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The European Economic Community's vision for 1992

Implications for South Africa and lessons to be learnt

The vision of European economic and political integration, which goes back several centuries, has its modern origins in the Treaty of Rome signed in 1958. Progress over the past three decades towards the realization of this vision has been erratic, with long periods of bureaucratic and political inertia, punctuated by sudden bursts of activity. With the passing of the Single European Act in 1985, renewed impetus was given to the movement towards economic unity. The twelve member nations agreed to establish a single barrier-free market by 1 January 1993; concrete steps towards achieving this goal were identified and a detailed programme of almost 300 directives or legislative proposals which needed to be passed into law was outlined.

Since 1985 progress towards the goal of a single market has been considerable: by the middle of this year approximately half of the required directives had either been passed or accepted in principle. The prospect of a single integrated market of 323 million people and a combined GDP of $4,7 trillion, is now no longer a distant vision. Its achievement will have far reaching implications both for the member states and for the world as a whole. Nor will South Africa be insulated from changes in what will now be this country's single most important trading partner.

But the progress towards "Europe 1992" is important to this country also for reasons other than its direct impact on foreign trade: there are important economic and political lessons to be learnt. The obstacles in the way of a politically united Europe are no less, and probably far more, than those that confront South Africa and her neighbours today. Two world wars in the first half of this century were but the climax to centuries of bitter, frequently violent, nationalist rivalry. Yet, by embracing a common vision which could be of enormous economic benefit to all the economies of Western Europe, seemingly insurmountable political and economic hurdles have been overcome, or are in the process of being overcome. A similar vision of regional co-prosperity for southern Africa could, likewise, yield dramatic economic, social and political benefits for all participants. But a unified southern African economy will not become a reality until positive steps are taken towards its achievement. If the goal of economic integration were to be accepted by all the necessary parties and specific steps for its achievement were identified, progress could be far more rapid than seems possible at present.

Anticipated benefits

The European Economic Community means, in essence, the creation of a single common market where economic activity is unaffected by national boundaries between member states. It is an attempt to exploit economies of scale and to increase wealth in the process. This requires the effective removal of all internal non-tariff trade barriers in whatever form and the harmonization of domestic regulations. It is envisaged that by 1993 a market will be in existence in Europe, where goods, services, capital and people will be able to move much more freely across internal frontiers than they do at present.

A single market will lower costs and prices as a result of reduced bureaucratic impediments to trade and foreign investment. As a result of increased competition between member nations, the lowest cost producers anywhere in this single market will increasingly set the price ceilings for the whole Community. Within the Community, goods, people and capital will flow more freely from one country to another, exploiting niches and creating new markets. Companies will seek out the most cost effective sources of raw materials and the best suited operating environments within the Community's member states. This will result in the creation of jobs, faster growth, dynamic investment, restructuring of industry, reduced inflation, and gains in purchasing power. According to the Cecchini Report, undertaken under the auspices of the EEC, achievement of a single market is expected to add 4,5 per cent to total GDP and make savings worth ECU200 billion (approximately R600 billion) in the medium-term. Government expenditure as a percentage of GDP is forecast to fall by 2,2 per cent, prices to fall on average by 6,1 per cent, and, although many current bureaucratic jobs will disappear, 1,8 million new jobs are expected to be created.

The achievement of the 1992 vision requires the removal of all remaining barriers to the free flow of goods and people at national frontiers. This will speed up the transportation of goods and lead to an efficient flow of labour and so will result in significant cost reductions. Possibly the greatest challenge to the vision of a single market lies in the need to harmonize regulatory discrepancies that currently exist between member states. The removal of these non-tariff trade barriers is essential, as different regulations imposed by member nations, say in the form of product standards regarding safety and quality, have in the past been used as very effective instruments of trade protectionism, both against current EEC members and against other countries. More particularly, it will mean bringing national legislation of different members into harmony so that technical and licensing standards will no longer be used to keep foreign goods out of domestic markets. Remaining capital controls will be removed and public procurement policies, which account for some 15 per cent of total GDP, and which have been biased towards domestic suppliers, will also be dismantled. Indirect taxes within the community will be brought approximately into line, so as to create a "level playing field" for trade in goods and services.

The creation of a genuine single European market will not, however, be achieved without pain. High cost producers, who have survived on the back of protectionism, state subsidies, or public policies of "buying local", will be worst hit. Entrenched interests threatened by harmonization policies are likely to impede the progress towards a truly unified common market. In practice most obstacles will be removed, but some will still remain even after the 1992 deadline has passed.

The social and political dimensions of 1992

The vision of a united Europe has also increasingly acquired even wider dimensions. The vision extends to a monetary union, with a common European currency, a single central bank, and a European passport. Co-operation in foreign policy, too, has already begun to emerge in an early, tentative fashion: ultimate political union has been suggested. A social dimension has also emerged: this extends to the protection of workers' rights by means of a "social charter", designed as a safety net against the impact of increased competition within the Community.

The removal of all remaining non-tariff barriers will not be easy, but it is in the social and political spheres that the most severe problems are likely to be experienced. Indeed, it is for this reason that the Community has always concentrated on economic unity, even though at its inception policial factors, namely the desire to prevent another war, were paramount. Most EEC members are still reluctant to relinquish their national sovereignty or accept centralized control at a European level. This is evident particularly in the United Kingdom's emphatic refusal to accept a European central bank, or parameters on the size of the national budget deficit, or elements of the social charter which are perceived to strengthen the power of the trade unions. This opposition is not based purely on nationalistic sentiment: rather, it is resistance to centralized control as a matter of principle, in a world where "big government" is increasingly out of fashion. Attempts to mould a united foreign policy would probably also be strongly resisted. Thus, any attempt by the European Commission to impose political harmonization at this stage could undermine the implementation of the vision of a single European market. This danger is recognized and, accordingly, harmonization of the political positions within the EEC is not an immediate goal.

The EEC's importance to South Africa

The European market is of crucial importance to South Africa. The European Economic Community is the world's largest trading bloc: excluding intra-Community trade, it is responsible for 20 per cent of world trade, compared with 15 per cent for the United States and 9 per cent for Japan. The EEC is South Africa's largest trading partner: it accounts for considerably more than half of our exports and imports and is thus much more important as a bloc than either the United States or Japan. EEC member countries are also South Africa's largest foreign creditors, and they are likely to remain so for years to come. In addition, South Africa has always looked to Western Europe for technological, economic and cultural sustenance.

The evolution of the EEC has been such that, whenever its borders have expanded into another country and inefficiencies have been reduced, that country, as well as the Community as a whole, have benefited. Additional wealth has been generated and all members have been raised towards the Community's highest common denominator. South Africa stands to benefit considerably from vigorous new growth in its major trading partner. Moreover, much of this growth may occur on the periphery of the Community, in countries such as Portugal, Greece and Spain, where high levels of new investment can be expected. This will create important new markets for exports. But competition in the enlarged European market will be amongst the fiercest in the world and South African exporters will have to be very cost effective to be able to compete. One advantage in this regard is that exporters could operate throughout the Community from a single suitably sited base for operations.

Whether or not South Africa will ultimately benefit from a unified European market will depend on the answers to two crucial questions. Firstly, will the newly unified and nearly frontierless EEC also adopt an open, free trade stance towards the outside world: or will it embrace free trade internally but be protectionist in foreign trade? Secondly, will the current hostility of some members of the Community towards trading with South Africa be strengthened or weakened in a united Europe?

Global trading patterns will change

The fear that 1992 will see the emergence of "Fortress Europe" has been raised by many of the countries that trade with EEC members, and who have therefore already experienced the barriers to external trade which the community has applied fairly effectively to date. Concern has been further prompted by protective action taken by the Community against what it perceives to be foreign dumping, as well as by statements as to what will constitute locally produced goods in a unified market. This has prompted a wave of foreign investment within the EEC, as well as mergers with established European companies, by foreign companies concerned to establish a foothold in Europe before the possible external barriers go up.

It is possible that some barriers to foreign trade will be erected, but on balance it seems likely that overt protectionism will not win the day. Rather, the EEC will go the route of free trade along the guidelines set out by the GATT. This is likely because, even though intra-Community trade in 1987

Benefits of Removing Barriers in the EC

Central scenario	Customs formalities	Public procure-ment	Financial services	Supply side effect	Total benefit
Relative changes % GDP	0,4	0,5	1,5	2,1	4,5
Consumer prices	−1,0	−1,4	−1,4	−2,3	−6,1
Absolute changes					
Employment (000)	200	350	400	850	1800
Budgetary balance*	0,2	0,3	1,1	0,6	2,2
External balance*	0,2	0,1	0,3	0,4	1,0

* As percent of GDP
Source: Euromoney, from Cecchini Report

exceeded 50% of total trade for all members with the exception of Denmark, external trade is probably too important to the Community to be jeopardized by retaliatory trade restrictions. Exports to the rest of the world are equal to 9 per cent of total GDP—this is greater than the 6,7 per cent contribution of exports to GDP in the United States and almost as much as the 9,3 per cent of GDP in Japan.

Nevertheless, it is almost certain that there will be clashes in the future between the EEC and certain countries over access to each other's markets. Already the EEC has begun to delineate its future external trade policy, vis-a-vis third countries. This is being done in terms of "reciprocity": this means that the EEC is likely to demand free access to markets in return for free access to its own.

Possible dangers for South Africa

Certain South African exports are likely to run into difficulties if they are not manufactured according to the quality and safety standards which in the future will be defined for the EEC as a whole. It would be wise for South African exporters to inform themselves of these potential technical barriers prior to 1993 and to adapt domestic production standards accordingly. A common economic market in Europe also implies greater, or at least substantial, harmonization of the political positions of the member states of the EEC. For South Africa the importance of this lies in whether the EEC, as a bloc, will either favour or reject trade and financial relations with South Africa purely on political criteria. There are no definite answers to this question but it is a problem that will almost certainly be faced. Once South African products have entered the European market there will no longer be any barriers to their movement into all member countries—even if those countries support sanctions against South African goods. The danger is that a decision on South African trade with the EEC might be taken by a majority decision of a European body such as the Council of Ministers. This decision would be based on the lowest common denominator set by those countries who take the most extreme positions versus South Africa.

Fortunately, a decision based purely on political motives is unlikely at this stage as it would undermine the tender unity of the EEC. But political harmonization in Europe may become a more important and acceptable vision for all member nations by the late 1990s, if the single market is fully implemented and working smoothly. At such a point, unless South Africa's domestic political situation has improved, a decision that threatens the economic well-being of this country might be taken—despite the wishes of more favourably disposed governments—particularly if it involves trade-offs over other areas of mutual concern and represents an area on which most members can fairly easily agree without hurting themselves.

Effects of Physical Barriers

Average costs per consignment in intra-EC trade (Ecu)

Country	Imports	Exports
Belgium	26	34
France	92	87
Germany	42	79
Italy	130	205
Netherlands	46	50
United Kingdom	75	49

Source: Euromoney, from Cecchini Report

The consolidation of a massive economic bloc such as the EEC is likely to result in significant changes in the global terms of trade. With the EEC able to speak with one voice, bilateral trade agreements will be revised, possibly slightly in favour of Europe. The EEC could also look increasingly towards Eastern Europe as a trading partner. These developments could possibly result in new economic alignments and shifts in global trading patterns. The direction of these changes is uncertain, but they will probably develop around the other major global economies. South Africa could find that the importance of its trade with Europe will diminish—particularly if political pressures against ties with this country increase. In such an event the focus of this country's external trading efforts is likely to shift increasingly towards the Far East and, possibly, also towards Africa.

A vision of a common economic market for southern Africa

Throughout the world the major economic force today is the movement away from central planning, direct economic controls, and bureaucratic obstacles to economic growth and towards freely operating domestic and global markets. This is the vision behind the establishment of the EEC: it is also the motivation behind the recent trade agreement between the United States and Canada, and indeed the economic reforms of the Soviet Union and other Eastern bloc countries. The result will be *an increasingly efficient global economy* and increasing competition for export markets as new players enter the fray.

It is crucial that South Africa should not be isolated from these global trends. This requires the rapid removal of all existing inefficiencies that currently hamper domestic economic activity. The history of the EEC shows that accepting this in principle is not enough: unless a definite goal of a free unregulated economy is established and the specific actions required for its achievement, and a timetable for their implementation, are set out, progress will be slow and uncertain.

Such a vision should extend beyond this country's national borders. The southern African region is in the throes of attaining peace for the first time in many years: if the remaining political obstacles could be overcome, significantly greater regional co-operation among all southern African countries would be possible. Just as with the European vision, the economic rationale behind such co-operation would be the attainment of greater economies of scale, the exchange of goods and services without costly bureaucratic barriers, the creation of an efficient financial system and the generation of additional wealth for all.

Such a goal is, at this stage, only a distant prospect. But a wealth of expertise, experienced in dealing with precisely the kind of economic and political obstacles with which this region has to contend, has been built up in Europe. This expertise could be tapped to speed up the process of adjustment and negotiation in southern Africa. The EEC has shown that it is necessary to set the goals of economic co-operation high to arrive anywhere near the desired target. At stake is the choice between surviving in an increasingly efficient world economy or degenerating into a backwater of little global economic significance.

Key Economic Indicators	Month 1989	Seasonally adjusted figure	Percentage change One month	One year*
Business activity indicators				
Standard Bank composite index of leading indicators (1980 = 100)††	July	87,74	−0,2	−6,5
Standard Bank business activity index (1980 = 100)††	July	112,24	−1,4	6,5
Job advertisements (column cm)	June	76,959	4,8	−20,2
Registered unemployed—non-black (number)	April	51 778	3,2	−12,6
Overtime worked in industry (%)	May	12,2	2,5	0,0
External trade				
Merchandise imports (Rm)	July	3 926,94	−7,4	25,4
Merchandise exports (Rm)	July	5 063,1	−9,0	20,4
Trade balance (Rm)*o	July	1 091,2	1 286,0	1 041,7
Gold and forex reserves—Reserve Bank only (Rm)	July	5 138,0	−4,8	−7,9
Spot gold price ($/oz)**	July	375,21	2,0	−14,2
Spot gold price (R/oz)**	July	1 011,89	−1,3	−3,3
$/R exchange rate (US cents)**	July	37,08	3,3	−11,3
Trade weighted rand value (index 1983 = 100)***o	July	39,07	38,0	41,7
Mining				
Total sales value (Rm)	May	3 640,71	21,6	34,3
Total production volume (1980 = 100)	April	90,98	−2,7	−3,4
Gold production volume (1980 = 100)	April	86,95	−3,1	−3,8
Non-gold production volume (1980 = 100)	April	96,21	−1,8	−3,2
Commerce				
Retail sales value (Rm)—final data	April	4 764,40	0,0	18,8
—preliminary data	May	4 845,91	1,7	24,0
Retail sales volume (1980 = 100)—final data	March	102,65	−0,8	5,1
—preliminary data	April	101,95	−0,7	3,3
New car sales (units)	July	18 353	−4,4	−0,9
New commercial vehicle sales (units)	July	11 165	−3,7	4,4
Industry				
Production volume (1980 = 100)	April	108,49	3,3	5,8
Total employment ('000)	May	1 355,9	0,2	0,7
Price indices (1985 = 100)				
Consumer prices—all items	June	178,47	1,0	15,7
—food	June	189,71	0,9	11,2
—commodities	June	187,54	1,1	16,3
Producer prices—all items	June	321,75	0,4	15,3
Financial indicators				
Money Stock: Narrow Definition—M1(A)	May	21 291,0	3,0	17,2
Money Stock: Broader Definition—M3	May	126 943	1,8	24,7
Commercial bank demand deposits (Rm)	March	32 016	2,8	18,6
Commercial banks' discounts and advances—excl Land Bank (Rm)	May	62 157	2,8	55,0
JSE actuaries index—industrials***	July	2 688	2,6	59,5

Interest Rates and Yields***	July 1989 % pa	June 1989 % pa	July 1988 % pa
Treasury bill tender rate	17,17	17,15	12,47
Basic call rate of the discount houses	17,50	18,75	12,50
3 month BA's	17,45	17,50	12,65
3 month NCD's	18,50	18,60	14,00
3 year RSA stock	16,26	17,98	13,40
Prime overdraft rate	20,00	20,00	16,00
Effective cost of finest acceptance credits	18,45	18,51	13,27
Stock exchange—yield on industrials—dividend	3,30	3,30	4,00
—earnings	9,50	9,70	11,60
Capital market—yield on long term RSA stock	17,17	17,21	16,24
—yield on long term Escom stock	17,10	17,22	16,18

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* not seasonally adjusted
** monthly average—not seasonally adjusted
*** as at month end—not seasonally adjusted
o actual figure for previous month and previous year
†† The composition of these indicators has been revised.