A proposal for: Research for a regional southern African development strategy

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An abstract of a proposal for RESEARCH FOR A REGIONAL SOUTHERN AFRICAN DEVELOPMENT STRATEGY

Southern Africa possesses great potential for peaceful development capable of providing full employment and rising living standards for all the region's inhabitants. Yet today international attention focuses on southern Africa as a center of violence, a threat to world peace. An intransigent minority's repressive rule in South Africa and its deliberate destabilization of its neighbors appear as the immediate source of the conflict. But the end of minority rule will not automatically bring prosperity to the region. It will remain divided into mini-economies, no one of which possesses the resources, capital or markets to build modern industries on the scale required to realize the region's potential.

This research aims to examine the institutional matrix that functions to leave the separate independent southern African states underdeveloped and subject to South African domination. In particular, it will focus on the way national institutions in three problem areas function to reinforce national divisions: 1) the national planning agencies' focus on national plans that preclude building pole-of-growth industries based on national resources to spread productive employment and rising living standards throughout the region; 2) the national foreign trade and payments mechanisms carve out national markets that block creation of the regional markets required to make such industries viable; and 3) the national tax, financial and investment policies that hinder efforts to direct capital flows to finance regionally-oriented projects.

Using a problem-solving methodology, the research will examine the available evidence as to how the national institutions function in each of these problem areas. On this basis, it will propose institutional changes designed to overcome the causes of their negative consequences. It will also investigate the difficulties of institutional innovations in other regions that seek to resolve similar problems. In this process, the research seeks to contribute to deepening the theory of regional integration, and, simultaneously, to help find ways to overcome the practical difficulties hindering southern Africa's realization of its rich regional potential.
A proposal for

RESEARCH FOR A REGIONAL SOUTHERN AFRICA DEVELOPMENT STRATEGY

INTRODUCTION:

Peaceful development in southern Africa could contribute significantly, not only to improved living standards for the region’s inhabitants, but also to world prosperity. Over the next twenty years, effective regional development, leading to rising living standards for the majority of the region’s inhabitants, could multiply the opportunities for trade between the U.S. and southern Africa almost ten times. This could contribute to prosperity and employment on both sides of the Atlantic.

Instead, today, a tragic paradox pervades southern Africa

1. The regional population of ninety million inhabits a land area roughly equal that of the continental United States. The region has all the resources for modern industrial development: the climate and soils for growing almost every kind

1. Southern Africa, as here defined, includes South Africa and Namibia, as well as nine independent states: Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe.
of agricultural crop; and rich deposits of oil, coal, hydro-power potential, iron, copper, manganese, and chrome. It is a leading exporter of gold, diamonds, vermiculite, asbestos, uranium and oil.

Yet the blacks living in South Africa and most of the neighboring states suffer per capita incomes among the lowest in the world. As much as 30 to 40 percent of the region's inhabitants remain un- or underemployed. In wide areas, kwashiorkor -- chronic malnutrition -- undermines the regional inhabitants' health. The average southern Africa may expect to live between 40 and 50 years, little more than half the life span of developed countries' citizens.

Today, international attention views the region as a potential threat to world peace. South Africa's ruling minority promises reforms, but its military still represses domestic opposition and destabilizes the neighboring countries. But the end of white

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political rule in South Africa will not automatically resolve region's paradox. Unless altered, inherited arbitrary national divisions and the institutional structures will perpetuate South African domination of the region and the poverty of its inhabitants. Most economists agree that the small economic size of the mini-states typical of southern Africa thwarts industrial development that could create new productive employment opportunities and raise living standards 4.

BALKANIZATION AS AN OBSTACLE TO SOUTHERN AFRICAN DEVELOPMENT

Near a century of colonial rule left southern Africa balkanized, divided into almost a dozen separate, arbitrarily-shaped nation states. Of the nine that attained independence by the 1980s, most remained landlocked. Only Tanzania, Mozambique, and Angola enjoy ports and direct access to the sea. Alone, none has a population as large as that of New York, Mexico City, London or Tokyo. Their combined national products barely equals a third of South Africa's. Their

4. This theory is outlined for Africa in R. H. Green and A. Seidman, Unity or Poverty? The Economics of PanAfricanism (Harmondsworth: Penguin, 1968).

5. The term, 'balkanization,' derives from the division of the Balkan into small nation-states.
inherited dual economies remain characterized by narrow modern enclaves geared to the export of a few crude minerals or agricultural produce; and impoverished populations struggling to survive in neglected, underdeveloped hinterlands. Divided, the newly independent states lack the markets, resources, and capital required to build growth-pole industries capable of taking advantage of economies of scale and stimulating the spread of smaller industries and agricultural productivity.

South Africa’s white settler minority, on the other hand, wielded state power to shape a semi-independent political economy, explicitly designed to perpetuate exploitation of the black majority. Along with foreign capital, South African mining finance houses reinvested their profits to build the strongest industrialized sector in Africa, becoming the dominating economic center of southern Africa.

By the 1980s, several institutionalized features characterized South Africa and shaped its relations to its neighbors. Unless altered, even after apartheid ends, these will likely perpetuate South African domination and poverty in the region:

6. ‘Mining finance houses’ constitute South African financial groups which, drawing on the investable surpluses generated in mining, created domestically-based conglomerates.
South African institutions distort internal markets for capital, goods, and labor in ways that impoverish the black majority. A half dozen mining finance houses, together with less than one percent of the population, control the major mines, factories and farms. Half the black majority -- 12 to 14 million Africans -- remain crowded onto 13 percent of the nation's land in fragmented 'bantustans'. Their families survive only on the wages of those members (mostly men) who migrate, often hundreds of miles, to work in white areas. Tariffs, tax incentives and direct parastatal investments have fostered capital-intensive domestic industrial growth designed to reduce dependence on black labor. By the 1980s, in the context of the international recession 30 to 40 percent of the adult black South Africa population had neither land to farm nor paid jobs.

South Africa's industrial economy dominates the region. South African-based enterprises own or control a major share of the neighboring states' mineral and agricultural assets. Black poverty at home limits internal markets, spurring South African

factories to sell their manufactures in neighboring markets. Unable to build their own industries in competition with those of South Africa, the neighboring states still depend on the export of crude agricultural and mineral produce to South Africa and world markets. Many of their citizens migrate to work on South African mines and farms.

To achieve development and reduce their dependence on South Africa, the independent states proposed regional integration through the Southern African Development Coordination Conference (SADCC) 8. With foreign assistance, they have begun to implement joint infrastructural projects. But the international recession of the early 1980s led to falling demand and worsening terms of trade for their crude exports, reducing the foreign exchange they needed to buy essential imports. Factories laid off workers. Governments introduced severe austerity measures, and devalued their currencies. In the rural areas, lack of irrigation and transport equipment aggravated the impact of a three year drought. South African invasions and covert destabilization undermined the independent states' development

8. SADCC member states include Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, and Zimbabwe.

Proposed cooperation to build regional industries lagged as each state struggled to keep its existing truncated industrial sector afloat.

Given these inherited structures, simply ending apartheid in South Africa will not ensure balanced integrated regional development capable of realizing SADCC's dreams. Investment will continue to flow to the more industrialized South African economy at the expense of the less developed neighboring states. Nor will this benefit the South Africans. Continued South African industrial growth requires expanding markets and the broader resource base which only balanced industrialization in the neighboring countries can bring about.

To achieve more balanced integrated development benefitting the inhabitants of both South Africa and the rest of southern Africa will require step-by-step reconstruction of the institutions which shape the resource use, capital, labor and markets of the region.

OBJECTIVES OF THE RESEARCH:

The research aims to contribute to the systematic analysis of the existing institutions affecting trade and development in
southern Africa in order to propose changes which regional policy makers might adopt to foster more balanced integrated regional development. In the process, it seeks to contribute to deepening theory as a guide to regional integration and development, not only in southern Africa, but elsewhere. To the extent possible, the findings will be shared and discussed at every stage with southern African policy makers and researchers. The final results will be published in a book.

THE RESEARCH FOCUS:

The research will focus on institutions in three major problem areas: 1) The planning and implementing institutions required to establish growth-pole industries based on local resources in each of the participating states and leading to balanced regional industrial and agricultural development; 2) the trade and payments institutions required to ensure adequate markets to make the proposed industries viable; and 3) the banking and financial institutions needed to direct capital to finance growth-pole industries and associated development.

METHODOLOGY:

The research will employ a problem-solving methodology to bridge the gap that sometimes exists between academic analysis and policy formulation. The problem-solving approach wedds theory
and practice by requiring researchers and policy makers to work together to identify the problem; tease out of alternative theories candidate hypotheses to explain it; test the resulting hypotheses against available evidence; and propose solutions in the form of policies to overcome the causes exposed by the validated hypothesis. Nor does the process end there. Inevitably, the implementation of policies encounter unforeseen difficulties, creating new problems. Continuing investigations discover the causes, leading to revision of the initial policy and the theory underlying it. Thus, an on-going learning process both deepens relevant theory and improves practice.

Applying this approach to southern African regional integration, the research will draw on available studies, first, to further define the proposed explanatory hypotheses as to how national institutions existing in the three areas hinder integrated regional development. Second, it will evaluate the evidence in the available literature and conduct on-site analyses in southern Africa to test the hypotheses' validity. Once validated, or altered in light of the evidence, these hypotheses suggest proposed changes in the existing institutions to overcome obstacles to regional development. The research will then examine the literature and, to the extent possible, undertake field visits to assess the consequences of alternative approaches introduced by other African and third world countries seeking to attain greater regional integration. These might include, e.g.,
the Economic Community of West African States and the East African Community, as well as those in other regions like the Andes Pact, European Economic Community, ASEAN, and CMEA 10.

More specifically, using the problem-solving approach, the research will investigate the kinds of institutional changes needed to promote regional integration in the three problem-areas:

I. To coordinate regional industrial development:

The problem: SADCC assigned Tanzania to propose a regional industrial strategy. Studies of resources have led to lists of possible industries for each country, but little has been done to ensure their establishment or their viability. To date, however, industrial development programs in each southern African state have primarily focused on construction of nationally-oriented industries.

Explanatory hypothesis: The regional institutional mechanisms for coordinating national plans remain tenuous. Using criteria and working rules related to national development, planning and implementing agencies design limited industrial projects without considering that these may undermine future regional coordination. The short-run availability of capital and technology, rather than long-term regional industrialization potential, influences national decisions to establish new industries or expand old

10. Admittedly, given widely differing historically-shaped circumstances, institutional changes that succeed in whole or in part in fostering integration in one region can never achieve the same results in another. Nevertheless, the age-old adage suggests that those who do not learn from others' mistakes are bound to repeat them. This aspect of the research will seek at least to discover the causes of other regions' difficulties in achieving effective integration in hopes that the southern African states can avoid them.
ones. State corporations often function autonomously, responding to narrow national market opportunities.

The required evidence: Case studies of the criteria used by national planning commissions in deciding what industries to build and how state corporations make their investment decisions. Analysis of how industrial investment decisions affect the use of regional resources, available markets, and capital. Investigation of the present methods by which SADCC seeks to coordinate industrial strategy, including the kinds of studies made and the criteria used.

Tentative proposal for solution: A regional plan coordination body could formulate criteria and implementation mechanisms for closer coordination of planning and implementing institutions (including South Africa’s after the end of apartheid) to establish growth-pole industries and associated industrial and agricultural linkages in each country. This body could negotiate the minimum threshold agreements required to enable country planners to confidently direct investable surpluses to pole-of-growth industries with the expectation that these would have access to regional resources and markets. Possible examples might include a regional iron-and-steel industry building on Zimbabwe’s existing capacity; a regional fertilizer plant using Tanzanian phosphates; an electric cables and associated equipment and machinery industry using Zambian copper; an Angolan petrochemicals industry based on its Cabinda oil; etc.

The regional coordinating body could help participating states develop appropriate regional trade and payments institutions that would ensure adequate regional financial and technical support for obtaining the essential inputs of machinery, equipment and trained manpower for planned industries and guaranteed longterm regional markets to ensure their viability. Given South African industrial predominance, the coordinating body would need to secure South African compliance with and support for these plans through essential changes of South African trading and financial institutions in exchange for negotiated assurances that a restructured South African industrial sector would participate in and benefit from the regional industrialization program.

Evaluation of other alternatives: Examination of evidence concerning the institutional arrangements devised in the course of efforts elsewhere to coordinate regional industrialization
II. To create a regional market:

The problem: Inherited national boundaries divide the southern African market into units too small to make growth pole industries viable. National tariffs, customs, currencies and exchange controls -- some introduced before independence, others afterwards -- reinforce those boundaries. Bi-lateral moves to break them down, as well as the efforts of SADCC and the Economic Commission for Africa-sponsored Preferential Trade Agreement, encounter resistance. In few if any cases have the states agreed to purchase specified quantities of the output of neighboring states' pole-of-growth industries' output.

Explanatory hypotheses: Two sets of factors reinforced the arbitrary boundaries that thwarted expansion of regional trade. First, attaining independence through differing processes and at different times, the new bureaucracies of southern Africa, as throughout the third world, almost automatically reaffirmed their inherited national boundaries: the frameworks within which they governed. Each state issues its own currency although many <relatively weak> currencies hinders the free flow of funds and goods within the region. Each implements separate -- often different, sometimes conflicting -- national rules and regulations for currency controls and trade, seeking to direct its own foreign exchange earnings to imports required for national development. None give much thought to the possible negative consequences which may thwart expanded regional trade.

Second, South-Africa based enterprises continue to dominate and shape regional trade patterns. Colonial governments neglected obvious potential infrastructural links between the countries, including those from the land-locked states to the sea. Built during the colonial era, most regional roads and railroads still radiate out from South Africa to provide several neighboring states' major trade routes. Furthermore, South Africa negotiated institutional arrangements to maintain its industries' access to the independent countries' markets. Three -- Botswana, Lesotho and Swaziland -- to join its Customs Union, opening their markets to South African manufactures in exchange for a

11. Despite United Nations' pressures on South Africa to liberate it, Namibia, as a South African colony, automatically participates in the Customs Union.
Independent Zimbabwe inherited a trade agreement, negotiated in the era of United Nations’ sanctions against its predecessor which gives preferential access to South African manufactures and leaves its industrial growth partially dependent on the South African market. Through these kinds of arrangements, South African-based trading firms and associated financial institutions control trade and payments throughout much of the region. They strongly resist efforts to redirect trade to strengthen regional industrial development at their expense.

Evidence: Case studies of individual SADCC member states’ tariff and exchange control rules and regulations to assess the extent to which they hamper the growth of bi-lateral and multilateral regional trade. Examination of the impact of South African manufactured goods sales in the region -- including the share of the regional markets presently supplied from South Africa -- on plans for building growth-pole industries in the less developed countries. Analysis of the mechanisms through which South African-based trading and financial institutions influence the regional pattern of manufactured goods trade.

Tenative proposal for solution: Coordination of national efforts to achieve uniform tariff and currency controls for extra-regional trade, while gradually eliminating them for intra-regional trade. Initially, participating states, through the regional development bank, might negotiate bilateral and eventually multilateral trade and payments agreements for specific traded items. At first, these might include food, energy resources, and other items which some states currently have in surplus and others import from South Africa or abroad. Over time, the states could utilize external trade and currency controls to replace manufactures imported from abroad by those produced by planned growth-pole industries. This would permit allocation of regionally-earned foreign exchange to import essential machinery and equipment for regional projects.

Evaluation: Investigation of the consequences of efforts elsewhere to develop institutions to coordinate trade and payments arrangements to foster the growth of the regional markets.

III. To finance regional industries:
The problem: The individual southern African states -- excluding South Africa -- lack capital to finance pole of growth industries. Although the combined investable surplus of the independent states annually may exceed $5 billion, their financial institutions operate according to different rules in each national context. These seldom direct investment of anything like that amount in national productive sectors, far less those in industries designed to promote regional development. The terms on which they attract foreign capital tend to reduce its contribution. Unfortunately, furthermore, past foreign investment primarily financed industrial development, not in the independent states, but in South Africa 12.

Explanatory hypotheses: No southern African states has tried to redesign their inherited tax and financial structures to direct locally generated investable surpluses to regional productive activities. National development banks and corporations function according to criteria fostering investment in relatively profitable export activities and import substitution, rather than regionally-oriented industry. Each state creates separate tax and other incentives to attract foreign capital, but its narrow market renders major manufacturing investment relatively unattractive compared to that of South Africa. Nevertheless, the individual governments' efforts to provide competitively attractive incentives tend to reduce the potential national returns from the investments that do occur. Furthermore, the individual states' exchange control mechanisms and financial institutions cannot control the loss of locally-generated investable surpluses through transfer pricing 13.

The required evidence: Case studies of the factors

12. The flow of capital to independent subSaharan Africa declined in the 1970s while it continued to South Africa <See World bank, Accelerated Development in SubSaharan Africa, Washington, D.C.: 1981>. In the crisis of the 1980s, however, the flow of new capital to South Africa, too, essentially dried up, and the South African government tooks steps to block further capital flight.

determining national development banks' and corporations' investment decisions and their consequences for regional integration. Analyses of the impact of individual states' tax and other incentives to attract foreign manufacturing investment on domestic consumption and government revenues, as well as regional development. Case studies of national mechanisms for controlling and allocating foreign exchange to determine their potential effect on regionally-oriented industries.

Tentative proposal for solution: A regional development bank could coordinate national development banks' and corporations' formulation and implementation of measures to finance investments in regionally planned industries. The regional bank could guide reorientation of state foreign exchange control to help finance regional development plans, and set up a regional mechanism to control transferpricing. The states could formulate a uniform regional tax and investment code to end competitive reduction of benefits obtained through investments and regional trade. Regionally-oriented industries' greater potential for profitable returns should provide greater attraction for foreign investors, while a uniform code would help ensure all the states participated more fully from the benefits. Over time, the regional bank could work towards a common regional monetary policy. Gradually, as participating states formulate increasingly uniform tax and monetary policies, the regional bank might assist the individual states to stabilize their national currencies at a fixed par, a major step towards achieving a common regional currency.

Evaluation of alternative approaches: Investigation of the success or failure of efforts elsewhere to develop regional banks, not simply to mobilize regional funds to finance regional industrial projects, but to coordinate investment criteria, taxes, and foreign exchange controls leading eventually to a common regional currency.

STEPS IN CONDUCTING THE RESEARCH:

The chief investigator, Dr. Ann Seidman, will conduct this
proposed research over the next three years in collaboration with scholars in the Africa Research Program of the Harvard Center for International Affairs, She would also welcome the opportunity to work with African (especially southern African) graduate students in Harvard University. In addition, if resources are available, she would work collaboratively with African, especially southern African researchers, participating in relevant workshops and seminars in southern Africa and consulting theoretical and practical workers in the region. Southern African researchers and practitioners in relevant fields might be invited to Harvard as graduate students and post-doctoral fellows to participate in the research. In the course of the research, they would thus have an opportunity to grapple with the theoretical and practical issues of southern African regional integration.

The chief investigator has worked for seven years in southern African universities 14 where she served as Professor and Chair of the Economics Departments of the University of Zambia for two years, and of the University of Zimbabwe for three years, as well as external examiner for the Universities of Swaziland and Botswana. In addition to her own writing and research on the

14. She worked an additional four years in West Africa, and has studied and conducted research concerning Africa for about 25 years.
topic, she has helped to arrange and participated in innumerable southern African regional conferences and research projects. As a result, she will easily be able to make the necessary contacts with researchers and practitioners concerned with regional integration issues in southern Africa.

The proposed research schedule follows:

A. Review of the literature relating to the theory of regional integration to deepen the hypotheses set forth above.

B. Review of the literature concerning the history of formation of southern African mini-states and South Africa's domination through associated institutions in the key areas to verify and make more specific the propositions concerning their impact on the possibilities of regional integration. This would include examination of both secondary sources and government documents available in this country as well as additional ones to be obtained from southern Africa.

C. An on-going review of the literature describing the relevant institutional and resource allocation changes achieved through regional integration efforts in other third world areas including such projects as the Andes Pact, ASEAN, EEC, CMEA.

D. An initial trip to southern Africa at an early stage to collect and analyze relevant data and information relating to the impact of current institutional changes on regional integration in the key areas outlined.

E. A meeting with Africanist scholars in the Boston Area, and selected others, to discuss and receive criticisms of the proposed research.

F. Subsequent trips for several weeks at a time at six month intervals to undertake case studies to investigate the consequences over time of particular
institutional changes in the key areas in specific southern African states identified as fruitful in the initial visit.

G. If resources are available, the chief investigator would visit and investigate relevant regional integration efforts in other areas of Africa, Asia and Latin America.