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They would like to see a much more selective policy of industrial protection, the gradual elimination of industries requiring very high effective rates of tariff protection, and the deliberate use of tariff and other policies to encourage a more competitive industrial structure. They welcome the lead given by Australia to other industrial countries in granting preferences to manufacturing exports of developing

countries but would like to see a considerable gradual extension of the present modest scheme. Most of them would support much more vigorous action by Australia, in co-operation with Japan and other advanced countries, to extend to South-East Asia the sort of imaginative development aid suggested by Professor Kojima. But PAFTA? No.

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SOUTH AFRICAN INTEGRATION

An Economic Unit of the Future

by Dr H. Cohn, Port Elizabeth

Once more the idea of a common market for Southern Africa is being discussed by economists and politicians throughout the Republic. This is timely because the governments of South Africa, Lesotho, Botswana and Swaziland will discuss revision of the existing customs agreement this year and these discussions may well determine the pattern of relations between the states of Southern Africa. It is not impossible that on account of the outcome of these negotiations further progress towards economic co-operation involving additional countries such as Rhodesia, Angola, Mozambique and Malawi may be made.

The customs agreement concerning the three former British protectorates Basutoland, Bechuanaland and Swaziland was concluded by Britain and South Africa as contracting parties in the year 1910, that means 57 years ago under different conditions to those prevailing today and therefore—of course—under different considerations as well. Yet the agreement has worked and if the question of revision has ever been raised, Britain and South Africa have been always prepared to give it low priority and dispose of it in amicable forms behind closed doors. Meanwhile new conditions have arisen, new personalities have taken over leadership in all countries concerned and—what is the most important change of all—Basutoland, Bechuanaland and Swaziland are not British pro-

tectorates any longer, but the autonomous states Lesotho, Botswana and Swaziland which are trying hard to develop their natural resources and to attract foreign capital. It goes without saying, that a customs agreement concluded in the era of colonialism cannot be applied to the new autonomous states.

Many Hurdles have to be Overcome

It is the general belief in Lesotho and Botswana, that the existing agreement inhibits development of these countries in two ways. Firstly, the non-existence of tariff barriers within the territories concerned prevents them from protecting their infant industries in the way it should be, and secondly, the slow growth of customs revenue under the conditions created by the customs agreement is absolutely inadequate. It was originally intended by the Prime Minister Lebua Jonathan of Lesotho, to persuade South Africa to allow his country to set up tariff protection for five or six industries of its own and—as a compensation—he was prepared to impose voluntary restraint on the number of "foreign Bantu" from Basutoland flooding the Republic's labour market at present. It seems that the idea of tariff protection meanwhile has been dropped by the parties concerned, as rail rates to and from Lesotho represent a far more potent influence for or against local industrialisation than the pres-

ence or absence of customs tariffs would do. The discussions to be held will to a large extent concern the question of Lesotho and Botswana receiving a higher percentage of the customs revenue, 98.7 per cent of which goes at present to South Africa leaving only 1.3 per cent to be shared between the other three. It is however generally felt, that even a different key of revenue distribution wouldn't mean a solution of Lesotho's and Botswana's economic problems. Many hurdles have to be overcome, till the way to a common market of Southern Africa is free.

The main difficulty seems to be the poverty of Lesotho and Botswana. The Lesotho government has recently published the country's first industrial census and a full classification of its external trade, and the figures are most depressing. National income for the year to March 31, 1966 was R 39.3 million, or just R 45.70 per head of the population. As far as the results of the industrial census are concerned, that country had in 1965 23 manufacturing and construction concerns employing altogether 1,385 workers, but only six of the 23 firms employed 100 workers or more. Imports have increased in 1965 by R 5.5 million while exports have dropped to R 4.4 million.—There were only five export-items worth more than R 100,000, namely wool, mohair, diamonds, cattle and peas and beans. Taking into consideration that the country's entire population is in the near vicinity of 800,000, it is quite obvious that Lesotho is still a poor agricultural country and that the idea of an industrial development is still far from being materialised. R 4.4 million of the national income consists of the earnings of the 154,291 Basutos working in South Africa or other territories outside Lesotho.

As far as Botswana is concerned, poverty is just as bad as in Lesotho, although prospects for developing natural resources seem to be brighter. A short time ago the discovery of copper and nickel deposits in the North-West of the country was announced, and a United Nations Development Programme (UNDP) Preparatory Assistance Mission visited the country to conduct a survey of possible infrastructural requirements in connection with the development of these deposits. An application has been made in this connection for UNDP assistance for an eight-month pre-investment study to cover the technical and economic viability of construction and operating power supplies, water supplies and roads to service possible mining operations. It is intended that the survey should also cover the evaluation of the potential for irrigated agricultural development on the Shashi river.

The only one of the three discussion partners who is generously blessed by nature with economic potential and can hope to make strides in developing its economy, is Swaziland. This little kingdom with its only 300,000 inhabitants is just beginning to scratch the surface of its mineral and agricultural potential. With the exception of the Havelock asbestos mine, all developments have taken place within the

last six or seven years. From iron ore mining to cotton ginning, wider and more attractive business prospects have come into view. During the past decade Swaziland has seen the opening up of the Ngwenya iron ore mine by the Anglo-American Corporation and the laying of the railway to Lourenco Marques, the hydro-electric scheme near Edwaleni and the establishment of the Matsapa Industrial Estate as well as many other developments. This growth of economy has been reflected in a steady rise in exports with agro-forestral products topping R 20 million in 1965 and mineral production reaching an export-value of R 10.3 million. Sugar, being the country's most valuable export-commodity, reached R 8.8 million in 1965.

Up to now with the exception of Anglo-American investment in the Ngwenya iron ore mine, British finance has played an important part in Swaziland, but things are about to change. The new development at Matsapa will largely be backed by South African capital and it looks, as if Swaziland's economic dialogue with South Africa will quicken.

A New Customs Arrangement?

With Lesotho being a poor country, Botswana having comparatively little to offer in the near future, only Swaziland having a considerable deal of economic bargaining power, the question arises, why South African economists are so much in favour of discussing a new customs arrangement with the ultimate aim of creating a common market for Southern Africa. Many of the prospective partners in a market like this are just as poor as Lesotho and Botswana and there seems to be little prospect of bringing about a change in the near future. South Africa would have to invest heavily to increase the buying-power of the population in question and the danger of considerable losses cannot be discounted.

There cannot be any doubt about the fact, that investing capital in the "underdeveloped" African countries means a long-term investment to South Africa or any other country. There are—especially in Lesotho—conditions prevailing which are anything but attractive for the prospective investor, and certain reforms are bound to take place, before there is any possibility of economic progress. For instance: In Lesotho every scrap of land is still ultimately vested in the King. Although this does not exclude the building of shops, factories, etc., the occupiers of the premises have no assured rights and therefore, of course, no chance of raising capital for business purposes. Furthermore: The poverty of the population prevents the accumulation of savings funds and the savings institutions have very little scope to lend commercially. Whatever capital is generated, flows into South Africa in place of being used for the economic development of the country. Before the government has conferred transferable and mortgageable rights on the occupiers of business

and industrial property, investments in Lesotho are not a very attractive proposition. As a result of conditions like these so far no aid has been forthcoming from abroad, nor has the government budgeted for it. For the time being the country is 100 per cent dependent on the earnings of its emigrant bread-winners and on the British aid of R 22 million to be spread over three years. No more than R 4.2 million of this amount can be spared for capital development.

As mentioned above, there are better chances for investments in Botswana and good possibilities in Swaziland.

The Position of South Africa

South Africa's reasons for negotiating a new customs agreement and ultimately striving at the formation of a common market for Southern Africa are—at least for the time being—merely of a political nature. Both, Lesotho and Botswana, particularly Lesotho, are valuable as economic hostages. It must be shown to the black states of the African Continent, that it is definitely the best for them to live in peace with South Africa and that being on good terms with the powerful country in the South gives them better chances for economic development, than ideological warfare, and that their future is connected with South Africa, not with Europe or Asia. South Africa is surrounded by hostile "black" states and therefore compelled to spend vast amounts of money for military purposes. It cannot afford to have Lesotho as an economic slum within its own territory. This would be a continuous source of unrest. Dr Anton Rupert, the well-known South African industrialist and honorary industrial adviser to Chief Lebua Jonathan's government, has put everything in a nutshell by saying: "If they don't eat, we won't sleep."

As mentioned already, a common market of Southern Africa involving more countries, than the three former British protectorates (which are in any case

at the mercy of South Africa) is still far off. Yet the beginnings of a development like this are already discernible. That South Africa has lately entered into a formal trade agreement with Malawi is but a first step along this road. Of very much greater importance could be the decision of the "Electricity Supply Commission" (ESCOM), which generates approximately 80 per cent of the power used in South Africa, to buy Cahora Bassa power from northern Mozambique, thus creating the first link in a Southern African electricity grid. It is remembered very well that the pooling of energy resources marked the beginning of the European Common Market and one considers a similar development in Southern Africa absolutely possible.

As far as the hostility of the "black" countries towards South Africa is concerned, it may be existing officially, but loses more and more of its significance as a reality. In the first four months of the year 1967 imports from African countries to South Africa have risen by about 41 per cent compared with the 1966 figures for the same period of time, while exports from South Africa to African countries show now a total of R 61.3 million. When Malawi's Prime Minister, Mr Hastings Banda, was attacked by other African leaders for concluding a trade agreement with South Africa, he expressed his contempt for people who fight apartheid with their stomachs full of South African meat.

Finally it may be mentioned, that a Southern African common market offers South Africa definitely a certain degree of security against an adverse development on other markets. If, for instance, Britain would join the European Common Market this would mean a considerable blow to several South African industries. If South Africa however would have a common market on its own continent, the impact of a blow like this would be felt very much less.

Southern Africa is still a geographical term, but it may emerge as an economic unit in times to come.

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