ABSTRACT:
As South Africa commits itself to entering a free-trade agreement with the SADC community a number of important issues arise. These range from the likely economic impact of a FTA on member countries, the legal political and regulatory problems and others. This paper represents the first attempt to explain these various facets of the FTA.

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Some Implications of the SADC Trade Protocol

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1. Introduction

Conventional economic analysis of regional groups is not sufficient to analyse their potential or effects. It does not recognise the complexity of actual arrangements and it fails to recognise the political and security elements which are essential to any arrangement. South Africa and the other SADC members already have trading and other partnership arrangements among themselves, on bilateral or plurilateral terms, and between members and other countries. The Protocol of August 1996 envisages more than simple trade liberalisation, but not (at least not immediately) complete trade liberalisation, so that it does not fall at a single point on the traditional continuum from no agreement to a common market. In addition to the economic and other costs and benefits of different arrangements, it is necessary to consider not only the legal obligations which South Africa and the other members have: to each other, to other countries, and to international organisations including the WTO and IMF, but also the whole range of international agreements and assumptions which now govern aspects of international exchange.

Finally, the effects of any agreement must be analysed in the context of South Africa's own economic and political policies. Are there particular sectors which it wishes to promote? Are there particular forms of economic organisation or income distribution which it wants to support? What does it consider to be the appropriate role of government intervention, whether national or in the form of international agreements? These are beyond the scope of this paper, but all the conclusions here must be subject to these constraints.

This paper will first consider what a regional agreement must cover and what it may want to cover in the context of international transactions and international regulations in the 1990s. It will look both at the specific obligations on South Africa and any SADC agreement and at the general climate of international attitudes and the evolving system to determine the external obligations for an agreement.

To fully analyse the economic effects of a SADC agreement would require more detailed information on how it will be implemented than is available in the Protocol (1996) and more data and analysis of the South African and its partner countries' economies than are within the scope of a preliminary report. This paper will therefore indicate how the effects could occur, and what the appropriate measures would be. It will also look at the economic policy measures which are likely to be necessary components of any arrangement and the types of effects which these might have. Some are direct, for example on other types of international transaction. Some may be required by the non-economic aspects of an agreement, for example, compensation or transfers between members who gain more or less than the average. Others could stem from the greater integration of the SADC economies which an agreement will bring about. There will be interacting convergence of economies and economic policies at later stages of integration.

A regional agreement would impose some legal requirements, and might lead to others. These need to be considered not only in themselves, but also as they change the nature of South Africa's international relations: there is a reduction in legal intervention, because of removal of tariff or non-tariff barriers, but an increase in other types, to regulate the arrangements.

An agreement will not be static, and will not face a static external environment. 'Me way in which SADC might evolve can be considered in the light of older agreements, but it will also be directly influenced by other agreements and by the changes in the international system. The effects, both economic and legal, must therefore be reexamined in the context of this changing environment.

2. The External Environment for FTAs in the 1990s

The example of other regions

A comparison of 13 regional groups (Page 1996) (including SADC) found that all had a variety of linkages in addition to (in a few cases in place of) tariff preferences. The only characteristics which were significant in all of them were not economic linkages, but rather a range of motives (not just trade) and political common interests and support. The groups which seemed furthest advanced had strong political and regulatory elements as well as economic integration, measured by high trade or investment flows. Neither strong legal powers for the region nor similar macroeconomic policies were common; only the EU, much the oldest and furthest advanced, had these, suggesting that these follow from, rather than being requirements for, a successful region.

Tables 1-3, which are taken from Page (1996), show the comparisons of regional groups. Table 2 and the top of 3 show the range of other elements in typical current regional groups and put SADC into context. There are two reasons for other groups' characteristics to be important to SADC. The first is example. They create expectations in the private and public sectors of what regional groups will do which go far beyond the simple trade areas of international economic text books. The second is a response reaction. They implicitly encourage groups which do not yet have the linkages shown here to establish them to offer their members the same opportunities as their competitors and to conform to international regulatory norms. SADC is not far advanced in the non-trade linkages of Table 2. This may be partly because of its newness.

The importance of the political and social indicators of integration and of the 'additional motives' in Table 3 is that these can provide the wide-based and continuing support within each country to balance short-term economic disruptions and costs. It is instructive to remember that some of the inter-country transfers within the EU are formally known as solidarity programmes. There is a close association between meeting a wide range of motives and achieving wide political support. Security and regional solidarity were the original motives for SADCC. In the new SADC, they may remain motives, for South Africa and the other SADC members, but they may be less powerful than the imperatives that inspired SADCC or the foundation of the EC, so that SADC lags in terms of table 3. Although infrastructure programmes were an early part of the SADCC programme, SADC lacks other economic links in terms of Table 2. The provisions in the Trade Protocol (Annex V) envisage measures to involve only the business community. The same bias is seen in APEC. In contrast, groups like the EU and perhaps MERCOSUR include explicit provisions for representation of labour, farmers, commerce and other 'social partners'. If the SADC depends too much on trade benefits, this would be a weakness.

Legal obligations

There are legal obligations which cover what is included in a regional agreement, both at the WTO (World Trade Organization) level and in the existing bilateral agreements of any of the SADC members. These include a range of bilateral arrangements within SADC (for summary, see Kabemba 1996), including SACU for South Africa and the BLNS. There are also external agreements: the Lomé Convention for SADC members excluding South Africa, the proposed South Africa-EU FTA for South Africa COMESA for some members and possible East African arrangements for Tanzania and the Indian Ocean. For Mauritius, the potential African Economic Community and, less importantly, temporary arrangements like the Cross Border Initiative. Members must also take into account the views and preferences of other trading partners, aid donors and also the international financial institutions.

The current WTO rules are stated in Article XXIV of the GATT, reinforced by the Understanding on Article XXIV, reached during the Uruguay Round, and in Article V of the General Agreement on Trade in Services. They are controlled because the most basic principle of the GATT was that members should not discriminate among their trading partners, that they should give Most Favoured Nation status to all. Regional groups are allowed as an exception only if they become more like countries than preferential schemes, so they must include 'substantially all trade'. For services, the requirement is parallel. The rationale was that without the obligation to go (almost) all the way to free trade, regional groups would free the products where group members were competing with non-members (and thus divert trade from them), and keep restrictions where they were competing with each other (and thus hinder trade creation). Regional groups must inform the GATT, now WTO, of their arrangements, submit to an examination, and in principle report progress every two years. Developing countries face less stringent regulation, being effectively required merely to inform the GATT.

In the past, control has de facto been non-existent. Groups were examined, but all members of GATT, including the members of the group under study, had to agree before a group was rejected. Consequently, this did not happen. On the other hand, only two or six (GATT publications give both numbers) were approved. In the last two years, since the coming into force of the WTO, and particularly in the last year, with the new Director General and other staff changes, there has been a reversal of this laissez-faire regime. The WTO no longer requires consensus. An groups Will be examined by a single Committee on Regions, not ad hoc working groups, working to different criteria. The two-yearly review may finally be implemented. There is much stress on the 'substantially' all trade, and the Understanding brought in a new anti-evasion rule limiting transition periods to 10 years (without this, the 'substantially' all trade could remain in the unspecified future). These WTO changes in regulation and attitude have been accompanied by changes in WTO members' attitudes. There is, in general, an increased readiness to question regions. Ibis is because the increasing number of regions and, more important, the fact that the 1990s fide of regions has included more important countries.

NAFTA, still under review, may mark a shift from the US past history of treating all regional groups with suspicion, but in the nearly simultaneous case of MERCOSUR the US insisted that it be examined under the stricter developed country rules, not merely those for developing countries. The Asian countries in APEC consider themselves not subject to WTO rules because they have not yet introduced any discriminatory rules, and therefore maintain their suspicious attitudes to other areas' regions. Unlike Africa and Latin America, there is no history of large numbers of regions forming, collapsing, and reforming in the Asian countries. The most serious change may be from the EU. In a paper in January 1997, it criticised the present article XXIV and Article V (for services) rules as being too weak and unclear. Although dismissing the view that the increasing number of regional agreements is a threat to the world economy, it does see an impact. It argues that goods and services should probably be examined together and more strictly by the WTO, and the review process should be strengthened. This is unlikely to be implemented rapidly, but, with the general trend to closer examination of regions, it suggests that new regions, particularly if, like SADC, they have non-developing country members, will face higher legal hurdles. The WTO cannot take sanctions, but an excluded country could use the disputes procedure, and in a situation of continuing international negotiations a group at odds with other members would be at a disadvantage.

The SADC Trade Protocol could meet the trade rules for a region, if the various exceptions for continuing or imposing tariffs are not used. It does not include services beyond the statement that members will meet their obligations in terms of the GATS (Article 23). Under the provisions for implementing the Uruguay Round, countries wishing to offer preferential arrangement for some trading partners in services had to notify a list of countries in 1994. It is too late for SADC to do so now, so the 'view to liberalising their services sector within the Community' may not be achieved and its provisions on investment (Article 22) are vague. Investment regulation is likely to be on the Singapore Agenda and the allowable discrimination within a regional group may be regulated. The December 1996 Ministerial meeting of the WTO in Singapore set up two working groups on investment, to examine its relationships with trade and with competition policy. Investment regulation is now clearly on the international agenda, and the allowable discrimination between a regional group and all WTO members may be regulated. The regulations on standards (Article 16-17) stress international standards, which should not be a problem.

Both SACU and the Lomé Convention require their members to consult before entering into another regional arrangement, and the Lomé convention in principle requires members to give to the EU what they give to any other country. (The BLNS have been exempted from opening to the EU, in spite of the fact that SACU opens to South Africa.) If all the SACU members were negotiating in SADC this would be a problem only if some wanted to go further or faster than the others. Both the EU and South

Africa have emphasised that they expect South Africa to offer access to SADC equal to anything it offers to the EU (as now required by the Trade Protocol), so the timetable of SADC liberalisation (not specified in the Protocol as adopted) might be effectively driven by that of an EU-South Africa agreement, if this emerges. The SADC Protocol (as discussed below) retains the existing bilateral arrangements within SADC, and allows new ones, so these will eventually be brought into the full system. For the groups of which other SADC countries are members, the effect on South Africa will be potential constraints on the negotiating package they can offer and delays because of their need to consult. The effect on the implementation of a SADC agreement, once the conflicts and priorities have been resolved, will be seen most clearly in the discussion of Rules of Origin, section 4.

The influence of the views of other actors on regions and regionalism will be important directly in the WTO review of SADC, but also in other negotiations. The African Development Bank has urged integration since the early 1990s on traditional grounds of promoting development, economies of scale, etc. Unusually, the World Bank and IMF have supported regional groups in Southern Africa. In other areas, they have emphasised unilateral and non-discriminatory tariff reductions. The EU, which not only will have a voice in the WTO process, but is important to South Africa as trading partner, trade agreement negotiator, and aid donor, has in the past been among the strongest proponents of regional groups. It has financed them across all developing areas, and made specific gestures in support of Southern Africa groups. But, like the WTO, it seems to have shifted in emphasis recently.

SADC faces potential competition or opposition from COMESA, and overlaps the borders of other regional groups. In other continents, this has sometimes led to absorption (EFTA by the EU; perhaps now the Andean Pact by MERCOSUR), but it can also lead to serious ill-feeling from countries excluded from the major group (India and other South Asian countries excluded from APEC). Although there are no formal trade agreements, South Africa is tying to increase its trade, investment, and other contacts with South East Asia. That region has made very little progress towards regional groups, and may therefore be unenthusiastic about adapting to one in Southern Africa.

In general, SADC seems to be facing a rather more hostile climate of opinion on regions than a few years ago, but with the EU, WTO, and the international financial institutions changing their views as rapidly as they have in the last few years, the opposition may be transient. What is certain is that the rash of new agreements and new international regulations has made all countries more aware than in the past of the possible costs to outsiders of any region, and therefore more likely to require at least negotiation, and perhaps compensation.

3. Measuring the Costs and Benefits of Regions

This is a minefield of assumptions, about how countries will develop, how they will react to the formation of a region, the characteristics of goods traded, and whose benefits and costs need to be taken into account. Two qualifications are necessary from the start - data are never good enough for the precise analysis needed for this type of exercise, and, as indicated in the introduction, the results are unlikely to be decisive for a region. The economic answers will be a cost or a bonus for a region formed for non-economic reasons.

trade creation and diversion. These compare the trade created, when a regional trading partner replaces less efficient home production, with the trade diverted, if the regional partner is less efficient than a non-region country, but that differential is more than comparison, but extremely complex in its application. Two problems are the distribution of losses and gains within the region (and within countries) and the distribution between the region and the rest of the world. At its simplest, if trade creation is greater than trade diversion, the region and the world may gain, but some excluded countries must lose. More realistically, it is trade creation and diversion in each commodity which is relevant, with a correspondingly complex pattern of potential gainers and losers. There are two further sources of gains, much discussed in the case of the EU's move to a Single European Market but even less quantifiable than the first two. If there is a net income gain in the region, this itself will have dynamic effects, through investment, the accelerator, etc., and thus there is not only the one-off gain of conventional Vince analysis but a series of second round effects, within the region and potentially outside it. Secondly, if a region can reduce (or eliminate) internal administrative barriers, there is an additional gain as these have the same economic effect as non-tariff barriers.

The problem in calculating the gains and losses is that it requires combining the decisions made at the macroeconomic level to find an aggregate result. Consumers are normally assumed to gain, by the lower prices when tariffs are removed within the region, but prices may not change if the partners are too small to supply the home country's total demand, so that some is still imported from outside. This requires knowledge of the elasticities of supply and demand, and the degree of substitutability of home, partner country, and third country products.

The home government will lose tariff revenue on goods imported from partner countries; depending on the elasticities, this will more than or less than offset the consumer gains. This may be replaced by value added or sales taxes, on the same or other products or, alternatively, by income tax to offset the real gain in income for consumers. Any welfare calculation should be in terms of an unchanged fiscal revenue assumption. Offsetting consumer gains and tax losses is uncertain and conceptually wrong as the logical assumption is that the government's revenue target is not changed by entering a trade agreement. There will still be a consumer gain (if there is any home production of the traded good) because the tax will have a wider base, and therefore a lower rate. Exporters will gain some combination of increased sales or increased profit per sale, depending on the elasticities of demand and supply, and competition from third countries.

Work on such calculations has gone in two directions, theoretical considerations of the conditions required for different results and actual empirical studies of changes in trade flows after a region has formed. Neither is wholly satisfactory, because of the large number of assumptions which must be made. In two recent studies, Laird (1996) and Schiff (1996) present virtually opposite summaries of the conditions for a group to be welfare-enhancing (and this is before considering how the increase in welfare is distributed). Laird (p. 5) argues (these are the conventional results) that, "Welfare gains will be greater:

- the higher the trade barriers being reduced;
- the higher share of pre-existing trade between the partners;
- the larger the partner countries;
- the more diversified partner countries' economies; and
- the closer the partners' domestic prices resemble world prices.
- the more diversified the partner countries' economies

Schiff (p. 4), after accepting that, for exports, the benefit is larger the larger is trade and the higher the existing trade barriers looks at the import side, and finds that a country within a region benefits, "…if it imports less from its partner countries, but it gains more from a union with a large country". The Laird conclusions are logical as the size of the trade barriers clearly has a scale effect, although it could operate to increase a loss as well. The Schiff conclusions do not look at export effects, but concentrate on the loss of tariff revenue and the costs of diversion. (They also suggest that, if all countries believe them, it will be difficult to find partners.) Laird (p. 5) points out that, "Trade creation outweighs trade diversion in products where the import demand elasticity is high relative to the elasticity of substitution between different sources of supply". This suggests that manufactures, and perhaps services, are more likely to show trade creation, while primary products may show more diversion.

The problem with the theoretical speculation is the wide range of possible assumptions about elasticities, about whether goods are produced at home, in the region or outside it, and at what scale, and the wide variation in tariffs and other taxes. It is not possible to be confident that low pre-region trade will be low post-formation, or that products which do not appear to be traded pre-region will remain untraded when (possibly high) tariffs are removed. The higher the initial tariffs, the more necessary it may be to study not just trade flows, but domestic production and prices. If agriculture, for example, is highly protected, there may appear to be low primary trade, and hence low risk of diversion (on the Laird argument), but reducing regional tariffs could markedly change this. The size of very small partner countries may be a constraint, but again it must be remembered that for both elasticities and welfare distribution calculations it is individual products and suppliers that matter, and small producers may dominate in a large country.

South Africa's exports to SADC are growing (from 1.4% of the total in 1990 to 7% in 1993 and 7.5% in 1994), principally to Zimbabwe, Mozambique and Zambia (data available do not give intra-SACU trade). This is about the same as the SADC average share. The SADC share in South African imports is much lower, at about 2%. This suggests a relatively 'intense' amount of regional trade. If we compare the share to SADC with SADC's share in total world trade of under I%, SADC intra-trade is clearly not low for a region of its size: see table 1. For welfare calculations, however, (and for the semi-political calculation of how important SADC is to member countries in negotiating terms) it is the absolute size which matters. Although, as indicated above, it may be seriously misleading to use before-region trade shares to indicate post-region shares, the combination of the low initial trade and the low share of SADC in total world trade or output suggests that the size of effects cannot be very large. But this applies to the South African economy as a whole; the effects for individual industries or producers may be larger.

A quarter of South Africa's imports from SADC are textiles and clothing (Cassim, 1995), but most are raw materials or semi-processed, standard items. This suggests a potential for diversion. Its exports to SADC are mainly manufactures, and of a more specialised nature, suggesting that it is less likely to benefit from diversion to it from other suppliers to the other SADC countries. This conclusion may be reinforced by the fact that the lower transport costs within the region compared to trade with the rest of the world are *de facto* preferences for SADC already, so that trade preferences would not be new preferences, but increased preferences. It could, however, benefit from trade creation.

In its study of Economic Integration in Southern Africa, the African Development Bank identified some products produced in Southern Africa where trade might increase in a regional group. These included chemicals and pharmaceuticals, paper and board, fabrics, metals, machinery, cars, and furniture (African Development Bank, 1993: pp. 30-32). Tanzania, Zimbabwe, Zambia, and Angola were identified as important potential markets for South Africa, but it should be noted that Kenya, not in SADC, was more important for some of the products. The Bank expected, however, that some of the increase for South Africa would be at the expense of Zimbabwe (and again Kenya), because the production conditions are similar.

South Africa is of course the dominant member of SADC. This is particularly so on the import side, where it accounts for more than two thirds of other SADC members' imports from SADC. For South Africa, however, SADC members, especially those with which it does not yet have bilateral agreements, are not a major part of its trade. In terms of the Laird and Schiff criteria, South Africa would be a small country on the world scale (with some larger industries) but a large country in the regional context. South Africa (and Zimbabwe), '… are the only SAR [southern African region] countries with a product range wide enough to substantially gain from trade creation as well as efficiency and scale effects" (Mohammed, Treeck, 1996). With Zambia, they are the only members with a significant share of manufacturing in total output (around a quarter). Given the high tariffs in SADC, this may be a better measure of the potential share of manufactures in trade than the present shares.

Investment, whether in sources of raw materials or in processing in market countries, is a close substitute for trade. Not only is intra-regional investment as important a sign of a regional economic identity as is trade, but it may have moved to get behind tariff barriers. If these barriers are removed in a free trade area, the investment will also change. It may respond (instead of or in addition to trade) to the income effects of a region. While existing investments may not move, new investments may move differently in the absence of tariff barriers. Even in the absence of data on intra-regional investment, it can be seen that South African firms are increasing their presence in the other SADC countries. It has, also, however been increasing rapidly in East Africa, not only in Tanzania, which is in SADC, but in Kenya.

A full analysis of the trade effects would require

- South African imports and exports from SADC and from the rest of the world, classified by product: how important and in which products is SADC to South Africa?
- Unrecorded border trade: one effect of a free trade area might be simply to bring into the open existing trade flows; this would limit the real effect.
- Tariffs, by product (including allowance for existing bilateral arrangements within SADC) how much difference would tariff removal make to relative costs? If imports from SADC are different in composition from average South African imports (they almost certainly are), the effect on South African tariff revenue will need to be calculated across the relevant products.
- Non-tariff barriers, with the same detail, but calculating their 'tariff equivalent' requires knowledge of both the demand and price structures and assumptions about how these will change. If they are completely removed, the administrative costs must also be calculated as there win be an additional gain from removing these.

- Actual costs of production, for present and potential production, i.e. full supply curves for actual and potential South African exports to SADC and SADC exports to South Africa. For most products it might be possible to assume that SADC is too small relative to the rest of the world to influence the prices of other suppliers, but where South Africa is a major supplier this might not be valid.
- If demand and supply elasticities indicate that for some products the effects will be large, relative to production in either South Africa or the rest of SADC, it will be necessary to examine the production conditions and efficiency gains possible if output changes significantly.

The calculations would need to consider a variety of indirect effects if South Africa and/or other SADC members have ties to the same third countries, but not within a single regional group (a hub and spokes arrangement with the EU, for example, if the other SADC members remain within a successor to the Lomé Agreement). Here, the indirect effects of creation or income effects could circulate through the partner country.

The calculations will be different although requiring substantially the same data, plus the proposed Union tariff structure, for a customs union. If members' present tariffs are very different the customs union tariff (under WTO rules) cannot on average be higher and the new regional regulation by the WTO is tightening on the calculation of this average. What would be important for each member would be which tariffs rose and fell, as well as what happened to its average.
For either a free trade area or a customs union there could be some gains from reduced transactions costs, harmonisation of standards or other regulations, or other trade-related changes. These effects may be large (progress on them in the Single European Market was calculated, rather questionably, to add up to 7% to total EU GDP), but they are difficult to calculate. The study of the impact of such costs on production and trade is much less advanced than that of tariffs, and for some there is believed to be a discontinuous benefit from removing them completely. Further, any progress now made within regions is effectively racing against the increasing harmonisation at world level, under the WTO (and other regulatory bodies), so that the benefit from any additional harmonisation in a region is falling.

These data would, however, produce only a limited answer. Particularly for countries developing rapidly, the structure of production and demand will change rapidly, so that it is, in principle, not the present answers to all these questions that are needed, but the expected answers when SADC comes fully into effect in 8 years (plus ratification delay), and then in the years after that. These must then be compared to how the countries would have wanted their industries to develop, taking into account the fact that a region will restrict some types of planning.

A country considering joining a region should compare the outcome not merely to not joining (or to the present situation) but to other potential regions or to a different trade policy, for example, multilateral liberalisation. It may or may not be necessary legally to choose to join just one region (different regions have different rules), but in terms of policy and commitments it is effectively necessary. For SADC, there is also a direct association with a South Africa-EU Free Trade Agreement, because of the need to give the same access to both. It is therefore necessary for a decision to take gains and losses from both agreements into consideration.

Analyses of the effects of regional groups (ex ante or ex post) are rarely uncontroversial. (Examples are the debates over each new member in the EU; the recent controversy over the World Bank assessment of MERCOSUR; assessments of the effects on the EU and on the rest of the world of the Single European Market.) Most countries have neither the data nor the trade and production models to make firm calculations even for the immediate static effects. In addition, as said above, the aggregate figures whether for the world, for the excluded countries, or for the region, are not of decisive importance.

The conventional analysis (excluding dynamic effects) cannot give a positive number for the rest of the world, so there will inevitably be potential opposition on purely trade grounds. This may be small if the region is small or the elasticities of substitution are small. But the regions that have been accepted by the rest of the world (most notably the EU in the 1950s, but also those that the EU has financed in Latin America and Africa) were supported not because of expected trade benefits, but because the other security or developmental benefits were considered more important than the (small) costs. When the costs ceased to be small because Europe grew and larger countries formed regions, and the security arguments ceased to hold, the US position on the EU, for example, changed. If the region as a whole gains, but some countries or some sectors lose, then this may be a usable result if there is a possibility of redistribution among the members to ensure all gain. But if the gains are small and uncertain for the reasons discussed above, it will be non-trade effects which will have to provide the compensation for calculated or feared trade losses among the members. A gain for a country is also not a sufficient condition for a region to be beneficial because of the redistributive effects, including that between consumers and tax revenue if this cannot be reversed, and, again, the possible difficulties of settling compensation for losers when the losses are uncertain.

On the other hand, there may be major gains for individual groups. It is suggested, for example, that because of the smaller scale of demand in some of the countries, small producers of some agricultural products (for example wheat and feed) that can meet only limited markets may find an advantage compared to the larger scale of most South African demand (de Villiers and Schulze, 1996).

Comparing calculating regional gains and losses with the attitude to international reduction of trade barriers warns against accepting simple answers. In contrast to the balancing of trade creation and diversion in regions, there are only limited special cases where full trade liberalisation will not benefit a country, but few countries accept this as a sufficient argument and liberalise completely unilaterally. The effects on different sectors, or on different parts of the population, or the balance between private and public decision-making all come into play.

4. The Practical Economic Requirements of a FTA

There are two classes of economic policies which become necessary in an FTA: those which are required because the countries' economies are moving closer together and those that are necessary because they are still different, at least in respect of their external tariffs. The latter centre on rules of origin.

Rules of Origin

If a country has the same trade barriers to all countries, then it makes no difference whether an imported good originated in the country of the same way as a domestic product. Countries may have provision for temporary import or imports of raw materials for processing and export, and these will require certificates and possibly inspection of a good as it moves through a country. These products tend to remain within one firm, and by definition are not for final consumption in the home country, so that the administrative system is manageable. If, however, a country has different tariffs for different trading partners, and if they in turn have different tariff structures, then rules of origin are required to avoid importers' taking advantage of the lower tariff of a partner in the free trade area to bypass the home country's tariffs. In principle, these rules would no longer be required in a customs union, where internal barriers do not exist and tariffs to outside countries are the same. There are two caveats to this. One is that it is only at a very advanced stage that a customs union makes all barriers to external countries the same. The EU nominally reached this stage on I January 1993 (almost 40 years after its foundation), but there remain a few special cases. The member countries of SACU have bilateral arrangements with outside countries, which require intra-SACU regulation. (Even individual countries can have different regulations, for different sub-national divisions, requiring border posts, for example the fruit regulations of Florida and California in the US.) Therefore, rules of origin are likely to be a semi-permanent feature of any trading group.

As with any regulation, two types of questions arise: what are the costs of enforcing them and what would be the costs of inadequate enforcement? 'Mere is no internationally agreed standard for rules of origin, and even the proposals for one in the WTO would not apply to arrangements like SADC. The rules of origin for SADC are spelled out in Annex I of the Protocol. They are relatively simple, compared to those of other areas, for example NAFTA or preferential agreements like Lomé . The types of criterion are the normal ones. The only industry with its own provisions is fishing (and these are relatively relaxed, requiring only one of flag, crew, or ownership), and other goods need be only 40% local materials or 35% value added (or a change in tariff heading). Nevertheless, there will be serious complications in applying them.

There is provision in the Protocol for the percentages of domestic content required or other regulations to be varied, and the provisions are not entirely clear so changes can be expected. This could create uncertainty for producers. The requirement of a change in tariff heading does not specify the degree of specificity of the heading. Those for the Lomé Convention, for example, specify that it must be at the four-digit level, but then specifies an additional list where this is not sufficient. The local content requirement there is much more stringent at 85%. The Lomé Convention also include restrictions on transhipment through non-ember countries. NAFTA supplements its general regulations with special ones for cars, dairy products, textiles, tools, energy, and others.

In the transition period while the SADC provisions catch up with those of the various bilateral ones, it will presumably be necessary to calculate which of the SADC or the bilateral rules gives more favourable treatment, and use that. This is not stated in the protocol, although it provides explicitly in Article 3 for existing bilateral arrangements to continue and in Article 27 for the possibility of new bilateral arrangements. It does not appear to allow cumulation with any other areas which may have bilateral arrangements with SADC members. Lomé explicitly excludes such cumulation with other agreements with the EU so if the EU-South Africa FTA were signed and Lomé continued, cumulation between South Africa and other SADC members might not be allowed for exports to the EU.

This may create difficulties in the case of manufactures, where goods are produced with inputs from more than one member state, plus perhaps other imports, and then imported into another member. NAFTA has rules which allow 'inventory management' rules, rather than explicit identification of each input, in these cases (what it calls 'fungible goods').

The many regions mentioned above, including COMESA and Lomé where SADC countries have overlapping agreements will require a series of compatible rules. Alternatively, companies may need to have separate plants for different markets. (Countries which make extensive use of developed countries' preferences frequently do this, with examples to be found from Jamaica to Bangladesh.) South Africa has bilateral agreements with Malawi, Mozambique, and Zimbabwe, as well as full customs union with the BLNS countries (Kabemba, 1996). Like South Africa, some of these have bilateral agreements with other SADC countries, so even SACU cannot be treated as a unit for origin, cumulation, etc.

The system of rules of origin works efficiently for goods which are traded frequently and by major traders, who can become familiar with the requirements. It is particularly difficult if imports are substitutes for domestic goods, or imports from regional partners are substitutes for those from third countries, and both are traded, directly or as inputs, with the region. If South Africa receives some goods from domestic producers within SADC and others from outside SADC, it will need to distinguish between them in exporting to another SADC country. This will restrict the development of efficient cross-border businesses. In particular, it could be an obstacle to trade creation. While companies that already trade will be familiar with the tariff-paying and record-keeping involved, a new entrant may not be. Even for existing exporters there may be difficulties in meeting one set of rules for each SADC country with which South Africa has a bilateral arrangement, another for other SADC countries, another for other non-SADC countries with which South Africa has arrangements (these would include any arrangement with the EU, GSP or other preferences) and perhaps others for any non-SADC country with which another SADC country whose inputs are used in the South African product may have an -agreement. Because of other SADC countries' fears of South Africa's competition in manufactures, they might be particularly anxious to enforce rules of origin. Both rules of origin themselves and the administration of them have long histories of use as protective measures.

How effectively the rules will work will depend on the efficiency of trading firms and of the customs regimes of the member countries. The 1996 proposals for reforming South Africa's customs and excise controls may make it easier to administer the rules (the complications of interlocking rules, tariffs, and cumulation will require a modem system). The Protocol specifies the form for a certificate of origin or verification, but not the procedures, maximum delays for issue, fees, location of offices, etc., that will determine how the system works in practice. It is not clear how an importing country can obtain verification (under Rule 10). It appears to be through the exporting country's administration (unlike, for example, NAFTA, where there can be direct inspection by the importer of the exporting company's activities).

Because of the administrative costs, companies will only take advantage of such provisions as cumulation if the difference between SADC and other tariffs is sufficiently large. The amount of enforcement at internal borders, which is necessary, is dependent on the differences among SADC countries' tariffs against the rest of the world. A study would need to consider the tariff heights, differentials, the use of imported intermediate goods, and the degree of substitutability of inputs for key actual and potential trading industries. As in the calculation of the benefits discussed above, it is likely that the whole question of rules of origin will be important only for a few sensitive goods, with some high tariffs. For South Africa, as an importer of mainly primary goods, there are unlikely (in the immediate future, at least) to be major difficulties in determining their inputs, so in that sense their origin may be straightforward. Although primary goods are supremely 'fungible', and there could be problems of transhipment, given the port and transport structure of southern Africa, this seems unlikely to be a major problem. As an exporter, South Africa may face many more costs and difficulties. South Africa's position as an importing point for some of its neighbours and its pattern of manufactured exports to its neighbours suggests that there could be significant costs in keeping the detailed records that might be necessary. The rules would also make quick switching among alternative suppliers difficult. There would be administrative costs on both the certifying authority in South Africa and the Customs authorities in its market countries.

How important SADC should consider the design and enforcement of rules of origin must be decided in the context of its intentions and assumptions about how the region and the multilateral system will develop. If policy-makers see the current move to regions, including the SADC Trade Protocol, as an intermediate step towards full multilateral liberalisation (in line with Ruggiero's proposal of free trade by 2020 or some of the APEC rhetoric), and if the members are likely to be reducing their normal, MFN, tariffs at the same time as their intra-SADC tariffs or shortly after SADC is completed, then the rules of origin can be seen as temporary necessities. Producers will not have a strong incentive to devise complicated ways of evading or avoiding them, and governments will not want to set up permanent administrative structures to deal with them. If there are inefficiencies, these can be accepted or treated in an ad hoc manner. If, however, SADC expects external barriers to remain while SADC moves to 'ever closer union' on the model of the EU, then the administrative structures win need to be capable of surviving on a permanent basis and will also need to be sufficiently efficient not to be a permanent obstacle to firms' competitiveness. The rather short treatment of rules of origin in the Trade Protocol (in sharp contrast to the 19 pages which the NAFTA agreements devotes to the much less complex situation for just three countries) implies that it is the first, transitional, model which is relevant. If so, many of the problems cited here may be bearable.

A consideration of rules of origin on their own must find that they create serious inefficiencies, but this cannot be the final conclusion. The choice is among three types of regime, with the middle one offering an infinite number of variations.

- Complete free trade: obviously no rules of origin needed, but the fact that South Africa has tariffs and non-tariff barriers now must be taken by a researcher as an indication that it does want to protect some sectors in some ways.
- A pure NIEFN regime, treating all external countries the same. South Africa has already rejected this, with SACU, other bilateral arrangements within and outside SADC, preferential entry into some developed countries.
- Regional preferences: any analysis of regional groups finds some benefits for some regions compared to MFN.

The two warnings that should come out of this analysis is that all the rules have costs, both direct and in deterring new entrants, and that having a range of regional affiliations can become increasingly costly (the costs are not just additive because of the need to include provision for all the existing ones in each new set of rules). For this reason, it is necessary to consider SADC not on its own, but in the environment of all the agreements which all of its members already have with each other. (One should also consider all the agreements among South Africa's trading partners, because SADC will make their administration more costly, and could change their policy to regional groups.)

Trade related liberalisation and standards

The history of new responsibilities for the European Commission and of 'new areas' in GATT, and now the WTO, is clear evidence of how difficult it is to keep 'trade' separate from other international economic policies. The perceived need to introduce new subjects depends partly on the increased contacts and integration that come from increased trade flows, and also more directly, because the close association of activities mean that restraints, for example on services such as transportation or communications, or on the mobility of labour or capital, or different rules on patents or other intellectual property, can all interfere with the movement of goods. These problems can be dealt with (and usually are initially) on a one-off basis, using provisions like the GATT rule that deals with actions of 'nullification or impairment' of benefits granted under GATT, but this provides an uncertain and variable remedy, so the new areas become subject to the same type of international coordination of rules and improvement of access that governs trade. The process is cumulative, with the increasing contacts arising from the new liberalisation leading to a need for new rules.

As was seen above, SADC does not yet include services, investment, or labour provisions, but it will find it necessary to introduce these. Even without formal inclusion, the advances at the multilateral level will encourage more regional integration, and where new legislation is required (for example, the agreements on minimum international intellectual property standards) it will be sensible for the SADC countries to act together.

Table 2 suggests some of the areas in which other regional groups have moved. It is interesting that even APEC, the loosest of the groups, is discussing movements on trade facilitation and standards. These receive brief mention in Annexes to the SADC protocol. Both SADCC (before South Africa joined) and the SACU countries have histories of cooperation on infrastructure, transport and energy projects. It is difficult to predict from the experience of other groups in what order the new areas will be added, but it probably is possible to conclude that groups will go either forward or back; they will not stand still. The WTO, with all the constraints of its large number of disparate members, has added new subjects (non-tariff barriers and government procurement in the Tokyo Round; services, intellectual property and others in the Uruguay Round; the environment, competition policy, and perhaps labour standards may be moving onto the agenda now). If SADC contributes to (or merely accompanies) increased trade linkages among the members, this will produce demands for new areas of coverage. Only if the development patterns or priorities of the members diverge will the progress stop. In that case, it may reverse, leading either to break-up or a retreat to formal existence. The possibility of going back should not be excluded, given the experience of most previous free trade areas.

5. Further Integration

If there is very full integration, a parallel process, the association of trade with other domestic aspects of the economy will lead to economic and policy convergence of the economies. Here the theoretical and empirical debate has moved on from the discussions in the 1970s and even 1980s of what was needed for convergence. It is clear from examination of a range of regional groups (or indeed of federal countries, like the US or Germany), that economic convergence follows formal forms of integration, and macroeconomic policy convergence may evolve *de facto* when it is required by the similar economic situations that develop within the region, rather than being required to be imposed in advance. As with the move from trade to non-trade rules, there comes a point when the convergence needs to be made formal, but again as for non-trade rules, this may be very late (the EU is only just approaching it) and what must be coordinated and in what order varied widely among groups. (It is interesting to note that on areas like indirect taxation and excise duties the EU has thought it necessary to go further than the US, indicating that attitudes to different policies, rather than practical and universal problems, determine each area's path.) The SADC Treaty itself includes a commitment to harmonising policies and increasing economic linkages (Mohammed, Treeck, 1996, p. 16), but this can probably be taken to be too vague a commitment to be binding.

It must be stressed that for a free trade area, harmonisation of domestic economies is not necessary. (No model of international free trade, for example, would require it.) The fact that it is not possible to demonstrate SADC convergence (CREFSA 1996) is not an obstacle to forming a regional trade area. If there is no convergence in a similar exercise in 20 years time, this would be a more interesting result. It could simply demonstrate the lack of effect of SADC (which would not be surprising given its small share in members' trade), or it could be a symptom of a problem if different performances lead to different desired policies.

The SADC Protocol suggests the use of international standards as a basis for trade policy. This is a sufficient initial response, but if integration goes further or faster than multilateral integration, there will be cases where regional reconciliation of national standards will be needed because there is not yet an international standard. This may be less common than in larger areas like the EU or NAFTA, because the relatively small share of SADC in its members' trade makes it more likely that the need for new standards will appear in trade with a non-member than with a member.

EU experience suggests that there will need to be a balance between the two approaches of harnionisation and mutual recognition of standards. The first creates more efficiency advantages for traders, and may be needed where countries (or consumers or business within the countries) feel a strong policy is necessary, for example where it is a question of safety or health, rather than the practical convenience of a single rule. The borderline has proved impossible to draw satisfactorily in practice in the EU. NAFTA is already starting to see difficulties, so there is no reason to believe that SADC will find it easy.

The Protocol suggests an industrialisation strategy (Article 4) and makes explicit reference to infant industry protection (Article 21). Combined with the possibility of disagreements on different tariff reductions and rates of reduction for different sectors, this suggests that countries may see a need for harmonisation of sectoral policy. This was one of the original impulses to the EU (the European Coal and Steel Community) and was central to many of the developing country regions of the 1960s. It has been less prominent in the more laissez-faire regions of the 1990s, but it is clear that any countries which have domestic sectoral policies must ensure that their regions, at a minimum, do not obstruct these. This starts to be difficult if the members have very different attitudes to sectoral policy (different choices of sector may present practical problems, but not a fundamental difficulty). The inclusion of it in the SADC protocol suggests that there is a common approach. This should be a strengthening factor.

If the free trade area became a customs union, these conclusions could be very different. Setting a common average tariff and structure of tariffs is a major exercise in coordination of policy. Making trade agreements for the region, bilaterally or multilaterally, would extend this. The Protocol provides for 'coherent trade development strategies' (Annex V, Article 1). It is not clear whether this is meant to be trade relations with other countries, or merely trade promotion in general, but either would be a start to what is needed in a customs union. A Customs Union, particularly one where one country provides the principal entry points for the whole union, would need to set up either quasi-rules of origin to determine the final destination of imports or find a suitable formula for sharing tariff revenue, as it would normally be collected at the first entry. Using pre-Union trade patterns would be inadequate in the medium term, as these evolved. It would probably be wrong in the short term if initial tariff structures were very different so that patterns would be expected to change immediately.

That convergent macroeconomic policies may not be necessary does not imply that trade policies will be sufficient to hold an area together. The gains from trade are likely to be uncertain, small, and unevenly distributed. Therefore, it is the other objectives of a trading group which must hold it together, and if these are not felt equally strongly by all the members, it may be necessary for those who want the group to survive to 'pay' the other members. In an advanced group, and particularly in a customs union where the question of the distribution of tariff revenues becomes important, this may be analogous to a special tax, with an agreed distribution (the transfers in the EU or in SACU, for example), but more normally the payments are made in implicit exchanges. Countries make concessions on non-trade matters, which may be either explicitly related to the trade agreement, labour and the environment for Mexico in NAFTA; or less direct, perhaps the US loan to Mexico in its exchange rate crisis, although the US had helped in similar ways before NAFTA. The fact of reciprocal concessions is important: it is not simply a question of paying compensation for a member to whom the costs of joining a region exceed its benefits. This is the nominal basis of the SACU revenue sharing, but it is clear that no calculations can be made, and the trade benefits to South Africa are unlikely to match the transfers in the revenue sharing formula. The transfers, whether cash or policy, are the result of non-economic attachment to the region, for the security and other reasons discussed above and/or a less analysable feeling of an equivalent of national identity (the solidarity argument). The clearest recent example is the costly reunification of Germany.

That countries have non-trade and non-economic motives for joining a region does not mean that they will not also demand compensation for perceived costs, only that these need not correspond to precise calculations. To the extent that the general observations in section 2 and any supporting calculations that can be made support the view that large countries, advanced countries, and exporters of manufactures are more likely to gain or less likely to lose from the static effects of a region, South Africa may face demands from the other SADC countries. On the more developmental arguments, that the small countries have more to gain from an increased market and access to inputs, the opposite conclusion can be drawn. If there are no other motives for the region, this potential conflict would not be a firm basis for a stable relationship. A comparison of the EU and SADC (Burgess, 1996, p. 11) stresses that for the EU there were trade, supply, and investment reasons for the rich countries to welcome the poorer, but 'in the final analysis, the most important objective for the richer states was stabilizing and democratizing Europe'. The original objective of SADCC was also clearly security and democracy. Historically, groups that begin with non-trade objectives and move to trade seem to have a better chance of survival than the initially trade-based groups. It is not clear whether the transformation of the political situation in South Africa and therefore in the motivations behind SADC will obstruct this outcome. The costs to the original SADCC members during the pre- 1994 period could be an additional reason for them to claim compensation for any new costs in a region.

There will be a need to find ways of demonstrating, if not calculated compensation, at least joint economic initiatives based on need. The formal transfers of the EU or SACU are unlikely to be acceptable because of the lack of a clearly identified need such as common tariff collection. Groups like the Andean Pact in the 1970s attempted to coordinate industrial policy to the extent of allocating industries to different countries, and almost all regions at least allocate regional institutions among the members. (This can create conflicts with the institutional development of a region: see next section.) Joint infrastructure projects are traditional in the region, and are an important step. A development Rind or bank can be a half-way house to formal transfers. The need is to find ways of giving form to a consciousness of a regional identity and mutual commitment. It is not possible to make suggestions from outside without the study and awareness of individual members economic structures, their plans and objectives, and their approaches to development. The original security element of SADCC may be an important element of SADC as well.

6. Legal, Political, Institutional Questions

The approach of all regions (and countries) is to accept every increase in institutionalisation and administration unwillingly, but increasing economic activity requires increasing scope of regulation. This need not mean increasing detail. For the GATT to restrict countries' ability to raise tariffs once bound is a rule, but one which has contributed to liberalisation. For a region to liberalise trade within its borders can be similarly liberalism but as was seen under rules of origin, it can require a new set of rules to implement. Once there are rules, means are required to implement them, to enforce them, and to settle disputes about them. One way to handle this is to delegate different aspects to different governments (die SADC division of responsibilities among members or SACU administration by South Africa). Another, is to delegate it to committees of ministers or civil servants from the member countries. The final way is to set up a secretariat or commission.

The first cannot work effectively for complex and continuing administration (unless the division in the country becomes a de facto secretariat, taken from one country), and is unlikely to be acceptable as responsibilities increase and disputes occur among countries. The second remains important in all systems, even when supplemented by the third, because in the end the final authority remains with the members, and they need a direct input. It is, however, cumbersome for routine administration, particularly so for regions with a large number of members. There is also a need to manage relations with the rest of the world. This is more true for a customs union, which effectively becomes the negotiating unit in WTO and bilateral fora, but even a free trade area will have questions, for example, of rules of origin, which impinge on other countries and require negotiation. If there is a commitment, as there is in SADC, to industrial strategy, a common area to discuss this will be needed. As with the additional economic matters discussed in section 4, it is likely that administration will increase over time in a region. There may be particular problems or sensitivities in an area with one principal country (a political scientist's hegemon). In a group like the EU, particularly in its early stages where France and Germany, with Italy, were all leading countries, there is no automatic fear of domination. Where one country is dominant, the separation of responsibility of administration from the possibility of national dominance becomes important. It is perhaps not surprising that three of the MERCOSUR members are pressing for the establishment of a dispute settlement mechanism; Brazil is not.

The question of institutions is not confined to the public sector. As discussed above, a region can mobilise support though encouraging contacts and participation by business, labour, and other groups. The feeling of regional identity, which must accompany a mutual support mechanism as discussed in the last section, must come from outside the governments as well as within them. For this, an identifiable administrative unit can be either an advantage (a focus of attention) or a disadvantage (a focus for nationalist fears). Increasing investment contacts in agriculture, and integration of services can create a core of people in SADC with a direct knowledge and interest in the region. The question of popular support may be linked by direct participation, through labour mobility. This has been an important element in the EU, and is envisaged as inevitable in MERCOSUR. It is not, of course, in NAFTA, and the idea that Mexico is being 'paid' by NAFTA to keep people at home is a questionable basis for long-term support.

SADC in Article 31 provides for councils of ministers and civil servants. These are in addition to the existing institutions of SADC, so that the structure for a group is emerging. The history of SADCC is one of coordination in difficult circumstances, and this is a foundation for economic cooperation. There win, however, be a need for acceptance of purely regulatory bodies, whether as panels or a court, and purely technical ones, for trade rules and standards, as well as the governmental councils. This will be most difficult for South Africa to accept (as it has been for the US in NAFTA and Brazil in MERCOSUR).

7. Evolution of SADC

As has been pointed out several times, it is difficult to assess SADC without knowing whether it is a temporary alliance of countries with common economic interests, a step to greater multilateral liberalisation, or a step to fuller SADC integration. Clearly it may be all three, and it is difficult to make such assessments about any group ex ante. In its present form, it appears to be mainly the second, with a possibility of the third. The interests of the countries are not particularly close, except on the purely regional questions. The countries are of different sizes, levels of development and sectoral composition, There is a history of common commitments, and perhaps a sense of regional identity (certainly going beyond groups like ASEAN), and if the integration increased to the point where a customs union was possible, this would be an indication of possible permanence. But this should not be exaggerated: in the past, when developing countries had very high tariffs (and South Africa was among the highest) and actively used tariff policy in development a free trade area was a major change in liberalisation, and a customs union a major change in policy. At present levels of tariff and with the shift to less intervention through policy, a customs union is not as much of a commitment Also, East African and other history shows that customs unions are not necessarily permanent.

If it is an advance on multilateralism, the question of detailed rules, any difficulties of administration, the lack of institutions, and the apparent lack of serious non-economic commitment are not a serious disadvantage, and some (the lack of a administrative structure and limited number of special regional rules) may be an advantage. One of the possible risks of the current proliferation of regional groups is that there will be too many fixed policies which need to be reconciled when the EU, NAFTA, MERCOSUR, all take their agreed compromises to a WTO negotiation.

If it is seen as a more permanent organisation, it is necessary to specify (by SADC, not by outside observers) what the over-riding objectives are. These could include regional security and negotiating power in a world of regions; for South Africa, a commitment to the poorer countries of the region, as both possible allies against the rest of the world and its inevitable dependents; for the other countries, a need to have a voice in the activities of a major trading partner and regional power, and more direct interests in its internal peace. If there are strong motives of these kinds, it could become a unit. Its direct links among populations and economic sectors may be as strong (given its level of development) as those of MERCOSUR. The central uncertainty here is that all the countries are developing. All eventually will develop rapidly, but it is unlikely that all will do so at the same time, and the divergences in performance and the probable divergences in structural change are likely to put a severe strain on any plans or strategies adopted on the basis of present structures. The question is the balance between the commitment and the inevitable divergences.

8. What is Needed for a Conclusion

A calculation of the industries, sectors of the population, and countries which will gain and lose can only be uncertain but it is essential in order to provide warnings of where there may be stresses and opportunities to alter regulations or timing to limit adverse effects. Any analysis must take fall account of the current policies in terms of economic priorities, how these are to be implemented and what weight they have relative to other national objectives, for each of the member countries. A view is necessary about how the multilateral economic system will evolve, and thus what SADC can do in addition to this, or to prevent any possible adverse effects.

For South Africa, it is necessary to look at SADC in the context of its other trading arrangements, present and potential. At the economic stage, this means not only comparing the different trading gains and losses, but considering the type of trading regime it wants. If it is gradual liberalisation, it may be difficult to judge whether a region will be a step towards this or a possible obstacle, not only because of the possible complications of rules of origin, but because a move to a customs union would constrain its trade policy by that of the SADC partners. Beyond this, it means making the political judgements about which countries and subjects take priority.

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Table 1: Measures of Trade and Investment Integration (Percentages).

Trade	EU	NAFTA	APEC	ASEAN[a]	ANZCERTA	SAARC	MERCOSUR[b]	ANDEAN	CACM	CARICOM	SADC	COMESA
Intra-Region Trade/Total Trade by region												
Exports 1990	60.5	41.7	69.3	19.6 (4.6)	7	3.2	8.9 (11.6)	4.1	15.4	8.5	2.6	
Exports 1994	56.5	48.4	74.4	22.3 (5.0)	8.8	3.7	18.3 (20.4)	8.5	20.2	15	8	6.
Imports 1990	57.8	33.4	70.6	15.9 (4.3)	7.4	1.9	14.5 (17.7)	5.7	9.6	5.7	4.9	5.
Imports 1994	54.5	37.4	71.1	19.3 (7.0)	7.9	3.3	16.8 (19.4)	9.3	12.6	6.6	8.3	5.
Share of Region in World Trade:												
Imports 1994	33.8	21.1	44.4	6.31 (3.92)	1.52	1.09	1.47 (1.78)	0.75	0.23	0.1	0.7	0.4
Exports 1994	34.6	16.8	42.65	6.00 (3.72)	1.41	0.9	1.46 (1.76)	0.78	0.14	0.09	0.77	0.3
Intensity:												
Exports 1990	1.46	2.13	1.78	4.32 (1.61)	4.68	2.86	10.44 (10.58)	7.44	81.5	36.3	3.5	1
Exports 1994	1.67	2.3	2.05	3.54 (1.28)	5.79	3.5	12.43 (11.49)	11.31	88.9	150.3	11.5	16.
Imports 1990	1.44	2.09	1.59	3.92 (1.71)	5.13	2.37	10.72 (10.87)	6.33	75.5	31	5.1	13.
Imports 1994	1.58	2.22	1.67	3.21 (1.88)	5.59	3.65	11.5 (10.99)	11.92	92.7	72.1	10.7	17.

Table 1 (cont): Measures of Trade and Investment Integration (Percentages).

Direct Foreign Investment (Accumulated Stocks)	
Intra-Region as share of Total Investment:	
By ASEAN 1980	60
By ASEAN 1993	36
In ASEAN 1980	3
In ASEAN 1993	3
Share in World Investment:	
Investment by ASEAN	7
Investment in ASEAN	1

Sources: IMF, *Direction of Trade, Financial Statistics*; UN, *World Investment Report*, 1995

Key: a) Figures in brackets exclude Singapore

b) Figures in brackets include Bolivia and Chile

Table 2: Integration beyond Trade & Investment.

Trade	EU	NAFTA	APEC	ASEAN	ANZCERTA	SAARC	MERCOSUR[b]
Free Trade Area	yes	planned		pref.	yes	pref.	with exclus.
Customs Union	yes						planned
Clearing System						yes	
Labour Mobility	yes				some		proposed
Now in WTO:							
Technical Standards	more		proposed		yes		limited
Company Laws	more						yes
Intellectual Property	more	yes					
Proposed for WTO							
Environment	more	more					proposed
Labour Standards	more	more					proposed
Public Procurement	more				more		
Direct Public Access	more						more
Economic Policy:							
Sectoral Policy	yes						limited
Exchange Rates	yes						
Monetary Policy	proposed						
Macro co-ordination	proposed						
Financial Transfers	yes						
Legal Powers:							
Dispute Settlement	yes	yes					not used
Inintiative from Region	yes						
Negot. Competence	yes		proposed				yes
Characteristics of Members:							
Geographic Integrat.	almost	yes		yes	semi	yes	yes
Size of Population	large	large	large	large	middle	large	large
Level of Income	middle/high	middle/high	low-high	low/middle	high	low/middle	low/middle
One or more large	more	one	more	more	one	more	more
Border Integration	yes	yes	yes	yes		yes	yes

Table 2 (cont.).

Trade	ANDEAN	CACM	CARICOM	SADC	COMESA	SACU
Free Trade Area	with exclus.	pref.	pref.	proposed	bilat pref.	yes
Customs Union						yes
Clearing System		yes			yes	yes
Labour Mobility			some		proposed	some
Now in WTO:						
Technical Standards		limited	limited	proposed	yes	yes
Company Laws	yes				proposed	
Intellectual Property	(past)			proposed		
Proposed for WTO						
Environment						
Labour Standards						
Public Procurement						
Direct Public Access						
Economic Policy:						
Sectoral Policy	(past)		yes	yes	yes	yes
Exchange Rates						yes
Monetary Policy					limited	yes
Macro co-ordination						taxes
Financial Transfers						yes
Legal Powers:						
Dispute Settlement				proposed	yes	
Inintiative from Region	limited					
Negot. Competence		limited	limited	proposed	limited	yes
Characteristics of Members:						
Geographic Integrat.	semi	yes	semi			yes
Size of Population	middle	small	small	middle	small	middle
Level of Income	middle	low/middle	middle	low/middle	low	low/middle
One or more large	more	none	none	one	more	one
Border Integration						

Key: Yes – indicates that the region has some integration in the heading
More – indicates that the region goes further than the WTO

Table 3: Summary of Evidence of Integration.

	WTO	EU	NAFTA	APEC	ASEAN	ANZCERTA	SAARC	MERCOSUR
Political and Social Integration:								
Responsive elite		yes	partial	yes	some	yes	some	yes
Business Support		yes	yes	yes	yes	yes	yes	yes
Popular Support		yes	partial	some		yes		yes
Authority of Govt.		yes	no	yes	yes	yes	no	yes
Interest Grp. Interaction		yes	some	limited	yes	yes	no	increasing
Common ec Approach		yes	no	no	some	yes	yes	yes
Motives for forming Region:								
Trade Access		yes	yes	planned	yes	yes	yes	yes
Investment Access		yes	yes		yes			yes
Development or efficiency		yes					yes	yes
Reaction to others		yes	yes	yes				yes
To Bargain with Others		yes	yes	yes				yes
Military, Security		yes		yes				yes
Political Gesture		yes	yes	yes		yes		yes
Summary Indicators (score out of 5), Hufbauer, Schott, '94[a]								
Movement of goods and Services	3	5 (4)	4 (4)	3	3	5	2	3 (2)
Movement of Capital	4	5 (4)	5 (4)	3	4	5	1	4 (1)
Movement of Labour	1	4 (3)	1 (2)	1	1	3	0	2 (1)
Supra-Regional Inst.	3	4 (5)	2 (3)	1	2	2	2	3 (2)
Monetary Co-ord.	0	3 (3)	1 (1)	0	0	1	0	0 (0)
Fiscal Co-ord.	0	3 (1)	0 (0)	0	0	0	0	0 (0)
Total	11	24 (20)	13 (14)	8	10	16	5	12 (6)
From this Paper:								
Trade Integration	5	5	4	4	2	3	1	4
Investment Integration	5	5	4	3	4	4	1	3
Trade Regime	3	5	4	1	2	5	2	4
Other Trade-related	0	5	3	1	2	4	0	3
Economic Policy	0	4	0	0	0	0	0	2
Legal Powers	3	5	2	1	0	2	0	3
Economic Characteristics	3	4	3	2	4	3	4	4
Political Characteristics	2	5	3	4	4	5	3	4
Number of Motives	3	5	4	4	2	2	2	5
Total	24	43	27	20	20	28	13	32

Table 3 (contd.).

	ANDEAN	CACM	CARICOM	SADC	COMESA	SACU
Political and Social Integration:						
Responsive elite	yes	yes	yes	some	yes	no
Business Support	yes	yes	yes	some	yes	yes
Popular Support		yes	yes		yes	no
Authority of Govt.	no	some	some	yes	some	yes
Interest Grp. Interaction	limited	yes	yes	some	some	some
Common ec Approach	no	no	no	no	no	yes
Motives for forming Region:						
Trade Access		some	yes	yes	yes	yes
Investment Access						yes
Development or efficiency	yes	yes	yes	yes	yes	
Reaction to others						
To Bargain with Others			yes			
Military, Security		yes		yes		
Political Gesture	yes			yes	yes	yes
Summary Indicators (score out of 5), Hufbauer, Schott, '94[a]						
Movement of goods and Services	3 (3)	2 (2)	3 (4)	3	3	5
Movement of Capital	3 (3)	0 (0)	3 (3)	2	2	5
Movement of Labour	1 (1)	1 (1)	3 (2)	1	2	3
Supra-Regional Inst.	3 (3)	3 (2)	2 (2)	2	2	3
Monetary Co-ord.	0 (0)	1 (0)	1 (2)	0	0	4 (5 ex. Bot)
Fiscal Co-ord.	0 (0)	0 (0)	0 (0)	0	0	3
Total	10 (10)	7 (5)	12 (13)	8	9	23
From this Paper:						
Trade Integration	4	4	3	3	1	
Investment Integration	3	1	2	1	0	
Trade Regime	3	3	3	2	3	5
Other Trade-related	2	1	2	2	3	2
Economic Policy	1	0	1	1	2	5
Legal Powers	2	2	2	1	2	3
Economic Characteristics	3	4	3	2	3	3
Political Characteristics	3	4	4	2	3	3
Number of Motives	2	2	3	3	3	2
Total	23	21	23	17	20	23+trade

Note: a) My score; score by Hufbauer and Schott in brackets

ACRONYMS:

APEC	Asia-Pacific Economic Co-operation
BLNS	Botswana, Lesotho, Namibia and Swaziland
COMESA	Common Market for East and Southern Africa
EU	European Union
FTA	Free Trade Agreement
GATT	General Agreement on Trade and Tariffs
MERCUSOR	Mercado Comun Del Cono Sur which is the Common Market of the Southern Cone
NAFTA	North American Free Trade Area
SACU	Southern African Customs Union
SADC	Southern African Development Community
WTO	World Trade Organisation