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REGIONAL INTEGRATION AND THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

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Regional organizations are not a new phenomenon for Africa any more than for the rest of the world. Within Africa, however, they have usually been typified by failure. This paper examines the viability of the Southern African Development Community—a relatively new organization that seeks to break the depressing pattern of previous regional organizations within Africa. This paper argues that if it is to do so, it must moderate its objectives and not attempt the full scale economic integration to which it is currently committed. Rather, it should focus on more immediate and pressing issues within the region, namely inadequate infrastructure and an absence of human resources. Once these needs are met, the developmental and economic objectives of the region become more realistic goals.

INTRODUCTION

At the end of the twentieth century, southern Africa continues to be characterised by low levels of development, regional instability, and an increasingly marginal role in the global economy. The countries of the region are among the poorest in the world, with the Mozambican GDP/capita at \$92 per annum and infant mortality rates in Angola at 170 deaths per 1,000 live births (UNCTAD 1995). There is a growing realization within the region that something must be done to change this situation, and that the solution will have to be domestically oriented. Following on the apparent successes of other regional organizations such as the European Union, NAFTA, and Mercosur, the countries in southern Africa

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have elected to form a regional organization, the Southern African Development Community (SADC).

According to the SADC founding document, the organization's objectives are the achievement of "development and economic growth, alleviation of poverty, enhancement of standard and quality of life for peoples of southern Africa, and the support of the socially disadvantaged through regional integration." In 1996, SADC members resolved that the organization would aim to create a free trade area within the region by the year 2004.

This paper evaluates SADC's capacity to achieve its stated objectives and argues that the goal of SADC should not be economic integration but greater and more effective regional co-operation. It begins by providing an overview of the historical origins of SADC and goes on to examine the economic theory that advocates trade as a tool of development and the prerequisites for the creation of a regional trading bloc. It then proceeds to highlight the features of the region (both economic and physical) that seem to make it unsuitable for the creation of a free trade area. The paper then goes on to highlight current SADC projects and the role that these should play in meeting the developmental objectives of the organization.

FROM SADCC TO SADC— A HISTORICAL OVERVIEW

The Southern African Development Co-ordination Conference (SADCC) was the first attempt by southern African states to deal with the economic and developmental problems faced by the region. It was founded by nine southern African states¹ in 1980. The stated objectives of the conference were the "rehabilitation of the region's transport and communications system, the securing of regional food self-sufficiency/food security and the development of the enterprise sector (as quoted in Tsie 1994)." The founders hoped that by meeting these and other objectives, the countries of the region would be able to decrease their economic dependence on South Africa (whose apartheid government remained an anathema) and the rest of the world. SADCC was to be the developmental equivalent of the "front-line" states that sought to bring an end to apartheid rule in South Africa through the imposition of political and economic pressure. In addition, they represented an ambitious attempt by developing countries to participate in worldwide economic growth.

Unfortunately, they were unable to accomplish either objective. The reality was that in terms of trade and employment, SADCC was more dependent on South Africa than South Africa was on it. While accurate

figures for southern African trade are difficult to ascertain, it is estimated that in 1981 African purchasers bought more than 10% of South Africa's exports. In addition to this, in 1984, four of the nine SADCC countries were still supplying labor to South African mines (Maasdorp 1984). Furthermore, the SADCC countries had actually experienced a decline in their economic well being.

By the start of the 1990s, it seemed as if SADCC would join the ranks of other failed African attempts at regional integration and development. It faced accusations of bureaucratic ineptitude and lack of political commitment by its member state leaders to principles of regionalism. Furthermore, with the release of Nelson Mandela and the legalization of the African National Congress (ANC) in South Africa it looked as if the days of apartheid rule in South Africa were about to come to an end. As the political justification for SADCC began to unravel, so did the financial support of many international donor organizations and countries (Maasdorp in Baker et al 1993). Lastly, a Preferential Trade Area for Eastern and Southern African States (PTA) was established in 1983 that all SADCC members (other than Botswana) joined. In 1991, in terms of the Ajuba Declaration, the stated goal of the PTA was the creation of a common market encompassing the whole of Africa. It seemed as if SADCC goals of regional integration would merely replicate the efforts of the PTA.

It was thus a surprise to observers when, in 1992, SADCC was not disbanded, but reformed as the Southern African Development Community (SADC). SADC membership currently stands at fourteen² and stretches from the southern tip of Africa to Tanzania as well as including the island states of Mauritius and the Seychelles. South Africa, the former regional pariah, joined SADC in 1994.

TRADE AS ENGINE OR HANDMAIDEN OF GROWTH: THE ARGUMENTS IN FAVOR OF TRADE

In order to understand the SADC enthusiasm for the creation of a free trade area within the region, it is necessary to look more closely at the "promises" made by trade theories. Advocates of free trade present it as an "engine of growth" or as a means of achieving economic development. This view is essentially an extension of the principles of traditional trade theory and posits that by trading in the goods in which it has a comparative advantage, a country will gain access to intermediate goods and resources with which it is not endowed. Trade will enable countries to import useful technologies that allow for more efficient use of resources—possibly freeing resources for use in other areas.

By selling their goods on international markets, developing countries will be able to acquire much needed foreign exchange that they could utilize productively within the country. In addition, trade ensures that sectors within a country remain competitive and that resources are allocated to those areas where they can be used most effectively—Adam Smith’s “invisible hand” on a global scale. While these “gains from trade” will not benefit the entire community equally (owners of the export competing resource will benefit more than owners of the import competing resource) arguably, the “winners” could compensate the “losers,” producing an end result that is both equitable and efficient.

However, for many developing countries, especially those in sub-Saharan Africa, merely participating in world trade has not produced the desired developmental result (Dornbusch 1992). Most of the countries in the region are exporters of primary products such as minerals and agricultural goods.³ Both of these tend to have relatively low elasticities of price and demand. On the other hand, goods that are capital and skilled-labor intensive (goods that tend to be exported by the developed world) usually have higher elasticities. As a consequence, these countries have found themselves earning the same or less from their exports than they had in the past, but having to pay more for their imports. This decline in their terms of trade meant that they have had to borrow foreign exchange in order to pay for their imports. The demand for primary products is declining even further in response to the development of synthetic substitutes and technology that allows for more efficient use of these commodities. Due to low price elasticities, these shifts in demand result in fairly steep shifts in the prices that those goods can command.

Traditional trade theory has been greatly revised, however, and the new models attempt to incorporate many of the realities that were wished away by previous theories (such as unemployment, imperfect competition, and increasing returns to scale). These revised models (Stewart 1982) look at the impact of economies of scale, the effect of “learning-by-doing”, product development and trade between countries with similar consumer preferences, and the development and export of technological innovation. They suggest that, on the whole, North-South trade offers few benefits to developing countries. However, trade between LDCs could offer distinct benefits such as increased consumption opportunities for LDC consumers and gains flowing from specialization, division of labor as well as increased efficiency and decreased costs of production due to economies of scale and exposure to greater competition. Intra-LDC trade may also encourage the development of LDC-appropriate technology as well as the production of goods more suited to LDC consumption patterns.⁴

Regional Integration as a Means of Stimulating Intra-LDC Trade

One of the ways that countries wishing to trade with specific other countries could achieve this objective is through the pursuit of regional economic integration. There are various “degrees” of integration, the loosest of which is the creation of a free trade area where members retain their own trade barriers against the outside world, but remove internal trade barriers. This is the economic policy favored by the SADC countries, with the potential for deeper integration at a later date (Protocol on Trade in SADC 1996). The next step would be the establishment of a customs union where members adopt a common trade barrier against the outside world. In a common market, barriers to the free movement of factors of production are also removed. At the deepest level of integration (economic union), members harmonize all economic policies.

The decision on whether or not to attempt some form of regional integration is usually made with regard to the question of whether this integration would have the effect of “creating trade” or of “diverting” it. An economic arrangement is said to be trade creating when it causes a shift in imports from a higher-cost producer outside the region to a lower-cost producer inside the region. Trade creation also occurs when a higher-cost producer substitutes domestic production for imports from a lower-cost producer within the region. Trade diversion, however, occurs when there is a shift in imports from a lower-cost producer outside the region to a higher-cost producer within the region due to the removal of internal barriers, and the maintenance of external barriers (Viner 1961). Economic integration is regarded as desirable (i.e. a movement towards free trade rather than a form of regional protectionism) only if trade creation outweighs trade diversion. Trade diversion is less likely to occur if there was a fairly high level of trade between the member countries before integration.

THE FACTORS ARGUING AGAINST REGIONAL ECONOMIC INTEGRATION

Physical Factors

Many of the SADC members face serious internal, structural problems that have contributed to their depressing performance in the past decades. Two of its members, Angola⁵ and Mozambique, have been embroiled in devastating civil wars that have virtually destroyed their productive and agricultural capacities. The Democratic Republic of Congo seems determined to follow their example. War has left the countryside in these areas

heavily landmined, making movement of persons and vehicles very dangerous. In addition, the presence of landmines has hampered the return of rural inhabitants to the fields with the result that Angola, a former exporter of agricultural goods, has to import food in order to feed its inhabitants.

The economies in the region tend to be government planned—often typified by confused and inconsistent policies. The uncertain economic climate has discouraged risk-averse foreign investors, depriving the region of much-needed foreign capital and exchange. Further, the physical infrastructure of the region is poor with a limited number of paved roads, working railroads, and communications systems. Transportation of goods and labor is consequently a major undertaking. Financial and banking systems are limited, labor tends to be unskilled, and entrepreneurial skills are low. Other problems in the region which will have to be addressed include low labor productivity, the increasing incidence of AIDS which may impact on the availability of skills in the area, and high costs of factors of production (such as electricity) in some countries. These factors increase production costs and thereby make regional products uncompetitive compared to the rest of the world. A further criticism that has been leveled against almost all regional arrangements in Africa is the lack of political commitment to the organizations by individual country leaders. This includes a failure to implement policies domestically and allowing practical application of policies to be caught up in bureaucratic red tape (Maasdorp 1993).

These factors are a serious impediment to the development of competitive and productive sectors within the countries concerned. The creation of a free trade area before these fundamentals have been resolved will permit the development of inefficient producers that may flourish behind protective barriers but be unable to withstand global competition.

Economic Factors

In addition, the region does not meet the commonly accepted prerequisites for economic integration. It appears as if economic integration would be largely trade diverting rather than trade creating. The majority of the countries in the region (with the exception of South Africa and Zimbabwe) tend to be primary product exporters. Depending on the specific country's resource endowment, this takes the form of either agricultural exports or exports of minerals and raw materials. Furthermore, as could be expected when dealing with essentially competitive sectors, available figures suggest that intra-regional trade has been very limited. Of the intra-

SADC trade that exists, nearly 96 percent is composed of exports from South Africa and Zimbabwe to the rest of the SADC countries. These exports are predominantly manufactured goods. The balance of South Africa's trade with the region is also highly unequal. In 1990, South Africa imported only 4.5 percent of its imports from the region, but exported to the region 18.5 percent of its exports (Maasdorp 1993). As of 1997, SADC was South Africa's largest export market (Davies 1997).

Those who favor economic integration have argued that, although official trade statistics suggest that intra-SADC trade is negligible, it is possible (indeed, even likely) that these figures underestimate the actual levels of trade between the countries and ignore the potential for trade.

Intra-SADC Trade

During the apartheid years, very few countries would admit to engaging in trade with South Africa. It has been estimated that official trade statistics during that period between South Africa and the other SADC members underestimates actual trade by 50–80 percent (United Nations Economic Commission for Africa 1994/5). Further, it is believed that unofficial trade occurs at present across several of the borders in the area, for example, across Angolan borders with Namibia, Zambia, and the Democratic Republic of Congo, and with South Africa. The types of goods traded range from basic foodstuffs to electrical goods to illegal goods such as drugs and stolen cars.

Another factor that these statistics apparently ignore is the *potential* for trade in the area. It is argued that while many of the regional sectors are competitive rather than complementary (i.e., they tend to produce the same things), this does not mean that the potential for the development of complementary sectors does not exist. Many goods (such as building materials) are manufactured by countries in the region but still tend to be imported from the north. If given greater market access, it is argued, these types of industries may become competitive. The agricultural sector is also cited as an area in which it may be possible to exploit intra-industry trade in differentiated products. Certain countries could reduce their agricultural sectors and concentrate on other sectors of production. Increased intra-regional trade in food could also have the positive effect of reducing "annual variability" of food supplies in the region (Koester as quoted in Weeks 1996).

The reason for the emphasis on "potential" trade is that there are currently so many barriers to intra-regional trade that it is admittedly

difficult to predict with any accuracy the real reasons for the low levels of trade. All trade in the area is subject to tariffs as well as import quotas and import licensing regulations.⁶ Furthermore, the political history of the sub-continent has also played a role in preventing trade. Despite the fact that trade with South Africa continued through the era of trade sanctions, levels of trade with South Africa during this time were significantly reduced. The political strife in both Angola and Mozambique had spillover effects into the rest of the region and placed strain on intra-regional relations. Trade patterns in the region were shaped by the colonial experience of the region as many of the former colonies continue to trade extensively with their former colonial rulers.

The aforementioned points do not, however, strengthen the argument in favor of the creation of a free trade area. First, while the figures for the apartheid era have almost certainly underestimated the actual level of trade during that period, more recent statistics still show very low levels of trade between the SADC countries. Second, while the potential for greater trade may exist, this potential will be realized through a liberalization of trade and economic policy by the countries in the region and is not dependent on the creation of a free trade area.

The Impact of South Africa's Participation in the Region

A further argument against the establishment of a free trade area is the fact that South Africa would be a member of such an arrangement. Some countries within SADC, most notably Zimbabwe, have already expressed concern about South African assimilation into a regional economic arrangement. Even with existing trade barriers in the area, South African goods tend to dominate the market. Zimbabwe, as the only other significant producer and supplier of manufactured goods in the area, is concerned about the impact of South African goods on their market. However, despite the size of South Africa relative to its neighbors, it is not a particularly efficient producer. The import substitution policies implemented during the apartheid years have created all the inefficiencies that economists warn about including low levels of productivity, existence of oligopolies (four South African companies control 76.5 percent of the Johannesburg stock exchange), and high cost, low quality products (*The Economist* 1995). If not properly managed, economic integration could amount to little more than subsidization of inefficient South African industries at the expense of all consumers in the area—many of whom can little afford it (Prakash-Sethi in Baker et al. 1993).

Another concern that is common in regional integration schemes is that of polarization. One of the goals of regional integration is often to attract

foreign investment into the area. However, if one country is much more developed and stable than its neighbors, investment tends to be concentrated in that country to the exclusion of the rest of the region. South Africa will be the obvious target for such investment, and there are no guarantees that it will share its good fortune with the rest of the region. If development in other countries in the region is not encouraged, there may be no incentive for this investment to travel north of South Africa's borders. South Africa might not be prepared (or able) to make the sacrifices required of it in order to foster growth in its neighbors.

The solution, however, is not to exclude South Africa from SADC and pursue integration without it. South Africa is the economic powerhouse of Southern Africa and could provide essential growth impetus in the region. Its mines and industries employ many migrant laborers from the region and their remittances are a valuable source of income for some countries. In Lesotho for example, remittances extend domestic income by 45 percent (SADC website). Many of its well-established financial and manufacturing institutions are establishing branches throughout the region providing jobs and potential skills to those employees. The landlocked SADC countries extensively utilize South African roads and railways and the co-ordination of cross-border transport structures could produce important benefits for regional producers (Maasdorp in Baker et al. 1993).

Arguments Against Integration—Conclusion

Unless trade between the SADC countries increases within the next five years, they should not seek to deepen the level of economic integration within the region. The reasons are twofold. First, is a general distrust of the notion of export-driven growth. The “experts” themselves are not convinced that high growth rates in the West were necessarily linked to export-oriented policies, or that this experience could be duplicated in developing countries. While trade is certainly an important element of any growth program, it cannot be the only element—especially in a region that is typified by structural inadequacies. Any growth benefits that trade has to offer will be one-off gains unless they can be effectively harnessed by the economy as a whole.

The second reason for “integration pessimism” relates to the specific features of the region. At the moment, even allowing for the existence of externalities and economies of scale, the region lacks the equality and necessary complementarity to make integration a beneficial goal. The creation of a regional market before this changes would vastly favor South Africa and would serve to entrench the already unproductive sectors in

South Africa's economy. While this might not be an unpleasant scenario for South African producers, the hostility this would generate in other member countries may damage an effective cooperative relationship. Many of the gains from trade that Stewart argued could derive from South-South trade, such as development of appropriate technology, can be generated through SADC programs and strategies that specifically target them. This is not to suggest, however, that intra-regional trade will not increase in the near future, but this should be due to the development of comparative advantage by regional producers, rather than through trade diversion.

THE FUTURE OF SADC: WHAT ROLE FOR SOUTH AFRICA?

South Africa must be a meaningful participant in SADC in order for it to meet its potential. However, the depth of South Africa's commitment to SADC is uncertain.

Publicly at least, South Africa has indicated a desire to link its future with that of its neighbors. Nelson Mandela currently chairs the SADC and South African government officials regularly make comments like "South Africa cannot be a island of wealth in a sea of poverty." However, even though South African GDP is more than the combined GDP of the SADC members, it is not certain how large a role South Africa can (or will be allowed to) play within the region. Most observers agree that South Africa has a potentially bright future, but this future will be hard-earned.

Unemployment currently stands at between 30 to 35 percent (South African Central Statistical Services 1996-census report), and attempts to reduce these levels have been largely unsuccessful. South African GNP/capita is approximately \$2,500, but this figure hides the vastly unequal distribution of this income. The 1995 Gini coefficient for South Africa was 0.59.⁷ The wealthiest 20 percent of South African households hold 65 percent of all household income, whereas the poorest 20 percent hold only 3 percent (South African C.S.S. Income Report 1997). While urban inequality overall has decreased from 0.63 in 1990 to 0.55 in 1995, the levels of inequality among so-called African, colored, and Indian households has increased (C.S.S. *ibid.*). Other serious problems that the new government must tackle include controlling escalating violent crime that seriously inhibits investment and tourism in the area, as well as government corruption. Closer ties with the region would increase labor migration into South Africa. Trade unions within South Africa have already indicated their opposition to this encroachment on their domain (*The Economist* 1995).

For the democratically elected government of South Africa, its own developmental concerns will take precedence over those of its neighbors. But it may be possible to convince South Africa that the goals of national and regional development are not necessarily mutually exclusive. Some have argued that the situation in Southern Africa is not one of regional dependence on South Africa, but one of regional interdependence. Advocates of integration point to the instability (both economic and political) that has characterized the region for several decades. While South Africa may be able to isolate itself from this instability, destruction of markets, influx of refugees, and destabilization of transport routes could nonetheless hamper its own growth. South Africa needs a stable regional environment in which to develop.

Linked to this is the fact that the SADC region is a large market for South African exports. Increased links with the area may provide increased trade and investment opportunities. South Africa's dependence on the region also extends to meeting its energy and water needs, for which South Africa will increasingly have to rely on its neighbors. Last, many foreign investors and donors have indicated that their support to South Africa is largely dependent on its willingness to play a constructive role in the region as a whole. The World Bank stated after a meeting in South Africa in 1996 that its future approach to sub-Saharan Africa would tend to focus on the region rather than on individual countries (*Weekly Mail and Guardian* 1996).

REGIONAL COOPERATION

If one accepts that the goal of SADC should not be economic integration, what should the focus of SADC be? To a certain degree, the answer is remarkably simple: it should proceed with the projects with which it is currently involved. At present, the emphasis of SADC projects is on regional co-operation. Each member is assigned a sector for which it carries co-ordination responsibility. On the whole, the allocation tends to be linked to the area of expertise of the member country. Thus, for example, South Africa is in charge of finance and investment whereas Namibia co-ordinates marine fisheries and resources. Projects in which SADC is currently engaged include the "Regional Food Security and Nutrition Information System," which is being coordinated through Zimbabwe.

Other areas of co-operation are the "development corridors" that are being established throughout the region. The Maputo corridor is just one example. Very briefly, this "corridor" project capitalizes on an existing link between South Africa and Mozambique that was interrupted due to the civil war in the latter. The stated goals of the project are: the enhancement

and rehabilitation of the transport infrastructure through a public-private partnership; the maximization of investment in the corridor area to ensure that growth and development that arises is maintained; the maximization of social development and the development of policies to ensure the environmental sustainability of the project (South African Department of Trade and Industry 1996). The project appears to have solid economic grounding and has attracted a great deal of attention from both regional and foreign private investors.

Projects aimed at the harmonization of standards and quality control throughout the region, the development of a regional environmental framework, regional energy supply schemes, co-ordination of mining, and financial policies are just a few examples of the type of work with which SADC is currently engaged.

Policy Recommendations

In order to harness the potential of the region and to meet the stated developmental and economic objectives of SADC, both the organization and national governments should seek to achieve the following:

- The implementation of projects aimed specifically at the improvement of skills within the region.
- The careful planning of and investment in the improvement of physical infrastructure within the region, such as transport and communication routes.
- The development of projects that span national borders to encourage cross-border investment.
- A greater emphasis on government accountability and policies aimed at reduction of corruption and inefficiency within countries.

CONCLUSION

“In a period defined by growing interdependence of nations and the emergence of regional blocs in a global economy, no nation of Southern Africa can prosper in isolation from its neighbors. If we are to restructure our economies successfully as a basis for sustained growth and make effective responses to the changes on the world economy, then we need a regional framework for balanced development and a collective voice that can be heard in the economic forums of the world.”

—Nelson Mandela, 6 May 1997

SADC has the potential to play this role for southern Africa, as long as the correct approach is adopted. The policies of the SADC countries should be geared towards the stabilization and development of the region. This should be done through a continuation (and ideally, extension) of current policies. Some of these programs will have greater impact and success if coordinated at a regional level (namely programs dealing with issues of food and water scarcity, as well as energy provision). Others will be more successful if developed and implemented at a national level. Finally, the organization must be careful not to allow its policies to be hamstrung by political inertia or ineptitude of member countries. If this means reducing the number of members within the grouping, then this should be done. The ideal of a regional economy should not be abandoned, but should be pursued when conditions are more favorable than they are at present. Until that time, SADC may be able to help give the countries within southern Africa the global voice that they lack individually and as such, allow them to better pursue their common developmental objectives.

Notes

¹These were Angola, Botswana, Lesotho, Mozambique, Malawi, Swaziland, Tanzania, Zimbabwe, and Zambia.

²The Democratic Republic of Congo, Mauritius, Namibia, the Seychelles, and South Africa have since joined.

³While there are some countries that export textiles (such as Lesotho and Mauritius), most of the goods exported are low value added items such as sugar, coffee, tobacco and metals such as gold, diamonds, copper, and uranium.

⁴For a more detailed cost-benefit analysis of trade diversion and trade creation see: A. de la Torre & M Kelly *Regional Trade Arrangements*

⁵As of December 1998, Angola is again at war.

⁶A Southern African Customs Union was formed in 1910 between South Africa, Botswana, Lesotho, Swaziland, and Namibia (which joined in 1910). Trade in goods between these countries is exempt from tariffs and other non-tariff barriers. A discussion of this organization is, however, beyond the ambit of this paper.

⁷A Gini coefficient is a measure of equality of income distribution within a given country. The coefficient falls between 0 and 1, with 1 representing the highest possible inequality of distribution. Thus, the Gini coefficient for Zimbabwe is 0.56, whereas Rwanda has a Gini coefficient of 0.28.

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