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# Regional Powers as Leaders or Rambos? The Ambivalent Behaviour of Brazil and South Africa in Regional Economic Integration*

SEBASTIAN KRAPOHL,[1] KATHARINA L. MEISSNER[2] and JOHANNES MUNTSCHICK[3]
[1] University of Bamberg. [2] European University Institute, Florence. [3] University of Mainz

## Abstract

The behaviour of regional powers towards their own regions is often volatile in the developing world, which leads to unstable integration processes. This article argues that this volatility is due to limited intra-regional gains from regional integration in developing regions, which implies that the behaviour of regional powers is constrained by extra-regional economic interests. When regional integration is not in conflict with extra-regional interests, regional powers provide regional leadership. However, when extra-regional interests are in conflict with regional integration, regional powers become regional Rambos. This argument is illustrated with the two examples of Brazil's behaviour in Mercosur and South Africa's behaviour in SADC. Both regional powers provided leadership during some periods of the regional integration processes, but became Rambos when important extra-regional interests were at stake. This damaged regional integration processes in South America and Southern Africa considerably.

## Introduction

It is widely accepted in the academic literature that the behaviour of regional powers – that is, states that decidedly exceed other regional states in terms of population, economic development and market size[1] – is crucial for the success or failure of regional economic integration. For Mattli (1999a), the existence of benevolent regional hegemons who act as paymasters of regional integration is a necessary supply condition for successful integration. However, regional actors do not necessarily act benevolently towards regional integration in their neighbourhood. Especially in developing regions, the behaviour of regional powers is volatile. They provide regional leadership during some periods while defecting from regional integration and destroying much of the previously achieved progress in others. Such volatile behaviour of crucial actors is a severe problem for developing regions because it leads to unstable economic integration processes.

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[1] The problem with the term 'regional power' is that most definitions in the literature include structural (for example, market size) as well as behavioural (for example, regional leadership) aspects (see Kappel, 2010; Nolte, 2010; Schirm, 2010). However, we propose a structural, economic definition of 'regional powers' because we are interested in the variant behaviour of such states, which precludes including behavioural aspects. In accordance with Mansfield (1993), we define 'regional powers' as those states that produce at least 50 per cent of the gross domestic product (GDP) of the largest state within the region in 2010. Thus, within Mercosur and SADC only Brazil and South Africa count as regional powers.

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Both Brazil and South Africa provided regional leadership for regional integration in South America and Southern Africa during some periods of the respective integration processes, but damaged regional integration with unilateral strategies during other periods. First, Brazil was the driving force behind regional integration in the Common Market of South America (Mercosur) during the 1990s, which led to the early success of regional integration and made Mercosur one of the most promising regional organizations in the developing world (Vaillant, 2005). However, in reaction to external pressure on its economy, Brazil decided to float its currency unilaterally in 1999 without consulting its partners in Mercosur. The result was a recession in the whole region, the exacerbation of the Argentinean crisis and a stagnation of regional integration. Second, South Africa pushed the negotiations of a free trade area, eventually set up in 2008, in the Southern African Development Community (SADC). However, a SADC customs union, which was planned to be established in 2010, could not go ahead because South Africa followed a unilateral trade policy towards its most important trade partner, the European Union (EU). The trade, development and co-operation agreement (TDCA) between South Africa and the EU, as well as the fragmentation of SADC into different negotiation groups about economic partnership agreements (EPAs) with the EU, prevented the harmonization of external trade policies within SADC.

This article argues that the intra-regional gains from regional integration are likely to be limited in developing regions (Burges, 2005). However, if developing regions are less dependent on intra-regional economic exchange, the extra-regional effects of regional integration become more important. Within the global competition for investments and export markets, regional integration can provide gains for developing regions. Thus, they integrate their markets in order to constitute larger, more stable and attractive locations for economic activities. This improves their position in the global competition for investments (Büthe and Milner, 2008; Jaumotte, 2004) and in international trade negotiations (Hänggi, 2003; Mansfield and Reinhardt, 2003).

One problem for economic integration in developing regions is that the member states not only compete with other world regions for extra-regional investment and export shares, but they also compete with their neighbours. Within such an intra-regional competition, regional powers may face incentives to forgo the gains of regional integration and to act unilaterally in order to maintain or to improve competitive advantages in their extra-regional relations. For example, regional integration may lead to a redistribution of extra-regional investments within the region, or it may endanger bilateral trade agreements with extra-regional trade partners. In situations where such losses exceed the regional powers' share of the regional integration gains, it is in the interests of these powers to defect. The regional powers become regional 'Rambos':[2] they do not defect to free-ride from the co-operation of others, but they have no interest in regional integration at all.

The article will consist of a theoretical part and an analytical part. In the theoretical section, we draw on insights from international political economy, goods theory and game theory to develop a conceptual framework for analyzing the behaviour of regional powers in developing regions. In the subsequent empirical section, we analyze the roles of Brazil

[2] The term 'Rambo' does not refer to the Hollywood movie, but to a game-theoretical constellation of two actors. A Rambo situation is an asymmetrical game, where one player has a dominant strategy to co-operate, whereas the Rambo's dominant strategy is defection (Zürn, 1992; see Holzinger (2003) for an English publication).

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in Mercosur and of South Africa in SADC. Network analysis of trade data will provide insights into the economic structures of the respective regions and the economic interests of the regional powers therein. Two case studies will demonstrate the volatile behaviour of the two regional powers within their regions. Regional leadership by both regional powers led to successful regional co-operation in the 1990s (Mercosur) and the 2000s (SADC), but when extra-regional interests were at stake, the regional powers defected from regional co-operation and economic integration stalled.

## I. The Interests and Behaviour of Regional Powers

The importance of regional powers for the integration of their respective world regions is derived from hegemonic stability theory (Gilpin, 1981; Kindleberger, 1973; Krasner, 1982). According to such realist reasoning, international co-operation will only occur if a benevolent hegemon has interests to provide a collective good on behalf of a group of states. Mattli (1999a) has applied this argument to the regional level and has pointed out that a regional benevolent hegemon is necessary to supply the collective good 'regional integration'. Such a benevolent hegemon needs to provide leadership and it needs to act as a paymaster in order to compensate smaller member states for distributive losses due to regional integration (Mattli, 1999b). Whereas the importance of regional powers for regional integration is undisputed, their interest in providing regional leadership is less clear. Schirm (2010), for instance, argues that regional powers need to behave benevolently in order to institutionalize regional fellowship. Concepts on co-operative hegemony (Pedersen, 2002) share the argument that regional powers should behave supportively towards their followers. Thus, research on regional powers often assumes that regional powers employ integrating strategies, although this lacks clear empirical evidence and theoretical conceptualization (Destradi, 2010).

### *Intra- and Extra-regional Gains of Regional Integration*

Regional integration influences the member states' relationships to each other (the intra-regional dimension), but also their relationships to external actors (the extra-regional dimension). The classic European integration theories have concentrated on the intra-regional dimension of regional co-operation (Haas, 1958; Moravcsik, 1998). This is because these integration theories were developed along the famous European example, which is distinguished by high and increasing intra-regional economic interdependence. Accordingly, the main rationale of integration is to profit from increasing economic interdependence in the form of intra-regional trade and investment (Mattli, 1999a). In contrast, the New Regionalism literature (Mansfield and Milner, 1999; Schirm, 2002) stresses the extra-regional dimension of regional co-operation.[3] It claims that the main goal of the New Regionalism – especially in the developing world – is to improve the regions' competitiveness in the global struggle for investments and export markets.

[3] There are at least two strands in the New Regionalism literature. Economists mainly discuss whether the emergence of preferential trade agreements is a stepping stone or a stumbling block to free trade (for example, Baldwin, 2006). In contrast, international political economists concentrate on the open character of New Regionalism as opposed to the more closed regionalism of the 1950s to 1970 (for example, Breslin and Higgott, 2000; Hettne and Söderbaum, 2000; Hettne, 2005; Söderbaum and Shaw, 2003). However, both strands share the view on the extra-regional effects of regional integration.

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With respect to the extra-regional gains, regional market integration provides size and stability effects for developing regions, which improves their standing in the global economy. In order to generate economic growth, developing countries try to attract foreign investment from and to gain access to export markets in Europe and North America and to a growing extent in East Asia. Regional integration helps developing regions to increase their market size and to improve their macroeconomic as well as political stability. These size and stability effects make developing regions more attractive as addressees of foreign investment (Büthe and Milner, 2008; Jaumotte, 2004) and give them more leverage as bargaining coalitions in inter-regional and international trade negotiations (Hänggi, 2003; Mansfield and Reinhardt, 2003), which in turn should expand their access to export markets.

Whereas the competition for extra-regional investment and export shares is an important motivation for regional integration among developing countries, it is also its most important constraint. This is because the member states do not only compete with other world regions, but they also compete with each other. In some instances single member states face losses from regional integration if negative distributive effects within the region exceed their share of the positive effects from regional integration. Such a situation is likely to occur if regional co-operation is at odds with privileges of single member states in their extra-regional relations.

The intra-regional and extra-regional effects of regional integration follow two different logics of co-operation. The main rationale of the intra-regional logic is the creation and regulation of intra-regional trade and investment. This is a club good (Cornes and Sandler, 1996): the consumption of the good does not affect its utility for other member states, and defecting member states can be excluded from its consumption. The liberalization and regulation of intra-regional trade and investment can be modelled as a prisoner's dilemma and a battle of the sexes between the member states (Garrett and Weingast, 1993, table 1). Accordingly, the member states have to choose between protectionism and two possible regulatory standards. Liberalization only emerges if the member states agree to one common standard, but the possible standards have different distributive effects for the member states. Here, the member states have to find regulatory solutions and enforce their implementation at the same time. Such co-operation problems are far from trivial, but as the prominent example of the EU demonstrates, iteration and strong regional institutions can solve them.

In contrast, the rationale of the extra-regional logic is the improvement of extra-regional investment and export shares. These investment and export shares are common-pool resources with the characteristics of rivalry, but non-excludability of consumption (Ostrom, 2003). The consumption of these resources by one developing country reduces the availability of the resources for other countries, but at the same time, the regional countries alone cannot decide that single countries are excluded from consumption. Extra-regional actors need to exclude defecting member states of a particular region from the consumption of extra-regional investment and export shares. However, if extra-regional actors do not punish defection of a particular member state, but reward unilateral action with economic privileges, this member state loses its interest in regional co-operation. Such a situation of extra-regional privileges for one particular member state can be modelled as an asymmetric Rambo game (see Figure 1; Zürn, 1992; Holzinger, 2003) in which one member state plays a deadlock game with the dominant strategy of

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Figure 1: Game Situations in the Intra- and Extra-regional Logic

*Prisoner's Dilemma and Battle of the Sexes of Market Integration*

| Member State A \ Member State B | Standard A | Standard B | Protectionism |
|---|---|---|---|
| Standard A | 3/2 | 0/0 | –1/4 |
| Standard B | 0/0 | 2/3 | –1/4 |
| Protectionism | 4/–1 | 4/–1 | 0/0 |

*Rambo Situation in the Case of Extra-regional Economic Privileges*

| Member State A \ Member State B | Regional strategy | Unilateral strategy |
|---|---|---|
| Regional strategy | 2/4 | 1/3 |
| Unilateral strategy | 4/2 | 3/1 |

*Source*: Garrett and Weingast (1993).

defection. Rambos do not defect in order to profit from the co-operation of others, but because they have no interest in co-operation at all. In this situation regional institutions are insufficient means to produce co-operation.

### *Regional Powers as Regional Leaders or Regional Rambos*

Whether regional powers provide leadership for regional integration or are in danger of becoming regional Rambos depends on the distribution of the intra- and extra-regional gains from regional integration. These gains are asymmetrically distributed between and within world regions. Generally, developing regions are likely to profit less from intra-regional effects of regional integration than industrialized ones because their potential for intra-regional economic interdependence is small (Burges, 2005; Krapohl and Fink, 2013). The main source of investment in and the main export markets of developing regions are Europe, North America and to a growing extent East Asia, whereas intra-regional investment and trade are low.

While the intra-regional gains of regional integration are smaller for developing than for industrialized regions, they are even less important for regional powers than for their smaller neighbours. Due to the market size of regional powers, access to the markets of regional powers is important for the smaller member states, whereas the reverse does not hold. Even if regional powers are less developed than industrialized countries in other world regions, the sheer size of their population makes them relevant markets for the exports of their small neighbours. In contrast, for regional powers, the markets of their small neighbours are likely to be marginal.

Since regional powers profit less from internal gains of regional integration, their regional strategy will be constrained by their economic relations to extra-regional actors. Problems for a constant supply of regional leadership result from the fact that regional

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powers are likely to have privileges in their extra-regional economic relations, and that regional integration imposes the risk of losing these privileges. As the largest and most attractive economies in their regions, they are likely to attract disproportional market-seeking investments. Besides, they even may be able to negotiate bilateral trade agreements with extra-regional partners. Regional integration may reduce these privileges since it requires the opening of domestic markets to imports from regional neighbours and the harmonization of external trade policies.

Privileges – manifest or potential ones – in their extra-regional relations are incentives for regional powers to defect from regional integration and not to provide regional leadership. Regional powers have to calculate whether their losses of economic privileges outweigh their intra-regional and extra-regional gains from regional integration. This question has to be answered case by case so that Rambo constellations are situation-specific and not structural in nature. However, the appearance of this trade-off between the gains from regional integration and the loss of extra-regional privileges explains why the behaviour of regional powers is volatile.

## II. Regional Powers in South America and Southern Africa

In order to explain Brazil's behaviour in Mercosur and South Africa's behaviour in SADC, we need to explore their economic interests in respect of their regions and their extra-regional economic partners. Figure 2 shows Mercosur's and SADC's trade networks at the time of the Argentinean and Brazilian crisis in 2000 and when the planned SADC customs union was not established in 2010 (see Krapohl and Fink, 2013). We provide these network graphs because traditional indicators like the share of intra-regional trade have been criticized for having little informative value (De Lombaerde *et al*., 2010; Iaprade and Plummer, 2011).

Three characteristics distinguish these networks. First, the extra-regional trade flows are generally more important for the region as a whole than the intra-regional ones. Second, huge asymmetries exist regarding the market size and the trade flows of the regions' member states. Whereas intra-regional trade is important for Mercosur's and SADC's smaller member states, it is much less important for Brazil and South Africa who mainly export their products to the EU and the United States. Although both Brazil and South Africa trade on the regional market, intra-regional trade is low compared to the extra-regional trade of the two regional powers. Third, the trade networks are rather stable over time (see Krapohl and Fink, 2013). With the exception of the fact that China became one of the three most important extra-regional trade partners for both regions, not much has changed in their trade patterns between 2000 and 2010.

Two consequences can be drawn from these trade networks for the strategies of the regional powers and the course of regional integration. First, due to the dominance of Brazil and South Africa, the processes of regional integration are highly dependent on the behaviour of these regional powers. Second, their extra-regional economic relations necessarily dominate the interests of these regional powers.

### *Brazil's Behaviour within Mercosur*

Founded in 1991 by Argentina, Brazil, Uruguay and Paraguay, Mercosur was a success story during the 1990s. Due to the establishment of a customs union, intra-regional trade

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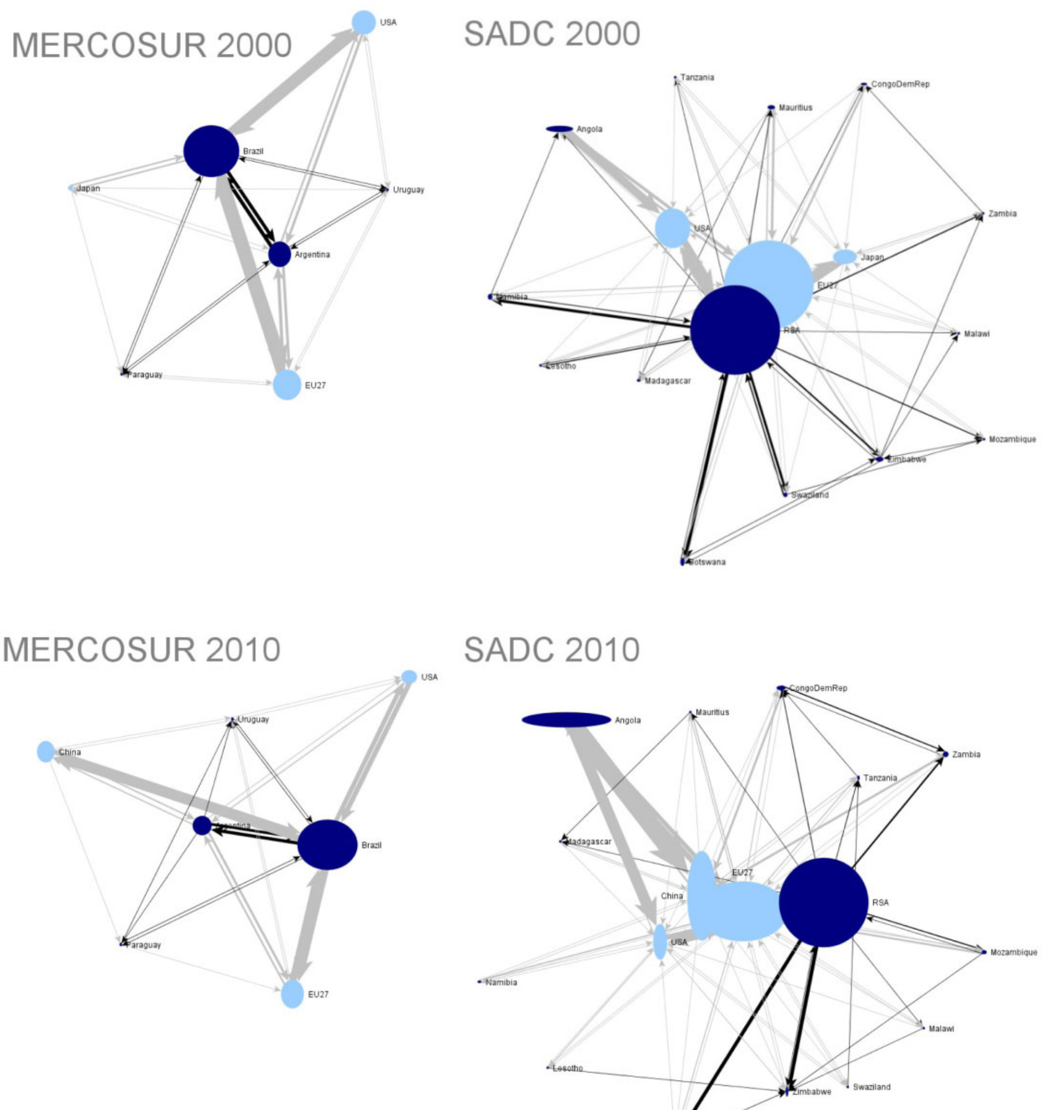
Figure 2: Trade Networks of Mercosur and the SADC in 2000 and 2010




*Sources*: UN ComTrade database; SADC Trade database.
*Notes*: We use trade flow data to illustrate economic interdependencies because they are more comprehensive than the available investment data. The former include information about the origins and addressees of goods, whereas published investment data are only available in a highly aggregated manner. For each member state, we plot the network connections to its three most important export and import partners. We add the three most important extra-regional trade partners to the regional network. Trade between external partners is omitted because it does not pertain to our argument. The width of the network ties reflects the intensity of the trade relations. The arrows indicating intra-regional trade are depicted in black, extra-regional trade is depicted in grey. Members of the regional integration project are depicted as dark, external partners as light. The relative position of countries as importers or exporters can be elucidated from the shape of their nodes – the width of the node reflects the amount of exports (outdegree), whereas the height of the nodes reflects the amount of imports (indegree). The layout is an MDS solution, trying to depict the pattern of similarities and dissimilarities in a two-dimensional space.

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increased significantly from 13.18 per cent in 1991 to a peak of 23.42 per cent in 1998.[4] Furthermore, Mercosur started inter-regional trade negotiations with its most important extra-regional trade partners in the mid-1990s. In 1994, negotiations about the Free Trade Area of the Americas (FTAA) with participation of all Mercosur member states began (Carranza, 2004). And in 1995, the EU reacted by initiating promising negotiations about an EU–Mercosur free trade agreement (Calfat and Flores, 2006). Thus, the attempt to use Mercosur in order to improve the region's standing in international trade negotiations seemed to be successful at the beginning (Flemes, 2010). Besides, the entire region benefited from a massive inflow of foreign direct investments. At least partly due to the creation of Mercosur (Chudnovsky and López, 2004; Eden, 2007; Malamud, 2005), investment inflows increased from 0.56 per cent of the regional GDP in 1991 to a maximum of 5.88 per cent in 1999.[5] Given the limited intra-regional economic potential for integration (Burges, 2005), those investment inflows were especially important to push regional integration. The main profiteer of this development was Brazil, which received more than 70 per cent of the investment inflows,[6] contributed almost 70 per cent to the intra-regional exports,[7] and boosted its extra-regional trade with the EU and the United States during the 1990s.

The growing investment and trade flows, as well as the promising negotiations about inter-regional trade agreements, made economic integration a positive-sum game and facilitated co-operation over competition (Cason, 2010). Brazil, as the most important member state, signalled commitment to Mercosur and claimed regional integration as a top foreign policy priority (Malamud, 2005, 2011; De Lima and Hirst, 2006), although it maintained a flexible and costless approach towards the region (Burges, 2008). Between 1991 and 1994, Brazil strongly insisted on the timetable for the customs union, which was adopted in the Treaty of Asunción. The regional tariff barriers were scheduled to disappear by the end of 1994, and Brazil emphasized that the timetable was not negotiable. Besides, the member states successfully set up the (purely intergovernmental) institutional structure of Mercosur, and some integration was achieved in the areas of dispute settlement and investment policies. In 1993, Brazil also supported monetary co-operation and macroeconomic co-ordination in the region by launching an initiative for regional exchange rate bands (Kronberger, 2002). The proposal favoured an approach of monitoring exchange rate movements and fixing a maximum for fluctuations that Argentina rejected at this time.

Although Brazil can hardly be characterized as a regional paymaster, the regional power provided some material incentives for the other Mercosur member states. The country has become the main destination of exports for the three other member states (Belivaqua *et al.*, 2001) despite the fact that the second largest member state – Argentina – applied protectionist measures, which were against Mercosur rules. Only a year after signing the Treaty of Asunción, Argentina imposed anti-dumping duties and safeguard options on Brazilian

[4] These numbers were calculated using the Regional Integration Knowledge System of UNU-CRIS. Available at: «http://www.cris.unu.edu/riks/web/».

[5] These numbers were calculated using the Regional Integration Knowledge System of UNU-CRIS. Available at: «http://www.cris.unu.edu/riks/web/».

[6] Report Mercosur, No. 4, January–June 1998. Available at: «http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=35258992».

[7] Report Mercosur, No. 1, July–December 1996. Available at: «http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=35258996».

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exports from different sectors (Eichengreen, 1998), and it increased its import tax from 3 to 10 per cent. Nevertheless, Brazil encouraged Argentina's economic liberalization and reduced bilateral trade imbalances by purchasing larger amounts of oil and wheat (Cason, 2000; Bear *et al*., 2002).

Despite the early success of Mercosur, the integration scheme has been vulnerable to extra-regional influences from the very beginning. External events caused economic troubles for the member states and problems for the regional integration process. This began in 1994 when the Mexican 'Tequila crisis' led to a short-term decline of trade and investment flows, but the Mercosur economies recovered quickly from this incident. Much more severe were the spillovers from the Asian crisis in 1997 and from the Russian default in 1998. International investors lost their general confidence in the economies of emerging markets and suddenly withdrew their money from their investments in these markets. The massive outflow of capital hit Argentina and Brazil as the latest victims of the global crisis (Carranza, 2003), and portfolio investments turned negative in 1998. As the Argentinean peso and the Brazilian real were pegged to the US dollar, the outflow of capital led to pressure on both currencies to devalue. Due to high levels of debt, the costs of such devaluation were high. In the end, however, high interest rates, increasing public debt and economic problems forced both governments to independently float their currencies at different points of time (Bulmer-Thomas, 1999).

Although the floating of the Brazilian real in January 1999 was an unavoidable step, the unilateral devaluation was a political decision that has been taken very consciously. The decision to devalue the real unilaterally, without consultation of the other Mercosur member states, can be interpreted as regional defection. Despite Argentina's clear demand for a co-ordination of monetary policies or even a common currency (Eichengreen, 1998; Kronberger, 2002), the Brazilian decision to float its currency was passed in secret in order not to provoke speculations by market participants. In January 1999, the situation reached its peak and the real was devalued by more than 30 per cent. Immediately after the devaluation, Brazil practically ignored the worries of its neighbours (Carranza, 2003), although they demanded 'more Mercosur' (Genna and Hiroi, 2007) to relieve the situation. Whereas the Brazilian economy regained competitiveness, the economies of the other member states lost competitiveness to the same degree and entered a time of severe crisis. Intra-regional exports to the Brazilian market declined sharply, and Brazilian goods became much cheaper on extra-regional markets than competing exports from the other Mercosur member states. This obviously constituted an important privilege for Brazil in its extra-regional economic relations. At the same time, the economic problems of the small member states became seriously reinforced by the action of Brazil, which solved its economic problems at the expense of its neighbours. This beggar-thy-neighbour policy (Kronberger, 2002) is not a case of benevolent hegemony, but of Rambo behaviour.

The consequences of the Brazilian devaluation were most dramatic for Argentina, where the recession culminated in the Argentinean financial crisis from 1999 to 2002 (Hausmann and Velasco, 2002; Saxton, 2003). Due to its crisis, Argentina had to default on its debt in late 2001 and to float its currency in early 2002. In the end, after three years of severe recession, it took until 2003 for Argentina to recover from the crisis and reach economic growth again.[8] In contrast, the unilateral devaluation and the gain of

[8] The data on economic growth are from the Worldbank: «http://data.worldbank.org/indicator».

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competitiveness led to a very quick recovery of the Brazilian economy. Trade and investment numbers were not declining as much as in Argentina, and after a short stagnation, the economy started to grow again in 2000.[9] This development was a first step towards a boom of the Brazilian economy, which, today, is one of the world's strongest emerging markets.

The unilateral devaluation of Brazil and the ensuing Argentinean crisis marked a turning point in Mercosur's integration history. The immediate result of the devaluation was a trade war between Argentina and Brazil, in the course of which both countries re-established trade restriction in order to improve their external trade balances (Carranza, 2003). Brazil reacted with countermeasures to Argentina's protectionism although it was aware that deepening integration would be a better solution for these trade disputes (Kronberger, 2002). Argentina's interest in regional integration and its confidence in Brazil's behaviour were damaged sustainably, so that Argentina even threatened the very existence of Mercosur. The smaller member states suggested abolishing the customs union and to go back to a simple free trade area. These demands became even more pressing when the inter-regional trade negotiations with both the EU and the United States failed in 2004 (Carranza, 2004; Doctor, 2007), and when the Mercosur the customs union prevented the negotiations of bilateral trade agreements with extra-regional partners – like that between the EU and Chile, which is only associated with Mercosur (Dür, 2007; Garcia, 2011). Although in the meantime Brazil has rediscovered some kind of interest in Mercosur (Dauvergne and Farias, 2012), the dynamic of integration has not yet reached the level of the early 1990s.

### *South Africa's External Trade Policies*

In the course of the New Regionalism, the Southern African Development Community (SADC) was founded in 1992, succeeding the Southern African Development Cooperation Conference (SADCC) without participation of South Africa (Cornelissen and Lorenz, 2011). Only when the apartheid regime in South Africa ended in 1994 did the country finally join SADC. Since its very beginning, SADC has followed a classic agenda of market integration. In 1996, the SADC member states signed the trade protocol,[10] which envisaged the setting up of a free trade area (SADC-FTA) in 2008. In 2003, the Regional Indicative Strategic Development Plan (RISDP)[11] was adopted and prescribed a Balassa-like road map towards economic integration. Therein, the member states planned to establish a customs union (SADC-CU) in 2010, a common market in 2015, an economic union in 2016 and a common currency in 2018.

While the RISDP only offered a broad outline for regional economic integration, the trade protocol had legal effect on the member states and committed them to establishing the SADC-FTA, which implied that at least 85 per cent of total intra-regional trade had to be liberalized. Despite the low level of intra-regional interdependence, some potential for comparative advantages exists in Southern Africa. The regional power South Africa can profit from the intra-regional export of capital-intensive and manufactured products that

[9] The data on economic growth are from the World Bank: «http://data.worldbank.org/indicator».
[10] Protocol on Trade in the Southern African Development Community (SADC) Region. Available at: «http://www.sadc.int/documents-publications/show/816».
[11] Southern African Development Community, Regional Indicative Strategic Development Plan. Available at: «http://www.sadc.int/files/5713/5292/8372/Regional_Indicative_Strategic_Development_Plan.pdf».

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are not competitive on the world market (Van der Westhuizen, 1998), whereas the rest of SADC trades labour-intensive commodities, agricultural products and natural resources with South Africa. Furthermore, some share of informal trade could be directed into formal channels by regional trade liberalization (Lee, 2003).

South Africa provided regional leadership during the negotiations of the SADC-FTA. The regional power shaped the concrete form of the regional free trade area with its particularistic interests in mind and provided incentives for the weaker member states to participate in regional trade liberalization. Due to South Africa's bargaining power, the goods being subject to protectionist rules of origin reflect mainly labour-intensive industrial branches that exist for the most part in South Africa and, to a lesser degree, in Zimbabwe. At the same time, however, the less and least developed SADC member states were allowed to implement their liberalization process gradually within four to eight years (midloading) or six to eight years (backloading) after the trade protocol comes into force. The purpose of this asymmetric strategy was to cushion potentially negative effects of trade liberalization by giving them some spare time to prepare for entering the regional market. This implies a concession on the part of South Africa to economically weaker SADC members, and it indicates that the regional power did not just push its own economic interests, but also provided benevolent leadership during the negotiations (Erasmus *et al*., 2006; Lee, 2003).

Although economic data for Southern Africa is generally weak, it can nevertheless be assumed that the SADC-FTA has positive effects on the regional economies. Between 2000, when the implementation of the trade protocol started, and 2009, intra-regional trade has more than doubled in absolute terms from about US$13.2 billion to about US$34 billion. Although the share of intra-regional trade is still low, it has grown from 15.7 to 18.5 per cent during the same period.[12] In particular, South Africa's trade with SADC tripled for exports (from about US$3 billion to more than US$9 billion) and grew tenfold for imports (from about US$0.5 billion to about US$5 billion). The SADC-FTA also seems to have a positive effect on extra-regional investment inflows into the region. In 1998, SADC received a net inward FDI of about US$3.5 billon. In the course of regional trade liberalization, this figure more than quintupled to US$18.7 billion in 2008. In the shadow of the global economic crisis, it still amounted to about US$11.8 billion in 2012.[13]

Despite the successful implementation of the SADC-FTA and despite supporting further economic integration in SADC rhetorically, for the past 20 years South Africa has followed a unilateral extra-regional trade policy. This became most obvious with the TDCA, which was signed in 1999 between South Africa and the EU (Frennhoff Larsén, 2007). After the end of apartheid in South Africa, the regional power had tried to become a member of the Lomé Convention, which granted the so-called 'ACP countries' (a group of former colonies in Africa, the Caribbean and the Pacific) preferential access to the EU market. However, because South Africa was economically much more developed than the ACP countries, the

[12] These numbers are from the official home page of SADC («http://www.sadc.int/about-sadc/integration-milestones/free-trade-area»). However, other sources calculate lower levels of intra-regional trade in SADC. For example, the Regional Integration Knowledge System of UNU-CRIS («http://www.cris.unu.edu/riks/web/») states that SADC's share of intra-regional trade was only 12.9 per cent in 2009.

[13] The data on FDI inflows was taken from the United Nations Conference on Trade and Development. Available at: «http://unctadstat.unctad.org».

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EU denied access to the group and proposed the negotiation of a preferential trade agreement instead. The TDCA came into force in 2000 and provided for the gradual establishment of a bilateral FTA between the EU and South Africa. This included reciprocal trade liberalization between the two partners over a period of 12 years.[14] The conditions were favourable for South Africa because the country was obliged to liberalize its market for only 86 per cent of total imports from the EU, while the latter had to liberalize 95 per cent of its total imports from South Africa. Additionally, the EU grants Pretoria development aid in order to cushion adjustment costs.[15] Thus, the TDCA constitutes an important privilege for South Africa in its extra-regional economic relations.

The TDCA became a problem for regional integration in Southern Africa in two respects. First, South Africa is part of the Southern African Customs Union (SACU), which includes Botswana, Lesotho, Namibia and Swaziland (Gibb, 2006). These countries had to accept the conditions negotiated by South Africa because the SACU agreement did not provide them with an opportunity to participate in external trade negotiations (Olympio *et al*., 2006). Second, the TDCA is a major obstacle to the set-up of the envisaged SADC-CU because it predetermines South Africa's external trade regime without taking care of other member states' extra-regional trade interests. Thus, South Africa preferred the extension of its extra-regional trade relations to the EU over a co-ordinated regional approach.

The TDCA became one – although not the only one – reason behind the fragmentation of SADC into different negotiation groups concerning the EPAs with the EU. These EPAs became necessary because the World Trade Organization (WTO) regarded the Lomé Convention as incompatible with the most favoured nation principle. Thus, the Cotonou Agreement (Forwood, 2001) proposed the negotiation of WTO-conforming EPAs based on reciprocal trade liberalization between groups of ACP countries and the EU. All countries that do not qualify as least developed countries (LDC) for trading under the everything-but-arms (EBA) initiative (Faber and Orbie, 2009) are affected by this realignment of north–south trade (Shilimela, 2008).

The EU explicitly aimed to support regional integration with the EPAs because it did not start negotiations with single countries, but with regional groups of countries, which were expected to integrate further. However, because of different interests in their external trade regimes from the EU, the SADC member states did not manage to form one integrated group in these negotiations, and a lack of regional leadership by South Africa is one reason for that. Initially, only six of the 15 SADC member states (Angola, Botswana, Lesotho, Mozambique, Namibia and Swaziland) participated in the SADC negotiation group, while the others found it more favourable to negotiate EPAs in other country groupings. South Africa initially stayed aside and relied on the favourable TDCA. Although South Africa joined the SADC negotiation group in 2007, it did not participate in the SADC group's interim EPA agreement of 2009, which was signed by only four of the 15 SADC member states (Stevens, 2008).

[14] Council Decision of 29 July 1999 concerning the provisional application of the Agreement on Trade, Development and Cooperation between the European Community and its Member States, of the one part, and the Republic of South Africa, of the other part (1999/753/EC).

[15] Council Decision of 26 April 2004 concerning the conclusion of the Trade, Development and Cooperation Agreement between the European Community and its Member States, on the one part, and the Republic of South Africa, on the other part (2004/441/EC).

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Today, the external trade relations between South Africa and the EU are still governed by the TDCA. Other SADC member states – particularly the members of SACU – are subject to the provisional SADC interim EPA, participate in other EPA negotiation groups or fall under the EBA initiative, which grants market access to the EU for Africa's LDCs. Thus, the envisaged and initialized common trade regime of SADC is in fact highly fragmented (Jakobeit *et al.*, 2005), which prevented the establishment of the planned SADC-CU. Despite its expressed goal of strengthening regional integration, the EU's initiative seems to have split the SADC region (Stevens, 2008). Far from providing regional leadership for the establishment of the SADC-CU, South Africa prioritized its particular interests over those of its neighbours.

Instead of proceeding towards a customs union, the SADC member states opted for broader co-operation with other regional organizations in Africa. In 2008, the SADC member states agreed to establish the Tripartite Free Trade Area (TFTA) with the members of the Common Market for Eastern and Southern Africa (Comesa) and the East African Community (EAC). However, this FTA will only come into operation in 2018, so that its success cannot be foreseen. Observers seem to be sceptical whether the TFTA will significantly improve the different external trade regimes in Southern Africa (Erasmus, 2012). It seems more likely that it will only add another layer to the 'spaghetti bowl' of Southern African trade agreements. Thus, instead of deepening regional integration, the SADC member states have opted for loose co-operation with even more heterogeneous regional organizations and with uncertain results.

## Conclusions

This article demonstrates that regional powers in developing regions do not automatically act as regional leaders in favour of regional integration but, under specific circumstances, develop Rambo behaviour that inhibits regional integration in the developing world. Both Mercosur with Brazil and SADC with South Africa have witnessed volatile behaviour of the regional powers. First, during the 1990s, Brazil provided regional leadership and contributed significantly to Mercosur's early success. However, in reaction to external economic pressure, Brazil floated its currency unilaterally in 1999. This increased its own competitiveness, but it damaged that of the other Mercosur member states. Consequently, Argentina entered a severe financial crisis, and regional integration in Mercosur was damaged considerably. Second, during the 2000s, South Africa was a driving force behind the establishment of the SADC-FTA. However, the planned SADC-CU was at odds with South Africa's unilateral external trade policy. The regional power signed the bilateral TDCA with the EU in 1999 and was reluctant to ratify the interim EPA of the SADC group since the provisions of the TDCA outweighed those of the proposed EPA. Generally, the fragmentation of the external trade regimes of the SADC member states has so far prevented regional integration towards an SADC-CU.

The consequence of the volatile behaviour of regional powers is that regional integration in developing regions becomes fragile. Regional organizations in the developing world are highly dependent on the benevolent behaviour of their regional powers, but at the same time, the gains of regional integration are much smaller for these powers than for their smaller neighbours. This is in sharp contrast to regional powers in interdependent and industrialized regions. Countries like Germany in the EU or the United States in the

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North American Free Trade Agreement (Nafta) profit greatly from trade and investment with their neighbours. Consequently, they have an interest in regional integration, and are likely to support regional co-operation with their leadership and material resources. This became visible, for example, in Germany's (and other EU Member States') bail-out of Greece in 2010 or in the United States' bail-out of Mexico during the Tequila crisis in 1995. An important question is whether the economic structures in developing regions like South America and Southern Africa will develop in a way that raises the regional powers' interest in the well-being of their own neighbourhood. If economic development proceeds, and if the potential for intra-regional trade and economic interdependence increases, developing regions will become more important for their regional powers. However, as demonstrated elsewhere (Krapohl and Fink, 2013), trade patterns have been very stable over the last 20 years, and significant changes towards more intra-regional interdependence have not yet taken place.

*Correspondence*:
Sebastian Krapohl
Assistant Professor of International Relations
University of Bamberg
Feldkirchenstraße 21
96052 Bamberg
Germany
email: sebastian.krapohl@uni-bamberg.de

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