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TRADE BLOCS AND ECONOMIC INTEGRATION OF SOUTHERN AFRICAN COUNTRIES

PROSPECTS AND CHALLENGES

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Abstract

Efforts of economic integration in Southern Africa have led to the establishment of several trade blocs. Some of the trade blocs in Southern Africa include SADC, SACU, CMA, etc. Although the ultimate aim of these trade blocs is economic integration of the countries in the region detailed objectives are set for different trade blocs. In some cases, the objectives are overlapping as well. The establishment of trade blocs in the region has opened door for great business opportunities and increased regional imports, exports, and employment creation. There is, however, room for improvement. This paper discusses the various different economic integrations in Southern Africa focusing mainly on Southern African Development Community (SADC)and pinpoints too many trade blocs with overlapping objectives, poor transport network among member countries, and complex bureaucracy, etc. as main hurdles in the fast pace development of the SADC countries and suggests a single trade bloc of the member nations as a tool for rapid development.

Keywords: Trade Blocs, Economic Integration, Trade Facilitation, SADC nation

INTRODUCTION

Trade Blocs can be described as a group of certain countries which agree on increasing trade within themselves by reducing several trade barriers, and in a less costly manner (Pugel, 2009).Trading blocs lead to economic integration of participating countries. Some major trade blocs in the world include European Union (EU), Canada-USA free trade agreement (CUSTA), USA-Israel free trade agreement and the association of South East Asian nations (ASIANS). Some of the important trade blocks of Sub-Saharan Africa are the Economic Community of West African States (ECOWAS), the East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA), etc. Most countries of the world today are member(s) of one or other trade bloc.

The reasons for emergence of trade blocks include trade creation and trade diversion. Trade Creation is the net increase in new trade as a result of joining a bloc. Trade diversion is the shift of production from low-cost country to a higher-cost member country (Pugel, 2009).Other possible gains of trade blocs include reduction in prices as a result of competition, lower cost of production because of competition, expansion in scale of production thus lowering cost, and increased opportunity for business investments. The progression of blocs as the integration increases is shown in Table 1.

Table 1. The progression of blocs as integration increases:

Types of Blocs	**Features of Blocs**			
	Free trade among the members	Common external tariffs	Free movement of factors of production	Harmonization of all economic policies (fiscal, monitory, etc.)
Free-trade area	X			
Customs union	X	X		
Common market	X	X	X	
Economic union	X	X	X	X

Source: International Economics (14thed), P. 260

In the present paper, we look at the different trade blocs in Southern Africa with the aim of suggesting improvements in economic integration in the region. The paper will review the achievements and prospects of the different trade blocs focusing mostly on Southern African Development Community (SADC).

In this context, it would be useful to briefly discuss the European Union (EU) first as being one of the biggest integrations so far.

European Union

The EU is the oldest trade bloc and most integrated economy. The need for a united Europe was realized soon after the Second World War and became a reality by 1993. First, a common market was established after signing the Treaty of Rome in 1957. The first six members were Germany, France, Italy, Belgium, Netherland, and Luxembourg. In the 1960s, member countries traded with each other without charging custom duties. Food production was controlled jointly. The EU also started to develop poorer areas by providing capital for creating jobs and infrastructure. The creation of a single market brought countries closer as because easier movement of goods, people, service, and money. Education and communication has improved vastly. A single currency has been introduced. Crisis such as terror and financial problems are dealt together as everything is interrelated. Countries are now looking forward to investing in green technology to fight global crisis.

The EU, however, has failed in dealing with over-spending by countries like Greece, Spain, and Italy leading to insolvency problems. In order to help these nations, more Euros are being used as bail-out money. The bail-out money which is a loan that is being used to pay previous loan, doesn't seem to solve the problem at all. The countries are failing but their currency stays strong as they are pegged to European Union. If these countries were allowed to just collapse, they could have restructured themselves and thus removed inefficiencies in the system (The European Union: A case study for failure, 2013).

Southern Africa

Southern Africa is the region in the African continent that includes countries like Republic of South Africa, Lesotho, Swaziland, Botswana, Namibia, Zimbabwe, Zambia, Angola, Mozambique, and Madagascar (Southern Africa) (Figure 1).

Figure 1. Countries in the Southern African continent

Source: http://www.afdb.org/en/countries/southern-africa/

Trade Blocs in Southern Africa

This paper will look at the different trade blocs and their role in economic integration in Southern Africa focusing mainly on Southern African Development Community (SADC).The table below shows some of the trade blocs that will be discussed here in addition to African Union (AU).

Table 2. Membership of Regional Groupings

Countries	Southern African Customs Union (SACU)	Southern African Development Community (SADC)	Common Monitory Area (CMA)
Angola		X	
Botswana	X	X	
Burundi			
Comoros			
Djibouti			
Ethiopia			
Eritrea			
Kenya			
Lesotho	X	X	X
Madagascar			
Malawi		X	
Mauritius		X	
Mozambique		X	
Namibia	X	X	X
Rwanda			
Seychelles			
Somalia			
South Africa	X	X	X
Sudan			
Swaziland	X	X	X
Tanzania		X	
Uganda			
Congo		X	
Zambia		X	
Zimbabwe		X	

Source: (Holden, 2000)

African Union (AU)

AU was established in July, 1999 as a successor of the Organization of African Unity (OAU). It was established with the view of supporting liberation movement, to fight apartheid, and deal with social and political problems of member countries (AU In Nutshell). As these goals were almost achieved, the focus changed from liberation to development in African Nations (AU In Nutshell). The African Union consists of 53 countries with 5 suspended countries and Morocco being the only country not part of it. The AU's secretariat, the African Union Commission, is based in Addis Ababa, Ethiopia (The African Union). The figure 2 below shows AU member (dark green) with the 5 suspended stated (light green).

Figure 2.The members of the African Union (in dark green color).

Source: http://theagecases.blogspot.com/2011/02/case-224-african-union-au.html

Southern African Customs Union (SACU)

SACU (Figure 3) is the oldest existing union in the world established in 1910. It was custom Union agreement between the then known Union of South Africa and the High Commission Territories of Bechuanaland, Basutoland, and Swaziland. Upon independence these countries are now known as South Africa, Botswana, Lesotho, and Swaziland, respectively. Namibia joined as the fifth member upon its independence from South Africa (SACU)in 1990.

Figure 3.Member countries of SACU (in pink color).

Source: http://web.worldbank.org/

SACU's visions "an economic community with equitable and sustainable development, dedicated to the welfare of its people for a common future" (SACU Mission). In order to accomplish its vision and mission SACU has a common external tariff, is also working with Common Monetary Area, and further integrating economies of its member countries (SACU Regional Integration). SACU's trade facilitation objective is to reduce transportation cost and complexity of international trade. In order to this, the SACU 2002 agreement consists of Article 2 which encourages free movement of goods between members and Article 27 which encourages non-discrimination among transport operators.

Some of the trade facilitation instruments in SACU include the application of similar legislation with regard to customs and excise duties, customs cooperation, use of common customs documentation and common procedures and practices (Trade Facilitation). The revenue that is collected from the external tariffs and excise tax is governed by South African Reserve Bank and allocated to member countries according to a formula that enhances the share going to the smaller countries (Holden, 2000). The revenue sharing procedure has always led to disagreements between the smaller countries and South Africa as the revenue is very important for the smaller countries (Holden, 2000). Also, as a result of trade liberalization and failure to police borders has led to a reduction in the amount of revenue collected by SACU (Holden, 2000).

Common Monetary Area (CMA)

CMA was a monetary union to use the South African Rand between South Africa, Lesotho, and Swaziland. Namibia became an automatic member upon its independence but later pulled out when it had its own currency, Namibian Dollar, which was stable against the South African Rand (Zyl). Some of the significant drawbacks of this policy were that there was no monetary policy discretion for the smaller countries and no formal framework for consultation.

Southern African Development Community (SADC)

SADC established in 1992 was preceded by Southern African Development Coordination Conference (SADCC). SADC is headquartered in Gaborone, Botswana. Currently SADC has a membership of 15 members of SADC are Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Seychelles, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

The integration allowed the reduction of tariff and non-tariff barriers, coordinate external tariffs, and allow free movement of labor. Initially, there was no free trade agreement but as development of the member states progressed, Trade Protocols were set (Holden, 2000). The goals of SADC included: 1. Cooperation and / or integration among member states in a range of sectors and their markets, including transport, health, tourism, agriculture mining, and water, through legally binding protocols. 2. Establishment of a Free Trade Area by 2008, completion of negotiations on a Customs Union by 2010 and a Common Market by 2015 (SADC Regional Integration).

Two major policies initiated by SADC are Regional Indicative Strategic Development Plan (RISDP) and the Strategic Indicative Plan for the Organ (SIPO). "RISDP is a 15 year regional integration development framework, setting the priorities, policies and strategies for achieving the long-term goals of the Southern African Development Community."(Summary of the Regional Indicative Strategic Development Plan, 2010). Besides achieving the overall goal of SADC RISDP has contributed to poverty eradication, regional development integration, regionally balanced and equitable development, integration into the continental and global economies, sustainable development and, gender equality(Summary of the Regional Indicative Strategic Development Plan, 2010).

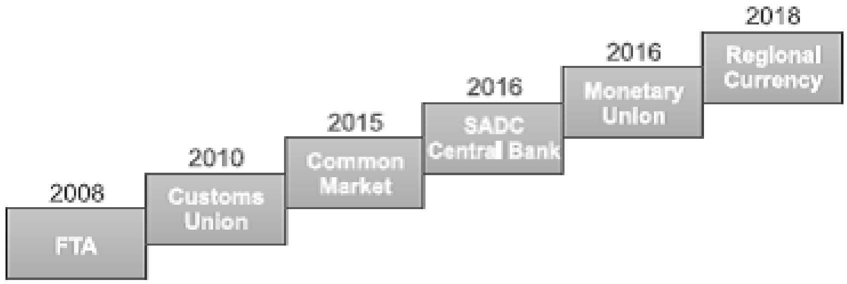
The RIDSP has as one of its strategies to have a free trade area (FTA). The SADC FTA creates a regional market worth US$360 billion with a total population of 170 million and includes economies growing by up to 7% a year. Angola and the Democratic Republic of Congo are set to join the FTA adding a further US$71 billion and 77 million people to the SADC market.(Free Trade Area, 2008).

Table 3. SADC Member Countries Statistics 2012

Country	2011 (mid year in m)	GDP millions US$	Per Capita GDP, (US$ per head)	GDP Growth Rates (%)	Intra SADC Exports (million US$)	Extra SADC Exports (million US$)	Exports SADC (million US$)
Angola	17 992	97 694	5 430	3.9	2 112	64 824	66 935
Botswana	1 849	17 425	8 605	5.7	1 118	4 793	5 910
DRC	75 259	16 113	214	6.9	15	5 112	5 127
Lesotho	1 897.0	2 366	1 259	4.3	3	999	1 001
Madagascar	20 696	10 025	484	0.5	61	1 395	1 456
Malawi	14 389	5 811	404	4.3	365	1 904	1 417
Mauritius	1 286	10 790	8 390	4.1	355	1 053	2 259
Mozambique	23 049	12 259	532	7.3	823	2 833	3 657
Namibia	2 105	12 705	6 036	4.8	2 295	3 373	5 668
Seychelles	87	1 014	11 596	5.0	24	522	546
South Africa	50 587	408 689	8 079	3.1	10 791	82 176	92 967
Swaziland	1 067	4 090	3 830	1.3	1 169	394	1 562
Tanzania	44 485	23 850	536	6.4	1 259	3 542	4 802
Zambia	13 459	19 238	1 429	6.8	1 895	6 299	8 193
Zimbabwe	12 754	8 866	695	10.3	2 912	1 054	3 966
SADC-Total	**280 961**	**650 935**	**2 316**	**3.8**	**25 196**	**180 271**	**205 467**

Source: (SADC Statistics Year Book, 2012)

Figure 4. RISDP's timeline



Source:http://www.sadc.int/cms/uploads/sadc%20free%20trade%20area%20handbook%20-%20english.pdf

The core objective of the SIPO therefore, is to create a peaceful and stable political and security environment through which the region will endeavor to realize its socio-economic objectives (SIPO, 2004).

Progress and Challenges of SADC

There has been satisfactory progress so far with the achievements of macroeconomic policy of member states. Five countries have achieved all four goals set for 2008 already in 2006; five achieved three of the goals and the other four achieved two goals (Rossouw & Fourie, 2008). SADC's plan to establish a FTA was achieved in August 2008. Eighty-five percent of intra-regional trades were zero-duty. The impact of this has been in doubling of trade between member countries in year 2009 since year 2000(Free Trade Area, 2012).The achievement of these goals will definitely help the SADC reach its final objective of forming a regional central bank with a single regional currency by 2018 (Rossouw & Fourie, 2008).

Some of the problems associated with SADC include no provision for differential treatment for least developed countries such as MMTZ (Malawi, Mozambique, Tanzania, and Zimbabwe) (Saurombe, 2009); inadequate provisions to foster equitable industrial development in the region; and failure to address adequately prevailing trade imbalances in the region (Amusan, 2010). Transport costs are an extremely important cost for landlocked countries. Inefficient road and rail networks and low competition in air industry because of government protection increases transportation costs considerably (Hartzenberg, 2011). Currently, they are very high and negatively affecting trade and investment (SADC Major Achievements, 2010).

Another area for concern is that of multiple memberships. Some members of the SADC countries belong to more than one regional trade blocks. For example, Namibia is a member of SACU, SADC-EPA, and WTO. The overlapping objectives might become a source of problem. For example, SACU is already a Custom Union and SADC wishes to achieve the same objective. The WTO, however, allows member states to be part of only one custom union (Saurombe, 2009).

To harmonize policies for a Custom Union is a must. Currently, there are eleven tariff policies of all member states. Converging these policies means time consuming negotiation processes (SADC Customs Union, 2012). Furthermore, if the SADC wish to achieve its objective of single currency by 2018, the member countries would have to focus on converging macroeconomic indicator (such as inflation rates). This means loss of monetary and fiscal sovereignty of individual states which member states may not be prepared for (Saurombe, 2009) .

Conclusions and Recommendations

It can be concluded from the discussion above that economic integration can be improved by lowering transportation costs. This will need focusing on improving rail networks and increasing competition in the air industry.

Southern African region has too many trade blocs with overlapping objectives. Southern Africa is a small region within the large African content. Most countries are members of more than one trade bloc with more or less the same objectives. It would be convenient if just a single trade bloc exists for this region so that harmonization of standards becomes easier, confusion is minimized, and it would also be less expensive in terms of administration. For the free trade area to be fully successful, following measures are suggested:

- The measurement of inflation should be harmonized between member countries.
- Legal, regulatory and supervisory framework of financial institutions within SADC should be harmonized.
- SADC countries may consider a suitable monetary framework for a regional central bank. (Rossouw & Fourie, 2008).
- The effect of economic integration on the social and economic progress of the member nations should be reviewed periodically.

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