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**Research Report**

## Promoting regional integration in the Southern African Development Community (SADC) - current approaches and future prospects

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## Promoting Regional Integration in the Southern African Development Community (SADC) – Current Approaches and Future Prospects

- *For the countries of Southern Africa, regional cooperation and integration are preconditions for accelerated economic and social development. On their own, the Southern African economies, most of them small, agriculture based primary commodity exporters with only incipient industrial development, will not be able to attract the necessary financial and technology transfers to support a sustained industrialisation process.*
- *In the Southern African Development Community (SADC), some of the necessary conditions for enhanced economic and social development have been met. The SADC Trade Protocol has been in effect since September 2000, providing for the establishment of a free-trade area in the course of the coming decade. In other core areas, including development of cross-border infrastructures, food security, or protection of natural resources, major advances have been achieved through sectoral cooperation. However, the path towards achieving a unified economic space in the region will prove to be still a long one.*
- *SADC will have to develop into a regional organization with true supranational institutions endowed with far reaching decision-making competences. Strengthening the organisation hinges on the political will of its member countries - and this will is not always uniform and clear-cut. SADC member countries' divergent economic and social development, widespread poverty, low productivity and persistent belligerent conflicts in the region represent serious impediments for deeper integration. The role of the region's "locomotive", South Africa, is ambiguous: fearing job losses and pursuing its own priorities, the country has thus far shown only limited inclination to come to terms with the rest of the region.*
- *Development cooperation can contribute to deep integration in the region only if member countries have the political resolve to transfer substantial sovereign powers to the regional institutions. Existing reform proposals must be implemented speedily; in that context, the role of the SADC Secretariat as the organisation's principal policy formulation and coordination institution must be strengthened. German development cooperation should focus on support to SADC Trade Protocol implementation, private sector promotion, infrastructure development in selected areas, and protection of natural resources.*
- *Regional integration in Southern Africa will only be successful if other goals are achieved in tandem, including political and economic stabilisation of the region, mobilization of savings and investment, and a gradual integration of the region into the world markets. The establishment of regional funds could contribute to economic harmonisation and social cohesion and help to overcome supply-side bottlenecks in the SADC region. Here, harnessing its own experience, the EU could assume the role of "leading donor". Negotiations between EU and SADC on the future post-Lomé trade agreement could provide a chance for the EU to assume such a new role.*

### SADC's state of development and medium-term perspectives

Subscribing to a functional-pragmatic approach, the so-called front states of southern Africa in 1980 founded the Southern African Development Co-ordination Conference (SADCC) as a political and economic counterweight to apartheid South Africa. In the 1980s or 1990s most of the SADCC countries went through a process of democratic change and conducted reforms geared to a market economy. In 1992 the Treaty of Windhoek saw the formation of a newly conceptualized Southern African Development Community (SADC). SADC's objectives extend far beyond the legal and organizational needs of pure trade integration. Following the democratic transition in South Africa, the organization now intends to bolster the region's political and economic stability, develop its human and economic potentials, and gradually proceed with the project of integration into the world markets.

With its enlargement to include fourteen member states and its entry into the phase of creating a free-trade area, SADC's integration process has become more demanding and more difficult. Accession of South Africa and the

DR Congo has not only heightened the

potentials of member states, it has also increased the organization's heterogeneity. The region's political stability is impaired by open and latent conflicts, and the competitive pressure stemming from world markets will, in the short term, tend more in the direction of divergence than integration. On September 1, 2000, the trade protocol came into force. For SADC this marks only the beginning of the phase of deepened integration. If the integration process is to be continued successfully, SADC will, in its next step, have to tackle some urgent organizational reforms and initiate measures geared to political stabilization and a more balanced distribution of the costs and benefits of integration. The following course of events appears realistic: (a) implementation of the SADC free-trade area within a period of roughly 10 years; (b) further deepening of functional-sectoral cooperation; and (c) strengthening of SADC as a regional organization in keeping with its financial and administrative capacities as well as the political competences transferred to it by the member countries.

## SADC's heterogeneity

In terms of area, population figures, size of their domestic markets, per capita incomes, and social and political situation, the SADC countries present a highly

heterogeneous picture (Table 1). This situation is further complicated by pronounced internal disparities in several countries. South Africa in particular is marked by an extremely unequal distribution of incomes. Some 40% of the 190 million persons in SADC are living in poverty, 30 to 40% of the working population is unemployed or forced to eke out a living in the subsistence economy.

<b>Table 1:</b>					
<b>SADC's heterogeneity - selected countries (1998)</b>					
Country	Population (mio.)	GDP p.c. (US \$)	GDP growth p.a. (91-98)	HDI ranking (of 174)	Share of manufact. in GDP (%)
Botswana	1,6	3.600	5,1	122	4,9
Malawi	10,5	200	4,4	159	13,6
Mauritius	1,2	3.700	5,1	59	24,4
Mozambique	16,9	210	5,7	169	10,9
South Africa	39,3	2.880	1,2	101	23,9
Tanzania	32,1	210	2,8	156	6,9
Zambia	8,7	380	0,9	151	11,8
Zimbabwe	11,6	610	1,9	130	15,4

Sources: World Bank, UNDP, AfDB

The differentials encountered in the state of the region's functional economic specialization are also substantial. Most of the countries concerned are marked by heavy dependence on a limited number of export goods as well as on external transfers. Only South Africa, Mauritius, and Zimbabwe have a manufacturing sector of any significance and, correspondingly, a more markedly diversified external-trade sector. In most of the member countries, however, two or three primary commodities account for over 50% of exports. This makes the region subject to the sharp, often asymmetrical price shocks typical for world-market cycles. The highest external debt, over 200% of GDP, is noted for the DR Congo, Mozambique, and Zambia. While a number of countries were able to limit inflation to one-digit levels prices have been rising by 30% p.a. and more in Malawi, Zambia and Zimbabwe. In view of this heterogeneity there is little prospect of economic convergence within the foreseeable future.

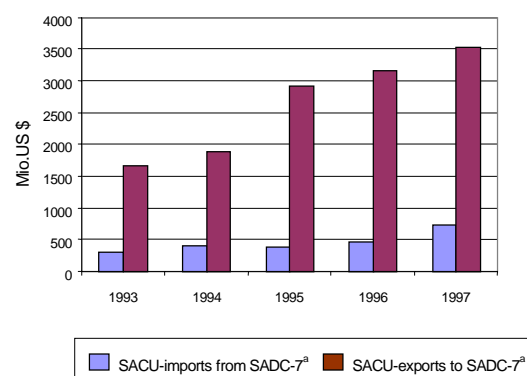
## Potentials of and obstacles to integration

SADC constitutes the most significant economic space in Sub-Saharan Africa. Its member states account for a common GDP of some US\$ 180 billion. Intraregional trade, with its volume of US\$ 5.2 billion according to SADC data, accounts for 20% of all exports, a figure that is relatively high for intraregional trade among developing countries. The most dynamic development is shown here by trade between South Africa and the other SADC countries: in the course of the last five years the volume of trade has grown by a factor of 1.5.

The evolution of regional trade does, however, show signs of growing imbalances between the Southern African Customs Union (SACU), consisting of Botswana, Lesotho, Namibia, South Africa and Swaziland, and the other SADC countries (Graph 1). SACU is currently the hub of intraregional trade, in particular in manufactured goods. Viewed in terms of the revealed comparative advantage index, SACU's industrial products are internationally competitive in over 80

groups. Yet, also the other SADC countries have a potential of products competitive in intraregional trade that is nowhere near exhausted. A consistent liberalization of the South African market could give these countries an enormous surge in growth through trade creation not necessarily marked by trade diversion. The most important product groups with as yet unexhausted trade potential include food, beverages and tobacco, textiles and clothing, as well as a number of primary commodities.

**Graph 1: Growing trade imbalances within SADC (1993 – 1997)**



Source: IMF-Direction of Trade Statistics, 1998

a: Angola, Malawi, Mauritius, Mozambique, Tanzania, Zambia and Zimbabwe

In the medium term, however, not static gains from trade but the potential dynamic effects of functional specialization should form the core of integration efforts in southern Africa. If South Africa develops dynamically, it can assume the role of a center of networked production structures in which the SADC countries would position themselves in keeping with their specific competitive advantages. The countries making up SADC already account for the lion's share of foreign direct investment in Africa, and further increases may be anticipated if tangible headway is made in liberalizing the regional market. After all, this is the region's only chance to attract the necessary financial and technology transfers to support a sustained industrialization process. The region has abundant reserves of raw materials, and the possibility of exchanging and processing them inside SADC is seen as a crucial potential for future development. This goes for instance for mineral resources no less than for export of energy won from water power and cooperation geared to an improved use of water resources.

A crucial obstacle to any deepened integration of SADC must be sought in the open and latent conflicts in the region, in which several member states are involved. The regional Organ on Politics, Defence and Security has thus far largely failed in this regard. Without its authorization, Zimbabwe and Namibia have intervened militarily both in the DR Congo and in Angola. The deep political and economic crisis in Zimbabwe has become a new test case for the region as well as for South Africa's leadership in stability-related matters in the region. In view of the great conflict potential in the region (incomplete nation-building processes, conflicts over land, water, and raw materials), there would appear to be an urgent need to strengthen regional conflict-resolution mechanisms. This will only serve to safeguard peace and prosperity in the region if in tandem the populations of all countries in the region gain better access to resources as well as to the making of political decisions.

Another obstacle to deepened integration is the membership of all SADC countries in other regional organizations and trade agreements. For instance, the SACU customs union includes five SADC countries, nine countries are at the same time members of the Common Market for Eastern and Southern Africa (COMESA), Tanzania belongs to the East African Cooperation (EAC), South Africa has signed free-trade agreements with the EU and Brazil, and so on. Overlapping memberships entail various technical problems: different rules of origin are introduced; SADC's rapid development into a customs union is impeded; multiple contributions due in connection with rounds of negotiations and membership fees constitute an additional burden in this context. But the lack of political commitment to SADC as the single integration project may be of even greater impact here.

The EU's trade agreement with South Africa threatens to undermine regional trade preferences, and for South Africa's SACU partners the agreement also means budget problems due to customs losses. The EU has announced its willingness to contribute to compensation. In the next few years, when the EU, in keeping with the provisions of the Cotonou Agreement, enters into negotiations with SADC on a Regional Economic Partnership Agreement (REPA), the budget- and competition-related burdens facing SADC will have to be clarified. The region's less developed countries are unlikely in any event to voluntarily give up their preferential access to the EU markets in favor of a REPA if the industrialization and trade effects anticipated for SADC are concentrated in South Africa and, at best, a handful of neighboring countries.

### **South Africa's ambivalent role**

SADC's development perspectives largely depend on the potential and the interests of South Africa, the region's dominant economy. It is South Africa's strategic, political, and economic weight that gives SADC its actual international significance. Hopes on the part of the international community for a "renaissance" in southern Africa are mainly based on the positive impacts that South Africa could develop for the region as a whole. And it is only since South Africa's accession to SADC that intraregional trade has reached noteworthy dimensions.

But South Africa's dominance is also a burden on SADC, both economically and politically. On the one hand, the South African government time and again underlines the importance it attaches to SADC. It plans to make up for existing development differentials by aiming at a more rapid, unilateral liberalization in connection with the implementation of the trade protocol. On the other hand, in view of the internal development tasks facing it, South Africa appears to be wary of overcommitting itself in SADC either financially or in terms of integration. Fearing job losses and pursuing its own priorities, the South African government has thus far shown only limited inclination to come to terms with the rest of the region. For instance, to protect domestic jobs, South Africa has insisted on rather complicated rules of origin and numerous exceptions that are hardly compatible with the region's interests.

South Africa's interests also play a weighty role in SADC's common security policy. The mechanisms geared to tying South Africa into regional responsibility and safeguarding the rights of codetermination of all countries in the region are still too weak. The integration process requires from South Africa, and precisely from South Africa, a large measure of willingness as well as

the capability to mediate, since South Africa is not only by far the largest economy in the region but would also benefit substantially from a more stable political situation in the SADC region.

### **Institutional efficiency**

The SADC Secretariat, headquartered in Gaborone, Botswana, is in charge of policy formulation and coordination of the integration process. While this mandate is anchored in SADC's treaty of establishment, it is, in practice, often not respected either by the member states or by the subordinate sector-coordination organs. These coordinating units are SADC's executive organs. Their responsibilities and agendas are for the most part defined in sector protocols which are adopted by summits of the heads of government and state and must be ratified by two thirds of the member countries. The most important one is the trade protocol; following protracted and difficult negotiations, the process of implementing it got underway in September 2000.

Thus far there are only two sector units that are jointly funded by the member countries and are thus genuine regional organs with supranational status (the so-called sector commissions for transportation and communication and for genetic resources). The other 19 units, though, including those responsible for industry and trade, report to the relevant sector ministry of the country in which they are headquartered. They have for most part neither sufficient regional authority nor the staff and technical resources needed for their tasks. At present, measures and programs are not sufficiently coordinated between units, even in cases where closely related policy fields are concerned (like in the case of industry/trade and finances/investment). Locating these units with national administrations did, however, save personnel costs and generate more ownership among member countries.

In the SADC framework treaty and the sector protocols already signed by the heads of state, the member countries have committed themselves to SADC only to the extent that this has not meant ceding any substantial political competences to the organs of SADC. All member countries pay the same contributions to the SADC budget, independently of their populations and national product. The underfunding of the organization that results from this practice entails a good measure of dependence on donors: some 90% of the total number of projects and programs currently underway, the so-called SADC Programme of Action, is financed from donor funds.

### **Avenues to reforming SADC**

In a comprehensive analysis, the so-called Chipeta Report pointed to SADC's organizational weaknesses. The end of the discussion process saw the presentation of a few central reform proposals, which have yet to be implemented, viz.:

- to reduce the projects contained in the SADC Programme of Action to projects with a demonstrably regional character and to raise the funding contributions borne by SADC member countries;
- to merge sector-coordinating units to form greater units covering the most important development clusters;
- to strengthen the role of the SADC Secretariat in the field of policy formulation and coordination.

A special meeting of the SADC Council of Ministers decided in November 2000 in Gaborone on a reform of

the most important SADC institutions which follows largely the proposals of the report. The secretariat shall be strengthened and assigned important new tasks. Closely linked policy areas such as trade, industry, finances, and investment as well as food, agriculture, and natural resources are to be fused to form four supranational authorities (to be called directorates), with the existing sector-coordinating units being gradually disbanded over a period of two years.

SADC's finance ministers and central bank presidents have substantially improved the exchange of information between them and are developing mechanisms aimed at strengthening the process of macroeconomic convergence. The Council of Ministers has been presented a proposal on the funding of the organization. It provides in essence for the introduction of a SADC-wide tax on private-sector transactions or on consumption (e.g. a value-added tax).

In view of the as yet low level of efficiency of SADC's institutions as well as substantial economic and political obstacles, the free-trade agreement will inevitably encounter some setbacks in the process of implementation. But learning processes and economic successes in this area are of considerable importance for the further course of the integration process. One field of activity for donors with great development potential is support for the provision of regional public goods - far in advance of the need for member countries to relinquish any substantial sovereignty.

#### **Strategic approaches to cooperation with SADC**

Promotion of regional cooperation between developing countries and their gradual integration into the world economy are aims wholly in line with the development objectives of the German government. The strategic role of German development cooperation should be to strengthen the SADC Secretariat in exercising its governance tasks as a supranational institution and to contribute to the pacification and economic harmonization of the SADC region. This could include contributions geared to strengthening implementation capacities in selected sectoral focal points as well as to invigorating participation from the private sector and other parts of the civil society. An important step toward optimizing donor contributions would be to review the current activities of the SADC Programme of Action in terms of its conduciveness to integration. In view of SADC's great level of dependence on donors, an important consideration for donor institutions would be to proceed cautiously, allowing SADC the time it needs for the learning and negotiation processes it faces. All activities should include a tangible contribution from SADC itself.

German cooperation with SADC must be better coordinated with the cooperation efforts of other donors, in particular with the EU. Annual coordination meetings should be used to agree on at least the broad lines of

in southern Africa. If they are to make rapid headway in implementing the trade protocol, the secretariat and the weaker member countries will continue to be in need of external advisory services. One of the fields in which German development cooperation is already active, and where its commitment should be enlarged, is a more effective involvement of the regionally oriented activities of intermediary institutions and relevant nongovernmental organizations (e.g. in the field of business promotion or resource protection).

Over the medium time, regional structural funds could constitute a low-cost funding instrument for measures keyed to integration in the field of infrastructure provision or social development in SADC. The EU's experiences indicate that the negative concentration effects entailed by economic integration can be alleviated by means of a targeted policy based on regional funds. Some of SADC's member countries will presumably only be able to fully benefit from their comparative advantages following such a phase of accelerated economic and social development. Supplied from transfers from stronger member states and donors, such regional funds could be used to finance a politically necessary and structurally desired compensation for the effects of a rapid process of trade integration. As one of the "leading donors", the EU should push for an approach of this sort.

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from the bilateral to the SADC level should be sought for in fields especially relevant to integration. But this could be approached only together with a reformed and more effective SADC that can fill the role of a strategic partner