SOUTH AFRICA'S ROLE IN THE SOUTHERN AFRICAN CUSTOMS UNION: 1994-1996

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A research report submitted to the Faculty of Public and Development Management, University of the Witwatersrand, Johannesburg, in partial fulfilment of the requirements for the degree of Master of Management (in the field of Public and Development Management).

APRIL 1998

DECLARATION

I declare that this document is my own , unaided work. It is submitted in partial fulfilment of the requirements of the degree of Masters of Management (in the field of Public and Development Management) at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination at any other University.

BK Tsebe.

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April 1998

ACKNOWLEDGEMENTS

I am thankful to:

My supervisor, Dr. Gavin Cawthra, for his insight, motivation and guidance throughout this research report;

The staff and my classmates at the Graduate School of Public and Development Management;

The interviewees and respondents to my questionnaire in Gauteng Province for their interest and co-operation throughout this research process. They have enriched regional integration and co-operation literature by providing new insight into economic co-operation within Southern African integrative units;

My family friends and colleagues for their encouragement and moral support throughout my studies

Without their input, this research would not have been successfully completed.

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ABSTRACT

This paper focuses on whether apartheid South Africa's approach to the Southern African Customs Union (SACU) has been hegemonic and whether a democratic South Africa will ensure leadership of SACU member countries to enhance mutual economic development or maintain a hegemonic approach.

Institutional reconstitution and democratisation are terms which have recently regained popularity in SACU. Botswana, Lesotho, Namibia and Swaziland (BLNS) are attempting to develop a programme which would accelerate the process of participatory fairness. South Africa on the other hand is initiating consultative forums between SACU member countries to incorporate popular aspirations and address tensions emanating from a concentration of industry in South Africa.

This paper begins by providing a history characterised by hegemonic relationships of the pre-1994 period between South Africa and the BLNS countries, which is followed by a theoretical approach to options for solutions for the regional integration complexities of Southern Africa, referring more specifically to SACU. South Africa's initiative to facilitate participation of member countries, which culminated in the introduction of the Customs Union Task Team (CUTT), received attention.

The general discussion of interviews test the theoretical perspective of participative engagement of SACU membership, and provide suggestions towards the future of the customs union. A conclusive analysis and recommendations for further research are presented.

CHAPTER ONE

1 BACKGROUND

1.1 REGIONAL ECONOMIC CO-OPERATION.

The word 'region' can have different contextual meanings, for example, in South Africa a region is a sub-division of a province. In the global context, and in the United Nations system, Africa can be regarded as a region. However, for the purpose of this research report, the 'region' under consideration is Southern Africa, defined in political terms by membership of the Southern African Development Community (SADC). This paper focuses on the member states of SACU, South Africa, Lesotho (landlocked by the RSA), Swaziland (landlocked and partially bordered by RSA), Botswana (inland) and Namibia (on the Western side).

According to Gibb (1997: 71) 'regionalism' can be interpreted as, "An attempt by nation states to control at the regional level what they have increasingly failed to manage at the national and multilateral levels." Furthermore, Gibb (1997: 71) explains regionalism in the following manner: "It is a new form of international regulation designed to accommodate the contradictory requirements of flexibility; that is, to preserve and in some cases intensify the mobility in the factors of production whilst at the same time limiting the threat of foreign trade."

Regional economic co-operation can be explained as an agreement made by neighbouring countries in an attempt to address the economic problems prevalent within them.

Furthermore, economic co-operation allows for a situation whereby partner states establish partnerships and opportunities in economic activities. This process helps to initiate economic solidarity which enhances trade liberalisation and the grouping of regional states. This initiative further enhances the establishment of optimum economic policies.

The advantages of regional co-operation range from the establishment of wider markets, greater economies of scale, efficient transportation systems and greater bargaining power to enhancement of industrial efficiency, technological and innovative skills, as well as better division of labour and specialisation of production.

1.2 GENERAL VISION AND CONDITIONS FOR REGIONAL ECONOMIC CO-OPERATION

The general vision for regional economic co-operation is the attainment, through trade relations, of the highest possible level of economic development by member countries. This vision is sometimes over-shadowed and distorted by the hegemonic approaches from the member states which have attained some form of economic prosperity within the co-operating countries thus resulting in skewed economic development.

According to Matsebula (1996: 3-5), the seven conditions for a successful regional strategy are as follows:

(i) There must be strong political will among all the member countries. Entailed in this condition is the preparedness of the country to sacrifice some of its sovereignty.

(ii) There must be sufficient economic capacity and willingness to fully discharge all regional commitments.

(iii) There must be an equitable distribution of the net gains from regionalisation.

(iv) There must be macro-economic convergence among the individual countries.

(v) There must be institutional capacity. This refers to the ability of an economic entity (government, international agency, business enterprise, non-governmental organization, etc.) to influence the agenda of the negotiation process, to implement agreements and commitments to achieve compliance from partners, and to adjust to changes in the regional and domestic environment.

(vi) There must be political stability. This condition is for the attraction of investors into the country's economy. Matsebula further quotes the

General Secretary of the Southern African Development Community (SADC), Dr. Kaire Mbuende, as having asserted that, "democracy, peace, and security are necessary pre-requisites for sustainable development."

(vii) There must be social integrity. A socially integrated society is defined as one that accommodates different and divergent individual and group aspirations within a flexible framework of shared basic values and common interests.

For regional economic co-operation to succeed, it is therefore imperative that the member states make a concerted effort to ensure that conditions set out by Matsebula are strictly adhered to.

1.3 THE SOUTHERN AFRICAN CUSTOMS UNION

A customs union is a regional co-operative measure that exists where the introduction of a common external tariff is adopted. This is beyond agreements within a free trade area (an arrangement which allows free movement of goods between member countries). This process allows for the introduction of non-differentiated customs tariffs between individual member countries.

As a result, a common external tariff is set on goods imported to the common customs area, and the revenue pool emanating from this arrangement is controlled from a central place. Specific arrangements, like the Southern African Customs Union (SACU), also allow for the inclusion of the sales and excise duty in the common revenue pool, a condition that has brought about serious tensions revolving around revenue sharing. These tensions will be addressed in detail in the next chapter.

At this point it is most fitting to provide a brief historical overview of the evolution of the Southern African Customs Union (SACU). The Cape of Good Hope and the Orange Free State first established SACU in 1889. It was later joined by the Transvaal and Natal (a situation that brought the whole of South Africa into a framework of economic co-operation). The High Commission Protectorates that were Botswana, Lesotho and Swaziland (BLS countries) also became members of the union.

These four countries, that is, South Africa and BLS countries, were later joined by Namibia in 1990, after it had gained its independence. The membership of the customs union as seen today was thus completed in 1990, with the Republic of Botswana, the Kingdom of Lesotho, the Republic of Namibia, the Kingdom of Swaziland (BLNS countries) and the Republic of South Africa(RSA), as members.

1.4 RESEARCH PROBLEM AND THE OBJECTIVES.

The stipulation of the 1969 Southern African Customs Union Agreements (SACUA) does not allow for a condition where the development of the poorest member states is repressed while that of the more developed members is accelerated. Mutual development of the member countries of the Customs Union has been the basic concept and the point of departure when the agreements were concluded.

However, instead of SACU developing the whole common customs area, it is argued by Hoohlo (1990:106) that it succeeded only in providing the member countries with relatively cheaper commodities, available in unlimited amounts, almost all produced in South Africa. Industrial concentration in South Africa has been detrimental to the BLNS economies, particularly with regard to Lesotho. A protective trade stance by the RSA has also adversely affected BLNS' economic development, especially if it is taken into consideration that the larger proportion of their imports originated from South Africa.

With the advent of democracy in 1994, the proposed study intends to answer the question whether South Africa's approach to SACU has been hegemonic, and whether a democratic South Africa will ensure leadership of SACU member countries to enhance mutual economic development or whether it will maintain a hegemonic approach. The research is conducted from a South African point of view.

The word "leadership" used in this research paper shall be construed to mean "initiative for participative mutual benefit", while "hegemony" shall mean "domination in own interest at the expense of others."

If the democratic South Africa embarks on leading the development of the customs union, the possible strategic plans towards this goal need to be carefully explored to ensure that hegemonic power is uprooted. It should not be forgotten that because of its being an economic superpower within SACU, South Africa is seen by other member countries as the driving force towards the reconstitution and democratisation of SACU.

Assuming that South Africa is willing to lead the customs union to economic prosperity without practising hegemony, questions to be answered by this study would be:

(i) Was South Africa's membership of SACU before 1994 more hegemonic or was it leadership orientated in character?

(ii) Are the BLNS countries empowered to participate in the decision making process within SACU?

(iii) What strategies can be implemented towards the economic development of the whole common customs area?

(iv) How can all member countries be afforded the opportunity to explore all existing markets within the common customs area?

(v) How can revenue shares to member countries be equitably distributed to the satisfaction of every SACU member?

In view of the questions tabulated above, suggested areas to be explored by this research are: the possibility of establishing fully representative forums which can be entrusted with policy formulation and recommendations towards strategic development of the whole CCA; the possibility of establishing the Secretariat for SACU administrative functions; revisiting the competencies of revenue collection and disbursement, etc.

1.5 IMPORTANCE OF THE RESEARCH:

The proximity of South Africa to international waters through its harbours and the availability of airports and international transportation create a situation that allows for international economic co-operation. This geo-strategic position which has culminated in a well-developed infrastructure, has enabled South Africa to exercise economic hegemony in the Southern African region.

The inescapable reality is that three of the SACU member countries (Botswana, Lesotho and Swaziland) are landlocked and dependent on the South African economic base and infrastructure. The South African ports and harbours as well as the transportation network in the Southern African region serve as a gateway of the whole common customs area to and from the entire world. The ports and harbours available in Namibia cannot be compared with those in South Africa as service providers for SACU. One aspect of this research will be to reflect on the development of infrastructure as an essential precondition towards economic prosperity.

Differences among member countries caused by the South African hegemonic approach in SACU will be dealt with in this study. Furthermore, the research will also make valuable recommendations on ways and means of applying effective remedies to hegemony as prevalent in SACU. The study will contribute to the existing literature on the Southern African Customs Union, with regard to the dynamics of leadership.

The study reflects on the 1969 Southern African Customs Union Agreement (SACUA), with specific reference to an overview of how South Africa took advantage of these agreements at the expense of the other member countries. This agreement has a reflection on the operations of South Africa in SACU and also forms the basis for explaining the relationship that existed between South Africa and the BLNS countries.

The disadvantages caused by the absence of a Secretariat in the customs union, resulted in South Africa taking decisions on behalf of SACU (McCarthy, 1992: 12). These agreements together with the absence of the Secretariat are factors that contributed to hegemonic relationships among SACU members. It is necessary for these relationships to be substituted by participatory fairness in the post-1994 period.

1.6 RESEARCH METHODOLOGY

This research was conducted in the Republic of South Africa. The initial assumption was that the High Commissions of the other countries would assist in accessing information during interviews, only to find that reference was made to the mother countries. Realising that visiting the individual member countries would be an expensive venture and also considering the limited time frame available for the completion of this report, a viable option was to conduct interviews with stakeholders from South Africa only. Semi-structured interviews were conducted with people whose names appear on an appendix.

Questionnaires were distributed to stakeholders in the Department of Trade and Industry (Customs Union desk), the Reserve Bank, the Development Bank of Southern Africa, the Trade and Industry Secretariat, the South African Institute of International Affairs, and the South African Revenue Service (Customs and Excise)(institutions located in South Africa).

1.7 LIMITATIONS OF THE RESEARCH:

This research on SACU was limited by time, access to information and funding among other things. Regarding access to information, as the literature based on this topic was not abundantly available in the university libraries, this meant travelling to the Africa Institute which is located in Pretoria.

Access to ir 'mation was also a limitation in the sense that the Department of Trade and Industry (DTI) treated some documents with very strict confidentiality, since some customs union related issues were still being negotiated. For example, the newly negotiated revenue sharing formula could not be released for the simple reason that negotiations had not reached a conclusion. Only an explanation of how it will function was forwarded to the researcher. The only document that could be obtained from the DTI was on the 1969 agreement.

Little could be obtained from the Development Bank of Southern Africa except for an article on 'Trade Integration in the Southern African Development Community: Prospects and Problems', written by Mayer and Thomas. Another document was a report on the workshop held in Gaberone, Botswana, in March 1994. The workshop was on Reconstituting & Democratising SACU'.

The difficult in identifying possible interviewees involved in SACU matters from the BLNS countries cannot be over-emphasised. This difficulty led to the change of focus on the proposed study from the viewpoint of all the BLNS countries to the South African viewpoint. Only South African stakeholders were interviewed.

The published work on SACU concentrated on the costs and benefits of members of the customs union; improvement of some elements in SACUA which could benefit the BLS countries and important issues in SACU from the historical, legal and economic perspective, but not on the dynamics of leadership (of South Africa) in redressing the differences among the members of SACU.

1.8 SUMMARY OF SUBSEQUENT CHAPTERS

Chapter 2 focuses on the review of literature based on inter-state relations within the customs union before the 1994 elections in South Africa. The focus is on the objectives of SACUA: This chapter will mainly review inter-state relations within SACU under the following headings: Participation in decision-making of the customs union; economic development of the common customs area; free interchange of goods among the member countries; and sharing of equitable benefits among members of the customs union. This chapter concentrates on the pre-1994 period since this period forms the basis for argument in the post 1994 period, and because very little has been written about the latter period, except that the focus was on renegotiations of the agreement. The chapter also reviews in brief the suggested solutions to SACU related problems from a South African point of view.

CHAPTER 3 focuses on the research questions and details of the research methodology in accordance with the literature review. In this chapter semi-structured interviews and questionnaires are clarified as important research tools for this study. Methods of collecting and analysing data are outlined in this chapter.

Chapter 4 presents data collected through questionnaires as well as semi-structured interviews and also analyses and interprets responses from interviewees related to research questions.

Chapter 5 presents the conclusions and recommendations based on both the literature review as well as data collected through the semi-structured interviews and questionnaire respondents. The chapter will also test whether the research question was adequately answered.

CHAPTER TWO

2. LITERATURE REVIEW:

2.1 Introduction.

Unlike the Front Line States, which from the start had a political motive aimed at the liberation of Southern Rhodesia (now Zimbabwe) and South Africa, SACU from 1889, when it was founded, had an economic motive. In general it was aimed at free movement of goods between the member countries and the introduction of a common external tariff against non-members. As this research develops it will be realised that underneath the economic intentions of SACU there were hidden political agendas.

SADCC, formed after the liberation of Rhodesia, had an economic motive. According to Matsebula (1996: 9) SADCC had its objectives as: reduction of dependence on other countries in general and on South Africa in particular; creation of an operational and equitable regional arrangement; mobilisation of own resources to implement national, inter-state and regional policies; and joint action to secure international understanding of, and practical support for, the SADCC initiative.

2.1.1 Objectives drawn out of the 1969 SACU agreements.

According to the 1969 SACUA preamble, the agreement had four features such as:

(i) Free interchange of goods between member countries.

(ii) Applying the common external tariff.

(iii) Encouraging the development of less advanced members and the diversification of their economies.

(iv) Affording all parties equitable benefits arising from trade among themselves and with other countries.

Mutual development of member states seems to be the driving force towards regional economic co-operation arrangements. Reacting to this statement Stewart and McCarthy (1995: 404) argue that the Southern African region has third world characteristic features. For instance, there are unequal levels of economic growth and production between the countries, and the region is highly dependent on the developed regional sub-centre (e.g. South Africa) and the well developed outside world. This situation results in a concentration of industrial development in the most developed member countries (e.g. South Africa).

They further argue that the problem of regional co-operation is not only an economic problem relating to development, efficiency and other technical concepts, but is also rooted in a political problem of considerable complexity. They furthermore state that the selection of an economic co-operation model for Southern Africa (here referring to SACU or SADC), should not be technically, mechanically and politically oriented. It is argued that:

> "Southern Africa has not yet reached levels of technical and political maturity which are necessary for a market based integration, albeit the development-oriented variety. The condition of sacrifice of sovereignty and advanced technical and institutional capabilities cannot be met in most of the countries concerned. Looser and more flexible approaches which make smaller technical and political demands are more likely to be fruitful." (Stewart & McCarthy, 1995: 406)

2.1.2 INTEGRATION OF DEVELOPING ECONOMIES:

Elaborating on the prerequisites and characteristics of a good regional co-operation structure, McCarthy (1992: 6) argues that the static gains from regional economic co-operation arise if within the common customs area, trade creation (the substitution of low cost for high cost products in consumption) exceeds trade diversion (the substitution of high cost for low cost goods).

Explaining the dynamics of trade creation as related to trade diversion, McCarthy (1992: 6) argues that the room for trade creation will be relatively large if foreign trade of custom union members is relatively smaller than domestic trade, and furthermore, if a high proportion of external trade is already taking place with custom union partners. Since foreign trade is small compared to domestic products, more scope exists for the replacement of high cost products by less expensive imports from customs union partners. Also, since trade with non-union members is small, the likelihood of diverting trade from low-cost non-union products to high-cost union products is unlikely. It is said that such trade patterns are not characteristic of developing economies, since in these developing economies the range of manufactured goods is dissimilar; the economies are complementary rather than competitive, and this creates a room for trade diversion.

McCarthy (1992: 7) further says that "Manufacturing is regarded as the driving force towards economic development and regional integration, the larger market thus created is seen as an opportunity to stimula industrial growth in an environment that is neither autarkic nor free trade."

2.1.3 RELATIONSHIP BETWEEN RSA and BLNS countries

Concentrating on the relationships existing among member states within SACU, Hoohlo (1990: 95-96) argues that the less complementary and the more competitive the economies of the member countries, the more likely will the customs union be successful in creating trade. South Africa is more economically advanced compared to other countries in the region, thus their (BLNS) economies tend to be complementary to RSA economy. This results in a concentration of development in South

Africa.

The complementary nature of these economies is evidenced by the supply of raw materials or intermediate goods from the BLNS countries into South African industries, and in return the exportation of end products back to the BLNS countries. Apartheid South Africa, realising its economic strength because of trade features mentioned above, resorted to a hegemonic approach towards other member countries in SACU, as is argued below.

The advantage taken by RSA over the BLNS countries does not only derive from the trade patterns mentioned above but also from the 1969 SACUA. These agreements empowered South Africa to make decisions on behalf of the BLNS countries. SACUA states that "the custom tariff and duties and the sales duties as in force in South Africa from time to time shall be applied to goods imported into the common customs area from outside that area." Also in the agreement it is stated that "any rebates, refunds and drawbacks or sales duties on imported goods shall be identical to any such rebates, refunds and drawbacks in force in South Africa." (Article 4(2) of 1969 SACUA)

From the statements mentioned above it is deduced that the economic and trade practices of the BLNS countries should replicate that of South Africa although the levels of economic development between South Africa and the BLNS countries are uneven. This practice of doing as South Africa does, arouses doubts about the innovative character of the BLNS countries, and also exposes the hegemonic power RSA exercised on the BLNS countries.

Concerned about the vertical relationship prevalent in SACU Kumar (1992: 2) maintains that the co-operation of the BLNS countries is maintained by their inability to match the South African strong economic base. A further reflection on the South African hegemonic approach towards the BLNS states is the agreement which provided that the laws relating to customs and excise duties shall be the same in the member countries as are in force in South Africa.

Further elaborating on the power South Africa wielded, Isaksen (1993: 189) alleges that the apartheid South Africa had both political and economic advantages in SACU. He cited the fact that in political terms the Apartheid State was able to argue internationally that it had very cordial relations with a number of African states. Economically, its total revenue share amounted to four times that of the BLNS countries combined. This contributed to the rise in South Africa's GDP from the extended trade markets established within the common customs area, regardless of the economic sanctions posed against South Africa by the international world. Accessing extended South African trade markets to BLNS countries could have fostered mutual economic development of all SACU countries. This could have been a viable solution to the existing problem of skewed industrial development to South Africa.

Maasdorp (1994: 19) raises BLNS concern about: the time lag in revenue payments as it means that they are always owed money by the common pool and thereby "are making an interest free loan to South Africa"; the inadequate provision for the protection of their infant industries; the weakness in the treatment of dumping (where industries move subsidised commodities across the borders, selling them at cheaper prices with the aim of suppressing emerging industries of the other countries); and the inadequate machinery for consultation. These are some of the concerns that bring about tensions between South Africa on one side and the BLNS countries on the other side.

Focusing on the relationships that exist between RSA on one hand and Lesotho and Swaziland on the other hand, Isaksen (1993: 191) argues that it is doubtful whether the relationship between South Africa, Lesotho and Swaziland will change since this is strengthened by economic ties. Lesotho has no other international boundaries except with South Africa. This link between South Africa, Lesotho and Swaziland brings about doubts as to whether the BLS countries had a common negotiating stance during the 1969 negotiations on SACUA. Swaziland and Lesotho are two countries that depend on South African industrial production and exports as well as a massive revenue shares from the common pool.

The dependence of Swaziland on RSA is evidenced by the report from the Times of Swaziland dated 14.08.1996 (p.14) in which the Deputy Commissioner of Customs and Excise, Mr. Dlamini, reported that: "SACU is an important source of revenue to Swaziland, and is expected to contribute 52,5% of total Swaziland revenue in 1996/97 budget." Furthermore he said that the country is not considering any change in its membership of SACU, but is seeking improvements in the SACU agreement. According to Dlamini the collection and distribution of revenue by South Africa was not a problem and he wished that the modus operandi should continue.

Business Day, a South African newspaper, dated 12.08.94, reported that if the payouts from the common revenue pool (which contribute to half of Lesotho's budgetary revenue) were tampered with, South Africa should expect half of the Lesotho population migrating to Botshabelo in South Africa. This migration would also be exacerbated by the 25% drop in the number of miners recruited from Lesotho and the political instability in that country.

2.2 Free interchange of goods among member countries

As already explained, Matsebula (1996: 2) argues that trade creation occurs when production is reallocated from high cost to low cost member countries, and trade diversion occurs when imports are switched from low cost sources in the rest of the world to high cost partner sources (the latter is also referred to as a price-raising effect).

Emphasising trade relations, Maasdorp (1990: 12) also argues that economic co-operation should occur only among countries that are at roughly similar levels of development and, in particular, among those whose protected industries prior to the union were competitive. This means that the member countries should be producing similar types of manufactured goods. The competitive nature of the economies then leads to trade being created within the union, while imports from the rest of the world in other goods continue so that little or no trade diversion occurs.

Stewart and McCarthy (1995: 403) refer to the kind of integrative measures mentioned by Maasdorp as a development-oriented market integration which is explained by an approach that is "focused on the dynamic elements of market integration, that is the creation of larger markets within which firms can benefit from economies of scale and competition." In their view trade diversion is explained as a neo-classical model which is "considered as a negative, static outcome of integration, presented in the dynamic guise of import substituting industrialisation within the larger market of the region." They continue to say that solutions to this kind of approach demand unrealistic levels of political commitment and high levels of technical and administrative expertise that are not available in developing economies.

From the statements made by both Maasdorp and Matsebula above, it would appear that SACU is characterised by the complementary nature of economies between the member countries which encourage the price raising effects (i.e. Sout' Africa effecting prices higher than world standard prices to other member countries).This explains the origin of problems in SACU which led to the tensions mentioned in this research report.

Focusing on the interchange of goods between SACU member countries, Mayer and Thomas (1997: 331) state that intraregional trade volumes in Southern Africa are concentrated in the SACU countries. They relate that in terms of South Africa's exports to the Southern African region (which account for 19% of total exports), close to 70% is destined in SACU member countries. Five of the 7 point percentages of South Africa's imports sourced from the region come from SACU countries. This is a feature that explains the economic imbalances occurring within the parameters of SACU.

Davies (1994: 5), arguing about the economic significance of SACU to South Africa, indicates that the latter's GDP is high because of its secured membership of the customs union. He refers to McFarland (1983) saying that trade which the BLNS countries contributed, was responsible for 27% of new value added and for around 67 000 new jobs in South Africa's manufacturing sector.

This argument illustrates that South African industries accrued a lot of income from the extended trade markets of the BLNS countries and ultimately South Africa raised its GDP through taxes. There is a supporting statement that "The extent to which South African exports to BLNS countries would fall, if the BLNS countries left SACU, is unknown, but even if it were small, the remaining exports would be subject to uncertainty over possible variations in the BLNS external trade regime, which would deter investment in South Africa"(Walters, 1989: 49). This means that the BLNS countries still hold a consumer power over South Africa even if she holds the concentration of industrial development.

Davies (1994: 3) states that the agreement based on the protection of infant industries was revoked by a (no longer) secret memorandum which was negotiated in 1970s, which stated that such protection will only be forthcoming if any new industry aiming at exploring extended markets in SACU countries meets "the qualitative requirements of the common customs area [i.e. overcome a range of regulatory barriers] and...[be] in a position to supply at least 60% of the quantitative requirements of the area." To the BLNS countries this implied that South Africa wanted to dominate the available markets within the common customs area without competition. This tension is brought about by the fact that most of the emerging industries from the BLNS countries could not meet such standards.

Referring to Article 11(5) of SACUA which states that "The contracting parties shall co-operate in the application of import restrictions with a view to ensuring that the economic objectives of any import control legislation in any country in the common customs area are attained," this means that free movement of goods is overshadowed by the sovereignty of the member states.

In exposing the tensions caused by this Article, Kumar (1990: 44) argues as follows:

> " South Africa is completely free to enact any kind of import control legislation it likes and pursue such economic objectives as are best suited to its economy at any time. There is no machinery for co-ordination in this regard no requirements of even a rudimentary consultation. South African non-tariff barriers, for example, could be, and are, enacted into such legislations. The infant and new industries in the BLNS countries are then forced to comply with and often meet a swift death, particularly if their products aim at penetrating the South African market."

This argument is supported by Davies (1994: 5) who states that instead of the protectionism characterising the arrangement applied on imports from outside the SACU area into the BLNS countries, there have been elements of protectionism towards imports into South Africa from the BLNS countries. Hence the development plans of the BLNS countries could not be realised because of these restrictions.

This view is supported by a statement that the BLNS countries "had little scope for using foreign trade policy to influence economic development, and South Africa has on occasions been reluctant to provide access to the BLNS countries for exports to South African markets "(Davies et al. 1993: 27-28). The two arguments mentioned above, explain how the Articles of the 1969 agreement were disregarded by South Africa and how she exercised hegemonic power over the BLNS countries.

To explain further how South Africa was of a disadvantage to the BLNS and how she suppressed their development initiatives, one needs to mention that the incentives South Africa introduced had adverse effects on the BLNS countries. An example of such incentives is the General Export Incentive Scheme (GEIS), which compensated those South African industries involved in the exportation of goods. South Africa also made available incentives for those industries that relocate in the TBVC areas, but made it clear that those industries from the BLNS countries wishing to relocate in the said areas will not receive incentives. Even if the arrangement did not cover up the BLNS based industries, some companies from the BLNS resettled in the Transkei, Bophuthatswana, Venda and Ciskei (TBVC areas).

Mayer & Zarenda (1994: 38) give an example of the Metalware Manufacturers from the Matsapa Industrial Site in Swaziland that relocated in Boputhatswana, leaving 130 Swazi people unemployed. These strategic plans by South Africa were all directed towards a concentration of economic development in South Africa, neglecting SACU agreements.

Reflecting on the importance of BLNS membership in SACU, it is argued that if the BLNS countries were outside the SACU agreements, they would benefit from the lower import prices and exercise control over the tariff policy, but would not have assured access to South African markets. Focusing on dependence of the BLNS countries on South Africa, it is argued that "the BLNS countries were all the years preoccupied with the revenue distribution mechanism rather than economic co-operation and development" (Isaksen, 1993:189).

There is also an argument that for SACU to compete with other regional integrative blocks (e.g. European Union) there should be mutual development of member countries to an extent that their economies can be competitive rather than complementary. The most important question at the moment is how can the Southern African Customs Union be developed to the required standard without one of the member countries taking advantage of the others.

2.3 Economic development of the common customs area.

An objective included in the 1969 SACU agreement states that, it is the duty of all members of SACU "to ensure continued economic development of the custom union area as a whole. And in particular to encourage the development of the less advanced members of the customs union and the diversification of their industries" (SACUA

Preamble, 1996: 1). The realisation of this objective is highly questionable. From the available literature it would appear that the economic development of the common customs area was one-sided, with South Africa benefiting from such membership.

Maasdorp (1990: 2.) argues that an important factor in any economic integration is that the member countries should be in some considerable agreement as to economic philosophy. Philosophical differences can lead to the reasoning that those countries with policies attractive to investors will develop more rapidly than others, and thus benefits of integration will not be shared. Funds will move to countries with lower taxation rates, more favourable exchange control policies etc.

Because of the concentration of industrial development in South Africa, Maasdorp argues that there should be change of focus towards the development of the entire customs area, if the envisaged development strategy will help in competing economies within SACU. South Africa being the economic giant in the region, should sacrifice some of its sovereignty and clear the development path for all SACU members.

McCarthy (1994: 175-177) explains the problem of skewed industrial development as deriving from the economies of unequal size and different levels of development. He mentions that in economic co-operation of unequal countries, the small economies are given the opportunity of escaping the confines of small domestic markets by producing for a larger unified market, which in practice entails exporting to larger member countries. This would be an advantage for BLNS countries exporting to South Africa.

He further argues that small economies usually lack the capacity, especially industrial skills and entrepreneurial capabilities, to produce goods marketable to larger and usually more developed member countries. This leads to larger member countries benefiting because of lack of competition. The situation ultimately led to concentration of economic growth and trade diversion. He explains that the higher prices resulting from trade diversion imply that the industrially less advanced member states are subsidising the industrial development of the industrially more advanced member states.

McCarthy cites two ways in which the problem of skewed growth can be addressed that is by imposing limited tariffs on imports from a partner state, or compensatory transfer payments from the more developed to the less developed member. He says the two measures are not meant to correct the unequal distribution of industrial investments but to compensate for industrial concentration, without directly addressing the cause of skewed development. The developing countries may then revert to a distributive strategy based on planned regional industrial development frequently supported by a regional development bank. He says regional planning should be effective in addressing the equity issues.

Stewart and McCarthy (1995: 405-406) argue that the Southern African region (with SACU as part thereof) is not sufficiently politically and technically mature to opt for market-based models of integration because:

- The basic requirements for orthodox customs union are not satisfied. The participating countries are not at similar levels of development; their industrial sectors are not competitive; they have no potential to develop existing complementary industrial sectors; and external trade does not take place mainly among the prospective union members
- The levels of policy harmonisation, which would be necessary, are neither political nor technically feasible.
- Measures to counteract polarised development are unlikely to be practicable on technical and political grounds.
- The sacrifices of sovereignty implied by the common body of community law which would be necessary to regulate the activities of complex market based schemes, are likely to be regarded as excessive by member countries.
- It will be difficult for Southern Africa to achieve trade liberalisation which is the most basic component of market-based schemes.
- The size of the regional market is insufficient to support the scale economies.
- The wide ideological disagreement, which may from time

to time arise in Southern Africa, could be problematic within formal and close-knit market-based systems.

- The general developing-country production and trade structures that predominate within the region, and the extreme inequality in economic development levels, would limit the achievements of the rapid gains necessary for system stability and durability.

The dependence of South Africa on extended BLNS markets, the inclusion of the stabilisation and enhancement factors in the revenue sharing formula as compensation for adverse economic effects, and the introduction of the secret memorandum to protect industrial development in South Africa, are all indicators of a hegemonic approach to BLNS countries. This has resulted in a concentration of development in South Africa caused by unequal economic development among the member countries, the unwillingness to sacrifice political sovereignty by member countries, and lack of harmonisation of economic policies.

The inability of the BLNS countries to develop and increase industrial production for the extended trade markets in South Africa, resulted in concentration of development in South Africa, with BLNS countries putting their interests around revenue shares increased by the compensation from South Africa, rather than concentrating on aggressive development of their countries.

The fiscal discretion given to South Africa by the BLNS countries in determining the common custom duties, as well as in controlling the revenue pool and determining the revenue sharing formula, is also a clear indication of hegemonic power over the Customs Union by South Africa. The latter also unilaterally raised the prices of her commodities within the common customs area without consultation with the other members in an attempt to match the world standard prices. This factor also contributed to economic domination.

However, while the BLNS countries complain that South Africa has been enriched by economic co-operation, South Africa feels that the stabilisation and the enhancement factors included in the revenue sharing formula, which advantages the BLNS countries, when it (South Africa) receives only the residual from the revenue pool, makes its membership of SACU very expensive.

Regardless of the tensions mentioned above which are prevalent in the customs union, there is not a single country intending to withdraw its membership of SACU. Stoneham (1994: 6) states that the RSA understood that "the BLNS countries ... are ... striving ... to establish a financial situation for themselves which does not leave them in a worse position than under independent circumstances outside the customs union."

With very little development plans existing in the BLNS countries and with a concentration of industry towards South Africa, Kamur (1990: 2)argues that SACU has thus often been seen as a pragmatic trade and payments arrangement among a particular group of countries with a very specific history, rather than an integration scheme, in either the European Community or developing country moulds.

The Development Bank of Southern Africa, realising that economic development has been skewed towards South Africa at the expense of other member countries, has made a recommendation that: "any future restructuring strategy undertaken by a new South African government covering development, industrialisation, labour or trade has to take into account the effects on other members of SACU. It must also analyse the capacity of the BLNS to supply raw materials, intermediate inputs and even competing consumer goods to South African markets and attempt to foster linkages between economic sectors across the region. For this programme, more democratic institutional structures should be established in key decision-making areas, increased research into the needs of participating members undertaken and improved current statistics made available." (Marina. M & Zarenda. H, 1994: preamble).

From this recommendation it can be realised that from the DBSA viewpoint South Africa is the country having the solution to problems prevalent in SACU, and a balanced development strategy for the entire region is crucial to the success of the future economic development for every member of SACU.

2.4 Participation in decision-making

It would appear that the area of BLNS participation in decision making received very little attention from the apartheid South African government, because unilateral decisions were taken and imposed on the BLNS countries without adequate time for consultation. A paper presented by Stoneham at a workshop held in Botswana (1994: 14) indicates that the recommendation made by the Board on Tariffs and Trade (BTT) to the South African government, could not be changed regardless of inputs made by the BLNS countries.

The removal of the BLNS from decision-making arenas is evidenced by the fact that the customs union does not have a permanent secretariat, but depends on South Africa as the principal party in the administration of SACU: the common external tariff is determined by South Africa with the Board of Trade and Tariffs acting as the tariff investigating body for SACU (McCarthy,1992: 12). This Board, as a private sector, is also used to make recommendations to the RSA government on changes to industrial and trade policies.(Stoneham, 1994: 14).

One other aspect that needs attention is the fact that the BLNS countries were supposed to implement the same excise and sales duties in the very way South Africa did. This implies that the decision implemented by South Africa locally would be effected in the BLNS countries without questioning. Consultation with other member countries was minimal. This could be realised when South

Africa decided on the introduction of the General Sales Tax (GST) and the Value Added Tax (VAT) without consulting with other member countries. This was regarded as decisions taken "outside the scope of the agreement".(Isaksen, 1993: 183).

Issues revolving around the time lag before revenue shares were distributed to the member countries were a decision of South Africa without consulting with other countries. This decision had adverse effects since it took two years before revenue shares could be redistributed.

For the fact that no country intends to quit the customs union, it means th these tensions can be addressed by reviewing the objectives of the 1969 Southern African Customs Union agreement (SACUA) and by investigating whether these objectives have been satisfied or not. If not, then what role can South Africa and the BLNS countries play in ensuring that the said objectives are redressed with the view of reconstituting and democratising the customs union.

Arguments made above point to a situation where it is realised that the agreements made by the member countries in 1969, with regard to the development of the less advanced countries in the customs union, were favouring South Africa at the expense of the BLNS countries and that negotiations are necessary for changing these agreements.

2.5 The revenue shares:

To demonstrate that South Africa exercised a lot of economic power and hegemony over the BLNS countries, one has to look into the collection, control and distribution of the revenue pool of SACU to the different member countries. Hoohlo (1990: 94) explained the pool "as a collection of all customs, excise, sales and all trade related duties collected in the customs union. South Africa is the custodian of the pool. The agreement does not specify how these should be used, between collection and disbursement." South Africa therefore collects the duties into its consolidated revenue fund, and BLNS shares are paid from this fund. This explains why the RSA solely took over the responsibility of collection from and redistribution of funds to individual member countries.

All recommendations on the rate of tariffs were the responsibility of BTT and the revenue sharing formula was unilaterally determined by the RSA government, although Article 5 of the SACU agreement provides the BLNS countries 'adequate opportunity' for consultation before imposing, amending or abrogating any custom duty with respect to goods imported into the common customs area (Government Notice No. 2584, 1969: 4). Without doubt, South Africa was in direct violation of the agreement related to the revenue sharing formula.

Stoneham (1994: 14) states that the advantage taken by South Africa on the BLNS countries does not depict a healthy relationship amongst the member countries. It demonstrates the reliance and dependence of other member countries on South Africa. South Africa made use of its own institutions to undercut the SACU members with regard to decision making.

2.5.1 THE REVENUE SHARING FORMULA

Article 14 of the 1969 agreement deals with the formula for determining the respective revenue shares of Botswana, Lesotho and Swaziland in the common revenue pool. This formula was also used to determine the revenue shares for Namibia after it had joined the customs union in 1990. The DBSA expressed the formula in the following way:

$$R = (i + p) \frac{C + E + S}{1 + P} (1,42)$$

In this formula:

R is the revenue received by Botswana, Lesotho or Swaziland.

I is the value at the border of all imports into Botswana or Lesotho or Swaziland or Namibia inclusive of customs, excise and sales duties.

L is the value at the border of all imports into the customs union area inclusive of customs and sales duties.

P is the total value of dutiable goods produced and consumed in Botswana or Lesotho or Swaziland or Namibia inclusive of duties.

P is the total value of dutiable goods produced and consumed in the customs union area inclusive of duties.

C is the total collection of customs duties within the customs union area.

E is the total collection of excise duties within the customs union area.

S is the total collection of sales duties within the customs union area.

N.B.:**p** and **P** in the formula, exclude any export of domestically produced excisable and sales duty goods that benefit from export drawbacks.(Mayer & Zarenda, 1994: 13-14)

Isaksen (1993: 185) argues that the advantage taken by South Africa in SACU is apparent especially where South Africa, after negotiations, decided to fix the compensation rate at 42% on the revenue shares of the individual member countries in order to protect its Macro-Economic Policy. Despite the fact that the allocation of the revenues from the pool should be related to the value of dutiable goods imported (for custom duties), and those produced or consumed (for excise duties), the revenue share of each of the BLNS countries that is multiplied by 1.42 because of the 42% extra share, is said to be compensation to the BLNS countries for:

2.5.1.1. The 'price raising effects' on imports from South Africa into the BLNS countries of a tariff system designed to protect South African producers from international price competition. Although South Africa is to blame for the price raising effects that are detrimental to the BLNS countries, it should also be remembered that lack of economic competiveness among the member countries cause this type of situation.

2.5.1.2 The 'industrial concentration effects, resulting from the tendency of industries serving the SACU market to locate in South Africa. Although this turns to be an adverse effect on the BLNS countries, it should not be forgotten that investors turn to be interested in putting their investments in countries with the correct infrastructure. Hence the attraction of industry to South Africa is not only because of the adverse policies South Africa adopted, but also because of the attractive infrastructure prevailing in South Africa.

Lundahl and Petersson (1991: 369)argue that the concentration of industrial development in the core white areas of South Africa, has given rise to six effects which are detrimental to the BLNS countries:

(i) It has increased the price of imports into the BLNS countries.

(ii) The BLNS countries lose production factors to South Africa, especially those which could be used in the production of industrial goods in these countries.

(iii) Agricultural production (particularly in Lesotho) has declined as a result of the vast migration of labour to South Africa.

(iv) Through the agglomeration of economies of scale, the areas which were developed first in the customs union can secure a permanent monopoly, should it be given free trade and free factor movement within the region. Production costs are thus lower in South Africa than in the BLNS countries by virtue of South Africa's position as the most developed area in the customs union.

(v) Concentration of industry is further reinforced when, (from the demand side), consumers in the BLNS countries prefer goods which are traditionally imported from South Africa, even if there are no price or quality differences between domestic and imported goods.

(vi) The BLNS countries can only embark on very limited industrial strategies because they have sacrificed the protective aspects normally associated with the use of tariffs, fiscal policy and monetary policy in terms of SACU agreement. This obviously contributed to skewed industrial development in the region.

2.5.1.3. The 'loss of fiscal discretion' by BLNS due to the fact that South Africa retained the right to set tariffs and excise rates for the entire SACU (World Bank, 1992: 31).

Regardless of the adverse factors mentioned above, subsequent actions by the South African government exacerbated and added to the adverse effects. Subsidies to South African industry and the resulting disincentive to peripheral countries from a number of policies were implemented by the South African government, particularly the decentralisation policy and General Export Incentive Scheme. Because related clauses in the SACU treaty, prevent the BLNS countries from exploiting the large South African market, this undermined one of the potential benefits of SACU membership to these countries.

South Africa complained that its membership is becoming too expensive because of the compensation and enhancement factor included in the revenue sharing formula. Regardless of this complaint it is argued that the negotiators of the BLS countries seem to have not understood the implications of the stabilisation factor of the revenue sharing formula. It is said that they seemed to believe that stabilising the rate of duty that is applied to BLS imports is equivalent to stabilising the flow of BLS revenue from a well-defined common revenue pool. On the other hand, South Africa, understanding the implications of the changes proposed by the BLS countries, accepted the proposals in good faith and gained the freedom which it had previously not enjoyed that is, how much to contribute to the common revenue pool. (Guma, 1990: 75).

As mentioned before, the two year lag in payment of SACU revenue effectively diminished the compensation of the enhancement and stabilisation factors in the revenue-sharing formula(Mayer, M & Zarenda, H. 1994: 32).The time spent before the BLNS countries could get their dues created the cash flow problems in the BLNS countries when South Africa enjoyed interest from money belonging to other member countries. The late arrival of these shares would make the received money lose value because of inflation rates.

The agreement by the BLNS countries to this offer of compensation demonstrates the power South Africa has on the SACU member countries. There is a complaint from the BLNS countries about the inclusion of the excise rates in the revenue sharing formula. Although the complaint is genuine because excise rates deprive the citizens of total taxes on consumables within their country, it is merely indicative of the desire by these countries to maximise their revenue share, and, on the other hand, of the advantage taken by South Africa of the BLNS countries. This advantage can be illustrated by the fact that despite the agreement on common external tariff, and the excise duties, South Africa introduced the General Sales Tax (GST) and the Value Added Tax (VAT) without consulting other member countries. The economic significance of SACU can be seen as an arrangement in which South Africa acquired captive markets in the BLNS countries in return for its disproportionate by low shares of the revenue pool. (Davies, 1994: 5).

Regardless of the adverse effects mentioned above, pulling out of SACU has hardly been considered a desirable option by either South Africa or the BLNS countries. The most important consideration is whether other SACU member countries are enjoying the same benefits of being parties of the SACU agreement and are receiving their worth without being disadvantaged by the domination of South Africa. Should South Africa still continue taking advantage of the poverty stricken member states in SACU?

The democratisation of South Africa has brought with it expectations of a more meaningful and prosperous Southern African regional economic co-operation and integration. Since the establishment of SACU, and the incorporation of Botswana, Lesotho and Swaziland after 1889, and ultimately Namibia in 1990, the people of the region have been grappling with the hegemonic tendencies practised by the apartheid South Africa. The yearning for reconstitution and democratisation of the customs union depended largely on the outcome of the multiparty direct negotiations and the dawning of a majority rule in South Africa. According to the Lusaka declaration made under the Southern African Development Co-ordination Conference (SADCC), it was agreed that, " no country wishes to be economically dominated by another country." This is the attitude that should be taken by SACU in trying to democratise the union.

2.6 TOWARDS THE SOLUTION

The Vice President and Minister of Finance and Economic Planning in Botswana, Mr. Festus Mogae, in a preamble of the report of the workshop held in Gaberone in March, 1994, stated that the purpose of the workshop was to inform the democratic movement (in the RSA) and their parties about the issues relating to SACU, including the identification of negotiable points and the consideration of modalities which would assist in the reconstitution and democratisation of SACU (Mogae, 1994).

Whilst thinking of the reconstitution and democratisation of SACU, one wonders if the democratic South Africa will give its full attention to the democratisation policy of SACU, or if it will be preoccupied with its own Reconstruction and Development Programme (RDP). This is because the collapse of the apartheid regime also calls for a concentration on the reorganisation of South Africa in its entirety. What may happen more rapidly is a change in the formal institutional links among the member countries. This may result in the establishment of the Secretariat, a duty which was solely in the hands of South Africa. The establishment of the Secretariat, if it happens, elicits a number of questions which need to be addressed in order to avoid problems of the past (McCarthy, 1992: 12)

Considering the gross migration of people from SACU member countries into the South African boundaries, it is envisaged that the strong link between ANC and the Unions is likely to be important in decisions pertaining to regional labour migration (Isaksen, 1993: 190). This migration has economic implications on the South African labour market, because this causes unemployment in the country. This factor also needs attention when illegal immigration is discussed within SACU negotiations. While discussing the question of illegal immigration, attention should also be paid to the concentration of industries in South Africa (Mayers, M & Zarenda, H.,1994: 36) which pose an incentive to people living within the BLNS countries to look for employment in South Africa.

Davies (1996: 2), after exploring the relations between South Africa and the BLNS countries, mentions that the promotion of growth and development in a democratic South Africa depends on access to regional resources and infrastructure, as well as on co-operation with various sectors. He says that South Africa does not only survive because of its stronger productive base, but also because of the protective tariff and non-protective barriers of various kinds that kept goods produced in regional states out of trade within South African markets. He says South Africa can not hope to become an island of prosperity in a sea of poverty.

He goes on to say that Southern Africa should command top priorities in South Africa's foreign policy and that the country should act with its partners to promote growth and development throughout Southern Africa.

After exploring all the areas of hegemonic approach and advantage taken by the apartheid South Africa on the BLNS countries, one needs to explore suggested solutions for the tensions mentioned in this chapter. This is a manner of finding out what different authors say about the future prospects of SACU and how the problems created by South Africa, through domination can be solved.

Mayer & Zarenda (1994: 46)argue that the first option towards the future trends of SACU is that it **remains as it is.** Lundahl and Petersson(1991: 402), focusing on the dependence of Lesotho on South Africa, feel that any deepening of SACU relations will also deepen the dependence of Lesotho on South Africa. For Lesotho, SACU should remain as it is. Mayer & Zarenda further say that many analysts do not support this option because it is felt to be a short-term arrangement. This is argued in the sense that there is pressure from the General Agreement on Trade and Tariffs (GATT) to reduce tariffs and eliminate quantitative restrictions, which will have adverse effects if adhered to. The reduction of tariffs may even reduce the revenue shares allocated to the five member countries of SACU a condition which could make South Africa withdraw the stabilisation and enhancement factor.

On tariff reduction, Business Day, dated 21.06.1994, states that the Minister of Trade and Industry, Trevor Manuel, mentioned that he was in favour of implementing reduction of tariffs as called for by GATT "as soon as possible." This tariff reduction is not viewed as contributing to the reduction of the revenue pool.

On the contrary, Davies (1994: 11-12) argues that with the reduction of tariffs, the BLNS countries may replace more expensive South African imports with cheaper goods from elsewhere. He says that this may complicate cost-benefit calculations and hence SACUA negotiations. In addition he says that a democratic South Africa's acceptance as a full and open trading partner will increase pressures to comply more fully with international trading norms. This is viewed as a solution to the trade tensions of the past SACU.

As the second option there is a feeling that **SACU should collapse** and countries should start working towards the upgrading of the Southern African Development Community (SADC)(Matsebula, 1996:13-14). This is in a way trying to merge SACU and SADC. Mayer and Zarenda (1994: 45) have as their first option the termination of, or the downgrading of SACU to a free trade area. Maasdorp is quoted as saying "an issue which should be faced is that of downgrading the SACU to a free trade area or a preferential trade area or even terminate it." (1993: 41).

Against this argument there are reservations, as mentioned earlier, that should SACU terminate its existence and its revenue cease flowing to the BLNS countries, human labour from these countries will flow into South Africa and this will increase unemployment and the situation will ultimately escalate the crime rate in South Africa and divert investment from South Africa.

The third option according to available literature is to create a **broader and looser SACU.** Hoohlo states that "One factor which cannot be removed, which is a geographical accident is the interdependence of SACU members including Namibia. It therefore calls for a co-ordinated planning effort for the entire region on all economic fronts to arrive at a mutually beneficial association" (Hoohlo, 1990: 104). Hoohlo also mentions the existence of a monetary union between all member states, excluding Botswana, and says these are the right steps towards an economic union.

Maasdorp & Whiteside (1993: 46) state that there is wide support for the transformation of SACU into an economic union and that there are reports that Mozambique, Malawi and Zambia have expressed in private an interest in joining SACU. In the Commercial Review dated March 1995, an article written by Gift Sipho Siso states that SADC proposed the expansion of SACU to include non-members of the organisation and that it should also work towards the free cross-movement of both labour and capital.

Davies et. al (1993: 59) states that SACU was widely heralded in official and business circles as the most successful integration scheme in Africa and thus a potential model for a broader programme. Matsebula (1996: 16) also comments, on the basis of the presence of a common monetary union, that the likelihood of establishing an economic union is there.

It is recommended that there should be "closer co-operation in policy formulation, continuous consultation and a programme of regional industrialisation, all of this facilitated by a permanent secretariat and an active Custom Union Commission" (McCarthy, 1992: 23). This approach can lead to the acceptance of a common, broad approach to development and a decrease in compensatory payments and a strengthening of arrangements, including the establishment of a regional development bank to promote economic development in the common customs area.

In addition to this recommendation by McCarthy in the Business Report, dated 01.08.95, it is reported that the South African government contributed towards the establishment of a council of ministers from the member countries, whose council in turn agreed on the establishment of an independent secretariat, and a commission of senior technocrats from member governments.

An invitation of the Ministers of BLNS countries to a negotiation table, by Trevor Manuel as mentioned before, is an indication of South Africa's acceptance of full and open partnership in SACU. According to Business Report, dated 04.07.95, this first ministerial meeting, which in the future will be able to meet annually, managed to launch and reopen negotiations of the Customs Union Task Team (CUTT). The Team introduced three working groups namely: The Institutional Framework working committee dealing with the democratisation of SACU; a technical and investigative working committee which will supply information required by negotiators on economic and other issues; and a policy working group involved with trade and industrial development policies.

CHAPTER THREE

3. RESEARCH QUESTIONS AND METHODOLOGY.

3.1 RESEARCH QUESTIONS:

There are very strong arguments from the literature reviewed in the previous chapters that apartheid South Africa, realising its strong economic position emanating from a well established industrial base, dominated the members of the customs union to enhance its extended trade markets and survive the international economic sanctions imposed against her.

If the situation is investigated very closely an element of interdependence is observed. Although South Africa depends on the economic co-operation within the customs union the BLNS countries are also dependent on the industrial well-being of South Africa. South Africa, realising the factors underlying this kind of regional co-operation (SACU), had to sacrifice its residual share of the gross revenue pool by introducing a compensation factor of 42% above the individual shares of the member countries.

The first question to be addressed in this study is whether South Africa's approach to SACU has been hegemonic, and whether a democratic South Africa will ensure leadership of SACU member countries to enhance mutual economic development or whether it will maintain a hegemonic approach. The workshop held in Botswana in

March 1994, on the eve of the democratic elections in South Africa, had its theme as "Reconstituting and Democratising the Southern African Customs Union".
Assuming that South Africa is willing to lead the customs union to economic prosperity without practising hegemony, other questions to be answered by this study would be:

(i) Was South Africa's membership of SACU before 1994 more hegemonic or was it leadership orientated in character?

(ii) Are the BLNS countries empowered to participate in the decision making process within SACU?

(iii) What strategies can be implemented towards the economic development of the whole common customs area?

(iv) How can all member countries be afforded the opportunity to explore all existing markets within the common customs area?

(v) How can revenue shares to member countries be equitably distributed to the satisfaction of every SACU member?

3.2 RESEARCH METHODOLOGY:

Research is defined as "a process of trying to gain a better understanding of the complexities of human interaction" (Rossman & Marshall, 1989: 21). The choice of a research method depends on the question to be answered, as well as on the type of data needed. Practical constraints can also influence the selection of the research method. The complexity of the choice of a research method can be overridden by the thorough understanding of the question to be answered and anticipation of the physical constraints or impediments the researcher can be faced with when an attempt is made to answer the research question. If the researcher knows the answer to his research question, it is not necessary for him to continue looking for data, since the needed data will be readily available in himself.

Selection of a research method is necessary where the answer to the research question is unknown to the researcher, and data has to be sought from remote and unknown sources. As it is said: "Data lie buried within the minds and within the attitudes, feelings or reactions of men and women. As with oil beneath the sea, the first problem is to devise a tool to probe below the surface" (Leedy, 1993: 187). The research tool mentioned is the one to be used to uncover or unfold hidden answers to the research question and make them accessible to human knowledge.

The techniques to be used in the collection of data in this report will be through face-to-face semi-structured interviews, supported by a limited number of structured questionnaires, and a literature review.

3.2.1 Sample selection

One focus of the research report is the identification of stakeholders in the topic to be studied. Since this research is on the South African customs Union, and that as a limitation stakeholders from the BLNS countries could not be interviewed, the stakeholders relevant to this topic were identified as the Department of Trade and Industry, the Reserve Bank as well as members of some non-governmental organisations like the Development Bank of Southern Africa, South African Institute of International Affairs.(All these institutions are based in South Africa). The method of selection was one representative per institution, except at the Department of trade and Industry and of the Development Bank of Southern Africa where two people in each case were interviewed. This was done realising time constrains.

3.2.2 Individual in-depth interviews:

Individual in-depth interviews differ from those with key informants in that their scope is usually far wider and they are more open ended. In an unstructured interview, the person interviewed is free to voice his own concerns and to share in directing the flow of the conversation with the interviewer. The researcher relies on open questions to introduce the topics of interest and probe for more information. "The aim is, literally, an 'inter-view': a mutual exploration of the issues, without the researcher opposing his or her ideas"(Nichols, 1991: 13).

" In a structured social survey, the range of possible answers to each question are known often in advance and often listed in the form so that the interviewer can simply mark the appropriate reply" (Nichols, 1991: 13). If the range of answers is not known, the researcher conducts a pilot survey to test the questions and see what answers are given.

In-depth interviews are a valuable tool in themselves. They are also an essential exploratory stage in designing a large structured interview survey. The researcher discovers not only the themes and topics which interviewees see as important, but how they think about them and describe them. Building carefully on this preliminary work results in clearer and sharper research questions.

Individual unstructured or semi-structured interviews are especially suitable for work on attitudes or opinions and for dealing with sensitive topics like the one on the future of SACU. The interview schedule was derived from the literature and consisted of a series of structured and checkpoint questions that enabled the researcher to cover all the important issues while allowing him to deviate from the schedule as crucial themes emerged, or as question arose in the course of the interview.

The interviews were conducted in such a manner that the interviewees were afforded greater freedom and flexibility in answering the questions, with the interviewer managing to probe further areas that were not clarified by the respondents, or which appeared to be important. Open-ended questions were utilised as investigative instruments toward answering the research question, and allowed the interviewee to be an informant rather than merely a respondent

See appendix for a list of interviewees as well as their places of employment. Face-to-face and semi-structured interviews were conducted with all these interviewees.

3.2.3 The questionnaire:

3.2.3.1 Reasons for using a questionnaire:

A questionnaire is an instrument used to observe data beyond the physical reach of the observer. It is used as a means of eliciting the necessary responses from the respondents about their attitudes, understanding problems experienced and possible solutions towards reconstitution and democratisation of the Southern African Customs Union.

Realising the limited time given for the completion of this report and also considering the financial constraints attached to travelling since the researcher lives in the Northern Province, the realisable option for accessing data was through the research questionnaire. Some of the questionnaires were sent to the respondents, and some were used in the semi-structured interviews conducted.

3.2.3.2 Development and content of the questionnaire:

The questionnaire which also formed part of the interviews was prepared by the researcher. This document was then given to four classmates for testing its understandability, and to determine whether it would elicit the necessary information for the purpose of this research report. After it had been adapted to suit the research questions under review, it was then sent to respondents for data collection.

This questionnaire consisted of 33 questions which took approximately 45 minutes to respond to. The questionnaire covered information under the following sub-headings:

(A) Participation in decision-making of the customs union by member states: This sub-heading posed questions on the existence and functions of the Board on Tariffs and Trade, whether this Board is still in existence, what the functions of this Board are and how the member countries of SACU are represented in this Board. It also touches on the capacity of South Africa to decide on behalf of the Customs Union, as well as on the existence of the Secretariat in the SACU. This sub-heading also deals with the existence of forums involved with tensions emanating from this economic integration.

(B) Economic development of the common customs area: Questions covered under this sub-heading are on problems revolving around industrial polarisation to South Africa, illegal immigration into South Africa, development of the common customs area, the presence of the common monetary union, etc. It investigates the modalities of trying to develop both the whole common customs area and measures of alleviating the problem of illegal immigration into South African borders.

(C) Free interchange of goods between the member countries: The questions in this category have a bearing on proportions of interchange of goods, free movement of labour, and proportions of imports and exports between South Africa and other member countries within the Customs Union.

(D) Sharing of equitable benefits among members of the Customs Union: In this case the questions revolving around percentage shares allocated to individual countries, the enhancement factor of 42%, the fiscal discretion of SACU, the involvement of the Reserve Bank, and the inclusion of the sales and excise duties in the revenue sharing formula etc., are attended to.

3.3 DATA ANALYSIS:

The data collected from respondents as well as interviewees were organised in such a way that the relationship between member countries within SACU, and differences between member countries, could be well understood. The data collected through semi-structured interviews, as well as through research questionnaires were examined, organised, combined and categorised in patterns with a view of addressing the initial study questions. In examining data, the problem of personal and political biases were experienced, but these were avoided as far as possible.

The questionnaire used for seeking data was also structured in such a way that the research questions would be answered. The data were ord ed by grouping responses from different questions together, looking at the certain features, similarities of answers to questions, differences in or diversity of answers, as well as strength of suggestions.

The concluding discussion and the recommendations based on this research report are based on the data collected for the purpose of answering the research question and the interpretation thereof.

CHAPTER FOUR

4 RESULTS AND FINDINGS:

4.1 Introduction

The previous two chapters dealt with the information drawn from the literature review and the research design relevant to the topic. This chapter examines the data collected or information drawn from people who responded to questionnaires as well as semi-structured interviews. The interpretation of data collected is used to answer the question whether South Africa's approach to SACU has been hegemonic, and whether a democratic South Africa will ensure leadership of SACU member countries to enhance mutual economic development or whether it will maintain a hegemonic approach.

Further questions to be answered by this research are:

(i) Was South Africa's membership of SACU before 1994 more hegemonic or was it leadership orientated in character?

(ii) Are the BLNS countries empowered to participate in the decision making process within SACU?

(iii) What strategies can be implemented towards the economic development of the whole common customs area?

(iv) How can all member countries be afforded the opportunity to explore all existing markets within the common customs area?

(v) How can revenue shares to member countries be equitably distributed to the satisfaction of every SACU member?

4.2 The Pre-1994 SACU

There is a general agreement from all respondents that SACU has not changed much from what it was after 1969, although expectations were that the institution would change with the election of a democratic government in South Africa. It is felt that the relationship between South Africa and the BLNS countries was more one of domination by the RSA than one of partnership with the RSA leading the development of the whole SACU.

All respondents accept that the BLNS countries were concentrating more on revenue returns than on development of their own economies. According to Ghandi Hattings, Rashad Cassim, Talitha Bertelmann, and John Kodisang, the enhancement factor of 42% afforded to the BLNS countries was in compensation for adverse effects, and should be utilised by the BLNS countries towards the development of their own individual economies.

Although substantial amounts were given to the BLNS countries in the form of compensation, Thomas and Van Niekerk have a concern that the BLNS countries have provided trade markets for South Africa and therefore the RSA should initiate alternative strategies towards economic development of the BLNS countries. There is a need to shift away from the 1969 SACU agreement which gave South Africa the advantage to hegemonic approach in SACU. All the respondents agree that the yearning for reconstitution and democratisation of SACU (by BLNS countries) is becoming overdue.

4.3 The present SACU (from the South African viewpoint):

An interview with the Deputy Director of The Department of Trade and Industry (DTI), Ghandi Hattings, revealed that almost all the committees and commissions which started functioning after the 1969 agreements are still in existence. Regardless of the diverse, dynamic and complex economic and political environment prevalent in SACU, the institution's mode of operation as explained in the second chapter, still stands. As evidence to this, the following points need to be revisited:

4.3.1 Participation in decision making:

According to all respondents, the **Board on tariffs and trade**, a private institution existing under the South African law, is still in existence and is performing the same functions. Hattings argues that the BLNS countries were several times invited to nominate from their countries representatives into the Board, but this invitation was declined with reasons that the Board was a formation of South African legislation. The functions of the Board are as follows:

(i) Deciding on the common external tariffs in such a way that the interests of all member parties are protected. It also investigates the presence of these tariffs including ordinary customs duties, anti-dumping and countervailing duties.

(ii) This Board also plays a role in the development of South African industries where the tariff is involved.

In relation to participation in decision-making, a majority of respondents agree that the decision on the common tariff still rests on South Africa since the Board on Trade and Tariffs is the only body that can recommend to the Minister of Trade and Industry.

The Legal Advisor and Policy Analyst at the DBSA, Rosalind Thomas, argues that even if the decision rests with the RSA, an attempt is made to consult with the BLNS countries. One other respondent from the South African Revenue Service (SARS), Grant Busby, argues that although South Africa has to consult the BLNS states in terms of Article 5(1) of the SACU agreement, it does not need the concurrence of BLNS to amend the custom duty, but where the BLNS has a serious problem with a tariff, RSA will take their concerns into consideration.

According to a respondent from the Reserve Bank, Jacky Brevis, it is argued that even if the 'Board' is responsible for determining the external tariff, this is done in such a way that the interest of all member countries are protected. In principle all the respondents, to the question on decision-making agree, that even if negotiations by the member countries have not yet been finalised, South Africa still holds the decision making power, but in honouring the stipulations of the 1969 SACUA, an attempt is made to consult with the BLNS countries.

Hattings, elaborating on consultation with the BLNS countries says "the only body in SACU which can recommend a new or amended rate of duty and rebates of the duty is the BTT. It acts on behalf of the whole of SACU, but can only do so if inputs are received from BLNS countries". The recommendations from this Board can only be approved by the Minister of Trade and Industry(in South Africa).

Still referring to the issue of 'adequate time' for consultation, all responding parties agree that the time scheduled for consultation is 8 weeks. Busby and Hattings say that the time could be extended when necessary. In addition Busby goes on to point out that RSA and the BLNS countries are given the same time to comment on any proposed changes.

On the question of establishing forums to facilitate the involvement of the BLNS in decision-making, all respondents agree that there are fully representative forums established for discussion of matters related to the customs union, but referred this matter to the DTI for elaboration. The Deputy Director of the Department of Trade and Industry, responding to the question on forums mentioned the following committees which cannot constitute the quorum of a meeting in the absence of a delegation from one of the countries:

(i) Customs Technical Liaison Committee was established in approximately 1970, and holds its meetings three times per year, and discusses mainly customs procedures and implementation of tariff measures.

(ii) Trade and Industry Liaison Committee was established in approximately 1972. It also holds meetings three times per year and discusses matters on trade and industry and marketing of agricultural products.

(iii) Transport Liaison Committee was established in approximately 1975. It is Ad Hoc and is presently operating under The Memorandum of Understanding on Road Transportation. This committee reports to the Customs Union Commission.

(iv) Custom Union Commission was established in 1970 immediately after the 1969 SACU agreement. This body meets once in a year to settle matters not solved in liaison committees, adopts annual reports of liaison committees and recommends that shares of BLNS countries in the pool be approved.

In addition to the committees tabled above, Thomas and one other Policy Analyst at DBSA, Lolette Van Niekerk, shedding light on the existence of committees mention the Customs Union Task Team (CUTT). They say that there are three negotiation working groups within CUTT. The functions of these groupings are: deciding on constitutional matters; drawing policy on industrial activities and competition in agriculture; and technical investigation on th revenue sharing formula. All member countries are represented in these working committees. They also mention that the commission is still in existence. This argument was also supported by all other respondents. The Trade Advisor at DTI, John Kodisang elaborated by mentioning that the different working committees assist in advising the Commission of Ministers.

4.3.2 Economic development of the common customs area:

Responding to issues revolving around industrialisation, Hattings comments that some economists regard industrial concentration to South Africa as not deriving from economic co-operation with BLNS countries. They argue that if South Africa is viewed alongside countries which are not members of SACU but located in the southern part of Africa (e.g. Angola, Zambia, Mozambique etc.), it will be realised that there is a concentration of industry in South Africa, but he also acknowledges that SACU has a remarkable impact on industrial growth in South Africa considering extended trade markets afforded by the BLNS countries.

Jackey shares the same concern that the membership of South Africa in SACU has nothing to do with industrial concentration. He goes on to mention that concentration of industry is there within South Africa, where more industrial sectors are established in the metropolitan areas than in rural areas. Brevis says "industrial concentration is the result of investment decisions made by investors. The existence of SACU does not affect these investors' location decisions."

This concern is also shared by Rashad Cassim, the director at Trade and industrial Policy Secretariat, saying that, although to a limited extent South Africa contributed to slow development in the BLNS economies, this is not for the purpose of skewing industry to South Africa. Concentration of industry to a specific area is a result of the fact that investors are attracted more towards an area with a well developed infrastructure.

Cassim further argues that the issues revolving around concentration of industry, create an area of concern even among the SADC countries. The idea of attraction of investors by good infrastructural exposure is strongly supported by Talitha Bertelsmann, an interviewee from the South African Institute of International Affairs (SAIIA) and all other respondents.

Also sharing this concern are the Associate Director for Policy Analysis (DBSA), and the legal adviser in the

Policy unit (DBSA). Their concern is that even if SACU did not exist, there would still be labour movement from all Southern African states, because of employment opportunities, into an industrially developed South Africa.

In response to a question on price raising effects, the two interviewees from the DBSA argue that the price raising effects cannot be eliminated. They will always be there as long as there are differentials caused by inter alia, transportation costs, high tariffs, etc. These effects should only be managed. It should also be noted that SACU is a member of the World Trade Organisation (WTO) and that this organisation opts for faster tariff reduction than GATT suggests. They mention that if BLNS countries can import goods more competitively from other sources other than South Africa, this may help in the reduction of price raising effects.

They further argue that it should be remembered that the BLNS countries also benefited from being protected by the RSA tariff, and that South Africa in turn does not want to reduce the tariff soon because this will result in de-industrialisation.

Hattings share the same argument with the two adding that the price raising effects are gradually reduced and the BLNS is getting 17% for these effects. Brevis further argues that if the external tariff is reduced, the price raising effects will also reduce, and that total elimination of price raising effects is as good as abolishing SACUA.

All interviewees and respondents agree that illegal migration of labour from foreign countries create problems for South Africa, which is occupied with the Reconstruction and Development Programme (RDP) and is addressing the high unemployment rate locally. They agree that if migration affects the unemployment levels, it will also impact on the crime rate and ultimately reflects on investment opportunities into South African borders.

Thomas, commenting on illegal immigration, states that the BLNS countries are South Africa's captive market. They support South African industry and therefore our labour. But it should be remembered that labour migration threatens local labour. She says that the solution to the problem lies in cross border movement of capital into BLNS countries, which means investment by RSA companies in the BLNS territories to generate employment locally. She views this as an economic development strategy for the BLNS countries, which will ultimately resolve the problem of illegal migration of labour.

Talitha agrees with Thomas and expatiates by saying that problems of economic development of BLNS countries and migration of labour can be solved by creating work, health programmes, building Schools, improving the existing infrastructure and stabilising the political scene in the BLNS.

This contribution as a solution to the migration problem is supported by Lolette who said that except for cross-border investment in productive activities, there should be policies and programmes put in place "to deal with supply side or structural issues like: inadequate infrastructure, lack of skills, lack of capacitated intrepreneurs, etc.".

Hattings argues that investors (as well as labour) were historically attracted to South Africa because of the discovery of gold and government policy. The two factors culminated at development of the best infra-structure by tar-roads, rail, large universities, telecommunication, etc. He further indicates that a lack of industrial development initiatives in the BLNS cause foreigners to stream into South Africa and increases the unemployment rate in the country.

He cites the fact that lack of industrialisation in the BLNS hampers job-creation and people in BLNS countries tend to rely on primary industries (agriculture and mining). He complements Swaziland for the normalisation of the political scene as a strategy which may work against the industrial concentration phenomenon. This means that Ghandi not only includes lack of infrastructure, but also the instability of the political scene as the contributory factor affecting investment in the BLNS countries.

All interviewees agree that the Common Monetary Union (CMU) between South Africa, Namibia, Lesotho and Swaziland makes trade and cross-border investments much easier by discarding the red tape involved in exchange rates. Cassim and the two other interviewees from the DBSA also agree that the currency of Botswana, despite having a different value, is easily exchangeable in the whole customs area, making trade easy among the members of SACU. Thomas says that the common monetary union is the strongest feature of SACU and has been the major aspect of its success, as compared with other economic co-operation components throughout the world.

Brevis explains that after Namibia had joined the Common Monetary Area (CMA) in 1992, the name changed to the Multilateral Monetary Agreement (MMA). He further explains that the South African Rand is the legal tender in all member countries except Botswana. The currencies have a one-to-one exchange rate and no restrictions (limited exceptions) apply to the transfer of funds within the region. This makes the public and private companies of LNS (Lesotho, Namibia and Swaziland) to have access to South African money and capital. Therefore the system of exchange controls in force in South Africa is in all material aspects substantially in agreement with the exchange controls applied in the governments of LNS.

Hattings further says that Article 6 of the SACU agreement allows the BLNS states to protect their infant industry by means of tariffs. This statement is supported by all other respondents. Hattings also argues that the BLNS can also implement a duty against goods from other members, but, only Botswana has in the past made use of this provision for protection of their soap and flour-milling industry.

Van Niekerk argues that the permi sible period for support of such industry should be in terms of GATT and the SACUA. There should be a clear definition of 'infant industry' and support for such industry should not be tariff oriented but rather supply-side oriented and country specific. Thomas and Cassim support the idea of supply side measure as an appropriate alternative for tariff oriented measure. Cassim also mentions investment incentives and improvement of infrastructural costs as viable options for supporting infant industries.

When arguing about development programmes or strategies to be implemented in the customs area, Thomas and van Niekerk share the same view that there should be less emphasis on compensatory mechanisms and mindset in favour of a development finance orientation and funding mechanism. It is said that this requires a shift of thinking among BLNS countries from dependency on budgetary resources to acceptance of need for funds for development purposes.

The two mentioned above, supported by Kodisang, argue that other strategies are the harmonised and co-ordinated approaches on a number of policies (i.e.

trade, industrial, monetary, etc.) and incentives. Cassim agrees with the three and calls for the establishment of effective development forums. Talitha, agreeing with the same argument, further suggests that South African industries should be encouraged to invest in the BLNS countries.

Brevis, arguing on development strategies, mentions that the BLNS countries have been consulted and informed about the work done by the Industrial Development Bank (IDB) on a Regional Industrial Location Strategy (RILS). Ghandi mentions that specific industrial development programmes that involve the tariff, such as the Duty Credit Certificate Scheme (DCCS) for the textile and clothing industries and the Motor Industrial Development Programme (MIDP), are open to custom union members- if they play the same rules. He closes by saying that the development of eco-tourism could present possibilities for economic upliftment for the entire SACU.

Kodisang argues that the establishment of CUTT is seen as an initiative or a strategy on the part of South Africa to involve the BLNS countries in decision-making, thus democratising SACU to a level where the future of SACU member countries will be a joint decision of all membership. He goes on to say that all development strategies at SACU level should be linked to the SADC process, having a clear appreciation of bilateral talks between South Africa and the European Union (EU) and the re-negotiation of the Lome Convention which is to resume in September 1998. He also mentions that some of the

BLNS countries are members of the List Developed Countries (LDCs), hence South Africa has to take the lead with credible development strategies.

4.3.3 Free interchange of goods between the member countries:

Hattings mentions that all trade in SACU is essentially free, apart from a few exceptions, as was said in 4.2.2 above where it was stated that the BLNS have import control in place in some instances. This agreement covers only goods and not labour. This comment is also shared by Thomas, Bertelsmann, Cassim and van Niekerk who elaborates by mentioning that even if there is to a large extent free movement of goods between member countries, there are some restrictions regarding agricultural products.

Issues related to free movement of goods have a bearing on protection of infant industries. Hattings argues that Article 6 of SACUA allows the BLNS countries to protect infant industries by means of a tariff. This clarifies that with free movement of goods in place there was to a minimal extent deviation to this agreement. Regardless of arguments based on Article 6, to a large extent all respondents and interviewees agree that there is free movement of goods.

The following figures were prepared by the Reserve Bank after studying intra-SACU trade. The compilation of these figures was done in 1993, and it reflects on the import-export activities of all the member countries of SACU. A question on these activities was asked to every respondent or interviewee. Almost all the respondents referred to either the Reserve Bank or the Department of Trade and Industry in their response, hence these figures, which will be regarded as a true reflection of the activities of the SACU member countries. The left side reflects total imports (from other members to South Africa), and the right side total exports from South Africa.

IMPORTS IN RAND (1993)	EXPORTS IN RAND (1993)
S. Africa: R3 064 001 394	S. Africa :R13 820 378 220
Botswana : R4 635 524 912	Botswana : R492 062 294
Lesotho : R3 476 447 034	Lesotho : R253 287 218
Namibia : R3 353 172 788	Namibia : R799 993 014
Swaziland: R2 355 233 486	Swaziland: R1 518 658 868

NAME OF COUNTRY	IMPORTS:EXPORTS
S. Africa	0,222 : 1
Botswana	9,421 : 1
Lesotho	13,725 : 1
Namibia	4,192 : 1
Swaziland	1,551 : 1

The figures were collected for the purpose of explaining the disparities informed by the interchange of goods between member countries. The display above shows that the Lesotho ratio is the worst. Ghandi says that it is because Lesotho exports less to South Africa. All other interviewees regard Lesotho as the worst with regard to dependability on South Africa. According to both figures and the respondents Swaziland is seen as the best because it sells a lot of sugar products, timbers and refrigerators to South Africa. It is also expected that the ratio for imports in Botswana will decrease since the country is now exporting a lot of cars to South Africa.

Cassim, Bertelsmann, Brevis, van Niekerk and Thomas share the same argument that, over and above the car trade, the exportation of soda ash and beef etc., contribute towards gradual stabilisation of Botswana's economy.

4.3.4 Sharing of equitable benefits among members of the Customs Union:

Responding to the functions of the Reserve Bank related to SACU, Hattings said that the bank assists in checking the BLNS inputs and calculating BLNS revenue shares annually. The bank also participates in renegotiations of SACU agreements, especially on the revenue sharing formula. This point is also made by all other respondents and interviewees. They also indicate that South Africa still holds the fiscal discretionary power of SACU. South Africa's functions revolve around the collection and disbursement of SACU revenue.

Concerning the enhancement and the stabilisation factor which was fixed at 42%, Hattings said that BLNS countries are now guaranteed a minimum of 17% on goods produced and consumed in their countries. This comment is shared by four more respondents out of seven- two of whom did not respond to this question on stabilisation of revenue shares. Busby indicates that the 17% is guaranteed on all imports, value of excisable goods produced and the excise duty paid thereon.

This comment is also made in an attempt to address issues revolving around the exclusion of sales and excise duties in the revenue sharing formula. When all respondents agree that this matter is receiving attention in the renegotiation forum, Busby argues that "the sales duties no longer exist and the RSA determines the rates of excise duty payable within SACU, and if this lack of fiscal discretion poses a problem, the unresolved matters should be taken to negotiation forum." This clarifies that negotiations are regarded as a means of settling disputes.

Regardless of this 17% guarantee stipulated above, Hattings mentions that the BLNS maintain that they can get larger amounts if they get income on consumption on goods like, wine, cigarettes etc. He also mentions that the new, revenue sharing formula can address this issue.

The following table illustrates the revenue shares of individual countries over a period of three years after the Government of National Unity came to be. The value of this table is to illustrate the returns of individual countries regarding the revenue shares over a period of three years. From the table below it can be seen that the revenue shares of the BLNS appreciates over the years, as that of South Africa depreciates:

<u>**Percentage Share**</u>

Year	Botswana	Lesotho	Namibia	Swaziland	S Africa
1994/95	9,28	7,25	9,57	5,69	68,20
1995/96	10,74	7,71	10,22	6,33	64,99
1996/97	9,96	6,99	10,89	6,49	65,63

This table was made available by a respondent from the Reserve Bank.

On the new revenue sharing formula all respondents and interviewees referred the question to the DTI. Hattings says that the idea of a new formula was based on the price raising effects of goods traded within the S area. The trade weighed average value of the c ion external tariff was calculated on goods importec by each country and in case of the BLNS countries, the duty collected on goods imported from outside was added to the BLNS price raising values. In the case of South Africa, the value of the price raising effects of the tariff on imports from BLNS would be calculated and to this some percentage (X factor) of the duties actually collected by the RSA would be added. The percentage was never tabled, and this is cause for not concluding the negotiation on the revenue sharing formula.

Hattings continue to say that the idea was then to add all the values, which meant that one would get the ratio for each member country and that ratio would be applied to the real pool of customs duties to calculate each country's share. He adds by saying that excise duties would no longer be part of the formula and each country would get income from excise duties on a "collect and keep" basis. Excise duties would be harmonised to avoid smuggling of goods.

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CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATIONS

5.1 CONCLUSION

The Southern Africa Customs Union had as its aim the establishment of a union of neighbouring countries that would be characterised by economic co-operation among members. The inter-relationship of these countries was to be realised through free movement of goods between member countries and the introduction of a common tariff against non-members. From an agreement made in 1969 by member countries, the framework of movement of goods between members, as well as the collection and disbursement of the common revenue pool, was documented.

In answering these questions, the researcher focuses on how South Africa's hegemonic role within SACU disadvantaged the BLNS and how the post-apartheid South Africa provides leadership to SACU, taking the interest of the members into consideration; and how the economic growth of the common customs area can be enhanced by the leadership role played by South Africa.

As mentioned in the previous chapters, one of the areas of major concern within SACU is the **involvement of the BLNS countries in decision-making** forums within the customs union. With specific reference to this concern, it will be realised (from chapter two and four) that there is a tension emanating from compensation of BLNS countries by South Africa for adverse effects. This tension is observed where BLNS countries feels that they are not compensated enough, and South Africa on the other hand feel that it is giving out too much in the form of compensation and that membership of SACU is becoming too expensive. There is also tension, as mentioned in the previous chapters, revolving around the concentration of industry as well as the decision making power to South Africa.

Although the tensions referred to above could not be amicably resolved in the past, the South African Minister of Trade and Industry convened a meeting of Ministers from different member countries within SACU in 1994 to discuss future trends aimed at the reconstitution and democratisation of the customs union.

This Commission of Ministers agreed that CUTT (Customs Union Task Team) be established. This fully representative task team was charged with the function of reconstituting and democratising SACU. The task team was to make recommendations to the Commission of Ministers about the future of SACU. The task Team immediately introduced three working committees, mentioned in previous chapters, dealing with fundamental issues like the constitutional framework and technical and investigative issues, as well as with trade and industrial development issues. It is believed that if all these functions can be satisfied, the development of SACU in general will be guaranteed.

The initiative South Africa took in facilitating such a meeting explains firstly, the leadership and responsibility RSA is prepared to expose in resolving tensions caused by the apartheid regime, and secondly, expectations on the South African side, of maximum participation from BLNS countries to ensure satisfaction of all SACU member countries, with the hope of binding every member to decisions taken and agreements reached.

This approach removes the hegemonic power from South Africa and thus empowers all member states with responsibility and accountability on decisions adopted. South Africa in this case relinquishes power in favour of leading SACU into a democratic institution, where every member will equitably benefit from his membership of the customs union.

Focusing on the economic **development of SACU**, chapter two argues about dissatisfaction of the BLNS countries regarding skewing of industry to South Africa. Chapter four focuses on the cause for industrial concentration in RSA, where mention is made of infrastructural well-being, political stability, etc. The fourth chapter also addresses solutions to the problems as the establishment of a development fund for all SACU member countries, cross border capital and entrepreneurial skills, etc.

Relationship between SACU member countries is dependent-hegemonic in character, with South Africa on one side and the BLNS countries on the other side. There is mistrust against RSA from the BLNS side, caused by hegemonic power South Africa exposed towards the BLNS countries. The decisions taken by South Africa on behalf of the BLNS countries are always adhered to with serious suspicion. Representation in decision making and an acceptable environment for partnerships seem to be the rightful solution to the problem. Negotiated settlement of disputes between member countries could elicit better and effective solutions to the tensions within the customs union.

South Africa, being an economic giant in the Southern African region, is expected to take a leadership position in an attempt to enhance the right political and economic climate for regional economic development. This ideal could be realised by the introduction of cross border investments, the establishment of a development fund within SACU, maximum utilisation of common economic resources, harmonisation of both political and economic policies, and removal of barriers towards and enhancement of free participation in the custom union markets.

Referring to the **free interchange of goods between member countries,** different authors of papers on SACU highlight that the BLNS always complained protection of infant industry, the introduction of the secret memorandum, etc. as contributing factors towards the concentration of industry in South Africa. A general consensus among interviewees and respondents (from South Africa) is that the skewing of industry has nothing to do with SACU membership or unfair trade relations. The interest of investors in the selection of a locality for investment is the contributing factor. The partnership within SACU should focus on the establishment of a conducive climate for investment which is infrastructure related and economically acceptable, e.g. the border control measures should not be restrictive in that they disallow transportation of commodities all over the common customs area.

It is suggested that the inclusion of the enhancement factor in the revenue sharing formula should as much as possible be avoided. A recommendation is made that finance should be channeled into a development fund aiming at the economic upliftment of individual member countries within SACU.

The **sharing of revenue,** a factor which assumed the core of activities in SACU, was reported to be receiving attention from CUTT and should be given a chance of completing its evolution process. A recommendation is made that the decision on the revenue sharing formula should eliminate all areas of discontent and focus on the basis of receiving a proportion as much as what was contributed,(i.e. the costs should match the benefits from customs union involvement) not forgetting the directing of some amounts to the regional development fund.

5.2 RECOMMENDATIONS

1. Noting that the democratic South Africa is accepted into broader trade relations with the whole Southern Africa, and that the latter has its economic prosperity hopes pinned on the former, it is questionable whether SACU will survive, or will be maintained with the new member countries accepted i.e. broadening the boundaries of the present common customs area.

2. A study should be made on how South Africa can lead the economic development of the entire Southern African region with SACU member countries included.

QUESTIONNAIRE

You are requested to fill in the following questionnaire for **Tsebe K.B** as part fulfillment for his Masters of Management degree from the University of the Witwatersrand. Thanking you in advance.

TOPIC: **South Africa's role in the Southern African Customs Union(Leadership or Hegemony): 1994-1996**

1. Participation in decision-making of the customs union by member States:

1.1. Does the South African Board on Tariffs and Trade still exists? (YES/NO).

1.2. If yes, what are this board's functions, as related to the Southern African Custom's Union(SACU)?

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1.3 Does the decision on common external tariff for the Customs Union still rest on South Africa, as it was in the 1969 SACU agreements? (YES/NO).

1.4. If No, how are these decisions made?

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1.5. If Yes, does the principle of **'Adequate Time'** for consultation still exists?(YES/NO).

1.6. In case 'Adequate Time' for consultation still prevails, how long is this time?

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1.7. Does a Secretariat exist within SACU? (YES/NO)

1.8. If Yes, which country holds and hosts the Secretariat? ______________________

1.9. Are there forums established by member states for consultation, regular meetings or negotiations? (YES/NO). When where these forums established and wh't is their functions? ______________________

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1.10. If there are forums or meetings, how regular do these ; meet and what are their functions?

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2. Economic development of the common customs area:

2.1. What problems does industrial polarisation to South Africa create to all members of the customs union (South Africa includea)?

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2.2. What measures can be taken to alleviate the problem of illegal immigration into South Africa?

2.3. What development programmes or strategies can be implemer ·d in the Common Customs Area (CCA) to ensure mutuali_ in the development of member states?

2.4. What strategies did South Africa adopt to enhance the existing development programmes?

. 5. Does the lack of common monetary union have effects on the development strategy of the CCA? (YES/NO).

2.6. If Yes, what are the effects?

2.7. How can the price raising effects of the South

African exports be eliminated?

2.8. What measures does individual members of the CCA employ in the protection of infant industries?

2.9. Are there South African based industrial sector established in other member countries? (YES/NO).

3. **Free interchange of goods and services between the member countries:**

3.1. Is there any free interchange of goods between South Africa and other member countries? (YES/NO)

3.2. If No, what are the barriers for the implementation of this 1969 agreement?

3.3. If Yes, what proportion of imports exist between South Africa and each of the BLNS countries from 1994 to 1996.

YEAR	Proportion (South Africa: one BLNS countries)
1994	....
1995	....

1996 ....

3.4. Does the Customs Unions also include as one of its agreements, the free movement of labour between member states? (YES/NO).

3.5. If No, what border control measures are put in place to control illegal immigration?

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4. <u>Sharing of equ. ..le benefits among members of the Customs Union:</u>

4.1. What are the percen.age shares of individual members of the Southern African Customs Union (from 1994 to 1996)?

YEAR **PERCENTAGE SHARE**

Botswana Lesotho Namibia Swaziland S. Africa

1994 ....

1995 ....

1996 ....

4.2. Does the enhancement factor of 42% still exist in the revenue sh.ring formula? (YES/NO).

4.3. The inclusion of the sales and excise duties in the revenue sharing formula posed problems to the BLNS countries. How can/was this resolved?

4.4. The 'Sunday Times" dated 1969.10.27 stated that the new revenue sharing formula was negotiated. Please forward the new revenue sharing formula.

4.5. Which country holds the fiscal discretion of the Customs Union?

4.6. How is the South African Reserve Bank involved in the control of the revenue pool?

4.7. The time lapse before member countries of SACU could receive their revenue shares was a problem. How was this problem solved?

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