Regional integration in southern Africa

the government's view

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I will structure my comments as follows. I will first briefly consider the impact of the global economic crisis on the region. The second part of the presentation will address possible responses to overcoming the challenges of regional integration in southern Africa, touching on the proposed tripartite initiative: the SADC-EAC-COMESA free trade area (FTA). The discussion will not be complete without discussing the impact of economic partnership agreements (EPAs) on regional integration in southern Africa.

IMPACT OF THE CRISIS

Much has been spoken and written on the global economic crisis. We know it originated in the financial sectors of advanced economies but has spread across the globe and its impact is now felt on the real economy of all countries.

Developing countries are facing the fallout and its impact will reverse many gains made in recent years and certainly set back progress towards the millennium development goals. We have seen dramatic contraction of export demand, unprecedented declines in global trade, and steep reductions in the volume and price of commodity trade. Financing pressures are more acute and access to private trade finance has virtually dried up. The prospects for foreign direct investment are bleak for the foreseeable future.

In South Africa, the effects have been severe in falls of equity prices and property prices, but also in terms of steep declines in export, lower income, higher unemployment and reduced consumption. It appears we are not over the worst effects of the economic decline.

In the Southern African Development Community (SADC) region, the mining sector is the hardest hit, with commodity prices of diamonds, copper, nickel, uranium and oil falling to, and below, their 2006 levels in April 2009. This has resulted in the loss of government revenue, growing unemployment, and reductions in investment. After falling in 2009, the prices of some agricultural commodities are beginning to increase, although they are still lower than the average prices recorded in recent years. Tourism receipts have declined. All this has resulted in pressures on the current account and fiscal balances of SADC member states. With falling incomes due to deteriorating terms of trade and declining real economic growth, borrowers will be less able to service their debts, and their financial sectors are increasingly vulnerable.

Regional stock markets declined by an average of 16 percent in December 2008, compared to December 2007. The SADC region is expected to record a marginal 0.1 percent growth in real GDP in 2009; this is down from an average of 5.9 percent in 2008. Growth in per capita income is expected to decline by an average of 1.6 percent in 2009, compared to an average growth of 3.7 percent in 2008.

Global economic growth is projected to re-emerge in 2010, but at just 1.9 percent. At regional level, economic growth is projected to rebound to 4.7 percent, still below the 2008 level. The fiscal and current account deficits are expected to widen further to 5.1 and 11.0 percent respectively in 2010.

ECONOMIC NATIONALISM

Responses to the global crisis have been effected at national and international levels. At national levels, we have seen a series of bailouts and stimulus packages being put in place. At the international level, mainly through the G-20 summit processes, we have seen attempts to improve the co-ordination of national counter-cyclical efforts and monetary policy, to develop agreed approaches for financial (re-)regulation, and some tentative steps on the reform of global financial institutions.

The G-20 summit declarations have also made calls for avoiding protectionism and for an early conclusion of the Doha Round of trade negotiations in the World Trade Organisation. South Africa has posited several arguments on the notion of refraining from protectionist measures. We have argued that it is necessary to define protection broadly, to include not only traditional trade and investment barriers, but all national measures that countries can take – within WTO disciplines and beyond – that impose costs on others and distort international trade and investment flows.

As the global crisis unfolds, there is intensified competition between countries to retain production and employment in their home countries. Indeed, economic nationalism is already evident and on the rise. Bailouts and stimulus packages, though necessary to restart economic growth, will have an impact on trade and investment flows when they change incentives and otherwise swing the competitive environment to favour national industries and firms. Current support programmes go beyond the neo-Keynesian policies of deficit-funding of infrastructure and public work programmes to include targeted support to national industries. It appears that competition is underway to determine which firms are supported and retained, and in which locations.

Against this background, calls to resist protectionist measures are sounding increasingly hollow. South Africa is one of only two members of the G-20 which not have introduced protectionist measures.

LIMITED RECOURSE

In this engagement, it is necessary to consider:

- the scope of measures available to all countries
- the quantum of support available for each country
- the scale of the impact of various national support measures on the global economy.

On all counts, it is clear that developing countries have recourse to fewer measures. Due to their weaker fiscal bases, the quantum of financial support they are able to deploy is also considerably less than that available to industrial countries. Industrial countries must therefore provide leadership in resisting protectionist measures. Developing countries have a legitimate case for using all WTO-compatible measures to provide support to their industries. Moreover, the measures taken by developing countries are likely to have less systemic impact and will pale in significance when compared to those taken by industrial countries.

South Africa agrees on the importance of an early conclusion to the Doha Round, but setting an unrealistic timetable, without consideration of the content to be negotiated, could lead to another failed attempt and even more damage to the credibility of the global trading system. For the majority of developing countries, the current package has meant lowering the development ambition in the round and is skewed in favour of developed countries. The Doha Round outcomes must retain their developmental objectives to ensure policy space for industrial development and to protect employment in vulnerable sectors. These are more important that an early conclusion of the Doha Round.

GLOBAL CRISIS, REGIONAL INTEGRATION

While all regions have suffered from the collapse of global trade, the evidence is that regional markets in Africa, and those of key developing countries, continue to grow – albeit at lower levels. The global economic crisis has given additional impetus to a strategic realignment in the global economy. The steady and relative rise of new poles of growth in Brazil, Russia, India and China appears to continue. Africa will remain an important investment and trade frontier in a changing global economy.

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It is also apparent that, in their responses to the global economic crisis, developing economies are giving greater focus to building their domestic economies, advancing their regional integration efforts and promoting South-South co-operation as these markets become relatively more significant.

SOUTHERN AFRICA

South Africa has considered regional economic relations in southern Africa an essential component of our wider international economic relations. The government has repeatedly committed itself to promote regional co-operation along new lines that will correct imbalances in current relationships.

Our commitment to regional integration was founded on two precepts. First, South Africa's democratic transformation, stability, security and economic development could not be assured as long as our neighbours confront underdevelopment, instability, poverty and marginalisation. In other words, South Africa's economic destiny and prospects are inextricably intertwined with that of the region and broader continent. Second, a more integrated regional market provides the opportunity for industries and firms located across the region to overcome limits imposed by small national markets, achieve economies of scale, and thus enhance their competitiveness. Regional integration thus serves as a platform to participate more effectively in the global economy.

These considerations informed South Africa's engagement in two important regional processes in the immediate post-apartheid period: the renegotiation of the Southern African Customs Union (SACU) agreement, and the free trade negotiations under the SADC Trade Protocol.

Important progress has been registered. In SACU, the new agreement came into force five years ago. It establishes democratic decision-making, new supra-national institutions and a secretariat, and lays the base for a deeper integration agenda. In SADC, the achievement of the free trade agreement (technically and formally) last year is a significant milestone that we should celebrate. Nevertheless, a series of challenges still confront these integration projects.

THE SOUTHERN AFRICAN CUSTOMS UNION

In South Africa's view, SACU has the potential to move beyond an arrangement that is based on a common external tariff and held together by a revenue-sharing arrangement. SACU's main value is no longer as a "captive market" for exports, as it was under the apartheid regime. Now, in the context of current global dynamics, SACU's value for South Africa will lie in its ability to become:

- a vehicle for advancing and deepening developmental integration at the sub-regional level
- an anchor in the SADC regional project
- a platform for harmonised engagement in wider global trade relations.

These elements would allow us to advance to a common market and even monetary union.

However, this will require building common policy in the areas of trade and industrial policy. We need a work programme that overcomes policy gridlock and zero-sum approaches by building production value chains across all member states in agriculture and industry. We will also need to intensify the programme of work for regional infrastructure development based on the spatial development corridors.

A common policy vision is a prerequisite for strengthening SACU institutions, including the tariff board and proposed tribunal as well as an effective and well-resourced secretariat. Progressive harmonisation of various institutional arrangements and in the areas of competition policy and standards will also be required over time.

WHAT IS SACU?

- The Southern African Customs Union (SACU) consists of Botswana, Lesotho, Namibia, South Africa, and Swaziland.
- SACU was established in 1910, making it the world's oldest customs union.
- Historically, SACU was administered by South Africa, through the 1910 and 1969 Agreements.
- The customs union collected duties on local production and customs duties on members' imports from outside SACU, and the resulting revenue was allocated to member countries in quarterly instalments utilising a revenue-sharing formula.
- Negotiations to reform the 1969 Agreement started in 1994, and a new agreement was signed in 2002. The new arrangement was ratified by SACU heads of state.
- The economic structure of the union links the member states by a single tariff and no customs duties between them.
- The member states form a single customs territory in which tariffs and other barriers are eliminated on substantially all the trade between the member states for products originating in these countries.
- There is a common external tariff that applies to nonmembers of SACU.

Source: www.sacu.int

SACU can also be a nucleus for deeper integration in SADC. If member states can forge a common view, SACU as a unit can help to shape the processes of regional integration. SACU should also be able to open up to new members by developing terms for accession, and it should begin to align its programmes with those unfolding at the SADC level.

For SACU to realise its potential, we also need some common understanding on how to position ourselves in a rapidly changing global economy. Shifting patterns of global trade have seen new economies rising to the centre of the global trade relations. This requires a forward-looking response that aims to develop mutually beneficial trade and investment relations with these new sources of global economic growth. SACU will therefore need to forge a common approach on both the direction of future trade relations and the content of future agreements, and to move beyond over-reliance on traditional trading partners. We also need to develop a common agenda based on agreed positions in multilateral trade negotiations, notably in the WTO Doha Round.

Strategic discussions among members of SACU along these lines are urgent and necessary. If we are able to reach

common understanding on these points, we can take SACU forward. If not, SACU runs the risks of being trapped in a policy gridlock, remaining what it has always been – a customs union structured around a revenue-sharing arrangement – that will steadily be rendered ineffectual by global developments beyond its control.

THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

Free trade negotiations – the SADC Trade Protocol – were concluded in 2000, and implementation of the tariff reduction obligations began at that time. By 2008, 85 percent of goods were traded duty free and SADC met the WTO-defined threshold for a free trade area. By 2012, 99 percent of intra-SADC trade will be duty-free. Despite this notable achievement, considerable work remains to consolidate the FTA. There is unfinished business.

Several SADC members have yet to fully join the trade agreement. Furthermore, several members have experienced difficulties in meeting the tariff liberalisation obligations as set out in the Protocol. These issues will require ongoing effort.

The mid-term review of the Trade Protocol set out an extensive work programme that is necessary to build the free trade area. This work programme includes continued negotiations on outstanding rules of origin, the development of regionwide standard setting capacity and an extensive work programme on trade facilitation. Progress in each of the complex areas could do much to encourage intra-SADC trade.

> Developing countries have a legitimate case for using all WTO-compatible measures to provide support to their industries.

The key policy issue is that, despite a more open regional market, the pattern of regional trade has not changed in any significant manner. South African imports from the region are increasing, but low-value commodities drive most of the growth. Intra-regional trade is diversifying slowly. Major increases in trade have occurred in the textiles and clothing and sugar sectors, where special trade arrangements exist. Trade appears to be influenced more by the region's comparative advantage than by improved market access. The most serious constraint to balanced regional trade remains undeveloped production structures in SADC countries. This is the challenge for the region's agricultural and industrial policies: to expand the range of products that can be exported and to increase the value added of those exports.

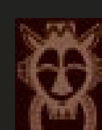
Against this background, South Africa has argued that the focus of work should be the consolidation of the FTA, addressing the issues raised in the mid-term review, and developing a work programme to overcome real economy supply constraints, particularly through the development of a regional industrial policy. The SAFT (Southern African Forum on Trade) Communiqué of 2008 makes the same points:

- focus on trade facilitation
- address rules of origin, non-tariff barriers and standards
- harmonise streamline policy, rules and regulation.

WHAT IS SADC?

- The Southern African Development Community (SADC) has been in existence since 1980, when it was formed as a loose alliance of nine majority-ruled states in southern Africa known as the Southern African Development Co-ordination Conference (SADCC), with the main aim of co-ordinating development projects in order to lessen economic dependence on then-apartheid South Africa.
- The transformation of SADCC into SADC took place on 17 August 1992.
- The SADC vision is anchored on the common values and principles and the historical and cultural affinities that exist among the peoples of southern Africa.
- The signatories of the SADC Treaty agreed that underdevelopment, exploitation, deprivation and backwardness in southern Africa will only be overcome through economic co-operation and integration.
- SADC has adopted the following milestones to facilitate its agenda: SADC free trade area by 2008, customs union by 2010, common market by 2015, monetary union by 2016 and a single currency by 2018.
- The SADC free trade area was launched on 17 August 2008.
- Current member states are Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe.

Source: www.sadc.int



MINISTERIAL TASK FORCE

There were some important developments in the SADC ministerial task force on regional integration recently held in Johannesburg, with respect to the work on the Customs Union, and to the future work on the proposed tripartite free trade area (FTA) for SADC, the East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA).

Given its complexity and delays in the work to lay the basis for a customs union (common external tariff, legal and institutional arrangements, revenue collection and distribution systems, common policies), the 2010 deadline is clearly not achievable. There was some discussion of whether moving to a customs union was the best option for deepening regional integration.
It was strongly felt that priority should be given to work that strengthens the SADC FTA (e.g. bringing all on board, rules of origin, standards, trade facilitation, diversification of economies) and that builds region-to-region FTAs by intensifying work under the tripartite proposal.

IMPACT OF EPAs

It is no longer possible to discuss regional integration in southern Africa without reference to economic partnership agreements (EPAs) with the European Union. South Africa entered EPA negotiations in an effort to build a harmonised set of trade relations between southern African countries and the region's single most important trading partner, the EU. South Africa had hoped that the objectives of regional integration could be advanced at the same time as building a single trade regime with the EU. We also took note that the European Commission (EC) had said that one of its key objectives in negotiating EPAs was to enhance regional integration.

The emerging interim EPA outcome is very different to our expectations. SADC members have found themselves in no less than five separate EPA negotiating configurations. Each has negotiated market access arrangements for EU goods that vary considerably from one another. This will complicate – and could even foreclose – efforts to foster regional integration. The separate arrangements also create the basis for new trade policy divisions in the region. They provide market-opening obligations and commitments to the EU, even before the region has had time to build its own regional markets and rules in such new areas as services, investment, competition, and procurement.

> The most serious constraint to balanced regional trade remains undeveloped production structures in SADC countries.

The EPA threatens to weaken SACU. Unless addressed, a series of incompatibilities in the legal provisions under the SACU Agreement, the Trade Development and Co-operation Agreement (TDCA) and IEPA could steadily erode the basis for policy coherence in SACU. Moreover, unless addressed urgently, some of the EPA legal requirements could undermine SACU's ability to function even as it has until now. These include differences in tariff regimes and the rules of origin under the TDCA and EPA. The EPAs contains provisions that limit policy space to promote agricultural and industrial development, and to diversify trade relations with other important economies around the world.

South Africa will not sign an EPA until it is convinced that the concerns we have raised are substantively addressed. The EC has agreed to continue to engage on them. While we are firmly committed to addressing these, it is evident that South Africa cannot achieve these objectives on its own. We need a common vision in among SACU member states and a continued willingness from the EC to prioritise its professed concern to promote regional integration – not just in broad declaratory statements, but in the detailed outcomes of negotiating processes.