear of the erosion of preferences in South Africa, because many SADC countries want access to the South African market.

On the Mercosul side, in addition to this lack of tradition in trade, the creation of such an FTA is just not very high on our list of priorities at present. Mercosul's first priority now is to iron out its intra-regional difficulties. Some major macroeconomic problems exist, in particular the disarray of exchange rates that is damaging trade between these countries.

Mercosul is also focusing on agreements with other Latin American countries. Chile, for example, already has agreements with the Andean countries and Brazil is involved in negotiations with the European Union (EU) and the Free Trade Area of the Americas. The concept of a South Atlantic FTA is therefore low on the list of priorities.

This does not mean, however, that there is no room for increased cooperation and trade between SADC and Mercosul. But I wish to add that one does not start an FTA by agreement only: one starts it by trade. And if bilateral agreements already exist, one must look at the opportunities for increasing this trade. Trade between Angola, Brazil, Argentina and South Africa has increased rapidly in the past few years, so room for expansion is there.

2. COMPETITION VERSUS COOPERATION

Some say that cooperation between, for example, Brazil, Australia, South Africa and Canada is impossible because these countries compete in various areas such as agriculture and mining. I disagree: there can be competition as well as cooperation in terms of, for example, investment and technology.

In South Africa there is room for cooperation in the areas of mining, wine, tourism, software as well as cultural cooperation. The University of Sao Paulo offers state-sponsored fellowships and grants to African students, and has been doing so for some time. Schemes like this should be encouraged, particularly in the case of Portuguese-speaking countries such as Mozambique and Angola.

3. POSITIVE MICRO-RELATIONSHIPS

Although I am sceptical about the macro-agreement, I am not sceptical about the micro-relationships. Historically, FTAs start with trade. This is followed by the building of infrastructure and an increase in trade flows. At some point, the parties then realise that tariffs are a barrier which should be eliminated, and so moves are made in this direction. That is the history of the European Union as well as Mercosul.

An additional point regarding South Africa, is that this country has a long tradition of macroeconomic stability. In spite of all the political problems it has faced, its inflation rate has stayed steady at around 10% a year. South Africa would therefore surely be cautious about entering into agreements with countries that have not yet reached some stability in their macroeconomic policies, and in particular in their exchange rates – as we are currently observing in relation to trade between Argentina and Brazil.

CONCLUSION

I believe there is much room for micro-cooperation, bilateral trade and cultural agreements, but a South Atlantic free trade area should be kept on the agenda, to be dealt with in the future.

As a move in that direction, we should begin by emphasising efforts at micro-relations made between the countries of SADC and Mercosul. This process starts by learning more about each other, and that is why meetings of this kind are so important.

Towards a South Atlantic Free Trade Area? The Business, Trade and Investment Dimensions

Moeletsi Mbeki

INTRODUCTION

I will discuss two issues: globalisation and the changes taking place in Africa. These, I believe, are long-term issues that govern current, and impact on future relationships, between Southern Africa and Mercosul.

1. GLOBALISATION

What is often overlooked in terms of globalisation, is that Africa has been the most globalised continent since the beginning of the capitalist system.

The Americas were built by labour from Africa: millions of people were transported from Africa to build the United States, Brazil, the Caribbean, Mexico, etc.

The question of globalisation is therefore not new to Africa. In fact, Africa was at the centre of globalisation from the very beginning of the world economy, which dates back to the early 16th century. In terms of this, one can say that for the past 500 years Africa has been the victim of globalisation.

With the liberation of South Africa six years ago, Africa is for the first time in a position to determine what its role in the world economy is going to be.

2. CHANGES IN AFRICA

There is in Africa today, an unravelling of the system of globalisation, or rather of the position of globalisation that is Africa's legacy. A manifestation of that unravelling is the migration of South African companies and skills to Europe. This is creating enormous opportunities in Africa, not only for trade but for cooperation with, for example, Latin American companies and professionals. This, in turn, should help Africa to rebuild its economies and its corporate sector.

CONCLUSION

The initiative and complexity involved in organising this conference, demonstrates to me that Latin America and Southern Africa can start the process of cooperation. I further believe there is enormous opportunity for such cooperation.

Towards a South Atlantic Free Trade Area? The Business, Trade and Investment Dimensions

Joe Mollo

INTRODUCTION

I am often asked what the key challenges facing Africa are, and how we intend meeting these challenges. I will attempt to answer these questions in this paper.

I wish to stress at the outset that states can meet these challenges in partnership not just within regions, but by looking further afield to states in other developing countries, particularly those which offer trade and investment complementarities, such as our partners in Latin America.

1. THE CHALLENGES

What are Africa's key challenges?

First, I believe that the principal challenge for Africa is to end large-scale conflict as a pre-requisite for creating conditions of stability and prosperity. That this does not apply in the same degree to Latin America is self-evident – which explains, in part, the success of regional endeavours such as Mercosul.

Second, there is a crisis of transparency and good governance across the continent, particularly – in geographic terms – in Central and West Africa and – in functional terms – in the areas of political instability, corruption, transparency, bureaucratic effectiveness and efficiency, the rule of law, crime, and poor and unreliable infrastructure. Put simply, the result is unacceptably high economic transaction costs for investors, both foreign and local.

Third, countries in Africa do not face the same problems within regions. Here African states can be placed in three categories:

- Those such as Nigeria and South Africa where there is nascent democracy and yet huge transitional challenges. These are potentially the powers houses not only of their respective regions, but also of sub-Saharan Africa where together they contribute some 55% of sub-continental gross national product (GNP). In theory, both have resources to maintain democracy, but in practice they remain divided societies.
- Those often smaller countries such as Mozambique, Namibia, Botswana, my own country Lesotho and Ghana, which are stable yet not as influential as South Africa or Nigeria.
- Those states in a seemingly perpetual state of crisis, such as the Democratic Republic of Congo (DRC), Sierra Leone, Sudan, Angola and Somalia.

The important point to be made here is that this typology of countries is not contained within regions, but cuts across regions, making solutions at once complex, varied and diverse.

Let me explain this further.

As South Africa has learnt recently in the case of Zimbabwe, to create the right investment climate at home, one has to create the right impression not only of one's own system of governance and an awareness of investor opportunities, but this impression applies equally to other regional states. This is not only because markets fear the spill-over of violence, but they prefer the advantages of exploiting regional markets in Southern Africa in tandem with South Africa. The same, I am sure, applies to Mercosul.

My fourth and final point concerns the relationship between business and government in Africa, which is both part of the problem and the solution. This is a challenge because the relationship varies between being too close (which leads often to the political-economy of conflict such as in Angola, for example) and being too contested. In other words, there is a confusion of roles. The difficulty of the relationship in the South African case is evident in the process of privatisation and labour market reform, and the responses of business and government to these issues.

2. POSSIBLE SOLUTIONS

The fundamental solution to Africa's problems is therefore axiomatic: governance, stability and democracy is a prerequisite for economic growth, stability and inclusive governance. Africa is not, however, going to achieve this condition easily in the short-term, given the variance in and between states.

Given the wide discrepancy between states within regions and given the lack of resources available to African states, solutions have to be viewed within the paradigm of global developments – that is, we have to look at what we do within our states and at the same time, look outside of Africa.

In the latter regard, I believe that in an age of globalisation and for the reasons spelled out above, it is imperative to develop regional solutions, not just within regions, but between them too.

In Southern Africa we have to develop systems of governance that facilitate growth. Infrastructure, like improvements in confidence, is not built overnight, and we thus have to first address those issues which we can most easily change ourselves. These include a commitment to the rule of law, democratic governance and government, consensus rather than conflict, sound macroeconomic fundamentals, the end of corruption and bureaucratic competence.

Here, I believe it is also necessary for Southern African states to revisit the notion of varying speed or variable geometry in considering the structure of relations. Just as Mercosul started small and has reaped the dividends of this approach within a climate of political stability and democracy, Southern Africa must be honest in considering how it can best focus its limited regional attributes and energies – across all of a wide and diverse SADC region; or on deepening the links between a nucleus of like-minded and committed members?

CONCLUSION

A region-wide Southern African commitment to the principles of sound governance and their practice will, in turn, help to remedy the crisis of confidence in Africa. We must, however, also look to other regions, such as Mercosul, to take full advantage of the lessons these regions offer as well as the benefits of closer cooperation. This need not only have a South Atlantic dimension to it, as companies today have a global ambit. Billiton's mining experience in Latin America, Africa and East Asia puts into practice the rhetoric of South–South cooperation. We need to find ways to reinforce this logic.

Towards a South Atlantic Free Trade Area? The Business, Trade and Investment Dimensions

Vilmar Coutinho

INTRODUCTION

For three-and-a-half years, I had the opportunity of heading the economic and commercial section of the Brazilian Embassy in South Africa. During that time I observed certain obstacles that were hampering the development of trade between South Africa and Brazil. I will share some of these observations with you.

1. OBSTACLES TO TRADE

The first major obstacle is the widespread lack of knowledge between Brazil and South Africa particularly in the business community. Brazilian businessmen rarely think of South Africa as a potential partner for trade or cooperation and the same goes for South African businessmen in relation to Brazil. (I am, of course, referring to the public at large and not present company.)

Although progress has been made in this regard, change is slow. By way of example, a South African friend of mine presently living in Brazil once told me that when asked what country he was from, he replied "South Africa", and many people thought he was referring to the southern part of Africa, not realising South Africa was a country name!

This was a common perception among the general public, but even in the business community, many people automatically associate South Africa with Africa as a whole, not understanding that South Africa presents different opportunities than perhaps the rest of Africa.

2. TRADE POTENTIAL

The potential for trade between South Africa and Brazil does exist. In 1996, this trade reached a peak of US$700 million, but due to economic difficulties on both sides, this figure has decreased. I believe, however, that the potential to reach the US$1 billion mark is real, if we explore to the maximum the available opportunities.

An increase of even US$400 million in trade between Brazil and South Africa – not to mention Argentina, Uruguay, Paraguay (the other Mercosul members), and Chile and Bolivia (countries associated to this bloc) – would have quite a substantial impact, especially considering that the major beneficiaries would probably be small- and medium-sized enterprises (SMEs). Brazil is encouraging SME exports and would therefore be at the forefront of efforts to boost trade between the two countries.

On the South African side, there is much potential to be exploited in terms of the emerging black business community, which is predominantly SME based.

There is also large scope for cooperation between the two countries in, for example, the automotive industry. One suggestion has been to establish a partnership whereby Brazilian products in completely-knocked-down form are sent to South Africa to be assembled into right-hand drive vehicles. These could then be exported to other righthand driving countries such as India and other countries in the Far East. Through such a joint effort, both countries could more deeply penetrate the righthand drive market.

I would like to add a further remark about the possibility of cooperation between Brazil and South Africa, and again I will use the automotive industry as an example.

There seems to be a concern among South African automotive parts manufacturers that if the South African market for these products were to be completely opened to Mercosul exporters, the result would be a flood of mainly Brazilian products, which would put the South African industry in jeopardy.

This result is certainly not desired by the Brazilian government. No matter how much Brazilian exporters would like to see that happening, the Brazilian government will definitely not seek to impose on South Africa a complete opening of its market, if this is shown to be harmful to the South African industry. It will try instead to promote true cooperation between the two countries by means of negotiating fair conditions and encouraging companies to establish strategic partnerships.

CONCLUSION

The question often asked is whether negotiations should be Mercosul–South Africa, Mercosul–SACU (Southern African Customs Union) or Mercosul–SADC?

On the Mercosul side Brazil cannot, in practice, negotiate alone. It is tied up with Mercosul to such an extent that it is impossible for Brazil to undertake a separate agreement with South Africa. The same goes for Argentina and the other Mercosul countries.

Since the last Common Market Council (the Council of Ministers of Mercosul) meeting held in June 2000 in Buenos Aires, this has also become an institutional matter since it was decided their that Mercosul states are only allowed to negotiate separately until June 2001. From that point on, Mercosul will negotiate all its international agreements as a bloc.

On the SADC side, it would be interesting to have SADC as a whole on board. I doubt, however, whether this is feasible – at least in the short run – given the current incipient degree of development of the free trade area within SADC, in contrast with Mercosul's progress to date in that respect. I nonetheless believe that South Africa – having a special relationship with other SADC countries – would certainly have their interests duly taken into account if it were to embark on negotiations with Mercosul on its own. South Africa also has the means of balancing the interests of its SACU partners in an agreement with Mercosul.

Towards a South Atlantic Free Trade Area? The Business, Trade and Investment Dimensions

Zavareh Rustomjee

INTRODUCTION

I would like to focus on the general and popular idea that economic relations between developing and developed countries is inevitability governed by reciprocal trade dispensations.

1. NEGOTIATION CHALLENGES

Whether we call it globalisation or colonialism, it would seem to me that developing countries lost the first round of the process of global development and relationships between countries, economies and regions.

Developing countries did not cast their weight collectively and comprehensively – and lost that battle at the Uruguay Round negotiations. It implies, therefore, that we must set up the machinery and the necessary capacity to engage on this particular front.

Valid points have been made regarding the human resource costs involved in the process of negotiating the Southern African Development Community (SADC), but the world is a harsh place and it is a weak response to say: "I do not have the capacity to engage in this fight, give me the capacity in order to do so".

In some respect, this is exactly what is taking place in questioning the role of institutions like the World Trade Organisation (WTO).

The role that South Africa played in the SADC negotiations was perhaps a very different one to that which the United States (US) might be playing in trying to negotiate a Free Trade Area of the Americas (FTAA) with Latin America.

We have heard of the race between two processes – Mercosul extension and the FTAA, and it is along these lines that we need to focus.

2. STRATEGIC COOPERATION

Since the Uruguay Round, developing countries' ability to develop their own capacity to engage in this new terrain of North–South battle, is clearly seen in the kinds of debates and outcomes currently taking place in multilateral institutions such as the WTO.

This conference has been largely driven by South Africa and Brazil. This is, I believe, because of our recent respective experiences, negotiating as we have done with the European Union. Our "fights" with some of the bigger blocs and other powers have put us in a position where, instead of operating independently in negotiating trade arrangements and economic relationships with the developed world, we are looking at each other.

One of the useful things about negotiating a free trade agreement (FTA) is that it forces all the vested interests in one's own economy and in the economies of the countries with which one is negotiating, to articulate where they hope to be in a few years' time.

In the case of SADC, some very coherent regional sectoral strategies have emerged, both in sensitive and non-sensitive areas. As a result, protocols and governance arrangements exist in almost every sector. This makes it easier for business and social actors to play a role within the whole region, as opposed to individual roles governed by different arrangements in specific economies.

Strategies around those sectors have been embraced by all players. For example, the entire sugar industry in Southern Africa is united behind a strategy which covers sugar processing, sugar production as well as a united approach to the common agricultural policy. The same applies for sensitive areas such as clothing and textiles. As a result of intense dialogue around all the sensitive issues, one is now seeing a realignment of ownership of that sector across the region, and a much more robust and competitive pipeline – starting with fibre production in the developing part of Southern Africa and finishing in other parts where it may make more sense. Such cooperation is not inevitable, but the possibility to shape it does arise out of this interaction.

It is often rightly asked whether one needs an FTA to realise cooperation. I believe you only get people's attention when you start talking about free trade. That does not, of course, necessarily justify going through the process.

By way of example, however, the Department of Trade and Industry spent three years trying to engage with industrial and agricultural sectors. The only time these sectors made a move, however, was when they felt threatened by trade arrangements about which they were uncertain. I am sure my colleagues in other countries have had similar experiences.

The outcome of the SADC process, other than a heavy human resource cost, has empowered the countries concerned. Among other things, we are acting in far greater concert in the multilateral arena.

Irrespective of the potential opportunities that arise out of any of these arrangements, it is not inevitable that businesses will actually take up the opportunities. One therefore needs a simultaneous process of engagement with different business interests. This, we have found, often yields positive results.

3. FTAs AND INVESTMENT

The relationship between an FTA and investment is not necessarily directly proportional. Some 70% of global trade and investment is intra-company, and a similar percentage of this is within and between three regions and countries: North America, Europe and Japan.

When we look at the trading patterns of developed economies and developing economies like the countries of Mercosul and SADC – that is, primary commodity and primary processed commodity exporting countries – the terms of trade are declining, and have been declining for some time.

The balance of trade and investment comes from small-, medium- and micro-sized enterprises (SMMEs), and these enterprises are largely based in developed and developing countries.

The important question this raises, therefore, is: how do you influence behaviour when the big decisions are being taken by an increasingly fewer handful of very large entities operating on a global scale?

This conference, for example, is strongly supported by DaimlerChrysler, which has been one of the major success stories and investors in South Africa. It plays an important role in Latin America’s economy too, and could be a major beneficiary of any trade arrangement.

(Whether the trade arrangement comes about or not, there are still merits in developing some arrangements around the automotive sector, as strong complementarities exist there.)

We must also not forget that much of the economic success of the Mercosul countries and some of the SADC countries, especially South Africa, has come about from other interdependent and independent processes.

The moves to macroeconomic stability, fiscal efficiency and government structure reforms have, for example, played a major role in the economic success that is sometimes attributed to Mercosul. We need to be separating these processes and recognising where the causal links are.

4. INVESTMENT AND PRIVATISATION

It seems to me that privatisation has been the single most important driver of foreign direct investment (FDI) throughout the world, not just in Brazil. According to my statistics, between 1996 and 1999, of the US$86 billion of total FDI worldwide, US$81 billion was associated with privatisation.

In terms of privatising parastatals, Southern Africa, and South Africa in particular, must still go through the strategic equity partnering process, but the eventual privatisation of large state enterprises will boost FDI aggregate statistics.

CONCLUSION

At the end of the day, there is no FTA magic. It is really just one block among many building blocks that governments, societies and the actors in those economies and societies need to be taking, in order to realise growth and development objectives.

Towards a South Atlantic Free Trade Area? The Business, Trade and Investment Dimensions

Guy Young

INTRODUCTION

I wish to focus my comments on the question posed at the start of the seminar: what is the rationale behind the initiative for closer relations across the South Atlantic?

1. SADC DEFICITS

I do not wish to reiterate in its entirety the debate regarding the comparative weaknesses and strengths of the Southern African Development Community (SADC) and Mercosul regions. For the purposes of this paper, I think it is, however, important to highlight the deficit side of SADC's ledger. This includes the following five factors:

- The absence of stability in key countries of the region; and the related need to find mechanisms which both entrench democratic behaviour and consequently improve the international image (and thus fortunes) of the region.
- The presence of a large number of small, unstable, disintegrated (in both a regional and global sense) national economies and the consequent poor economies of scale.
- Recent and ongoing skills and "resource- or investment-opportunity" haemorrhage and loss. This relates to a negative investor impression of the continent generally.
- In the domain of the political-economy, the absence of a concerted bargaining leverage in a globalised environment.
- The scarcity of region-wide adequate infrastructure, particularly with respect to our ports, railways, roads and harbours.

2. TILTING THE BALANCE TO THE POSITIVE

How might these stumbling-blocks to full, competitive participation in the global economy be overcome?

There are a number of interrelated options here:

- The integration of regional infrastructure and markets in a way that is commensurate with global competitiveness.
- The creation of economies of scale through partnerships within and between regions, which facilitates specialisation, the sharing of expertise, knowledge and experience.
- The creation of partnerships between civil society and government, with the business–government partnership at the nucleus of this relationship.

3. THE ANGLO AMERICAN EXPERIENCE

Is the gain from closer regional ties worth the effort?

Here I can only speak from the perspective of Anglo American's historical experience in Latin America.

Anglo American has maintained a presence in the region since the 1970s. It looked first at Brazil, and today the corporation is invested in six Latin American countries – Argentina, Brazil, Chile, Colombia, Peru and Venezuela. This business turns over some US$500 million annually, and employs some 3000 people, only about 15 of whom are non-Mercosul nationals.

4. WHAT HAVE THE BENEFITS BEEN?

Latin America is a profitable place to invest in natural resources. There is a competent labour force, a high degree of technological sophistication in the mining industry, and the continent is "culturally akin" to Southern Africa where

Anglo American has had much prior experience.

As mining people we need to take long-term views, and for that we need stability and a clearly defined tax and fiscal regime in which to operate if we want to see returns on our investment. This has been available and is becoming more so in Mercosul.

Chile, for example, has had a very stable tax regime for the mining industry for a long time, which explains why much capital has moved there.

It is also important to know that Anglo American has never had any problems dividending money out of the Mercosul countries.

Another important aspect of our involvement in the Mercosul countries is that Anglo American initially invested with local joint venture partners. The learning curve is much quicker, much cheaper and far less painful if one has local partners who are familiar with the domestic jungle.

5. BENEFITS OF CLOSER COOPERATION

I believe that closer formalised inter-regional cooperation between Mercosul and SADC would bring a number of benefits:

- The smoother transfer of knowledge and expertise.
- Greater openness to foreign firms, facilitating knowledge, skills and technology transfer.
- Improved trade volumes in the mining and its related industries.
- And to me the most important, an improved awareness of the opportunities through a raised regional profile.

CONCLUSION

There is no doubt that the opportunities for trade and investment are available in both regions and that these opportunities will continue to grow. But – and this assumes we are all facing North – I think the South Africans and SADC must remove their left eye blinker, and the Brazilians and Mercosul, their right.

Towards a South Atlantic Free Trade Area? The Business, Trade and Investment Dimensions

Mark Pearson

INTRODUCTION

I would like to start by nailing my colours to the mast: I am an advocate of regional integration and globalisation. That is not to say there are no disadvantages which need to be overcome in terms of globalisation and regional integration. I believe, however, that our challenge is to ensure that the net outcome of globalisation and regional integration is positive rather than negative – and I think this can be done.

I would like to discuss the future direction of regional integration and then to look at the limitations of public sector organisations such as the Common Market for Eastern and Southern Africa (Comesa) and the Southern African Development Community (SADC) in taking the regional integration process further, as well as the need to engage the private sector in a dialogue of this nature.

1. THE FUTURE OF REGIONAL INTEGRATION

South Africa has decided to be a part of SADC and not Comesa. As such, it has decided to negotiate its trade agreements with SADC countries rather than with Comesa countries.

I believe Comesa will in the future be looking for a much stronger relationship with South Africa and the rest of the Southern African region.

There is already a Southern African Customs Union (SACU) and talks are under way to expand this union. From the Comesa perspective, we are looking at moving from a free trade area to a customs union.

And if two customs unions decide there is a basis for negotiation to form one customs union – involving perhaps upwards of 15 countries – then you have a bloc. Such a bloc would, I believe, have much more political and economic clout than a smaller customs union or a free trade area.

2. THE PURPOSE OF REGIONAL INTEGRATION

In looking forward, I think we need first to ask what the purpose of regional integration is, and why we are spending time discussing these issues.

In my opinion, there is no point continuing with regional integration if it does not improve, or assist to improve, the living standards of the people.

Regional integration is not an end in itself; rather, it must be in line with national policies, as well as third country policies.

To improve living standards, it is accepted economic policy that one has to increase the productive base of the economies one is working in. And in order for this to occur, investment is required.

There are perhaps four main ways to improve the productive base through investment:

One option is external borrowing. But the level of external borrowing taking place in Southern Africa is, as we all know, a major problem in itself.

A second option is finance through domestic capital accumulation. There is, however, very little domestic capital accumulation in Southern and Eastern Africa and – as mentioned in an earlier paper – even if one can increase capital accumulation by 100%, one still would not have a base for any kind of investment to take place.

A third way to improve investment is with aid flows, but the level of aid flows has never been enough to make a real difference in terms of the productive base in any Southern African country.

The fourth option then is foreign direct investment (FDI), which leaves one completely dependent on investment from abroad. In order to attract FDI, a country must increase its market size, as well as increase market access of smaller countries and the region as a whole.

Some other factors needed for FDI include removing tariff and non-tariff barriers to encourage the freer flow of goods and services in the region. Another is to improve returns on investments by looking at taxation policies, lowering the cost of production, improving investment in infrastructure, and so on. Also important, is to create a stable environment in terms of peace and security.

Many countries in Southern Africa and Latin America have made great strides in these areas but are still not seeing much FDI.

A reason for this may be that although the large constraints to investment have been removed, other equally important but less obvious factors affecting, perhaps, private sector operations (such as telephone access and other aspects increasing business transaction costs) have been overlooked.

CONCLUSION

A missing element in all our regional organisations is ongoing, successful dialogue with the private sector. Whether this dialogue is South–South, within Southern Africa, within Eastern Africa or with the rest of the world, the public sector needs to hear from the private sector what it requires for successful investment. Such dialogue is crucial.

Conclusions: Taking the Relationship Forward

Neil van Heerden

INTRODUCTION

Since the first Southern African Development Community (SADC)–Mercosul conference in Johannesburg in October 1998, both regions have experienced internal developments which influence the nature of and the interaction between them. These changes were discussed in previous sessions. In order to look forward, it is useful to review the more outstanding aspects of these changes.

1. OUTSTANDING ASPECTS OF CHANGES

Mercosul experienced a near-record drop in copper and coffee prices in 1999, together with a collapse in international capital flows. This contributed to a decline in growth rates. Overall trade volumes in Latin America dropped by 30%. The Brazilian devaluation in early 1999 accentuated the asymmetry in exchange rate policies between mainly Argentina and Brazil, although others were not left unaffected. These developments led to threats of import quotas among Mercosul partners, which in turn gave rise to talk of the need to negotiate a mini-Maastricht agreement aimed at greater convergence of macroeconomic policies and even whispers of a single Mercosul currency.

These and related developments led United States (US) Treasury Secretary Larry Summers to remark in December 1999:

> "Mercosul offers enormous potential if it is a common approach with the broad world and not an alternative. Mercosul as an enclave carries some real risks."

In the SADC region, the intervening period since the last conference also witnessed some disappointments. Gross domestic product (GDP) grew by some three per cent a year between 1990 and 1997, and subsequently fell dramatically to bring down the average rate for the decade to 1.5%. This is well below the population growth of 2.7% a year, resulting in a decline in per capita income in dollars during the 1990s. These figures hide great differences between individual economies – Mozambique, Mauritius, Botswana and Tanzania grew at impressive rates – but these performances were offset by the sluggish economy in South Africa and declining GDP's in dollar terms in four of the regional economies. The positive expectations for this year have had to be adjusted downwards as a result of lower than expected growth in South Africa.

On the positive side, most SADC economies made good progress towards creating a macroeconomic policy climate friendlier to business and investment. These exclude Angola, the Democratic Republic of Congo (DRC) and Zimbabwe. It is expected that trade liberalisation will contribute to healthier economies in Southern Africa – and here mention should be made of the European Union (EU)–South Africa Free Trade Agreement, the US Africa Growth and Opportunity legislation, the SADC Free Trade Protocol and most recently, the completion of the review of the Southern Africa Customs Union (SACU).

2. OPEN REGIONALISM

Having looked briefly at the state of play in these two regions, it is important to remember one of the conclusions of the previous conference,that is, that regional integration is not an end in itself – it only prepares the participants better for the challenges of globalisation. In its most recent report on the sub-Saharan region published in May 2000, the World Bank points out that for Africa to succeed in the 21st century, it must become a full partner in the global economy. The Bank suggests Africa should embrace what it terms “mainstream open regionalism” and thereby “enlarge economic space”. In the light of SADC’s lacklustre growth record and the risk of investment contagion created by Zimbabwe’s land takeover programme, a shift to a more open regionalism makes good sense. Mozambique’s development strategy which blends globalisation with regionalisation through the export of invisibles and services – electricity, gas, transport services and tourism – is an example of a successful policy of open regionalism.

The African Development Bank in its Annual Report for 2000 points out that almost all regional integration agreements in Africa were accompanied by stagnation or a decline in intra-regional trade. The report also indicates that integration has failed to achieve meaningful structural change in member states.

As Prof. Tony Hawkins of the University of Harare points out, regionalism could prove to be a sub-optimal path for Africa – the challenge instead is for all African countries to diversify both products and markets.

These recent studies seem to prove, once again, that in a changing world our pet theories come to be questioned and a “third way” turns up. This in itself is not necessarily bad news, provided we are prepared to accept the challenge and to explore alternative solutions.

SADC–Mercosul cooperation provides one such alternative. A list of commonalities and shared concerns were identified at the first joint conference and further expanded here.

3. SHARED CONCERNS

In terms of the future, I heard speakers in the preceding sessions say that:

- a political vision is of the utmost importance
- care should be taken not to lapse into pure rhetorical approaches
- we are in fact better able to solve our existing problems than we generally believe
- there are strong political arguments for cooperation
- inter-regional cooperation does not replace bilateralism
- governance is important and integration will strengthen governance
- the importance of civil society should be emphasised
- feasibility and real interest will determine success in cooperation
- business and academic participation will provide substance to a cooperative relationship
- regional blocs can be used as stepping stones to global trade
- Mercosul–SADC trade volume is still very low and therefore we can afford to be bold in constructing the relationship
- there should be a strong focus on products indigenous to the respective regions
- a mechanism should be created for entrepreneurs from the region to meet occasionally
- cooperation in multilateral fora such as the World Trade Organisation (WTO) provides an immediate and substantive area of focus
- defence, crime prevention and migration are areas in which synergies can be explored.

To summarise these elements:

- The political will and substance for engagement exist.
- Simultaneous progress must be made at bilateral and multilateral levels.
- The two regions share important values – these should be articulated, but one should guard against rhetoric as opposed to action.

Having heard extensive analyses of recent developments in the two regions, it strikes me that some of the problem areas can only be solved inside the regions. The emerging relationship should not be burdened with “domestic” issues.

4. AN AGENDA FOR SUCH COOPERATION

Given the skittishness of investors in both our regions and the particular importance of foreign direct investment (FDI) to us, we should pool our current knowledge as to why we do not attract a sufficient share of global capital flows.

Since the level of commercial exchanges between our two regions have remained relatively low, a forum involving representatives from business, and avoiding bureaucratic overhang, should be established immediately, starting with those corporations already involved in inter-regional business.

An effective and practical mechanism to coordinate a joint strategy in multilateral trade negotiations should be developed. Here we should take account of the failure at Seattle and also bring into play our Cairns Group connections. The scene now seems to be set for a framework agreement to be put in place, which in time will most likely be augmented by satellite agreements.

But formal agreements only, do not a relationship make. In this regard we should heed the advice of Prof. Roberto Macedo, that agreements are not prerequisites for trade and micro cooperation.

As we head towards a possible free trade area, these few objectives could well be as ambitious an agenda as we may be capable of handling for the moment. As progress is made, other areas of cooperation will surely suggest themselves, in addition to existing linkages. These could include inter-regional agreements that could reinforce the gains from trade, as conventionally defined – for example:

- by lowering import costs (for both domestic and export producers) and expanding exports in each regional bloc
- more dynamically, by encouraging FDI and skills transfers between the two regional blocs.

Here one could add that the scale advantages attendant upon increased inter-regional trade should enable each bloc to penetrate other world markets more effectively.

CONCLUSION

In his book *Trust: The Social Virtues and the Creation of Prosperity*, Francis Fukuyama, when discussing the similarities between Japan and the US writes:

> "Each of these cultures had certain characteristics that allowed business organisations to move beyond the family rather rapidly and to create a variety of new, voluntary social groups that were not based on kinship. They were able to do so, because in each of these societies there was a high degree of trust between individuals who were not related to one another, and hence a solid basis for social capital."

I believe it has been clearly documented during the preceding sessions that we simply do not know enough about each other. This deficit needs to be addressed by visits, cultural exchanges, joint ventures, etc. to enable us to build the trust to which Fukuyama refers.