Which way economic integration in Southern Africa?

A review of the studies carried out by the

World Bank/IMF/EC/ADB1/ and the African Development Bank2/
Introduction

Over the last few years, economic integration in Sub-Saharan Africa has aroused growing interest both in Africa and outside, especially within the donor community. The reasons for this interest vary but all concerned seem to agree on the major one: attempts by African countries to develop within their national boundaries have invariably led to failure and economic integration with neighbouring countries may be a viable alternative to isolated efforts. While relevant African intergovernmental organizations, including the newly-born African Economic Community (AEC) aim at fostering primarily economic links among African countries, the immediate objective of some organizations outside Africa is rather to open up Africa to the world economy, their argument being that any protectionism results in wastage of resources by preventing consumers from having access to best goods and services from the point of view of price and quality.

Two recent studies, carried out for the World Bank (jointly with the European Community) and the African Development Bank (ADB) respectively, have provided "food for thought" (and possibly action). Though the two studies cover almost the same area (Eastern and Southern Africa) they differ in their scope and means utilized: while the World Bank desk study confined itself to constraints to intra-regional payments, trade and investment, the study carried out by the ADB encompasses all sectors where co-operation may generate gains for the countries concerned.

We will try hereafter to assess the two studies, bearing in mind what is suitable and/or feasible in Africa under present circumstances. As the two studies have very little in common, they will be reviewed separately and cross-references will be made only when appropriate.
I. Desk Study on Regional Integration in Eastern and Southern Africa: Constraints to Intra-regional Payments, Trade and Investment

NB: This study was carried out with a view to assisting in the definition of a common approach to regional integration by the co-sponsors. This approach is contained in the document subsequent to the study itself and entitled: "Concept Paper: Initiative to Facilitate Cross-Border Private Investment, Trade and Payments in Eastern and Southern Africa." The assessment will address the two documents simultaneously and invariably, as they convey the same message and are mutually supportive.

The concept paper, which translates into a programme of action the recommendations of the study, embodies a "pragmatic step towards economic integration in the PTA/SADC/IOC subregion in accordance with the objectives of PTA, SADC, IOC and the Abuja Treaty".

From this overall objective, the initiative hinges on accelerated liberalization programmes with respect to external payments and domestic regulatory environment so that "scarce investment capital could pursue differential factor prices and thus create efficient patterns of growth". Furthermore, "the initiative seeks to build on the progress achieved under the national structural adjustment programs" and allegedly "to strengthen the momentum generated by PTA, SADC and IOC towards regional integration". Moreover, "the initiative is also distinguished by its emphasis on unilateral action and self-selection and most of policy requirements are matters of national decision..."

Based on this orientation, the concept paper suggests the core policy and institutional requirements of the initiative and reviews modalities for financial assistance by the co-sponsors,
and announces country specific programmes that would be prepared and negotiated once the underlying principles are approved. (This was done at a ministerial meeting held in September 1993 in Kampala).

Following are the core measures envisaged in the concept paper:

(a) import and export liberalization with the removal of non-tariff barriers and elimination of tariffs on intra-regional trade on a reciprocal basis by 1996;

(b) liberalization of trade in services including insurance, transport, consultancy and tourism;

(c) implementation of PTA trade facilitation instruments such as the harmonized transit charges with a coupon system in UAPTA, the Road Customs Transit Document, a single declaration document covering import/export/transit trade, a regional bond guaranty scheme;

(d) financial reforms aimed at promptly eliminating impediments to entry by regional and extra-regional financial institutions including off-shore banks;

(e) complete, non-discriminatory elimination of restrictions on current account transactions and relaxation of certain capital account transactions;

(f) liberalization of direct investment and investment in regional equity markets;

(g) establishment of unified inter-bank, spot exchange markets in all participating countries by 1996 with the IMF's assistance;
(h) the PTA Clearing House to focus on the coupon system for transit charges and settlements relating to liberalization of regional transportation of passengers and freight;

(i) streamlining of the regulatory environment and harmonization of investment incentives in the context of adjustment programmes and deregulatory measures proposed include inter alia a maximum 45 days period for the approval of investment applications, single approving windows and an amended PTA M.I.E Charter without any restrictive equity clause;

(j) free movement of persons to be ensured through the eventual elimination of visa requirements and facilitation of residence and employment permits;

(k) membership to Multilateral Investment Guarantee Agency (MIGA) and where necessary to bilateral agencies such as OPIC;

(l) conclusion of bilateral dual taxation agreements.

Those measures, aimed at reducing "obstacles to cross-border economic activity" are to be implemented with the financial support of the co-sponsors of the initiative, are they likely to foster the economic integration process among the participating countries?

First, one can observe that the initiative deliberately addresses only one segment of the integration process i.e. trade, leaving the others to the market forces. The focus on trade and related issues does not mean that the co-sponsors of the initiative are oblivious of the necessity to deal with the other aspects. However, among the major reasons for the little progress
achieved in economic integration in Africa is the excessive emphasis put on market integration mechanisms, with little attention paid to production activities and removal of physical barriers to trade of goods. This observation has led the Economic Commission for Africa (ECA) to formulate an integration strategy more adapted to African realities and clustered around:

- the development of an integrated (sub)regional transport and communications network aimed at easing barriers to the movement of people and goods;

- the development of production to generate excesses for intra-regional trade;

- trade liberalization schemes, including payment facilities, based on the expanded market; and

- the gradual convergence of macro-economic policies.

The recommendations of the study and concept paper are more in line with the situation prevailing in European countries on the verge of their signing the Rome Treaty than that of African countries presently: Europe had already fairly well developed infrastructures and production capacities. What was needed was large markets and free flows of factors to enhance competition and expansion. The national economies in Eastern and Southern African subregion, with a few exceptions including South Africa, are not in a position to take fully advantage of the trade liberalization which is the thrust of the initiative: infrastructure links are still weak and so are production capacities in many countries of the subregion.

Second, it is our considered view that trade and investment schemes must take into account differences in levels of development of the participating countries and mitigate the effects of liberalization such as revenue losses through
compensatory mechanisms. There exists, indeed, a major risk of the initiative ruining the least developed countries in the subregion and their nascent industries and agricultures, especially with the envisaged participation of South Africa and France (through La Réunion Island). Due to the recommended very low external tariffs, transnational corporations from outside the subregion would not even need to invest in it to access its markets. The expected increased investment would not materialize in such a situation. The countries of the subregion, with the exception of South Africa, would be turned into mere importers/consumers facing dramatic balance of payments and unemployment problems. The result might be in the medium-term, once the effects of the financial assistance have vanished, a situation where participating countries would adopt protectionist measures, denouncing explicitly or not the recommendations of the initiative. This is all the more possible that this is typically a donor-driven programme imposed on countries of the subregion and specifically designed to break up the integration process adopted within the framework of PTA/COMESA and SADC.

Third, the initiative is too much clustered around individual countries' structural adjustment programmes. This might bring about increasing policy divergences and take the countries concerned away from the integration agenda. This risk does exist as the PTA/COMESA and other intergovernmental organizations (IGOs) are marginalized in the process of conceiving and implementing the initiative: then initiators refused their involvement in the Steering Committee thus restricting cooperation with these regional institutions, OAU and ECA to "window dressing statements" aimed at securing legitimacy through statements such as: the initiative's "aims are in accordance with the objectives of PTA, SADC, IOC..." More involvement of the IGOs concerned would ensure that the initiative will not compete with PTA instruments but rather make use of them. Furthermore, adding a subregional dimension to the initiative could help ensure co-
ordination, harmonization and consistency between the envisaged national programmes. This is not the case.

Finally, there is need for additional resource inflows, especially concessional funds, for balance of payments support, investment in infrastructures and R&D for diversification, for the countries concerned to cope with their obligations under the initiative. As it presently exists, the initiative foresees no additional financial facility and the co-sponsors intend to use existing facilities to support it.

In conclusion, one can say that this initiative is one of the attempts being made to promote the "variable geometry" approach as a substitute to collective concerted actions which are the thrust of the Abuja Treaty. This is not to deny the fact that the initiative contains such positive aspects as the strengthening of the PTA Trade and Development Bank with a view to providing pre and post shipment credits. In order to make the initiative more attractive, its co-sponsors have proposed financial incentives. However, these incentives will not correct sustainably the shortcomings enumerated above. The vigilant participation of PTA and the other IGOs in the implementation process would ensure that the initiative will not disrupt the economic integration process already in motion in the subregion along the lines of the four-prong strategy indicated earlier and which provides adequate responses to the generally accepted development requirements of the region. Trade liberalization and free factor flows cannot work in isolation of adequate infrastructures, developed production providing goods to be traded and coordinated economic and monetary policies.

The initiative is obviously in contradiction with recent moves of its initiators on many aspects:
1. Both the World Bank and the European Commission have recognized the inefficiency of donor-driven programmes and have called for home-grown programmes and have put emphasis on "ownership" as a key element in reform programmes.

2. The initiative is another way of attempting to reintroduce the World Bank/IMF-sponsored national orthodox structural adjustment programmes through the back door at time even the European Commission is calling for an "overhaul" of these programmes and the Bank is calling for home-grown reform programmes.

3. The initiative obviously aims at "freezing" the integration process in Eastern and Southern Africa and preventing countries in this area to build up strong groupings at a time such groupings are emerging the world over including the Europe (the European Union) and even in America with NAFTA.

Finally the initiative stems from the wrong assumption that African economies are "closing" themselves to the world (because of the emerging regional IGOS such as PTA, SADC, IOC, ... ) and measures to open them up on the right prescriptions. This is not born out by the facts: Africa's economies are over-open to the world and this has precisely kept them in their traditional role in the current international division of labour as suppliers of primary commodities and consumers of manufactured goods and food produced outside the region. This has precisely kept their economies very much disarticulated with virtually no intersectoral linkages and has put them in their present unenviable position as the poorest region in the World in spite of their rich potentials. In the light of this, one can understand the initiators' lack of concern for infrastructural development since the vertically integrated transport and communications links to the world are indeed in existence since the colonial era and the production of primary commodities for
export is well entrenched and simply need minimal incentives which will in turn depress the world commodity market further.

There is also the unavowed fear that the impact of post-apartheid South Africa and its technological capacities and others might result in internalized development processes in the region that are foreseen as threats to the rest of the World while they are indeed opportunities for Africa to develop self-reliance (not autarchy) and become a more viable partner.

II. Economic Integration in Southern Africa by the ADB

NB: As suggested by the authors of the study, the Southern African subregion may include for some matters countries like Zaire which can develop mutually advantageous relations with those commonly regarded as belonging to the subregion.

Unlike the study of the World Bank, this study has adopted a holistic approach. At the outset, the study "determines that there is likely to be a significant welfare gain emanating from regionalisation". This welfare "in the next ten years will accrue primarily from three sources:

(i) "from substantial cost savings resulting from coordinated investments in the region's physical infrastructure..."

(ii) "from the benefits of trade creation, expansion and intensified cross-border investment..."

(iii) "from the "externalities" or unorthodox gains from regionalisation which occur when the major non-tariff barriers to enhanced regional intercourse are removed".
The study suggests a "two-track approach" for integration in Southern Africa following different agendas, namely:
- "coordination and cooperation" on "project investments and policy harmonisation" in such sectors as power, transport, telecommunications, water basin management, development of mineral resources, food production etc.; and
- "market integration" clustered around trade and related matters.

For this assessment, we will review sequentially the various components of the study.

(a) The political dimension

One can but agree with the authors of the study when they state that the case for economic integration in the subregion does not rest "solely on perceptions of economic costs and benefits". Indeed, the implications of post-apartheid era associated with "political will and commitment" will determine success or failure of the undertaking.

(b) Expanding intra-regional trade

Though usually governments focus attention on the elimination of tariffs because it is associated with revenue losses, the study rightly indicates that in the subregion non-tariff barriers (which include the constrained ability to pay for imports, import and export licensing, lack of trade facilities and information, very high transport cost, border control and permit requirements) are of more significance than tariff barriers. At present, the trade of South Africa with the rest of the subregion represents only 6.8 percent of total trade. This level may, however, increase significantly should South Africa benefit from a more favourable tariff regime than the rest of the
world within the framework of a new trade arrangement for Southern Africa, encompassing SACU and PTA. Given the likely implications, for the economies of some countries in the subregion, of a scenario entailing the participation of South Africa, one can predict that the agenda for the implementation of such a scenario will take long to be negotiated. These implications should be subject of a thorough study on the basis of which all the countries can conclude mutually beneficial arrangements. In any case, it seems unrealistic to believe that a democratic South Africa's preferential economic relations will be restricted durably to SACU.

(c) The Financial sector

This is a sensitive area where structural adjustment-driven policies are reducing government controls and ownership. The cautious step proposed by the study, namely a facility to be co-funded by ADB and other financial institutions "for strengthening regional bank capitalization" is welcome.

However, one fails to understand the rationale of the following suggestion: "To avoid the entry of RSA banks driving out other foreign banks in SAR countries, measures may be needed to encourage foreign banks already in the region as a potential growth area". This seems to contradict the following statements made in the same paragraph: "In our view no special preferences or penalties should be applied to RSA banks. The playing field ought to be made level for all banks as well as they are well capitalised, properly run, behave competitively, adhere to laws and regulations and transfer technology". Do transnational banks already well entrenched in the region need a discriminatory treatment to resist emerging African banks (for RSA banks post apartheid will be African banks)?

(d) Regional co-operation in manufacturing
Not surprisingly, the study states that "the future pattern and growth of manufacturing in SAR will be determined more by the investment decisions of private investors than those of governments and parastatals..." At the same time, the study suggests that the "considerable excess capacity that has been created within the region behind protectionist barriers for a range of consumer goods" be dealt with. As acknowledged by the authors, "this raises the critical question of which industries in different SAR countries will be able to survive in the face of regional competitive pressures and of progressive trade liberalization..." Similarly, "industrial cooperation in the region is most likely to be furthered within the framework of converging macroeconomic policies than by interventions attempting to engineer cooperation at the micro(enterprise) level".

Despite the contradictions which seem to exist between those statements, one clear indication which stems from them is that the governments concerned are to play a key role in furthering cooperation in manufacturing, be it by way of concerted incentives or "de-industrialisation" measures. In view of the implications (especially in the least developed countries) of this cooperation for employment, intra-regional trade and the fate of infant industries existing in some of the countries, the game cannot be left to the "market forces" alone. Furthermore, it is our conviction that the IGOs concerned are the most appropriate fora for the conclusion of cooperative arrangements. This is to contradict the views of the authors of the study according to whom: "When industrial projects with a genuinely sub-regional dimension are promoted, it has proven exceedingly difficult to foster regional cooperation or participation in terms of either investment or in establishing firm market arrangements. Moreover, there is a substantial and rapidly growing dichotomy between attempts by regional institutions and officials to promote industrial projects or products when the
investment and manufacturing is to be undertaken by the private sector. The IGOs have a role to play in linking industrial cooperation and trade arrangements aimed at boosting intra-regional exports of industrial goods. The role of IGO's and that of officials is that of facilitators creating the necessary framework, promulgating preferential regimes as incentives for cooperation. There is therefore no dichotomy between this role and the private sector's.

This disagreement notwithstanding, we concur with the recommendations made by the study as regards the steps to be taken in order to "maximise the regional gains" from industrial cooperation. Indeed, the starting point must be a thorough review of the sector and sub-sectors with a view to assessing the strengths, weaknesses, opportunities for cooperation, areas where action is needed on the part of the governments to create and enabling environment etc. The ADB, as suggested by the study, is well placed to initiate such a review and generate interest and support from the donor community. The regional organizations (PTA, SADC, IOC) could also play a key role in this identification exercise and provide a useful framework for cooperation.

(e) Integration in the mining sector

The study recommends the establishment of a Southern African Minerals and Mining Commission(SAMMIC) primarily to advise the countries within the subregion and attract foreign investment in this sector. While we agree that such a body can assist in setting up effective cooperation, we tend to question the need to establish a new body to perform those duties. Indeed, the SADC Unit may be expanded to South Africa in order to perform such duties. Technology wise, there exists an Eastern and Southern African Mineral Resources Centre(ESAMRDC) based in Dodoma, Tanzania. The study which is suggested could be carried out to
assess its ability and that of the SADC unit to be transformed into institutions which can perform the functions intended for the SAMMIC and MINTEK respectively.

The importance of this sector in the economy of some of the countries and the predominance of RSA are valid reasons for supporting the cautious approach suggested by the study.

(f) Agriculture, forestry and fisheries

There is little to discuss or disagree with in the study, as its recommendations are genuinely based on the complementarities which exist between the countries concerned. A proper dissemination of the results achieved in agricultural research for instance, will no doubt increase the ability of the subregion to achieve food self-sufficiency. Concerning fisheries, arrangements for joint exploitation of fish resources in common areas should not give rise to fundamental disagreements.

(g) Integration in the energy sector

As stated in the study, "the reason for lack of adequate cooperation in the past has been security problems in the era of confrontation and destabilisation"; however, the energy sector offers considerable potential medium-term pay-offs from closer regional cooperation. The problem of payment of exported electricity is not more difficult to overcome than for the other transactions. The idea of bringing Zaire in cooperative arrangements in this field can but be welcome. The key for success is the conclusion of fair deals, involving or not private sector, which benefit equitably all partners. The need for interconnected electricity grids in the region is obvious and it should not be seen through the export prism alone. Investments
(new and delocalization) should also follow energy and take place in less developed energy producing countries in the subregion.

(h) Integration in transport and communications

One of the reasons why transport costs in the subregion are "exceptionally high" is that most countries in the area have tried in the past not to depend on RSA transport facilities. The prospect for cooperation with an apartheid-free RSA would bring those countries to develop jointly an efficient integrated multimodal transport network, even at the cost of diverting traffic from routes which costed a lot to be built under different circumstances. In this respect, the measures suggested in the study to make the traffic fluid across borders are welcome. (These measures can be considered the "software" needed to operate the "hardware" which is represented by the infrastructure). We agree, therefore, with the recommendation of the study that cooperation in this field should be based on competition between transport modes and routes which can be reflected in a treaty as suggested by the study or in several coherent arrangements. However, there is still a pressing need to develop horizontal transport and communications as those of South Africa and those built by SADC countries to delink with the apartheid South Africa are more vertically oriented than otherwise.

(i) Integration in labour markets

This area is a sensitive one where any future arrangements will depend mainly on the labour policy in RSA. Indeed, migratory labour was used for years to lower wages in RSA and overnight replacement of migrants by national labourers may have far-reaching implications for a country like Lesotho where, according to the study, "60 per cent of adult males between 20-49 are employed in RSA mines and migrant remittances account for nearly
half of GNP". In this area there is room for flexible arrangements to be concluded probably bilaterally, account being duly taken of evolutions resulting from cooperation in manufacturing and mining especially. The migratory labour movements have indeed provided opportunities for South Africa but in post apartheid South Africa and emerging labour forces in the black majority, these movements have to be stabilized somehow and this can only take place within the framework of balanced distribution of productive activities, creating job opportunities that will retain migrants home.

(j) Regional institutions

The institutional framework for cooperation in Southern Africa is currently being reviewed by a joint PTA/SADC Ministerial Committee. Its findings and conclusions will no doubt provide adequate solution to the real risk of overlapping and duplication between the organizations but also with their potential partners i.e. the IOC and SACU.

The scenario envisaged by the study whereby SADC would focus on "improved coordination in key sectors" is probably one of the options being considered by the Ministerial Committee. Whatever option is adopted by the countries, the existing institutions will need a transition period to adapt to the new arrangements. It may not be easy at this stage to determine, as in the study whether this transition period would range from 5 to 7 years or more. In any case, the coexistence of IGOs as they are now would not constitute an appropriate framework for effective cooperation in Southern Africa. Balanced economic cooperation and integration in the region would require a larger economic space running beyond South Africa towards other African regions with the COMESA/PTA as the first call point.
In summary, it is our view that this study by its scope and innovative and flexible recommendations can be the basis for discussions between countries in RSA. Those organizations involved in integration may also find in this study "food for action". But, as indicated at the outset, a great deal will depend on the political context which will prevail in the subregion which will integration in the area a lively reality or not.

Conclusion

The two studies reviewed above have little in common. However, they both highlight some issues which are relevant to economic integration in the same subregion. They are indeed evidences that their is a universal agreement that Africa including Southern Africa can only develop through regionalism. The diverging point brings in the very nature of regionalism. Beyond all the various sectoral issues therein the two studies have provided opportunities for a major debate, the debate about Africa's economic future. Should the integration process in the region including that of integrating South Africa stem from regional internalized development processes based on South Africa's emerging capacities (technological and others) and the continent wealth of natural endowments with enhanced intersectoral linkages or should Africa continue with its excessively extroverted economies and its traditional role of primary commodity supplier in the present international division of labour?

Africa is in the world and indeed part of the world but for Africa to be a significant partner, it has to develop and development can only take place in Africa with:

- developed infrastructures;
- integrated production process linking agriculture and industry, the primary and the secondary sectors and capable of generating excesses for the expansion of trade;

- enhanced intra-regional trade within enlarged multinational markets;

- coordinated economic policies;

- developed capacities (human and material).

As regional integration is not an end per se but a means to achieve development, proposals for regional integration policies and programmes should therefore integrate these elements.