REGIONAL ECONOMIC INTEGRATION CHALLENGES FOR SADC: SEEKING A VIABLE APPROACH.

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Regional economic integration in the African continent has, for a considerable time, often being part of the agendas when African leaders meet. The objective has been a creation of an all-inclusive African Economic Union. The idea is a noble one in view of the potential risk of marginalisation of Africa in the global trade and economic development. With the passage of time, however, it has been apparent that the dream has been elusive. What has been achieved to a moderate extend is some progress towards conclusion of regional integration arrangements (RIAs) at a sub-regional level or the creation of a regional economic community (REC). Recent global developments, among others, the fragility of the emerging democratic environment, the realignment of socio-economic forces, the financial crises, and the inter-continental economic partnership arrangements (EPAs) have presented formidable challenges to the progress of the economic integration projects. The African continent is home to up to about ten RECs, some of which overlap in membership. These RECs are at different stages of development and are facing a number of challenges including low inter- and intra-regional trade. This paper focuses on the challenges facing Southern African Development Community (SADC) seeks to advance possible routes that it can follow toward fully integrated REC. Lessons are drawn from the European Union (EU) in terms of the route and the approach. The paper draws on historical developments from the formation of a free-trade-agreement (FTA) to a fully integrated monetary union.

KEY WORDS:

Regional integration agreements,
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Introduction

The formation of regional economic arrangements in one form or another has become the focus of nations globally as a result of the need to avoid marginalization in global markets. These arrangements could be in the form of trade agreements which may involve nations not necessarily in the same region. The Trans-Pacific Partnership (TPP) which is a proposed trade agreement between several Pacific Rim countries concerning a variety of matters of economic policy is one such an arrangement. Then there are regional integration agreements (RIAs) which have geographic proximity, such as the European Union (EU) and North American Free Trade Agreement (NAFTA). The emerging global economic environment is increasingly being affected by these trade agreements and regional economic blocs. The evolution of trade away from Mercantilistic approach to freer trade has presented challenges while at the same time yielding economic benefits in gains from trade. However, globalization, changing trading and investment patterns and trade liberalization are affecting nations and regions in diverse ways forcing nations to ensure that they are not pushed to the margins. They have been responding to these challenges by seeking agreements such as those mentioned above.

In the early 1990s, Africa was reawakening to the idea of pan-African cooperation also on the economic front. The development of Regional Economic Communities (RECS) was looked upon as a key development strategy towards the continental African Economic Community that was envisaged in the 1991 treaty. Africa as a region has also engaged in these global efforts of building and joining some form of economic agreements. In the case of Africa, a multiplicity of such groupings has emerged. The result is that a number of countries in Africa have multiple memberships. While some of these regional economic communities (REC) have registered some progress, Africa as a region is still suffering from market fragmentation (World Bank, 2012). The state of regionalism in Africa may be heading for notable change in the near future because of two intentions. Firstly, there is renewed interest in the formation of a Tripartite free trade agreement involving East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA), and Southern African Development Community (SADC). Secondly, the African Union (AU) has decided to fast-track the establishment of a free trade area on the African continent. The discussion of this paper is, however, primarily limiting itself on the discussion of the SADC.

The SADC: Challenges to be Overcome

Regional economic integration has been a prominent item on the agenda of the meetings of Southern African leaders. The SADC is made up of fourteen member states, viz., Angola, Botswana, Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe. It was called SADCC before the formation of the SADC in 1992. Having been formed by the 'frontline states', its primary objective was to lessen their economic dependence on South Africa because it was under the internationally condemned for its "apartheid" system. In addition, The South African Apartheid government was engaged in military destabilising excursions into the neighbouring states. The cooperation was dominated by the frontline states whose focus was political liberation of the region. The institutional framework of the organisation comprised of the Summit, Council, and Standing Committee of officials and a Secretariat. This structure of the grouping was mainly oriented towards a cooperative and not integration approach.

The 1992 SADC Treaty redefined and reconfigured SADCC to the present SADC. That changed the organisational structure to a more cohesive legal entity now with integration as the primary objective. The early 1990s experienced major changes in geopolitical landscape that that had an influence on the development and repositioning of the newly-redefined regional grouping – the SADC. The initial reason for existence of the grouping was no longer the resistance to the apartheid South Africa since it was already a reality that democracy was irrevocably on the march, there was need to change focus. The new focus was dictated by the blowing winds of change in the global economic environment. Challenges of globalization, competitiveness, trade liberalization, enlarged regional markets and risk of marginalisation had to be responded to and at times confronted. The organisation started to address the agenda on development integration focussing on infrastructure and efficiency barriers to development. Trade liberalization became pivotal as members became aware of regional imbalances among member states.

The founding SADC treaty resulted clearly written twenty six protocols that guide the developmental roadmap for the achievement of integration. An important document, the Regional Indicative Strategic Development Plan (RISDP), was concluded in 2005 to guide the developments. According to the guidance, seven clear milestones were determined upfront. As things are now, SADC is far behind the scheduled milestones because, in terms of the plan, by 2015 the stage of Common Market should have been reached. That means all the progressive steps of free trade arrangement (FTA) and the Customs Union (CU) were supposed to have been achieved. The focus of discussions at meeting is the answers to the question of constraints and delays. These delays and constraints seem to be caused by challenges as propounded below.

The recent summits of the leaders of countries that are members of the Southern African Development Community (SADC) has taken place with high expectations for progress on the integration efforts. Indeed pronouncements following those summits are evident of the determination to forge ahead with the regional integration project. The protocols that guide the development of this project appear to be detailed and clear with milestones for the speedy realisation of the desired end. Yet real progress seems to be illusive and some milestones have not been reached on schedule. Some of the factors that might be hamstringing the project are highlighted with hope that this paper would have made some contribution in understanding the challenges or a different approach may be tried. A lesson or more can be learnt from the experience of long-established RECs, such as the EU, taking into consideration the historical context.

There are four challenges that the SADC will need to confront and surmount. These challenges emanate from external factors. Firstly, the issue of overlapping membership continues to present potential challenge of divided loyalty and duplication of efforts. The mere presence of overlapping membership means that provision in the budgets for activities related to these RECs will need to be completed. This may present a fiscal burden for some countries. This is a problem not only of resources but also of developmental focus since each REC will be biased toward the original purpose for its existence – the mission. Some members in SADC have membership in COMESA, and Southern African Customs Union (SACU).

The second challenge is the decision by a member of members of the same REC to complete "unilateral" economic cooperation with other economic cooperation groupings to the exclusion of other members of their REC. This type of economic cooperation is usually not regionally based and defined. Due to the potential benefits individual members of a particular REC expect to realise, they join. These mega-sized integration groupings such as the one comprising Brazil, Russia, China, India and South Africa may demand a large proportion of a country's resources and budget in terms of contributions. Since this is the case in the SADC where South Africa is involved, it remains to be seen whether the SADC as a REC will reap the benefits. It is however possible that eventually the ultimate effect may be destabilising on the SADC if not correctly managed. One other arrangement that can have potential negative consequences inflicting fragility on the SADC, is the inclusion some members into Economic Partnership Arrangements (EPAs) with other established groupings such as the EU to the exclusion of others. Added to this is the discriminatory preferential treatment of some members to the exclusion of others by powerful economic powers such as the provision of the African Growth and Opportunity Act (AGOA) by the United States of America (Páez, et. al.2010). The fact that Zimbabwe has been excluded may be a source of resentment and eventual fragility of the SADC.

The third challenge is the disparity in the individual nations' general level of development on a number of fronts. Economic indicators from the member states indicate disparity and lack of capacity. There is also a lack of sufficient intra-regional trade and which could be the result of deficiency in critical sectors of their economies.

Table 1: RISDP Macroeconomic convergence indicators

Indicator	**2008**	**2012**	**1018**
Inflation Rate	Single digit	5%	3%
Ration of budget deficit to GDP	Not exceeding 5%	3% as an anchor within a band of 1%	3% as an anchor within a band of 1%
Nominal value of public and publicly guaranteed debt	Less than 60% of GDP	Less than 60% of GDP	Less than 60% of GDP
External reserves/import cover	3 months	More than 6 months	Sustained
Central Bank credit to government	Less than 10% of previous year's tax revenue	Less than 5% by 2015	Sustained

Source: South African Reserve Bank

Table 2: Economy and Growth

Country	Inflation, consumer prices (annual %)			
	2000 - 2004	2005 - 2009	2010 - 2014	Av
Angola	10.3	8.8	7.3	8.8
Botswana	7.5	5.9	4.4	5.9
DRC	9.7	1.6	n.a	5.7
Lesotho	6.1	4.9	5.3	5.4
Madagascar	6.4	5.8	6.1	6.1

Malawi	21.3	27.3	24.4	24.3
Mauritius	3.9	3.5	3.2	3.5
Mozambique	2.7	4.3	2.6	3.2
Namibia	6.7	5.6	5.4	5.9
Seychelles	7.1	4.3	1.4	4.3
South Africa	5.7	5.4	6.4	5.8
Swaziland	8.9	5.6	n.a	7.3
Tanzania	16.0	7.9	6.1	10.0
Zambia	6.6	7.0	7.8	7.1
Zimbabwe	3.9	1.6	-0.2	1.8

Source: Constructed from World Bank and IMF Databases

Table 3:	**Economy and Growth**			
Country	Export of goods & services (% of GDP)			
	2000 - 2004	2005 - 2009	2010 - 2014	Av
Angola	61.9	55.8	58.5	58.7
Botswana	42.4	54.3	49.8	48.8
DRC	34.0	33.9	33.3	33.7
Lesotho	43.9	41.7	n.a.	42.8
Madagascar	29.0	30.1	n.a.	29.6
Malawi	37.3	47.6	45.8	43.6
Mauritius	54.6	54.3	53.7	54.2
Mozambique	28.1	27.8	27.2	27.7
Namibia	43.5	44.0	39.6	42.4
Seychelles	92.8	85.5	84.1	87.5
South Africa	29.7	31.0	31.3	30.7
Swaziland	57.7	60.3	n.a.	59.0
Tanzania	21.3	17.7	19.5	19.5
Zambia	42.1	43.3	40.9	42.1
Zimbabwe	31.1	26.0	26.5	27.9

Source: Constructed from World Bank and IMF Databases

The development levels of the SADC members as measured by some vital economic indicators over the same period and reflect divergence. If this situation does not improve, it will present a formidable hurdle. This is because the situation might cause unequal flow of FDI, unemployment in particular member countries and resultant demographic changes through economic-induced migration.

The fourth challenge is related to the model that SADC has followed – that of linear integration. The SADC is following the integration development that begins with a Free Trade

Area (FTA -by 2008); a Customs Union (CU - by 2010); a Common Market (CM- by 2015); a Monetary Union (MU- by 2016); and ultimately, an Economic Union (EU- by 2018). This is the module that has worked well for the EU but seems to be failing for the SADC. The socio-political development and eventually, economic development in some member countries have had the effect of causing movements of people across borders thus effectively letting movement of labour internationally while capital movement remains virtually constraint. The situation, therefore, does not follow the linear model.

Recommendation

Two areas that require developments should be embarked upon. First are the hard infrastructure projects that will facilitate exchanges and finally tackle regional spillovers. Successful large infrastructure projects will have contribute to the de-fragmentation of Africa by reducing transport costs directly (Portugal-Perez and Wilson 2012; Brenton and Isisk 2012). Another channel emphasized here is the building of social capita through spreading of information, which should enhance trade and, hopefully, reduce the probability of conflicts. SADC should consider reviewing the integration model it is following with the aim of deciding on a different approach. In view of the events that have had impact on demographic movements in the area, a more viable approach could be to "liberate" capital by removing those constraints that hamper free mobility of capital across the borders. Such freer movement will attract labour back into source countries as wages would theoretically start to increase.

Second is the solution of the issue of overlapping membership and fragmentation that puts stress on resources. Perhaps the African free trade zone or tripartite FTA among COMESA, EAC, and SADC could help solve the overlapping membership dilemma by bringing free trade among the twenty-six members.

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