ECONOMIC POLICY: EXPLORING THE INDEPENDENCE OF SOUTH AFRICA

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Abstract

The extent to which globalisation and regionalisation result in a loss of policy independence is investigated mainly qualitatively, with special reference to South Africa. Regional economic integration and the international integration of domestic markets, are conscious decisions reflecting a judgment about the potential net benefits. In the context of globalisation market norms define a range of policy discretion, which is as wide or narrow as the trust in the government’s track record, the quality of information and the cost of attaining it. The reality of globalisation and the demands of regionalisation present South Africa with a dilemma. Its regional economic ties should be forged in a manner that will not jeopardise globalisation benefits. If centrifugal forces of instability (threaten to) dominate, the de facto loss of policy autonomy in the context of globalisation holds less risk than the de jure loss of policy autonomy associated with rapid regional integration.

1. Introduction

Two external powers impact upon a country’s execution of economic policy: globalisation and regionalisation (or regional integration).

Economic globalisation is the accelerated integration of economies all over the world through trade, financial flows, the exchange of (or trade in) technology, information or ideas, and the movement of people (see Ouattara, 1997: 107). Shallow globalisation is brought about by trade in goods and services facilitated by government policies and agreements; deep globalisation is brought into being by multinational companies at the production level (Cook and Kirkpatrick, 1997: 56), with foreign direct (rather than portfolio) investment as the driver. A popular idea is that a country’s policy independence reduces with economic globalisation and that policies are followed that are not necessarily in the best interests of the country. Some people fight globalisation if they think the policies are bad for the country or their interest group. Others support it strongly when they realise that it brings new growth and welfare benefits or think that it contributes to responsible government.

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Regionalisation refers to the economic (and even political) integration of (normally) neighbouring countries. The more advanced the integration, the less the policy independence of the participating countries, with the risk of policy choices that are not necessarily in line with the economic priorities of a country.

*De jure* economic policy independence is defined as the ability to make policy decisions without the permission of or compulsory consultation with a foreign party. This is the position of the sovereign state. According to this definition, independence is not compromised should other parties be consulted or their advice sought, or should the policy recipes of successful countries be imitated.¹ The acceptance of advice or prescriptions, or the application of good practices from other sources, is therefore by choice.

*De facto* policy independence is defined as the discretion that a country by way of globalisational circumstances (or even international market forces) or regional forces is allowed to exercise. If a country’s economic policy is “forced/sent” in certain directions by the imperatives of international market forces, then this is viewed as a *de facto* reduction of policy independence. The loss of both *de jure* and *de facto* policy independence manifests in smaller differences between economies and their policy content, the latter being labelled as policy convergence.

The question being investigated here is, what the freedom of choice on economic policy is for a country within the context of globalisation and regionalisation, a question that has clear tangents with the political-science debate on the future of the nation state. In particular, the South African experience is analysed.

### 2. How does regionalisation reduce policy independence?

An important difference between economic globalisation and regionalisation lies in the manner in which the integration is accomplished.

Globalisation entails economic integration through worldwide (multilateral) agreements such as membership of the World Trade Organisation (WTO). Regionalisation, on the other hand, involves different forms (structures) of economic integration that come into being by formal agreements between countries that are usually (though not necessarily) geographically nearby or closely situated. Both globalisation and regionalisation require legislative and policy measures which countries take of their own accord to integrate domestic factor- and goods markets with international or regional markets, as the case may be.

Figure 1 portrays the hierarchy of regional economic integration in relation to economic policy independence.

¹Mukand and Rodrik (2002: 7) argue that the policy package of a successful country creates a positive information externality that entails policy imitation – the choice of the finished (proven) recipe rather than self-experimentation with appropriate policy.
At the bottom of the hierarchy are the simplest forms of economic co-operation, such as co-operation agreements (for example on infrastructure projects) and free-trade agreements between countries. The last mentioned involves the abolition of import tariffs on specified goods in anticipation of the welfare gains of expanded trade. South Africa’s free trade agreements with most of the member countries of the Southern African Development Community (SADC) and with the European Union (EU) are examples of this first step.

As countries move to higher (more advanced) stages of economic integration, increasingly more degrees of freedom of policy are forfeited. A participating country can naturally still place a stamp on the policy of the group. The ability to do this is dependent upon the relative size and power and the moral strength of the country.

A customs union, such as that between South Africa, Botswana, Lesotho, Namibia and Swaziland, involves that a country gives up its autonomy on setting import tariffs. The EU, which evolved from a common market, is a contemporary example of an evolving economic union, with specified policy powers (such as monetary policy), which have been carried over from the national to the supra-national level. As will be seen later, the New Partnership for Africa’s Development (NEPAD) has undertones of similarly advanced forms of economic integration as its aim.

Political union, which is positioned at the top of the hierarchy, entails economic policy as a central function. The formation of the United States of America and the
previous Union of Soviet Socialist Republics are examples thereof, although the method of political integration differed.

For each country, the choice of participation in one or other regional agreement of economic integration (if voluntary) is a conscious decision which reflects an explicit or implicit judgment of the balance of potential costs and benefits. The result is a reduction in de jure independence, the degree of which depends on the nature of the integration.

3. Does globalisation reduce economic policy independence?

What freedom of policy does a country enjoy within the context of globalisation and regionalisation?

This question arises from the experience of an international economic order producing large and growing differences between countries. From the 2003 World Development Report (World Bank, 2002) it appears, for example, that the gap between rich and poor countries has doubled over the past 40 years. These growing differences occurred despite apparently larger uniformity (convergence) in (aspects) of economic policy, a topic which will be returned to.

In essence the question posed above is a question about the nature of the international and national economic order. It manifests in divergent viewpoints: serious opposition in the developing world and even in certain groups within industrial countries towards what is experienced as the tyranny of an unfair and ruthless, amorphous market; defiance of the surrender of national sovereignty as a matter of principle of national pride, as in Britain; and sharp condemnation of the consequences of international financial liberalisation and a return to a larger control of international capital movements by a country such as Malaysia.

Against this the debate manifests in strong support for the application of policies and policy processes involving increasing participation in global markets and which for the past forty years have delivered many success stories even outside North America and Western Europe. Countries such as Chile, Malaysia (before 1997), Korea, Argentina (before 1997), Australia and New Zealand are examples (see Calitz, 2002a).

China and India have for the past three decades made headway on the economic front through international trade liberalisation in particular. With their large populations, it means that an increase in the average standard of living affected 2.5

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2Mukand and Rodrik (2002: 1-3) provides various examples to indicate that the economic performance across the world is more heterogeneous than ever before.

3It is noteworthy that economic liberalisation in India followed on democratisation. In China it appears as if the sequence was the other way around. The Indian pattern was also followed in countries like Zimbabwe (originally) and Turkey. South Korea, Chile and Taiwan have again followed the Chinese route. The relationship between democratisation and development is in this regard an important topic, but is not investigated here.
billion people. This reality is underplayed when the number of success countries (two in this case) is compared on a population unweighted basis with the number of poorly performing countries (35 alone in Africa) – the total population of these poor countries is far less than that of China and India combined.

Figures 2-5 show the reduction in the difference between 15 countries since 1980 with regard to the following variables which are strongly influenced by international market forces: inflation, real interest rates, the budget deficit before borrowing (as a % of GDP) and government debt (as a % of GDP). The occurrence of macroeconomic convergence in the context of globalisation is typically studied with reference to indicators of macroeconomic stability such as these.4

Figure 2: Standard deviations between selected countries with regard to the budget deficit before borrowing (as % of GDP), 1980-2000

The following countries are included in the comparisons: Argentina, Brazil, Botswana, Chile, the Philippines, Israel, Malaysia, Mauritius, Morocco, Pakistan, Poland, Thailand, Tunisia, Venezuela and South Africa.5 The standard deviation shows that the differences in the countries with regard to all these variables have unequivocally been reduced. As the countries in the sample show little, if any, economic integration above the first step in Figure 1, this pattern offers at least circumstantial evidence of the convergence of policy and macroeconomic stability in the context of globalisation.

4They are also four of the five indicators that are used to determine the criteria for entry into the European Monetary Union. The exchange rate is the fifth variable.

5The data source is the World Bank’s World Development Indicators. These countries are a selection of developing and newly industrialising economies that for the past 20-30 years have experienced in varying degrees the influence of global markets and that mutually show little (if any) economic integration above the first step in Figure 1.
Figure 3: Standard deviations between selected countries with regard to real interest rates, 1980-2000

Figure 4: Standard deviation between selected countries with regard to inflation, 1980-2000
It is necessary to briefly sum up the debate on economic policy in the globalisation era. The debate on structural economic reform offers a few clues to the policy options. The debate delivered two sets of international best practice (IBP) (for a discussion, see Calitz, 2002b: 220-222).

Firstly the guidelines according to the Washington consensus entail economic liberalisation on the back of macroeconomic stability, as a necessary condition for sustainable economic growth. In turn, the last mentioned is a necessary (although not sufficient) condition for sustainable poverty reduction and improvements in the income distribution of developing countries. The indicated policy sequence entails macroeconomic stability, trade liberalisation and domestic financial liberalisation, supplemented with various neoclassic fiscal, social, competition and regulatory policies. The mainstream thoughts on the ideal policy sequence specify external financial liberalisation as the final step (Weiss, 1995: 265-267).

Criticism of the above arises mainly from economists within the structuralist tradition of economic development. They argue that market-based solutions are not always very effective and that direct control and intervention by the government may, from time to time, be necessary (Weiss, 1995: 5).

A second set of IBP guidelines is derived from the policy guidelines that have been identified with structuralistic thought (Weiss, 1995). The structuralist guidelines give greater preference to direct (control) measures. They represent a response to the critique of the Washington consensus, of which Joseph Stiglitz (1998: 17), as chief economist at the World Bank, was a major exponent. The criticism is that the Washington consensus was neither necessary nor sufficient for macroeconomic

Figure 5: Standard deviation between selected countries with regard to government borrowing (as % of GDP), 1980-2000
stability or long-term development. The warning is against the liberalisation of the goods and financial markets as a goal in its own right. He (Stiglitz, 1998: 6,14) argues that the key issues are the following: proper competition, rather than trade liberalisation and injudicious and hasty privatisation; and the establishment of a regulatory framework that will ensure an effective financial system, rather than financial liberalisation or deregulation. Furthermore, the opinion is that the microeconomic foundation of macroeconomic stability deserves much more attention.

Both sets of guidelines emphasise the importance of macroeconomic stability and low budget deficits in particular. Key areas of difference of opinion are trade liberalisation (or trade reform), privatisation and foreign investment, financial liberalisation and labour market regulation.

The structural economic reform of a country can only be led by general rules or guidelines up to a point. The features of any reform programme must be tailor-made and reflect the distinctiveness of the country in order to ensure political ownership and credibility for the policies. To use the terminology of Mulkand and Rodrik: blind followers of the Washington consensus would be labeled as policy imitators. Some of them could be highly successful. The policy guidelines of the Washington consensus are however so general or even abstract that there are significant degrees of freedom to design policy to correspond to local circumstances.

There are however also several successful countries that are not imitators or profess to be so, like China, India and Malaysia, that clearly experiment with policy and sometimes follow policies that demonstrate sensitivity for the structuralists’ criticism of the Washington consensus.

A salient feature of economic globalisation is that integration between markets occurs without giving up de jure policy autonomy, as is the case with regional integration. In the context of globalisation it is the larger mobility of goods and production factors, together with the endorsement of the competitive market model as an instrument of economic organisation, and not formal regional agreements between countries, that contributes to the de facto loss of policy autonomy. For example, to standardise financial regulations according to international best practice, the country concerned becomes subject to the rules of the market, restricting the discretion of policy makers.

The observed and alleged convergence of economic policy is bedded in neoclassic economic thought, but at the end of the day it is still a choice and not the unavoidable result of some universal theory that assures the creation and distribution of economic wealth across borders (Gibb, 2002: 14). Hayek (1960: 37) states the following regarding freedom of choice: “…though the alternatives before me may be distressingly few and uncertain, and my new plans of a makeshift character, yet it is not some other will that guides my action. I may have to act under great pressure, but I cannot be said to act under coercion. … So long as the
… intent of the act that harms me is not to make me serve another person’s ends, its effect on my freedom is not different from that of any natural calamity.”

No supra-national government dictates the uniformity trend – each country uses its *de jure* independence to select measures which bring about *de facto* interdependence (uniformity). The worldwide focus on improving supervision over financial markets by individual countries after the international financial crises of 1997-1998 is a case in point.

One trap is to think that the loss or lack of policy independence (or the prescriptions of an external party) is an important reason for a country’s economic predicament, *without identifying and acknowledging internal mistakes and shortcomings*. It is like falling pray to the age-old temptation to search for the cause of one’s problems outside oneself – to be exposed to a perceived “external locus of control”.

As was already said in 1980 by the Independent Commission of Investigation into international development issues, poverty, job creation and equity in developing economies cannot be addressed solely by changes in the international order. “They must be complemented for most countries by social and economic reforms at the national level”.

4. **How much policy independence remains in the context of economic globalisation?**

The following question is how much policy independence countries have in the context of globalisation. Comparing the experience of five countries (Argentina, Australia, Chile, Malaysia and South Africa) with structural economic reform, it was found that not one of the countries acted strictly in accordance with the best practice guidelines of the Washington consensus. Enough freedom of policy exists and was executed by these countries to disprove the statement that they had to adopt a policy for which there was no choice.

An important factor in the experience of policy freedom is the measure of punishment the herd-instinct in the financial markets inflicts on countries moving out of line according to the perception of fund managers.

In a study on the behavior of financial market participants, it was found (Mosley, 2000: 738 and further on) that they only look at a certain *restricted* set of *macro* (“aggregate”)

6The report of the Brandt Commission, with former West German chancellor Willy Brandt as chairperson, spends a whole chapter (8) on the “task of the south”.

7The diagnoses of the international credit rating agencies are directional and their models are most of the time on macro level. Their economists are generally well informed about the circumstances in the country being graded.
The more the uncertainty in a country, the more information is required for the investment decision.

Regarding industrial countries, information on selected macro-economic indicators, mainly inflation, budget deficits and possibly government debt, would satisfy investors. When contemplating investment in emerging markets with higher default risk, information is requested about an increasing number of variables: supply-side policies, labour market regulations and the composition of government expenditure, et cetera.

This means that the market (in the form of fund managers or -investors) lays down the standards for judging these countries over a wider spectrum of economic policy than the macroeconomic stabilisation area. Explicit or implicit market norms define a range of policy discretion, which is as wide or narrow as the trust in the track record of the relevant government, the quality of the information and the cost of attaining it.

5. The reduction of economic policy independence in South Africa

It should be clear by now that regionalisation and globalisation both contribute to a decrease in policy independence. What is the state of affairs in South Africa? A few issues.

South Africa’s economic globalisation after the political transition in 1994 can be connected to at least three occurrences (see Calitz, 2002b: 250). The first was the signing of a trade liberalisation agreement with the World Trade Organisation (WTO) in January 1995. Shortly after this followed the scrapping of the financial rand, announced on 10 March 1995, which introduced a process of gradual phasing out of exchange controls and integration of the country’s financial markets with international financial markets.

Both actions were further sealed with the post-apartheid government’s strong commitment to an outward orientated macroeconomic strategy for growth, employment and redistribution (GEAR). This was published in June 1996 and endorsed by the Minister of Finance, Trevor Manuel, as non-negotiable (Webster and Gostner, 1997). All these actions can be described as examples of shallow globalisation.

In the context of globalisation South Africa experiences a number of constraints. Its negotiated agreement with the WTO entails a lowered import tariff structure and a rationalisation of the tariff structure. If a country like South Africa – a price taker in international trade – wishes to be part of international trade, there is not much room for movement except, maybe, in respect of the rate of further trade liberalisation.

South Africa’s chosen monetary dispensation of inflation targeting and flexible exchange rate (embodying the search for external equilibrium), ensures the monetary authority of greater policy efficiency, given the limitations on the scope
of choices allowed by the financial markets. The level of the targets, the inflation measure used, and the quality of monetary governance, especially with regard to the interest rate policy, are important factors in financial markets’ risk analysis of South Africa. International credit rating agencies assigned an investment rating to South Africa, which puts the country in a different investment league that emerging market economies who received speculative ratings. If South Africa wishes to retain this grading, and improve thereupon, macroeconomic stability (low inflation and inflation expectations) is one of the factors that the policy cannot be lenient with. The *instrument-independent* Reserve Bank of South Africa is shielded from political interference, but the monetary authority is not a free agent *vis à vis* the international financial markets.

Conditionalities by multilateral organisations, such as those characterising the structural adjustment programmes of the IMF and the World Bank, are criticised by anti-globalists as one of the nails in the autonomy coffin. Although South Africa made little use of IMF-loans, it happened four times since 1976, namely 1976, 1977, 1982 and 1993 (Dornbusch, Fischer, Mohr and Rogers, 1994: 398), with the normal conditions for policy. This submission to external directives are of course in accordance with the game rules to which a country binds itself when becoming a member of the IMF.

During the apartheid era, Ministers of Finance gave IMF analyses and -advice as reasons or excuses for difficult decisions, for example to strive for a government budget deficit of 3% of GDP. Actions like these do not really indicate a loss of policy independence, but rather a veil behind which policy makers hide to side-step the reality of domestic resistance (see Thompson, 1997: 167). The policy maker pretends that the locus of control is external to the country. Policy independence is given *de facto* away.

After 1994, the new government was under pressure from strong contradictory powers in the formulation of economic policy. The demands for globalisation manifested in the demand for and choice of policy measures, which correspond in many ways with the nature and sequence of the Washington consensus measures for successful structural economic reform. Contradictory to this, was strong populist pressure for greater government spending and inflationary stimulation of the economy.

The post-apartheid government’s choice of economic measures of macroeconomic stability and structural economic reform, shows meaningful similarities with the Washington consensus (see Calitz, 2002b) and received the foreseeable praise and critique. With the disappearing appeal of socialist thought after the fall of the Berlin wall and the bad track record of macroeconomic populism in Latin America, there

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8Something this author experienced first-hand during his 19 years of service in the government sector, of which the last seven years were in senior positions (such as Director-General) in the Department of Finance (later the National Treasury).

9The nature and the South African experience of this are explained in Calitz (1997 and 2000).
were few other options which could be taken with confidence. An outward development strategy was the flavor of the day (decade) and the alternatives had little reliability.

The non-populist choice was not made on grounds of conditionalities of structural adjustment programmes of the IMF or World Bank. In this sense it represents a freedom of choice equivalent to the reforms in Chile in the seventies, and Australia and New Zealand in the eighties (see Calitz, 2002a). NEPAD also aims to set conditions, but they will be self-formulated prerequisites instead of externally formulated.

Policy convergence in accordance with international best practice is executed in the above-mentioned situations on own choice for globalisation, presumably because the policy makers are convinced of the applicability of the measures. However, the continuing bad performance in South Africa regarding growth and unemployment is a sign that much more attention should be given to the development of applicable economic policy without giving up macroeconomic stability.

Apart from these globalisation events, there are various regional economic agreements that came into being by way of formal ties with individual countries or groups of countries, agreements that to varying degrees limit or could limit South Africa’s economic policy independence. Certain agreements have been in existence for a long time, such as the customs union agreement between South Africa, Botswana, Lesotho, Namibia and Swaziland (since 1910), which recently was thoroughly revised. Others were concluded fairly recently, such as the free trade agreement with the EU (1999)10 and the free trade agreement with most of the SADC countries11 (2000). The most important recent development has been South Africa’s leading role in the formulation of NEPAD, a co-operation and integration effort by African leaders to establish improved economic and political management and to bring about economic advancement.

In regional context, the Southern African Customs Union together with the Southern African Monetary Region Agreement is the most advanced form of economic collaboration South Africa participates in. As a member of the Southern African Customs Union, South Africa gave up its autonomy over the external tariff structure, although the import tariff structure of South Africa applied in reality, and fellow members constantly accused South Africa of continued unilateralism.

In the recent renegotiations it was agreed upon to make provision for a Council of Ministers who will decide about the tariff structure on a consensus basis. At the time of writing South Africa had not legally ratified the agreement, something that will curb the de jure policy independence. It will be unwise for South Africa to give

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10 The trade, development and co-operation agreement whereby the phasing in of South Africa’s market access to the EU will take place over ten years; the reduction of SA tariffs on EU products will take place over 12 years (Lewis, 2001: 22).

11 With the exception of the Democratic Republic of the Congo, Angola and the Seychelles.
up its discretion regarding industrial policy if and so far as the country’s industrial objectives clash with the development objectives of fellow members.

South Africa’s membership of NEPAD and President Mbeki’s leadership deserve a moment of thought. NEPAD is a pledge by a group of African leaders having an urgent duty to eradicate poverty and to put their countries, collectively as well as individually, on a road of sustainable growth and development, and at the same time, take part in the global economy and institutionalised politics (see NEPAD, 2002).

The acceptance of independent peer review in terms of the self-imposed conditions of good governance, and the mandate of the Africa Union to interfere with the domestic affairs of deviating countries (Breytenbach, 2002: 1) demonstrate the earnest nature of the commitment. NEPAD is also characterised by a high ambition of advanced forms of economic integration, in the form of a community market (NEPAD, 2001: 23), an expectation sprouting from the Abuja treaty.12 Africa leaders, according to NEPAD documentation, are much more determined than previously regarding regional and continental objectives of economic co-operation and integration (NEPAD, 2001: 16). As will be argued shortly, the benefit to South Africa as member-partner of this regional integration initiative depends to a large extent upon the impact on the country’s economic policy freedom, as well as its ability to determine its own priorities.

6. South Africa’s policy dilemma

South Africa finds itself in a dilemma as the reality of globalisation and the demands of regionalisation do not necessarily point in the same direction.

On the one side the macroeconomic stability demands of globalisation impose certain disciplines (de facto policy limitations). The improvement of the country’s appeal as a destination for foreign direct investment demands convergence in agreement with international best practice. The frame of reference is that of the Washington consensus, more than the structuralistic view, but with increasing tolerance for the serious need for competitive markets within a well functioning regulatory framework, improved international competitiveness and level playing fields as far as international market access is concerned.

The international comparison of a number of countries’ experience with structural economic reform (Calitz, 2002b), already referred to, indicates that sustainable

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12In June 1991 the heads of state of the OAU signed the treaty that established the African Economic Union (AEU). The aim was to improve economic, social and cultural development, as well as economic integration in Africa, in order to achieve a higher level of self-help and endogenous development. The treaty (generally referred to as the Abuja Treaty) enables the process of establishing the AEU gradually through coordination, harmonisation and progressive integration of the activities of current and future regional economic communities in Africa. It visualises that the AEU will develop in six stages and over 24 years, in other words by 2028. The last five-year stage is set aside for the establishment of an Africa Central Bank, a single currency, and the establishment of an Africa Economic and Monetary Union as well as the election of the first pan-African Parliament. (See RSA, 2001.)
economic performance depends on more than just macroeconomic stability. It is also based on an effective and credible financial system, more competitive financial, labour and goods markets, effective public governance and good and appropriate teaching and training, all of which in one way or another contribute to increased total factor productivity.

A successful social safety net and effective government expenditure programmes to reduce poverty and income inequality, are important ingredients for a successful process of structural economic reform. Over the medium and long term, however, these programmes cannot be replacements for vigorous economic growth.

The other side of South Africa’s dilemma is that there are certain risks included in regionalisation that can prevent South Africa from utilising the benefits of globalisation.

The choice for regional interaction is between a gradual (incremental) process of closer economic relations, co-operation and integration, more or less as shown in the integration hierarchy in Figure 1, and a quantum leap (big bang – the grand-design model) to higher steps of the hierarchy. The last mentioned embodies the idealistic expectation that the decades long shaping of economic structures and policies that preceded the EU, could take place here more rapidly. The difference between the two approaches can be illustrated with reference to the pursuance of price stability, as a necessary condition for sustainable economic growth.

The quantum leap approach would come down to large-scale monetary integration, entailing the establishment of a single central bank, a single currency and de facto one set of financial markets, subject to one set of regulations and one supervisory authority. This approach jumps from the bottom line of the economic integration hierarchy (Figure 1), to the second highest step. The underlying thought is that the (stabilisation) differences between countries will get sorted out more easily when countries are bound to a monetary union where they sacrifice policy independence in favour of a supra monetary authority.

This supra authority must ensure the enforcement of discipline (read price stability) in the various countries. This model involves the elimination of economic instability after the monetary union has been established. This implies that such a union is “conceived and born in instability”. This is where the problem for a country like South Africa lies. Its own monetary policy independence gets compromised in a stage of regional economic integration where so many centrifugal political and economic powers are at play that South Africa’s international credit rating is risked.

Can you imagine the instability of a single Southern African stock and exchange market that exists under the joint control of a group of countries that, as at the time of writing, would include a country performing as poorly as Zimbabwe? Would it make sense for Botswana, financially one of the most stable countries in the subcontinent and that during the seventies of the previous century already withdrew from the Southern African Monetary area agreement, to subject itself to a Southern
African policy authority of which the international creditworthiness can be dragged down by the weakest link to a scale lower than that which the country (Botswana) can achieve on its own? The quantum leap model is probably more inspired by geopolitical power motives than the politics of economic reality.

The gradual or incremental approach, on the other hand, involves the gradual financial convergence at a tempo and in a way that takes into account the nature of co-operation or integration between countries in the real sector of the economy. This is the approach that thus far the SADC has followed. It focuses on the development of the financial sector in each of the countries and the standardisation of practices and rules according to IBP. It takes account of the immense initial differences, characteristics of the different economies in the region and the requirements that the different forms of regional interaction (the movement of goods, people and technology, etc) place on the financial system.

This approach suggests the commitment of each government to the management of the individual economy to establish good economic governance as the foundation for what could later (when the time is ripe) lead to more formal and advanced financial (monetary) integration. This does not put the cart of integration before the horse of individual good housekeeping. It implies the development of the South African financial markets into markets that are open to the rest of the region, rather than the institutionalisation of jointly owned regional markets. With this approach, there is a better chance that the South African rand could become a stable regional currency than of a new stable regional currency coming into being.13

Given the size of the South African economy, the level of development of the country’s financial sector and the critical institutional mass that already exists, it is doubtful whether any other model besides the incremental approach would work. Moreover, one must remember that globalisation in any case opens up markets and leads to convergence. It offers a good alternative to the regional integration model as a method of reaching growth benefits from specialisation and international trade.

If South Africa must play a role in leading other countries on the road of good economic governance, it can be done so on the grounds of the size and the level of development of the economy. It does not have to be linked to the surrender of policy autonomy according to the hierarchy of regional economic integration, particularly if it does not serve the country’s own development goals.

The NEPAD model, according to which countries have to pass the envisaged peer review to gain membership of the club, would be in line with the incremental approach if it has moral persuasion and pragmatic co-operation agreements as the aim, rather than advanced models of regional integration. The problem is, however, that even if the incremental approach is followed and even if a poorly performing country (like Zimbabwe at the time of writing) is not part of the club, the other countries in the region remain vulnerable when controversial policy actions in such a country are tacitly approved within the club. By implication these actions become

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13 For a discussion of the nature, conditions, costs and advantages of optimum currency areas, see Obstfeld and Rogoff (1998: 632-634).
the code of conduct of the club. The consequence is that South Africa then enjoys the disadvantage of the doubt in the herd instinct that drives international markets, and from the viewpoint of deep globalisation receives a poorer credit rating than it deserves.

There are naturally definite advantages to greater regional interaction, but without advanced forms of regional integration having to be achieved. There is the standard argument of economies of scale, derived from the larger market that regional integration brings about, and which serves the improvement of international competitiveness and the ability to increase the market share in a global sense. In view of the level of development and factor endowment of South Africa, there are limits to large export opportunities for the rest of the region to South Africa; similarly, on account of the relatively small South African market, there are limited opportunities for South Africa to gain scale benefits from intra-regional trade.14

To view South Africa as the growth engine of the area, without effective specialisation on grounds of competitive advantage in the global market, is therefore wishful thinking. In terms of real GDP and skilled and unskilled job opportunities, Lewis (2001: 39) found in this regard that Africa would gain more from a free-trade agreement with the EU than with South Africa.

The next advantage of larger regional integration is that multilateral co-operation is the only way in which the international rules of the game regarding access to the markets of industrial countries can be changed.15 No single country such as South Africa will ever get it right on its own, even if its Minister of Finance is the chairman of the Development Committee of the IMF and even if its Minister of Trade and Industries was the President of UNCTAD.17

7. Conclusion

The art of economic policy making involves a thorough understanding of the policy discretion that globalisation offers and large circumspection with regional

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14Lewis (2001: 25) shows that only a small share (13%) of SADC-countries’ exports are sold within the region, compared with the original 18% in MERCOSUR and 33% when the European Commission (now the EU) was established. South Africa exports 8.3% of its exports to the rest of Southern Africa, while the export of the rest of Southern Africa to South Africa comprises only 3.5% of their total (Lewis, 2001: 36).

15Action by the US, in the form of the Farm Bill’s subsidies that cancel the advantage of tariff concessions on imports from developing countries, is one of many examples of stumbling blocks to gain market access to industrial countries. During the 2002 annual general meeting of the World Bank and the IMF, James D. Wolfensohn, president of the World Bank, accused the rich countries of the wastage of $1billion per day on agricultural subsidies that often have devastating results for farmers in Africa and Latin America (IFR, 2002: 1).

16At the time of writing, Mr Trevor Manuel was the chairman of this committee, established in 1974 to advise the IMF and World Bank Council of Governors on critical development issues and on the financial resources necessary to promote economic development in developing countries.

17The United Nations Conference on Trade and Development, of which South Africa’s Mr Alec Erwin was President from May 1996 until February 2000.
integration. The South African policy authorities will be well advised to forge regional economic ties in a manner that will not jeopardise the benefits to be derived from globalisation. This suggests an incremental, rather than a quantum leap approach to regional integration. If centrifugal forces of economic instability (threaten to) dominate in a regional context, the de facto loss of policy autonomy in the context of globalisation holds less risk than the de jure loss of policy autonomy associated with rapid regional integration. This is so because substantial degrees of policy freedom exist in the globalisation context if macroeconomic stability can be maintained.

References


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