Monitoring
Regional Integration
in Southern Africa
Yearbook

Vol. 5 – (2005)

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Trudi Hartzenberg
Colin McCarthy

Namibian Economic Policy Research Unit
(NEPRU)
Regional Integration is generally accepted as an important step towards a wider global involvement. This is particularly true in Southern Africa, where we can find many countries with rather small economies.

This has been realized very early: SACU, SADC and COMESA can be considered as vehicles for integration both economically and probably also politically.

The European example has shown, that integration can work, both economically and politically. Even if the countries participating have very different economic and political histories and backgrounds.

Today there are many studies and publications about regional integration, looking at various aspects of economic, social and political integration.

The rationale of the yearbook “Monitoring Regional Integration” is not so much to reflect the present status of integration, but rather to portray the development of the process of integration in the region. This process is complex and progress can only be demonstrated if there is an ongoing analysis available. The objective of the yearbook is to provide facts, opinions and suggestions and to analyse the progress.

The Konrad-Adenauer-Foundation is particularly interested in this process, because we have been actively involved in the process of the regional integration in Europe and in the promotion of regional integration in Latin America and in Asia.

Finally, there is a word of gratitude to be added: To the scientists who have contributed to this yearbook and – last but not least, to the Namibian Economic Policy Research Unit (NEPRU), which has played a leading role in the preparation of this publication.

Dr. Wolfgang Maier
Representative of the Konrad-Adenauer-Foundation, Windhoek/Namibia
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*Trudi Hartzenberg and Bianca Mathe*

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Introduction: Monitoring the Process of Regional Integration in Southern Africa in 2004-2005

Dirk Hansohm, Willie Breytenbach, Trudi Hartzenberg and Colin McCarthy

Most discussions of economic development in Africa focus on regional integration as an important element. From the first post-colonial meetings, African leaders emphasised regional integration as a key element of their strategies. In the most recent African plan for economic development, the New Partnership for Africa’s Development (NEPAD), regional and sub-regional approaches to development are again a key element. The plan sees the small size of countries, low incomes, and consequently limited markets as a limit to economies of scale, thus denying attractive returns to investors and in so doing constraining the diversification of production and exports. This is the key reason given for pooling resources in order to enhance regional economic integration.

However, this emphasis on, and the high hopes for regional integration do not appear to match the real progress made. As the European example shows, regional integration is a long-term and complex process. Expectations for increased socio-economic gains are accompanied by fears of the consequences of sacrificing national sovereignty. In sub-Saharan Africa (SSA) with its many states and fragmented economies, regional integration is even more difficult. Thus it is not surprising that most of the regional economic integration schemes established in Africa have not met their objectives for integration. Furthermore, with overlap of membership the commitment of member states is questionable. It appears that the Southern African region is the most advanced in terms of regional integration. However, this view is not undisputed, and it is unclear how the region compares on this score internationally. This was the basis for starting an initiative to monitor the progress of regional integration in Southern Africa in the late 1990s.

The initiative, started in 1999 by the Konrad-Adenauer Foundation (KAF), included political scientists and economists. The group originally aspired to develop a regional integration index for the Southern African Development Community (SADC). The rationale for this approach was that hardly anybody had a clear understanding of whether SADC was:

- making any progress from co-operation to integration;
- stagnating in its integration efforts;
- starting to disintegrate;
- lacking focus as a result of the complexities of the region;
- integrating at a similar speed and depth in each sector; or
- moving at different speeds and levels of commitment.
However, it became apparent that reliable, comparable and up-to-date data for the region is hard to come by, and that developing an index entails a host of methodological problems. It was for these reasons that the second workshop adopted the less stringent, more cautious but also broader approach of monitoring instead of measuring the process of regional integration. Such a method allows for expanding the competence, databases and academic networks necessary for the development of a regional integration index. It also allows for the assessing of and commenting on regional integration.

The results of the initial two workshops had been published in April 2000 as volume 1 of the KAF SADC studies series (Peters-Berries and Marx 2000). The objective - to publish an annual review of monitoring regional development in southern Africa – was realised in 2001.

The yearbook sets out to:

- describe the intended goals for integration in selected sectors (i.e. policy areas) with regard to the specific goals set and the institutional framework in place;
- analyse the implications of full integration in these sectors, with special emphasis on the questions of whether sectoral integration was politically and economically feasible, and what possible drawbacks could be expected;
- analyse the *de facto* state of integration in each of the policy fields selected, identifying the existing obstacles to further and deeper regional integration.

The first yearbook, based on the results of the previous workshop of March 2001 in Zimbabwe, was published in March 2002 (Hansohm et al. 2002a). Since 2001, participation in the annual workshops has become broader in terms of participants and dimensions of integration. Each yearbook covers aspects of economic, political, and institutional integration. Key topics as trade, democratic development, and the development of SADC, the most important institution of regional integration, are covered each year, while other particular sectors and topics are taken up occasionally. Appendices provide basic statistical information on the region and on sources for further information.

This book, the fifth yearbook (for 2005), is based on the contributions to the 8th Workshop on Monitoring the Process of Regional Integration in SADC, held in Windhoek on 11-12 June 2005. This has 12 chapters that address economic, political and institutional issues, and a conclusion drawing together the threads of the contributions.

The articles on the economic dimension of integration analyse foreign direct investment (FDI) in SADC, the rules of origin and regional integration, and report on the experiences of South African firms doing business in the region.
The article by Trudi Hartzenberg and Bianca Mathe (TRALAC, Stellenbosch) reviews the flows of FDI in services in the SADC region and discusses its impact on regional integration. Starting from the importance of FDI for economic development and the rising importance of the services sector, the paper draws some interesting conclusions from its analysis. These include:

- With the exception of FDI into the garment sector, there is very little FDI into manufacturing in SADC.
- SADC FDI trends mirror international trends, with a strong bias towards services.
- FDI flows reflect complex investment-location decisions, which depend on interplay of many factors that require country-specific analysis.
- Policy makers need to pay attention to the impact of domestic regulatory reform on attracting FDI in services to those services sectors that are important to enhance business efficiency.
- Measures need to be taken to strengthen domestic linkages from FDI.

Paul Kalenga (TRALAC, Stellenbosch) analyses the role of rules of origin in regional integration in southern Africa. These rules play a crucial role in the implementation of SADC’s trade protocol aimed at creating a free trade area. The trade protocol provides for SADC member countries to apply preferential rates of customs duty to products imported from within the region, in order to stimulate intra-SADC trade. For such products to qualify for preferential tariffs, they need to meet certain originating criteria. Key points of Kalenga’s findings are:

- Rules of origin are critical determinants for the distribution of gains that can be derived from the SADC trade protocol.
- The rules are complex, restrictive and have departed from their original purpose to prevent trade deflection towards protection of certain ‘domestic’ industries, particularly in South Africa, the region’s most developed and largest economy.
- The rules require higher levels of regional content and processing, which are only available to a larger extent in South Africa.
- Such rules are inappropriate for the long-term growth and development interests of the SADC economies. Their end result will not be enhanced regional integration, but diminished trade, increased transaction costs, reduced efficiency in sourcing inputs for industrialisation, and less investment.

Neuma Grobbelaar (Southern African Institute of International Affairs, Johannesburg) focuses on the impact of the investment of South African businesses in countries of the region, taking the example of Botswana. She concludes:

- South Africa plays an ever-increasing role in the (southern) African region through the investment of its large firms.
Although the small neighbours of South Africa can gain a lot from its neighbourhood, these gains are not automatic.

Instead, there is a danger of a backlash that might result from the increasing dominance of South Africa in the region.

Thus, South African policy makers need to take into account the difficulties of the smaller countries dealing with its dominance and appropriate responses. Ways she considers include obtaining inputs from the host countries of South African investors and local beneficiation of raw materials.

This Yearbook contains four papers on the political dimension of integration the Lusophone countries, non-state actors, democracy and security cooperation and integration in the region.

Willie Breytenbach’s (University of Stellenbosch) article assesses the correlation between development and democracy in the southern and eastern African regions. The southern African part is an updated version of a similar chapter in the Yearbook of 2002. The author correlates the socio-economic indicators (the UN’s Human Development Index of 2004 as well as per capita incomes) with democracy trends (mainly the Freedom House rankings of civil liberties and political rights of 2004) and deals with the following issues:

- What are the dependent and the independent variables, i.e. are certain southern and eastern African states non-democratic because they are poor, or are they poor because they are non-democratic?
- What light could sub-Saharan Africa’s five enduring multiparty systems since before the 1990s shed on this problem? By taking the socio-economic bases of Senegal, Botswana, Mauritius, Zimbabwe and Namibia as benchmarks, the tentative conclusions are that they are mainly former British colonies, that their population sizes are rather small, that their average per capita incomes are above US$2000 which is much higher than the African average (but with Senegal and Zimbabwe lower than the averages) and that adult literacy is also much higher than the rest of Africa. With the exception of Zimbabwe, all the others are rated “free”. The case of Zimbabwe therefore indicates that regular elections may be necessary, but not sufficient to guarantee higher levels of freedom and prosperity.
- It is concluded that although causality is not clear, the evidence suggests that democracy only deepens with civil liberties, and once attained, endures best with affluence. The four freest nations of the 21 compared in this paper are also the most affluent; and
- Regional integration can help to democratise countries if minimum standards are defined by means of common protocols and upheld afterwards.

Antonio Muagerene assesses the role of the two Lusophone countries (Angola and Mozambique) in the region. He concludes that:
Mozambique was more deeply integrated into SADC than Angola.

Mozambique’s integration is facilitated by closer trading relations; an increasing level of foreign direct investment by one particular SADC state, namely South Africa; tourism connections; good rail, road and port connections with member countries; co-operation on projects such as Cahora Bassa, the Maputo Development Corridor and Mozal.

Angola’s foreign trade relations are mainly with the United States and China (oil) and to some extent Portugal, but hardly with SADC.

Compared with Mozambique, Angola has fewer trade, investment, infrastructural and joint co-operation projects with the rest of SADC region.

Richard Meissner’s paper deals with the role of non-state actors in cross-border activities in the SADC region. He focuses on the Zimbabwean elections of 2006.

He indicates the relevance of:

- The Mauritian (SADC) Protocol on elections within the region.
- The role of non-state actors such as the South African media, churches and trade unions in their endeavour to secure free and fair elections in Zimbabwe.
- Contacts with and between the oppositions, churches and trade unions in Zimbabwe are highlighted; and
- The emergence of Zimbabwean interest groups, the media and lobbying from abroad as further manifestation of the co-operation of non-state actors in the promotion of regionalisation in South Africa.

Francis Makoa’s (National University of Lesotho, Maseru) paper looks at the role of SADC’s Organ on Politics, Defence and Security (OPDS) in the managing of conflict and integration in Southern Africa.

He concludes that:

- While SADC works for negotiated settlements, the SADC Organ tended to suppress conflicts in the region.
- The SADC Protocol that established the Organ envisages no role for the populations or civil societies in states to assist in this process.
- Neither are regional parliaments mandated with special duties in conflict prevention.
- The concern that the Organ is not accountable to any popular institutions in the region. For Makoa, this makes democracy the loser; however.
- The SADC Organ could promote democracy and integration if used in accordance with the guidelines and prescriptions of founding protocols, including its democratisation and opening up to the people.

The contributions on the institutional dimension of regional integration focus on the progress of institutional reform and deepening of SACU and SADC and the engagement of the region in the negotiations with the European Union on Economic Partnership Agreements (EPA).
Gerhard Erasmus’ (TRALAC, Stellenbosch) gives an update of the status of regional integration through SACU. It takes further the analysis of the two previous yearbooks following the new SACU agreement of 2002 and its implementation by Trudi Hartzenberg (2003), Colin McCarthy and Gerhard Erasmus (both 2004). While the 2002 tentative assessment pointed out potentially far-reaching positive impacts of the new agreement, this article comes to rather sobering results:

- Although the renegotiations took eight years, the final agreement has a number of serious conceptual flaws.
- As a result, there are now major disagreements, particularly on the sharing of the revenue pool.
- The transformation of SACU into an organisation with a different spirit and different priorities has not yet occurred. Most of the common policies and institutions have not yet seen the light of the day.

Daniel Bach (Institut d’Etudes Politiques, Bordeaux) discusses the institutional development of the Southern African Customs Union (SACU) in the context of regionalism in Africa. His key assertions include:

- Although regionalism is of key significance for African states, in practice this seldom involves the build up of integrated common policies. This is only the case when combined with hegemonic domination by a major state.
- The 2002 SACU agreement presents an attempt to break away from this practice by establishing an innovative institutional architecture based on consensus building.
- But the disappointing track record of regionalism in Africa is a powerful reminder that capacity building and cohesiveness depend upon member states’ will and capacity to undertake the domestic transcription, legitimation and enforcement of stated commitments.
- Within SACU, success or failure of institution-building within weaker member-states will shape their ability to take advantage of the opportunities offered by the 2002 agreement. This will in turn contribute to promote a sense of common ownership of SACU.

Colin McCarthy (University of Stellenbosch) and Dirk Hansohm (NEPRU, Windhoek) discuss the concept of a common industry policy as an instrument for regional integration. This instrument is provided in the new SACU agreement of 2002, but its design is as yet to be agreed on. Among their key points are:

- The development of a common industry policy will be important for the creation of a balanced economic integrated SACU area – which is the vision of the new agreement. This will necessitate the increased development of industries in the small member countries.
- Three urgent issues are the absolute prerequisite to find common ground on the role of the tariff as a policy instrument (of industry or fiscal policy), the regional balance in industrial development, and an appreciation of industrial development goals.
To develop such a common industry policy that needs to balance the different industrial strategies, it is as a first step necessary that each country identifies its industrial strategy.

Elling Tjonneland (Chr. Michelsen Institute, Bergen) reviews the progress of institutional development of SADC, which is undergoing an ambitious programme of institutional reform embarked on in 2001 and led by its Regional Integration Strategic Development Plan (RISDP). His main conclusions include:

- Although intended to be completed within two years, the process of institutional reform and overhaul was not yet completed by mid-2005.
- While the process was expected to result in an improved ability of the organisation to advance co-operation and integration in the face of new challenges, in some respects the organisation is now in a weaker position than before.
- The future development path of SADC is uncertain at this moment. There are visible and sharp divisions within and between SADC’s member states. These are facing different development challenges and have different priorities. Their capacities to participate, deliver, and implement are also very unequal.
- SADC’s future depends on its ability to become and remain relevant for the stakeholders in member countries. Early completion of institutional reform, the establishment of a strong and efficient Secretariat, and bringing SADC closer to the people through improved transparency and accessibility are crucial for SADC’s success.

Mareike Meyn (Institute for World Economics and International Management, University of Bremen) discusses ‘The progress of economic regionalisation in Southern Africa – Challenges for SADC and COMESA’. She focuses in particular on the challenges that the Economic Partnership Agreements (EPA) currently under negotiation with the European Union pose for those regional institutions. Her key conclusions include:

- Although taking different strategies to integrate, neither COMESA nor SADC have been able so far to implement much of their ambitious agenda of regional integration.
- They have in particular not yet reached a level of integration that would enable them to negotiate effectively with the EU on EPA.
- While EPA might principally help Southern African countries to increase intra-regional trade, this would require a strong development component, which is however not yet guaranteed.
- To date, most countries in the region have not even established a national position on all aspects negotiated under the EPA.

In the concluding section, the editors draw together the results of the previous sections and reflect on the progress of regional integration in southern Africa.
References


Peters-Berries, Christian and Michael Marx (Eds.), 2000, Monitoring the Process of Regional Integration in SADC. KAF SADC Study Series, Harare, March
FDI in Services in SADC: Impact on Regional Integration

Trudi Hartzenberg and Bianca Mathe

Introduction

A defining feature of global foreign direct investment (FDI) flows in recent years is the growth of FDI in the services industries. In 1990, services industries accounted for 49% of total FDI flows; by 2002 this stood at 60%, slightly down from 63% in 2001 (UNCTAD, 2004).

This global trend is also reflected in SADC. In terms of sources of FDI in SADC, the increasing role of South Africa as an investor in the region, and specifically in the services industries, is significant.

These trends raise issues that have important implications for regional integration in southern Africa. The factors motivating investment in services in SADC highlight developments in domestic regulatory reform and links between trade and investment. Furthermore the impact on regional commodity chains and production and distribution efficiencies beg enquiry, as does the related question of the implications of the public-private interface in corporate ownership and control in the services sectors.

This paper reviews recent FDI developments in SADC, specifically with a view to considering the implications for regional integration. A specific focus on FDI in services is provided. The contribution of the services sectors to overall economic activity in the region is significant and expanding, the services sectors offer employment creation opportunities and can contribute to market development to enhance opportunities for further FDI attraction and economic efficiency enhancement. The paper attempts to identify key issues that deserve further analysis and policy attention. It does not intend to offer a comprehensive analysis of FDI in the services sectors but rather to motivate further analytical endeavour, based on the premise that the services sectors are very important from a regional integration perspective.

The paper starts with a brief review of FDI performance in SADC, key trends and emerging developments as regards the qualitative aspects of FDI in SADC, and then looks at select issues related to FDI in the services sectors in SADC countries. In this section, the role of South Africa and South African firms is a strong theme. In addition developments which may not be picked up in the recorded FDI statistics such as trends in smaller or informal FDI flows in SADC, are noted.

The conclusion indicates avenues for further analysis, noting the key linkages between trade and investment, policy challenges and the importance of policy coordination at the national level, across key policy areas, as well as at the regional level.

We would like to thank Gus Mandigora for his assistance.
FDI Performance in SADC: Select Considerations

Angola and South Africa are by far the two most important destinations for FDI in southern Africa, especially during the past five years, as is evident from Figure 1 below. In the case of Angola, oil is the industry responsible for attracting FDI. South Africa, which accounted for more than 70% of FDI inflows into SADC in 1997 and 2001, presents an interesting story. For example in 1997, the partial privatisation of the telecommunications monopoly, Telkom, and the purchase of 20% stake by SBC from the United States and Telkom Malaysia Berhad accounted for the this result, and in 2001 a single transaction accounted substantively for its FDI performance, the unbundling of the cross-shareholding between London-based Anglo-American and De Beers of South Africa (Goldstein, 2004). This year, 2005 also witnessed the biggest foreign direct investment in South Africa’s history through the R33 billion Barclays-Absa deal.

Lesotho’s attraction of FDI provides evidence of the link between trade preferences and investment location decisions. Preferential access to the US market under AGOA preferences (in terms of liberal rules of origin for US-defined LDCs such as Lesotho) has attracted investment into the garment industry, and to a limited extent into textile production. While the impact of these investments has undoubtedly been positive in many respects – with jobs for about 10 000 Basotho – the experience of

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Table 1: FDI in SADC Countries 1997 – 2003
Lesotho offers lessons to the region. FDI attracted by preferences which are undeniably being eroded in the global trading system, emphasises the mobility of investments in industries such as clothing and textiles, and the implications of developments in global commodity chains. Changes in trade regulation for this sector will enhance the reconfiguration of the commodity clusters producing the bulk of the world’s clothing and textiles. This reconfiguration will be substantively based on real competitive advantage rather than incentive-dependent advantage, and with liberalisation of the global trading environment, the temporary stop-overs for investors in countries like Lesotho, will be just that.

Another very important feature of FDI in SADC is the role of South Africa as an outward investor (See Annex 1). Since the mid-1990s, and particularly after mid-1997, a distinct trend for the internationalisation of South African corporates is discernible. Several of the large corporates have moved their primary listings from the Johannesburg Stock Exchange to London – these included South African Breweries (now SABMiller), Anglo American, Old Mutual and Dimension Data. Others including Sappi, Sasol, have secondary listings in London, New York, Frankfurt and Paris. Following this internationalisation trend, South African firms have made forays into African markets (See Annex 2).

The comparative efficiency and business experience of these firms in a southern African context and in Africa more broadly, have led to a new era of multinational corporate activity in Africa - with South African firms emerging as the new multinational corporations (MNCs) (See Annex 3). This FDI into Africa has to some extent been facilitated by a decision by the Department of Finance to raise the limit on investment into Africa from ZAR 750 000 to ZAR 2 million.

The entrepreneurial initiative of South African firms, in certain sectors, should not be underestimated. After being shackled within the South African economy for decades, many South African firms, especially in the services industries (perhaps much less so, in manufacturing) have adopted an outward orientation and sought opportunities in markets where they do have a competitive advantage, particularly in Africa. South African firms in the new high-tech industries, including IT related industries, have taken up opportunities in African countries far more swiftly than their international counterparts.

Table 1 below shows a selection of South African firms operating in SADC countries. There is a strong focus on the services sectors, with retail and IT-related activities enjoying a strong position in outward business activities. Distribution of South African manufactured consumer products is facilitated by logistical infrastructure and capacity and increasing retail networks throughout southern Africa and further afield. An important demand-

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2 In another paper in this Yearbook, (Erasmus 2005), this issue is dealt with more comprehensively – Article 31 of the 2002 SACU Agreement permits member states to maintain preferential relationships with third parties, and the TDCA is obviously important in this regard.
side factor that is becoming more important in this regard, is consumer preferences.

Exports of South African processed food products, with brands which are well known to consumers, through the distribution networks and particularly retail chains, are competing strongly with locally produced products. In the case of the Southern African Customs Union (SACU), flows of products in the wake of investment in retail and distribution capacity may be significant in the context of extra-regional trade and economic relationships. For example, it is possible that imports of products (e.g. processed dairy products - subsidised dairy products from the European Union) into South Africa under the Trade and Development Cooperation Agreement that South Africa has with the EU. These subsidised products may displace South African products in the retail chains, and then seek markets elsewhere. Markets in for example the BLNS countries offer distinct opportunities, being part of the customs union.

These market seeking flows of exports from South Africa, facilitated by South African investment in the retail sector of, in this case, the BLNS countries, pose significant challenges. It may well be that there are no unfair trade practices or anti-competitive practices associated with these exports of South African produced products. Addressing these challenges, which may erode value adding capacity in smaller countries in the customs union in particular, but perhaps not exclusively so, require policy responses. Again, another paper (Hansohm and McCarthy) on industrial policy addresses some of these issues.

It is of course possible that the investment-trade linkages and the entry of South African produced products in the region could be associated with unfair trade practices and or anti-competitive practices.

A case in Zambia brought to the Competition Commission by Ngwerere Farms Limited (NFL) in 2002 raised important issues for South African business operating in the region, and also for the host countries as regards domestic market governance. In this competition case, it was alleged that Game Stores (a South African retail firm operating in Zambia) had used unfair trading terms which made it impossible for Zambian suppliers to do business with it. These trading conditions are not uncommon in a highly competitive retail sector in South Africa, where there is an interesting balance of power between the retail chains and producers (on both sides there is significant market concentration). In Zambia however where producers are generally much smaller, and the newcomer retail firms have much more bargaining power, the asymmetry of the relationship presents a very different trading environment. The Zambia Competition Commission decided that indeed Game Stores had adopted trading conditions that constituted a restrictive practice.

For those countries in the region that do not have competition law and policy and a competent enforcement agency, such practices would go unchecked. It is thus important in a liberalised regional trade environment with increasing flows of FDI, especially from a single country, South Africa, domestic market governance is imperative. Otherwise the benefits to regional integration
from such intra-regional investment and the associated trade flows will accrue asymmetrically and so bring the risk of attempts to stall processes to enhance regional integration.

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<th>Country Presence</th>
<th>Ang</th>
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<th>DRC</th>
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Table 1. South African Companies in SADC by Sector

Note: *Absa will also acquire Barclays’ African subsidiaries in Botswana, Ghana, Nigeria, Kenya, Uganda, South Africa, Zambia and Egypt under a special agreement as a result of its acquisition by Barclays.
FDI Attraction in SADC

FDI attraction remains a key preoccupation for policy makers in most countries in SADC. For many reasons, these countries have weak capacity to generate domestic investment, and hence reliance on FDI can be expected to remain strong in the region. There is still much evidence of an old-style approach to investment promotion, and hence also evidence of incentive competition. The incentives raise the cost of FDI attraction, in many cases to the disadvantage of local firms, and raise questions around the WTO principle of national treatment, and the treatment of incentives from a competition regulatory perspective. Incentives can also serve to increase the mobility of FDI in certain industries. Arguably this kind of incentive provision to attract FDI may also not result in the creation of a coherent and sustainable platform for FDI attraction.

What determines or influences FDI location decisions? These location decisions are based on complex firm-level consideration of factors such as the cost of capital, access to inputs and markets, market size, risk, including policy and political risk. Investment decisions, especially in manufacturing activities are also influenced by developments in global commodity chain reconfigurations, and the emergence of key clusters of manufacturing activities, along the commodity chain. This development complements the dispersion of activities of various stages in the commodity chain. An example is the clothing-textile chain. In the region, new clusters of manufacturing activities have emerged in the last decade; these include Lesotho, Namibia, and Swaziland. Inputs are sourced from locations influenced by trade preferences, and can be quite dispersed. Markets for these products are obviously also determined by trade preferences. The vulnerability of such industrial developments, which are incentive dependent, in the region are well documented. Particularly as regards the focus on markets where exports enjoy preferential access, with increasing price competition in the clothing markets, these exports may find it near impossible to diversify to other markets when preferences are eroded. With preference erosion a reality on the multilateral track as well as regional and bilateral tracks, these investments may well migrate to more stable clusters in the global commodity chains, where competitive advantage is real and not preference-dependent.

The particular example of the garment industry in SADC, and investments driven by trade preferences, has implications for regional integration. The development of regional supply chains is notable by its absence. Investment in textile production is perhaps less mobile than garment production, and more costly. There has been very little in the development of textile production capacity, with the exception of Namibia and Lesotho, and these are to a large extent dedicated supply sources for garment manufacturers rather than for market.

In addition the garments produced in these new clothing clusters do not find markets in the region. The role of rules of origin in this regard is explored in another paper in this book (Kalenga 2005). The impact on regional integration is therefore very limited. This is not to overlook the contribution that has been made in terms of job creation, and export performance.
However it is a pity that the contribution is well below what it could well be.

Recent surveys by BusinessMap (BusinessMap, SADC FDI Database) in SADC indicate that the following are among the important factors considered by investors:

- Economic and political stability (although it has to be recognised that resource seeking investment, tends to buck this trend, as the example of Angola and other resource-rich countries testify)
- Large and expanding markets
- Low and stable interest and inflation rates
- Effective competition policy
- Low transaction and business costs for labour and trade regulation, entry and exit rules
- Human capital with diverse, modern skills
- Low cost infrastructure such as efficient communication systems and transportation links
- Free trade and foreign exchange regimes

These surveys indicate that investors in the region are increasingly looking to factors, when they consider investment decisions, that affect real competitiveness and robust local market development especially as regards market governance. With regards to the costs of doing business and investment in the services sectors in the region, infrastructure or network industries providing business services such as transportation and communication play an important role, not only in lowering the general cost of doing business in the region but also in facilitating the development of commodity chains. These enhance the business linkages in the region and strengthen the process of regional integration by reducing transaction costs of doing business and so increasing efficiency.

FDI in Services

FDI in services in the region has been closely linked to domestic regulatory reform. Privatisation initiatives in the region have followed international trends, and been motivated by various reform programmes, including, structural adjustment and trade liberalisation programmes. Until quite recently, most infrastructure services industries (transport – road, air, telecommunications etc) have been state owned enterprises, enjoying monopoly positions in their markets. Preparation for privatisation has been preceded by commercialisation or corporatisation initiatives – many of which were focused on increasing the value of assets to be privatised rather then the introduction of competition, increasing efficiency and lowering prices.

A distinct feature of privatisation in the region in these sectors has been the retention of interest in the partly privatised entities by government. While this is argued to be an anchor for the promotion of broader public interest objectives such as universal access in telecommunications, de facto the outcome has been perverse. Government’s share in ownership of these
entities brings with it an incentive to protect profitability. This is obviously a valued attribute from the perspective of the investor to buy a stake in the enterprise - a profit guarantee. However the impact on efficiency may not be positive, and there may be a distinct negative incentive to maintain a concentrated market structure (not to introduce competition in the market), and even to maintain barriers by entry-limiting license regulation - all to protect profitability.

Table 2 below, shows that all the SADC governments still retain interests in fixed line telecommunications operations. Only Angola and Zimbabwe have fixed line operators that have been fully privatised and even then their governments still have interests in competing operators. Monopolies still dominate the fixed line telephony sector in SADC.

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<th>Country</th>
<th>Operator and Ownership</th>
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<td>Angola Telecom – State Owned</td>
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<td></td>
<td>Mercury - partially privatised</td>
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<td>Mundo Startel - fully privatised</td>
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<td>Mozambique</td>
<td>TDM - partially privatised</td>
</tr>
<tr>
<td>Namibia</td>
<td>Telecom Namibia - State-owned</td>
</tr>
<tr>
<td>South Africa</td>
<td>Telkom - partially privatised</td>
</tr>
<tr>
<td>Swaziland</td>
<td>Swaziland Posts &amp; Telecommunications Corporation – State Owned</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Tanzania Telecommunications Company Ltd (TTCL) - partially privatised</td>
</tr>
<tr>
<td>Zambia</td>
<td>Zambia Telecommunications Company Ltd (ZAMTEL) - State Owned</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>Tel One – State Owned</td>
</tr>
<tr>
<td></td>
<td>Teleaccess - fully privatised</td>
</tr>
</tbody>
</table>

Table 2. Privatisation Status of Fixed line Operators in SADC

Source: Adapted from ITU World Telecommunication Regulatory Database (www.itu.int accessed 27.07.05)

This raises questions about the role of government in infrastructure or network services industries – and the broader public interest issues such as access to these services. Efficiency, access and other public interest issues are probably better served by regulatory intervention focused on public interest objectives, than by direct participation through ownership. This raises important governance issues – and may not be conducive to a sustainable pro-FDI environment. There is therefore, a need to separate policy functions (which should be in the state’s domain), regulatory functions (which should be independent) and operational functions (which should be in private competitive firms).
With regard to telecommunications, an important development that has in many ways leap-frogged fixed-line telephony, and which has perhaps much more positive implications for regional integration and enhancing the efficiency of the business environment in the region, is mobile telephony. Annex 4 shows that, as opposed to fixed line telephony, there are more competitors in the SADC mobile telephony market; only Namibia maintains a monopoly in its sector.

Competition is however not always guaranteed by the existence of competing firms in the market. Concentration of firms in the mobile telephony sector, which is inherent in its nature, makes the risk of collusion between the competitors quite high. The recent investigation by the South African independent communications regulator (ICASA) into the pricing policies of South African mobile operators, which with three firms are regarded as being competitive, illustrates this. The need to ensure that the markets remain competitive through competition authorities can thus not be overemphasised. In SADC, only Malawi, Namibia, South Africa, Tanzania, Zambia and Zimbabwe have enacted competition laws. Even then, Namibia is still in the process of setting up its competition authority. It is however, encouraging that other countries, such as Swaziland and Botswana are at various stages of their competition law development. Furthermore, as illustrated by the telecommunications sector in Table 4, most of the SADC countries have sector regulators. This is in line with telecommunications sector developments in the rest of the world; where the functions of policy-making have been separated from implementation. Independent regulatory bodies are therefore charged with the regulation of the sector.

The regulators efficiency in SADC is however limited by factors such as:

i) lack of independence - which limits how far the regulators can make autonomous decisions

ii) funding - both the source and quantity of funding can have a bearing on efficiency

iii) other resources – high levels of competence and skill of regulators’ human resources are essential as the regulated issues can be highly complex

iv) enforcement powers – decisions of a regulator are meaningless if they cannot be enforced.

As in other countries, the degree of independence of SADC telecommunications regulators varies considerably; of which at least five are considered by the International Telecommunications Union not to have autonomy in decision making.
<table>
<thead>
<tr>
<th>Country</th>
<th>Legislation</th>
<th>Regulation</th>
<th>Telecoms Regulator and Year Created</th>
<th>Autonomy of Decision Making</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>Décret n° 12/99 du 25 juin</td>
<td>No</td>
<td>Institut Angolais des Communications (INACOM) - 1999</td>
<td>No</td>
<td>?</td>
</tr>
<tr>
<td>Botswana</td>
<td>Telecommunication Act 1996 (No 15 of 1996)</td>
<td>No - Comment</td>
<td>Botswana Telecommunications Authority (BTA) - 1996</td>
<td>Yes</td>
<td>License fees: 91% Spectrum fees: 9%</td>
</tr>
<tr>
<td>DRC</td>
<td>Loi n°014/2002 du 16 octobre 2002</td>
<td>No</td>
<td>Autorité de Régulation de la Poste et des Télécommunications du Congo (A.R.P.T.C.) - 2002</td>
<td>Yes</td>
<td>Numbering fees Other Regulatory fee</td>
</tr>
<tr>
<td>Lesotho</td>
<td>Lesotho Telecommunications Authority Act 2000</td>
<td>No - Comment</td>
<td>Lesotho Telecommunications Authority - 2000</td>
<td>Yes</td>
<td>?</td>
</tr>
<tr>
<td>Malawi</td>
<td>Communications Act 1998</td>
<td>Competition</td>
<td>Malawi Communications Regulatory Authority (MACRA) - 1998</td>
<td>No</td>
<td>License fees: 23% Spectrum fees: 24.5%</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Information and Communication Technologies Act 2001</td>
<td>No</td>
<td>Information and Communication Technologies Authority - 2002</td>
<td>Yes</td>
<td>License fees: 98%</td>
</tr>
<tr>
<td>Mozambique</td>
<td>Decree 22/92</td>
<td>No</td>
<td>Instituto Nacional das Comunicações de Moçambique (INCM) - 1992</td>
<td>Yes</td>
<td>Award/auction of mobile license: 10% License fees: 20% Spectrum fees: 40%</td>
</tr>
<tr>
<td>Namibia</td>
<td>Namibian Communications Commission Act, 1992</td>
<td>Competition Act</td>
<td>Namibian Communications Commission 1992</td>
<td>No</td>
<td>Government appropriation: 100%</td>
</tr>
<tr>
<td>South Africa</td>
<td>ICASA Act 13 of 2000</td>
<td>Yes</td>
<td>Independent Communications Authority of South Africa (ICASA):</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Swaziland</td>
<td>No – Draft Competition Bill 2002</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tanzania</td>
<td>Tanzania Communications Act Regulatory Authority Act 12 of 2003</td>
<td>Fair Competition Act</td>
<td>Tanzania Communications Regulatory Authority - 1994</td>
<td>Yes</td>
<td>License fees: 2.37% Numbering fees: 4.25% Spectrum fees: 36.54% Other: 2.08%</td>
</tr>
<tr>
<td>Zambia</td>
<td>Telecommunications Act of 1994</td>
<td>Competition and Fair Trading Act 1994</td>
<td>Zambia Communications Authority - 1994</td>
<td>No</td>
<td>License fees: 6% Spectrum fees: 13.9% Other: 0.8% Rentals</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>Postal and Telecommunications Act 2000 Chapter 12:05</td>
<td>Competition Act</td>
<td>Postal and Telecommunications Regulatory Authority of Zimbabwe (POTRAZ) - 2000</td>
<td>Yes</td>
<td>License fees: 17% Spectrum fees: 5% Other: 3% Postal</td>
</tr>
</tbody>
</table>

Table 3. Telecommunications Regulation of Competition in SADC

Source: Adapted from ITU World Telecommunication Regulatory Database

(www.itu.int – accessed 27.07.05)
Technology has no doubt played an important role in the SADC mobile telephony sector development, but there has also been an eager grasp of opportunities to eclipse fixed-line technologies in the region, at the same time to clear the hurdles associated with other infrastructure blockages in this regard (for example the use of satellite and wireless technologies). The developments in mobile telephony have in a sense addressed a big part of the universal access challenge that fixed-line has not been able to.

An interesting case is the MTN Group (Mobile for Life, 2005) which now has interests in a number of African countries, well beyond SADC. In 2004, the Group recorded a 94% increase in profit to R 4 312 million! This, after only ten years of operation. Its operations started in South Africa and now include Nigeria, Mauritius, Cameroon, Uganda, Rwanda, Swaziland, Zambia amongst others. Its non-South African revenue now contributes 38% of the total, and is expected to grow significantly. In Nigeria for example controlled subscriber enlisting is a key priority to keep pace with roll out of network infrastructure. This group is actively seeking new opportunities for new mobile licences, and has expanded to include business solutions, electronic airtime opt-up options and more. New technologies are being applied as rapidly as anywhere in the developed world in high-tech industries such as these, and for regional integration the benefits are patent.

In the financial services industry, FDI in the region has again a distinct South Africa tone (See Table 4 below). South African banks have been mainly motivated by a need to service clients moving into the region. The trend is for South African banks to enter the market by either acquiring an entire local bank or a stake in it.

<table>
<thead>
<tr>
<th>Bank</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Bank</td>
<td>Angola, Botswana, DRC, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mozambique, Namibia, Nigeria, Tanzania, Zimbabwe, Zambia</td>
</tr>
<tr>
<td>Absa</td>
<td>Angola, Mozambique, Namibia, Tanzania, Zimbabwe</td>
</tr>
<tr>
<td>Nedbank Group</td>
<td>Lesotho, Madagascar, Mauritius, Malawi, Namibia, Swaziland, Zimbabwe</td>
</tr>
<tr>
<td>FNB</td>
<td>Botswana, Namibia, Swaziland</td>
</tr>
<tr>
<td>Investec</td>
<td>Botswana, Mauritius, Namibia</td>
</tr>
</tbody>
</table>

*Table 4. South African Banks in SADC

Source: UNCTAD World Investment Report 2004 (www.unctad.org – accessed 7.06.05)*

Although the data overwhelmingly demonstrates the strong flows of FDI from South Africa into the region, other intra-regional FDI flows (perhaps ‘informal flows,’ since these may not be channelled through formal financial institutions or markets) should not be neglected.
Although these may be much smaller, and escape the official investment statistics, these flows have important implications for regional integration. These smaller flows, which we here include as FDI (defined as a longer term commitment to enhancing productive capacity in a foreign destination), are it seems from anecdotal evidence, focused on services activities. They include cross-border traders – who may invest in some kind of infrastructure development in the host country where they bring their products to be sold.

Also important are individuals who migrate from their home country to seek income generating and residence opportunities in other countries (obviously an important flow is towards South Africa, but there are others too). Many individuals who make a decision to migrate (in some cases, perhaps initially not permanently, but certainly with the intention of gaining permanence in the new country) display remarkable entrepreneurial abilities, and bring skills which enable them to generate income in their new ‘home country.’ Their activities include the catering industry, hairdressing, financial services (money lending), translation or language training, medicine (traditional for example) and of course retail of crafts and other products.

While the primary motivation for the relocation and hence the investment that accompanies that decision may be residence, the route chosen of necessity has to incorporate income generation activities, to which end funds (which may be included in FDI flows) are applied in the foreign country.

**Conclusion**

FDI matters for all SADC countries. The success or otherwise of attracting FDI and the impact of such FDI depends on many factors. SADC FDI trends mirror international trends with a strong bias towards services. For the SADC region this is important – policy makers need to assess the impact of domestic regulatory reform on attracting FDI to services sectors that play an important role in enhancing business efficiency and also address key public interest objects such as access to key services. This paper has only focussed on select services sub-sectors, more detailed analysis of other sectors such as energy and transportation is important.

The role of foreign firms in the domestic economy is not only a consideration for efficiency reasons, but also for the development of business linkages with domestic manufacturing or other economic activities – which anchor FDI more effectively in the host country. More analysis on the impact of foreign firms and policy responses to improve the impact of these firms is required.

Progress on regional integration will in itself enhance the prospects for attracting FDI to countries in SADC – analysis of which aspects of regional integration matter to investors needs to be undertaken.
References

BusinessMap, SADC FDI Database


Goldstein, A, 2004, Regional Integration, FDI and Competitiveness in Southern Africa, Development Centre Studies, OECD.


Mobile for Life, 2005 www.mobile.co.na - accessed 9.06.05)


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Annex 1: SA Investment into SADC 1994-2003

[Source: The BusinessMap Foundation]
<table>
<thead>
<tr>
<th>Year</th>
<th>Target (acquired) company</th>
<th>Host country</th>
<th>Source (acquiring) company</th>
<th>Transaction value ($Mil)</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>Grand Inga Falls hydroelectric project</td>
<td>DRC</td>
<td>Eskom Holdings</td>
<td>1 200</td>
<td>Utilities</td>
</tr>
<tr>
<td>2001</td>
<td>Pande &amp; Temane-gasfields</td>
<td>Mozambique</td>
<td>Sasol</td>
<td>581</td>
<td>Oil</td>
</tr>
<tr>
<td>2001</td>
<td>Skorpion zinc project</td>
<td>Namibia</td>
<td>AngloGold</td>
<td>454</td>
<td>Natural resources</td>
</tr>
<tr>
<td>1998</td>
<td>MTN Nigeria</td>
<td>Nigeria</td>
<td>MTN</td>
<td>285</td>
<td>Non-cyclical services</td>
</tr>
<tr>
<td>2003</td>
<td>Ashanti Goldfields Geita project</td>
<td>Ghana</td>
<td>AngloGold</td>
<td>274</td>
<td>Natural resources</td>
</tr>
<tr>
<td>2002</td>
<td>Vodacom Mozambique</td>
<td>Mozambique</td>
<td>Vodacom</td>
<td>260</td>
<td>Non-cyclical services</td>
</tr>
<tr>
<td>2001</td>
<td>Mozaal II</td>
<td>Mozambique</td>
<td>Industrial Development Corporation</td>
<td>160</td>
<td>Basic industries</td>
</tr>
<tr>
<td>2000</td>
<td>Vodacom Tanzania</td>
<td>Tanzania</td>
<td>Vodacom</td>
<td>142</td>
<td>Non-cyclical services</td>
</tr>
<tr>
<td>2002</td>
<td>Kamoto copper mine</td>
<td>DRC</td>
<td>Kumba Resources</td>
<td>120</td>
<td>Basic industries</td>
</tr>
<tr>
<td>2001</td>
<td>Vodacom Congo</td>
<td>DRC</td>
<td>Vodacom</td>
<td>94</td>
<td>Non-cyclical services</td>
</tr>
<tr>
<td>2000</td>
<td>Ashanti Goldfields Geita project</td>
<td>Tanzania</td>
<td>AngloGold</td>
<td>83</td>
<td>Natural resources</td>
</tr>
<tr>
<td>2002</td>
<td>Caminhos de Ferro de Mocambique</td>
<td>Mozambique</td>
<td>Ressano Garcia Railway Company</td>
<td>78</td>
<td>Cyclical services</td>
</tr>
<tr>
<td>2003</td>
<td>Zimbabwe Platinum Mines</td>
<td>Zimbabwe</td>
<td>Impala Platinum</td>
<td>85</td>
<td>Natural resources</td>
</tr>
<tr>
<td>2003</td>
<td>Hartley Platinum Mines</td>
<td>Zimbabwe</td>
<td>Impala Platinum</td>
<td>80</td>
<td>Natural resources</td>
</tr>
<tr>
<td>2003</td>
<td>Business and tourism complex</td>
<td>Angola</td>
<td>Sun International SA</td>
<td>60</td>
<td>Cyclical services</td>
</tr>
<tr>
<td>2003</td>
<td>Kolwezi Tailings project</td>
<td>DRC</td>
<td>Industrial Development Corporation</td>
<td>33</td>
<td>Basic industries</td>
</tr>
<tr>
<td>2003</td>
<td>Commercial Bank of Namibia</td>
<td>Namibia</td>
<td>Nedbank</td>
<td>33</td>
<td>Financial services</td>
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<tr>
<td>2003</td>
<td>Banco Standard Totta de Mozambique</td>
<td>Mozambique</td>
<td>Stanbic Africa</td>
<td>22</td>
<td>Financial services</td>
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<td>2003</td>
<td>Investec Bank (Botswana)</td>
<td>Botswana</td>
<td>Stanbic Africa</td>
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<td>Financial services</td>
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<tr>
<td>2003</td>
<td>Zimbabwe Platinum Mines</td>
<td>Zimbabwe</td>
<td>Impala Platinum</td>
<td>19</td>
<td>Natural resources</td>
</tr>
<tr>
<td>2003</td>
<td>Escravos gas to liquid plant</td>
<td>Nigeria</td>
<td>Sasol</td>
<td>..</td>
<td>Natural resources</td>
</tr>
</tbody>
</table>


Source: UNCTAD
<table>
<thead>
<tr>
<th>Ranking</th>
<th>Companies</th>
<th>Country</th>
<th>Sectors</th>
<th>Foreign Assets</th>
<th>Total Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>South African Breweries Limited</td>
<td>South Africa</td>
<td>Beverages</td>
<td>819</td>
<td>110 100</td>
</tr>
<tr>
<td>38</td>
<td>Barlow Limited</td>
<td>South Africa</td>
<td>Diversified</td>
<td>567.1</td>
<td>30 660</td>
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<tr>
<td>12</td>
<td>Sappi Ltd</td>
<td>South Africa</td>
<td>Pulp and Paper</td>
<td>3 643</td>
<td>20 245</td>
</tr>
<tr>
<td>23</td>
<td>South African Breweries</td>
<td>South Africa</td>
<td>Food and Beverages</td>
<td>..</td>
<td>48 079</td>
</tr>
<tr>
<td>25</td>
<td>Barlow Limited</td>
<td>South Africa</td>
<td>Diversified</td>
<td>1 587</td>
<td>22 148</td>
</tr>
<tr>
<td>47</td>
<td>De Beers</td>
<td>South Africa</td>
<td>Mining/other</td>
<td>646</td>
<td>12 520</td>
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<td></td>
<td>Sappi Ltd</td>
<td>South Africa</td>
<td>Paper</td>
<td>3 239</td>
<td>19 276</td>
</tr>
<tr>
<td>20</td>
<td>South African Breweries</td>
<td>South Africa</td>
<td>Food and Beverages</td>
<td>1 966</td>
<td>48 079</td>
</tr>
<tr>
<td>35</td>
<td>Barloworld Ltd</td>
<td>South Africa</td>
<td>Diversified</td>
<td>1 110</td>
<td>21 966</td>
</tr>
<tr>
<td>40</td>
<td>Pepkor Limited</td>
<td>South Africa</td>
<td>Retail</td>
<td>608</td>
<td>68 272</td>
</tr>
<tr>
<td>14</td>
<td>Sappi Ltd</td>
<td>South Africa</td>
<td>Paper</td>
<td>3 463</td>
<td>18 231</td>
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<tr>
<td>20</td>
<td>South African Breweries</td>
<td>South Africa</td>
<td>Food and Beverages</td>
<td>2 785</td>
<td>33 230</td>
</tr>
<tr>
<td>35</td>
<td>Barloworld Ltd</td>
<td>South Africa</td>
<td>Diversified</td>
<td>1 409</td>
<td>23 233</td>
</tr>
<tr>
<td>40</td>
<td>Naspers Limited</td>
<td>South Africa</td>
<td>Media</td>
<td>979</td>
<td>10 706</td>
</tr>
<tr>
<td>44</td>
<td>Johnnic Holdings Ltd</td>
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<td>Telecommunications</td>
<td>839</td>
<td>9 408</td>
</tr>
<tr>
<td>12</td>
<td>Sasol</td>
<td>South Africa</td>
<td>Industrial Chemicals</td>
<td>3 623</td>
<td>31 150</td>
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<tr>
<td>18</td>
<td>MTN Group Limited</td>
<td>South Africa</td>
<td>Telecommunications</td>
<td>2 582</td>
<td>4 192</td>
</tr>
<tr>
<td>19</td>
<td>Anglogold Limited</td>
<td>South Africa</td>
<td>Gold Ores</td>
<td>2 301</td>
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<td>30</td>
<td>Naspers Limited</td>
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<td>Media</td>
<td>1 655</td>
<td>10 711</td>
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<td>31</td>
<td>Barloworld Ltd</td>
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<td>Diversified</td>
<td>1 596</td>
<td>23 192</td>
</tr>
<tr>
<td>44</td>
<td>Nampak Limited</td>
<td>South Africa</td>
<td>Rubber and Plastics</td>
<td>782</td>
<td>18 062</td>
</tr>
</tbody>
</table>

Annex 3. Regional TNCs Featuring in the Top 50 Non-Financial TNCs from Developing Countries
Ranked by Foreign Assets 1995, 1999-2002
(Millions of dollars and number of employees)

Source: UNCTAD
<table>
<thead>
<tr>
<th>Country</th>
<th>Network Operators</th>
<th>Other Presence in Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>UNITEL S.a.r.l.; Angola Telecom</td>
<td></td>
</tr>
<tr>
<td>Botswana</td>
<td>Mascom Wireless (Pty) Limited; Orange (Botswana) Pty Limited</td>
<td></td>
</tr>
<tr>
<td>DRC</td>
<td>Celtel Congo (CelTel Congo SA); CELLCO Sarl; Intercel; SAIT Telecom SPRL; Supercell Sprl; Vodacom Congo (RDC) sprl</td>
<td></td>
</tr>
<tr>
<td>Lesotho</td>
<td>Econet Ezi Cel Lesotho (Pty); Vodacom Lesotho (Pty) Ltd</td>
<td></td>
</tr>
<tr>
<td>Malawi</td>
<td>Celtel Limited; Telekom Network Ltd</td>
<td></td>
</tr>
<tr>
<td>Mauritius</td>
<td>Cellplus Mobile Communications Ltd; Emtel Ltd</td>
<td></td>
</tr>
<tr>
<td>Mozambique</td>
<td>Mocambique Cellular S.A.R.L (mCel); Vodacom Mozambique S.A.R.L.</td>
<td></td>
</tr>
<tr>
<td>Namibia</td>
<td>MTC Namibia</td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>Cell C</td>
<td>Rwanda*, Cameroon*, Uganda*, Nigeria*, Swaziland, Zambia</td>
</tr>
<tr>
<td></td>
<td>Vodacom</td>
<td>Tanzania, Lesotho, Mozambique DRC</td>
</tr>
<tr>
<td>Swaziland</td>
<td>Swazi MTN Limited</td>
<td></td>
</tr>
<tr>
<td>Tanzania</td>
<td>Celtel Tanzania Limited; MIC Tanzania Limited (MOBITEL); TRI Telecommunications (T) Ltd (TRITEL); Vodacom Tanzania Limited; Zanzibar Telecom Ltd (ZANTEL)</td>
<td></td>
</tr>
<tr>
<td>Zambia</td>
<td>Celtel Zambia Limited; Telecel (Zambia) Ltd; Zambia Telecommunications Company Ltd (ZAMTEL) Zamcell</td>
<td></td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>Econet Wireless (Private) Limited</td>
<td>Botswana, Lesotho, Kenya*</td>
</tr>
<tr>
<td></td>
<td>Net One Cellular (Pvt) Ltd</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Telecel Zimbabwe (PVT) Ltd</td>
<td></td>
</tr>
</tbody>
</table>

*Annex 4. Status of Mobile Telephony in SADC*

* Non-SADC African Countries
Rules of Origin and Regional Integration in Southern Africa

Paul Kalenga

Introduction

In August 1996 eleven SADC member states signed the Trade Protocol aimed at creating a free trade area (FTA) by 2008, when substantial all-intra-SADC trade will be duty free. After lengthy negotiations, the protocol entered into force on 25 January 2000 when it was ratified by two-thirds of the member states. Two SADC member states (Angola and the Democratic Republic of the Congo (DRC)) did not participate in this phase of the trade negotiations. The Trade Protocol provides for SADC member states to apply preferential rates of customs duty to products imported from within the region. These tariff preferences are established to stimulate intra-SADC trade. For such products to qualify for preferential tariff preferences, they should meet certain originating criteria.

An issue which has increasingly become a subject of debate concerns the role of “rules of origin”. The potential gains from these preferences largely depend on the production conditions for goods to be considered as originating in the participating SADC states (criteria for acquiring originating status) and their administrative application (proof and control of origin). Therefore, rules of origin are critical determinants of the distribution of the gains that can be derived from the SADC Trade Protocol. Such rules are likely to impact on the level and composition of intra-regional trade as well as SADC trade with the rest of the world.

A debate on the product-specific rules of origin in SADC has emerged. This debate is informed by two perspectives. Opponents of the existing rules argue for more simplification of the rules of origin and the need to allow firms flexibility in sourcing their imported inputs and intermediate goods from the cheapest sources. This is vital to export-oriented producers interested in raising their competitiveness in international markets as well as to final consumers in the SADC region. Flexibility to satisfy alternative rules of origin will also serve important trade facilitation objectives. Proponents, however, view rules of origin as instruments of industrial policy aimed at providing protection to ‘sensitive’ import-competitive domestic industries. It is argued that this is even more important in view of the absence of a common industrial policy framework in SADC. It is further argued that the capacity to prevent trade deflection through effective enforcement of the rules of origin is lacking in many SADC countries particularly due to weaker customs administration and border control systems. The question remains, however,

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1 In Volume 4 of this Yearbook (2004), the reform of the SADC rules of origin was identified as one of the key issues for the effective implementation of the SADC Trade Protocol (Kalenga, 2004). In this Volume, a distinct focus is devoted on this issue.

2 Interviews with stakeholders in South Africa, Namibia and Zimbabwe by the author, 2004
whether strict and complex rules of origin are an appropriate solution to this capacity problem?

This paper provides some theoretical implications of the impact of the SADC rules of origin. It argues for further easing of the restrictiveness of the SADC rules of origin towards simplification, and harmonisation with those under other regional trade agreements, as a critical element in maximising the potential gains of the SADC Trade Protocol and regional integration in Southern Africa. While an in-depth investigation of the practical impact of the SADC rules of origin has not been extensively conducted, there is anecdotal evidence generated from interviews with some stakeholders in the SADC region as well as useful lessons from international experience, especially from EU and AGOA rules of origin. More empirical work on the SADC rules of origin is required to assess the extent to which they are promoting the objectives of the Trade Protocol notably: to ensure efficient production within SADC reflecting the current and dynamic comparative advantages of its constituent economies; the improvement of the climate for domestic, cross-border and foreign investment; and the enhancement of economic development, diversification and industrialisation of the region (See SADC Protocol on Trade 1993).

Purpose of Rules of Origin

Rules of origin (ROO) are used in order to determine the “economic nationality” of goods, this being not necessarily the source from where goods are shipped but where they are deemed to have been produced. This is to ensure that only goods originating in participating countries should enjoy preferential market access, i.e., duty-free or reduced customs tariffs. If origin was determined simply by the last geographic location from which the applicable goods were shipped, this would result in non-participating countries enjoying preferential market access via transshipment through participating countries to avoid the payment of higher duties (so-called trade deflection). This is particularly so in the case where participating countries have different levels of external protection.

Theoretically, the prevention of trade deflection is the only legitimate rationale behind rules of origin. However, some existing ROO regimes have increasingly gone beyond this key requirement to protect domestic producers of inputs and intermediate goods. Unfortunately, preventing trade deflection is not easy, especially in this era of globalisation, where goods often undergo distinct stages of transformation in different countries or utilising inputs produced in a number of countries. For example, raw materials may be grown or produced in one country, converted into finished goods in another (using local and foreign materials), and offered for sale in a third country. This makes the distinction between what constitutes local manufacturing, and what is permissible as a foreign input, all the more important.
Methodologies for Rules of Origin Determination

Three main methodologies are used in determining origin criteria. Each can have different impact on the ability of a particular product to be granted preferential treatment or the cost of proving conformity with the rules. The first defining principle relates to whether a good is "wholly obtained" in the participating country. This requires the entire good to be a product of the participating country. Typical examples would include minerals extracted and processed, live animals born, raised and processed there, and vegetable products grown and processed in the participating country. Another example would be a garment item, where the cotton is locally grown, the fibres, yarns and fabric are processed locally, and the finished good is also made up in the participating country.

The second principle relates to goods that are not wholly obtained in the participating country. This principle essentially applies to the non-originating components or processing undertaken to a finished good. The principle stipulates that non-originating goods are required to be "sufficiently processed" or "substantially transformed" in the participating country. Only goods that are wholly obtained or sufficiently processed qualify for preferences. Three methods are used to establish if sufficient processing or substantial transformation has taken place:

- **the minimum value added (VA) rule**: requires that a specific minimum percentage value has been added locally (usually based on the ex-works price of the good)\(^3\);
- **the change of tariff-heading (CTH) rule**: a good is deemed sufficiently processed when the transformed good can be classified in a different tariff heading to that of the input materials used; and
- **a specific process (SP) or manufacturing rule**: where prescribed processes in the production of the good must have been undertaken within the preference-seeking exporting country. Associated rules contain criteria that on their own are deemed insufficient to confer local origin on the good.

There are also other methodologies that go beyond the above, containing additional rules to strengthen the basic ROO methodologies, and in some cases, easing some restrictions of the basic rules. These are *cumulation*, *value tolerance* or *de minimis rules*, and *absorption*.

*Cumulation* relates to the ability of producers in the participating country to use imported inputs from another partner country without losing preferential market access for the final product. This is basically referred to as *bilateral cumulation*.

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\(^{3}\) ‘Ex-works price’ means the price paid for the product ex works (i.e. available from the seller’s premises) to the manufacturer in a Contracting Party in whose undertaking the last working or processing is carried out, provided the price includes the value of all the materials used, minus any internal taxes which are, or may be, repaid when the product obtained is exported.
There is also diagonal cumulation, which allows the sharing of production whereby inputs from anywhere in the specified region is permitted with certain third countries not party to a given preferential agreement. This normally requires administrative agreements to be put in place between beneficiary countries and such third countries.

Full cumulation is essentially an extended form of diagonal cumulation, which allows any processing carried out in any participating country in a regional group to be deemed as originating regardless whether the processing is sufficient to confer originating status to the materials themselves. This can be regarded as a form of deeper integration as it allows for more fragmentation of production processes among the members of the regional group.

Value tolerance or de minimis rules allow a certain percentage of non-originating materials to be used without affecting the origin of the final product. This is a particularly important concept in that it sets the percentage value of a product that does not have to fulfil any origin requirements.

Absorption principle provides that parts or materials which have acquired originating status by satisfying the relevant rules of origin for that product can be treated as being of domestic origin in any further processing and transformation.

Overview of the SADC Rules of Origin

Historical Background

Initially the SADC rules of origin were relatively simple and unrestrictive by international standards. They were basically modelled to the COMESA rules of origin regime. This was seen as vital in ensuring consistency of the rules of origin in both SADC and COMESA, considering that some SADC member states were also participating in the COMESA trade integration agenda. The original SADC rules included both general conditions stipulating that simple packaging, assembly and labelling are not sufficient to confer origin, and specific rules setting out minimum levels of economic activity that goods could only qualify for SADC tariff preferences if they:

- Underwent a single change of tariff heading, or
- Contained a minimum of 35% regional value added, or
- Included non-SADC imported materials worth no more than 60% of the value of total inputs used.

This is in addition to the requirement that agricultural and primary products should be wholly produced or obtained in the region.

As often the case with the political economy of trade liberalisation, certain sensitivities emerged as negotiation for intra-regional tariff reductions became more pronounced. Lesser developed SADC economies underscored the need to be sensitive towards the loss of revenue,
especially from their imports from the larger SADC economy – South Africa. To accommodate these revenue concerns, and to some extent concerns of de-industrialisation as a result of import-competitive imports from South Africa, a principle of asymmetry resulted in lesser developed SADC countries back-loading their tariff reductions and South Africa (and its BLNS partners in SACU) fast-tracking their tariff reductions offer.

On the other hand, producers in some ‘sensitive’ sectors in the more developed economies (mostly South Africa) advanced several arguments for stricter rules of origin motivated by a number of concerns. It was argued that the SADC rules of origin must encourage the use of intermediate inputs and raw materials produced in the region so as to encourage industrialisation of the region. The use of regionally produced inputs should be a critical requirement for downstream products to qualify for SADC tariff preferences. Clearly, only few SADC countries – mostly South Africa – have a wider supply capacity for intermediate inputs required in downstream processing industries.

In addition, there were concerns about the capacity of certain member states with weaker customs administration to ensure that non-originating goods would not claim eligibility for preferences. In particular, explicit concerns were made about the possibility of cheap clothing and electronic goods from Asia, for example, entering the SADC region through either a country with lower import duties or weaker border posts, and claiming SADC preferences in other SADC countries with higher import duties.

Consequently, trade negotiators from the less developed members became pre-occupied with the need to phase down their tariff rates at a slower rate through back-loading while developed members’ (South Africa/SACU) trade negotiators sought to compensate their fast-tracked tariff phase-down schedule with complex, restrictive and product-specific rules of origin. A temporary ‘problem’ related to the asymmetry of tariff phase-downs had to be resolved through ‘permanent’ restrictive rules of origin. As a result, the initial simple and relatively unrestrictive rules of origin envisaged at the beginning of the negotiations in 1996 were reversed and replaced with a rather complex regime which is similar to that being employed by the EU in its preferential regimes such as the Cotonou Agreement, Everything-but-Arms (EBA) initiative and in PTAs with rich, highly industrialised countries. Ironically, SADC countries are now demanding the reform of similar EU rules of origin in the current economic partnership agreement (EPA) negotiations.

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4 The SADC tariff phase-down schedules were extensively discussed in Volume 4, Yearbook 2004 (Kalenga, 2004).
5 See Brenton, Flatters, Kalenga (2004) for further discussion.
6 These are also similar to those in the Trade Development and Co-operation Agreement (TDCA) between the EU and South Africa.
Existing Rules of Origin in SADC

The preamble concerning the rules of origin for products to be traded between SADC member states gives recognition for the need to have clear and predictable rules of origin and their application so as to facilitate the flow of regional trade and economies of scale in the region. It also underscores the importance of ensuring that rules of origin themselves do not create unnecessary obstacles to trade and unduly burden to customs administrations (See Annex 1 to Annex 1 of the SADC Protocol on Trade). The experience of some of the stakeholders in the region is somewhat contrary to these stated intentions.

Generally, the existing origin criteria stipulate that goods shall be accepted as originating in a member state if they were wholly produced in any member state or they have been obtained in any member state incorporating materials which have not been wholly produced there, provided that such materials have undergone sufficient working or processing in any member state. This means that the regime provides an important concept of full cumulation regarded as a pre-condition for deeper regional market integration.

However, the meaning of sufficiently working or processing introduces substantial complexity and restrictiveness. It is characterised by made-to-measure, sector-specific rules that vary widely across HS chapters, headings and subheadings. The change of tariff heading requirement is replaced in many cases by multiple transformation rules and/or detailed descriptions of required production processes. Value added requirements have been raised considerably, and permissible levels of import content have been similarly decreased. Unlike the original rules, most products now face only a single rule, with no choice of alternatives for claiming originating status.

In agriculture, for example, there has been a strong view to use rules of origin as an incentive to encourage the development of downstream processing industries through the use of local raw materials as well as to discourage the export of unprocessed raw materials. For example, certain downstream processors lobbied for restrictive rules in the interest of primary producers, when their real interest was to prevent new competition in processed products. Illustrative cases:

- Most debate of rules of origin in agriculture has centred on wheat flour (HS Chapter 1101) and wheat products (HS chapters 1901, 1904, and 1905) – the amount of local/regional wheat which is required, whether flour be milled in the region, or just a change in tariff heading. This debate should be understood against the background of large variations in production capacities and in the regulatory environments of these products in participating states. Some states provide considerable protection to local wheat growers and downstream producers of flour.
while others provide none. Member states with large and protected wheat and wheat flour industries have resisted liberalisation of intra-SADC trade, and have advocated restrictive rules of origin as a means of insulating their producers against competition from other member states. It can be argued that wheat milling is a substantive processing activity. It is certainly not a simple re-labelling, repackaging or mixing operation. A simple change of tariff heading is more than sufficient to ensure that wheat flour is not subject to trade deflection in SADC.

- Unlike flour, products such as pasta and biscuits (chapter 19) are “two steps removed” in the production chain from the original agricultural raw material. They are products of processed agricultural goods rather than of the raw materials themselves. Requiring the use of flour milled from local wheat in order for pasta to receive SADC preferences makes such preferences irrelevant in this sector. A simple change of tariff heading rule is all that is necessary for these products.

- For coffee, tea and spices: member states in which there is significant primary production of coffee, tea or spices and which impose significant external tariffs on these products have generally advocated restrictive rules of origin (high regional content requirements) for their downstream products. The principal argument for this is to encourage downstream processing. The current agreed rules are: at least 60% by weight of the raw materials must be wholly originating in the region, and for curry and mixtures of spices, there must be a change of tariff heading and all cloves used in mixtures must be wholly originating in the region. The rationale for cloves to be wholly originating remains rather suspect.

In manufacturing, restrictive rules are mostly found in chemical products in HS chapters 27 to 29 as well as in the light manufacturing industries in HS chapters 84, 85, and 90. These include machinery, electrical and electronic goods and components, and various kinds of technical and medical equipment. These all require a maximum import content of 60% of the ex-works price. It seems evident that a 35% local content threshold will more than suffice to prevent trade deflection.

The case of rules of origin in textiles and clothing is even more illustrative (See Flatters 2002). The sector remains constrained by the very restrictive two stage transformation rule of origin requirement. The fact that countries like Lesotho, Namibia and Swaziland benefited from a non-restrictive rule of origin under AGOA is a proof that simple, flexible and less restrictive rules of origin may generate positive foreign direct investment (FDI) responses and enhance small economies’ export competitiveness especially in labour-intensive industries. The expiry of the multi-fibre agreement (MFA) is already exposing the fact that only countries that are able to compete internationally on the basis of cost, quality and timeliness of delivery will manage to keep their textile and clothing industries. Producers that are burdened by cumbersome customs procedures and administrative requirements of dealing with rules of origin requirements in regional markets will find it more difficult to compete.
The motor industry remains another interesting sector as relates to the SADC rules of origin. Existing rule for motor vehicles and components (HS 87) requires that the value of imported inputs should not exceed 60% of the ex works price of the product. But most products of interest have more restrictive list rules, in the form of specific processing requirements and/or higher local content rules. The AGOA rules of origin on motor vehicles, under which South Africa is currently exporting duty-free to the US market, require local value added (cost of materials from AGOA-eligible countries plus direct costs of processing in AGOA-eligible countries) of at least 35% of the fob value; the import content may not exceed 65%, and up to 15% of the 35% local value can comprise of US-made inputs. This means that only 20% of the value of vehicles or components exported from South Africa needs to be sourced in the region in order to meet AGOA rules of origin requirements.

The experience of successful export-oriented investments in labour-intensive sectors such as electronics, footwear, and garments and textiles in South East Asia and Mauritius suggest that access to lower cost inputs of production is critical to raising global competitiveness. The current SADC rules of origin will be very difficult to permit these responses.

Some Insights from the SADC Rules of Origin

Rules of Origin and Trade Tariffs

Ascertaining the country of origin of imported products is necessary to be able to apply basic trade policy measures such as tariffs, quantitative restrictions, anti-dumping and countervailing duties, safeguard measures and for statistical purposes. However, such objectives are met through the application of non-preferential rules of origin. The only justification for preferential rules of origin is when some imports have to be subject to zero or reduced tariffs. There exists a positive relationship between trade tariffs (i.e. margin of preference) and value of complying with origin rules. If there are no tariffs and quotas there is no need for origin rules. However, without complete harmonisation of participating countries’ external tariffs, there is a real danger for trade deflection and pressure for manipulating rules of origin to protect domestic producers of intermediate goods. These dangers are likely to undermine the purpose of preferential or free trade schemes such as the SADC Trade Protocol. An argument can be made for SADC to expedite its move towards external trade tariffs harmonisation so as to avoid undue pressure of using rules of origin for protectionist purposes.

Rules of Origin and Trade Facilitation

Rules of origin add extra complexity to the trading system for traders and customs administration. For companies there is not only the issues

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8 These are often justified by the need to prevent simple assembly of completely knocked down (CKD) or semi knocked down (SKD) kits.
of complying with the rules on sufficient processing but also the cost of obtaining the certificates of origin, including bureaucratic delays that arise in obtaining the certificate. The costs of proving origin involve satisfying a number of administrative procedures so as to provide the documentation that is required and the costs of maintaining systems that accurately account for imported inputs from different sources to prove consistency with the rules. The costs of proving origin may even be higher and possibly prohibitive where customs mechanisms are poorly developed. Thus, even if producers can satisfy the rules of origin, in terms of meeting the technical requirements, they may not request preferential access because the costs of proving origin are highly relative to the duty reduction that is available.

SADC has agreed on the issuance of valid SADC Certificates of Origin by either public agencies such as the Ministries of Trade, Customs Authorities and in some cases private sector agencies such as Chambers of Commerce and Industries. Both approaches are being used by SADC countries. Problems are being reported with the verification of the Certificates of Origin. Currently, member states are required to notify the SADC Secretariat of the names of the agencies authorised to issue certificates as well as specimen signatures of officials. This does not work well especially when specimen signatures change considerably for various reasons or no copies of such specimen signatures are available at some border posts, contributing to substantial costs to traders either through delays at border posts or though payment of MFN tariffs pending reimbursement which often takes longer.

The majority of SADC member states belong to a number of overlapping regional trading schemes such as COMESA, AGOA, the Cotonou Agreement, Everything But Arms (EBA) and some bilaterals. This means that there is also an overlapping of the rules of origin regimes, with some regimes having simple and less restrictive rules (such as in the case of COMESA) and some characterised by complex and more restrictive rules of origin (such as in the case of SADC and the Cotonou Agreement). This is a cost to both the traders and customs authorities. This suggests that there would be gains from some coordination of rules of origin across regional trade agreements with common members. Further, it suggests that a movement towards simple and clear rules of origin in preferential trade agreements would help to minimise the problems of overlapping rules of origin.

**Rules of Origin and Competitiveness**

One of the most important features of the globalisation of economic activity in recent decades has been the ‘delocalisation’ or ‘fragmentation’ of global manufacturing, owing to enormous improvements in transportation and communication infrastructure. A key to successful economic development in these circumstances has been to create conditions in which local producers can participate in the resulting international value chains. This requires, however, ease of import and export, particularly maximum flexibility in sourcing inputs and raw materials. This is especially true for
poorer economies that have not developed the sophisticated and diversified production bases. Demanding and complex rules of origin, which restrict firms in their global sourcing decisions and erect costly administrative barriers to international trade, can be a major barrier to the region’s international competitiveness.

**Rules of Origin and the Utilisation of Preferences**

Studies conducted in developed countries estimated that the cost needed to comply with administrative requirements related to rules of origin was about 3% of the value of the goods concerned (See UNCTAD 2003). Arguably, the total economic cost of applying strict rules of origin especially for small and poor economies is likely to be even higher. This is likely to lead to exporters opting to trade under MFN conditions and forgo preferences. In fact, interviews with some stakeholders in Zimbabwe confirmed that certain Zimbabwean exporters to SADC countries that are also COMESA members prefer to use COMESA rather than SADC rules of origin because they are relatively simple and less costly. The same applies to countries with which Zimbabwe has bilateral preferential agreements. International experience also points to the same conclusion. For example, under EBA, which offers LDCs duty free access for all products into the EU market, only about 50% of the preferences available to non-ACP countries are actually utilized (See Brenton 2003). While countries like Lesotho, which is also an EBA beneficiary, has increased its textile and clothing exports to the US under AGOA preferences, it has not done the same to the EU market (See Neumann (2004), tralac trade brief).

**Conclusion**

Awareness of the importance of the rules of origin in determining the impact of the preferential trading arrangements is increasing. Certainly SADC rules of origin are complex and restrictive. They have departed from their initial purpose to prevent trade deflection towards protection of certain ‘domestic’ industries, especially in the region’s developed and largest economy – South Africa. Such rules require higher levels of regional content and processing processes, which are to a larger extent only available in South Africa. Clearly, SADC rules of origin presuppose the existence of diversified production structures across the region. This is unfortunately not the case for many SADC economies. Such rules are inappropriate for the long-term growth and development interests of the SADC economies. They only serve the short-term interests of particular producers who wish to avoid new competition in their domestic markets. The end result will not be enhanced regional integration, but diminished trade, increased transactions costs for traders and Customs Administrations, reduced efficiency in sourcing inputs for industrial development, and less investment in export-oriented industries.

At the core of this argument is the belief that the flexibility to source inputs at the lowest possible cost and with a minimum of logistical and bureaucratic
barriers is the *sine qua non* for stimulating efficient production. Inflexible requirements on the sourcing of inputs raise production costs and thereby reduce investment and exports. While it is desirable to encourage the use of regionally produced goods to raise the demand for such goods as well as to foster their further processing, it is debatable whether rules of origin are an appropriate instrument. There are also no convincing arguments in favour of using rules of origin as an effective mechanism to deal with adjustment difficulties faced by particular ‘sensitive’ sectors in the process of trade liberalisation. There exists other more transparent and efficient ways to do that.

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Small Economies and Regional Integration: A mixed Record - The Case of Botswana

Neuma Grobbelaar

Introduction

Regional integration is widely offered as an alternative to overcome the marginalisation of small economies within the global economy. But the experience of Africa’s best performing economy over the last 25 years, namely Botswana, offers some sobering lessons for the future trajectory of economic integration in the region. A business survey released by the South African Institute of International Affairs in 2005, hereafter referred to as the SAIIA survey, found that Botswana faces various obstacles in ensuring that regional integration benefits its economy, despite its substantial business linkages with the region’s largest economy, South Africa (Grobbelaar & Tsotetsi, 2005). This article looks at economic development in Botswana within the context of the Southern African Customs Union (SACU) as a form of deeper and much older integration than the Southern African Development Community (SADC) and highlights some of the pitfalls that are accompanying the integration process in the sub-region. At the same time it examines the country’s economic relationship with the region’s powerhouse, South Africa.

Botswana’s experience is relevant for other landlocked countries in SADC such as Swaziland, Lesotho, Malawi, Zambia and Zimbabwe, as well as its other small economies, not least because of this shared geographic status, but because it is generally believed that a country such as Botswana should be much better positioned to deal with the overbearing influence of the South African economy. This argument is located in Botswana’s strong economic performance, relative economic strength and status as a middle-income country. However, this article will show that Botswana like most of Africa’s small economies, which are highly dependent on one commodity, is singularly affected by global conditions and its regional context. Its close proximity to South Africa has brought both advantages and disadvantages to the country’s economic development, as has its location in one of the poorest regions in the world.

The Significance of Diamonds

Botswana is considered Africa’s greatest success story. The country has made remarkable economic strides since attaining its independence on 30 September 1966. The prudent management of its primary resource, diamonds, has led to the growth of a stable, highly educated and prosperous society. The country’s current middle-income status with a GDP per capita ratio of US$3,100 in 2002, contrasts with its extremely low level of economic development of a GDP per capita of US$100 at independence. Today Botswana has the highest per capita income levels in sub-Saharan Africa, and has achieved AA ratings from Standard and Poor’s (S&P) and Moody’s Investors Service—the only country in Africa that has managed this feat.
Over the period of high economic growth of 9% per annum from 1966-1996, the government, through the careful use of its mineral resources, built up foreign reserves to the value of over US$5.9 billion in 2003, translating into 27 months worth of import cover at the end of that year. At the same time it maintained a budget surplus throughout most of the 1990s without incurring any domestic debt, and only an insignificant amount of foreign debt. The country has never borrowed from the IMF (Bleany & Lisenda 2001:2).

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<tr>
<td>Total population (in million)</td>
<td>1.58</td>
<td>1.61</td>
<td>1.65</td>
<td>1.68</td>
<td>1.70</td>
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<td>GDP (US$ billion)</td>
<td>5.38</td>
<td>5.71</td>
<td>6.01</td>
<td>6.47</td>
<td>6.81</td>
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<td>6.0</td>
<td>5.4</td>
<td>7.5</td>
<td>5.3</td>
<td>3.1</td>
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<td>3,260</td>
<td>3,290</td>
<td>3,020</td>
<td>3,040</td>
<td>3,170</td>
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<tr>
<td>Inflation (%)</td>
<td>9.0</td>
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<td>7.7</td>
<td>8.6</td>
<td>6.6</td>
<td>8.1</td>
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<tr>
<td>Gross domestic investment as % of GDP</td>
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<td>33.5</td>
<td>27.5</td>
<td>19.0</td>
<td>21.7</td>
<td>24.8</td>
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<td>Gross domestic savings as % of GDP</td>
<td>43.0</td>
<td>39.8</td>
<td>38.1</td>
<td>40.3</td>
<td>39.7</td>
<td>38.5</td>
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<td>532</td>
<td>504</td>
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<td>6,229</td>
<td>6,317</td>
<td>5,897</td>
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<td>Government surplus/deficit (including grants) as % of GDP</td>
<td>5.8</td>
<td>2.7</td>
<td>-2.1</td>
<td>7.5</td>
<td>6.3</td>
<td>-3.1</td>
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Table 1: Selected Key Economic and Social Indicators


However, Botswana, like many other countries that are reliant on one or two resources or commodities for the majority of their revenues, exports and economic growth, has found it extremely difficult to wean its economy from its reliance on diamonds. Since the early 1980s, the country has been the world’s largest producer of gem diamonds, with an output that represents about 40% of total global production. The mining sector, in particular diamond mining, dominates economic activity and contributes about 34% of GDP, 80% of export earnings (with diamonds alone providing 75%) and 50% of government revenues (National Development Plan 2003:27).

Despite the significance of the diamond industry as a contributor to the economy, diamond mining in Botswana is highly capital intensive, and employs just 6 300 workers. Increasing advances in technology and the pressure put on companies to cut costs are expected to reduce this figure by 50% in the next decade. The state provides about 45% of all formal employment (including jobs at central/local level and within parastatals) (Invest Africa 2004:77).
Monitoring Regional Integration in Southern Africa

Unfortunately, despite the country’s strong economic growth and efficient institutions, poverty remains high in certain strata of society. Twenty-four percent of the population lived in absolute poverty on an income below US$1 a day in 2001. This proportion doubled to an average of 50.1% during 1990–2001 if US$2 a day is taken as the base-line figure (Hernández-Catá 2004:112). Not enough jobs are created to absorb new entrants into the economy. Therefore, even though Botswana’s education system is one of the best in Africa, its citizens are frequently unable to find jobs in the highly competitive formal labour market. As a result much of the employment growth recorded in Botswana has been in the informal sector.

<table>
<thead>
<tr>
<th>Category</th>
<th>1997</th>
<th>2001</th>
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<tr>
<td>Government share</td>
<td>42.2%</td>
<td>39.2%</td>
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<tr>
<td>Private sector share</td>
<td>52.0%</td>
<td>55.5%</td>
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<tr>
<td>Parastatal share</td>
<td>5.8%</td>
<td>6.3%</td>
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<tr>
<td>Total formal sector</td>
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<td>employment (number)</td>
<td>226,800</td>
<td>272,800</td>
</tr>
<tr>
<td>Total employment (number)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>345,400*</td>
<td>483,400**</td>
<td></td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>25.1% (1998 DS)</td>
<td>19.5% (2001 census)</td>
</tr>
</tbody>
</table>

* Measured in 1996
** Measured in 2000

DS: Demographic Survey

Table 2: Breakdown of Employment


Botswana’s heavy reliance on one resource has made it vulnerable to global economic conditions. It was therefore severely affected by the global economic downturn that followed the terrorist attack against the World Trade Centre in September 2001 resulting in a decline of its real growth rate from 8.4% in 2001 to 2.3% in 2002. In fact Botswana’s budget deficits of 3% of GDP in 2001/02 and 6% of GDP in 2002/03 both coincided with a decline in demand for diamonds as a result of global economic instability (Invest Africa 2004:78).

The depreciation of the US currency in 2003 also had a marked effect on government finances. The level of foreign exchange reserves was P23.7 billion at the end of December 2003, a 20.7% decline from P29.9 billion in December 2002, largely reflecting the appreciation of the Pula against major international currencies in this year. Botswana is also vulnerable to the ‘Dutch disease’: a diamond-led exchange rate appreciation that potentially has the effect of making its non-mineral exports less competitive, thus hampering diversification (WTO 2003: A1-56). This vulnerability to global economic conditions and rising unemployment in Botswana has spurred the
government to pursue a targeted diversification policy. However, this has proven to be an enormous challenge.

The Quest for Diversification

Over the last 25 years, the government’s pursuit of economic diversification has been a central tenet of Botswana’s economic policy framework. For example, the theme of its 8th National Development Plan (NDP8) was *Sustainable Economic Diversification*. Even though some progress towards expanding the country’s economic base was achieved during the NDP8, as illustrated below, the country remains heavily dependent on diamond exports.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>42.7%</td>
<td>20.7%</td>
<td>5.6%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Mining &amp; quarrying</td>
<td>-</td>
<td>17.5%</td>
<td>48.9%</td>
<td>36.5%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5.7%</td>
<td>7.6%</td>
<td>3.9%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Water &amp; electricity</td>
<td>0.6%</td>
<td>2.3%</td>
<td>2.0%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Construction</td>
<td>7.8%</td>
<td>12.8%</td>
<td>4.6%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Trade, hotels, restaurants</td>
<td>9.0%</td>
<td>8.6%</td>
<td>6.3%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Transport</td>
<td>4.3%</td>
<td>1.1%</td>
<td>2.5%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Banks, insurance &amp; services</td>
<td>20.1%</td>
<td>4.7%</td>
<td>6.4%</td>
<td>10.9%</td>
</tr>
<tr>
<td>Central government</td>
<td>9.8%</td>
<td>14.6%</td>
<td>12.8%</td>
<td>16.0%</td>
</tr>
<tr>
<td>Social &amp; personal services</td>
<td>-</td>
<td>2.8%</td>
<td>2.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>GDP total at constant market prices (Pula million)</td>
<td>908.6</td>
<td>2,083.5</td>
<td>5,708.1</td>
<td>16,524.4</td>
</tr>
<tr>
<td>GDP excluding mining (Pula million)</td>
<td>908.6</td>
<td>1,718.1</td>
<td>2,917.3</td>
<td>10,497.1</td>
</tr>
<tr>
<td>GDP per capita (Pula)</td>
<td>1,682.5</td>
<td>2,861.9</td>
<td>5,175.0</td>
<td>9,793.4</td>
</tr>
<tr>
<td>Real GDP growth</td>
<td>-</td>
<td>18.4%</td>
<td>7.7%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Real GDP growth (excluding mining)</td>
<td>-</td>
<td>11.8%</td>
<td>11.6%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

*Table 3: GDP by Economic Activity — Selected years*

*Source: Central Statistics Office from National Development Plan 9, 2003.*

To foster new platforms for growth in sectors other than mining, the government has taken steps to broaden the production base by encouraging FDI in alternative fields. Among other areas that Botswana is most actively looking to develop are those where the country should have a clear comparative advantage: its tourism industry; glass and jewellery
manufacturing; diamond cutting and polishing; and tannery and leather products (which are by-products of the beef industry). The government has also given attention to the expansion of its manufacturing base and financial services sector. (UNCTAD 2003:18,19)\(^1\). It has invested heavily in both land-based and cellular telecommunications to achieve its goal of establishing Botswana as a global financial centre.

However, an analysis of Botswana’s economy shows that apart from mining, the health of other sectors such as manufacturing, tourism and offshore financing are heavily influenced by regional developments. In particular, the SAIIA survey found that many of the economic policies adopted by the South African government to address local economic imbalances, or to ensure that the country is placed on a more secure economic footing, have had negative consequences for Botswana’s diversification strategy.

### The Regional Context

Botswana is situated in the interior of southern Africa, and is completely surrounded by its neighbours: Namibia, Zambia, Zimbabwe and South Africa. It is a large country with a surface area of 582 000 square kilometres, comparable to France, and with a small population of about 1.7 million. The prudent exploitation of its mineral resources has led to the development of the country’s excellent infrastructure. Botswana is thus ideally situated as a transfer hub into the rest of the region. However, its location also makes it vulnerable to any regional instability.

The greatest threat in this regard is posed by the implosion of Zimbabwe’s economy. Political unrest and deteriorating economic conditions in that country have caused an influx of Zimbabwean economic refugees, both skilled and unskilled. Many of the Zimbabweans who trek to Botswana’s cities, towns and mines in search of jobs enter the country illegally. Consequently, there has been an oversupply of labour which has been associated with an increase in crime, especially in the northeastern part of the country and in the major towns (particularly Francistown) and villages in close proximity to Zimbabwe. Almost 90% of farm workers in Botswana are Zimbabweans. The influx has led to an alarming growth of xenophobic incidents in Botswana. The media have filed various reports on the alleged ill-treatment of Zimbabweans in Botswana by the authorities and nationals. Tension between the two countries has also grown following the construction of a 500-kilometre-long electric fence by the Botswana government along its border with Zimbabwe, to halt the movement of animals into the country. The aim is to prevent the spread of foot-and-mouth disease (FMD). Botswana suffered two serious outbreaks of FMD in 2002 and 2003 resulting in a 64% drop in beef export earnings, Botswana’s second largest export after diamonds. However, the crisis in Zimbabwe has also negatively affected Botswana’s critically important tourism sector.

\(^1\) The financial sector is a significant employer, accounting for about 7% of total employment. Foreign banks alone employed about 2,000 workers in 2000.
But clearly the skewed interdependence of the South African and Botswana economies, largely favouring South Africa, has exercised the strongest impact on economic development in Botswana.

The Significance of SACU

An important vehicle that has supported economic integration at a functional level between the two countries has been the Southern African Customs Union (SACU), which allows for a free flow of trade between its members. Established in 1910 between the Union of South Africa and the British protectorates of Bechuanaland (Botswana), Basutoland (Lesotho) and Swaziland, Namibia was a de facto member until it joined officially in 1992. Under the original SACU agreement, South Africa as the largest economy in the union, played a dominant role. It levied and collected most of the customs, sales and excise duties for all its members, and paid out a share to each, based on the proportion of their imports in the union. However, because of various complaints from its other members related to the distortionary effect of South Africa’s dominance in the union, the agreement was renegotiated. The final renegotiated SACU agreement came into force on 15 July 2004, 10 years after new negotiations started and now includes a much contested compensation arrangement.

The renegotiated SACU agreement’s ambitious objectives are encapsulated in Article 2 (WTO 2004:8). These are:

- to facilitate the cross-border movement of goods between the territories of the member states;
- to create effective, transparent and democratic institutions which will ensure equitable trade benefits to member states;
- to promote conditions of fair competition in the common customs area;
- to substantially increase investment opportunities in the customs union area;
- to enhance the economic development, diversification, industrialisation and competitiveness of member states;
- to promote the integration of member states into the global economy through enhanced trade and investment;
- to ensure the equitable sharing of revenue arising from customs, excise and additional duties by member states; and
- to facilitate the development of common policies and strategies.

Unlike other SACU members, Botswana is not a member of the Common Monetary Area (CMA), which was supposed to provide a framework for gradual economic integration approaching that of a common market. The Botswana government, prompted by its Central Bank, opted to leave the CMA in 1976, as it believed that its policies were not designed with Botswana’s own interests in mind, and that it failed to stimulate or contribute enough to local economic development. Since the creation of its national currency (the pula) in that year, Botswana has typically maintained more liberal exchange controls than its neighbours, including South Africa. In
1999, the country abolished its exchange controls. However, Botswana’s convertible currency remains closely linked to the rand, which has meant that any volatility in the rand against major international currencies has been transmitted to the Pula.

However, a comparison of Botswana’s trade with SACU versus its trade with the rest of the world demonstrates that the customs union has had limited value in fostering greater regional trade integration between its members, despite the age of the agreement. In fact the union’s importance as an export partner for Botswana has diminished in recent years.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana’s main export partners (% of total imports)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SACU region</td>
<td>14.3</td>
<td>17.2</td>
<td>10.4</td>
<td>6.7</td>
<td>6.5</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>3.7</td>
<td>2.9</td>
<td>2.4</td>
<td>3.9</td>
<td>2.6</td>
</tr>
<tr>
<td>Other Africa</td>
<td>1.1</td>
<td>1.3</td>
<td>1.1</td>
<td>0.9</td>
<td>0.8</td>
</tr>
<tr>
<td>EU</td>
<td>79.1</td>
<td>77.1</td>
<td>84.1</td>
<td>87.2</td>
<td>89.0</td>
</tr>
<tr>
<td>US</td>
<td>1.0</td>
<td>1.0</td>
<td>0.7</td>
<td>0.6</td>
<td>0.2</td>
</tr>
<tr>
<td>Other</td>
<td>0.2</td>
<td>0.6</td>
<td>0.7</td>
<td>0.7</td>
<td>0.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Botswana’s main import partners (% of total imports)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SACU region</td>
<td>72.1</td>
<td>74.8</td>
<td>76.6</td>
<td>73.9</td>
<td>77.6</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>4.5</td>
<td>3.9</td>
<td>3.9</td>
<td>3.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Other Africa</td>
<td>0.5</td>
<td>0.6</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>EU</td>
<td>9.0</td>
<td>10.1</td>
<td>9.2</td>
<td>16.5</td>
<td>12.3</td>
</tr>
<tr>
<td>US</td>
<td>1.1</td>
<td>1.4</td>
<td>1.8</td>
<td>1.6</td>
<td>1.8</td>
</tr>
<tr>
<td>Other</td>
<td>3.0</td>
<td>4.4</td>
<td>5.6</td>
<td>4.0</td>
<td>4.5</td>
</tr>
</tbody>
</table>

*Table 4: Botswana’s Trade Partners*


Despite various concerns raised about the distorting effect of SACU on its trade and investment policies, the country has always been persuaded to remain in the union by the net advantages offered by its SACU membership (Siphambe 2003: 5,6). Until recently, SACU receipts were Botswana’s second most important source of government revenue after its mining sector. However, the government’s earnings from the SACU Common Revenue Pool have fallen progressively to P1.735 billion in 2001/02, from P2.188 billion in 2000/01 and are expected to fall further. According to the World Trade Organisation (WTO), SACU revenue accounted for 15% of total government revenue in 2000/01 versus 13% in 2001/02 (WTO 2003: A1-72).
South African Trade and Investment

Trade figures within SACU are generally not reflected on a bilateral basis. The calculations of the International Trade Centre (ITC), based on COMTRADE data of the UNSD (see below) confirms that South Africa, as the biggest economy in SACU, is Botswana’s largest trading partner, with trade heavily skewed in the former’s favour. In fact, Botswana depends on South Africa for most of its imports (in the past up to 80%), and for the transhipment of its beef and copper-nickel alloy exports. Botswana’s key exports are meat products, salt, rawhides/leather, apparel, precious stones and nickel.

<table>
<thead>
<tr>
<th>Country</th>
<th>Value, $m</th>
<th>Number of products</th>
<th>Country</th>
<th>Value, $m</th>
<th>Number of products</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>2,978.8</td>
<td>1,131</td>
<td>UK</td>
<td>4,642.8</td>
<td>30</td>
</tr>
<tr>
<td>UK</td>
<td>170.0</td>
<td>207</td>
<td>South Africa</td>
<td>339.8</td>
<td>479</td>
</tr>
<tr>
<td>US</td>
<td>66.6</td>
<td>140</td>
<td>Norway</td>
<td>129.5</td>
<td>6</td>
</tr>
<tr>
<td>France</td>
<td>42.0</td>
<td>81</td>
<td>Italy</td>
<td>17.2</td>
<td>4</td>
</tr>
<tr>
<td>Italy</td>
<td>34.3</td>
<td>50</td>
<td>Zambia</td>
<td>17.2</td>
<td>81</td>
</tr>
<tr>
<td>Germany</td>
<td>18.8</td>
<td>99</td>
<td>Germany</td>
<td>14.3</td>
<td>12</td>
</tr>
<tr>
<td>China</td>
<td>14.7</td>
<td>141</td>
<td>US</td>
<td>13.0</td>
<td>31</td>
</tr>
<tr>
<td>Singapore</td>
<td>12.5</td>
<td>16</td>
<td>France</td>
<td>6.3</td>
<td>14</td>
</tr>
<tr>
<td>Japan</td>
<td>11.4</td>
<td>27</td>
<td>Greece</td>
<td>5.2</td>
<td>1</td>
</tr>
<tr>
<td>Belgium</td>
<td>8.6</td>
<td>33</td>
<td>Canada</td>
<td>3.6</td>
<td>8</td>
</tr>
</tbody>
</table>

Table 5: Comparison of Botswana’s Import and Export Statistics with those of Partner Countries, 2001

Source: ITC, Based on COMTRADE Data of the UNSD

Joint membership of SACU has not only bolstered trade between South Africa and Botswana, but has also supported major South African investments in the Botswana economy. Botswana has actively sought foreign direct investment (FDI) since independence, and has eschewed the rampant nationalisation policies that have characterised most African countries. Instead it has opted to exploit its most precious national resource (diamonds) in joint ventures with foreign investors. This translated into significant FDI gains for the country. Botswana received a disproportionately large amount of FDI as compared with the group of least developed countries (LDCs) to which it belonged at independence. The country received consistently high

During the 1990s Botswana lost its pre- eminent position as a key recipient of FDI in Africa. This period did not necessarily herald a complete downturn in FDI to Botswana; rather it signified a deterioration in overall FDI to Africa, as well as a diversion of FDI to other countries in the region. For example, countries such as Mozambique, Uganda and Tanzania attracted significant investments from the early 1990s. These were driven mainly by the introduction of market-orientated policies, privatisation programmes and/or generous incentive schemes for the exploitation of their natural resources (see Table 5). Although the political changes in South Africa since 1994 first ushered in a period of low foreign investment, this was substantially reversed in the second half of the 1990s. This reorientation of FDI over the last 15 years illustrates some of the challenges faced by Botswana as it attempts to position itself as a competitive investment destination in the region, especially as membership of SACU is not necessarily supporting more investments into the country.

<table>
<thead>
<tr>
<th>Country</th>
<th>1995</th>
<th>1997</th>
<th>1999</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>70</td>
<td>100</td>
<td>37</td>
<td>26</td>
<td>37</td>
</tr>
<tr>
<td>Mozambique</td>
<td>64</td>
<td>382</td>
<td>255</td>
<td>406</td>
<td></td>
</tr>
<tr>
<td>Namibia</td>
<td>153</td>
<td>84</td>
<td>111</td>
<td>275</td>
<td>181</td>
</tr>
<tr>
<td>Swaziland</td>
<td>44</td>
<td>-15</td>
<td>100</td>
<td>78</td>
<td>107</td>
</tr>
<tr>
<td>South Africa</td>
<td>-</td>
<td>3,817</td>
<td>1,502</td>
<td>6,789</td>
<td>754</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>118</td>
<td>135</td>
<td>59</td>
<td>4</td>
<td>26</td>
</tr>
</tbody>
</table>

Table 6: FDI Flows to Selected Countries in Africa, 1995-2002 (in US$)

Source: Various World Investment Reports

Despite the downturn in FDI into Botswana, South Africa remained the country’s biggest investor, accounting for more than half (52%) of total foreign investment in 2002. Many South African companies that are significant investors in Botswana have been involved in the country since well before South Africa’s transition to democracy. The most visible example is De Beers, which is also Botswana’s biggest single investor. Because its subsidiary company is domiciled in Luxembourg, that country is also described as the second-largest investor in Botswana, accounting for about 32% of total FDI (WTO 2003: A1–58).

According to the WTO, At the end of 2000 about 80% of FDI was in mining, followed by retail and wholesale trade (8%), finance (6%) and manufacturing (4%). Most of the FDI was from South Africa (60%), followed by Europe (37%). Luxembourg invested 25% of the latter figure.
Table 7: Value of Investment by Botswana’s Main Foreign Investors (P million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>3,311</td>
<td>3,871</td>
<td>3,940</td>
<td>6,572</td>
<td>6,829</td>
<td>5,423</td>
</tr>
<tr>
<td>Luxemburg</td>
<td>1,331</td>
<td>2,010</td>
<td>2,262</td>
<td>2,561</td>
<td>3,081</td>
<td>3,356</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>118</td>
<td>113</td>
<td>1,303</td>
<td>1,111</td>
<td>814</td>
<td>673</td>
</tr>
<tr>
<td>Germany</td>
<td>616</td>
<td>761</td>
<td>859</td>
<td>1,208</td>
<td>18</td>
<td>181</td>
</tr>
<tr>
<td>Japan</td>
<td>224</td>
<td>306</td>
<td>196</td>
<td>74</td>
<td>549</td>
<td>851*</td>
</tr>
<tr>
<td>US</td>
<td>448</td>
<td>465</td>
<td>226</td>
<td>340</td>
<td>385</td>
<td>32</td>
</tr>
</tbody>
</table>

* This value includes investment from all Asia Pacific countries

A breakdown of foreign investment by sector in 2000 by the Bank of Botswana identifies investment in mining as the leader. This is followed by investment in retail and wholesale, and finance. Both sectors have received significant investment from South African companies over the last four years. The tourism industry is another sector to which South Africans have committed substantial amounts of capital. South Africa is also very visible in property development and construction. The one area that has not attracted significant investment from South Africa is the manufacturing sector.

Table 8: Stock of Foreign Investment, by Sector 31 December 2000

### Table 9: Stock of Foreign Investment, by source, 31 December 2000

<table>
<thead>
<tr>
<th>Investment by source</th>
<th>FDI</th>
<th>Other investment</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value, P'000</td>
<td>Share, %</td>
<td>Value, P'000</td>
<td>Share, %</td>
</tr>
<tr>
<td>North and Central America</td>
<td>96.96</td>
<td>1.0</td>
<td>242.72</td>
<td>5.1</td>
</tr>
<tr>
<td>United States</td>
<td>96.95</td>
<td>1.0</td>
<td>242.72</td>
<td>5.1</td>
</tr>
<tr>
<td>Europe</td>
<td>3,627.66</td>
<td>36.9</td>
<td>1,505.79</td>
<td>31.4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>970.10</td>
<td>9.9</td>
<td>141.20</td>
<td>2.9</td>
</tr>
<tr>
<td>Germany</td>
<td>0</td>
<td>0</td>
<td>1,207.85</td>
<td>25.2</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>2,478.34</td>
<td>25.2</td>
<td>82.60</td>
<td>1.7</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>910</td>
<td>N/A</td>
<td>74.22</td>
<td>1.5</td>
</tr>
<tr>
<td>Africa</td>
<td>5,998.66</td>
<td>61.0</td>
<td>604.98</td>
<td>12.6</td>
</tr>
<tr>
<td>South Africa</td>
<td>5,982.76</td>
<td>60.9</td>
<td>588.86</td>
<td>12.3</td>
</tr>
<tr>
<td>Middle East</td>
<td>102.36</td>
<td>1.0</td>
<td>9.81</td>
<td>2.0</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
<td>2,355.12</td>
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Note: Figures may not add to 100, owing to rounding.


### An Assessment of the Impact of South African Investment and Trade Linkages with Botswana

Although bilateral relations between the two countries are described as cordial, the SAILA survey found that there is a certain amount of discomfort felt in Botswana over South Africa’s dominance in the region. Most business people in Botswana acknowledge that the country finds it hard to maintain its economic independence from South Africa. This is related to both the interconnectedness of the two economies, and the small size of Botswana’s population and economy in comparison with South Africa’s.

There is no doubt that South African investors have had a considerable effect on the Botswana economy, largely through the early entry of some companies into that market and the number of companies operating in the country. It could be argued that the prudent management of Botswana’s diamonds in joint partnership with De Beers has laid the foundation for the success of the entire economy. However, South African companies have also played an important role in other areas. Apart from contributing to the diversification of Botswana’s economy, its business presence has provided much-needed employment opportunities, raised competitiveness levels in certain sectors, helped to instil a business culture and built the capacity of local people.
However, there are concerns among Batswana about the ‘hegemonic’ influence of South African investment. These are compounded by the huge trade imbalance in South Africa’s favour, which is supported by the unfettered access of South African exports to the Botswana market through SACU. This has also spurred the massive influx of South African wholesale and retail investments in the country over the last couple of years.

As noted previously, Botswana exports very little to South Africa, and there are negligible domestic linkages between the two economies. An additional cause for concern is that although the government encourages companies to buy from local producers, most of the surveyed companies admitted that they obtained a large proportion of their requirements from South Africa. In addition, those local producers used by South African companies tend to import their goods from South Africa. The reason offered by the South African companies for not buying more locally is the limited size of the manufacturing sector, which affects the capacity of local suppliers to produce cost-effectively and in the required volumes. A survey conducted by UNCTAD in 2002 amongst foreign investors made the same finding, reporting that foreign affiliates imported around 60% of their inputs and that there had not been a significant change in the situation over the last five years. This suggests that government policies have not achieved success in growing a larger domestic supplier base (UNCTAD 2003: 80).

Botswana suppliers, on the other hand, complained that the South African retail sector (which is the most visible sector in Botswana, especially in the urban areas) uses the country as a market for South African products, which undermines local manufacturing capacity. They also claimed that the buying authorities that are located at company head offices in South Africa have very little knowledge of Botswana’s market conditions.

South Africa clearly enjoys all the benefits of an economy of scale relative to the size of Botswana’s market. This has led, for example, to the recent relocation of Volvo to Durban, compounding the loss of the Hyundai assembly plant in 2000. On another level, Volvo’s decision to relocate its operations to South Africa, illustrates the disadvantages of Botswana’s location. Its isolation from global supply chains in combination with its landlocked status are factors that favour South Africa rather than Botswana.

Thus, although South Africa is the most significant investor in Botswana, investment from this country has not managed to fulfil the Botswana government’s employment creation targets. Nor has it provided sufficient impetus to improve local manufacturing capacity.

More serious is the impact of domestic South African policies on initiatives in Botswana to diversify and strengthen the economy in the non-mining sectors. A clear example of this relates to the development of Botswana as an international financial centre. The International Financial Services Centre (IFSC), which had hoped to attract a large number of businesses from South Africa, suffered a major setback following the changes in taxation rules in South Africa in 2001. A key draw-card of the IFSC, which was intended to
give South African companies good reason to register in Botswana, was its low corporate tax rate of 15%. However, the South African government introduced new tax regulations that required South African companies operating in foreign countries that charged a lower corporate tax rate than in South Africa to pay additional taxes, at a rate equal to the difference between the foreign and the South African tax rate, if that rate was less than 90% of the South African rate (BIDPA 2000). The new rules not only affected South African firms using the IFSC, but all companies with investments in Botswana. For example, manufacturers pay a 15% corporate tax rate in Botswana, whereas other companies pay 25%; both of these are less than 90% of the South African rate. The problem was addressed only in August 2003, when the two countries negotiated a new double taxation agreement which replaced the 1977 arrangement, in an effort to remove the fiscal obstacles to bilateral trade and investment. The new agreement also provided the necessary certainty and predictability on tax treatment for both South African and Botswana companies seeking to establish a presence in each other’s territories, as companies would not be taxed again on profits that they would be repatriating to their respective countries. Despite these amendments, the IFSC has managed to attract only a trickle rather than the intended stream of new South African investors.

The interconnectedness of the two markets is also demonstrated by the impact of the exchange rate differential between them. Traditionally, a stable and competitive exchange rate has been critical to the success of Botswana’s non-traditional exports and economic diversification strategy. Over the period 1989–98, exchange rate stability against the rand enabled non-traditional exports (excluding vehicles) to grow at an average rate of 15% per annum, and to become an important source of jobs (BIDPA 1998). However, the appreciation of the pula by more than 10% against the Rand in recent years, has made it extremely difficult for Botswana producers to compete with their South African counterparts. In 2003-04, the South African Rand appreciated sharply against the US Dollar. The lack of exchange rate stability in the region is a serious concern because it affects investment both in Botswana and South Africa.

**Conclusion**

The Botswana case clearly illustrates the pitfalls associated with the growth of South African investment into the rest of the region. South African policymakers need to become much more sensitive to the potential negative backlash that might result from South Africa’s growing economic dominance in the region.

Clearly, at a purely functional level the gains of a close economic relationship between South Africa and Botswana are not automatic. In this respect Botswana faces many of the problems that other governments in Africa, including South Africa, encounter in finding the right balance between the role of FDI to stimulate growth in the local economy, and achieving the most desirable outcomes (employment, the transfer of skills and diversification).
However, this brings forward one of the biggest challenges facing SACU members, and more specifically South Africa: that of developing a common regional industrialisation policy that takes cognisance of the concerns of its neighbours. It remains to be seen whether the renegotiated SACU agreement will provide the framework for closer economic co-operation as stated in its objectives.

One of the areas that might offer a way forward is for large manufacturing firms in South Africa to obtain some of their inputs from Botswana. However, this type of co-operation would require a much closer working relationship between the governments and the private sectors of both countries. At the moment, South Africa’s manufacturing base is simply too competitive and the efficiency levels too high, which has resulted in a swamping of the local market. This can only be overcome with targeted regional policies that are supported by both governments and business and which do not result in an erosion of efficiency levels. One of the areas where Botswana should enjoy some comparative advantage is in the local beneficiation of hides. The provision of leather for South Africa’s motor vehicle industry might be a potential avenue to explore.

Another important point for the South African government to take into account is that although there is a movement within the region towards free trade (both through the SADC Trade Protocol and other regional agreements), South Africa should show more awareness of the difficulties faced by small economies such as Botswana’s. Whereas free trade among members within SACU is no longer an issue, as shown in the case of the South African-European Union Trade and Development Co-operation Agreement, trade agreements with external partners do have significant implications for the smaller economies within the union.

One of the lessons to be drawn for SADC, is that South Africa should consider the broader benefits to the economic welfare of its partner countries of a unilateral liberalisation of its market to products from the region. This could provide the foundation for a more balanced trade relationship.

At a practical level, the Botswana case study clearly demonstrates the need for more high-level bilateral meetings between a range of government departments on a functional level to address problems that might arise from the introduction of new South African policies. As demonstrated by the Kgalagadi Transfrontier Park, the first cross-border peace park established in southern Africa, this type of co-operation could be very successful.

One of the strongest recommendations that came out of the SAIIA survey was that the South African government should not view economic relations with its neighbour as a zero-sum game. Indeed co-operation between South Africa and Botswana can contribute to providing a more competitive regional offering. However, this requires real and not nominal partnership at all levels of political and economic engagement between the two countries and within the region.
References


Assumptions

This paper focuses on the correlations of socio-economic indicators and democracy in the Southern and Eastern African regions of the 21 states analysed and compared in this paper, six have not had regular multiparty elections (they are Swaziland, Sudan, Rwanda, Eritrea and the DR Congo). Two more (Zimbabwe and Angola) had regular elections but are, together with the six mentioned above, classified as “not free”. In four of those cases (Sudan, Rwanda, Eritrea and DR Congo), the per capita incomes are less than one US dollar per day. Are they non-democratic because they are poor, or are they poor because they are non-democratic? This study asks the question: which is the dependent and which is the independent variable?

For the definition of democracy, three assumptions were made. Firstly, that without appropriate state institutions (and freedoms), democracy is not possible (“no state, no democracy”) (Linz & Stepan, 1996: 14); secondly, without favourable socio-economic conditions, democratic institutions are unlikely to endure and consolidate (“once a country has a democratic regime, its level of economic development has a very strong effect on the probability that democracy will survive”) (Przeworski, Alvarez, Cheibub & Limongi, 1996: 40-41); and thirdly, that there are degrees of democracy (“Therefore, it might be sensible to establish a category of semi-democracies to separate democracies from non-democracies”) (Vanhanen, 1997: 41).

The purpose is therefore to design a methodology that could integrate these assumptions into a single matrix of variables that would reflect comparable socio-economic and democracy trends within the region. Comparisons (over time) can be made. This matrix consists of two sets of variables: the socio-economic, taking the UN’s Human Development Index (HDI) (purchasing power parity, literacy and life expectancy) and per capita income into account (however, the ranking is also based on HDI), and the political, taking multiparty elections and Freedom House’s ranking of civil liberties and political rights into account.

Peter Meyns (2000: 86) argued that the Annual Surveys of Freedom House can be used for this purpose. Firstly, is covers substantially all states, and
secondly its reports are published annually so that comparisons may be made that indicate advances and setbacks. Commenting on the usefulness of these annual surveys, Nicolas Van de Walle (2002: 68) writes that the classification of regimes by Freedom House is “roughly correct”: “free”, “partly free” and “not free”. Many other authors (e.g. Joel Barkan, Larry Diamond, Steven Fish, Robin Brooks, Michael Bratton, Robert Mattes and Gyimah-Boadi, etc) also use Freedom House and by implication, find Freedom House’s qualitative distinctions between various types of democracies useful. Likewise, Andreas Schedler (1998) does not use Freedom House, but his classification of political systems into authoritarian, electoral, liberal and advanced democracies, underscores this assumption that there are indeed levels of democraticness. Using the work of Marshall and Jaggers of the University of Maryland, Philip Nel (2005) also decides on three categories: authoritarian, semi-democratic and democratic.

In the most recent of those studies cited above, Bratton, Mattes and Gyimah-Boadi classifies Africa’s over 50 states into five types (2005: 16-19), namely unreformed autocracy (e.g. Swaziland and Sudan) and liberalised autocracy (e.g. Zimbabwe and Angola) – presumably “not free”, then what they call ambiguous (e.g. Nigeria and Zambia) followed by electoral democracy (e.g. Ghana and Namibia) – all presumably “partly free”, and liberal democracy (e.g. Mauritius, South Africa and Botswana), presumably “free”.

As mentioned, our classification in this study keeps things slightly more simple by fully adopting the Freedom House notion of only three types: not free, partly free and free (respectively, authoritarian, semi-democratic and democratic). This is then juxtaposed with the socio-economic indicators as explained above, namely low, medium and high HDI. This is a new approach, and translates into a matrix of nine possibilities (see Figure 1).

| Development (HDI & per capita) | High | | | Medium | | | Low | Not Free | Partly Free | Free |
|-------------------------------|------| | | | | | | | | |

Table 1: Democracy (Multiparty Elections & Civil Liberties and Political Rights)

On development and affluence, an important yardstick was offered in 1996 when Przeworski, et al, analysed and compared 135 countries worldwide and concluded that economic development determines the probable survival of democracies (for example, that per capita incomes above $6000 make democracies “impregnable”; and that democracies are “fragile” when per capita incomes are $1000 or lower), but it was Van de Walle (2002) and Roll and Talbott (2003) who postulated that democracy comes first and could occur at any level of development.
Affluence is implied in the arguments about class formations and the relevance of certain classes for the endurance of democracies. Many authors (e.g., Schumpeter, Lipset, Linz & Stepan) point out that an independent civil society (e.g., churches, trade unions and free media) is also important. Barrington Moore points to the significance of the middle class. Moore (1996) published his influential work on the role of classes in the making of the modern world and was dismissive about peasants as modernisers but was convinced that the middle class is key not only to modernisation, but to democracy as well. And this class was synonymous with a failed peasant revolution in France as well as with the origins of capitalism in France, the UK and the USA (1966, Part One). For him, democracy was a dependent variable: it depended on the capitalist middle classes for endurance, hence his dictum, “No bourgeoisie, No democracy” (1996: 418). Causality is perhaps more complicated than that.

One could, however, agree with Richard Joseph (1998: 3-14) who observed that the drive towards democratisation in the early 1990s in Africa seemed to override the concern for the assumed prerequisites of liberal democracy such as economic wealth, class and political history. The result of this omission, according to him, was the rapid emergence of democratic illiberalism soon afterwards, or differently put, the erosion of democracies, and especially where the economic and social conditions were unfavourable for the endurance of multiparty systems as well as the upholding of rights and liberties since independence.

As will be pointed out hereunder, democratisation begins with elections. But elections are not sufficient. Democracy must deepen and usually through civil liberties, such as the freedom of the press and property rights (Roll and Talbott 2003: 76-77 & 84). Such nations are also more affluent. Affluence and middle classes are strongly correlated. But democracies endure better once higher levels of development have been reached.

The Benchmark States: Five Enduring Multiparty Systems

Africa’s more than 50 independent states do not fit into a single classificatory model as demonstrated by Diamond, Bratton, Mattes and Gyimah-Boadi and many others. There are different degrees of democracies and semi-democracies. Neither are all equally durable, as some lasted since independence before the end of the Cold War while others regressed into authoritarian regimes. What aspects of their socio-economic profiles, distinguish them from their African counterparts?

Sub-Saharan Africa produced only five such states where multiparty systems endured either since independence, or for at least four or more elections. They are Senegal, Botswana, Mauritius, Zimbabwe and Namibia. (See Table 2)

What these five states have in common are the holding of regular elections from Senegal (since 1966) to Namibia (since 1990). Political rights are
therefore what distinguishes them from the rest of sub-Saharan Africa, and why they are deemed benchmarkers. But civil liberties and affluence determine the qualities of their respective electoral democracies.

Another approach that could have been followed in determining a benchmark group, is to focus on sub-Saharan Africa’s present “free” nations according to Freedom House (2004). There are nine such nations today: Senegal, Botswana, Mauritius and Namibia (also in the group of oldest multiparty systems), plus Benin, Cape Verde, Ghana, Lesotho and South Africa, which all democratised during the 1990s. Of these nine, only four are from outside the Southern African Customs Union and the Southern African Development Community (SADC), namely Senegal, Benin, Cape Verde and Ghana, which had the lowest per capita income of all in 2003: US$320 (World Bank, 2004: 256). This makes Ghana the poorest of the free nations in sub-Saharan Africa. Although exceptional, it indicates that democracy can co-exist with lower levels of income. Amongst the older five, Senegal had the lowest per capita income in 2003: US$550. That is also the exception rather than the rule, as the average per capita income of these older electoral systems is US$2034, which may imply that Przeworski’s benchmark of US$1000 in 1996 is long outdated.

Amongst the five benchmark states of older multiparty systems, only one is (has become) “not free”, and this is Zimbabwe. If Ghana (and Senegal), therefore, proved that lower levels of development are not deterrents to enduring democracies, then Zimbabwe proves that regular elections – the common denominator in this group, do not necessarily guarantee freedoms. Affluence and civil liberties declined rapidly. Is this because of the degeneration of good governance? The World Bank (2004, based on 2002 figures, as quoted in Jeune Afrique (2005) measured good governance in the whole of Africa, based on three criteria: accountability, effectiveness and regulatory quality. With the exception of Zimbabwe (ranked 45th out of 53 states), the other four in the benchmark group of five states, all rank within the top ten: Botswana (1st), Mauritius (3rd), Namibia (4th) and Senegal (9th). Others in the top ten include South Africa (2nd), Seychelles (5th), Cape Verde (6th), Morocco (7th), Ghana (8th) and Tunisia (10th). The correlation between good governance and being rated as “free” is positive as only three missed out in the top five, namely Seychelles, Morocco and Tunisia. They are partly free and had regular elections since the early 1990s. As spelt out in the assumptions, democracy begins with political rights – elections, but then democracies must deepen their civil liberties and reach certain levels of affluence which does not create democracies, but helps to sustain them.

Michael Bratton (1998: 52) postulates that while you can have elections without democracy, you cannot have democracy without elections. Bratton says elections are necessary but not sufficient to constitute democracies. What is sufficient, is not the quantity but the quality and meaning of elections – plus adequate civil liberties such as press freedom, as well as favourable socio-economic conditions as assumed above.
On multiparty elections, Przeworski (et al.) (2000) ruled that a one-turnover is sufficient to establish democracy, in other words an incumbent political party actually loses an election. This is the minimal requirement for a democracy. Dahl (1971) added more institutional requirements than electoral contestation only. But consolidation is not claimed.

Samuel P Huntington (1991: 266-267) proposed the "two-turnover test" for consolidation. For Huntington, therefore, a consolidated democracy is one where the winners in a founding election, are defeated in a subsequent election, and when the new winners are also defeated later, this democracy is consolidated. The only benchmark state that meets this requirement is Mauritius.

The question of colonial legacy seems relevant as only one (Senegal) was formerly French, and none were Portuguese. This suggests that the British approach to institution-building during colonial times might have been a positive legacy. The other commonality is that all five countries have rather small populations with Zimbabwe the only with a population of larger than 10 million people. In line with the thinking of S.M. Lipset, who wrote about the social bases of democracy (1959), three indicators used hereunder may be relevant to the discourse of development: per capita income; adult literacy; and urbanisation. Although urbanisation does not form part of the UN Index on Human Development, it is included here because it is assumed to reveal the relative size of urban classes, therefore the potential social space for (urban-based) civil society, and if also positively correlated with literacy levels, the prospects for better communication and mobilisation on the grounds of informed critical choices by the electorate.

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<td>47%</td>
<td>Free (2.5)</td>
</tr>
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<td>49%</td>
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<td>$3840</td>
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<td>42%</td>
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<tr>
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<td>90%</td>
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<td>1.7 mill</td>
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Table 2: The Social Bases of Multiparty Systems (“electoral democracies”) since Independence

The typical profile of an African multiparty system is therefore as follows.

1. It is most likely a former British colony.

2. The population size is rather small – the bigger states are the least successful, and chronically unstable (see the DR Congo, Ethiopia, Sudan and Angola).

3. The average *per capita* income is US$2034, with Mauritius highest at US$3840, however the lower levels can also endure. The lowest is Zimbabwe with US$480, but its rating is “not free”. Is Zimbabwe getting poorer because of the demise of civil liberties; or has it become more undemocratic because it became poorer? The lowest with “free” ratings is Senegal with US$550 which indicates that poverty is not always the problem.

4. Adult literacy seems more crucial than urbanisation, as the average literacy rate for the five is 75%, with Zimbabwe the highest at 90% which amplifies that Zimbabwe’s problems are perhaps more political and social. With the exception of Senegal with only 39%, all the others range from 79% upwards. The implication is that the literacy rates among undemocratic states are much lower.

5. Urbanisation levels are generally much lower than literacy levels, with the average being only 41%, with Botswana the highest at 49% and Namibia the lowest at 31%. This does not indicate the potential for robust urban classes.

6. The weakest links in this list are Senegal with lowest literacy, Namibia with lowest urbanisation and Zimbabwe with lowest *per capita* income and also “not free”. The Zimbabwe case illustrates that although elections are necessary for democracies, they are not sufficient for consolidation. These have to be free and fair as well, complemented by civil liberties, a free press and increasing, not decreasing affluence.

The average percentages for *per capita* incomes (US$2034), adult literacy (75%) and urbanisation (41%) are taken as benchmarks. How these literacy and urbanisation rates compare world-wide to “free” nations in the developing world is not known. It is known, however, that the *per capita* average of US$2034 is much lower than the average for “free” nations in the developing world in 2003, where the comparable figure is US$2960, according to the Freedom House (Karatnycky, 2004: 83). This may be seen as an indication that socio-economic conditions in Africa lag behind comparable conditions in the rest of the developing world. As mentioned, it also points to the outdatedness of the Przeworski benchmarks of 1996.

**Institutional Trends in Southern and Eastern Africa**

In 1989 (when the redemocratisation trend emerged in Africa), the SADC region had only three multiparty states and by 2004 there were 12. In 2004, the free countries according to Freedom House were Mauritius, South Africa, Botswana, Namibia and Lesotho; the partly-free countries were
Zambia, Tanzania, Madagascar, Mozambique and Malawi; and the not free countries were Swaziland, Zimbabwe, Angola and DR Congo. The single party states in this region declined from eight to zero during this period (excluding the DR Congo and Swaziland which may be regarded as no-party states). South Africa became a fully-fledged electoral democracy in 1994, whereas only the DR Congo and Swaziland remained non-electoral autocracies. Zimbabwe deteriorated from partly free in the 1980s to not free since 2000 (See Table 3).

In the seven non-SADC states in East Africa, the profile is much more unfavourable. There is not a single “free” nation, with only four “partly free”, namely Burundi, Ethiopia, Kenya and Uganda. The trends improved only in Burundi and Kenya. In Ethiopia and Uganda trends declined. One of the most significant correlations to be made about Table 3 is that some of the poorest states in this region (together with Tanzania, Mozambique and Malawi in the SADC region) are not necessarily the ‘unfreest’ or least democratic. However, the freest and most democratic also happen to be the most affluent. This could suggest that democracy is beneficial to development. If regional integration requires democratic convergence and good governance as ideal conditions, democracy would then also benefit from integration. It is just such a pity that SADC seldom, if ever, condemns two errant nations in the southern region, namely Swaziland and Zimbabwe.

If a country has to have experienced at least one electoral turnover in order to be classified as a democracy as argued by Przeworski et al (2000), then Zambia, Malawi, Kenya and Mauritius, are this region’s only democracies. Not having had at least one turnover, Botswana, South Africa and Namibia, could therefore not be classified as democracies in terms of this argument. But classifying the latter three as non-democracies despite their higher freedom and HDI rankings than the first four mentioned – with the exception of Mauritius, just does not make sense. Huntington’s “two-turnover test” (1991), for being a consolidated democracy, looks like a much more realistic proposition. Of the four that have had at least one turnover, only Mauritius has had two turnovers. Scoring best for per capita income and HDI ranking, and being rated as free, makes it the best candidate by far for being regarded as Southern and Eastern Africa’s most consolidated democracy.

In the Eastern African region under discussion the picture is much bleaker. Only three countries had multiparty systems by the mid-nineties: Kenya (1992), Burundi (1993) and Ethiopia (1995). By 2003, Kenya had one turnover, improving the trend in that country.

Although there are regular elections in Uganda, these are “choiceless” elections as multiparty contestation has not been allowed since 1986 (Ahluwalia & Zegeye, 2000: 136). Proposals for a multiparty system are now under consideration (Kannyo, 2004: 125-136). But it is rated, together with multiparty Kenya, Burundi and Ethiopia as “partly free”. Significantly,
Kenya has had one turnover when the government of Daniel Arap Moi was outvoted and Mwai Kibaki became president in late 2002. Its ratings for civil liberties and political rights, as a result, improved considerably, making this the best in the East African region with a rating of partly free. But with lowly ranked HDI and per capita of less than US$1 per day (US$340) the challenges are daunting.

It is clear from the above that multiparty systems made a major comeback in the regions under consideration. However, the profile for Southern Africa is much better than Eastern Africa. But moves away from authoritarian rule were not necessarily towards liberal democracy and freedom. Angola, the DR Congo and Zimbabwe illustrate this point. However, the general pattern prevails, namely that the freest are also the richest with the exception of Swaziland and Angola, both richer than Lesotho, which proves that democracy can prevail at any level of affluence provided civil liberties remain intact.

Then there are multiparty states where freedoms have eroded significantly of late, such as in Zimbabwe, and to a lesser extent in Malawi. But despite this, regular and free and fair elections remain important yardsticks for positive trends. The apparent lesson here is that although there cannot be a democracy without elections, elected governments hold no guarantee that civil liberties will endure as the above cases indicated. However, chances improve where development also takes place: affluence does not create democracies – as Przeworski reminded, but once institutionalised is more likely to endure in conditions of sustainable development.

The diversities of democracies in the regions under consideration justify the classification of systems into various degrees of democracy. It helps to better understand the quality of democracy in Africa. The definition of systems as non-democracies simply because they don’t fit minimalist definitions of democracy, says very little about Africa’s hybrid systems and about the quality of freedoms in relevant countries. In East Africa, Sudan, Rwanda and Eritrea are “not free”. Four Southern states, namely Swaziland, Angola, Zimbabwe and the DR Congo, are also classified as “not free”. This does not always correlate with competitive elections, as “free” nations often have dominant ruling parties. How detrimental this is to democracy is unsure; if the big majorities are freely arrived at, concerns are less. But Van de Walle (2002: 69) reminds that the ideal situation is where elections are “uncertain enough” so that incumbents may lose.

The Southern African Development Community (SADC) is the only regional organisation in Africa with principles and guidelines on democratic elections. The SADC Parliamentary Forum had adopted norms and standards for election observation in 2001. In 2002, these were augmented by the adoption in Durban by the African Union of the “Declaration on the Principles Governing Democratic Elections in Africa”. These are non-binding on AU members. Then in August 2004, SADC adopted the Mauritius Protocol on principles and guidelines governing democratic elections (Matlosa, 2005: \[...\]
15-17). It might have been targeted at the Zimbabwean parliamentary elections scheduled for March 2005. Meanwhile it became clear that the Zimbabwean government had not implemented desired electoral reforms or removing legal obstacles making the rules fairer for the opposition to contest elections. The erosion of press freedom continued while food was used as a weapon during the campaign (Sparks, 2005). The African Union also criticised human rights abuses. But the SADC Observers Mission was one of the few outside organisations allowed into the country to observe the elections. With the election day (one day only) being violence free, the verdict was that the exercise was credible. The SADC Parliamentary Forum was however much more critical of the outcome. Significantly, this group also includes opposition parties.

In 2004, five SADC states held elections: South Africa, Malawi, Botswana, Namibia and Mozambique. All of these elections were acknowledged as fair and free. But at least four states are characterised by ruling parties winning by margins bigger than two-thirds, namely in Tanzania where the Chama Cha Mapinduzi (CCM) party holds 87% of the seats in parliament (last election in 2000); in Botswana where the Botswana Democratic Party (BDP) holds 77.2% of the seats in parliament but only 52% of the votes (last election in 2004); in Namibia where the Southwest Africa Peoples Organisation (Swapo) holds 76.4% of the seats in parliament (last election in 2004); and in South Africa where the African National Congress (ANC) holds 69.6% of the seats in parliament (last election in 2004). In these cases there is no “electoral uncertainty” any more. The same applies to Zimbabwe that held elections in 2005. Here the ruling party, according to the official results in an election which many observers perceived to be less than free or fair, obtained 78 of 120 elected seats, or 65% of the seats. But after 30 nominated seats all went to the ruling party, ZANU(PF), the seats tally went to 108 out of 150, or 72% of the total which is sufficient to amend the constitution.

Then follows Mozambique where Frelimo obtained 63.7% of the vote in 2004; then Lesotho where the Lesotho Congress Party (LCD) obtained 54.9% of the vote in 2004; then Mauritius where the ruling MSM/MMM/PMSD alliance obtained 52.3% in 2000 and two states where the ruling parties failed to obtain initial majorities: in Zambia where the Movement for Multiparty Democracy (MMD) obtained 43.6% in 2001; and in Malawi where the ruling United Democratic Front (UDF) obtained only 25% of the seats and its president only 35% of the presidential vote in 2004 – the opposition Malawi Congress Party (MCP) actually obtained more support (30%) in the 2004 elections, but failed to form a winning coalition afterwards. Whether this kind of electoral uncertainty where alliances cannot be formed is good for democracy, is unsure, because the outcome is confusing.

The opposite of uncertainty and confusion is where the opposition becomes weaker as in South Africa and Namibia. In Namibia, the ruling party holds 76.4% of all seats in parliament, but 44 of its 55 members of parliament (or 80%) are also members of the executive as ministers or deputy ministers.
How effective oversight is under such circumstances not clear. At least former president Sam Nujoma decided (in 2004) against a fourth term as president, paving the way for a new successor. At least the constitution was not violated.

In another SADC state, Malawi, the former president (Bakili Muluzi), after much protestation by opposition parties and civil society decided against a Third Term, in 2004. In Zambia, the Third Term Movement was also abandoned in 2001. By 2004, the “Third Term” movements therefore came to an end. Freedoms also improved in Zambia, Tanzania, Mauritius, Lesotho, DR Congo and Angola despite deteriorations in human development rankings in all of them, except in Mauritius (Table 3) where HDI increased.

Developmental Trends in the Southern and Eastern African Regions

If the sub-Saharan benchmark for enduring multiparty systems is “free” and with an average per capita income of US$2034 characterised by a relatively small population (average: 5.7 million people) and a relatively high adult literacy of 75%, then the prognosis for the seven states in Eastern Africa is dismal, with Kenya faring the best with a per capita income of US$390, a bit higher than Ghana but much lower than Senegal. Kenya also has the highest literacy rates in the region but urbanisation is low. Since the demise of Arap Moi, reforms under Mwai Kibaki earned Kenya “partly free” status, for how long is unsure as corruption remains rampant.

Southern African states are generally more affluent than Eastern African states. Five countries have per capita incomes of more than US$1000 (Przeworski’s old benchmark), namely Mauritius, Botswana, South Africa, Namibia and Swaziland (none in East Africa). Swaziland with a relatively high (US$1300) per capita income is the only ranked as “not free”. The point is: compared to Namibia and Lesotho, Swaziland is sufficiently affluent to democratise and endure democratically, but its traditional oligarchy suppresses political rights and civil liberties. On the other hand, Lesotho is “free”, but relatively poor (US$590) which proves that affluence cannot be a precondition for freedom. However, the data also indicates that democracies endure much better in conditions of relative affluence than in poverty. If the benchmark average of US$2034 rather than Przeworski’s outdated US$1000 is taken as an indicator, the outlook is bleak.

The bulk of states in the regions under consideration are poor, with 12 having per capita incomes of less than US$1 per day, i.e. less than US$365 per annum. They are Sudan, Tanzania, Madagascar, Uganda, Rwanda, Mozambique, Eritrea, Malawi, Burundi, DR Congo and Ethiopia. All of them, therefore, fall below the US$550 benchmark (Senegal) for the poorest, but longest enduring “free” nation in sub-Saharan Africa. Except for Ghana in West Africa, all Southern and Eastern African poorest nations are either “not free”, or at best, “partly free”. Being rich, therefore, seems to depend on some level of freedom, not just political rights, but also civil liberties.
Ten of the 21 countries have adult literacy rates higher than the average 75% for the benchmarkers: Zimbabwe, South Africa, Mauritius, Lesotho, Kenya, Botswana, Namibia, Swaziland, Zambia and Tanzania. Their literacy rates may therefore be regarded as relatively favourable. Only Ethiopia has a percentage less than 39% which was the lowest of the five older multiparty systems. The other lowly ranked nations are Angola and Mozambique, slightly better than Ethiopia.

On urbanisation, only South Africa, Botswana and Mauritius have percentages higher than 41% (the average for the benchmarkers) with Zambia, Sudan and Zimbabwe not far behind. The urbanisation rates for the first three may therefore be regarded as relatively favourable. Those with percentages of less than the lowest of 31% for the benchmarkers (Namibia) the possibilities for modern class stratifications and the space for vibrant civil societies are the weakest, that is in Madagascar, Lesotho, Swaziland, Eritrea, Ethiopia, Malawi, Uganda, Burundi and Rwanda. Data for the DR Congo is unknown.
<table>
<thead>
<tr>
<th>SADC States</th>
<th>HDI Ranking</th>
<th>Per capita (US$)</th>
<th>Adult Literacy</th>
<th>Urbanisation</th>
<th>Civil Liberties</th>
<th>Political Rights</th>
<th>Rating</th>
<th>Trend</th>
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<tr>
<td>1 Angola</td>
<td>160 166 Low Down</td>
<td>$740 7 42 35</td>
<td>6 5 6 6 Not free Better</td>
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<td>2 Botswana</td>
<td>122 128 ML Down</td>
<td>$3430 2 79 49</td>
<td>2 2 2 2 Free Same</td>
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<td>3 DR Congo</td>
<td>152 168 Low Down</td>
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<td>6 6 7 6 Not free Better</td>
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<td>4 Lesotho</td>
<td>127 145 ML Down</td>
<td>$590 6 81 29</td>
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<td>5 Madagascar</td>
<td>141 150 Low Down</td>
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<td>6 Malawi</td>
<td>163 165 Low Down</td>
<td>$170 18 62 15</td>
<td>3 4 2 4 Partly free Worse</td>
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<td>7 Mauritius</td>
<td>71 64 MH Up</td>
<td>$3840? 1 84 42</td>
<td>2 1 1 1 Free Better</td>
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<td>8 Mozambique</td>
<td>168 171 Low Down</td>
<td>$210 16 46 33</td>
<td>4 4 3 3 Partly free Same</td>
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<td>9 Namibia</td>
<td>115 126 ML Down</td>
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<td>10 South Africa</td>
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<td>11 Swaziland</td>
<td>112 137 ML Down</td>
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<td>5 5 6 7 Not free Worse</td>
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<td>12 Tanzania</td>
<td>156 162 Low Down</td>
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<td>14 Zimbabwe</td>
<td>130 147 Low Down</td>
<td>$480 8 90 36</td>
<td>5 6 5 7 Not free Worse</td>
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<td>15 Burundi</td>
<td>170 173 Low Down</td>
<td>$100 19 50 9 7 5 7 5</td>
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<td>16 Ethiopia</td>
<td>171 170 Low Down</td>
<td>$90 21 42 16</td>
<td>5 5 4 5 Partly free Worse</td>
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<td>17 Eritrea</td>
<td>159 156 Low Up</td>
<td>$190 17 52 19</td>
<td>4 6 6 7 Not free Worse</td>
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<td>18 Kenya</td>
<td>138 148 Low Down</td>
<td>$390 9 84 34</td>
<td>6 3 7 3 Partly free Better</td>
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<td>19 Rwanda</td>
<td>164 159 Low Down</td>
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<td>6 5 7 6 Not free Better</td>
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<td>20 Sudan</td>
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<td>21 Uganda</td>
<td>156 146 Low Down</td>
<td>$240 14 69 14</td>
<td>4 4 4 5 Partly free Worse</td>
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Table 3: Southern & Eastern Africa: HDI Ranking, Per Capita Income, Urbanisation, Adult Literacy and Freedoms
<table>
<thead>
<tr>
<th>High</th>
<th>Medium</th>
<th>Low</th>
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<tr>
<td>High</td>
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<tr>
<td>Medium</td>
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<tr>
<td>Low</td>
<td>5. Swaziland  ($1300)</td>
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</table>

(UN) HDI 2004 (ranked according to per capita (US$) income but classified into UN HDI categories)

<table>
<thead>
<tr>
<th>(UN) HDI</th>
<th>Mauritius ($3840)</th>
<th>Botswana ($3430)</th>
<th>South Africa ($2780)</th>
<th>Namibia ($1870)</th>
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<td>Medium</td>
<td>6. Angola ($740)</td>
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<td>14. Uganda ($240)</td>
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<td>13. Madagascar ($290)</td>
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<td>15. Rwanda ($220)</td>
<td>16. Mozambique ($210)</td>
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<td>17. Eritrea ($190)</td>
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<td>20. DR Congo ($100)</td>
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Average $481 $240 $2167

Not Free 7 & 6 Autocracy & Dictatorial
Partly Free 5, 4 & 3 Electoral Democracies
Free 2 & 1 Liberal & Advanced Democracies

Table 4: Southern & Eastern Africa: Correlations between HDI & Freedoms

Source: Civil Liberties & Political Rights, 2004 (according to Freedom House, 2004)
Conclusion

This paper dealt with development indicators, democracy and freedom trends in 21 states in Southern and Eastern Africa (the 14 SADC states plus Burundi, Ethiopia, Eritrea, Kenya, Rwanda, Sudan and Uganda). The question was asked, which depended on the other? Although causality is not clear-cut and the outcome remains debateable, the evidence in Table 4 suggests that elections are necessary but not sufficient, and that democracy only deepens with civil liberties, and once attained, endures best with affluence. Unsurprisingly, the four freest nations are also the most affluent. Relevant freedoms are therefore maintainable even in unfavourable socio-economic conditions, but fare best under high levels of development. The average per capita income of the partly free nations (US$240) is, for example, more than half lower than that of ‘unfree’ nations (US$481), but the ‘unfreest’ nations are not the richest either.

The benchmark figures in this respect were the average percentages for sub-Saharan Africa’s five (old) electoral democracies that remained multiparty states since independence. All of them, except Zimbabwe are rated free. Mauritius is the only one with two-turnovers, which makes it consolidated according to Huntington (1991). However, the methodology used in this study is not as minimalist as that of Huntington’s. Freedoms and human development indexes are also taken into consideration. The least likely to be consolidated from this broader methodological point of view are Angola, Sudan, Rwanda, Eritrea, Burundi and DR Congo.

Being more democratic – with higher levels of freedom, as well as being more affluent, makes SADC more convergent than East Africa. But is this region more convergent because it is further down the road of co-operation and integration, or is it more integrated because it is more democratic and affluent? Without markets to integrate, regional integration cannot take place. As such, democracy becomes necessary for both development and integration. Richer countries without political and civil rights are thus rarer than poorer countries with all those rights. Integration works better where affluence creates markets that can be shared. But regional integration can also help to democratise provided minimum standards of democracy are defined and upheld. The European Union’s requirements for membership are a case in point. The cases of Swaziland and Zimbabwe indicate however that SADC may not have executed its mandate in a rigorous manner at all times. Regional integration should not only promote co-operation and market integration but also peace and democracy. If not, development and democracy will remain unfinished business for a long time to come.
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SADC Regional Integration: Assessing the Role of Angola and Mozambique

Antonio Muagerene¹

Introduction

Regional integration has been a response to global economy constraints affecting Africa. The continent has to stimulate industrialisation and modernisation of countries so that those with small size of economies can take advantage of scale economies. Moreover, the continent has to restructure regional economies in a way that countries benefit from the production base of the region as a whole (Mair, 2001, 17; Bende-Nabende, 2002, 187; Khandalwal, 2004: 4).

South Africa is the only economic exception in the region with high performance. The country’s share in the regional GDP is over 70 percent. The SADC individual country economies are so small that they play a peripheral role in the world economy. Therefore, recognising the backwardness of some regional countries, International Financial Institutions (IFI) have been imposing measures towards economic stabilisation and liberalisation, especially in those countries with low economic performance, as a conditionality of the Structural Adjustment Programs (SAP), and also conceding special international trading arrangements.

SADC regional integration recognises the diversity of member countries and SADC countries are characterised by diverse production structures, trade patterns, resource endowments, development priorities, institutional affiliations and resource allocations. Hence, regional integration intends to address aspects regarded as production, infrastructure and efficiency barriers (RISDP, 2003, 4).

The process of building regional integration is recognised as complex. The process of SADC regional integration is sequenced in the direction of catch-up of the country economies, which include three dimensions: long term economic convergence; macroeconomic convergence; and macroeconomic policy convergence (Hansohm and Mbazima, 2003, 9).

The SADC Lusophone countries have been implementing the SAP and participating in the process of regional integration since the late 1980s. However, there are differences in the speed, intensity and outcomes of these programs, given that these countries were impacted by long-term conflict, and have different natural endowments (Mair, 2001, 18).

¹ The author has benefited from comments of Willy Breytenbach, to who is gratefully acknowledged. The views expressed in the paper, as well as for any remaining errors are of entirely responsibility of the author.
Monitoring Regional Integration in Southern Africa

Angola and Mozambique are both the Lusophone countries of the SADC region. They have undergone parallel experiences in the past, which suggest a sharing of similarities and differences that impact the path of progress towards regional integration for these countries.

Based upon this background, the paper examines the SADC Lusophone countries assessing some broad similarities and differences. Then, it compares the role of both countries towards regional economic integration, infrastructure cooperation and political cooperation. Finally, the paper draws conclusions based upon the evidence.

Similarities and Differences among the Lusophone Countries

Given the common colonial heritage, Angola and Mozambique have undergone analogous historic-political experiences. However, establishing the comparison of both countries is not an easy exercise. Studies comparing both countries based on the potential for political and economic development have demonstrated that beyond the historical and political background, there are specific determinants influencing the path and the future development of each country, as well as on the role they play in the process of regional integration (Kyle, 1999: 1).

Angola and Mozambique have elements of commonality derive from the parallel processes. Former Portuguese colonies come to independence in 1975, after prolonged armed struggle and both followed the Soviet inspired central planned economy (Hodges, 2004: 9; Abrahamson, Nielson, 1995: 28).

The long process of civil war followed independence, in which they played the regional strategic role in the context of cold war. Both countries were frontline states that came to upgrade to SADCC, shifting the political approach to regional development.

In the late 1980s, transitional reforms were introduced to accommodate a market economy and a multiparty democracy system. Comprehensive changes were started in both countries after becoming members of the IFI during 1980s. Mozambique joined these institutions in 1984, and in 1987 introduced the SAP, which led to changes in the constitutional framework in 1990. In 1987 Angola became a member of the IMF and initiated a series of economic reforms that were never full implemented (Rocha, 2001: 59).

Therefore, both countries have been running parallel processes, nevertheless with different dynamics. Diverging patterns have marked the SADC Lusophone countries determining differences in the social, political and economic aspects, and also the role each country plays in regional integration.

The colonial economy has tilted the countries to perform distinct patterns. Mozambique’s economy has the longest linkages within the region as a
service provider due to its strategic localisation. Relationships between Mozambique and South Africa date from the pre-independence period. Those were characterised by migrant labour to the gold and coal mines, supply of power from Cahora Bassa, the ports of Maputo and Beira, which came to shape the economy of the country. Mozambique also played a role of regional service provider to former British colonies of Malawi, Zambia, and Zimbabwe. This explains the complex communication infrastructure orientated to the hinterland and the closer ties to South Africa (Abrahamson, Nilsson, 1995: 22). Angola’s colonial economy, on the contrary, was export-oriented tied to Portugal, Brazil and the neighbouring Central-African French-speaking countries (US, 2005).

During 1980s, both countries also introduced SAP for macroeconomic stabilisation. Mozambique systematically implemented transitional reforms, whereas Angola became trapped in a complex and difficult transition from the planned economic system to market economy, subsequently facing difficult relationships with the IMF (Hodges, 2004: 4).

Different patterns can also be found in assessing the dynamics of political processes. Mozambique, after the 1992 peace agreement, managed the process of democratisation and national reconciliation, holding regular elections and consolidating democratic institutions, whereas in Angola these processes faced systematic interruptions, until the 2002 peace agreement. Currently, the process of reconciliation is slowly taking place in Angola but still there is a need for more progress in the process of democratisation.

The economic dimension is also one in which these countries differ (Annex. 1). Mozambican macro-economic stability is being fuelled by capital intensive “mega-projects” of MOZAL plant (aluminum), SAZOL (natural gas) and coalmines, mobilising huge capital inflows. The country has its inflation under control, and it sustains macroeconomic stability. Angola, on the other hand, has shown rapid economic growth due to huge investments in the oil and mineral industry but still maintains an economy of enclave.

Summing up, Angola and Mozambique are running parallel processes toward regional integration based on the past colonial background of the countries. The individual differences affect the extent to which they perform in the process of regional convergence.

**Economic Integration**

**The Degree of Country Openness and Regional Integration**

Regional integration represents an alternative for small economy countries to overcome the constraints imposed by the global market. Consequently, the degree to which the country’s economy is outward-looking determines its ability for regional integration. Fundamental elements of the openness strategy as Stephan Mair has pointed are “… the reduction of the customs tariffs, the harmonization of macroeconomic policies, the standardization of norms and procedures, the liberalization of financial and other services,
the easing of cross border investment and gains in the credibility of reform policies” (Mair, 2001, 9).

In fact, the introduction of reforms through the SAP in the SADC Lusophone countries, intended to slow down the economic decline and macroeconomic imbalances. The reforms were introduced to create conditions for liberalisation of investment regulations, offering incentives to investors matches world economy patterns and regional convergence as well.

The transitional reforms introduced in Angola during the 1980s were not successful. The government successively introduced a variety of reform programs intended to create conditions for economic stabilisation, however were not successful due to external shocks and internal long-term conflict.

Progress was made only after the 2002 peace agreement between the government and UNITA. A series of regulations were enacted in the new post-conflict era in order to create a climate that attracts investments. In 2003, the former 1994 Foreign Investment Law was replaced with the Law on Bases for Private Investment, law no. 11/03, which encouraged foreign investment, and stated equal treatment for domestic and foreign investment. The law also offers fiscal and custom incentives, simplification of investment processes, lowering the capital requirements for investment as well. Specific regulations on investment were made for the strategic sectors of energy, diamond, telecommunications and finance. Institutional arrangements introduced the National Private Investment Agency (ANIP) to facilitate investment and assist investors.

The process of investment establishes the regime and steps of foreign investment approval. The approval of the investment is followed by several steps to be fulfilled: the registration of the company; publishing of the company statute in the official gazette, the licence issuing, and the registration with the fiscal authorities. Recently the Government opened the one-stop shop to simplify the proceedings and time requirements to register a company but it is early to evaluate its results (US, 2005).

Mozambique’s response to SAP, on the other hand, was to introduce the regulation of the Foreign Investment in Mozambique based on the Law on Investments, law no. 3/93, which also create the Investment Promotion Centre (CPI), unity in charge of attracting investment and supporting investors. Additional amendments to the Law No. 3/93 were made through the Decrees 14/93 of July 21, 1993, and 36/95 of August 8, 1995. Under these regulations, all domestic and foreign investments face similar treatment and require government approval. The enactment also introduces the steps and the regime of investments approval. The country also introduced the one stop shop to facilitate investment procedures.

In summary, the introduction of SAP in both countries has promoted the institutional and policy conditions for regional integration. However, Angola lags behind the process of implementation because the implementation faced constraints compromising the transitional reforms.
Trade Agreements of the SADC Lusophone Countries

The SADC Trade Protocol agreed in 1996 and amended in 2000 came into implementation in September 2001. Under the protocol, a regional Free Trade Area (FTA) was established and participating countries agreed full trade liberalisation by 2012. The protocol provides asymmetrical treatment of member-countries according to their levels of development, and establishes rules of origin, and the custom procedures for trade harmonisation and cooperation. Mozambican approved the protocol in December 1999, whereas Angola signed the protocol in March 2003. Subsequently, Angola retired its participation in the Common Market of Eastern and Southern Africa (COMESA). Angolan authorities have argued SADC regional integration as representing opportunities that suit Angola’s long-term development interests (IMF, 2003: 8).

Moreover, both countries have established a variety of multilateral, regional, and bilateral trade negotiations, as well as under programs that provide preferential access to major markets, including the United States and the EU.

Angola and Mozambique are members of the ACP group, benefitting from the trade preferences of the EU market under the Lomé Convention, and the Cotonou Agreement, under the EU trade platform of Every Thing but Arms (EBA), for the low developing countries (LDC). Additionally, both are members of the US initiative for Africa AGOA.

Angola, on the one hand, has signed bilateral investment agreements with Portugal, South Africa, the UK, Italy and Germany, yet still not ratified. In 2004, Angola ratified bilateral investment with Cape Verde. Custom cooperation agreements were signed between Angolan authorities with the Community of Portuguese Speaking Countries (CPLP) of Portugal, Sao Tome and Principe. Ongoing negotiations for customer agreements with SADC member countries are taking place with South Africa, Namibia, Zambia and Democratic Republic of Congo (DRC) (US, 2005). Mozambique, on the other hand, has signed bilateral investment agreements with South Africa, Portugal, Zimbabwe, Mauritius, France, Italy, China, Egypt, Indonesia, Algeria, Switzerland, Germany, the Netherlands, Sweden, Denmark, the UK, Cuba and the USA (SARPN, 2004: 23).

In summary, both the SADC Lusophone countries have established multilateral, regional and bilateral agreements to accommodate the openness to global economy creating conditions for regional integration. Despite the variety of agreements established, only some of those are in place, according to its comparative advantages.

Foreign Direct Investment Flow

The SADC Lusophone countries have succeeded in the last decade in mobilising foreign direct investments (FDI). In part, the resource endowment, and the openness of the country to the world economy have acted as determinant factors.
Statistics on Angola’s FDI inflow demonstrate it to be one of most important destinations of FDI in Sub-Saharan Africa. Estimates from the WB on Angola FDI inflows points up to USD 1.42 billion in 2003, and USD 1.55 billion (9 percent GNI) in 2004. Massive investment was in the oil industry, which contributes 45 percent to the economy and constitutes the bulk of Angolan exports. The USA and China are the most important trade partners (AGOA, 2005, www.agoa.info).

Mozambique also attracted investments through the “mega projects” mainly MOZAL plant (aluminum melt) and SAZOL (natural gas). In 2004, investment inflows slowed down. The CPI registered 143 projects during the period, amounting USD 508 million, including FDI, foreign loans, and domestic private investment. The top five Mozambique investors are South Africa, Portugal, the United Kingdom, Japan and Ireland. Regional investment share is summarised in the table 1. RSA is the major investment partner of Mozambique.

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Projects</th>
<th>FDI USD (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>2</td>
<td>59</td>
</tr>
<tr>
<td>Malawi</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>22</td>
<td>4</td>
</tr>
<tr>
<td>Mauritius</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Tanzania</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

Table 1: FDI Mozambique: Regional Participation, 2004


Export Structure

The SADC Lusophone countries have different export structures (see annex. 1) with implications for the country trade strategy towards regional convergence. Both countries enjoy preferential treatment with duty-free quotas from the European Union (EU) markets and the United States. The commercial disequilibrium is characteristic for both countries. For instance, the trade structures of both countries with the EU illustrate this tendency.

<table>
<thead>
<tr>
<th></th>
<th>Exports to EU</th>
<th>Imports from EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>23.7</td>
<td>52.2</td>
</tr>
<tr>
<td>Mozambique</td>
<td>63.7</td>
<td>14.6</td>
</tr>
</tbody>
</table>

Table 2: European Union (EU) – Share in Trade (as a % of total)

Source: Kandalwal, 2004, Table 10)
As table 2 shows, Angola imports more from EU than exports, and the opposite fits to Mozambique which mainly imports from RSA.

The export and import structure patterns of both countries points Angola as outside-regionally oriented, whereas Mozambique is better regionally oriented (annex. 1). Angola exported oil to US (48.1%) and China (23.5%) in 2003, while imports were mainly from Portugal (18.1%), South Africa (12.3%), US (12.1%), France, Brazil, and UK. Oil production contributes about 45 percent to GDP. In 2004, Angolan exports were valued over US$ 10.5 billion, of which 91.92 percent were from the oil and oil derivate industry, 7.45 percent diamonds, and 0.63 percent of miscellaneous exports (Tralac, 2005, 14/03/05). The US is the most important partner to Angola. Under AGOA, Angola is the third export source of imports to the US. In 2004, the US imported US$ 4,476 million, and exported to Angola about US$ 589 million (www.agoa.info).

Mozambique’s export framework is based on the Decree no. 61/99 regulating the Industrial Free Zones (IFZ). Industries localised in the IFZ are exempted of custom duties, VAT, import and import export taxes on construction material, machinery and equipment, also are exempted from income taxes. A part from the preferential treatment Mozambican exports benefit from the EU and US markets, there is a special trade agreement with South Africa. Mozambique, unlike Angola, is more regionally oriented with main partners being South Africa, and even Zimbabwe (annex. 1). The country imports more commodities mainly from RSA, comprising 26% of its needs in machinery and equipment, vehicles, fuel, chemicals, metal products, foodstuffs, textiles. In 2004, Mozambique exported US$ 10.6 million, and imported US$ 76.4 million to US, under the AGOA (AGOA, 2005).

Regarding special trade relationship between Mozambique and South Africa, the possibility of the integration of Mozambique into SACU region has been raised. Recent studies have revealed Mozambique as evaluating its advantages for integrating into the SACU framework (SARPN, 2004: 25). However, many factors will be taken into account before a final decision is made. Though, the dependency of the country on trade tax revenue, the pressure of domestic interest groups, as well as the comparative advantages that the country can derive from the current trade arrangements, can act as factors that interfere in the decision for SACU integration suggesting that it can be delayed (Kandalwal, 2005: 19).

Therefore, Angola and Mozambique have different economic patterns that impact the efforts towards regional integration. The evidence shows Mozambique being more SADC-oriented than Angola.

**Development Integration**

Development integration, as SADC has adopted to refer to sectoral and infrastructure integration is another pillar of regional integration. Regional development integration has historic roots. Overall SADC countries
benefited from systems and relationships established by the former colonisers as well as the apartheid regime of South Africa, such as the road and rail systems (Mair, 2001, 22). Natural resources, for instance water, and biodiversity, established beyond the conventional borders, facilitate regional integration enabling neighbour countries to share its benefits. Therefore, water, energy, transport system, and biodiversity are among the enabling factors of regional integration. Following these development factors are discussed, in order to assess the performance of the countries towards regional convergence.

Regional Water Resources

The integration of water resources in the SADC region has been appointed as an enabling factor for regional integration. Angola and Mozambique are both countries with a vast hydrographic network sharing the main sources of regional water basins. Angola shares in the Congo, Okavango and Kunene river basins. The country has also six dams, three of which were damaged during the war. Mozambique shares in the Rovuma, Zambezi, Limpopo, Incomati and Maputo rivers, and the Niassa Lake on the northwest border with Tanzania and Malawi, which represents 13% of the territory.

SADC has recognised the importance of water resources for regional integration and development. In 1995, the region agreed on the SADC Protocol on shared Watercourse Systems, revised in 2003, to regulate the management and utilisation of scarce regional water resources, given their importance in economic development, environment, for food security, and poverty alleviation (Erasmus, 2003, 82). Mozambique ratified the protocol in 2001, but Angola, until October 2004, did not ratify.

Energy

Energy is one of the promising sectors for SADC regional integration. SADC has agreed on an energy protocol, which came into force in 1998 to regulate regional energy management and utilisation. The ESCOM initiative of penetrating each neighbouring country under the initiative of the regional power pool has the potential of strengthening regional integration. Both Angola and Mozambique have under-exploited energy sources that can allow them to play an important regional integration role.

Mozambique has a huge potential for energy production, mainly large hydro resources, coal, natural gas, biomass and high levels of solar energy. The main source of hydropower is the Cahora Bassa dam, situated in the Zambezi River, with an estimated potential of 14,000 megawatts, of which only 2,075 megawatts are currently exploited (www.sadcreview.com). The Cahora Bassa power plant supplies electricity for domestic consumption and for supply to neighbouring countries of South Africa and Zimbabwe. In 2003, Mozambique successfully tendered to provide electricity to Malawi for 20 years from 2004 with up to 300 MW from the Cahora Bassa hydroelectric dam, in Songo (EIA, 2005, www.eia.doc.gov).

The energetic dimension also promotes regional integration initiatives
through the pipeline from the Mozambican port city of Beira to Zimbabwe. Since February 2004 the 536-mile pipeline delivering natural gas from the Temane fields in Mozambique to Secunda in Johannesburg, a SAZOL project amounting USD 1.2 billion, establishes the integration of Mozambique and South Africa.

Angola, conversely, has huge natural resources mainly oil, natural gas, and biomass. Through its hydrographic network and its six dams the country also has the potential to participate in the regional power pool. Ongoing projects to upgrade the three damaged dams as well as current regional agreements will increase future trends in regional integration. Angola has already established regional agreements for rehabilitation and construction of dams. In February 2003, Angola reached an agreement with Namibia for the construction of the Gove station on the new Kunene River dam at Epupa Falls. The country is participating in the regional Western Corridor Power (WESTCOR) Project, aimed at pooling the hydro potential of DR Congo, Angola and Namibia. The Memorandum of Understanding of the initiative was signed between five countries -Angola, Botswana, DRC, Namibia, and South Africa in 2002. It intends to build an electricity transport line from the Inga Dam (DRC) to South Africa, running through each of the nations involved in the agreement. The project will also include the construction of a central station with a capacity of 3,500 megawatts (MW). The value of the project is USD 4.0 billion (EIA, 2005, www.eia.doe.gov).

From the energy sector, either country has the potential to play an important role in regional integration. The effective implementation of ongoing projects has the potential to bring Angola into the regional arena.

**The Spatial Development Initiatives: Transport Sector**

Under the concept of the Spatial Development Initiatives (SDI), both Angola and Mozambique are developing the idea of corridors of development linking the country with its neighbours, aimed at increasing intra-regional trade, creating complementarities within country economic strategies, and enhancing the level of regional integration.

Mozambique has basically three development corridors already privatised in a system of building, operating and transfer. The first is the Nacala Development Corridor, in the northern province of Nampula, established to link Mozambique to hinterland Malawi and further of Zambia. Privatised in 2000, but still outstanding is the upgrading of the 77 km of line in Mozambique from Cuamba to Entrelagos. Funding is guaranteed through the US based Overseas Private Investment Corporation (OPIC), with the upgrading of the network to begin in 2005. It will also allow the purchase of locomotives.

Second is the Beira Development Corridor which has two lines: first, the Machipanda line, linking the port city of Beira to Zimbabwe consisting of about 300 km of road, the railway and the pipeline; second is the Sena line linking Beira to the coal mine of Moatize and Malawi, about 600 km.
The upgrading project of the infrastructure rehabilitation and procurement of locomotives and rolling stock evaluated at USD 187 millions is running under partial World Bank funding (www.worldbank.org).

The last is the Maputo Development Corridor (MDC) links the Capital City of Maputo to the South African Province of Mpumalanga, which makes route from Johannesburg to Maputo. The corridor system includes the road, the railway line, the border post and the port of Maputo (DPRU, 2000: 3); from 2004 the MDC includes the gas pipeline. The MDC is located within the IFZ of Maputo, where the "mega-projects of MOZAL and SAZOL are also located. The decision to abolish the visa requirement since April 2005 contributes to integrating SADC countries (TRALAC. 2005, www.tralac.org).

Currently the consolidation of the Mtwar corridor between Tanzania and Mozambique is underway. Procurement is an ongoing process for building the bridge linking Tanzania and Mozambique through the Rovuma River.

Angola, in opposition, had an important regional network of about 2,700 km of railways, providing a route from Lusaka (Zambia) via Lubumbashi, in southern Congo. However, only about 850 km (1/3) of the existing network is now operational. The remainder was destroyed during the civil war. The government launched project “AngoFerro” evaluated at USD 4 billion (www.afrol.com). Financing is still being sought for the implementation of the program. The AngoFerro project includes the rehabilitation of the Benguela Railway System, and the Lobito Port.

Therefore, whichever country has registered towards the rehabilitation of the physical structures, there is still a needed for additional efforts to operationalise the projects to ensure regional integration. From this background, Angola is lagging behind Mozambique in the process of upgrading and operationalising the infrastructure network.

Tourism and Biodiversity

Angola and Mozambique are both flourishing areas for tourism associated with the regional cross border wildlife management approach, which represents a potential for regional integration. The establishment of regional protocols on tourism development, and on wildlife conservation which came into force in 2002 and 2003 respectively follow the acknowledgement of the potential represented by those areas for sustainable development. Mozambique has already bound to both agreements, and Angola is yet to ratify.

Mozambique has gone a step further towards regional biodiversity conservation. Significant is the fact that ten percent of the country’s total land area is allocated for wildlife management, including national parks, game reserves and hunting areas (www.sadcreview.com). Mozambique, therefore, manifests its commitment to protect regional biodiversity signing two important regional agreements. First is an international agreement on the Great Limpopo Transfrontier Park signed between ministers of Mozambique, South Africa and Zimbabwe in November 2000. The second
with similar dimension is the Trilateral Protocol between Mozambique, South Africa and Swaziland for the Lubombo Transfrontier Conservation Area, which took place in June 2000. Both initiatives have the potential to increase tourism in the region, thus regional convergence.

Angola, equally, can benefit in the future from the cross border initiative on the Okavango Delta Management Plan intended to manage the ecological potential of the Okavango river basin, linking three regional neighbour countries, namely Angola, Botswana, and Namibia (Jasen and Madzwamuse, 2002, 156). The outcomes from the implementation of these ongoing projects will ensure not only the promotion of local development, but also regional partnership and cooperation strengthening SADC regional integration.

Overall progress can be recognised in development cooperation, but still there is a need for additional efforts to fully implement ongoing projects to ensure effective regional integration. In this regard, Mozambique has made advances to concretise regional agreements.

**Political Cooperation**

The majority of the SADC countries are young democracies. Therefore political integration should assess how each country is ensuring the sustainability of its own democratic process and how the country commits to regional political cooperation. Political cooperation aims at achieving regional peace and stability as well as the consolidation of democracy, human rights and the rule of law in the member states (Mair, 2001, 18). Hence, the assessment should discuss factors that consolidate democracy, such as: regular democratic elections; respect for basic human rights; and the absence of political-motivated violence. Considering the African context, Przeworsky et al have suggested that democratic development and its sustainability is likely to enhance with socio-economic development achievements (Peters-Berries, Naidu, 2003: 11).

Thus, the main question here is to what extent the SADC Lusophone countries are contributing towards regional political convergence?

With regard to respect of constitutional order, the Lusophone countries show distinct patterns. Mozambique adopted a democratic system in 1990 and progress was made in establishing democratic institutions and consolidating the regularity of democratic elections since 1994. Room for improvement in judicial reform as well as the respect of the rule of law to match with the needs introduced through the process of economic reforms has been pointed as the main constraints of the process. Angola’s democratic system, similarly established in 1990, faced the contingent situation derived from the recent warfare status, resulting in undermined compliance of the constitution (US, 2005).

With regard to the respect of human rights and civil liberties both the SADC Lusophone countries need improvements to guarantee freedom. During the
period of December 1, 2003 to November 30, 2004, the Freedom House indicator (rating 1 to the most free country, and 7 the least free) gave Angola a rating of 6 with respect to political rights, and 5 for civil liberties with final freedom rating of a “Not Free” country. Mozambique with respect to political rights was rated 3, and 4 for civil liberties, and came to be considered a “Partly Free” country. Therefore, both SADC Lusophone countries need to improve with respect to human rights (www.FreedomHouse.org). In general the SADC Lusophone countries have registered progress towards political integration, though improvements are still needed. The specific situation of Angola calls for regional attention to ensure that democracy can be real and sustainable.

The SADC Lusophone countries behaviour toward regional integration can also be assessed from the perspective of the number and nature of SADC protocols, treaties and memoranda of understanding signed, ratified, and accessed these show to which extent the country is committed to regional integration matters. By October 12, 2004, 34 regional agreements were amended, still the SADC Lusophone were not full committed (www.tralac.org, 2005). Mozambique had 2 to sign, 3 to sign and ratify and 4 to ratify. The country is showing slow progress in the regional matters since 2002. Overall regional agreements Mozambique has not signed are related to matters dependent on the currently running legal reform i.e. legal matters, against corruption, and extradition and cooperation in taxation. With regard to the trade cooperation protocol, the country is cautious due to its reliance on trade taxation revenues, which will be affected in a context of unified procedures. Angola, on the other hand during the same period had 1 to accede, 10 to ratify, 4 to sign and ratify. The country is still not locked-in on matters regarded mining, legal affairs, corruption, crime, politics, defense and security including firearms, and agreements on social rights. It suggests that for the Angolan authorities these matters are very sensitive to lock-in at the moment. But still it is imperative for Angolan authorities to show their commitment on regional matters. Therefore, there are sensitive matters that both countries find unwilling to compromise on, which focus on legal matters, corruption, and trade cooperation, these may compromise regional convergence.

Both countries are members of NEPAD and the Peer Review Mechanism (PRM) therefore are compromised to ensure good governance. The assessment of good governance through a composite indicator, introduced by the World Bank, can also compare the performance of both the SADC Lusophone countries. The 2002 WB report ranking the African countries according to measures on voice and accountability, government effectiveness and regulatory quality, Mozambique was at 19th position whereas Angola at 49 out of 53 countries (Costa, 2005: 132-133). Therefore, Angola is far from the political representation and the accountability of elected representatives to the people, as well as for government effectiveness and the rule of law.
Conclusion

Angola and Mozambique have had a parallel historic and political experience in the past, which bring determining factors of their similarities and differences in the way they share the regional efforts to integration. Progress towards regional integration was made at levels of economic integration, sectoral cooperation as well as political cooperation suggesting that these countries are making headway toward convergence. However, both countries need to consider taking further steps towards regional development addressing the identified constraints.

Comparatively, Angola lags behind Mozambique in compliance of regional issues. The long-term struggle has affected the country so deeply that it cannot respond accordingly to regional integration. Therefore, Mozambique is better integrated in the SADC region than Angola.

References


<table>
<thead>
<tr>
<th>Country</th>
<th>Angola</th>
<th>Mozambique</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area: total (sq km)</td>
<td>1,246,700</td>
<td>801,590</td>
</tr>
<tr>
<td>Population (est. 2005)</td>
<td>11,190,786</td>
<td>19,406,703</td>
</tr>
<tr>
<td>GDP - ppp - (2004 est.) in $ billions</td>
<td>23.17</td>
<td>23.38</td>
</tr>
<tr>
<td>GDP - real growth rate (2004 est.)</td>
<td>11.7%</td>
<td>7.2%</td>
</tr>
<tr>
<td>GDP - per capita, ppp – $ (2004 est.)</td>
<td>2,100</td>
<td>1,200</td>
</tr>
<tr>
<td>GDP sector composition (2001 est.)</td>
<td>agriculture: 8%</td>
<td>agriculture: 21.1%</td>
</tr>
<tr>
<td></td>
<td>industry: 67%</td>
<td>industry: 32.1%</td>
</tr>
<tr>
<td></td>
<td>services: 25%</td>
<td>services: 46.9%</td>
</tr>
<tr>
<td>Inflation rate (Consumer prices) (2004)</td>
<td>43.8%</td>
<td>12.8%</td>
</tr>
<tr>
<td>Current Balance account - million (2004 est.)</td>
<td>- 37.88</td>
<td>-101.2</td>
</tr>
<tr>
<td>Exports - $ f.o.b. (2004 est.)</td>
<td>12.76 billion</td>
<td>689.4 million</td>
</tr>
<tr>
<td>Export Commodities</td>
<td>crude oil, diamonds, refined petroleum products, gas, coffee, sisal, fish and fish products, timber, cotton</td>
<td>aluminum, prawns, cashews, cotton, sugar, citrus, timber; bulk electricity</td>
</tr>
<tr>
<td>Export partners</td>
<td>US 48.1%, China 23.5%, Taiwan 8.1%, France 7.4% (2003)</td>
<td>Belgium 26.5%, South Africa 14.6%, Italy 9.8%, Spain 9.6%, Germany 8.5%, Zimbabwe 4.8% (2003)</td>
</tr>
<tr>
<td>Imports - $ f.o.b. (2004 est.)</td>
<td>4.896 billion.</td>
<td>972.9 million.</td>
</tr>
<tr>
<td>Import commodities</td>
<td>machinery and electrical equipment, vehicles and spare parts; medicines, food, textiles, military goods</td>
<td>machinery and equipment, vehicles, fuel, chemicals, metal products, foodstuffs, textiles</td>
</tr>
<tr>
<td>Reserves of foreign exchange &amp; gold - $ (2004 est.)</td>
<td>800 million.</td>
<td>1.206 billion</td>
</tr>
<tr>
<td>Debt external - $ (2004 est.)</td>
<td>10.45 billion</td>
<td>966 million (2002e.)</td>
</tr>
</tbody>
</table>

Annex 1: SADC Lusophone Countries: Macroeconomic Data

<table>
<thead>
<tr>
<th>Trade Agreement</th>
<th>Angola</th>
<th>Mozambique</th>
</tr>
</thead>
<tbody>
<tr>
<td>SADC Trade Protocol</td>
<td>2003</td>
<td>1999</td>
</tr>
<tr>
<td>Bilateral Agreement for investment</td>
<td>Portugal, South Africa, the UK, Italy and Germany (both not ratified); Cape Verde</td>
<td>South Africa (special agreement), Portugal, Zimbabwe, Mauritius, France, Italy, China, Egypt, Indonesia, Algeria, Switzerland, Germany, the Netherlands, Sweden, Denmark, the UK, Cuba and the USA</td>
</tr>
<tr>
<td>Custom Cooperation</td>
<td>Portugal, Sao Tome and Principe,</td>
<td>No</td>
</tr>
<tr>
<td>EU Cotonou Agreement and Every Thing but Arms</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>AGOA</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>WTO</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Multilateral</td>
<td>FMI, MIGA</td>
<td>FMI, MIGA</td>
</tr>
</tbody>
</table>

SADC Lusophone Countries: Trade Agreements, 2004

Regionalisation in Southern Africa: The Role of Non-State Actors with Special Reference to the Zimbabwean Election of 2005

Richard Meissner

Introduction

Regional integration is usually thought of as the domain of contiguous states making up the region. Closer analysis reveals, however, that non-state actors i.e. political parties, interest groups and non-governmental organisations (NGOs) are also players in their own right in this sphere where states set the rules. To be sure, most research endeavours on regional integration concentrate on its economic aspects and the action of states in strengthening it. What is frequently overlooked is the role of non-state actors and the way in which they promote regional integration.

This paper will depart from the state-centric analysis of regional integration. It will examine the transnational lobby campaign of the Movement for Democratic Change (MDC)—Zimbabwe’s main opposition political party—and interest groups and NGOs to influence the Zimbabwean government to abide by the SADC Principles and Guidelines Governing Democratic Elections (the Mauritian Protocol). This paper will therefore investigate how non-state actors (also discussed in the chapters by Willie Breytenbach and in some part by Trudi Hartzenberg) are promoting regionalisation within SADC through the endorsement of the Protocol. The main problem to be addressed is to what extent have non-state entities created a new normative cross-border region within SADC? In addition, what were the strategies and tactics used by these actors and what is the significance of these actions on regionalisation in SADC?

The paper consists of five parts. In the first, the relationship between regionalisation and norms is outlined, followed, in the second part, by a discussion of the origin and nature of the Mauritian Protocol. In the third part, the lobbying campaign of the non-state entities is examined. The penultimate part is an analysis that looks at the implications of their actions on regionalisation in SADC, while the last section forms a conclusion.

Regionalisation and Norms

Within a socially constructed environment, like SADC, the actions of non-state actors are significant in deepening the regional integration experience. Because all regions are social constructions, they are also politically contested arenas between actors. How political actors perceive a region, and their actions based on such perceptions, are important to the idea of regionalisation, for their actions shape the region’s political landscape (Hurrell, 1995: 334).
Also known as ‘informal integration’ or ‘soft regionalism’, regionalisation represents the intensification of societal integration within a region and the unassisted processes of social and economic relations, as well as the expansion of interdependent networks within regions. As a process, regionalisation has two facets. Firstly, it focuses on autonomous economic activities, leading to increased levels of economic interdependence within a region and not between that geographical area and the rest of the world. Secondly, it involves an increase in the flow of people within the region, the improvement of numerous communication routes and social networks by which ideas, political attitudes and viewpoints spread across a region, and the creation of a transnational regional civil society (Hurrell, 1995: 334, 335; FRE, 2004). This paper focuses on the second element, because the unhindered flow of people and ideas is a feature of numerous debates between governments and non-state actors. Of major importance, is that regionalisation is not based on the conscious efforts or policies of states or groups of states—states are not the main actors. Patterns of regionalisation do not adhere to state borders, but can lead to increased interaction between non-state actors and states, thereby creating ‘new cross-border regions’ (‘transnational regionalism’) (Hurrell, 1995: 335). Within this context, norms play an important role.

Norms are defined ‘as shared (thus social) understandings of standards of behaviour’ (Klotz, 1995: 14). Similarly, for Hechter and Opp (2001: xi), ‘Norms are [political] phenomena that prescribe and proscribe behaviour in specific situations’. Norms are, furthermore, in the words of Feld (2001: 638), ‘a primary source of social order and predictability’. Stated differently, norms serve as guidelines for human conduct, providing an exact action guide, delineating suitable and proper behaviour in given situations (Haralambos & Holborn, 2000: 4). Norms are therefore seen as ‘informal social regularities that individuals feel obligated to follow because of an internalised sense of duty, because of a fear of external non-legal sanctions, or both’ (McAdams, 1997: 340). More to the point, a norm is ‘a standard of appropriate behaviour for actors with a given identity’ (Finnemore & Sikkink, 1998: 891). McAdams (1997: 340) is of the opinion that ‘Sometimes norms govern behaviour irrespective of the legal rule, making the choice of a formal rule surprisingly unimportant’. Thus, norms and behaviour appear to be closely linked. With this in mind, what is the relationship between regionalisation and norms?

At first glance, the relationship is not clear. Because regionalisation involves the transnational spread of ideas, political attitudes, ideologies and viewpoints across a region, the process has a distinctive normative and action-driven (behavioural) character. Individuals, non-state actors and states, to better direct their actions in the domestic, regional and international arenas, produce norms. The identity and ideology of an actor are important components, with the shared beliefs composing and expressing the interests and identities of the actor. It is through an identity-informed ideology that an actor will create a certain norm that will in turn
be used to establish that actor’s reaction towards a particular issue and influence its relationship with others. Furthermore, the regional environment acts as a ‘laboratory’ or resource pool. Actors observe this environment and create norms, which are subsequently used for learning and influence.

In the process of establishing influence, non-state actors will circumvent governments to gain access to this pool. The process of circumvention is an avenue through which relations are formed and expressed. Political parties and interest groups will use the norms of an international institution to circumvent a government (Klotz, 1995: 24; Meissner, 2004a: 1) to communicate their wishes to potential coalition partners or sympathisers in an attempt to influence governments. The resource pool not only contains state actors willing to lend support to a lobbying effort, but also particular norms that non-state actors will use in a political debate (Meissner, 2004b: 310-311).

Non-state actors, because of increased globalisation and low responses from government to their demands, increasingly use circumvention as a strategy as it contributes to the erosion of sovereign jurisdiction boundaries. It also challenges commonly held notions about who should be in charge of domestic and foreign policy (Meissner, 2004a: 1, 2). It is through circumvention that regionalisation develops to its fullest potential, because the government or state is not involved and therefore does not assist in the process.

When accessing this resource pool non-state actors act as linkage actors. A number of approaches are available to them when operating as such. **First** is the power approach, where the political party or interest group directly communicates with top decision-makers in government or international governmental organisations (IGOs). **Second** is the technocratic approach, where non-state actors use their knowledge of ‘procedural mechanisms as well as legal systems’ to lobby. They learn how the domestic and international systems function. This knowledge is then used variously to link the two systems, to accomplish particular aims, to caution others about negative policy trends, to intervene administratively in institutions, or to use litigation. The **third** approach is the coalition-building approach where non-state actors from abroad use domestic actors in the target country to form a transnational coalition. This involves the connecting of issues, the permeation of social networks, and joining groups across national borders. The **fourth** approach is called grass-roots mobilisation, when non-state actors simultaneously attempt to increase widespread public involvement across the borders of a number of states. This is done through direct and/or contentious actions, or through ideological enticement (Mingst, 1995: 238-240).

Regionalisation therefore contains actors, norm creation and political action elements (circumvention and linkage approaches) that are mutually interdependent and also fundamental creative aspects of the process. Stated differently, actors, their actions and norms beget regionalisation and **vice-versa**. The Mauritian Protocol is one such creative element.
The Mauritian Protocol

SADC member states adopted the Mauritian Protocol on 17 August 2004 during the SADC Summit in Mauritius. The Protocol is a governance framework attempting to legitimise the conduct of elections within SADC. As such, it contains 10 principles to which member states ‘shall’ adhere:

1. Full participation of the citizens in the political process;
2. Freedom of association;
3. Political tolerance;
4. Regular intervals for elections as provided for by the respective National Constitutions;
5. Equal opportunity for all political parties to access the state media;
6. Equal opportunity to exercise the right to vote and be voted for;
7. Independence of the judiciary and impartiality of the electoral institutions; and
8. Voter education.
9. Acceptance of and respect for the election results by the participating political parties proclaimed to have been free and fair by the competent National Electoral Authorities in accordance with the law of the land.
10. Challenges of the election results as provided for in the law of the land (SADC, 2004).

The Mauritian Protocol furthermore deals with the following aspects of elections:

- The mandate and constitution of the SADC observer mission.
- Guidelines for observation of elections.
- The code of conduct for election observers.
- The rights and responsibilities of SADC election observers.
- The responsibilities of the member state holding elections (SADC, 2004).

The ten principles act as a checklist by which the conduct of governments in the run-up to and during elections is judged. As one analyst puts it, ‘The adoption of the SADC Guidelines Governing Democratic Elections by the heads of states...provides a good solid framework against which the impartiality of the elections can be measured. Yet, principles do not prescribe specifics. And it is in this arena that SADC leaders and citizens need to courageously safeguard not only the letter of the principles but also their spirit’ (Sidiropoulos, 2004: 1).

The Protocol, as a collectivity of norms, is a means by which the SADC leadership is communicating to the world that its members are making progress towards consolidating democracy. In this way, the norms are used not only as a legitimising instrument, but also as a communication medium to express the dedication of SADC members to democracy.
This commitment is, however, debatable. ‘Politically, the lofty values espoused in [the] document do not reflect practical convergence of members’ thinking on the meaning of democracy and good governance’ (Sidiropoulos & Meissner, 2005: 1). Landsberg (2004: 6) echoes a similar sentiment when he airs the view that, ‘Norms, values and standards to regulate the behaviour of [SADC] states have been introduced, even though there is a serious problem with enforcing them’. Moreover, the protocol is secondary to the domestic law of SADC members, making it a very weak enforcement and compliance instrument—it has no legal force but is only voluntarily binding (N. Dube, personal communication, 17 March 2005). Hence, should a ruling party not find observance of such norms and standards to be in its best interest, it is highly unlikely to abide by them. Even so, the Protocol has an interesting history that not only indicates its origin, but also its nature—it is a state-driven document that was developed after states observed their environment and reacted to it accordingly.

The Mauritian Protocol follows the African Union’s election guidelines and principles (SADC, 2004; N. Dube, personal communication, 17 March 2005). In the words of Matlosa (2004: 3), ‘the SADC election principles are…intertwined with, and neatly dovetail into, continental efforts towards integration through the African Union’. The protocol bears a strong resemblance to the AU’s Declaration on the Principles Governing Democratic Elections in Africa adopted in Durban in 2002. This not only says something about the actors who developed the protocol—states, but also about the reciprocal relationship between the AU and SADC. Not only are regional organisations, like SADC, the building blocks of the AU; SADC states (as members of the AU) also tap into the AU’s resources to facilitate the functioning and operation of the regional body (Matlosa, 2004: 3).

The Mauritian Protocol is also linked to the UN Human Rights and Elections guidelines (SADC, 2004; Matlosa, 2004: 12). The latter observes that the SADC guidelines are a ‘response to other similar initiatives which are not even acknowledged in the SADC document’. These ‘initiatives’ are the SADC Parliamentary Forum’s (SADC-PF) 2001 Election Norms and Standards and the Electoral Institute of Southern Africa/Electoral Commission’s Forum of SADC Countries (EISA/ECF) 2003 Principles. The SADC-PF is an organisation of SADC parliamentarians and the EISA/ECF an amalgamation of civil society organisations (CSOs) and electoral management bodies (EMBs). Because of the possibility that the ECF and EISA could expand their ‘“unregulated” autonomy’, this has led to increased suspicion from regional governments towards the election principles developed by these entities. For this reason, SADC felt obliged to develop

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1 The SADC-PF, as an independent body, was barred from observing the 2005 elections because it criticised the 2002 presidential elections. The Zimbabwean Ministry of Foreign Affairs did, however, invited the Forum under the SADC Election Observer Mission (SEOM) (Maponga, 2005). According to media reports, a source close to President Robert Mugabe said that, ‘All observer groups are welcome so long as they declare the election to be free and fair before being allowed in’ (Scott, 2005).
its own election guidelines and principles (Matlosa, 2004: 17; ZimOnline, 8 March 2005; Internet: Pelser & Rossouw 2005). Thus, states can use the norms developed by NGOs as a learning process.

According to observers, it was South Africa that set the formulation and adoption of the protocol in motion (N. Dube, personal communication 17 March 2005). Possible reasons for this could be the country’s covert hegemonic role in the region. In this context, South African hegemony refers to the projection and circulation of an exemplary model, which functions as a regulative ideal. The function of such a model is to negate alternative concepts of egocentrism or to devalue them as underdeveloped, inadequate or incomplete. Stated differently, it ‘functions as a regulative model’ (Devetak, 2001: 196).

SADC is the perfect launch pad for components of an exemplary model, in this instance South Africa’s domestic democratic principles and values. By initiating programmes such the Mauritian Protocol through SADC, South Africa’s conduct is legitimised and the country is not seen as a hegemon in the traditional sense. Put bluntly, South Africa can put forward alternative models of governance without coming across as a country directly dictating policy to the rest of SADC. It is after all its historic role as a military hegemon still haunting the country that enables it to make a valuable contribution to democracy and governance in SADC and to directly criticise misbehaviour by other members. In other words, the Mauritian Protocol is not only a product of a group of states, but a particular state that in African terms happens to be an exemplary model of democracy and governance. Therefore, Finnemore and Sikkink (1998: 893) are correct when they observe that: ‘Many international norms [begin] as domestic norms and become international’. Whatever the reason, the 2005 Zimbabwe parliamentary elections could not be seen as a purely domestic affair.

The Regionalisation of the 2005 Zimbabwe Parliamentary Elections

The Political Situation in Zimbabwe: Quiet Diplomacy and other Responses

The political situation is characterised by:

- Land seizures from commercial farmers, without compensation, under the Land Acquisition Act, have eroded the respect for private property.
- The expulsion of foreign journalists, for reporting critically on the government and the country, has created an environment where freedom of speech even for outsiders barely exists. The crackdown on foreign media was also an impetus for the internationalisation of Zimbabwe’s internal political affairs.
- Significant government pressure on the local independent press has resulted in the closure of a number of newspapers that significantly reduced the population’s access to alternative opinions other than those of the government.
A general lack of governance in the country’s domestic affairs has led to a collapse of social services with an adverse impact on poverty.

Repressive laws, like the NGO Bill, are contracting the political space for NGOs and aid agencies (Breytenbach, 2004: 4; Mail & Guardian, 22 August 2004; Mills, 2005; Thornycroft, 2004: 3).

Within this context therefore, the South African government has been criticised locally and internationally for not doing enough to assist in Zimbabwe’s political crisis. South Africa’s ‘quiet diplomacy’, which seems out of touch with the wave of democracy rolling across the world, is one of the responses that stand out most starkly. With regard to this stance, Venter (2005) is of the opinion that, ‘the Mbeki presidency is unable to see the fundamental principle over which Africa came to the brink of formally separating itself from a shared global view on democracy’. The reason for this stance could be South Africa’s diplomatic clout within the region and its historical links with the ruling Zimbabwe African National Union-Patriotic Front (ZANU-PF) government.

Games and Mills (2005) state that the regional leaders were doing their best to convince themselves and the rest of the world ‘that President Robert Mugabe is acting in good faith’ in the run-up to the elections. The Mauritian Protocol was seen by many to be a new start for SADC, especially in the light of Mauritius being the chairman of SADC, with an impressive democratic tradition, and a country that takes a ‘no-nonsense’ approach to the region’s problems. However, this was not the case, as Zimbabwe violated a ‘wide range of provisions in the protocol and nothing has been said’. In fact, South Africa’s Foreign Affairs Minister Nkosazana Dlamini-Zuma already intimated before the elections that conditions were conducive for a free and fair poll. ‘This assessment ignores the overall worsening of the political and economic environment inside Zimbabwe’ (Games & Mills, 2005).

President Thabo Mbeki echoed Dlamini-Zuma’s opinion when he said that the election would be free and fair. He also underscored the fact that Zimbabwe was the only country in Southern Africa with proper electoral laws. In Mbeki’s words, ‘Things like [an] electoral protocol, things like access to the public media, things like [a] violence-free election have been addressed’ (Daily Dispatch, 2005). Moreover, in reaction to SADC-PF’s exclusion as an election observer, the South African government contended that the SADC-PF ‘is not an official structure of the regional bloc [SADC] and has no standing to observe Zimbabwe’s parliamentary elections’. The Zimbabwean government invited only the ruling parties of its closest African allies to observe the election. These countries are Angola, Tanzania, Namibia, Mozambique, South Africa and Sudan (ZimOnline, 8 March 2005; The Herald, 11 March 2005; The Herald, 16 March 2005; Sokwanele, 2005a). This is an indication that the relations between African governments are still, to a large extent, governed by alliances forged during the liberation struggle phase of Southern Africa’s history. The exclusion of non-state actors, like SADC-PF and EISA2 (IRIN, 14 March 2005), as observers confirms this relationship.

2 The head of EISA, Denis Kadema, was very suspicious of the organisation’s exclusion, stating that the Zimbabwean government might be ‘hiding something’ (UN IRIN, 14 March 2005)
For Venter (2005), there is a more sinister motive behind the South African government’s ‘quiet diplomacy’. Since the Zimbabwean government’s defeat in the 2000 constitutional referendum, ‘repeated summit meetings of the [S]outhern African region’s national liberation movements (NLMs)’ had taken place. These summits were held in secret with no media present and no interviews and no communiqués afterwards. Because NLMs represent “the masses”, and, therefore, cannot be wrong; no other group can, or should be allowed to, succeed them, for that would mean that the forces of “racism”, “colonialism” and “imperialism” had regrouped and launched a counter-attack. Thus, having come to power, an NLM government should stay in power’. For this reason South Africa supports the Zimbabwean government (Venter, 2005). These reasons, with South Africa as an exemplary model, reinforce the ironical congruence of support and hegemony within the policy of quiet diplomacy.

SADC’s stance on the political situation in Zimbabwe mirrors that of South Africa’s - SADC has defended the Zimbabwean government against censorship by other international organisations (Adams, 2005: 3). Less than 24 hours after the ballot, SADC declared it free and fair and reflecting the will of the people. SADC is not positively responsive to the MDC’s demands, particularly when Albert Muchanga, Deputy Executive Secretary, said that, ‘People should not expect much from the exercise (to observe and formulate judgments)’ for future elections in the region, Zimbabwe included. This ‘dashed’ the MDC’s hopes that SADC would ‘whip’ Zimbabwe ‘into line in ensuring that the country fully complies with the organisation’s guidelines and standards for democratic elections’ (ZimOnline, 9 March 2005).

In January 2005, ‘the ANC called for the levelling of the political playing field in Zimbabwe’, which was welcomed by the MDC; after ZANU-PF elections that were characterised by violence and complaints of vote rigging (Thornycroft, 2005). This was, however, not an indication that the ANC was siding with the MDC but rather a face-saving measure.

When Tsvangirai met with the Zambian President, Levi Mwanawasa, in January 2005, the president advised Tsvangirai not to boycott the parliamentary elections. His reason was that the SADC leaders will ‘work out minimum conditions for a free and fair atmosphere in Zimbabwe’, meaning that SADC would not accept a flawed election. Mwanawasa also called on the UN Secretary General, Kofi Annan, to help with the training of election observers and monitors that will help build confidence in the election process (The Times of Zambia, 12 January 2005; Internet: Ncube 2005). In March 2005, Mwanawasa said that Zambia would not support any measure (i.e. sanctions) against Zimbabwe, because it will not affect Mugabe but ordinary Zimbabwean citizens. Moreover, Mwanawasa also stated that the situation in Zimbabwe had improved to such an extent that free and fair elections were possible (SABC News, 11 March 2005).

The relationship between the MDC and the South African government has always been guarded. According to media reports, a senior government
official has labelled the MDC a ‘[Democratic Alliance] DA-type party’ that only criticised and relied on external support (Katzenellenbogen & Muleya, 2004: 1). The relations between the MDC and three of South Africa’s observer missions—one from Parliament, one from government and the other from the ANC—‘soured’ before the elections when the government’s mission chief3, Labour Minister Membathisi Mdladlana said on arrival in Zimbabwe that ‘he thought conditions prevailed for a free and fair poll’. This statement, that so angered the MDC, was made after the Minister’s meeting with Mugabe. Consequently the MDC withdrew co-operation with two of the observer missions, excepting only the ANC (Bhagowat & Boyle, 2005: 1). In response to the MDC’s withdrawal, and after Mdladlana left Zimbabwe for an International Labour Organisation (ILO) conference, the South African government observer mission ‘apologised’ to the MDC. Former Limpopo Premier and Member of Parliament (MP) Ngoako Ramatlhodi told the MDC that Mdladlana’s views were not representative of the entire mission’s. According to the media, there had been tension between Ramatlhodi, Safety and Security Deputy Minister Susan Shabangu and most of the members on the one hand, and Mdladlana on the other (Monare, 2005; Tromp & Fabricius, 2005: 2).

In February 2005, a delegation from the DA, was deported from Zimbabwe. This was after the DA attempted to enter the country on a fact-finding mission, to meet with various organisations in order to ascertain whether the elections would be free and fair. In this context, the DA’s deputy leader Joe Seremane stated that, ‘where SADC principles and guidelines are being threatened, we want to know’. DA spokesman, Douglas Gibson, also commented: ‘Clearly, we have to suppose that the election will be a farce’, after the party concluded that the Zimbabwean government had something to hide, especially with regard to human rights abuses and the lack of freedom of expression and association (Institute for War & Peace Reporting, 2005) – the latter being one of the principles enshrined in the Mauritian Protocol. The DA also called for sanctions to be imposed, most probably by SADC, because of the Zimbabwean government’s breach of the principles and guidelines (News24, 13 March 2005). As part of the South African parliamentary observer mission, DA members described their initial impressions of the electoral process as ‘alarming’ because of widespread ‘intimidation of opposition members and supporters’ (IRIN, 18 March 2005a). Although some measure of support for the Zimbabwe government was forthcoming from certain SADC members, civil society groups were not so subservient.

Even the South African Communist Party (SACP) Deputy Secretary General Jeremy Cronin commented on the election by saying that, ‘We [SACP] believe it’s extremely unlikely that there can be any effective compliance with SADC protocols in this election’. The Independent Democrats (ID)

3 SADC’s election observer team was headed by South African Minerals and Energy Affairs Minister Phumzile Mhlambo-Ngcuka (The Mercury, 18 March 2005).
withdrew from the South African Parliamentary observer mission out of protest. The ID issued a statement through Vincent Gore (MP) expressing the opinion that, ‘It is quite clear that the upcoming Zimbabwean elections are not going to be free and fair, and that the mission [the South African Parliamentary observer mission] is being used as a vehicle to rubber stamp the ruling party’s (ANC’s) various statements already made by government that the elections will be free and fair’ (Sokwanele, 2005a).

Civil Society’s Reaction

With Zimbabwe being described ‘as a neo-authoritarian one-party political system’ (Karume, 2004: 46) one might expect that opposition to the government’s policies is not well entrenched. On the contrary, the MDC and various domestic and international interest groups have continuously questioned the ruling-party’s actions surrounding the SADC election principles, even after the election.

The Movement for Democratic Change

The MDC was established in 1999 with a strong support base from the labour movement, particularly the Zimbabwe Congress of Trade Unions (ZCTU) under the leadership of Morgan Tsvangirai. The MDC is not only a party with its roots firmly entrenched in a labour union (Makumbe, 2002: 89; Makumbe, 2004: 41). According to Gruzd (2005: 16), the MDC is, ‘a coalition of trade unionists, human rights activists, women’s groups constitutional reformists, farm labourers and business’. It is seen ‘as a formidable political threat to Mugabe and is the most significant opposition party in Africa’ (Gruzd, 2005: 16). The MDC has a strong interest group identity (i.e. as an actor used to influencing government policies) that is at odds with the ruling party’s liberation movement identity. It is this identity that is the driving force behind the MDC’s actions to promote the Mauritian Protocol. Moreover, because it is a coalition of interest groups turned into a political party, it knows the opportunities for lobbying and how to use them.

An indication of things to come vis-à-vis the MDC’s lobbying campaign surfaced in June 2004, when Morgan Tsvangirai criticised SADC’s electoral commission for ‘endorsing fraudulent elections and for supporting autocratic rulers’. Tsvangirai used the Zimbabwean 2001 and Malawi’s 2004 elections as examples when he said that the SADC observer team’s bias ‘makes it possible for dictators to bludgeon their way into office using sham elections’ (Monare, 2004: 4). In late 2004, the MDC began using the power approach as a lobbying strategy.

Tsvangirai started his regional lobbying campaign in earnest after his acquittal on treason charges on 15 October 2004. Before this date, he was unable to campaign internationally due to restrictive bail conditions and an overseas travel ban. Tsvangirai immediately made his intentions clear when he received his passport: ‘Now I will be able to travel mostly in the region and across Africa to reinforce the diplomatic work that has been done by the party in the 20 months when I couldn’t travel’ (The Economist, 23 October
This is an indication that his transnational lobbying campaign was a deliberate strategy to sway African leadership opinion in favour of the MDC.

On 24 October 2004, Tsvangirai left Zimbabwe on the first leg of his tour; destination South Africa, to meet with Mbeki, currently chairman of the SADC Organ on Politics, Defence and Security (OPDS) (Internet: Dongozi, 2004a; Munusamy, 2004: 1). He then travelled on to Mauritius, where he and his delegation met with Prime Minister Paul Berenger, the current SADC chairman. The purpose of these visits and the rest that followed was, according to Tsvangirai’s spokesperson, William Bango, to look for ‘the best way to help Zimbabwe shed its pariah status and ensure that Zimbabweans do not lose a chance to resolve the crisis of legitimacy through free and fair elections’ (Dongozi, 2004a).

The MDC leader also met with Lesotho’s Prime Minister Pakalitha Mosisili, Tanzania’s President Benjamin Mkapa (a strong supporter of Mugabe)\(^4\), and the previous chairman of SADC, as well as Namibia’s President Sam Nujoma (another staunch supporter of Mugabe). Mosisili, together with Mbeki and Mozambique, forms part of the OPDS’s troika that comprised the SEOM. Tsvangirai also had a meeting with Botswana’s President Festus Mogae, vice chairman of SADC. Not only did Tsvangirai meet with SADC leaders, he also had meetings with civil society organisations (Munusamy, 2004: 1; Pelser, 2004: 4; Mpofu, 2004; The Daily News, 29 November 2004; Zimbabwe Standard, 31 October 2004; The East African Standard, 13 November 2004).

Tsvangirai also met with AU leaders and other influential leaders in West and North Africa. Nigerian President Olusegun Obasanjo met with Tsvangirai in the first week of November 2004. According to media reports, before the MDC delegation’s visit, the Nigerian government denied a Zimbabwean delegation travel visas to Nigeria. Relations between Nigeria and Zimbabwe are tense after the West Africans refused to support Zimbabwe’s readmission into the Commonwealth after the country was suspended from the group in 2002 and the government decided to quit the organisation. After their visit to Nigeria, Tsvangirai and his delegation flew to Ghana to meet with President John Kuffour. The MDC’s diplomatic visits ended with a meeting with President Blaise Campore of Burkino Faso and the Senegalese President Abdoulaye Wade (SW Radio Africa, 2004; Zimbabwe Standard, 14 November 2004; Ncube, 2004; Molchanov, 2005).

Not only did the MDC focus its lobbying campaign on Southern, West and North Africa. Tsvangirai also travelled to Europe where he had meetings with leaders in Sweden, the UK, the Netherlands and Norway. He also briefed the EU Secretariat in Brussels on the political situation in Zimbabwe. During these meetings, Tsvangirai allegedly called for an extension of EU sanctions against the Zimbabwean government. In response, Zimbabwe’s

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\(^4\) Tanzania offered Zimbabwean freedom fighters training bases (Zimbabwe Standard, 2004) during the liberation struggle against the government of Mr Ian Smith.
Justice Minister Patrick Chinamasa branded Tsvangirai the government’s ‘enemy number one’. The EU sanctions, imposed in 2002, include a travel ban on Mugabe and other officials and their spouses and the freezing of their assets in Europe (Muleya, 2004; IRIN, 18 November 2004; Ncube, 2004).

After his European campaign, Tsvangirai visited Madagascar (an applicant member of SADC and a country on the path of political reform after years of communist rule), Ethiopia, Tanzania, Kenya and Malawi (Ncube 2004). In the words of one observer, the Malagasy President Mark Ravalomanana is ‘a popular new addition to Africa’s leadership: his charismatic appearances at African gatherings talking about how Africa needs to be more self-confident and take charge of its own development, has gone down well with other African leaders—not least with Thabo Mbeki’ (Hammerstad, 2005: 3). Because of this, it was only natural for Tsvangirai to visit Madagascar and shore-up support with its new leader. In January 2005, Tsvangirai visited Zambia to meet with the Zambian government, Mwanawasa\(^5\) and the Movement for Multiparty Democracy (MMD), the opposition United Party for National Development (UPND), the Zambia Congress of Trade Unions (ZCTU) and the church to discuss solutions to the ‘political crisis’ in Zimbabwe (The Times of Zambia, 11 January 2005; The Times of Zambia, 12 January 2005; Ncube, 2005).

The main purpose of the visits was to convince SADC and other African and European leaders to intervene directly in Zimbabwe and for SADC to convince Mugabe to postpone the election until the country is able to comply with some of the criteria of the Mauritian Protocol. These criteria include among others the establishment of an independent electoral commission, the repealing of repressive laws and that all political parties are allowed to campaign freely in the election. Stated differently, the MDC put pressure on SADC to ensure that the Zimbabwean government implemented and complied with the SADC election principles and for this Tsvangirai envisaged the postponement of the election to June or July 2005. According to Tsvangirai, Zimbabwe’s electoral commission is only independent by name, because Mugabe appointed the commission himself without any input from the opposition. Even so, the Zimbabwean government said that it obeyed the principles and guidelines. Analysts, like Brian Raftopoulos, indicated that the Zimbabwean government made these sweeping statements in an attempt to avoid the controversies of the 2000 general election and the 2002 presidential election (Dongozi, 2004a; Munusamy, 2004: 1; Pelser, 2004: 4; IRIN, 28 October 2004; Phiri, 2004; Peta, 2004; The Daily News, 29 November 2004; Ntuli, 2004: 1; Mokgola, 2004; Maphosa, 2005).

Another purpose of the diplomatic visits to the various Southern African

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\(^5\) Mwanawasa informed the Zimbabwean government of the visit to avert tension between the two countries (The Times of Zambia, 11 January 2005).
countries, West and North Africa and Europe is, according to Political Commentator John Makumbe, to project ‘the MDC as a viable alternative to the [ruling] ZANU-PF’. This analysis is in stark contrast with the MDC’s earlier decision not to participate in the election. Had the MDC gone ahead with its election boycott, it could have confused political leaders on the continent, with a negative impact on the MDC’s lobbying campaign. Tsvangirai could have been seen as someone who is not serious about Zimbabwe’s problems, which would have diminished his support from these leaders.

Be that as it may, the meetings also afforded the MDC the opportunity to refute ZANU-PF propaganda. According to the MDC, Tsvangirai was invited to 22 countries after his acquittal. Tsvangirai was very selective in his visits, indicating a well thought through lobbying campaign that took him to those countries who were influential in intergovernmental organisations on the African continent (i.e. SADC and the AU) and Europe and who had and will play an important role in Zimbabwean politics. For instance, Sweden and Norway were some of the countries that supported the introduction of democracy in Zimbabwe during the liberation struggle (IRIN, 18 November 2004; Ncube 2004; Dongozi, 2004b). Many West African and European countries are far from allies of the Zimbabwean government. They can therefore endorse the MDC, giving it more legitimacy than the current government.

The Zimbabwean government’s reaction to the visits was, as to be expected, hostile. The former Minister of State for Information and Publicity Jonathan Moyo contended that the MDC’s move was to discredit the government, by claiming that it is not implementing the SADC principles and guidelines. Moyo also stated that ‘the MDC has a habit of blowing with the wind, (a party with) no principles. Now (with) the SADC guidelines and principles they have found a new toy and are going around the region’ (The Herald, 26 October 2004).

The MDC was convinced that the norms contained within the Protocol would not be upheld, fearing that the party would be at a disadvantage in the run-up to the election. As has been stated, what worried the MDC was the electoral commission’s lack of impartiality. ZANU-PF’s use of the state-controlled media, as a propaganda tool to further its agenda, was another factor that has led the MDC to believe the electoral playing field was skewed in favour of the ruling party. Tsvangirai objected to this by stating that, ‘Since the SADC Protocol was signed by all member states...there has been no serious attempt by the Zimbabwe government to implement measures which will ensure full compliance with the new SADC electoral standards’ (Africa Investor, 2004: 4; Ntuli, 2004: 1).

Even so, before the elections some punters put their money on the MDC to win (Africa Investor, 2004: 4) while others stressed that the ruling party’s chances were better because it had already rigged the vote and created an
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environment that did not augur well for the opposition. The US\(^6\) accused the Zimbabwean government not only of serious human rights violations but also that the country’s electoral process was biased to ensure a win for the ZANU-PF (Quinn, 2005). Some academics also supported this outcome (Maroleng, 2005: 1). Peter Kagwanja, director of the International Crisis Group (ICG) Southern Africa, forecast that ZANU-PF would win with a two-thirds majority (P. Kagwanja, personal communication, 17 March 2005) as ZANU-PF did.

Nevertheless, one thing many observers and commentators agreed on was that the political environment in which the MDC and other opposition political parties operated was not conducive to opposition politics as one would find in a mature democracy. Free and fair elections would also be impossible in the political context before the elections. The reason for this would be the view held by the Zimbabwean government towards opposition parties: they are seen as enemies of the state (Makumbe, 2004: 42; Maroleng, 2005: 1). According to the MDC, the party’s rallies were broken-up by police and it did not get near enough media airtime as its opponent. The MDC was adamant that ZANU-PF is getting 90% of the media coverage while the rest went to other opposition parties. When the MDC got its chance on television or radio, the party claims that it was demonised. The party is also of the opinion that nothing of its campaigns or manifestos appear in the daily newspapers, only in the weeklies, to which the majority of Zimbabweans do not have access (N. Dube, personal communication, 17 March 2005). An environment that is not conducive to free and fair elections is the main reason why the MDC decided that its leader should go on a grand tour of the SADC region, other parts of Africa and Europe.

Zimbabwean Interest Groups

Interest groups act as opposition agents when influencing government policies (Meissner, 2004c). For instance, in February 2005, Ian Makone, the MDC’s election co-ordinator was arrested for ‘organising an illegal meeting’, according to police spokesman Wayne Bvudzijena. In reaction to his arrest, the Zimbabwe Election Support Network (ZESN), a coalition of interest groups, said his arrest was counter to the spirit of the Mauritian Protocol. ZESN’s concern was that the arrest was ‘unnecessary’ when ‘Zimbabweans are attempting to create a free atmosphere ahead of the elections (IRIN, 18 February 2005). The fact that interest group opposition is increasingly used as a means through which citizens express their political aspirations in Southern Africa (Meissner, 2004c), shows how interest groups are becoming more vocalised in their endeavours to promote democratic norms, values and standards.

The Media Monitoring Project of Zimbabwe (MMPZ) and the Zimbabwe’s Lawyers for Human Rights (ZLHR) also expressed themselves strongly against the political climate before the elections. These groups indicated

\(^{6}\) It subsequently rejected the election result.
that there was ‘no chance’ that the election would be free and fair. Arnold Tsunga, ZLHR representative, objected that the Zimbabwean government claimed to be trying to follow the SADC election principles, but in reality this was a deception: ‘They are deceiving the Zimbabwean public, it is self-deception and they’re deceiving the SADC members’ (News24, 2005). The Law Society of Zimbabwe (LSZ) President Joseph James made it clear that, ‘The right of assembly and association is enshrined in our constitution but the Public Order and Security Act (POSA) curtails that right. The police seem to believe that they have the right to authorise public meetings’ (Sokwanele, 2005a).

Bulawayo’s Archbishop Pius Ncube7, was also convinced that the vote was rigged even before the election took place. He thought that most voters have been ‘bludgeoned into passivity by years of violence’. He criticised the government by stating that, ‘There is no way for change, because of this rigging. It is likely to be more rigged than the last one [2002 presidential election]’ (The Economist, 23 March 2005).

The Crisis in Zimbabwe Coalition was not very pleased with the exclusion of the SADC-PF and EISA electoral observer teams. The pro-democracy interest group criticised the Zimbabwean government’s move to invite a large number of government delegations and only few representatives from independent civil society bodies (IRIN, 14 March 2005). This was also the view of Sokwanele adding that the Zimbabwean government did not comply with most of the principles contained in the Mauritian Protocol (Sokwanele, 2005a).

The Zimbabwean interest groups did not restrict their operations to Zimbabwe only. For instance, Zimbabweans held protests in front of the Zimbabwean embassy in Pretoria. On 29 March a coalition of interest groups, including Sokwanele (a collection of pro-democratic political parties, civic organisations and institutions) conducted a mock election outside the Zimbabwean embassy in South Africa. A similar election was organised outside the Zimbabwean embassy in London with a protest rally in Munich, Germany (Sokwanele, 2005b; D. Molokele, personal communication, 17 March 2005). This was to protest the fact that none of the 4 million Zimbabweans across the world (most of whom allegedly support the MDC) were allowed to vote. Zimbabwe’s Supreme Court ruled before the election that ‘voting is not a fundamental right’ (ZimOnline, 24 February 2005; Mbizwo, 2005). The Zimbabwe Exile Forum (ZEF) also indicated that the parliamentary elections were ‘rigged’ (Mbizwo, 2005).

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7 Shortly before the election, Archbishop Ncube called for a ‘peaceful, popular mass uprising’ by Zimbabweans to overthrow Mugabe after the elections (Terreblanche, 2005: 1). Mugabe reacted by calling the archbishop a ‘half-wit’ and said that the government will not tolerate any demonstrations after the elections (The Cape Times, 29 March 2005: 1; UN IRIN, 30 March 2005a).
**Lobbying from Abroad**

The 2005 election was characterised by a large number of domestic and international interest groups highlighting, what they considered to be a ‘restricted and unfair’ political environment prior to and during the elections. These interest groups ranged from human rights organisations to trade unions and churches. Some groups, although not directly supporting the MDC, formed a loose coalition with the opposition party to emphasise certain issues e.g. the restricted media time the party received before the election and the government’s clampdown on the press. The Crisis in Zimbabwe Coalition made it clear before hand that should the MDC win the election, they would nevertheless criticise its government should it become necessary.

One South African interest group that put a lot of pressure on the Zimbabwean government prior to the election was the Congress of South African Trade Unions (COSATU). In October 2004, its first fact-finding mission was deported from Zimbabwe. The MDC condemned this when Tsvangirai asserted, ‘The deportation underlines just how far Zimbabwe has sunk in relation to respecting people’s basic rights and freedoms’. The Zimbabwean government, on the other hand, justified the deportation by stating that the COSATU delegation was working for British Prime Minister Tony Blair (a critic of Mugabe) and other anti-Zimbabwean, pro-western interests (The Daily News, 29 November 2004; Ntuli, 2004: 1). The South African government reacted to this by stating that Zimbabwe is a sovereign country with the right to take any action under its immigration laws. According to Katzenellenbogen (2004: 11) this ‘was an attempt to assure Mugabe that SA’s foreign policy would continue to be driven from the Union Buildings and not from Cosatu House’.

In February 2005, COSATU was again refused permission to enter Zimbabwe to conduct a second fact-finding mission. The purpose of the mission, according to COSATU, was ‘not to undermine the government of Zimbabwe, but to interact with the people of that country and listen to their concerns’. The trade union said that it cannot ‘announce the coming Zimbabwe national elections as being free and fair’. Upon arrival at Harare International Airport, the delegation was served with deportation orders, this, after the Minister of Labour Paul Mangwana warned COSATU that its presence is not welcome (IRIN, 2 February 2005). Nevertheless, prior to the elections, COSATU held protests at the Zimbabwean embassy in Pretoria and at the Beitbridge border crossing between South Africa and Zimbabwe. On 30 March an all-night vigil, in solidarity with Zimbabwe’s workers, was also held at the border. The Zimbabwean Ambassador to South Africa reacted to the marches by stating that some COSATU members’ (those who participated in the protest) behaviour is ‘very strange’, while the majority of COSATU members are ‘decent, mature and responsible’. He also indicated that, ‘Zimbabwe is a sovereign state and no amount of picketing will ever revert it to be a colony (sic) again’ (IOL, 15 March 2005; IRIN, 30 March 2005b). When asked what mark out of 10
COSATU would give the Zimbabwean government for progress towards democratic elections, the interest group gave it zero. COSATU Deputy President Joe Nkosi maintained, ‘They [government] do not even qualify for a mark’ (Sokwanele 2005a).

Amnesty International (AI), the London-based human rights interest group, released a report in October 2004, claiming that ‘local and foreign civic groups believed the government was preparing to use food aid to coerce people into voting for it during the upcoming parliamentary poll’. The intention of the report - titled ‘Zimbabwe: Power and Hunger – Violations of the right to food’ (Ntuli, 2004: 1) - was to highlight human rights abuses in the country. This is an indication that international interest groups believed that the ‘food weapon’ was part of a broader political strategy to coerce people into supporting ZANU-PF in the elections (Meissner, 2004d). AI also claimed in the report that intimidation of opposition parties and their supporters was widespread. The anti-torture interest group Redress also supported AI’s findings, stating that ‘torture has been inflicted on the political opposition “with impunity”, which has made the population afraid of expressing its dissatisfaction with the government’ (Sokwanele 2005a). The Zimbabwean government dismissed AI’s claims. George Charamba, a government spokesman, declared: ‘It is a complete lie’. The government also questioned AI’s neutrality by stating that it is ‘organising’ COSATU’s Beitbridge ‘picket’ (IRIN, 18 March 2005b).

Other interest groups also reverted to ‘scientific proof’ to put pressure on the Zimbabwean government. In a report, entitled ‘Not a Level Playing Field: Zimbabwe’s 2005 Parliamentary Elections’, released by the New York-based Human Rights Watch (HRW) it was stated that the Zimbabwean government was not meeting the standards set by the SADC election principles. The interest group asked SADC members to call on the Zimbabwean government to ensure that the elections were held in an environment free of intimidation, harassment and violence. It also urged the SADC electoral observer team to remain in Zimbabwe well after the vote count, to monitor possible election-related human rights violations. The findings contained in the report were based on research conducted by HRW in Zimbabwe during December 2004 and February 2005, interviewing 135 people including ZANU-PF members, the official opposition, civil society groups, journalists and citizens (Meldrum, 2005; Zavis, 2005; IRIN, 21 March 2005).

In a report the Brussels-based International Crisis Group (ICG), maintained that it was ‘doubtful’ whether the elections would be free and fair. It also implored regional and international leaders to pressure the Zimbabwean government to adhere to the Mauritian Protocol. The ICG also said that the technical reforms of the government were not matched by other measures such as the ‘repeal of repressive laws and an end to political violence’ (IRIN, 2 December 2004).

In reaction to Mbeki’s statement that the Zimbabwe election would be
‘free and fair’, South African civil society groups said, after an informal fact-finding mission, that Mugabe and his ZANU-PF party were breaching the SADC election principles. The group included the Institute for Justice and Reconciliation (IJR), the South African Council of Churches (SACC), the Institute for Democracy in South Africa (IDASA) and the Centre for Policy Studies (CPS). These groups work under the Zimbabwe Solidarity Network (ZSN). The South African civic group’s representative Charles Villa-Vicencio, from the IJR, stated prior to the poll that there was less overt violence compared to previous polls, but intimidation of the opposition and the electorate was still rife (ZimOnline, 7 March 2005).

In a statement nine days before the election, the SACC expressed the opinion that, ‘The deteriorating situation in Zimbabwe is not likely to be resolved by the March 31 election, regardless of its outcome’. The Council, like AI, was of the opinion that food was used as a means to influence positively people’s opinion of the ZANU-PF and consequently to vote for the ruling party. South African leaders, including Archbishop Desmond Tutu, urged churches to mobilise public opinion against repression in Zimbabwe (News24, 9 March 2005). The statement was an indication that the churches were not putting their ‘faith’ in the MDC to resolve the political crisis in the country. This was a sign that the churches felt that a higher hand, through mobilised public opinion, should intervene to resolve the crisis.

One of the most bizarre twists in the lobbying campaign against the Zimbabwean government was the reported ‘jamming’ of the ‘Short Wave (SW) Radio Africa’, which is run by a group of exiled Zimbabweans. The BBC Monitoring Service confirmed the alleged ‘jamming’ of the radio station’s frequency. This prompted the MMPZ to state that alleged jamming violated the Mauritian Protocol (IRIN, 21 March 2005).

The press freedom interest group Reporters Without Borders expressed similar views to the other interest groups. In a statement the group noted that, ‘It is now clear that the legislative elections will take place in a climate of intimidation and censorship. There will clearly be no compliance with the democratic criteria established by the Southern Africa Development Community (SADC) and the Africa Union’s treaties….Robert Mugabe’s government is violating the principles of free expression with impunity and Zimbabweans will pay the price. It is time the countries of Southern Africa stopped looking passively on as one of their members sinks into the dark’ (Sokwanele, 2005a).

**Analysis**

Because of international interest groups’ criticism, Zimbabwe’s internal political problems are no longer the concern only of domestic actors but also of the wider international community. This means that the Zimbabwean government can no longer act in an absolutely autonomous manner. Anything the government does, especially with respect to the SADC election principles, is scrutinised by local and international political parties
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and interest groups and acted upon. It also means that the government’s moral authority is diminishing to a significant extent, because the interest groups are using ‘scientific proof’ to substantiate their claims. Because of this, the government faces a severe challenge to its authority on the domestic and international front (Meissner, 2004d) because the MDC and the plethora of interest groups believe that the election was rigged, not free and fair and that most of the SADC election principles were not adhered to by the government.

Through their lobbying campaign the various non-state entities have created a normative transnational region based on the Mauritian Protocol. These actors were unassisted by any SADC member, but took it upon themselves to promote the norms contained in the protocol. SADC members had adopted these norms, strongly supported by South Africa. However, SADC and its members are not as enthusiastic as the political parties and interest groups to implement the guidelines and principles. The reasons are as follows: the protocol is subordinate to domestic law; it is not only in the best interest of the current Zimbabwean government not to implement the protocol but it would also have been totally unnatural for it to do so, because ZANU-PF’s liberation movement identity dictates that it should not; South Africa and SADC were also supportive of Zimbabwe’s electoral reforms prior to the elections even though these were not inline with the protocol. This can only have a negative impact on SADC’s image, already tarnished as an irrelevant organisation because it only looks after the interests of the ruling elite; it is seen as nothing more than an ‘old-boys club’. Donors could also distance themselves from the organisation, with harmful consequences to the region’s poor and vulnerable as aid is reduced.

The three reasons stated above give an indication of the type of normative transnational region that has been established; it is the antithesis of the state-created region. Within this transnational region there are well-established communication routes as the various non-state entities came into contact and communicated their intentions to each other. In other words, complex social networks, by which ideas, political attitudes and viewpoints spread across the region through these numerous communication routes, have been established. The region is transnational because it does not adhere to state borders but is facilitated by the actions of non-state actors. In some cases it led to an increase in the interconnectedness of states, for instance when Tsvangirai visited Zambia, the Zambian government informed the Zimbabwean government. Furthermore, throughout the MDC’s lobbying campaign, interaction between that party and various government leaders within SADC had an enabling impact on the transnational normative region because of the connection made between Zimbabwe’s domestic political environment and the region. Because of this, and because of the pressure from interest groups and individuals on the Zimbabwean government to abide by the protocol, the transnational normative region can be described as liberal democratic. Contact between the different actors is not restricted and it is driven by the people, for the people.
As has already been stated, the MDC used the power approach in an attempt to influence the different government leaders to take a tougher stance on the political situation in Zimbabwe. In this case, the MDC targeted those leaders currently influential within SADC. Through the differing approaches employed by the MDC and interest groups, these non-state entities behaved as actors linking Zimbabwe’s domestic political environment with the Southern African region and the rest of the world. The MDC and the interest groups also used the technocratic approach (the Mauritian Protocol was linked to Zimbabwe’s domestic political situation to caution others against negative policy trends), the coalition-building approach (the MDC met with civil society actors in other countries and a transnational coalition between the interest groups was established) and grass-roots mobilisation (the diaspora that influenced the Zimbabwean government and other countries in the region). The interest groups however also used a fifth approach—the diplomatic approach.

This approach involves the various successful and unsuccessful fact-finding missions to Zimbabwe. In some cases the Zimbabwean government was able to nip these missions in the bud, especially those of COSATU and the DA. This is an indication of the political standing of both the trade union and the political party in that they can be influential in their portrayal of the political situation in Zimbabwe. COSATU is an alliance partner of the ANC, and therefore has insider status with the ruling-party. The DA is the official opposition with the ability to communicate the situation directly to the South African parliament and thereby to the citizens of South Africa. Although these missions were very short-lived, the actors were still able to communicate their experience to the broader public and give an indication of the political situation. Other fact-finding missions to Zimbabwe were more successful in that they could run their full course; from assessment to final reporting. The fact-finding strategy is called the diplomatic approach because non-state actors assess the political climate and report it back to their constituencies and the broader public. Through this approach an opinion is generated, based on the personal experience of the non-state actor, and disseminated throughout society.

The technocratic and diplomatic approaches also facilitate the growth of regionalisation. It is through these approaches that the target government is circumvented (to gain access to the region to be used as a resource pool for influence), other norms are also generated and communicated (used for learning and influence). Thus, there are actor, political action and norm creation elements involved in the lobbying by the MDC and interest groups.

These approaches will in future be used more frequently by political parties and interest groups to lobby against government policies not in line with some of the SADC protocols or policies and out of step with the ‘tsunami of democracy’ sweeping across the developing world. In the case of the lobbying for the Mauritian Protocol and the 2005 Zimbabwe parliamentary elections, it is becoming clear that race still plays an important role in
Southern African politics, especially in the domestic politics of certain countries and in the international relations between certain SADC members. Nevertheless, there is an alternative to this type of politics on the rise in the region: the interpretation and practise of politics based on issues rather than race. For opposing political actors, such as COSATU and the DA to agree on certain matters pertaining to Zimbabwe is an indication of this. Another sign is the fact that interest groups from Zimbabwe and abroad disagreed with those they helped to bring to power. Archbishop Desmond Tutu, the SACC and Archbishop Ncube’s utterances provide very good examples. The SADC region will therefore become increasingly a ‘battleground’ between pro-democracy actors (political parties and various interest groups) and those who endeavour to dictate the discourse on regional politics through traditional liberation norms. In the last analysis, regionalisation as practised by these pro-democracy actors might in the short to medium future come to replace the state-centric regionalism of the current practitioners.

**Conclusion**

This paper investigated the furtherance of regionalisation within SADC by non-state actors through the promotion of the Mauritian Protocol against the backdrop of the March 2005 Zimbabwe elections. Zimbabwe’s main opposition political party, the MDC, and a plethora of interest groups and NGOs lobbied regional, continental and European leaders to put pressure on the government of President Robert Mugabe to abide by the protocol. Through their actions, the non-state actors promoted regionalisation within the region by the establishment of various communication routes and the promotion of election norms contained in SADC’s own election principles and guidelines.


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Managing Conflict in an Integrating Southern Africa: Peace, Security and Stability in Lieu of Democracy?

Francis K Makoa

Introduction

The launching in 1996 by the Southern Africa Development Community (SADC) states of a special conflict resolution mechanism, the Organ for Politics, Defence and Security (OPDS), also known as the SADC Organ, underscores not only their concern with regional security but also the determination of rulers in SADC's individual member countries to ward off any threat to their rule and/or to smash the forces threatening it. Civil wars, coups and other unconstitutional seizures of power, riots or violent protests paralysing governments and genocides, are examples of threats that are to be squashed through the use of the SADC Organ. The SADC Organ is also supposed to be a guarantor of democracy or a means of promoting and protecting it. In pursuit of these collective security objectives that include the protection of democracy, SADC can use the Organ in either its forms, namely the persuasive or the coercive aspects. However, SADC's individual member states maintain peace and security within their own borders and decide what threatens national security. Yet this not only fossilises the Organ but also arms SADC member states with veto powers regarding its use within their borders or against their governments.

SADC and its member states see their insecurity or threat to their security as an external rather than systemic problem. Thus grounded in this view, the Organ's Protocol assumes that governments in SADC countries cannot threaten national security and peace. But this assumption does not always hold for these governments, which are also power contenders in their own countries, hence they tend to be steeped in related conflicts. It is, in fact, wrong to view governments and states in southern Africa simply as innocent victims of externally orchestrated conflicts. As Cilliers (2004a: 9) puts it in his general analysis of conflict that has ravaged Africa since its independence, "State security, in most of Africa, is not threatened by conventional threats of armed attack by other countries but by more insidious measures many of which flow from the weakness of the state… and a number of African states presents a ‘shell’ of the territorial state where national security is equated with that of the governing elite...." The so-called national security policies in most of the southern African countries are similarly structured and geared. They are designed not to maximise the welfare of all the citizens but to tighten the rulers’ grip on them. Political repression and misrule by those given the mandate to rule have been and are known to be the prime causes of civil wars and violent unconstitutional change of government in Africa.
Conflict and insecurity in Africa are largely systemic problems, the undemocratic African state being in most cases the root of political and social strife rather than the ‘hegemon - nation’s spirit, mediator and a unifying force - defining and protecting the rights of all citizens. It does not represent the citizenry or embody its freedom, but rather it is power won through bitter and often bloody factional fighting. Therefore, to this extent, it is not a universal state but a particular one - an instrument of the victorious faction used to deny freedom to rivals. This is one of the defining features of SADC countries’ governments, and this has shaped their individual national and collective regional security policy. A creation and tool of rulers, the SADC Organ can easily be used as an instrument of repression. The state or sovereign has, in fact, long been acknowledged as one of potential threats to security, thus attracting in the sixteenth century or the Enlightenment era the attention of the prominent philosophers of the time such as Thomas Hobbes and John Locke who argued that self-preservation also meant defending oneself against unjustified violence by the state or ruler. Holding a similar view, Jeremy Bentham and John S. Mill noted that even a representative government is a potential threat to people’s liberties, hence there had to be some mechanisms for restraining it in its actions (cited by Makoa 1997a, 114).

This chapter explores the SADC conflict resolution mechanism as institutionalised in what is known today as the Organ on Politics, Defence and Security (OPDS) or SADC Organ, arguing that through this project SADC has narrowed rather than expanded scope for the spread of democracy in southern Africa, instead trading democracy for security of its member states, notwithstanding its potential, as an integrative force that we will attempt to demonstrate in a nutshell with elaborations and examples.

Conceptualising Conflict, Peace and Security in Southern Africa

Although they connote different phenomena both semantically and conceptually when viewed as conditions, the divide between conflict, peace, security and stability blurs. For example, defined crudely conflict denotes fighting, unrest or the absence of peace among groups, hence the lack of security. Likewise, conflict or the absence of peace is a defining feature of instability and insecurity. Thus the meaning of these concepts derives from both their juxtaposition with one another and their tautological definitions above. Conflict can only be understood in relation to peace, security and stability. Similarly, the latter three concepts have meaning only when conflict and violence are reference points. According to Lippmann (1999: 195), “a nation is secure to the extent to which it is not in danger of having to sacrifice core values if it wishes” to avoid conflict or war with the adversary. For Wolfers (199: 195), security is “the absence of threats to acquired values… and the absence of fear that such values will be attacked.” Bellamy (2002: 58) sees security as “a relative freedom from war, coupled with relatively
high expectation that defeat will be a consequence of any war that should occur”, a view shared by Ngubane and Solomon (2002: 60).

Presenting “people as primary referent as opposed to the state”, Buzan’s definition (1999: 195) stresses human survival. Buzan does not delink security and therefore peace from “freedom from threats. Rather he argues that security is inseparable from freedom. Khadiagala (1997, 53) dubs security ultimately “the reduction of vulnerability impinging on states.” Rubin, Pruitt and Kim (1994: 5) meanwhile define conflict as “perceived divergence of interests, or belief that the parties’ current aspirations cannot be achieved simultaneously.” But they argue that conflict is not inherently violent, dangerous or inimical to peace and security, even though it is “capable of wreaking havoc on society.” Matlosa (1999, 166) holds a similar view, but stresses that conflict becomes a security problem only if it is damaging or “counter-productive”.

However, the bias or skewness towards national security, conflict prevention and/or mediation of the above conceptual schemas places states and governments outside conflict. Preventing civil strife, wars and genocide that disrupt normal life and displace people admittedly minimises insecurity, as the SADC Organ is supposed to do, creating a suitable climate for democratic transformation. But the SADC Organ is not only closed to participation by the civil society but also has to defend autocracies and other authoritarian repressive regimes within SADC membership. It is not a people’s Organ that they can use against their rulers in the event that they threaten the security of their people. This is evident in SADC’s reluctance to lend support to struggles against such regimes of which clear examples are Mugabe’s authoritarian rule and King Mswati’s autocratic feudalism. Governments can indeed cause and are often the prime factors behind conflict and insecurity. Conflict, insecurity and genocidal episodes that occurred at different times in Sudan’s Darfur, Amin’s Uganda, Siad Barre’s Somalia, Burundi, the Democratic Republic of Congo (DRC) and Rwanda also have to do with the conduct of governments or rulers in those countries. Therefore, normative theories and perspectives such as those briefly reviewed above, which simply assign government or the state a democracy and peace-building task should not be accepted uncritically. Unfortunately, SADC seems entrapped in and guided by such theoretical systems. Hence it has adopted a statist militarist one-track approach to southern Africa’s complex multi-causal/faceted security problem.

A human security perspective provides a better conceptual framework and analytic schema, and therefore the paper adopts this expansive and more embracing view. This, according to Cilliers (2004: 12), “includes an obligation on the part of the state to provide a facilitating environment for equality and individual participation through democracy …and participation of civil society.” However, SADC lacks or has neither developed an enforcement mechanism in this respect nor been able to ensure compliance by its members with its innumerable protocols on democracy, freedom and
human rights. SADC’s Parliamentary Forum established in 1996 that could possibly be deployed as the watchdog has a limited mandate, being a ‘talking shop’ devoid of power to enforce compliance with the organisation’s norms and policies. Indeed, the Forum could do no more than noting in its 25\textsuperscript{th} March 2001 Windhoek Workshop Report (p 6) that “in some of the SADC countries... members of the electorate belonging to other parties have been intimidated, beaten up, tortured and even murdered for belonging to opposing parties and for openly expressing their support for their preferred party.” (sic)

**SADC’s View of Security in Southern Africa and its Shortcomings**

As noted above, SADC sees sources of its insecurity as external to its members, and this has shaped and determined the character of the mechanism or rather the SADC Organ that it finally created in order to promote security and democracy in the region. Yet such conception is in keeping with SADC’s ideological commitment and orientation, and the politics of the Organ to be examined later. Espousing and guided in its decision-making by the double-faceted ideology of ‘inviolability of national sovereignty and territorial integrity’ built in its Treaty and which it is also obliged to defend, SADC has not been ready to acknowledge that insecurity and instability in southern Africa also have systemic and structural causes, and that these often reflect weaknesses or defects in a political system. Indeed, the signing in August 2003 by the SADC member states of a mutual defence pact (Van Schalkwyk and Cilliers, 2004: 108) evidences the depth of SADC’s belief that threats to the southern African region’s security have to come only from outside it, and that its member states cannot attack or fight each other. However, this is a simplistic view of both interstate conflict and regional cooperation. Regionalism does not automatically homogenise the goals, preferences, interests and strivings of the states that it brings together. These often remain divergent and incompatible. In fact, as long as individual SADC member states’ policy objectives and modes of projecting and pursuing them are dissimilar, violent conflict or fighting between anyone of them is not impossible. Hammerstad (2003: 144) has argued rightly that “it is necessary to turn to the social, economic, environmental and humanitarian issues that make coexistence a difficult and often a distant goal... a problem of legitimacy, power and control, but one that will be solved once these countries’ political elites show that they are addressing the economic social and personal insecurities of their populations.”

Fighting or war between states is a function of both the nature of the issues at stake and the premium attached to them, including the benefits and costs of available alternatives. SADC cannot in my view be an exception. Tensions a few years back between Angola and Zambia over the latter’s alleged harbouring of UNITA fighters propelled these two countries to the brink of war, suggesting that fighting or war between SADC member states is not inconceivable. Likewise, the Caprivi political unrest three-four years
ago triggered serious tension between Botswana and Namibia, as some Caprivians fleeing the Namibian armed forces streamed into Botswana. In either case, tension ended only after the refugees were denied sanctuary or deported back to their countries.

Much of what SADC terms security threats against it have come from within it, that is, in the form of misrule within its member countries and state instigated instability. The problems have been exacerbated by the organisation’s lack of independence, authority, power and will to act against these phenomena. A SADC that was endowed with these attributes would be able to restrain member states from engaging in acts and pursuing policies that contribute to insecurity and instability within member countries and in the region, hence stemming human displacement and the attendant refugees problem. The lack of such attributes has meant that SADC’s regional security management project or rather conflict resolution regime cannot protect political dissenters and refugees fleeing conflict and oppression in member countries. However, this further reinforces the general feeling that the Organ is not a people’s project.

SADC’s regional refugee policy or the absence of it and the apparent suspicions that the organisation harbours against legitimate national oppositions in particular encourage political repression and other forms of human rights violations by the governments of member countries. It has rendered difficult the task of harmonising political and social norms in the region, one of SADC’s objectives. Zimbabwe and Swaziland in particular have taken advantage of SADC’s political impotence. This has, in fact, raised doubt as to the SADC Organ’s capacity to promote and guarantee democracy in the region. In fact, if anything, SADC’s connivance at the Zimbabwean and Swaziland repressive policies strip the Organ of the aura and mantle of being the peacemaker and protector of democracy and human rights in southern Africa.

SADC which owns the Organ also seems to be losing its supposed halo as the embodiment of democracy - touting this being no more than bait for luring foreign investors into the southern African region. But, together with the African Union (AU), SADC has joined in the now familiar chorus beckoning democracy that it sees as a panacea of economic, political and social misery. The African Union’s Assembly of Heads of State and Government sitting in Durban on 8 July 2002 declared (p 3) democracy as “essential for the stable social, political and economic development of the peoples of Africa,” spelling out its key ingredients as “respect for human rights… the holding of periodic free and fair elections… a pluralistic system of political parties and organisation.” With regard to democracy and good political governance, the Heads of State and Government pledged and undertook (pp 28-29) to guarantee among a range of human rights issues “the inalienable right of the individual to participate by means of free, credible and democratic political processes in periodically electing their leaders for a fixed term of office, and to provide for all citizens to participate in the political process in a free and fair political environment” (Author’s
emphasis). The Assembly of AU Heads of State and Government had earlier declared in Abuja, Nigeria, in October 2001 at the launch of the New Partnership for Africa’s Development that “development is impossible in the absence of democracy, respect for human rights, peace and governance” (NEPAD, 2001: 14).

Renowned conflict analysts, on the other hand, see democracy as an indispensable instrument in conflict resolution and peace building processes and a basis for sustainable security and stability, “offering effective means of peaceful handling of deep-rooted differences through inclusive, just and accountable social frameworks” (Harris and Reilly, 1995: 5). According to Born, Fluri and Johnsson (2003: 15), “In a democracy, freedom of expression allows people to relay… views to their representative… to defuse conflict and seek viable compromises which have the support of society at large… and it is often in the absence of well-functioning democratic institutions that tensions escalate beyond control and turn into violent conflict.”

The Organ is not just exclusively a SADC member states’ project but an outcome of undemocratic politics, briefly caricatured in the next section of this chapter. It offers neither scope for civil society participation nor role for track two or citizens’ diplomacy in the event of conflict arising. Besides, SADC countries never opened for debate by their citizens or parliaments the Community’s plan to forge this type of conflict resolution mechanism. The SADC Organ thus at the outset became a prisoner of the politics of its evolution, that is, it was to be owned by governments of the individual SADC countries rather than being their watchdog. However, without power to police these governments, the Organ cannot on its own promote and protect democracy even though it may prevent overt conflict, quell riots and crush rebellions or coups.

**The Politics of the SADC Organ**

As shown earlier, the creation of the SADC Organ was both a response by the SADC heads of state and government to what they perceived to be the changing political and security situation in southern Africa, and bait for attracting flow of foreign investment capital into the region. Concomitant with the demise of apartheid in South Africa and the advent of majority rule in that country, and its subsequent joining of the SADC was the end of the destabilisation programme that had spanned two decades. However, despite these changes, some of the SADC countries still had to contend with the legacy of the apartheid South Africa’s destabilisation, namely dysfunctional social and economic infrastructure, banditry, insurgency, live unexploded landmines, civil wars that had spilled or were threatening to spill into other SADC states, and human displacement and refugees.

Angola and Mozambique were the two countries still faced with these problems, while many of SADC states had just emerged from decades of dictatorial rule of varying types. While some of these dictatorships had bowed out of state power, they had left deeply divided populations in the
countries that they ruled, thus unstable and volatile policies. Those mostly affected were Lesotho, Malawi and to some extent Zambia. Although seemingly able to maintain social and political stability, Swaziland’s royal autocracy was also always unpredictable and remains so today.

SADC emerged from the ashes of the then Southern African Development Co-ordination Conference (SADCC), formed in 1980, that had dissolved itself following the demise of apartheid in order to reconstitute itself in 1992 as a community under the present name. The SADCC's founding members were Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe (Chitala 1987: 13). It emerged as an assortment of diverse political outfits, with only Botswana and Zimbabwe being ‘democratic’ at the time. Namibia and South Africa joined the organisation in 1990 and 1994 respectively after attaining majority rule. Transforming the SADCC into SADC was in part aimed at ensuring its effectiveness in mobilising and planning the use of individual nations’ and regional resources rather than just coordinating donor-funded projects or waiting for international donors’ assistance. The SADCC could not implement its own programmes and relied on donor support. This weakness being partly attributable to its inability to involve “people outside governments in its activities.” (Meyns, 2001: 62) SADC’s membership has expanded to 14 states, following the admission of Mauritius, Seychelles and the Democratic Republic of Congo (DRC). Since then Madagascar was admitted in principle, while Seychelles opted out.

For the original SADC or the Southern African Development Coordination Conference (SADCC), apartheid South Africa was the sole source of insecurity in the region. Thus in its view, ridding the region of apartheid would alone eliminate insecurity and conflict in southern Africa that was transforming itself into an economic bloc. Its successor, the SADC, has however sought to transcend this narrow self-perception, seeing “itself at the same time as a sub-regional political organization” (Cilliers 1995: 205). SADC’s stated functions encapsulate the “promotion of defence and security as one of its objectives, and cooperation in the area of politics… peace and security as obligatory” (Malan 1996: 4). At the root of this self-redefinition has been undoubtedly the continuing political conflict and instability in some of SADC member countries and their implications for Southern Africa’s security and economic development. In 1996 Angolan civil war was still raging while Mozambique’s erstwhile warring factions were still struggling to make durable peace.

It has been suggested by some analysts that the decision to create the SADC Organ was also a response to conflicts elsewhere in Africa. Van Nieuwerkerk, Van der Waldt and Jonker (2002: 277) note, for example, that “ninety-nine per cent of all regional conflicts since the end of the Cold War took place in Africa.” The United Nations (UN) seemed unable or unwilling to resolve or stop these conflicts. The Economic Organization of West African States (ECOWAS) could also have been inspirational to SADC’s forging of conflict resolution machinery of the type that is in place today.
ECOWAS already had its own conflict resolution mechanism, ECOMOG in 2002, which was quelling civil wars in Liberia and Sierra Leone. Yet other analysts might still contend perhaps rightly that, as a collective and an organisation of sovereign states, in forming the Organ, SADC had to fulfill its prime duty – maintenance of order and national security by imposing what are, to borrow Khadiagala’s phrase (1997: 195), “norms and rules of communal conduct” or, according to Van Nieuwkerk, Van der Waldt and Jonker (2002: 218), as a ‘supra-state’, “to secure the well-being of its citizens, …ensure its integrity in the international system as the protector of its citizens and natural resources.” As noted above, though, achievements in this direction if any have not encapsulated the spread of democracy throughout the entire sub-region. There are still no democratically elected governments in Angola, the Democratic Republic of Congo and Swaziland, while the validity of elections outcome in other SADC states like Lesotho, Malawi, Zambia and Zimbabwe has been challenged or rejected at various points, with some justification, as fraudulent by the opposition.

The Organ was forged primarily as a means of self-preservation for the SADC member countries and their governing elite, but constructed on the Republic of South Africa post-SADCC vision, as articulated by the now ruling African National Congress (ANC) just before that country’s April 1994 democratic elections. Ostensibly, trying to assure SADC that the end of apartheid heralded co-operation and equality among all Southern African states, the ANC declared that “all the regional states would be responsible for constructing the new regional order without domination by any other country or external force; militaristic approaches of the past should give way to cooperation in the pursuit of security; and South Africa would need to renounce hegemonic ambitions” (cited in Van Nieuwkerk, Van der Waldt and Jonker 2002: 236). South Africa’s first post-apartheid president, Nelson Mandela, later stressed the need for co-operation and collective approach to security in southern Africa, warning during his visit to Botswana in 1996 that: “No country in our region can enjoy peace and prosperity unless we all do” (cited in Salina and Saunders 2001: 61). However, ANC and Mandela’s declarations would seem to have been no more than modest political concessions to a sub-region that was still smarting from years of bashing by South Africa. But this notwithstanding, adopting the collective approach advocated by Mandela, SADC donned the mantle of a quasi supra state albeit devoid of supervisory power and regulatory function but posing at times as the repository and source of regional political norms and standards. A prisoner of its constituent states and their politics, SADC placed conflict resolution and/or management function in - using Harvemans’s (1999: 134) phrase – the track-one diplomacy contour with no room for citizens’ intervention or for track-two and multi-track approaches.

Arguably, however, the ANC and Mandela’s pious and rather reassuring statements would not affect South Africa’s economic, political and military dominance of the region. In any case, if South Africa was expected to contribute to the region’s development its hegemony needed to be
maintained or tolerated. The only one of SADC member countries producing and exporting military hardware, and an economically and technologically the most advanced country in the region, South Africa was always going to dominate SADC even though it might not be seen as the region’s leader by all other Community members. In fact, “not able to weave a clear, unambiguous and coherent foreign policy towards Africa”, the new South Africa was at the outset a weak candidate for SADC leadership, its foreign policy orientation reflecting its “concern with strengthening its erstwhile economic ties with Western Europe and North America” (Makoa, 2001b: 81-83). On the other hand, believing that apartheid was the only oppressive force and that SADC and the Organization of African Unity (OAU) helped the South African people to defeat it, the leadership of the liberated South Africa closed its eyes to political oppression occurring elsewhere in both the region and continent.

Juma and Mengistu noted in 2002 that there was as yet no clearly “defined vision as to how to address the insecurity that faces southern Africa”, though, blaming this on what they termed “the political rivalry between South Africa and Zimbabwe” (2002: 31). The apogee of the rivalry was manifested by the military intervention in August 1998 in the Democratic Republic of Congo (DRC) by Zimbabwe, Angola and Namibia - which was opposed by South Africa - and a similar intervention in Lesotho by the latter and Botswana in September 1998 (Nkiwane 2002: 10). While the “impasse was formally resolved by the SADC heads of state at an Extraordinary Summit in Windhoek, Namibia, during March 2001", (Fabricius, n.d.: 45) the Organ has not been able to evolve the procedures on how and when it should be invoked. Creating a secure, stable and peaceful southern Africa had also been probably given urgency by the demands and/or pressures of what Mosley, Harrigan and Toye (1991: 13) term the “new political economy” (NPE), or rather economic globalism, to which effects SADC has not been immune. The NPE stresses economic liberalisation, often conflated with and cast as sine qua non of democratisation and administrative restructuring - both seen as conditions for secure investment and growth. Demanding a risk-free investment climate, the ideologues of the NPE have been able to push security and stability up the political agendas of many developing states, SADC being no exception.

Pressure for policies and efforts guaranteeing liberal investment climate, political freedom, peace and stability in Africa, including the SADC region, has increased with the African Union’s commitment to and embracement of the New Partnership for Africa’s Development (NEPAD) (2002: 8-10). A regime charged with the task of re-defining Africa’s role in the global capitalist system and deepening its integration into the G8-dominated world economy, NEPAD oversees and enforces a set of conditionalities imposed on Africa by this club of rich countries as qualification for their support. A purveyor of the all-embracing resurgent liberal political dogma of democratisation, good governance, economic restructuring and conflict management in Africa, NEPAD is more than a partnership or
cooperation between the rich West and African countries. It is Africa’s ‘new superstructure’ or grand development ideology that seeks to harness the continent to the rich industrially developed North.

A political economy explanation of the genesis of the SADC Organ is, indeed, plausible. Sluggish regional economic growth and the problems it posed have spurred SADC into adopting not just liberal development policies that would ease foreign capital investment in member countries but devising effective measures to counter threats to the flow of capital into the region. For instance, between 1975 and 1990 combined annual average per capita economic growth rate for SADC countries was just 0.9%, changing only insignificantly between 1990 and 1998 to 1.3%, probably due South Africa’s joining of the organisation. The total indebtedness by the SADC states, including Kenya and Uganda, was US$70,823.3 million, while foreign aid and foreign direct investment (FDI) flowing into all of them amounted to just US$2,936.3 million and US$2,856.00 million, respectively, in 1997 (UNDP 2000: 47-195). So, in order to attract the flow of foreign capital, SADC states had to address collectively what van Aardt (1997: 3) terms the “twin issues of development and security”. A political economy approach unmasks SADC and underscores its economic development predicament, showing that it needs some form of a regional security arrangement in order to lure in and protect investment capital from whatever sources. However, whether or not such security regime ought to be the present SADC Organ is a moot point.

The SADC Organ: Nature, Structure and Implications for Democracy

Article 2, Section 2 (e), (f) and (g) of the SADC Organ Protocol lists the following as the specific objectives of the Organ:
- “prevent, contain and resolve inter- and intra-state conflict by peaceful means;
- consider enforcement action in accordance with international law and as a matter of last resort where peaceful means have failed;
- promote the development of democratic institutions and practices within territories of State Parties and encourage the observance of universal human rights as provided for in the Charters and Conventions of the Organization of African Unity (OAU) – renamed African Unity (AU) - and United Nations (UN) respectively.

Formally, this broad ‘package’ constitutes the Organ’s mandate and binding task. The Organ’s invocation is, however, subject to the SADC Treaty. Its underlying principles are equality of member states, human rights, democracy, rule of law, peace, security, equity, mutual benefits, collective settlement of disputes, solidarity, respect for sovereignty and non-interference in internal affairs of sister states (Gurr 2001: 11). However, the SADC’s history shows that only a few of these commitments have
been fulfilled. This notwithstanding, though, SADC states were aware in establishing the Organ that security is no longer simply a matter for, borrowing Born, Fluri and Johnsson’s phrase (2003: 16), “self-help alone”. Hence they accepted full responsibility for peace, security and conflict resolution in the Southern African region (United States Institute for Peace 2000, 1-2, International Peace Academy, 2000: 4). But this decision, some analysts have argued, should also be seen against the backdrop of the turmoil in Africa. Van Nieuwkerk (2001: 12) argues, for instance, that years of violence “that claimed 150,000 lives and generated thousands of refugees in West Africa” justified the creation of the Organ.

Ironically, however, South Africa joined later and Botswana intervened militarily in Lesotho in September 1998; three years before the SADC Organ Draft Protocol was agreed and signed by member states, underscoring its susceptibility to manipulation and abuse. As Breytenbach (2000: 97) observed, “when new crises among the member states of the DRC and Lesotho erupted in 1998, there was no organ to deal with those crises.” He added (Ibid, p.99) that, “As South Africa and Botswana claimed to represent SADC when they intervened, SADC may take some credit, although there is no such thing as SADC troops in the SADC Treaty.” Thus security took precedence over democracy.

South Africa on its part intervened in Lesotho to protect its economic interests, clustering mainly around the Highlands Water Project and because of its fear of economic consequences of possible mass cross-border flow of the Lesotho people into the Republic (Makoa, 1999c: 98). For Matlosa (1999: 184) the intervention was a means of bolstering “a threatened state… never meant to be an impartial” conflict resolution mechanism.

The SADC Organ is now a permanent institution existing side-by-side with and complementing related SADC political structures created by the Community and unanswerable to the “SADC proper”. But this arrangement was agreed only at the Blantyre Summit in 2001, ending the long running dispute between South Africa and Zimbabwe regarding the Organ’s ownership and control (Van Schalkwyk and Cilliers, 2004: 107). But, as noted earlier, the Organ lies beyond the purview of the national parliaments of SADC’s constituent states, populations, civil societies and opposition political parties. This contradicts the principle of accountability, a major tenet of the doctrine of representative democracy. However, it is now trite that cooperating nations have to pay some price to maintain their cooperation. Such security cooperation requires that “a country adapt itself to the alliance’s objectives and requirements thereby limiting its options… Moreover, it will affect parliamentary oversight as the decision-making process shifts partly from the national to the international arena” (Born, Flury and Johnsson, 2003: 17).

The various SADC protocols do not envisage parliamentary oversight over the organisation’s institutions. Thus the SADC Organ is not amenable to such oversight, but unsurprising for each of the member states has its own
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interpretation of the SADC Treaty and/or protocols. Therefore, there are radically different democracies, human rights and types of regime in the SADC region, and the Community regards them all as legitimate. Inputs from and role of the national parliaments of member states, opposition political parties and the civil society do not seem important either for SADC. This may not affect the legitimacy of the SADC but it calls into question the organisation’s purport of being a source of universal democratic values. Indeed, SADC has failed to be an even all-peoples political amphitheatre. It remains a forum and tool of rulers relating to it the way they see fit.

The construction or launching the SADC Organ occurred in tandem with heightened state repression and denial of human rights in some of the SADC states despite their supposed commitment to the terms of its treaty that include democratisation. Yet this is not surprising for the Organ was initially to evolve in a southern Africa where democratic transition had hardly taken place. Of SADC’s constituent states in 1990, for example, “only Botswana and Mauritius allowed open elections” (Cheru 2002: 33). Until this time, the majority of the countries that came to constitute SADC equated national security with the absence of popular dissent or opposition. While there may have been some shift away from this position, national security has remained the preserve of rulers who alone decide how and by what means it should be achieved.

The nature of the Organ complicates its task, namely serving “as a vehicle for strengthening democracy in the region” (Malan 1998: 12). Article 23 of the SADC Treaty envisages or anticipates participation by civil society in the Organ’s activities and decision-making, and some degree of popular control over it. Yet this is not happening, and this is not accidental for there is a dearth of political will within SADC that would make this possible. Van Aardt (1998: 106) notes that democracy alone does not mean that people themselves exercise power for this “is to be exercised by, for and on behalf of the people of a state.” But she sees this apparent conundrum as a result of the inseparability of the values of sovereignty and security, and the fact that these are crucial anchors of democracy. Noting that the state is the prime referent for security and sovereignty, she warns that this means in actuality the “security of a particular regime.”

According to Adekanye and Lansberg (2002: 6-7), security is about helping people to regain their job security, income security, food security, health security, and security of life itself. But they add “the state is central to the discourse on security because everywhere it is the institution for upholding a given social order... Moreover, the modern state has become the central organ of social, political and economic life of all societies… a fundamental and indispensable manager of disputes and conflicts.” Indeed, Malan (1998: 107-108) contends that the task of the state is to ensure national security and sovereignty, and that it must be able to perform this task, implying that the test of the effectiveness of a security regime is the extent to which it can ward off threats against the state. But these arguments would hold only where those managing the affairs of the state are not one of the conflicting
Intra-states conflicts in Africa always involve clashes between the rulers (who run the affairs of the state) and their national political rivals. In any case, it is possible that brutal autocracies and dictatorships could be even more capable of protecting national sovereignty than democracies. SADC is caught up in this riddle, namely having to tolerate and condone bad governance in the region and to protect through its Organ autocracies and dictatorships in its ranks as required by its Treaty.

SADC member states do not perceive themselves differently and, as indicated earlier, recurrent conflicts in Africa since independence tend to confirm this. The United Nations (UN) and African Union (AU), formerly the Organization of African Unity (OAU), have thus endorsed the Organ as a necessary instrument for peace. The decision is of course not surprising given that the two organisations have not been successful in mobilising the requisite resources for dealing with conflict in Africa and elsewhere in the world. The Organ is, therefore, important to these organisations because it fills up this gap. But any conflict resolution machinery has to be owned by the peoples whom it serves and they must feel that it addresses their security needs. Adekanye and Lansberg (2002: 6) argue that “it must help people to regain their job security, income security, food security, health security, and security of life itself.” If anything, SADC’s achievements are visible only at the rhetorical or ideological level. It has forged for the region a grand ideology of regionalism, that is, an idea of a regional community, but without homogenising its political and social values. But commitment to this type of regional regime imposes new sets of obligations on member countries that include achieving self-reliance by and increasing their bargaining power vis-à-vis their developed counterparts (Lancaster, 1995: 192).

The Zimbabwe and the DRC sagas underscore the mammoth challenge confronting the Organ whilst also showing the extent to which SADC has traded democracy for the security of its member states and their rulers. In the case of the DRC, SADC has been propping up Joseph Kabila’s regime notwithstanding its own and AU’s declarations on democracy and changing of governments. Zimbabwe also enjoys SADC’s unqualified support despite its violation of the Community’s electoral norms and guidelines, which were institutionalised in and ratified on 17 August 2004 by all SADC member states, including Zimbabwe, as the Mauritius Protocol on Principles and Guidelines Governing Democratic Elections. Politically intolerant, the Zimbabwean regime has systematically used violence and intimidation to silence and prevent its opponents from freely competing in general and presidential elections. The principles breached by the regime are: “2.1.3 Political tolerance, 4.1.2 Conducive environment for free, fair and peaceful elections and 7.4 Government to safeguard the human and civil liberties of all citizens, including the freedom of movement, assembly, association, expression and campaigning” (Sokwanele 2004: 4). The regime did not run free and fair general elections in March 2005. It engaged in gerrymandering acts that gave the ruling party advantage over the opposition, denying opposition access to voters’ roll, state media and relief food aid, closing
down pro-opposition newspapers, intimidating and/or torturing opposition supporters and disenfranchising thousands of non-resident Zimbabweans except its staff serving in embassies who would no doubt be members of the ruling party. However, SADC endorsed the result as a reflection of the will of the people of Zimbabwe.

**An Integrative Mechanism?**

In a supposedly integrated or integrating southern Africa the issue is whether the SADC Organ contributes to the process of integration. As demonstrated throughout in this analysis, the SADC Organ has to protect SADC, which is an association and fortress of the southern African states, this, in turn, smooths and eases the process of integration in the region. Yet whether the Organ has actually been functional to integration is matter for conjecture. However, its formation is a result of cooperation and joint effort by the SADC states. It is one of the twines, whatever its strength, that bind the SADC states together as a team jointly managing their security. Viewed from this angle, therefore, the Organ is arguably one of integrative mechanisms available to SADC. But this argument is weakened by the fact that the Organ still lacks concrete form, remaining to date an abstraction that can be operationalised in various ways such as, in the case of Lesotho, the military intervention by South Africa and Botswana in 1998. In the case of the DRC the peace brokering there by South Africa, provided this is under SADC’s auspices, could be dubbed the diplomatic or political aspect of the Organ. However, as has been noted earlier, the military intervention in Lesotho plus the argument over the control of the Organ led to tensions within SADC and indeed divided the organisation, as evidenced by the formation of a military alliance by Angola, Namibia, the DRC and Zimbabwe to the exclusion of other SADC member states.

The military alliance has since spread to the entire SADC. But this raises another important question - but beyond the scope of this paper - namely whether the military alliance reinforces or renders the Organ redundant. This question aside, the SADC Organ reflects cooperation in southern Africa if not a step towards integration. In any case, the military alliance among SADC states would not per se be contradictory to the Organ, which is flexible in terms of being a double-pronged strategy involving diplomacy and force. The North Atlantic Treaty Organization (NATO), a military alliance for Western Europe and the two North American states, the United States and Canada, has provided a security umbrella to the formative European Union (formerly European Common Market and European Economic Community). To this extent, NATO has been functional, however, indirectly, to European integration. But having said this, the SADC Organ must be democratised, that is, placed under people’s control via their national parliaments to ensure their participation in decisions regarding its deployment, and also ensure popular support for it.
Conclusion

The Southern African Development Community (SADC) needed an institutionalised conflict resolution mechanism that would stabilise the region and protect its peoples against threats to their existence. Without peace, security and stability, development would be difficult if impossible in the region. The political turmoil in Lesotho following the 1998 elections saw massive destruction of property, exodus of foreigners, capital flight, deaths and job losses. However, the underlying philosophy of SADC Organ is that which emphasises the protection of existing governments rather than the people of the region. Hence, the Organ cannot and has not been able to protect the people against tyrannical rulers. Nor has it been able to enforce its numerous principles, especially those on democracy and human rights. Indeed it has proven useless in situations where states and rulers deny democracy and freedom to their people. So, the SADC Organ has at the outset suffered credibility and legitimacy crisis, this being compounded by SADC’s failure to resolve the political problems in Zimbabwe. Its supposed credentials as the guarantor of democracy and human rights are doubtful. Accountable only to SADC heads of state, among whom are those openly bent on throttling the growth of multi-party democracy, the Organ is susceptible to manipulation and misuse but cut off from the regional populations, hence irrelevant. Meanwhile, the anti-democratic orientation of many of SADC member states has made difficult the effective use of the Organ to perform its supposed role. Thus, while the Organ may not have overtly stymied democracy, it has not promoted or protected it as evidence from many of the SADC states like Zimbabwe, Swaziland, Angola and the DRC. In nearly all the SADC states, only constitutional frameworks rather than democratic practices exist. This is because it has to protect states first since democracy has to occur within stable and secure states, and also because SADC treats democracy as a residual of rather than a condition for national security. But the irony here is that the Organ has to condone or be indifferent to anti-democratic behaviour by SADC member states to the detriment of democracy and human rights. This reduces to fudge claims of democratic transition in southern Africa. But in one sentence, the SADC Organ is a potential integrative mechanism if used in accordance with the guidelines and prescriptions of its founding protocols. It needs to be democratised, that is, opened up to the people.
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Regional Integration through SACU

Gerhard Erasmus

Introduction

In the previous Yearbook the new SACU Agreement was discussed and a general overview of its content and the proposed institutions was provided. With respect to integration it was observed, somewhat optimistically, that the Agreement “adopts a particular approach towards the promotion of intra-regional integration and integration into the global economy. That model depends quite directly on the new institutions and their powers. …..If the common policies of Part 8 of the Agreement are in fact adopted and contain serious commitments and clear goals with respect to common action and strategies, the cause of integration will be enhanced.” (at p. 196.) The Agreement had then just entered into force (in July 2004) and the first steps were taken to establish the institutions and to adopt certain policies. Where do we stand one year later?

Certain aspects about the basic philosophy (or lack of it) underpinning SACU are becoming clearer. It is too early to tell exactly what it will become; some kind of continuation of what it was before when the emphasis was on tariff management and how the members shared from the Common Revenue Pool; or an effective vehicle for regional integration, the promotion of development in the region and the integration of SACU into the global economy. If it is to become the latter it will have to develop the required policies and strategies and do so through a new role for its institutions. It will have to face the challenges of the many new trade negotiations and arrangements; including negotiating Economic Partnerships Agreements with the EU that may undermine SACU if the membership configuration is skew. (The present proposal is to exclude South Africa, the economic engine of SACU, from the proposed SADC EPA, and to bring in Mozambique, Angola and Tanzania.) Clarity with respect to the sharing of revenue from the Common Revenue Pool in terms of the new formula is urgently required. The reliability of trade data is a particular challenge.

Institutional Developments and Capacity Building

Since July last year no further institutions have been created. The staffing of the Secretariat has started and the recruitment process has begun. At the time of writing no appointments (apart from the Executive Secretary, Ms. T.C Moremi) have been made yet but there are hopeful signs that the first senior secretariat officials will soon assume there duties. They will enjoy certain diplomatic privileges and immunities (Art. 4) and will act as independent SACU officials. It is important that the Secretariat becomes fully operational as soon as possible. It has to perform a number of functions that are quite crucial to the future development of this organisation; ranging from harmonising national policies and strategies (see the discussion below
of Part 8 of the Agreement), keeping record of all transactions into and out of the Common Revenue Pool, to coordination and assisting in negotiating trade agreements with third parties (Art.10). As long as these powers are not exercised SACU will actually not act in its own name and will not develop that identity that the Agreement potentially provides for and which is necessary to ensure that the stated objectives are achieved.

Apart from those organs (Council, Commission and Technical Liaison Committees) that were created ipso facto when the new Agreement entered into force because they consist of senior politicians or officials of the member states and represent these states in SACU, the institutional dimension has not progressed in any significant way.

It is not easy to establish a new international organisation. In the case of SACU it is even more complicated because there are elements of “transition and transformation” involved; some of the institutions mentioned above also existed under the 1969 arrangement. It would be wrong and dangerous to see them as a continuation of what existed before. They too are new because they came into existence through a new agreement and a new legal formula that contains check and balances of a certain kind. The provision of the Tribunal is the clearest formal indication that SACU is now a rules-based dispensation. Factually, the new SACU Agreement builds on the previous dispensation of 1969, but that one did not function on the basis of strong and independent institutions. The new generation of SACU institutions have to act in terms of powers expressly granted and in harmony with other institutions empowered to do other things. The old SACU was in fact more of an “arrangement” than an international organisation. Now it is expressly stated that it is a typical international organisation with legal personality (Art. 4.)

The Commission did exist previously but functioned as a forum where senior officials from the member states could meet and took all important operational decisions. They mostly discussed matters related to the tariff regime and the Revenue Pool, both managed by South Africa. Now the “Customs Union Commission”, while still consisting of senior government officials, has specific functions, reports to the Council of Ministers (the highest decision-making institution) and “shall be responsible for the implementation of this Agreement” (Art.9(3)). It is not always entirely clear how powers are demarcated. The Tariff Board, an independent body comprised of experts (Art. 11) will, for example, make its recommendations directly to the Council.

Who acts on behalf of SACU? Who has the right of initiative to enforce and promote the obligations and objectives contained in the Agreement? The Council is the highest decision-making body but is an institution representing national governments. SACU does not have its own executive arm. The Technical Liaison Committees Bodies were previously erected as the need arose. They are now formally established through Article 12 and also consist of national government officials.
The institutional dimension is crucial for the new character of SACU and for achieving its objectives. The political leadership and vision of the national governments are equally important but will have to be implemented through the institutions. They will have to play an active role if SACU is to develop into a dynamic regional institution that will be able to address the many development and integration challenges.

The Tariff Board and the Tribunal have not yet been established, although draft annexes on the Tariff Board and the National Bodies have been prepared and submitted to the Council in July 2005. They have not yet been discussed in any detail. This is a rather complicated matter and a significant development because it will determine how the BLNS states will participate in the management of SACU and to what extent an independent expert body will take over functions until now still performed by South Africa through its International Trade Administration Commission.

**SACU is still to be Established and Capacitated**

The National Bodies will also become important capacity building focal points for the BLNS states; an aspect with implications beyond the functioning of SACU. Their general development and participation in other international arrangements and trade organisations (such as the WTO, a new EPA, SADC and in African fora) depend directly on their domestic capacity to engage rules-based dispensations. SACU cannot in fact operate as expected and the objectives about democratic, effective and transparent institutions (also necessary for a rules-based organisation) cannot be achieved without capacity both within the members and on SACU level. Article 14 (3) recognises this when it states that “SACU will assist Member States with the establishment of common procedures and technical capacity to ensure effective, efficient and transparent functioning of National Bodies.”

But how will SACU do this? The obvious answer is that the Secretariat will have to play a role and conceive the required strategies. However, as is the case in many areas, the chicken and egg nature of the problem is first to be solved. SACU is a new origination and the Secretariat is first and urgently to be brought to the level where it will be able to perform its tasks stipulated in the Agreement.

The Agreement foresees a future state of affairs with operational and capacitated institutions in place before it can actually function in the new manner laid down in the Agreement and start delivering. What is lacking is a clear vision and plan as to how to get to that point. This is a formidable task and neglecting this phase can lead to disappointment and undermine the Agreement. There is a danger that the many transitional and interim arrangements (on e.g. the management of the Revenue Pool and the common external tariff, providing for trade remedies and negotiating trade agreements with third parties without a common negotiating mechanism as required by Art. 31) as well as the practices developed in the absence of certain SACU institutions, will begin to live a life of their own for such a long period that they may gain a de facto or even “normative” quality. Why put up new, “expensive” bodies if we can continue with interim arrangements?
Monitoring Regional Integration in Southern Africa

The fact that SACU existed before creates the illusion that it continues to exist. That is actually not true; there can only be one SACU. The new SACU exists only partially; it is still under construction. This results in a state of affairs that the Agreement can not be implemented, revenue cannot be shared as foreseen, policies cannot be harmonised and capacity cannot be built; to mention only a few of the consequences. This sui generis establishment that we have now is not yet SACU. However, its performance (or lack of it) is measured on the assumption that the Agreement has been implemented. It has to be accepted that this is not the case and that serious negative consequences result from this state of affairs.

On Disputes

SACU is now an organisation in which, according to the Preamble, a “dispute settlement mechanism will provide a mutually acceptable solution to problems that may rise (sic) between Member States.” This is an important indication that this is a rules-based dispensation. It may also be an element indicative of future developments regarding integration; the jurisprudence developed via an independent adjudicating body can make important contributions towards the promotion of integration and the unified interpretation of the basic text. For this purpose the SACU Agreement foresees the establishment of a Tribunal.

With regard to the Tribunal, there have been no further developments and there has not been any discussion of its jurisdiction and of locus standi issues. Its rules and procedures will have to be adopted by the Tribunal once it exists. The issue of trade data disputes may be particularly complicated. Article 36 of the Agreement apparently puts such “disputes and differences” in a different category. Disputes have to be referred to the customs and excise authorities of the members first. If no solution is found within 30 days, they are then to be referred to the Council. What is to happen here is not stated and whether the Tribunal will have jurisdiction over such disputes is not clear. Article 13 does say that “any dispute regarding the interpretation or application of this Agreement, or any dispute arising thereunder at the request of the Council, shall be settled by an ad hoc Tribunal.”

The reason why trade data disputes are so sensitive has to do with the revenue sharing formula. Revenue from the Common Revenue Pool is extremely important for especially the BLNS states and is shared in terms of a complicated formula dealt with in Article 34 and a special Annex to the Agreement. Basically the national shares for the customs component are calculated from “the value of goods imported from all other Member States in a specific year as a percentage of total intra-SACU imports in such year” (Art. 34(3)(b)). For the excise component shares are calculated from a member’s GDP as a percentage of total SACU GDP in such a year (Art. 34(4)(b)). But SACU has no central record keeping facility and members have to provide their own data. Disputes of this kind may easily arise and may detract from the focus required to develop those other policies (such
as on industrial development) that will become increasingly important for economic development in a world of declining tariffs.

The meaning and effect of Article 25 on the rules-based nature of SACU needs careful study. The Agreement does not expressly provide for intra SACU trade remedies. Article 41 (discussed below) deals with unfair trade practices among members and the foreseen Annex dealing with the remedies in such instances is still to be drafted. SACU has no central competition authority and the national authorities will cooperate in this area. The Tariff Board will perform the necessary functions regarding trade remedies vis-à-vis third parties. At present and as long as the Tariff Board does not exist, the South African International Trade Administration Commission is responsible for this function, but does so in terms of South African legislation. The Council has adopted resolutions to this effect.

Article 25 deals with import and export prohibitions and restrictions and is a direct remnant of the 1969 Agreement. It reads: “Member States recognize the right of each Member State to prohibit or restrict the importation into or exportation from its area of any goods for economic, social, cultural or other reasons as may be agreed upon by the Council.” Whether it makes sense in the new regime is quite unclear and depends on the interpretation given to the list of grounds allowing the restrictions. If it allows for unilateral national discretions to impose such restrictions (and the reference to the Council constitutes a separate category) then the rules-based nature of the Agreement and the jurisdiction of the Tribunal is undermined, if not made impossible to exercise. That is the opposite of what an integrated approach is about. Concerns about exceptions and the need for protective measures in acceptable instances should be objectively determined and be justiciable. This is routinely done in all trade organisations with objective rules and adjudicating bodies. While on this topic it should also be mentioned that protection for infant industries is provided for expressly (Art. 26).

Article 18 (2) is also problematical. It provides for the right of members to impose restrictions on imports or exports in accordance with national laws for the protection of human and animal health; the environment; treasures of artistic, historic or archaeological value; public morals; intellectual property; national security and exhaustible natural resources. This formulation is extremely wide, not qualified by non-discrimination requirements or the duty to provide justifications against abuse for protectionist motives. These formulations were taken over from the previous arrangement and do not fit into the present dispensation.

**Why Integration?**

There is an important difference between regional cooperation and regional integration. When independent sovereign states decide to cooperate with each other in order to achieve certain objectives, they normally do so in terms of an agreement spelling out how their national institutions will interact with their counterparts across borders. The objectives of a particular project
will determine the nature of the cooperation, activities and institutional arrangements. Cooperation between police forces pursuing fugitives from justice will differ from managing shared water resources or cross-border game parks. Often inter-state cooperation is necessary simply because separate national systems cannot “talk” to each other, because of legal barriers at borders or because of that ultimate legalistic claim that there may not be any “interference” in the affairs and jurisdiction of another state.

When it remains only ad hoc cooperation as separate jurisdictions, then the benefits of less duplication, greater effectiveness, cost saving etc. associated with “integration” will not materialise. The latter occurs when governments start to ameliorate the strict and artificial effects of jurisdictional separation with territorially defined markets and move towards common policies, joint decision-making, coordinated institutions and execution. Formal integration often follows the facts on the ground; a lot of de facto trade may already take place in a particular region before the politicians will follow suit and establish the necessary political structures.

There can be considerable economic and trade-related benefits from well-tailored integration. Governments do not trade, private firms do. But governments, often jealous of their “sovereignty” (and revenue from taxing imports), are responsible for maintaining or reducing most trade barriers. Integration requires decisions by governments to have common policies and institutions, with the necessary powers, harmonised legislation and standards, and generally joint decision-making. It usually involves different stages and is a process aimed at breaking down barriers and the costs associated with duplication, complying with the formalities of trans-boundary transactions and forcing firms to deal with different national procedures. Integration results in some degree of “fusion” of systems. Different domestic rules and requirements start talking to each other. It makes trade easier and freer and should result in consumer benefits, savings and greater effectiveness.

In the world of nation-states, integration is not a natural process. It needs a deliberate plan and push, supported and implemented through political vision and action, mere cooperation reaches the end of its usefulness when it does not mature into something more; a move towards integration. Successful integration is not really to be found in our part of the world. Why not? Are there indications that this is changing? Should it change?

There is world-wide a renewed interest in “regionalism”, “preferential trade arrangements”, “partnerships”, FTAs (Free Trade Areas), customs unions and generally in “integration.” The latter is increasingly perceived as a facilitator of trade liberalisation and development, and even a necessary step for addressing Africa’s marginalisation in the global economy. The multilateral trading system has always accepted (under GATT Art. XXIV) that regional trade arrangements such as FTAs and customs unions are acceptable and compatible with the WTO system, provided certain requirements are met. These are that substantially all trade is covered by
such arrangements and that they do not result in higher trade barriers to non-members. There are some concerns now that the multilateral trading system is being undermined by these many regional arrangements, but they have become a fact of life and are increasing.

**Does SACU have a Plan for Integration?**

SACU has been around for a long time and has only five members, sharing the same legal and administrative traditions and cultures. They have also been trading with each other since the days of British colonial rule. The shared revenue from the rather unique Common Revenue Pool has made the benefits of membership quite tangible, in particular for the BLNS states. SADC, the other well-known southern African organisation, is technically only an organisation which promotes cooperation between the 14 member states in designated areas such as tourism, police matters to trade and gender issues. The nature of the cooperation in these areas differs and forms the topic of some 22 separate legal instruments called Protocols (16 of these protocols have entered into force). SADC aims to move towards a higher level of integration but that will take considerable effort and time and will have to be aligned with several serious developmental and health challenges facing the region.

The 1969 SACU arrangement reflected the dominant position of South Africa, the region’s biggest economy. After the political changes of 1994 and the establishment of the rules-based dispensation of the WTO in 1995; SACU was due for a major overhaul. The 1969 agreement did not “cater for the needs of the 21\textsuperscript{st} century”, as the Preamble to the new Agreement claims. It was also not “democratic” and lacked “common policies and common institutions”. It took several years to negotiate the new Agreement, which entered into force in July 2004.

Does the new SACU Agreement contain a vision and a formula for integration? There are certain promising signs, in particular with regard to common policies and common institutions. But they still need to be fully implemented. There is also recognition of the need that trade negotiations with third parties should be conducted through a common negotiating mechanism (Art.31). Article 2 lists the objectives of the new SACU; integration of the SACU members into the global economy, transparent and democratic institutions, fair competition in the Common Customs Area, an increase in investment as well as diversification and industrialisation. The sharing from the Common Revenue Pool should be equitable and there should be enhanced economic development. Integration within SACU is not expressly mentioned.

At present SACU regulates only trade in goods (agriculture and transport are mentioned in this context). However, it has already negotiated trade agreements with MERCUSOR and EFTA, while others (China, India and even the United States) are in the pipeline. These negotiations cover a wide spectrum and go beyond goods, as is to be expected. The objective of
integrating SACU more effectively into the global economy cannot remain limited to only trade in goods. In fact, the various FTAs concluded elsewhere are usually very comprehensive agreements, covering the WTO and even WTO-plus disciplines, including formal dispute resolution.

The integration of SACU into the global economy requires a clear vision and a plan on integration within SACU. Services, investment, competition and the areas mentioned in Part 8 of the Agreement will have to addressed. It also does not make sense to enter into legal arrangements with third parties which the SACU agreement does not cover. That will cause duplication, fragmentation and legal uncertainty; the opposite of what integration should result in.

**Common Policies**

Part 8 of the Agreement is of particular importance as far as SACU’s presumed integration agenda goes. It lists the “common policies” that the founders wanted in the new SACU. These areas are industrial development, agriculture, competition and unfair trade practices between the member states. The difficulty with Part 8 is that these areas are treated as separate fields with different consequences in terms of implementation and outcomes. They are not designed to fit together in terms of a bigger picture and integrated results. With respect to industrial policy for example, the objective is to “develop common policies and strategies” (Art. 38.). In agriculture however, the aim is only to “agree to cooperate on agricultural policies”. No mention is made here of common agricultural policies. There must be reasons why the founders opted for these formulations, but a prior vision on a joint strategy for integration or simply a more logical new arrangement in line with the objectives of the Article does not seem to be one of them.

With respect to competition “there shall be competition policies in each Member State”. The Member States “shall cooperate with each other with respect to the enforcement of competition laws and regulations” (Art. 40.) This means that each member states shall have its own (different?) competition policy and law. It is not even stated that they should consult each other when adopting such policies and laws (at present only South Africa has a competition Act and institutions. Namibia is in the process of adopting one). This is an area where they could have coordinated their efforts very cost-effectively and logically through the new Secretariat. The very nature of competition promotion and regulation in a single customs area is such that in objectives, design and outcomes careful consideration should be given from the outset to “integrating” it. Experience in other regional arrangements shows that fragmentation in this particular area causes considerable disruption, duplication and less effective “cooperation”.

The absence of a single plan regarding common policies becomes even clearer when Article 41 is considered. It reads: “The Council shall, on the advice of the Commission, develop policies and instruments to address
unfair trade practices between Member States. These policies and measures shall be annexed to this Agreement." It means that, in terms of Article 42, this particular common policy will in fact become an integral part of the law of SACU. What exactly "unfair trade practices " within a customs union will include and what institution should grant the remedies will have to be considered very carefully and will have to be distinguished from the competition issues already covered by Article 40. Time will hopefully tell us.

On the basis of the provisions contained in Part 8 of the SACU Agreement there does not seem to be a clear and single plan with respect to the link between national policies, outcomes and what type of organisation SACU has to become. There is a lack of a connection between the objectives of Article 2 of the Agreement and the “common policies” of Part 8. On paper they in fact do not look that common. One of the reasons for this unfortunate state of affairs is that no provision has been made for a common institutional link. The member states will work out most of these policies on their own. It is then hoped that subsequently they will work together and produce “common” outcomes. This is a flawed recipe.

**Common Institutions of SACU**

The new SACU is conceptualised to be more streamlined and “modern”, with an international legal status and a permanent Secretariat. The Secretariat will have to perform a number of technical tasks and some of them will indeed be related to what can be called integration objectives. The latter will include that it “shall assist in the harmonisation of national policies and strategies of Member States so far as they relate to SACU”. This is a bold formulation but unspecified. It will depend on the Secretariat and the member states to give flesh to this particular provision, but, at least there seems to be recognition here of the need for effective harmonisation. The Secretariat will also have to “coordinate and assist in the negotiation of trade agreements with third parties.” This area is particularly problematic. In terms of Article 31 existing trade arrangements between SACU members and third parties may be maintained. The Agreement does not however require, as is normally the case with regional trade agreements that such trade third party arrangements be brought in line with the SACU Agreement itself. Article 31 does provide for a common negotiating mechanism but this has not been established as yet. South Africa is responsible for managing negotiations with third parties.

Article 31 also deals with the impact of such third party agreements on the Common Revenue Pool. There is a rather vague arrangement here that the customs revenue lost in terms of such third party arrangements will have to be paid into the Common Revenue Pool. How the internal customs arrangements should make that possible is not explained.

The Council is a political organ and is the highest decision making body and is supported by the Commission which is staffed by the most senior trade
and financial officials of the member states. These political institutions seem to dominate and there is no clear provision on who will have the “right of initiative” on behalf of SACU. The Tariff Board has the potential, once it has been established, to produce policies, decisions and recommendations with respect to important matters such as trade remedies, rebates and possibly the role of tariffs with respect to industrial policy development. It will have to communicate and interact with members through National Bodies that have to be established in the member states. At present only South Africa has such a national body, the International Trade Administration Commission (ITAC). The BLNS states have serious capacity needs and they will not be able to have National Bodies on the same level as ITAC. It is however vital that they do establish such bodies exactly because they need to develop the capacity required in these areas and to be able to participate effectively in the management and day to day life of SACU. The objective to have an active democratic institution will depend on this national institutional dimension.

Conclusion

So what is the verdict with respect to the potential of SACU to promote regional integration amongst its members? This particular dimension has not yet been given the attention that it deserves. The Agreement itself was apparently finalised under time pressure in 2002 because of the urgency and need to deal with a new formula for the Common Revenue Pool. The sharing of the revenue from customs and excise is still of major concern to specifically the BLNS states. Transforming SACU into an organisation with a different priority has not yet occurred.

The potential of SACU as a common trade instrument for the members and vis-à-vis the rest of the world is still underdeveloped. Hopefully the new common institutions still to be established will bring into the organisation a new focus and technical sophistication that will at least lead to the serious discussion of the needs expressed in the list of objectives of SACU.

What does SACU want to be? There is a certain tension and ambivalence in the provisions of the Agreement. But there are also signs of recognising what will be required if SACU has to become the instrument for effectively “integrating Member States into the global economy through enhanced trade and investment”. That process will have to start with putting the SACU house in order first. It will not be possible to avoid the topic of integration within SACU. The 2003 WTO trade policy review of the WTO for SACU indicated the many complications and costs associated with the lack of harmonised laws and standards and joint policies. This is only another way of saying that the political leadership of SACU should tackle the issue of its own integration head on.
About 130 regional groupings claim to promote inter-governmental cooperation or supranational integration in Africa. Many of these date back to the dismantlement of inter-territorial colonial arrangements and only exist through their acronyms and letter head paper. A number of others have so far achieved little more than aid coordination towards the promotion of regional infrastructure projects. The most recent wave of institution-building dates back to the early 1990s. The end of the cold war aroused renewed African concern of marginalisation at a time when the world economy was also becoming increasingly regionalised. Since then most African regional organisations have changed their acronyms, endorsed liberal economic agendas, and committed themselves to the need to 'pool' sovereignty while taking on board such new issues as security and good governance. These orientations keep being stimulated by the regional flavour that permeates international donor policies – as reflected by the EU-ACP Economic Partnership Agreements to be negotiated under the Cotonou agreement. Regional economic organisations are also confronted with the need to broaden their traditional mandates so as to curb regionalisation through war and insecurity.

SACU is one of the few African regional groupings within which integrated customs and monetary (de facto or de jure) arrangements are both functioning and of significance to the economies of participating countries. This goes along with the survival of organs and procedures inherited from the colonial era. Indeed, what may be termed as ‘integration through hysteresis’ is at the core of economic and monetary integration between the five member states of SACU. In this case, as within the Franc zone, integration proceeds from the persistence of the effects of policies conceived under colonial rule and carried through after its demise. The fundamentals of the SACU agreement of 1910 were first reconducted when it was amended by sovereign member states in 1969. It is only since the lengthy renegotiation of the SACU agreement, signed on 23 October 2002, that the path-dependency implications of South Africa’s hegemonic control have started to be partially addressed. The following pages discuss this issue through a contextual and comparative approach. After a brief reminder of the distinction between regionalism and regionalisation, the chapter describes the landscape of regional economic groupings across the continent before addressing the heuristic value of the notion of integration through hysteresis as well as its articulation with SACU’s new philosophy.

1 The notion of hysteresis, originally employed by physicists, has been adapted by economists. See Olivier Blanchard & Lawrence Summers, «Hysteresis and the European Unemployment Problem,» in Stanley Fischer, ed., NBER Macroeconomics Annual, Vol 1, Fall 1986, Cambridge: MIT Press, pp. 15-78  I am indebted to Emmanuel Carré for drawing my attention to this point.
Regionalism and Regionalisation

The distinction between regionalism and regionalisation is essential for it enables to overcome a number of the limitations associated with exclusive focus on institutions and agreements. The notion of regionalism refers specifically to ideas or ideologies, programmes, policies and goals that seek to transform an identified social space into a regional project. Regionalism therefore involves the construction of an identity as opposed to its formation. It postulates the implementation of a programme and the definition of a strategy and is therefore often associated with institution-building or the conclusion of formal arrangements. By contrast, regionalisation refers to processes and outcomes: it can encapsulate inter-state or sub-national projects that achieve their stated objectives; regionalisation can also encapsulate a much broader range of situations where ‘regionness’ grows independently from identified regionalist strategies or aspirations. In such circumstances, regionalisation is simply an outcome of the behaviour of agents (diasporas, trade or religious networks, multinational corporations) whose activities contribute de facto to the formation of regional spaces although they are not motivated by a regionalist project. Emphasis is laid on transactions and interactions as opposed to cognitive representations and formal arrangements. Depending on time, location and circumstances, regionalisation can be associated with transactions that are licit or illicit, formal or informal, locally banned but internationally acceptable or conversely, locally condoned but highly criminalised abroad. As increasingly the case in Africa, regionalisation can also be underscored by networks with a global reach. When these combine characteristics traditionally associated with trans-national and inter-state relations, I refer to these as trans-state interactions. Trans-state interactions relate to social, ethnic or religious bonds that challenge state sovereignty through their capacity to avoid, penetrate or permeate state structures. In Africa, trans-state networks thrive whenever they are embedded in neo-patrimonial states where institutional policies and territorial control are weakened by the privatisation of public functions.

The African Economic Community and the Regional Economic Communities

In 1980, OAU Heads of States adopted the Lagos Plan of Action (LPA) which aimed to create an African common market and an African Economic Community (AEC) by 2000. Implementation then stalled to the extent that an Economic Commission for Africa (ECA) progress report concluded in 1990 that “there is no sub-regional integration process under way at this time” (ECA, 1990: 8) An overhaul of initial deadlines and objectives resulted in the adoption of a new treaty, in Abuja, on 3 June 1991. Its target is still

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the creation of an AEC which, by 2028, should enable the free movement of people and factors of production and involve the operation of a single domestic market, an economic and monetary union, a central bank with a single African currency and a Pan African Parliament. The process is evocative of the creation of a quasi-federal system but the term is never mentioned. With respect to the concrete implementation of these high ambitions, the Treaty simply states that they are to be achieved “mainly through the co-ordination, harmonization and progressive integration of the activities of regional economic communities”. Implementation is expected to result from the strengthening of existing regional economic communities and the establishment of new ones if required. For this purpose, seven regional groupings have so far been labelled as key ‘building blocks’: the Arab Maghreb Union (5 member states); the Economic Community of West African States (15 member states); the Common Market for East and Southern Africa (20 member-states), the Southern Africa Development Community (14 member states), the Intergovernmental Authority for Development (7 member states) and the Community of Sahel-Saharan States (18 member-states).

Out of the seven regional groupings labelled as building blocks by the African Union, four are largely dormant institutions in the field of economic integration. The Arab Maghreb Union (UMA), established by the Treaty of Marrakech in 1988, is yet to take any concrete steps towards a customs union or a common market. UMA has also failed to function as a forum for engaging discussion on regional issues – no Heads of State summits have been held since 1994. The Community of Sahelian-Saharan States (CENSAD), created in February 1998 at the instigation of Libya, carries no explicit mandate in the field of regional economic integration and gathers states who already belong to other regional ‘building blocks’. The yearly summit meetings of CENSAD have been essentially a tribune for Colonel Muammar Khaddafi. In Central Africa, the Economic Community of Central African States was established in 1983 to merge two pre-existing organisations. It has appeared unable to fulfil its stated mandate due to financial difficulties and political tensions between member states. Since 2002, the organisation has also tried to reinvent itself through its conversion into a regional organisation for conflict prevention and peace-keeping. The Inter-Governmental Authority for Development (IGAD) is also labeled a building block for the establishment of the AEC. IGAD dates back to the establishment, in 1986, of a loose structure, the Inter-Governmental Authority on Drought and Development (IGADD) Which was due to promote food security and environmental protection in the Horn, but tensions among

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3 Art. 88 of Treaty. The only protocol to the Treaty that has so far been “finalized, adopted or ratified by member-states” is the Protocol on the relationship between the AEC and the regional communities; Economic Commission for Africa, Assessing Regional Economic Integration, Addis Ababa: ECA Policy Research Unit, 2004, p. 30.
4 The ex-Belgian colonies belong to the Communauté Economique des Pays des Grands Lacs (CEGPL) while former French territories (along with Equatorial Guinea) are regrouped within the Communauté Economique et Monétaire d’Afrique Centrale (CEMAC).
its member states and in the region meant that little had been achieved when it was transformed into IGAD in 1996. Since then, IGAD has acquired some clout as a regional forum and an interface for EU, US, and AU peace initiatives in the Horn and the Sudan. IGAD’s inclusion among the key ‘building blocks’ of AEC reflects therefore more on political rather than economic achievements.

ECOWAS is one of the more successful sub-regional IGOs on the continent. Since its establishment in 1975, significant progress has been monitored in areas such as institution-building and the emergence of a sub-regional consciousness that straddles over the francophone-anglophone divide. The ECOWAS Secretariat can also claim significant achievements with respect to the harmonisation of norms and the improvement of regional transport and communication infrastructures. (Bach 2004: 69-92) ECOWAS, however, has so far failed to meet its stated goals in the field of sub-regional economic integration. Member states still do not apply the provisions of the revised Cotonou Treaty (1993) instituting the principle of supranationality and key protocols pertaining to free movement of goods and persons are casually contravened. In accordance with the trade liberalisation program re-launched on 1st January 1990, a Customs Union should have been established by 31st December 1999. By 2004, all countries were yet to adhere to the much more modest objective of establishing a Free Trade Area. The ECOWAS program towards the creation of a single monetary zone has similarly been delayed since its initial conception in 1975. In December 1999, ECOWAS Authority of Heads of States launched a “fast track” program towards economic and monetary integration. A Nigeria-Ghana sponsored initiative then led (December 2000) to the adoption of the agreement and statutes for a West African Monetary Zone (WAMZ). Six out of the eight member states of ECOWAS (Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone) are expected to establish their own WAMZ as a step towards a merger with the francophone Union Economique et Monétaire Ouest Africaine (UEMOA). Due to insufficient macro-economic convergence and financial discipline, the establishment of the WAMZ has had to be postponed several times already. Macro-economic convergence has not progressed as anticipated and the original target of 2002 for establishing the non-UEMOA monetary zone had to be postponed to July 2005. Another adjournment of this deadline was announced a few weeks ago, while deeper interrogations keep being cast over the merit and feasibility of the whole exercise5. More generally, political instability within the region makes the launching of an autonomous and sustainable

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ECOWAS monetary policy highly improbable in the near future. Indeed, since the 1990s, the regionalisation of war and instability in West Africa has *de facto* gained preponderance over socio-economic and financial agendas. ECOWAS is nowadays more famous for its attempts to establish, through the permanent mechanisms, a collective security system, than for its record in the field of economic integration.

In East and Southern Africa, trade liberalisation within COMESA may be described as partly successful since nine out of the 20 member states formally agreed to meet the 2000 deadline for the creation of an FTA\(^6\). A key member state, Tanzania, however chose to pull out from COMESA and extension of the FTA to all the other COMESA members has continually been postponed. SADC’s contribution to the creation of an integrated sub-regional space has been even more disappointing, a reflection on its initial establishment as a forum essentially geared towards the capture and coordination of international aid to infrastructural projects. Although SADC’s commitment to economic integration dates back to 1992, it was only in March 2001 that an extraordinary summit recommended concrete steps for a conversion of scattered SADC institutions into a more cohesive entity. Restructuring is expected to involve the clustering of the 21 SADC sectors into four directorates located within the Gaberone Secretariat, as well as the establishment of SADC National Committees to help diversify inputs on the formulation of SADC policies. The formation of SADC’s own FTA, originally scheduled for 2008, is not expected to take place before 2012.

Southern Africa Development Community was initially established as a ‘Coordination Conference’ (SADCC) in 1980, to counter South African plans towards the establishment of the Constellation of Southern African States (CONSAS). During the subsequent decade, SADCC maximised international donor support to the region, but failed in countering South Africa’s magnetic pull – a combination of destabilising military incursions, economic preponderance and control of infrastructures and communications. The SADC Treaty of Windhoek signed in 1992 was viewed as a new departure since it emphasised integration and prepared for South Africa’s membership that became effective in 1994. It then took almost a decade before the SADC extraordinary summit of March 2001 recommended concrete steps for a transformation of SADC multilateral framework into a structure tailored to promote integration as opposed to policy co-ordination. In July 1996, SADC Heads of State decided to launch a specific Organ for Defence, Politics and Security Co-operation, but this became a source of deep polarisation. SADC initiatives in the field of peace and security are emblematic of the fallacy of collective security so long as shared interests are not identified.

It is still unclear why so much significance is being conferred by the AU and its members to the few regional economic groupings that are labelled

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\(^6\) The nine member states of the FTA are Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe.
Monitoring Regional Integration in Southern Africa

as 'regional economic communities' (RECs). The list does not coincide with Africa's five regions and excludes the regional organisations (SACU, UEMOA, CEMAC) within which economic integration is most advanced. The AU's labelling process has become deeply politicised due to what may be described as the politics of pre-eminence and pre-emption. As the rationalising of overlapping memberships and interactions between sub-regional groupings remains much talked about, REC status seems to be viewed as a passport for survival and legitimacy. Since the emerging landscape does not address the issue of multiple memberships, RECs generate an additional layer of confusion. The decision of the AU to extend REC status to the East African Community in July 2005, does not augur well for the urgent need to reconcile rhetorics with commitment.

Integration through Hysteresis

The heuristic value of the notion of hysteresis is particularly relevant to the analysis of regional integration in Africa. Throughout the colonial period, inter-territorial coordination was tailored to suit the requirements of imperial systems. Integrated policies encouraged linkages with metropolitan centres and endorsed the delimitations of inter-imperial boundary-lines. Regionalism was underscored by the assumption that economic self-sufficiency and imperial preference should prevail over territorial proximity or trade liberalisation erga omnes. By 1970, a number of inter-territorial arrangements survived across the continent, but Nigeria was the only federation that had managed to overcome the challenge of balkanisation. Sub-Saharan Africa was much more fragmented politically than under European rule. Whether inter-territorial arrangements survived or not, hysteresis remains a significant element in the representation, interpretation and reorientation of regionalism in present day Africa.

The CFA zone is a monetary union of 14 member states plus the Comoros that was established before the second world war, and reorganised after independence, in 1972-1973. Intra-regional monetary integration is ensured through two regional central banks, the Banque centrale des Etats de l'Afrique de l'Ouest (BCEAO) and the Banque des Etats d'Afrique Centrale (BEAC). These operate on a parallel basis and issue their separate currencies which are freely convertible on a one-to-one basis through the inter-banking system. The CFA is pegged to the euro at a fixed parity, but its convertibility is exclusively guaranteed by the French Treasury. In West and Central Africa, the CFA currency zone also acts as the linchpin of UEMOA and CEMAC, both established in the wake of the January 1994 devaluation of the CFA. UEMOA has been facing serious difficulties since 2002. That year, the first phase of UEMOA's program of macro-economic convergence had to be postponed by another three years. Trade liberalisation also remains hampered by road blocks, administrative harassment and, since September 2002 the spill over effects of the fighting in Côte d'Ivoire.

Over a decade after the transformation of CEAO into UEMOA, intra-regional trade still accounts for less than 10 percent of its member states'
Integration through Hysteresis

total external trade. Trade liberalisation, which was due to be effective 1st January 2000, has been seriously hampered by roadblocks, administrative harassment and, since September 2002, the spillover effects of the fighting in Côte d’Ivoire. Implementation of the Pact of Convergence, Stability and Solidarity (PCSS) has also had to be postponed until January 2006. Due to the war in Côte d’Ivoire and tensions between Côte d’Ivoire and Burkina Faso, UEMOA seemed to owe its survival to France’s ongoing support and monetary endorsement. These have enabled the CFA zone to do away with the short-term implications of the crisis in Côte d’Ivoire, but this not the same for the earlier ambitions to transform UEMOA into “a sub-regional hub comprising the Côte d’Ivoire and Senegal, with a rim comprising the other African members” (Fine & Yeo 1997: 452). Côte d’Ivoire is still the key economy within UEMOA (with 38 percent of its total GDP in 2003), but war, insecurity and the xenophobic slant of ‘ivoirité’ now invite landlocked Niger, Mali and Burkina Faso to seek alternative import-export routes and disentangle their economies from that of their unstable neighbour.

Besides the CFA currency zone, the only other case of regional economic integration that involves transfers of sovereignty is to be found in Southern Africa, where integration within the Southern African Customs Union/ Common Monetary Area (SACU/CMA) is organised around a customs union and a common currency, the Rand. Integration within SACU proceeds from a common external tariff, the free circulation of goods and services (but not labour) and de facto reliance on a common monetary base. SACU can claim to be the oldest customs union in the world for its origins can be traced back to agreements signed in 1889 and superseded in 1910 by the common customs area between South Africa and the three High Commission Territories (HCTs) of Basutoland (Lesotho), Bechuanaland (Botswana) and Swaziland. SACU presently involves a Common External Tariff (CET), the free circulation of goods and services, compensatory mechanisms (based on a common revenue pool and sharing formula) and a common currency base. The revised SACU agreement of 2002 also provides for the establishment of an independent secretariat, a dispute settlement mechanism and common policies on industrial development, agriculture, competition and unfair trade practices. The intensity of trade, migration and investment flows within the customs union also reflects on the longstanding integration of the BLNS economies into that of South Africa.

The first negotiation of the SACU agreement in which the BLS could act as contracting parties was concluded in 1969. The agreement preserved the customs union while asserting new developmental ambitions through the establishment of infant industries protection to the benefit of the BLS and a substantial increase in their share of the customs revenue pool. Due to an apparently more efficient preparation of BLS negotiators to the technical aspects of revenue sharing, the BLS negotiators found themselves in a much stronger bargaining position than they anticipated. They secured a substantial increase of the revenues of the BLS through the addition to the formula of a compensation factor of 42 percent that was rationalised
as a “surchage ...intended to compensate member countries for alleged
disadvantages resulting from the price raising effects of the RSA’s [Republic
of South Africa’s] import control measures and industrial protection policies”
(Red Republic of South Africa RP 34/1987: 357). The compensation factor was
also meant to counter loss of revenue for polarised economic development
in favour of South Africa and “loss of fiscal discretion by member-states
as a result of their obligation to follow the RSA’s customs and excise
legislation”(ibid). In plain language, what was at stake was their consent
to an ongoing delegation of their sovereignty to South Africa’s white-
rulled government. Since this issue was sensitive, it was endorsed in the
secret memorandum of understanding that complemented the published
agreement. South Africa’s interactions with the BLS shifted from imperial
t control over their external trade towards an international regime of
hegemonic domination. South Africa still dominated SACU, which had no
permanent secretariat and relied exclusively on the South African Board of
Trade and Industry for its administration (McCarthy 1992: 5-24). Customs
pool revenues were also paid into the Consolidated Revenue Fund of South
Africa at the South African Reserve Bank. Domination also went along with
legitimacy since an international agreement entitled Pretoria to determine
the customs policy of the union on behalf of its members.

The experience of the 1969 SACU agreement set a precedent for the re-
negotiation of currency and banking arrangements between the BLS and
South Africa. The establishment of SACU in 1910 had gone along with
the use of the pound sterling, and later the Rand, as the sole currency in
circulation between South Africa and the BLS. The integration of the BLS
into South Africa’s monetary system was then informal, comprehensive
and entirely controlled by South Africa. Incorporation within the Rand zone
involved no formal agreement. Whenever the Republic of South Africa took
decisions on monetary issues, they automatically extended to the BLS
countries. Following renegotiations, a formal agreement establishing the
Rand Monetary Area (RMA) between South Africa, Lesotho and Swaziland
(Botswana had by then decided to set up its own central bank) was signed
in 1974. It agreed to maintain the Rand as legal tender while providing for
the coexistence of national currencies (the lilangeni and the maloti) backed
by South African government stocks and Rand deposits at the South African
Reserve Bank (Goedhuys 1982:19). SARB had exclusive control over the
management of the gold and foreign exchange reserves of the monetary
area. South Africa retained full powers to define unilaterally the monetary
policies of the RMA, including exchange controls and financial obligations
that automatically extended to Lesotho and Swaziland.

The RMA, sometimes presented as a situation of “nominal independence”
(ibid:20) of Lesotho and Swaziland in the field of currency, was replaced
in 1986 by a hegemonic regime, the Common Monetary Area (CMA). The
CMA amounts to a de facto monetary union, based on a series of bilateral
and trilateral agreements with South Africa. On 6 February 1992, Namibia
officially joined the CMA, known since then as the Multilateral Monetary
Integration through Hysteresis

The MMA provides for the free circulation of funds within the monetary area (with limited exceptions) and entitles Lesotho, Namibia, and Swaziland (LNS) to have access to South Africa’s capital and money markets. The LNS are also entitled to issue their own currencies which are pegged to and at par with the South African Rand. Banknotes issued by LNS are also freely convertible into rands. The administration of the MMA departs from the institutionalised hegemonic features associated with the RMA in so far as it is entrusted to an inter-governmental institution, the Common Monetary Area Commission, that includes ex officio representatives of each member state and takes its decisions by consensus. South Africa’s decisive influence over the modus operandi of the MMA is more informal but remains unquestionable. It is built into the bilateral monetary agreements signed between South Africa and each of the LNS. The MMA also confers to South Africa a controlling influence over the policies pursued by member states. Although each is responsible for its monetary policy, their ability to take autonomous courses of action is constrained since “...by pegging their currencies to the rand, monetary stability and macroeconomic environment for growth in [the] LNS hinge on the policies pursued by the South African Reserve Bank” (WTO WT/TPR/S/114. 2003: 12)

The 1969 SACU Agreement required South Africa to offer “adequate opportunity” to the BLS for consultation “before imposing, amending or abrogating any customs duty”. This, however, did not mean that South Africa had to take into account BLS interest. In effect, lack of consultation seems to have been the norm until the early 1990s (Kumar, 1992:3) The developmental objectives asserted in the 1969 agreement had not materialised either as unregulated competition from South African industries and incentives went along with incentives towards the establishment of industries in the homelands. SACU had also become highly politicised when South Africa decided to confer political independence to Transkei (1976), Bophuthatswana (1977), Venda (1979) and Ciskei (1981) and extend to these the terms of the SACU agreement. SACU nonetheless survived because the BLS countries were unwilling to renounce to the substantial revenues they derived from the new formula7 (Mwase & Maasdorp, 1999:209). By 1990/91, remittances from the Common revenue pool still represented a decisive share of the current government revenues in Lesotho (57.7 percent), Swaziland (32 percent) and Namibia (43.8 percent) (ibid, 1999:214; Lundahl & Petersson 1991:53-54; Isaksen 1992). Meanwhile, in South Africa, whenever doubts were cast on the economic benefits of SACU, they were obfuscated by political considerations – the agreement, it was argued, kept the BLS closely tied economically and demonstrated South Africa’s readiness to ‘cooperate’ with its ‘black’

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7 During the first two years (1968/69-1969/70), revenues from the common customs pool had respectively jumped by 200.6 percent (Botswana), 156.4 per cent (Lesotho) and 189.1 percent (Swaziland); as computed by Ngila Mwase & Gavin Maasdorp 1999.
neighbours. As prospects for political change in South Africa began to speed up, the dissolution of SACU was no longer excluded. In August 1993, however, earlier intimations of a radical reappraisal were publicly abandoned as South Africa agreed to a round of renegotiation that what was finally launched in November 1994. It would take almost a decade for the new SACU agreement, signed in 2002 after eight years of on and off negotiations, to come in force on 15 July 2004.

SACU’s 2002 agreement claims to address what was widely perceived to be an historical anomaly, namely South Africa’s unilateral control over policy-making and management of SACU (Hansohm et.al, 2004:158-197). An inter-governmental institution, the Council of Ministers, is now entrusted with the formulation and conduct of the policies of the customs union; including with respect to international trade negotiations, an unprecedented situation in Africa. Decisions are to be adopted by consensus, a pattern that imposes new constraints on South Africa: each of the BLNS now has in effect a veto power that may be only overruled by a majority ruling of the tribunal, the highest institution of SACU. The shift from exclusive control towards joint decision-making also involves the transfer of South Africa’s administrative management tasks to new institutions, *inter alia* a secretariat based in Windhoek, a Customs Union Commission, a Tariff Board (an independent institution consisting of experts who send recommendation to the Council) and for Technical Liaison Committees (on agriculture, customs, trade & industry, transport). National bodies are also established within each of the BLNS.

Revenue sharing continues to be the linchpin of SACU, but South Africa’s share in the revenue distribution formula is now explicitly taken into account and no longer treated as residual to the revenues distributed to the BLNS countries. At least in the short run, revenue stability is guaranteed through a redistribution of the pooled customs revenues that is proportional to the share of each country in total intra-SACU imports. An important departure from the 1969 redistribution formula concerns the treatment of excise duties, still collected by the customs pool and at a uniform rate across SACU, but redistributed in accordance with the share of each member state in the GDP of the Union, but for 15 percent of the total duties levied.(McCarthy 2004: 166-167) This percentage, earmarked as the ‘development component’ of the revenue-sharing formula, may be altered in the future since it is also meant to alleviate the adverse impact of trade liberalisation on the customs pool revenues. (WTO, Trade Policy Review) The introduction of

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8 In 1987, the so-called Margo Commission on tax reform in South Africa predicted that “the non-economic and non-financial arguments will ultimately be vital in determining whether it [SACU] will survive and whether the agreement should be amended”. The Commission also depicted the Customs Union as “a comprehensive programme of unconditional assistance by the RSA, extended without reference to the usual criteria or norms applying internationally”; Republic of South Africa, Report of the Commission of Inquiry, pp.360 and 362.

9 Unlike customs duties, excise duties (tobacco, alcohol, fuel, luxury products) are a progressive tax that represents for South Africa an important tool to finance social expenditure.
Integration through Hysteresis

A development component goes along with pledges towards the definition of ‘common policies’ especially with respect to industrial development, agriculture, competition policies, and unfair trade practices. SACU offers one of the rare instances where regionalism as a project combines with effective economic and financial integration.

Regionalisation through Hegemonic Control

Regionalisation through hegemonic control by a core state still provides the only instances where African regionalism is associated with transfers of sovereignty that are both legally-endorsed and effectively implemented. In all cases, integration is institutionally guaranteed by a core state as opposed to a supranational institution. The guarantees are also and most significantly formally endorsed by decision-making structures. Integration through a core state refers accordingly to a pattern of de facto interactions as much as to a de jure status. Sovereignty pooling also proceeds in all these cases from the survival of patterns of domination and regulation inherited from the colonial period. In Southern Africa, integration within SACU is organised around a customs union and a de facto common currency. South Africa’s interactions with SACU feature as the core of its deeply asymmetrical interactions with the southern African sub-region. South Africa’s interactions with southern Africa through the promotion of corridors and triangles of growth are equally vocative of such a pattern. The investment strategies pursued by South African conglomerates in southern Africa also illustrate an unusual phenomenon in Africa, namely the congruence of regionalism with regionalisation.

In West and Central Africa, the CFA zone provides the other working instances of integration through hegemonic control, this time due to the hegemonic domination and leadership exerted by an extra-regional player, France.

Conclusion

Regionalism is of key significance in the conduct of international relations among African states, although its practice seldom involves the build up of integrated or common policies. This is only the case when, as illustrated by the CFA currency zone or SACU, integration proceeds through hysteresis and combines with hegemonic domination. The philosophy behind SACU’s 2002 agreement represents an attempt to break away from this pattern through the establishment of innovative institutional architecture. The new agreement postulates the emergence of a new culture, based on consensus building, along with the establishment of new administrative organs within the BLNS. At regional level, the agreement prescribes the establishment of a mix of regional inter-governmental (Council of Ministers, Technical Liaison Committees), autonomous (independent Tariff Board, Commission) and supranational (Tribunal) organs that restrain South Africa’s previously exclusive domination. This poses a real challenge for the BLNS which are
now expected to establish new organs, define negotiation agendas and, most importantly, monitor on-the-spot intra-regional transborder trade. The disappointing track-record of Africa’s regional IGOs with respect to trade liberalisation, macro-economic convergence and the implementation of common agendas, should be a powerful reminder that capacity-building and cohesiveness depend upon member states’ will and capacity to undertake the domestic transcription, legitimation and enforcement of stated commitments. Within SACU, success or failure of institution-building within weaker member states will shape their ability to take advantage of the opportunities offered by the 2002 agreement. This will in turn contribute to promote a sense of common ownership vis-a-vis SACU, a key issue for a grouping that is yet to adopt a shared strategic vision of its priorities and policy-agendas. This is not the least of paradoxes for one of the world’s most integrated regional clusters besides the EU.

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Integration through Common Policy: Challenges for Industrial Policy in SACU

Colin McCarthy and Dirk Hansohm

Introduction

Customs unions are a form of deep economic integration, defined by having a common external tariff (CET). The Southern African Customs Union (SACU) with four small members (Botswana, Lesotho, Namibia, Swaziland [BLNS]) and South Africa, in existence since 1905, is the world’s oldest customs union and arguably the most successful scheme of regional integration (RI) in sub-Saharan Africa (SSA). Although SACU is hardly replicable due to its very specific historical origin, it may serve as a model for RI. Although RI features prominently in political rhetoric, many schemes of RI in the developing world have not much to show until now. SACU is an exception and is regarded by many as a possible core for economic RI of the larger southern Africa.

Unexpectedly for most observers, SACU has survived the independence of its smaller members, the processes of democratisation and of transformation of South Africa in 1994. In an eight year long process (1994-2002), the SACU agreement of 1969 was renegotiated and replaced by the agreement of 2002 (SACUA 2002). This agreement transformed SACU from a body administered unilaterally by South Africa (with compensation for the smaller members) to an independent institution with equal partners.

The key challenge of the new SACU is to show its ability to manage the different interests of the small countries (BLNS) and the comparative giant, South Africa. The new agreement implies a substantial redefinition of the institution and establishes a number of common institutions and common policies. These are ambitious aims. Experience elsewhere has shown that ‘although policy integration offers scope for considerable gains, great political and technical efforts are required to achieve it’ (Schiff and Winters 2003: 183). Because of this, the authors advise that ‘developing country governments should not casually assume that policy integration will automatically generate big welfare gains: unless they invest heavily in it, policy integration will evade them.’

A particular instrument envisaged to contribute to balanced development within SACU is a common industry policy. In Article 38 of the agreement, the member states ‘agree to develop common policies and strategies with respect to industrial development’. An understanding of industrial policy is important for the successful operation of SACU. It not only features prominently in the new agreement but would in the end also provide the framework for the operation of a customs union of developing but economically disparate member countries. However, SACUA2002 is often described as a ‘framework agreement’, which refers to the fact that
it merely lays down the broad elements or outline of the agreement and in this sense is rather vague on the specific detail that is required in managing a customs union. The detail must still be added to the framework to create the operational agreement. The legal means, by which the details are to be added, are annexes that will spell out the operational detail on aspects of the framework agreement. Clearly, the issue of industrial policy will have to be covered by an appropriate annexure. The objective of this paper is to highlight the need for an appreciation of the importance of common industrial policies and to point to some strategic elements that will have to be dealt with in drafting such an annexure.

**Heterogeneity of SACU Membership**

It is a challenge to develop common policies as the participating economies are not only of extremely different size (Table 1), but also are at different levels of development (Tables 2 and 3). With the exception of Botswana, all the small countries have per capita incomes that are significantly lower than that of South Africa.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>1.7</td>
<td>6</td>
<td>4.7</td>
</tr>
<tr>
<td>Lesotho</td>
<td>1.8</td>
<td>1</td>
<td>3.4</td>
</tr>
<tr>
<td>Namibia</td>
<td>2.0</td>
<td>4</td>
<td>3.7</td>
</tr>
<tr>
<td>Swaziland</td>
<td>1.1</td>
<td>1</td>
<td>2.8</td>
</tr>
<tr>
<td>South Africa</td>
<td>45.3</td>
<td>126</td>
<td>2.3</td>
</tr>
</tbody>
</table>

*Table 1 The Size of the SACU Economies in Comparison*

*Source: World Bank (2004)*

Although the long term growth rates of BLNS have been higher than those of South Africa (Table 1), the growth rate differences are not high enough to close the gap in a reasonable time frame. While the health and education indicators are only slightly higher in South Africa, poverty is much more prevalent in BLNS.
<table>
<thead>
<tr>
<th>Country</th>
<th>Per capita income (US$, 2003)</th>
<th>Life expectancy at birth (years, 2002)</th>
<th>Adult literacy rate (%; 15 and above, 2002)</th>
<th>Population below US$1 per day (%)</th>
<th>Inequality (Gini index)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>3430</td>
<td>38</td>
<td>79</td>
<td>23.5</td>
<td>63.0</td>
</tr>
<tr>
<td>Lesotho</td>
<td>590</td>
<td>38</td>
<td>81</td>
<td>36.4</td>
<td>63.2</td>
</tr>
<tr>
<td>Namibia</td>
<td>1870</td>
<td>42</td>
<td>83</td>
<td>34.9</td>
<td>70.7</td>
</tr>
<tr>
<td>Swaziland</td>
<td>1350</td>
<td>44</td>
<td>81</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>2780</td>
<td>46</td>
<td>86</td>
<td>7.1</td>
<td>59.3</td>
</tr>
</tbody>
</table>

*Table 2 Levels of Development of the SACU economies*

*Source: World Bank (2004)*

The economic structure of BLNS is also very different from that of South Africa (Table 3). With the exception of Botswana, agriculture is still much more important in BLNS. While Botswana and Lesotho have built up significant manufacturing output, their future is uncertain due to erosion of preferences. South Africa’s industrial sector is, in contrast, much more diversified.

<table>
<thead>
<tr>
<th>Country</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>2</td>
<td>48</td>
<td>50</td>
</tr>
<tr>
<td>Lesotho</td>
<td>16</td>
<td>42</td>
<td>42</td>
</tr>
<tr>
<td>Namibia</td>
<td>10</td>
<td>31</td>
<td>59</td>
</tr>
<tr>
<td>Swaziland</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>South Africa</td>
<td>4</td>
<td>31</td>
<td>65</td>
</tr>
</tbody>
</table>

*Table 3 Economic Structure of SACU Economies (Value Added as % of GDP)*

*Source: World Bank (2004)*

A first tentative assessment of the agreement by Hartzenberg (2004) in Vol.2 of this Yearbook was cautiously positive and regarded it ‘as a very positive step in the spirit of rules-based and potentially more democratic dispensations in international trade’ (186). In Volume 4 of this Yearbook (2004) SACUA2002 was reviewed with respect to its prospects and the challenges it faces (McCarthy 2004). In that paper it was concluded that “(T)he question whether SACUA2002 will be better placed to encourage balanced industrial development is difficult to answer, partly because it is not clear what the SACU members understand under ‘common industrial policies’” (2004: 177).
The story told in this paper is based on the fact that the SACU member states have committed themselves to the development on common industrial policies. It is our contention that this commitment is a logical requirement of customs union membership. In the paper emphasis is placed on the role of the import tariff as an instrument of industrial policy and it is impossible to conceive of a customs union, defined as such by the common external tariff it has, in which member states have divergent industrial policies. It will be argued that since its inception industrial policy and the use of the tariff as an instrument have been dictated by South African industrial policy, but under the new agreement the situation has changed fundamentally. Changes in the tariff have now become a SACU issue to be decided on by all member states. Under the new dispensation all member states, South Africa included, sacrifice their sovereignty as individual states over tariff decisions to collective decision making.

**Definition of Industrial Policy**

What does the term “industrial policy” mean? This is one of those popular concepts that is widely used in discussions on economic development but on closer analysis proves difficult to define precisely. This has prompted one of the authorities on the subject to observe, with reference to the debate on industrial policy during the 1970s and the 1980s, that a problem “was that even the people in the same camp in the debate, not to speak of those who belonged to different camps, could not agree on a definition of industrial policy” (Chang, 1997: 3). In the course of this paper it will become clear that one of the daunting obstacles facing the new SACU agreement and its implementation is the fact that the architects of the agreement require the development of common industrial policies by member states without a clear and precise definition of industrial policy in place, let alone the implications of a commitment to develop common policies.

The proponents of an industrial policy oppose the neo-liberal emphasis on the efficiency of free markets in allocating resources and rather base their view on the structuralist approach, which has, in the words of Sanjaya Lall, “less faith in free markets as the driver of dynamic competitiveness and more in the ability of governments to mount interventions effectively” (Lall, 2004: 2). The structuralists readily admit that “markets are powerful forces”, but they argue that markets “are not perfect” and that “government interventions are needed to improve on market outcomes” (Lall, 2004:2). Markets are important, but a greater reliance on markets does not preclude active intervention by government to improve economic growth and development through industrialisation.

Differences in the definition of industrial policy are obviously reflected in the content found in designs of industrial policy. In this respect two strands in variation can be identified. The first concerns the spread across economic sectors regarded as the target of industrial policy. Two broad views can be distinguished in this regard, one being the conventional narrow interpretation
that understands the manufacturing sector to be the target of the policy, with faster absolute and relative manufacturing growth as the desired outcome of policy measures, while the second would have a wider perspective to include not only manufacturing but also growth in sectors such as services.

The second strand is a variation within the narrower, conventional sector approach that focuses on manufacturing growth. This strand distinguishes variations in the “hardness” or “narrowness” of industrial policy. Chang described these differences in the following way: “At the one extreme, there are those who define industrial policy very broadly and include in it every government policy that affects industrial performance, including even macroeconomic, infrastructural, and education policies. At the other extreme, there are those who define it very narrowly, and equate it essentially with a sector-specific ‘targeting’ exercise. In between, there are those who see the ‘core’ of industrial policy as targeting (or ‘selective’ or ‘sectoral’ industrial policy) but include other non-sector-specific policies (or ‘general’ or ‘functional’ industrial policy), such as generalised support for R&D or industrial training, in the definition” (Chang, 1997: 3).

To assess the meaning and implications of what SACUA2002 has to say about industrial policies, common ground on the definition of the policy has to be established. For the purposes of this paper the working definition of the World Bank is adopted. It describes industrial policy as “government efforts to alter industrial structure to promote productivity based growth” (quoted in Bora et.al., 2000: 1). This definition is sufficiently precise to serve the purpose of the story we wish to tell and allows some broad inferences. Firstly, industrial policy refers to interventionist action by governments. Secondly, it is a facet of applied microeconomic policy since it seeks to have an impact on the allocation of resources in the economy. Thirdly, the objective of the intervention is to re-allocate resources from less productive to more productive use. To these inferences may be added the general understanding that industrial policy has the ultimate objective of encouraging diversifying growth through industrialisation.

It should be noted that the broader approach to the definition of industrial policy is implied in the definition that is adopted, but with respect to sector coverage the emphasis on manufacturing growth and industrialisation means that the narrower, conventional approach is used. The reason for this is its applicability for a review of the SACU agreement’s commitment to industrial policy. The customs union is essentially the creation of a common market in goods and is to this end distinguished from a free trade area by the common external tariff (CET) on goods. An import tariff is a source of revenue but it is also an important instrument of industrial policy. It is when the latter function is considered that guidelines derived from the goals of industrial policy are required to manage the CET.
Managing Industrial Policy under the New Agreement

Part Eight of SACUA2002 provides for common policies, but only requires member states to develop common policies with respect to industrial development. For Agriculture and Competition the key requirement is co-operation, while for Unfair Trade Practices the Council is required to develop policies and instruments. Article 38.1 requires member states to “recognise the importance of balanced industrial development for the Common Customs Area (CCA) as an important objective for economic development” and then to affect this, the agreement proceeds in Article 38.2 to record that “member states agree to develop common policies and strategies with respect to industrial development”.

It needs to be emphasised that common industrial policies and strategies for member states translate into a common industrial policy and industrial strategy for the customs union. This theme of a common industrial policy needs to be pursued further in search of answers to the many challenges this will pose to a customs union of member states that could have totally different views on what the most appropriate industrial policy should be, be it what goals to adopt, the degree of intervention, or the instruments to be used.

Since the balanced development of the CCA is recognised as an important objective it can furthermore be assumed that the policies will be expected to favour industrial growth in the lesser-developed member states. In this respect cognisance has to be taken of the provision in Article 26 for infant industry protection in BLNS. However, the emphasis on the need for “common policies” indicates that the spectrum of intervention includes more than the temporary levying of additional duties to protect domestic infant industries against competition of imports from the rest of the CCA.

The menu of industrial policy instruments is long and varied, and can include anything from fiscal measures (alluded to earlier in the hypothetical example of note 1) to direct and indirect subsidies aimed at factor markets (capital and labour markets), as well as differentiated public utility prices and the selective provision of infrastructure. Trade policy instruments, such as the import tariff, will form part of the array of instruments that could be

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1 However, this does not mean that member states must, apart from the common external tariff, have similar industrial policy instruments in place. A hypothetical example will illustrate the existence of common customs union objectives in juxtaposition with different national policy instruments. If for the sake of balanced regional development the BLNS countries have incentives that encourage industrial location in these countries, it will not serve the purposes of a common industrial policy if South Africa likewise has location incentives that will neutralise the impact of the BLNS incentives. Recalling the decentralisation policies of the apartheid government and the generous incentives offered to firms that locate in the then homelands illustrates the point that policy instruments used in one country can neutralise the instruments used in another member of the common market.
aimed at industrial development. In fact, in the past the import tariff has been diligently used to encourage industrial development in SACU, South Africa specifically, as will be argued below. However, the import tariff and its variation in all possible manifestations - such as the amendment of the tariff in general or amendments in the negotiation of preferential trading arrangements, the implementation of special import duties as a trade remedy or the use of tariff rebates on a selective basis - remains the only instrument that the SACU institutions on a supranational level have available to direct industrial policy.

But having this instrument available at supranational level illustrates the importance of agreeing on a common industrial policy and raises the question of the guidelines that should be used in the management of the tariff. Decisions on the import tariff are not taken in a policy vacuum but should pro-actively be linked to the achievement of specific objectives, which in turn will be derived from the government’s industrial development policy. The importance of this issue can be illustrated by comparing the management of the common external tariff (CET) under the 1969 SACU Agreement (SACUA1969) with the envisaged management of the tariff under SACUA2002.

Under SACUA1969 an industry or firm submitted a tariff amendment application to South Africa’s International Trade Administration Commission (ITAC), whose investigators used information required from and submitted by applicants to conduct an investigation and prepare a report with a proposal for consideration by the Commission. A decision by ITAC to recommend the amendment of a tariff was submitted to the (South African) Minister of Trade and Industry for his or her approval and subsequent implementation by the Minister of Finance. This then became the SACU tariff.

The important point to grasp is that the relevant tariff investigations were conducted with a particular policy framework and industrial development objectives in mind. The latter provided the guidelines to be adopted in investigations and in the consideration of proposals. In those cases where BLNS industries are of a considerable size (fish, beef, grain milling and sugar come to mind as examples) their position would be taken into consideration in the tariff investigations. However, the predominant position is that South African trade and industrial policy serves as the source of investigative guidelines and recommendations. Also, virtually all applications for tariff amendments have been submitted by South African domiciled industries.

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2 In the literature and in policy discussions, trade and industrial policy is often mentioned as a single entity. Both policies aim to influence factor allocation through their impact on factor and product prices. Trade policy is distinguished from industrial policy in referring to those measures that impact on prices at the border of a country, or in the case of a customs union’s tariff at the border of the common customs area, while industrial policy will refer to all other measures that impact on prices within the borders of the economy. Trade and industrial policy can, therefore, not be presented as separate policy thrusts and in this sense the tariff can be seen as an instrument of industrial policy, defined as selective intervention by government to influence the allocation of resources.
In practice and in principle ITAC and its predecessors (first the Board on Trade and Industry and subsequently ITAC’s immediate predecessor, the Board on Tariffs and Trade) have acted as the legal entities mandated to implement the trade and industrial policy of the South African government.

Under SACUA2002, tariff amendment applications are to be submitted to and investigated by the National Bodies of the member states (provided for in Article 14), who will then submit recommendations on tariff changes, if necessary, to the Tariff Board of SACU (provided for in Article 11), who in turn will make recommendations to the Council of Ministers (provided for in Article 8), which will be the supreme governing body of SACU. Article 14 (2) also determines that “National Bodies will study, investigate and determine the impact of tariffs within respective member states and periodically propose such changes as may be deemed necessary and make recommendations to the Commission through the Secretariat”3.

In their deliberations and recommendations National Bodies, the Tariff Board, the Council and the Dispute Settlement Body will have to work on the basis of a set of common policy guidelines, derived from common industrial development policies that will have to “recognise the importance of balanced industrial development of the Common Customs Area as an important objective for economic development” (Article 38(1)). The problem is that SACU member states do not have a collective view of industrial development policy in general and perhaps least of all how such a policy should support development strategies aimed at balanced regional development. Furthermore, although Article 38(2) commits the member states to the development of common industrial development policies, this is a process that could take time, which means that the National Bodies, Tariff Board, the Council and the Dispute Settlement Tribunal initially will have to manage the common external tariff and trade remedies and settle disputes that may arise without the aid of a set of guidelines derived from a common policy stance on industrial development.

Above, the practice of tariff amendments under SACUA1969 described the process in the past tense. This requires some explanation and qualification. SACUA2002 came into operation in July 2004, which means that SACUA1969 is past history. But the customs union institutions required to manage the agreement have to date not yet been established. Notable institutions in this respect are the Tariff Board that, as described above, will consider tariff amendments and make recommendations on these to the Council of Ministers, which exists ipso facto. National Bodies for BLNS, provided for in Article 14 and without which SACU2002 cannot operate meaningfully, are also still absent. These bodies still have to be established and given their absence the Council of Ministers requested ITAC, although the National Body of South Africa under SACUA2002, to carry on as before but with due consideration for the special needs of BLNS.

3 The “Commission” is the Customs Union Commission (provided for in Article 9) that consists of senior officials at the level of heads of government departments from each member state.
Challenges in Developing a Common Industrial Policy

Earlier, it was mentioned that the import tariff serves as a source of revenue and as an instrument of industrial policy. A first and critical challenge that will face SACU in its management is to reconcile the differences in emphasis that SACU members attach to the two roles of the tariff. The history of SACU and past experience clearly demonstrate that BLNS regard the tariff primarily as a source of revenue in contrast to South Africa that has viewed and consequently managed the CET under SACUA1969 as an instrument of industrial policy. Since the SACU Tariff Board has not yet been established, the current practice noted above is for the South African national body, ITAC, to remain the manager of the CET, which it does in terms of tariff policy guidelines that are derived from the objectives of South African trade and industrial policy.

South Africa has since 1994 followed a policy of tariff reduction, both through the liberalisation of the most favoured nation duty rates (the multilateral WTO approach) and the pursuance of free trade agreements (the bilateral approach) of which the conclusion of a free trade agreement with its major trading partner, the European Union, is the most prominent. The policy to lower import tariffs has resulted in a sharp decline in average rates, with the unweighted mean rate declining from 27.5 percent in 1990 to 9.5 percent in 1996 and 7.1 percent in 1999 (Lewis, 2001: 3). There can also be little doubt that South Africa is the driving force behind SACU’s free trade negotiations with the USA and Mercosur and the envisaged free trade negotiations with China and India.

Lowering the tariff is bound to have a negative impact on the size of the common customs revenue pool. Under the new revenue distribution mechanism, which removed the guaranteed minimum revenue rate of 17 percent for BLNS, the size of the customs pool becomes important for BLNS. It can be envisaged that this will be a source of tension in the management of the CET as an instrument of industrial policy. SACU members that consider revenue as of primary importance will be perturbed by the fall in the real value (calculated at constant 2000 prices) of customs revenue by 9.2 percent between 1995/96 and 1999/00 after having increased by 17.4 percent from 1990/91 to 1995/96⁴. Note will also be taken of the fall in the customs collection rate from an average of about 5.6 percent for 1990 and 1991 to about 4.2 percent for 1998 and 1999, a drop that can be ascribed to the lower average tariff and the extensive use of customs rebates by South Africa⁵.

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⁴ This is an estimate of changes in real value derived from deflating the nominal value of customs revenue (Republic of South Africa, 2001) by the price deflator for the South African gross domestic product (GDP) derived from published current and constant price values of the GDP (South African Reserve Bank, 2005).

⁵ The customs collection rate is the ration of customs revenue to the value of goods imports, i.e. imports of services excluded.
Having provisionally flagged the contentious issue that the tariff as a source of revenue can become, we now turn to the role of the tariff as an instrument of industrial policy.

It stands to reason that the first step towards common industrial policies will be to agree on a common set of objectives for such a policy, followed by agreement on the range and scope of the policy (for example, should SACU go for a hard or a soft approach to intervention), the policy instruments to be used and a system that will monitor progress with policy implementation. On these issues, the member states will not come to the table with clean slates. Each country has policies and measures in place and it will be important to review with the development of a common SACU industrial policy in mind. These policies may be general industrial policies, which are not aimed at specific industrial sectors but at the correction of market imperfections in general. Such policies could be aimed at factors of production, for example, labour market policies and policies that seek to make financial markets more effective. General industrial policies can also be related to firm size, for example, support for small and medium sized firms. They can also focus on regions, aiming to foster development in lagging regions. At this point, it may be useful to reflect on the CCA as a single market and that general industrial policies within this area could be policies aimed at the faster development of the smaller SACU member states.

Sectoral policies could, as noted earlier, have a more targeted approach, which will require appropriate guidelines and may exist to select industries for special benefits. These could be labour-intensive industries like clothing and textiles that are seen as an entry point for the industrialisation of developing countries, or they can be industries higher up on the technology scale that experience the fastest growth in export markets. However, sector targeting requires an intensive degree of pro-active government intervention in the form of policy design and implementation and if this is considered for application to the CCA, the demands it will place on supranational management, inter-government cooperation and institutional capacity preclude this as a realistic policy option.

In considering a common approach to industrial policy the different levels of economic development and size, as well as the development experience so far, of SACU member states are likely to be a daunting stumbling block. The differences between South Africa and BLNS are well known and need not detain us at length. A moment’s consideration of, for example, the demands on the development of infrastructure for a customs union of five members of which three are landlocked, the substantial differences in the composition of industrial production between South Africa and BLNS, as well as the differences in the composition of trade and manufacturers, the differences in the size distribution of industrial firms, and the vast differences in the labour and financial market conditions with their important influence on industrial development will suffice to reveal the complexity of designing common industrial policies for SACU members.
While these differences are bound to pose problems in the development of common industrial policies they simultaneously accentuate the challenge to achieve the goal expressed in SACUA2002 of encouraging balanced growth in the CCA. How does one address the problem of economic polarisation in a customs territory that is so comprehensively dominated by South Africa SACU? It is difficult to escape the view that if regional balance is to be taken seriously it will be necessary to have a regional industrial development policy for SACU, which will amongst others provide for the targeted provision of infrastructure as well as fiscal incentives to encourage industrial growth that may go further than the current provision for infant industry protection in BLNS. Experience has shown that it is difficult to implement a regional industrial development policy within a country suffering from a severe imbalance in the spatial distribution of economic activity. It will be even more difficult to design, implement and monitor regional policies in the integrated customs territory of five independent states. Furthermore, South Africa, the economic giant of SACU whose power of agglomeration in the CCA will have to be offset, has a larger number of absolutely poor citizens than the total population of BLNS and has its own domestic problem of gross inequality in the spatial distribution of economic activity. Consequently, designing common industrial policies incorporating a regional development policy for SACU will pose daunting challenges of a technical and political-economic nature.

Planning common industrial policies can also not ignore history since current industrial structures and practices have their origin in the past. Since 1925, successive South African governments have adopted import-substituting policies of industrial protection. The tariff was not the only and perhaps not even the most important instrument used in this regard. But it remains a fact that South Africa managed SACU and the CET as well as significant tariff rebates in a way that served its industrial development needs and goals. Tariff protection has welfare costs and in the context of a customs union this is reflected in trade diversion. For South Africa, the static impact of the tariff on welfare was compensated for by the dynamic consequence (i.e. a positive externality) of industrial development, while under SACU1969 the BLNS countries were compensated for trade diversion by enhanced revenue transfers. In addition to trade policy instruments, South Africa also implemented industrial policy measures aimed at regional development in line with the visions of Grand Apartheid and fiscal incentives to encourage the beneficiation of minerals through capital-intensive, large-scale investments. In an effort to neutralise the cost-increasing bias of industrial protection, export incentives came to be implemented. The last and very generous scheme was the General Export Incentive Scheme (GEIS), which was WTO unacceptable and therefore terminated.

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6 The arguments by the BLNS countries that they were not sufficiently compensated for being in a customs union with much larger South Africa were strenuously made. We do not wish to discuss that debate here, but merely wish to explain the logic of SACU1969.
Political democratisation and the removal of South Africa’s status as an isolated pariah in global markets brought with it a major change in policy. International competitiveness and trade liberalisation became the mantra of the new policy regime. Not only did this see the phasing out of GEIS, as was required by the WTO, but as noted earlier the MFN tariff was lowered significantly and trade liberalisation also sought through bilateral means.

Why are these developments important from the perspective of a common industrial policy for SACU? In the first place, cognisance has to be taken of the fact that South Africa has succeeded in building up a substantial manufacturing capacity through inward-looking policies of industrial protection. BLNS do not have that capacity and are now also curtailed in their ability to build such capacity with the aid of a significantly protective CET. By raising this point we do not wish to enter the debate on the relative merits of inward- and outward-looking development strategies. We merely wish to assert that BLNS do not have the choice. Their ability to build manufacturing capacity by encouraging industrial growth on the basis of production for the larger protected CCA has been constrained by the trade liberalisation initiated by South Africa.

This leaves an important question that needs to be addressed. How is the industrial development of the BLNS countries to benefit from trade liberalisation? Where do these economies fit into the broader picture of trade liberalisation? Will these economies benefit from cross-border investment by export-oriented South African firms who will be seeking lower costs of production to be more competitive in world markets, a question that will be addressed when labour markets are discussed below? But perhaps of greater importance to BLNS, Lesotho, Namibia and Lesotho in particular, is the impact that the erosion of the customs revenue pool by the reduction of the tariff will have on their sources of revenue.

Within the context of the declared intention of SACU2002 to encourage balanced development in SACU, discussed earlier, the tariff and the way it is dealt with under the agreement introduces a presumably unintended pincer situation in which BLNS could find themselves. The tariff, as noted earlier, together with the collection rate and the value and composition of imports, influences the size of the customs revenue pool. This is an important variable for BLNS fiscal planning. The lowering of the tariff and the use of extensive tariff rebates as an important element of South African policy to encourage industrial development has been discussed earlier. Add to the equation possible efforts by BLNS to encourage industrial growth by using the infant industry mechanism to protect their industries against competition from South African firms, or any other effort to protect BLNS producers over the spectrum of economic activities against competition from South

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7 This reminds one of the industrialised world that preaches trade liberalisation to developing countries in ignorance of the fact that they themselves have created their initial industrial capacities through protection. See in this respect Shafaeddin (1998).
African producers. The outcome of this will be an enhanced fall in revenue allocations from the customs revenue pool. The customs component of the revenue pool will be smaller and to the extent that protection against imports from South Africa succeeds, the fraction of the customs pool allocated to a smaller SACU member could decline. The latter follows because of the way in which the revenue distribution formula works. Each member’s percentage share of customs revenue in a given year is equal to the value of the member’s imports from other SACU countries as a percentage of total intra-SACU imports during that year. Should this share fall, the fraction of the customs revenue pool accruing to that member will fall.

Where can BLNS industrial growth come from? How can this be realised in the face of the strong agglomeration influences of having South Africa as a customs union partner? Preferential access to the markets of the industrialised world can and has played a role in attracting foreign direct investment into production for exports. However, the competition to attract this kind of investment is tough and in some instances the preferential access is temporary. The phasing out of the agreement on Textiles and Clothing and the essentially temporary nature of AGOA are examples of this.

In the end the most durable avenue for BLNS to pursue would be production for the South African market, but this will have to be done behind a lower barrier of protection because of the impact on the CET of trade liberalisation. But compared to competing industries from outside SACU, BLNS production could have two benefits working in their favour. Since they are direct neighbours of South Africa and locked into an integrated transport infrastructure they enjoy higher levels of natural protection. In the second place it will be possible to sell their lower labour cost to South African firms as an incentive in attracting cross-border investment. Using labour cost as a drawing card is a viable option but in terms of organised labour politics it will be a contentious issue. The problem is simple but challenging. SACU will be expected to adopt common industrial policies that favour industrial growth in BLNS but these common policies will have to be implemented in an environment in which common labour market policies do not exist. The catch is that the absence of common labour market policies or the absence of an integrated labour market is precisely the reason for the labour benefit that BLNS enjoy. However, this will not go down well with the South African trade union movement, which already sees workers as paying the price of unemployment for trade liberalisation.

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8 A point that needs to be confirmed but which can provide an interesting anecdote is the story that Namibia has experienced a R1 000 million fall in its anticipated customs revenue allocation because of the constraints it placed on the importation of agricultural products from South Africa. In terms of SACUA2002 BLNS are entitled to protect their agricultural sectors through import controls. The unintended consequence, however, is a fall in revenue.
**Conclusion**

SACUA2002 is a brave attempt to redesign the management of the oldest customs union in the world. The new agreement broke the mold of the way in which the customs union had operated for nearly a century and put in its place an untested mold that seeks to replace the firm grip that South Africa had on the management of SACU under the previous dispensation. The democratisation of SACU management, the fair distribution of customs union revenue and policies that will encourage regional balance in development have become the corner stones of the new agreement.

To give effect to these goals the agreement provides for a number of institutions that will manage the affairs of SACU. An important institution in this regard is the Tariff Board. Since the distinguishing feature of a customs union is its CET and because under the earlier dispensation the SACU tariff was the South African tariff, decided on by South Africa with South African development goals in mind, it follows naturally that the Tariff Board is of critical importance for the management of SACU. However, the Tariff Board, more than a year since the new agreement came into operation, has still not been established and in view of the important role envisaged for the Board one can understand the concern to have it in place sooner rather than later.

But the question is whether there is not a step missing in this, even whether the cart is not placed before the horses? Look into the future and imagine the Tariff Board, duly constituted as representative of all the SACU member states, having its first meetings. The Board has established an impressive set of rules that will guide its proceedings. On the agenda is a long list of tariff amendment, tariff rebate and trade remedy submissions, in all likelihood originating from submissions of the South African National Body, ITAC. The Board has to evaluate the applications and make recommendations to the Council. How will it set about doing this, in other words, what guidelines will the Board members adopt in adjudicating the applications? Under the old dispensation, currently still perpetuated in the absence of the Tariff Board with ITAC still responsible for the management of the tariff, the relevant operational guidelines were and still are derived from current South African trade and industrial policy, a situation that cannot continue once a Tariff Board is in place. In order to execute its functions properly the Board will have to derive its operational policies from an understanding of the common industrial policies of SACU members. Without reasonable agreement on these policies the Board will be left in a policy vacuum. Serious disagreement on agenda items can be foreseen under such circumstances, and given the consensus basis required for decisions, which effectively confers a veto right on all members, delays in decision-making are likely to ensue. Industry, and specifically South African industry, will suffer.

This scenario is suggested to make the point that deliberations on the appointment of a Tariff Board are important but of even more importance
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is for the member states to develop an understanding of the directions that should be taken toward common industrial policies. Without this the Tariff Board will not be able to function properly and important decisions will not be taken expeditiously. The Board cannot be made responsible for the development of common industrial policies. This is the task of governments, a task which can be facilitated by the Secretariat, the Commission and the Council of Ministers.

This paper only touched on some of the issues that will have to be considered in developing common industrial policies. Many others can be added to the list, but in conclusion, three urgent issues need to be highlighted. The first is the absolute prerequisite to find common ground on the role of the tariff. As long as South Africa holds to the view that the tariff is primarily an instrument of industrial policy, while BLNS regard it as a source of revenue, disagreement will persist on the principal variable of a customs union and on the role it should play in the development of the economies. The second issue on which agreement will have to be developed is on the appropriate view of what regional balance in industrial development means and on the broad outline of how this can be achieved. Related to the second, the third challenge will be to develop an appreciation of industrial development goals, including views on the relative emphasis on different sectors, the instruments that can be used to achieve the desired growth. Specifically, common views on tariff protection and the role of the tariff, whether this concerns the level of nominal and effective protection for industries, the rebate of the tariff, or the use of special tariffs (beyond applied and WTO bound rates) as trade remedy, need to be developed.

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Making SADC work?
Revisiting Institutional Reform

Elling N. Tjønneland

Background and Purpose

In the 1980s, SADC’s aims and objectives revolved around mobilising development finance and cutting links to apartheid South Africa. In the 1990s, the organisation strived to ensure a reintegration of South Africa with the rest of Southern Africa and emphasised economic liberalisation and political stability in its programmes and activities. SADC was successful in mobilising external development finance, it facilitated some co-ordination of those aid flows, it helped ensure a regional focus for such assistance, and it made possible a number of important regional development projects particularly related to infrastructure. A number of electricity, transport and communication projects were implemented through the efforts of SADC. Most importantly, all member countries felt that they benefited from SADC and its projects.

A second very important achievement was SADC’s role in fostering a regional identity and a common political outlook on important issues. The foundations were laid during the 1980s and this continued throughout the 1990s. The policy frameworks developed by SADC were also important in influencing domestic policies and approaches in member countries.

Important features of the current SADC and its mode of operation were also shaped by the Frontline States. This was an informally constituted political grouping set up in 1975 as an instrument of harmonising policies of independent Southern African countries in support of the liberation struggle in the region. The Frontline States were crucial in helping to forge a strong sense of political unity among the political leaders of the region. They were also important in shaping the mode of operation for political interaction within SADC.

However, these achievements in building a regional community were also mirrored by several failures and shortcomings. They became increasingly
manifest in the course of the 1990s. SADC may have made important progress in implementing regional projects in infrastructure, but the bulk of its activities implemented through its more than 20 sector co-ordinating units located in 12 member countries were national projects with limited regional impact. Furthermore, in many of these sectors there was little visible activity, and the work programme was increasingly lacking a clear focus. This became particularly evident in the 1990s with the new focus on economic integration. This required a strong capacity to drive the process and more emphasis on regional policy formulation and harmonisation. An internal SADC study from the mid-1990s found that an estimated 80 percent of the 470 projects listed in SADC’s Programme of Action should be classified as primarily national projects. Only 20 percent of the project portfolio would meet the criteria of being proper regional projects. SADC’s Executive Secretary, Prega Ramsamy, made it very clear in a speech delivered in June 2000. SADC faced, according to Ramsamy, two critical issues. The first was the inability of its present structure to adapt to changing circumstances and new challenges. The second was the need for a more focused approach with targeted priorities for the next 10-15 years (Ramsamy, 2001).

Growing political divisions also became evident from the mid-1990s. The removal of the unifying external enemy (apartheid South Africa), the inclusion of new members (especially the DR Congo) and growing tensions between Zimbabwe and South Africa, led to a situation where SADC effectively became divided into two camps in dealing with political and security issues. As a result the SADC Organ on Politics, Security and Defence Co-operation – a SADC institution established in 1996 to deal with political and security issues and in effect a continuation of the Frontline States - became incapacitated and unable to act. This was most dramatically illustrated in the attitude towards the war in DR Congo – SADC’s newest member – were SADC took sharply divided positions. One group, led by Zimbabwe intervened militarily to assist the regime in Kinshasa, while another group, led by South Africa, actively pursued mediation and a more peaceful solution (Williams 2001, Cilliers 1999).

These problems were also recognised by SADC and were addressed through a series of consultancy studies and consultations in the latter 1990s. The emphasis here was increasingly on the institutional capacity of the organisation with calls being made for a major institutional restructuring. In 2001, the SADC Heads of State and Government decided on a series of far-reaching changes in SADC’s institutional framework and the structure for executing its mandate. These changes were to be implemented over a period of two years. They included major changes in the governing and

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4 The main consultancy study preparing for the institutional reform was C. Chipeta et al (1997). The plan for institutional reform as approved by the SADC Summit in 2001 is contained in SADC (2000).
implementing structures both at regional and national levels. The most radical changes were related to the operations of the Secretariat itself. The decentralised nature of SADC should be brought to an end. The responsibility for planning and implementing policies and programmes of action was previously largely carried out by the country-based sectoral committees and commissions. Since SADC’s establishment each member country was responsible for one or more sectors. The new structure implied that the 21 sector co-ordinating units and commissions should be closed down. Instead they should be brought together in four clusters in an expanded and strengthened Secretariat in Gaborone.

A major shift in the work of the Secretariat and the directorates was also envisaged. The directorates were to focus their activities on regional integration and the mobilisation of financial resources and concentrate on policy development, harmonisation and assistance to member states. Little attention was paid to implementation at this stage, but the intention was that this – based on the principle of subsidiarity - should be undertaken at the lower levels, primarily by member states and specialised agencies. Each member state was also to establish a SADC National Committee (SNC) responsible for national co-ordination and implementation.

In a separate, but parallel development, SADC also decided to re-establish the SADC Organ on Politics, Defence and Security Co-operation. It was brought under the SADC Summit and a small administrative unit servicing the Organ was to be established at the Secretariat. The governing structures of the Organ were, however, to be kept separate from the governing structures of the rest of SADC.

Most importantly, SADC also decided that the Secretariat – although expanded and strengthened – should be retained as an administrative unit. All political decisions were to be made by the governing structures. Decisions should continue to be made by consensus.

SADC’s achievements would not have been possible without SADC and its institutions. Further deepening of integration and co-operation in Southern Africa requires regional institutions, and without strong institutions, experiences and lessons from other regions suggest that this may be very difficult to achieve. Will the intended institutional reform programme provide the regions with such institutions?

**Institutional Reform**

Most of the institutional reforms revolved around the changing role and functions of the Secretariat, the engine room of the organisation. The Secretariat is the principal executive institution of SADC and the reforms intended to give it the power and authority to shape the form and content

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5 See more on the background and early implementation of the reforms in J. Isaksen & E. N. Tjønneland, (2001).
of the regional programme and be more effective in implementing it. The institutional reforms were also intended to ensure a more cost efficient and cheaper regional organisation.

SADC successfully closed down the country-based units and moved the activities into four new directorates at the Secretariat in Gaborone. SADC also established a small administrative unit – de facto a fifth directorate – servicing the SADC Organ. However, by 2005 the Secretariat was still struggling with severely limited capacities and inefficiencies. All directorates and units suffered from shortages of key professional staff with positions not being filled. The Secretariat also relied heavily on staff on short-term secondments from member countries. Lack of job descriptions – which was awaiting the formulation and adoption of a strategy and programme of action – caused further delays. In February 2005 SADC decided to make further decisions regarding staffing. The planned staffing requirement should be kept at a minimum and a recruitment of permanent staff should begin. This would imply that the positions at the Secretariat - at best - would be filled sometime in 2006.

The unit or directorate servicing the Organ is in an even weaker position. The relations between the Organ unit and the rest of the Secretariat remain unsettled. A proper division of labour between them still has to be worked out. There are potentially many overlaps and grey areas, perhaps especially in the governance field, and considerable scope for rationalisation and merger of certain functions. The Organ unit is serviced by the support staff of the Secretariat and it reports to the Executive Secretary. However, it has an entirely different governing structure and tends to see itself as being separate from the rest. There is limited or no co-operation between the activities of the four social and economic directorates and the Organ directorate.

The Secretariat has also been suffering from a poor work environment. There has been a growing and visible frustration among staff. The drawn-out restructuring has reinforced these tendencies and helped create the impression of an institution struggling with bureaucratic tendencies and inefficiencies.

These constraints - which severely impact the capacity of the Secretariat - are mostly managerial and administrative bottlenecks. As such they can be overcome. A potentially much bigger constraint emerges from the Secretariat’s restricted mandate. The tasks of the Secretariat suggest that it should also have a strong mandate and the freedom to push and pressure for a deepening of the regional agenda. The SADC Treaty and the mandate of the Secretariat, however, restrict it to being an administrative unit with no political decision-making powers.

This brings us to the critically important issue of the relations between the Secretariat and member countries. The Summit of Heads of State and Government is SADC’s supreme decision-making body. Decisions are made by consensus and will be binding. Under the Summit there are
different governing structures for the “old SADC” dealing with the social and economic work, and the SADC Organ dealing with politics and security issues. SADC is led by a Troika system consisting of the Chairperson, the Incoming Chairperson and the Outgoing Chairperson. There is one Troika for the social and economic issues – which also chairs the SADC Summit - and one Troika for the SADC Organ. The Troika members are selected by the Summit from among the members of the Summit except that the same country cannot chair both Troikas at the same time. Various separate ministerial committees are established to oversee and guide each of the two areas of work.

SADC faces several challenges in making its governing structures effective. One is the relationship between the governing structures of the two legs of SADC. They would benefit from some rationalisation. Another challenge related to the nature of decision-making within SADC. SADC operates on the basis of consensus, but they do not have any effective instrument to deal with member states failing to implement joint decisions. The SADC Treaty provides for the establishment of a Tribunal to deal with such situations. However, while the Protocol providing for the Tribunal has been ratified, the Tribunal is still to be established. Members of the Tribunal were appointed by the SADC Summit in August 2005.

By far the biggest challenge facing SADC at this level relates to political leadership and the relations between the Secretariat and the governing structures. It is often claimed that the governing structures are spending too much time on administrative details and too little on leadership. This is partly due to a structural weakness identified above - the Secretariat remains an administrative body with no formal political power. SADC member countries have been unwilling to establish a regional institution with supra-national power. Another reason is that individual member countries have been unwilling to provide strong leadership. This has so far not been forthcoming through the Troika-system. Most Troika members seem to be reluctant to provide leadership between the meetings of Summits. To improve communication between the Secretariat and member countries the Council of Ministers, at its meeting in February 2005, decided to establish a SADC Committee of Ambassadors in Gaborone. This committee would meet more frequently and would potentially also be in a position to provide guidance and directions (with a function similar to the heads of African missions in Addis in relation to the African Union). However, the key question is the need for strong political leadership of SADC and the ability of the two Troikas to provide the Secretariat with the required political support and guidance.

The institutional reform process also had significant implications for implementation and national participation. In the old SADC structure the country-based sector co-ordinating units and commissions were responsible for resource mobilisation and implementation. This also implied often strong national ownership and commitment. Under the new structure each member state would be responsible for implementing SADC programmes and policies affecting their own country. To facilitate this, the institutional
reforms provided for the establishment of SADC National Committees (SNC) in each member country. The committees shall according to the guidelines issued by the Secretariat *inter alia*

- provide input in the formulation of SADC policies, strategies and programme of action;
- co-ordinate and oversee the implementation of the SADC programme of action;
- promote and broaden stakeholder participation in SADC affairs in member states;
- facilitate information flows and communication between member states and the SADC Secretariat; and
- co-ordinate the provision of inputs for the development of the Regional Indicative Strategic Development Plan and monitor its implementation.

By 2005, National Committees had been nominally established in all member countries. However, in most countries they are still almost empty bureaucratic shells, often being nothing more than an interdepartmental working group serviced by the official contact point (or focal point) for SADC affairs (in most cases this is the Foreign Ministry). Most are still to define their proper role and function, including how they should relate to stakeholders outside government. They may play a role in co-ordinating member state positions at SADC meetings, but are still to find their role as an implementing agency. The early guidelines also indicate that the National Committees shall deal with political and security issues falling under the SADC Organ. There are however, currently divergent opinions within SADC about this. The current thinking within the directorate servicing the Organ is that the National Committees should not deal with such issues.

In addition to the National Committees SADC has also given birth to or facilitated the development of a range of both permanent and *ad hoc* regional institutions. Some of these regional institutions may have a formal relationship with the SADC Secretariat (often through a Memorandum of Understanding giving them a legal subsidiary status); some are even turned into Treaty-based regional institutional delivery mechanisms. Others are autonomous institutions (such as the Parliamentary Forum) or regard themselves as institutions operating under the auspices of SADC. Many of these institutions are playing a formal role as delivery mechanisms and are fulfilling other important functions in implementing SADC policies.

Some of the strongest of these specialised institutions can be found within infrastructure based on associations of public utilities within energy, transport and communication (e.g. the Harare-based *Southern African Power Pool*). Examples in other areas are the *SADC Gene Bank* (Lusaka).

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6 Cf. the SADC Secretariat’s draft guidelines on SADC National Committees, approved at the Council of Ministers Meeting in August 2001 (SADC 2001).
the Committee of Central Bank Governors in SADC (Pretoria), the Regional Tourism Organisation of Southern Africa (Midrand)) and the SADC Development Finance Resource Centre (Gaborone). Within the area falling under the Organ, a regional agency has been established with the Harare-based SADC Regional Peacekeeping Training Centre and in public security (policing) with the Southern African Police Chiefs’ Co-ordinating Conference (SARPCCO), also in Harare.

The implementation capacities of these regional institutions and agencies are sometimes strong, and their technical skills and capacities invaluable. The main bottlenecks have partly been insufficient provision of political guidelines and regulatory frameworks and in some instances poor communication between the Secretariat and the institution due to limited capacity within the Secretariat.

The institutional reforms were also intended to facilitate the emergence of a better regional focus and a more focused and coherent work programme. What policies and activities are emerging out of the restructured SADC?

**Policies and Priorities**

The new SADC Treaty adopted in 1992 attempted to give the organisation a new focus based on economic integration and commitment to good governance. Regional policies and guidelines for action were developed through the adoption of a series of protocols which spelled out the aims and objectives for each sector or policy area. They were supplemented by less comprehensive Declarations and Memoranda of Understanding in areas where no protocol had been developed.

SADC has put considerable effort into developing strategic programmes to ensure a proper regional focus for its activities. A major challenge has been that the institutional reforms were decided and introduced before the completion of the new strategic programmes. This became a major reason for difficulties experienced in implementing the institutional restructuring. The major new strategic documents were the 2003 SADC Regional Indicative Strategic Development Plan (RISDP), followed by the Strategic Indicative Plan for the Organ on Politics, Defence and Security Cooperation (SIPO), also approved in 20037.

In assessing these documents and their ability to realign and refocus SADC policies and strategies, some issues are particularly important. Have RISDP and SIPO succeeded in giving SADC a proper regional focus for its activities? Have the two strategy documents managed to prioritise? What are the main obstacles and opportunities for implementation?

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7 These two documents have been published and can be downloaded from the SADC homepage. See SADC (2003a) (xviii + 150 pages), and SADC (2003b) (86 pages). The last document was only released a year later. It also includes the SADC Protocol on Politics, Defence and Security Co-operation and the Mutual Defence Pact.
After much delay, the RISDP was completed and approved in 2003. It identifies challenges and priorities in a wide range of areas. This in turn leads to the identification of 12 priority areas for intervention. For each of these intervention areas the plan lists strategies and activities. These are general and comprehensive, but do not provide SADC with clear regional and operational priorities. More guidelines to emerging priorities were developed through the 2004 RISDP Implementation Framework, which provides a rather detailed 15-year, five-year and one-year (2005-2006) implementation plan for each of the four directorates. This was followed by the preparation, in the second half of 2004, of business plans for these directorates and a list of priorities and ranking of existing and potential RISDP projects.

The final approval of budgets and priorities may lead to some changes, but a fairly clear picture of SADC’s intentions emerges from these documents and is confirmed by interviews at the Secretariat in February 2005. The overarching priorities for SADC over the next five years are as follows:

*Integration of markets and economic development*
- Trade facilitation mechanism
- Financial market integration
- Macroeconomic convergence

*Infrastructure, including technology for information and communication Statistics*

*Emergency Services, including HIV/AIDS and food security*

The intention is that all activities and projects shall be assessed according to these priorities, and how they contribute to the overarching objectives. Furthermore, the documents make a distinction between “soft” projects to be implemented by the Secretariat and “hard” projects to be implemented by member states and other regional institutions, where the Secretariat may have only a monitoring and evaluation function. “Soft” projects typically revolve around policy formulation, harmonisation and implementation; programme monitoring and implementation; and the co-ordination of regional integration. This often involves issues such as capacity building and institutional development, research, feasibility studies and the like. “Hard” projects are dominated by infrastructure and often relate to physical development such as transport networks, energy interconnectors, water resources and information technology infrastructure. “Hard” projects will often relate to a sub-set of SADC countries, while “soft” projects more often involve the whole SADC region.

SADC is in the process of finalising a priority portfolio of projects. Some 125 projects have been identified and ranked in the current draft business plan from November 2004. Of these projects, 46 have been moved to a priority

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8 These documents are all unpublished and restricted. They are SADC (2004), Deloitte & Touche (2003), Imani Development (2004). The last document was prepared for the SADC Secretariat and the Development Bank of Southern Africa.
list; the list is provisional and still (in February 2005) needs formal approval. This includes 15 "hard" projects and 31 "soft" projects. Fact sheets (project description, funding status, etc) have been developed for most of these priority projects. One of the “hard” projects is particularly comprehensive and a rather special case. This is the spatial development initiatives (SDI), or development corridors. They comprise a long list of different projects and different corridors. They fall within SADC’s sphere of influence, but are developed and managed independently, primarily through the Regional SDI Support Unit based at the Development Bank of Southern Africa in South Africa9.

These documents and emerging priorities show that the SADC Secretariat is making serious efforts and progress in giving the organisation’s social and economic work a sharper regional focus. The selected projects also correspond to overall priorities. Question marks may be attached to some of the projects, but overall the priorities convey an impression and image of regionalism and economic integration.

Will SADC succeed in implementing these priorities? One obstacle is limited institutional capacity, which will in particular have an impact on the Secretariat’s ability to make progress on “soft” projects. This ability presupposes strong directorates as well as functioning national committees (or at least strong focal points). The directorates operate with a skeleton staff. In addition to this staff, a number of technical advisors, provided by foreign donor agencies, are working in the different directorates on long-term contracts. The directorate responsible for the crucial area of trade and financial integration has been allocated six positions, of which two are dedicated to trade policy. The water division within the Infrastructure and Services directorate is another illustration. It is probably among the strongest units in the Secretariat, managing several major projects. It has a professional staff of six. Two are secondments on short-term contracts from Lesotho and Botswana and four are technical advisers provided by UNDP, Switzerland, France and Belgium. Following the February 2005 decision by SADC, the number of staff in the water division should be further reduced – the two seconded officials should be replaced by one regionally recruited staff member.

Furthermore, the Secretariat has very little capacity for monitoring and evaluating the implementation of projects. This situation is likely to cause delays in the planning, launching and implementation of projects. On the other hand, the number of projects is relatively small and the directorates – once fully staffed – should have sufficient capacity to oversee them.

The “hard” projects partly struggle with a different set of problems. Where strong regional agencies or project management units are in place,

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9 For a full presentation of the regional spatial development initiatives see www.africasdi.com (the official website of South Africa’s SDI support programme).
implementation capacity may be stronger – particularly within certain areas of infrastructure. The main challenge is rather to develop proper regional policy frameworks which can provide clear guidelines for the development and implementation of projects. The directorates in the Secretariat are critical to ensuring that such frameworks are in place. The energy sector is a typical example. Several major projects in this area have been developed and implemented by regional agencies such as the Southern African Power Pool, but these projects suffer from the absence of clear political guidelines and direction.

The critical question is, however, to what extent member countries are prepared to adhere to decisions made and to implement them. The obstacles facing trade liberalisation and financial integration illustrate the challenges. The chief instrument here has been the 1996 Trade Protocol, which came into effect in 2001. SADC is making some progress in its implementation but is lagging behind the set time schedules. In any case, the suggested target dates (free trade area by 2008, customs union by 2010 and common market by 2015) appear unrealistic. The design of the Protocol and its implementation suffer from critical weaknesses which threaten to undermine potential benefits. In particular, the Trade Protocol has failed to ensure a phased elimination of non-tariff barriers. Some SADC member states are continuing to introduce such barriers, which undermine the credibility of the Protocol and make it irrelevant in the eyes of traders and investors.

A related challenge is the time and scarce resources SADC spends on responding to global developments and certain initiatives. This applies in particular to the European Union’s efforts to negotiate free trade agreements with the African, Caribbean and Pacific states through “Economic Partnership Agreements” (the Cotonou Agreement). SADC has not succeeded in taking a common stand in these negotiations. Member countries have pursued different interests and many have even opted to negotiate through COMESA and outside SADC. This has weakened SADC’s integration agenda and undermined its ability to establish a SADC customs union (Meyn 2004).

The sluggish implementation of the trade protocol, overlapping memberships in competing trade organisations and the inability to take common positions in negotiations with third parties does not necessarily imply that SADC member states are opposed to trade liberalisation and a deepening of economic integration. There may, however, be competing and different visions within SADC about the type of regional integration they wish to see. This is reinforced by the very wide differences between member states in the size, structure and strength of their economies.

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10 Some of these issues are discussed in Margareth Matinga Njiramba (2004).
How do policies and priorities of the SADC Organ and its strategic plan, SIPO, compare to the RISDP? The RISDP was prepared under the auspices of the SADC Secretariat and written by a team composed of consultants and officials seconded from the Secretariat and member countries. SIPO, on the other hand, was prepared by government officials meeting under the auspices of the Chair of the SADC Organ. SIPO itself focuses on four areas or sectors: the political sector, the defence sector, the state security sector and the public security sector. It identifies a series of objectives for each sector – in total 28 objectives are listed. For each objective, a number of general strategies and activities are listed. Compared to RISDP, SIPO has not yet made major advances in operationalising its strategic goals and objectives.

The Organ has also developed additional policy documents. One is the Mutual Defence Pact (signed at the SADC Summit in August 2003), which has not yet entered into force (by the end of 2004 only four countries have ratified the Pact). The other is the SADC Principles and Guidelines Governing Democratic Elections, approved by the SADC Summit in August 2004 (Both are available from the SADC Website) (www.sadc.int)12.

SIPO is comprehensive and covers a wide range of issues, but the objectives and strategies/activities listed are very uneven. Some are broad and general while others are detailed. Generally, the least developed objectives and activities can be found in the political sector, while the defence and public sectors contain more detail. The lines of division between the RISDP and SIPO are also unclear, especially in relation to political and governance issues. This may also be the result of the different origins of the two strategy documents and the insufficient co-ordination.

The Organ still has to operationalise, prioritise, and develop implementation mechanisms and business plans for its engagement with politics, defence and security. In doing this, SADC has been and will continue to be confronted by the divergent political outlooks and priorities of its member states13. SIPO endorses a broad understanding of security through its focus both on governance and democratisation issues as well as the “hard” defence and security issues. However, behind the agreement we find divergent opinions and approaches to these issues. Some regimes in the region are preoccupied by state security issues, while others emphasise human security. Some favour a politico-military approach to external threats while others look to non-violent and diplomatic means. Regimes have also adopted different approaches to dealing with internal challenges. The process of approving the Mutual Defence Pact illustrates these tensions and differing approaches. The Pact went through different drafts. The delaying paragraph was the proposal that SADC member states would be

legally obliged to come to the military aid of a fellow SADC member in the case of a military attack by internal or external forces. The final Pact was a significantly watered down version, which only obliged member countries to “participate in such collective action in any matter it deems appropriate”.

Despite the lack of a shared common outlook, the absence of a common enemy, and the insufficient operationalisation of its strategic documents, the SADC Organ is making important progress in a number of areas. The work programme and priorities are de facto being shaped by some of the SADC institutions. The work on public security (policing) is strongly shaped by the existence of SARPCCO, which is active in facilitating technical co-operation between police agencies in the region. The Organ’s work is also shaped by the generally good technical co-operation between the defence forces in the region. Importantly, the Organ Troika (and in particular its 2004-2005 Chair, South Africa) is active in its attempts to push the Organ to the centre stage and in turning the Organ Secretariat and SIPO into effective instruments (See Lamb 2004).

Three priority areas for the Organ may be emerging in addition to a strong South Africa-led engagement with DR Congo. Small arms are one of them. SADC’s protocol on fire arms has entered into force but regional efforts to facilitate implementation are lagging behind. The Organ Secretariat has failed to get the SADC Small Arms Committee up and running and regional activities have largely been left to the regional police organisation (SARPCCO), which – with donor funds channelled through South African NGOs – has facilitated co-operation between national police agencies on some of the technical issues. SARPCCO and the Organ Secretariat have not succeeded in establishing a strong working relationship and this has further weakened the implementation of the protocol. However, there is evidence of a renewed focus in the Secretariat. Better resources and the presence of a technical advisor (funded by GTZ), who took up the position in February 2005, may lead to greater efforts in this area. Beyond this, the presence of SARPCCO suggests that technical co-operation in public security will continue to expand and deepen.

A second area where more activity is envisaged – despite the shortcomings of SADC’s engagement with Zimbabwe – is the field of election monitoring and election institutions. Substantial work is required before SADC is in a position to proceed in any meaningful way with these guidelines. SADC is bound by its commitments and political pressures and one may expect that there is scope for further activities to increase its technical capacities to assist member states. At the August 2005 Summit it was agreed to establish a SADC Electoral Advisory Council to advise SADC structures and

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15 See more on the implementation of the small arms protocol in Chandré Gould & Guy Lamb (eds.) (2004).
member countries. Further development may, however, require facilitation by other regional institutions, further operationalisation of the African Union guidelines and financial support from donors.\textsuperscript{16}

SADC’s ability to provide assistance to the forthcoming elections in the DR Congo will be an important illustration of its capacity here. Most discussions have however, centred on SADC’s relations with Zimbabwe and its handling of the elections there. The 31 March 2005 parliamentary elections were a first major test on SADC’s ability to run with its 2004 guidelines for democratic elections. Zimbabwe did in fact use the guidelines and incorporated several of them into its own law and practices. SADC also dispatched a 50-member delegation. They started to arrive two weeks ahead of the elections and concluded after the elections that although they did note certain irregularities they concluded that the election results basically reflected the will of the people. South Africa, which as Chair of the Organ also chaired the SADC team, also dispatched its own team – a 20-member parliamentary delegation which basically reached the same conclusion.

The findings of the observer missions from SADC and South Africa were a disappointment to many outside observers.\textsuperscript{17} These were reinforced by the lack of clarity of the mandate of the SADC missions, slowness and frustrations in getting the observer teams on the ground, and a general lack of enthusiasm for getting observers into Zimbabwe. SADC handling of the Zimbabwe crisis illustrates SADC’s weaknesses in dealing with governance and democratisation issues. SADC has no enforcement mechanisms, it is reluctant to put pressure on member states, and it does not really know how to engage with blatant violations of its own rules and guidelines such as in Zimbabwe.

The final and major area of activity revolves around peace support and efforts to operationalise the plans and visions of the African Union for the establishment of standby forces in each of Africa’s regions. The SADC Organ has decided to establish a SADC Peacekeeping Brigade (SADCBRIG) as part of the African Union standby force. Much effort has already gone into planning this brigade, building upon previous efforts by SADC to set up such a peace support capability. Under the leadership of the Organ Chair, military planners have met regularly in 2004 and 2005 to work out the strategic details on force composition, training, finances, logistics and operations.\textsuperscript{18}

The proposed SADC standby system is based on the concept of a pool arrangement whereby total troops earmarked for participation in the various troop-sending member countries will provide sufficient capacity to ensure the full availability of a brigade at any one time. The SADCBRIG commander will then compose his/her force during mission planning and

\textsuperscript{16} Cf. also a background discussion in Khabele Matlosa (2005).
\textsuperscript{17} See here also the report from the International Crisis Group (2005). The report includes a review of all the major observer groups.
\textsuperscript{18} The key AU document here is the Roadmap from March 2005 (African Union 2005). This section also draws on J. Cilliers and M. Malan (2005) and C. de Coning (2004),
from the standby pool. All SADC member states have pledged contributions to the standby pool. This also included Angola, which is also a contributor to the Brigade in the Central African region (together with DR Congo, Angola is a dual member of both regions). Tanzania and Mauritius had also decided to stay with SADC and has withdrawn from the planned East African brigade 19.

SADC has also agreed to establish a planning element (PLANELM) 20. This will be based at the SADC Secretariat, composed of staff on secondment from member states for a period of two years. It is intended to manage the standby system and have the responsibility for monitoring force preparation in troop-contributing member countries. The PLANELM would be required during a phase one to establish a regional standby force up to brigade size to achieve capabilities of providing military advice to political mission and deploy military observer missions alone or with the United Nations. This should be done within 30 days of a mandate resolution. In the next phase SADCBRIG should develop the capacity to deploy within 30 days a peacekeeping force for Chapter VI and preventive deployment missions, including peacebuilding.

In addition SADC has also decided to revive the Regional Peacekeeping Training Centre (RPTC) in Harare. RPTC de facto collapsed with the end of Danish support and funding in 2002. RPTC is now being reconfigured as a SADC institution to take the lead in providing training through courses and as a facility for exchanging lessons learnt and sharing experiences. The RPTC will fall under the SADC Organ and report to the SADC Secretariat. Zimbabwe will act as host institution and an agreement to this effect has been signed. It has a multinational staff, and the first regional training courses under the new SADC RPTC are scheduled to take place in the latter half of 2005.

There are several challenges ahead for SADC in finalising and implementing the policies for a standby force. They are already lagging behind the original timetable drawn up by the African Union. One challenge is related to actually establishing the planning element at the Secretariat. SADC decided at its February 2005 Council of Ministers Meeting to freeze a number of positions, including those belonging to the planning element. This implied that these should not be filled at this stage, but that they could be filled at a later stage. “Later stage” may be in late 2005 or much later. Considering that a head of the Organ Secretariat has not yet been appointed and that a recruitment

19 The African Union still has to clarify its position in cases of overlapping memberships or where it remains unclear in which region a particular country belongs. The AU is supposed to build on the regional economic communities, but the boundaries of these communities do not always correspond to the AU’s own geographical demarcations. Furthermore, there are many overlapping memberships in the economic communities.

20 See also papers prepared for SADC’s first conference on defence and security co-operation in Maputo 6-7 December 2004, e.g. “Challenges, Strategies and Approaches for Enhancing SADC’s Relationship and Response to the African Standby Force” (11 p.)
and appointment process both to Secretariat and to PLANELM is bound to take some time one should not expect any immediate solutions. Temporary solutions have, however, been found through short-term secondment of staff from member countries.

Other challenges remain. A number of important dimensions need further elaboration and require political decisions. One is the issue of how deployment of the SADCBRIG should be mandated. Another is the issue of securing funding. SADC or any of its member countries will not be in a position to provide any finance covering the costs of a mission of deployment. SADC also requires external funding for at least some of the costs involved in preparing and planning for the establishment of the force. External donors will probably be able to provide the required funding for planning and preparations, including the training activities through the RPTC. The main precondition here seems to be for SADC to make the required decisions and provide some initial funding from member countries for some of the core positions. There may be some reluctance and hesitance relating to the RPTC because of its location within a Zimbabwe Defence Force compound, but such hurdles can be overcome.

It will be much more difficult to secure funding for actual deployment and peacekeeping operations. Partly because such operations tend to be extremely costly, and partly because such expenses cannot be classified as official development assistance as defined by the OECD. New facilities will therefore have to be found. However, the new EU-funded peace facility together with funding available for UN peace support missions may provide at least some temporary solutions.

A related hurdle in obtaining financial support from external donors is also the bureaucratic obstacles created by SADC. The protocol on politics, defence and security co-operation specifies that the Summit must approve agreements between SADC and external partners in this area.

A final challenge must also be mentioned. The operational framework being developed by SADC is first and foremost a military approach. The documents make only brief and passing references to the role of civilian police or civilian actors in the standby force and in their discussions of peacebuilding. This is somewhat surprising considering the prominent role of the police component and civil-military co-operation in the current peacebuilding efforts and in the debate about UN peace missions. However, some work on the police component is being developed for the standby force through SARPCCO. Planning for the participation of civil society appears, however, to be almost absent. SADC’s capacity in this area is also very limited. One outcome may therefore be that SADC, as well as the AU, confines it weak capacity to military operations and leave more complex and multifunctional operations to the United Nations21.

There is a related dimension to this strong emphasis on a military operational framework: the secrecy, sensitivity and lack of information regarding

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21 This contrasts with an important June 2005 policy document from Nepad which strongly emphasises the need to bring all actors together. See Nepad Secretariat (2005).
SADC’s work in this area. It is often much easier to access information about developments with the standby force taking place in West Africa (ECOWAS) or East Africa (IGAD). This may not be surprising considering SADC’s tradition and style of operation, but it runs counter to the aspiration and the intention of SADC’s institutional reform programme which calls for greater openness and improved collaboration with civil society and external partners.

A final note must, however, be made on the relationship between SIPO and the RISDP. There is a need to further clarify the relations between them. This includes managerial and organisational issues such as the rationalisation of governing bodies, the proper integration of the administrative unit of the Organ with the rest of the Secretariat, and clarification of the role of National Committees (cf. the discussion above).

Most importantly, however, it requires a further clarification on the relations between SADC’s operational activities in the socio-economic and political arena. This is especially evident in respect of governance issues, where it appears that neither the RISDP nor SIPO are keen to intervene. SADC’s implementation of the anti-corruption protocol is an example of an area which suffers from this reticence.

**Challenges Ahead: Making SADC Work**

SADC is a 25-year-old institution. It has progressed rapidly at the formal levels of policies and agreements. However, its institutions are still weak and the organisation has not come far in the implementation of protocols and regional decisions. There is a major gap between what SADC wants to do, and actual developments and implementation on the ground. SADC is still very much a regional community in the making.

SADC launched an institutional restructuring and reform process in 2001. Its primary objective was to make SADC a more efficient and effective institution able to focus, prioritise and advance co-operation and integration in the face of new challenges. The restructuring was scheduled to be completed within a period of two years. By 2005 the process was completed only in a very formal sense. SADC has successfully managed to close down its country-based units and moved the activities to the Secretariat in Gaborone. New governing structures have been put in place and new strategic programmes and policies have been adopted. SADC and its Secretariat are expected to be in a better position to address the major development challenges facing the region and to formulate new policies and programmes of action. On the other hand: SADC’s actual capacity to deliver and to implement may have been weakened. This puts SADC in a vulnerable position.

This does not mean that SADC is likely to, or may run the risk, of collapsing in the foreseeable future. SADC’s achievements in fostering and building a sense of regional identity are significant. Significantly, SADC is playing an increasingly important role in shaping and harmonising policy formulation in many member countries in the region. The political commitment from
member countries and the ruling elites of those countries is also strong although some more recent and peripheral members may have weaker loyalties and may defect or be slow in implementing decisions. Some of these newer members may have joined for political reasons while others may have stronger economic motives.

The future development path of SADC is, however, uncertain. There are visible and sharp divisions within and between SADC’s member states. Members are facing different development challenges and have different priorities. Their capacities to participate, deliver and implement are also very unequal. This is most strongly evident in the current trade negotiations with the European Union where member countries *de facto* have split into two camps – one negotiating through SADC and one who has opted to negotiate through COMESA and outside SADC. This situation had weakened and undermined the implementation of SADC’s trade policies. Divisions are also visible at the political level although currently less expressed. It is evident in different positions on the political crisis in Zimbabwe, but has impacted less on the implementation of SADC Organ priorities such as the preparation for the standby force. The crisis in Zimbabwe does, however, have significant and serious implications for SADC’s future development path. Zimbabwe has historically been a key player within SADC – because of the size of its economy, its critical geographical location and its political commitment. Zimbabwe is no longer able to play such a role. Its political crisis further weakens SADC’s capacity to make political progress, and the continuing and deepening economic crisis also undermines the efforts to achieve greater economic integration.

These divisions and divergent priorities within SADC will impact on the progress and speed of regional co-operation. Many factors are outside SADC’s control. In the end, the critical issue remains relevance. SADC’s future depends on its ability to remain relevant for the stakeholders in member countries. This ability depends on many issues outside SADC’s own control – South Africa’s role as the regional power, and support provided by the African Union and donor agencies are examples of such critical factors. Internal factors and SADCs institutional capacity are also crucial in shaping SADC’s ability to respond to the challenges and opportunities facing the Southern African region. For this to happen, it is crucial that the institutional reform and the associated formulation of new policies and priorities are brought to an early completion. The establishment of a strong and efficient Secretariat is critical to success here. At the same time it is also important that SADC and the regional project are brought closer to the people. This implies, *inter alia*, that SADC’s national structures need to become more active and that SADC has to change parts of its secretive and bureaucratic mode of operation and become more transparent and accessible.
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The Progress of Economic Regionalisation in Southern Africa – Challenges for SADC and COMESA

Mareike Meyn

Introduction

The process of economic regionalisation in southern Africa is commonly agreed as proceeding very slowly, with low levels of intra-regional trade and investment as well as limited progress in economic cooperation, e.g. in the fields of infrastructure and finance. The main explanation for the low level of economic regionalisation in southern Africa appears to be the inability and unwillingness of countries to remove tariff and non-tariff barriers to trade due to fiscal restraints, local industry protection and the fear of uneven distribution of costs and benefits (see for instance Chipeta 1998, Chauvin 2002, Dahl 2002, Kalenga 2004).

The progress of economic cooperation and intra-regional trade expansion has been different between the two major southern African trading blocks, the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). SADC has, as a successor of the frontline states-founded “Southern African Development Co-ordination Conference” (SADCC), followed-up a dirigiste approach of regional integration, combining broader development objectives with market integration. As a result of government interventions, regional integration at SADC has been determined by political considerations rather than by market forces (Odén 1996:8). COMESA, as the successor to the Eastern and Southern African Preferential Trade Area, was economically motivated from the outset and was modelled on the classical form of market integration. Though the process of economic integration in COMESA is still constrained by high levels of economic and political divergence of member countries as well as insufficient trade complementarities (Khandelwal 2004: 15-7, Mair and Peters-Berries 2001:158-9), the progress of economic integration has been more successful than the one in SADC to date. COMESA’s progress in regional economic integration is evidenced by nine of its 19 members meeting the deadline to implement an FTA by 2000, whereas the establishment of the SADC FTA by 2008 appears unlikely to happen (see contribution of Kalenga in this and previous Yearbook).

Both SADC and COMESA intend to pursue deeper economic integration eventually leading to a Customs Union, a Common Market and a Common Monetary Area. A step towards deeper regional integration in the form of a Customs Union is also in the interests of donor countries, primarily the European Union (EU), which intends to negotiate Economic Partnership Agreements (EPAs) with regional African bodies.

However, SADC and COMESA face a host of obstacles that prevent the
deepening of economic integration, such as missing complementarities in intra-regional trade, restrictive rules of origin, non-tariff barriers and supply-side constraints, dependence on import revenues and an overlap in membership of regional bodies.

This paper aims to investigate the driving forces and obstacles towards deeper economic regionalisation in SADC and COMESA respectively and to analyse the role of EPAs in promoting a more coherent economic regionalisation strategy in southern Africa.

The paper is structured as follows. After the introduction, section 2 gives an overview on the different approaches of economic regionalisation schemes and the static and dynamic gains that might derive from SADC and COMESA respectively. Section 3 explores SADC’s and COMESA's goals and achievements with respect to intra-regional trade and economic development. Hindrances to expand intra-regional trade and to move towards deeper economic regionalisation are discussed in section 4. Section 5 explores the impact that EPAs have had on the process of regionalisation in southern Africa so far. Finally, section 6 concludes the main findings of the paper and gives policy recommendations on whether and how EPAs can help southern African countries to follow-up a consistent regional integration strategy and to move towards deeper and more meaningful economic integration.

**Economic Regionalisation in Southern Africa**

**Forms of Economic Regionalisation in Southern Africa: SADC and COMESA in Comparison**

There are different forms of economic regionalisation. The focus lies either on market integration, on sector and project cooperation or on development integration. Market integration is the classical form of regional integration according to Viner (1950). In a Preferential Trading Arrangement (PTA), the simplest form of economic integration, the participating countries grant each other preferential access to their markets. The second step of economic integration is the Free Trade Area (FTA). Tariffs and quantitative restrictions have been abolished between member countries, allowing complete free movement of goods within the FTA. In a Customs Union (CU) member countries have not only agreed on the abolition of internal barriers but also on a mutual trade policy, establishing a common external tariff (CET) on imports from non-member countries. A more advanced form of regional integration is the Common Market, which can be described as a customs union that also allows the free movement of capital and labour among its members. Additionally, trading standards and practises have been harmonised and member countries have a common trade policy towards third parties. An even deeper integration form than the common market is the Economic Union. The members of an economic union have also harmonised their economic policies. A Political Union is the highest form of integration, where the members of an economic union do also agree on a common policy. The political union has a central monetary system, a common currency (or absolute fixed exchange rates) and a common budget. Decisions over domestic policies are no longer made by member states but by a supranational organisation.

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1 According to Viner (1950) six different regional economic integration forms have been classified. In a Preferential Trading Arrangement (PTA), the simplest form of economic integration, the participating countries grant each other preferential access to their markets. The second step of economic integration is the Free Trade Area (FTA). Tariffs and quantitative restrictions have been abolished between member countries, allowing complete free movement of goods within the FTA. In a Customs Union (CU) member countries have not only agreed on the abolition of internal barriers but also on a mutual trade policy, establishing a common external tariff (CET) on imports from non-member countries. A more advanced form of regional integration is the Common Market, which can be described as a customs union that also allows the free movement of capital and labour among its members. Additionally, trading standards and practises have been harmonised and member countries have a common trade policy towards third parties. An even deeper integration form than the common market is the Economic Union. The members of an economic union have also harmonised their economic policies. A Political Union is the highest form of integration, where the members of an economic union do also agree on a common policy. The political union has a central monetary system, a common currency (or absolute fixed exchange rates) and a common budget. Decisions over domestic policies are no longer made by member states but by a supranational organisation.
One divides between neoliberal (open) market integration and neofunctional market integration. While the neoliberal approach promotes removal of all tariff and non-tariff barriers within the market in order to increase trade and investment (which is the case in SACU), the neofunctional method fosters a smoother form of market integration. Integration starts with co-operation of special sectors where success is manifest. Regional institutions shall promote intra-regional co-operation, e.g. in the fields of transportation, infrastructure, energy and production of specific goods. The neofunctional theory assumes that regional cooperation, directed through a supra-national element, leads to spill-over effects from one sector to another as it comes to positive expectations in the single interest groups (employers, trade unions etc.) (Matambalya 1995:39). COMESA practises sector cooperation but has not established a supra-national direction body.

Another form of economic integration is the planned approach, the so-called development integration approach. It is based on political and administrative cooperation; the free movement of goods and factors play only a secondary role. The governments promote trade cooperation and harmonisation of administration and ensure distribution of trade benefits to the people. This is done by planning and implementation of an overall strategy for complementary allocation of industries and regional trade. The goal is to increase the productive capacity and establish increased and balanced development within the region. The developmental integration approach investigates the resources and economic structures of its members and examines where structural transformation can be pursued. Efficient use of resources and concentration on comparative advantages should generate a surplus, allowing the structural transformation of the economy. An increasing industrialisation raises the productivity of the economies and acts as a source of (formal) employment.

In the so-called dirigiste approach, development integration is combined with market integration. Instruments are for example, the promotion of industrial development through splitting of investment within the region and the creation of regional banks for financing infrastructural and industrial projects. Thus, it is rather political intervention than market forces that determine the scope of integration. This combination of development integration and market integration is the type of economic regionalisation SADC aimed at (Odén 1996:8)².

In sum, it can be stated that COMESA and SADC have different theoretical backgrounds and approaches to regional integration. While COMESA follows-up the neofunctional method of market integration, focussing on the free movement of trade and investment, SADC pursues the promotion of industrial development and infrastructure projects, which are seen as prerequisite for a deepening of economic integration and the facilitation of intra-regional trade (Oshikoya and Hussain 2002:104).

² However, it is argued that with the end of apartheid in South Africa and the accession of South Africa to SADC in 1994, the instruments of market integration for regional integration have become more important (Wellmer 2005:29).
Gains and Losses of Economic Regionalisation in Southern Africa

To date, most sub-Saharan African countries show neither functional markets nor a functional infrastructure. Intra-regional trade is little and imbalanced with high transfer costs and manifold barriers. As a result, regional integration does not lead to an optimal factor use, absorption and distribution. Furthermore, intra-regional trade in sub-Saharan Africa is highly dominated by inter-sectoral trade (trade between different sectors), which correlates positively with differences in per capita income and results in high adjustment costs for the weaker member countries of a regional integration scheme (de Melo et al. 1993:163-4, Foroutan 1993:258-9). In fact, so far most regional integration attempts in Africa have resulted in protectionist policies among the “losers” who feared further industrial polarisation (Foroutan 1993:258).

Another factor that determines economic costs and benefits of regional integration in Africa is the level of market liberalisation of each country. In the case of a liberalised economy, the costs of integration decrease and the benefits increase due to a dominance of trade creation over trade diversion. In case of a closed economy, the costs of integration are preponderate. In addition to economic costs, in terms of enterprises that must be closed down due to increased competition, political costs, such as resistance to change, are also likely to occur (Padoan 2001:48-9). Since the level of market liberalisation is highly different among African countries, an uneven distribution of costs and benefits arises, which is reinforced, due to the high trade surpluses of the few powerful economies vis-à-vis their regional trading partners (Khandelwal 2004:22-3). Since it is generally seen as important that all countries of a regional integration scheme benefit from the agreement, there are manifold discussions about compensation mechanism, such as fiscal measures or transfer payment. However, so far SACU is the only regional integration scheme in Africa that has implemented such a mechanism successfully.

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3 One example for non-functioning markets is the ending supply capacity of African economies, i.e. total production in a regional integration area is not sufficient to meet the demand and goods have to be imported, which undermines the effect of trade creation (Blank et al. 1998:60-3).

4 Other important constraints for increased intra-regional trade among African countries are fiscal losses, the dominance of an import-substituting trade pattern, a lack of transport and communication facilities, the low purchasing power of consumers, non-convertible currencies, political instabilities and a high level of cultural diversity. It is generally argued that a reduction of these internal constraints would allow African countries to increase their intra-trade pattern significantly (African Development Bank 1993, 2000, Yeats 1998).

5 According to Foroutan (1993:258), Ivory Coast accounted for around 75% of intra-CEAO exports, Cameroon for 96% of intra-UDEAC exports, Nigeria for 30% of intra-ECOWAS exports and both, Kenya and Zimbabwe of around 30% of intra-PTA exports (today COMESA). South Africa again, accounts for more than 93% of SACU’s exports and 62% of total SADC exports in 2000 (World Bank 2003:28).
Monitoring Regional Integration in Southern Africa

Factors that advance regional integration

- A similar production structure and a high level of intra-industrial trade among trading partners
- Large, prosperous markets
- High consumers’ purchasing power and a high income equality
- High factor mobility: equal distribution of trade benefits
- Competitive environment: increased quality of goods and innovation stimuli
- Open trading regime: low adjustment costs
- Economically and politically stable member countries
- Geographical closeness and proper infrastructure: low transaction costs
- Cooperation in trade-related areas: facilitation of intra-regional trade
- Compensation mechanism: anticipation of regional disparities
- Creation of common regional institutions: reduction of political and economic uncertainties
- Political will to integrate
- Cultural homogeneity and common political values: consensus on common policies

Factors that constrain regional integration

- A different production structure and a high level of inter-industrial trade among trading partners or a very similar factor endowment and a low level of industrialisation among trading partners
- Small economies with low purchasing power
- High economic disparities among member countries: trade imbalances and dissimilar gains and losses
- Low factor mobility and protectionist policies among member countries
- Economically and politically unstable member countries
- Protectionist trading regime: high adjustment costs (such as fiscal losses)
- Geographical disparities and a weak infrastructure: high transaction costs
- Lack of intra-regional trade coordination and unclear mandate of regional integration scheme
- Missing political will to integrate
- Overlapping memberships in different integration schemes with rival goals
- Different linguistic and cultural background of the countries: higher costs to agree on common policies

Table 1: Factors that Advance and Constrain Regional Integration.

Source: Author’s presentation based on sources cited in the text.

In fact, African countries face manifold difficulties to economic integration since most of them do not fulfil the factors that advance regional integration. Thus, economic integration in the form of market integration is difficult due to missing trade complementarities, high barriers to trade and high economic disparities.

SADC’s approach of combining development integration with market integration aims to adjust the different development levels in the region while promoting market integration. However, SADC faces the problem that this approach is more complicated and time consuming than pure market integration. Furthermore, the political will and commitment for development integration is not always sufficient among member countries and the implementation of diverse sector protocols bear the risk that economic integration is not satisfactorily focused on.

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6 Balassa (1965:24-5) already pointed out that the Vinerian concepts of competitiveness and complementarity of trade are only insufficiently useful to judge the desirability of a customs union among developing countries.
Integration Plans, Instruments and Intra-Regional Trade of SADC and COMESA

The SADC Trade Protocol was signed in 2000 by 11 member countries and aims to liberalise 85% of intra-SADC trade by 2008; the remaining 15% of trade is regarded as sensitive and is due to be liberalised by 2012. SADC does further aim to establish a customs union by 2010, a common market by 2012, and a common monetary area by 2016. Regarding the fact that the implementation of the SADC FTA is still in its infancy and too insecure to be fulfilled by 2012, the further economic integration goals are regarded overambitious and most likely to be missed in time (Kalenga 2004, Kritzinger-van Niekerk and Moreira 2002).

As elaborated, SADC has applied a dirigiste approach of economic regionalisation, combining development cooperation with market integration. It focuses on cooperation among 20 different sectors including trade, health, mining, water and fisheries. Its main instruments are legally binding protocols. Until 2001, sector cooperation was under the responsibility of each member state. To improve the speed of sector protocol implementation as well as the focus of cooperation activities, SADC centralised its activities. Sector protocols were clustered in four directorates (trade and investment, infrastructure and services, food and agriculture, and human development and special programmes), which are managed by the SADC Secretariat in Gaborone. However, the centralisation of activities is not yet fully implemented due to missing financial resources and lacks human capital (Wellmer 2005:39). Still, SADC was partly able to address structural hindrances and supply-side constraints through the instrument of sector cooperation, such as monetary cooperation and harmonisation of payments (Khandelwal 2004:13).

COMESA has implemented an FTA for nine of its 19 member countries in 2000. It was further planned to establish a CU by December 2004, which was missed. Work towards a CET is continuing but it is unclear when the CU enters into force. COMESA is also planning a common market and a common monetary area but has not yet agreed on a binding time schedule for these ambitious integration plans (Khandelwal 2004:10-1).

As examined, COMESA follows-up the economic regionalisation strategy of market integration, focussing on the removal of trade and investment

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7 Angola and the DR Congo will not join the SADC FTA.
8 Another concern for a SADC CU is that its external tariff is likely to mirror the one of SACU since the economic and political giant of the region, South Africa, is dominating trade negotiations. Since the SACU tariff lines are regarded as complex and too restrictive (Khandelwal 2004:13-4, WTO 2003), there is concern that some countries reverse their multilateral liberalisation endeavours. However, since all SADC countries are members of the WTO, their CU has to be WTO compatible, which implies that the countries are not allowed to increase their CET above the level valid prior the establishment of a CU.
9 Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia, and Zimbabwe have joined the COMESA FTA. Burundi, Comoros, Eritrea, Rwanda, and Uganda have not joined but apply tariff reductions from 60-80% to COMESA members (COMESA 2002, Kritzinger-van Niekerk and Moreira 2002:51-2)
barriers in order to facilitate intra-regional trade and investment. Thus, cooperation in the fields of monetary policies, investment regulations, competition policy, private sector promotion and free labour movement are primarily dealt with. However, supply-side constraints of economic integration, such as the poor infrastructure of most member countries, an insufficient degree of industrialisation and underdeveloped financial markets, have been neglected in the past. These issues are supposed to become new key targets (Kritzinger-van Niekerk and Moreira 2002:127-8).

Neither SADC nor COMESA has published data for intra-regional trade among single member states. The statements that intra-COMESA trade was growing by 30% in the period 2001 to 2002 to 18% (COMESA 2002) and that intra-SADC trade accounts for 22% of total trade (SADC 2003) therefore cannot be reconstructed. However, other sources of SADC and COMESA intra-regional trade data also vary considerably and must be read with caution.

The Figures 1 and 2, based on IMF data show a rather discouraging outcome of economic regionalisation endeavours in southern Africa. Thus, in 2003 neither SADC nor COMESA was able to reach the level of intra-regional trade flows that existed in 1970 prior to the existence of these regional bodies. Since 1990 intra-regional trade stagnates in SADC at around 6% of member countries' total trade. COMESA was able to increase its intra-regional trade level slightly from 7% in 1990 to around 7.5% in 2003.

10 Thus, the data of the World Bank (2003:118-35) is incomplete and sometimes not comprehensible, e.g. when indicating that only 0.8% of total Mozambican imports came from South Africa in 1995 or that Zimbabwe's imports from Botswana were double as high as those from South Africa in 2000. Since Mozambique and Zimbabwe are South Africa's main export markets in SADC (DTI 2005, Tralac news 2003) these figures seems to be doubtful.

11 Since it was above all intra-regional imports that increased in the past years, this might be an indicator for trade-divertive effects after the introduction of the COMESA FTA in 2000.
However, intra-regional growth rates in the period 2001-2003 were encouraging with 9% for SADC and 11.5% for COMESA. Whether this positive trend continues and leads to sustainable intra-regional trade expansion in southern Africa depends to a considerable extent on the ability to overcome the existing obstacles to intra-regional trade and deeper economic integration.

**Non-Complementary Trade Structure and Low Industrialisation Degree**

The main products traded in COMESA are primary or simple manufactured products such as tea, textiles, cotton yarn, tobacco, sugar, refined motor spirit, cement, fertiliser, copper, rice, iron and steel (COMESA 2002:11). The lack of industrial development and the lack of product complementarities indicate only limited potential for expanded intra-regional trade. Most SADC and COMESA countries are only insufficiently industrialised. If one considers a share of 20% of manufacturing sector to GDP as indicator for an industrial base, it can be stated that only Egypt, South Africa, Mauritius and Swaziland fulfilled this condition constantly in the period 1992-1999.

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12 Intra-industrial trade (trade within one industry) is more valuable than inter-industrial trade (trade between industries) and implies that industries stand in direct competition. That is the more the case the more the trading partners equal regarding their industrial development (de Melo et al. 1993:169-71). Complementarities in trade measure the similarities between the export basket of a country and the import basket of another country.
Monitoring Regional Integration in Southern Africa (DTI 2004, World Bank 2002). Since the latter two are too small to offer significant spill-over effects, it is mainly Egypt and South Africa, which are regarded as potential stimulators for diversification processes (Khandelwal 2004:15-20, Chauvin and Gaulier 2002, Tsikata 1999, Yeats 1998).

Figure 3 gives an overview of the extent to which SADC and COMESA countries’ exports are diversified. The economic giants of the region, South Africa (SACU) and Egypt are also those countries, which show the highest diversification degree of their exports.

![Figure 3: The Diversification Index of SADC and COMESA Countries](source: OECD 2004:396-7)

**Low Purchasing Power and Low Macroeconomic Convergence of Member Countries**

Both SADC and COMESA are small in international terms with a real GDP of US$ 219 billion and US$ 148.6 billion respectively. One country, namely South Africa in SADC and Egypt in COMESA, accounts for 77% of SADC’s and 53% of COMESA’s GDP respectively (World Bank 2002:15). If one

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13 The OECD diversification index is constructed as inverse of a Herfindahl index that uses disaggregated exports at 4 digits (OECD 2004:378).
excludes South Africa and Egypt, the average per capita income in 2002 was US$ 1,216 in SADC and US$ 655 in COMESA (African Development Bank 2004:313). Since almost all SADC and COMESA countries can be classified as small, low income countries, the potential for expanding the size of trade among partners is regarded as low (Michaely 2004:83-8).

In addition to different income levels, SADC and COMESA countries differ highly with respect to their macroeconomic indicators and policies. To deepen economic integration in SADC and COMESA it is seen as crucial that the countries move towards converging levels of macroeconomic stability, including low inflation, sustainable external debt rates, realistic exchange rates and a stable fiscal and monetary management. However, to date member countries have not moved towards greater macroeconomic convergence and have failed to reach their ambitious goals with respect to inflation levels, economic growth rates or external reserves/import cover (Senaoana 2005, Khandelwal 2004, Hansohm and Mbazima 2003, Knedlik 2002).

**Supply-Side Constraints**

Supply-side constraints are economic, political and social conditions that hamper African countries’ potential benefits from accessing intra-regional and international markets. Most SADC and COMESA countries face manifold supply-side constraints such as an unfavourable macroeconomic environment (e.g. insufficient capital supply and limited convertible currencies, which is the case for most COMESA and SADC countries), lack public infrastructure (deficient roads, non-reliable electricity and water supply), have low labour productivity due to lack of education, poor health and housing provision, missing export market information, backwardness in technological services, and missing backward- and forward linkages. Since these manifold supply-side constraints have not been successfully tackled so far, SADC and COMESA countries were not able to exploit potential export benefits (Liebig et al. 2005).

**Protectionist Trade Regimes and High Dependency on Trade Taxes**

Many SADC and COMESA countries have established a regime of high import tariffs, not only to protect their domestic industries but also to secure income sources\(^{14}\). As a result of this import-substituting strategy, imported consumer and intermediary goods became expensive, resulting in the creation of a “dual economy”, which is characterised by uneven development within the country with few modern capital-intensive industries but missing backward- and forward-linkages in production process and the neglect of other sectors, such as agricultural activities (Krugman and Obstfeld 2003:263). Though structural adjustment programmes forced most

\(^{14}\) Import tariffs are comparably easy to collect and most African countries are highly dependent on this income source (Davenport et al. 1995).
African countries to reduce their industrial protection, openness to trade varies greatly among SADC and COMESA countries, rating from "open" economies such as Djibouti, Malawi, Zambia and Uganda to very restrictive trade regimes, such as Zimbabwe, Burundi and Egypt (Khandelwal 2004: 22).

Furthermore, most SADC and COMESA countries are still highly dependent on trade tariffs as a source of revenue, which account for around 10% of total revenue in Tanzania, Uganda and Zimbabwe, for around 30% in Comoros, Mauritius, Namibia and Zambia, and for more than 50% of revenue in Lesotho and Swaziland\textsuperscript{15}.

It is alarming that neither the economic powers of SADC and COMESA, South Africa and Egypt, nor the comparably better developed countries, Kenya and Zimbabwe, are classified as open (Khandelwal 2004:22-3). Additionally, free trade in the SADC FTA is constrained by member countries' attitude to backload goods that show potential for cross-border trade (e.g. tobacco, leather, beverages and foodstuff) and to frontload only goods that already show a low MFN rate, which limits the options of trade creation and bears the risk of trade diversion, thus worsening the trade imbalances in the region (Kalenga 2004:3, Trades Centre 2003).

**Increasing Trade-Imbalances, Polarised Development and Lack of Political Commitment**

The trade imbalances of South Africa and Egypt in SADC and COMESA are enormous. In 2004 South Africa, the economic and political giant of SADC exported R 261 million to the SADC region (excluding SACU) but imported only R 65 million (DTI 2005)\textsuperscript{16}. Egypt’s exports to COMESA accounted for R 57 million and its imports for R 27 million (Egyptian State Information Service 2002). For South Africa, the SADC region is a middle-level trading partner, accounting for 10% of its exports and 1.4% of its imports in 2000 (DTI 2001:7). For Egypt, however, COMESA is only of very limited economic relevance, accounting for around 1% of Egypt’s total trade. Thus, for Egypt the COMESA region is less important than South Africa, which accounted for 1.6% of Egypt’s total trade in 2004 (EU Trade Info 2005). This might be an indication that African businesses explore new markets independently from regional integration arrangements and that SADC and COMESA have not been able contribute significantly to intra-regional trade facilitation.

The lack of a complementary trade structure and the export bias of South Africa, Egypt and Kenya vis-à-vis the region have resulted in trade divertive effects that benefit the higher developed economies at the expense of the

\textsuperscript{15} South Africa is with 3% of trade revenue on total revenue the less dependent southern African country on trade revenues (Trade Policy Information Database as cited in Khandelwal 2004:21).

\textsuperscript{16} However, compared to the year 2002, South Africa’s trade surplus vis-à-vis the rest of SADC declined from R 272 million to R 196 million. South Africa’s main SADC trading partners are Mozambique, Zimbabwe, Seychelles and Mauritius (DTI 2005).
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less developed ones. The less developed SADC and COMESA countries whereas were not able to raise their intra-regional exports significantly (Khandelwal 2004:16-7). Kritzinger-van Niekerk and Moreira (2002:50) elaborate on the risks this implies in case of SADC: “The considerable and growing trade imbalance ... could be seen as a divergent force in terms of the distribution of perceived or real gains and costs of integration. Should the preferences allowed by SA ... prove to be insufficient equilibrating compensatory measures, the risks are high of other SADC economies incurring large welfare losses with South Africa realizing the counterpart gain.” The more advanced economies in SADC and COMESA are therefore not only called-upon to open their markets for less developed members but also to work towards ameliorative measures, such as the establishment of a compensatory fund (Ibid.). However, to date neither South Africa, nor Egypt or Kenya have taken on active roles to promote regional integration in SADC and COMESA respectively, which raises, in addition to the slow implementation process of envisaged integration agenda, concern on the political commitment of both organisations (Khandelwal 2004:20).

Remaining Non-Tariff Barriers (NTBs)

The SADC Trade Protocol (Art. 6-7) calls for the elimination of all NTBs such as cumbersome custom procedure and documentation, import and export quotas, and bans and road blocks. However, to date customs procedures have not been harmonised, import bans and road blocks do still exist and transport corridors, such as the Trans-Caprivi Corridor, have not successfully tackled administrative delays (Engineering News, 05/12/04).

Also COMESA, which has shown some progress in reducing NTBs, such as the removal of foreign exchange restriction and export and import quotas (ILO 1999:6), does still show high transaction costs. Thus, inefficient customs practices, bureaucracy and corruption contribute to high business costs in COMESA and have created a climate of uncertainty for exporters and importers (Liebig et al. 2004).

Complex Rules of Origin

Complex rules of origin are above all a problem for the successful implementation of the SADC FTA (see contribution of Kalenga in this and previous Yearbook). While initially trade negotiators envisaged the same simple rules of origin as applied in COMESA17, the SADC Trade Protocol contains much more complex procedures than COMESA, including detailed technical process requirements and a lower import content but

17 The COMESA rules of origin foresee that goods are granted originating status when a minimum of 35% (in exceptions 25%) of the value to the final product was added in the region or if no more than 60% of the value of total inputs comes from non-COMESA countries. However, Egypt has insisted on a 45% value added criteria for its COMESA imports (Kritzinger-van Niekerk and Moreira 2002:50-1).
higher domestic value addition requirements. For textiles and garments, the condition of double transformation has been applied (with exception for least developed SADC members), aimed to protect the South African market\textsuperscript{18}. South Africa is also restrictive regarding wheat flour, mineral fuels, motor vehicles, machinery and electric products where member countries have not agreed on common rules of origin to date (Khandelwal 2004:9, Kalenga 2004:2, Kritzinger-van Niekerk 2002:49).

**Overlapping Membership and Inconsistency of Regional Integration Strategy**

Overlapping memberships in SADC and COMESA increase member countries’ financial burden and stretch their already scarce human, administrative and technical capacities. Furthermore, the goal of both integration frameworks to work towards a CU for its member countries, forces double members to decide for SADC or COMESA in the near future. However, to date the integration successes of SADC and COMESA are still limited so that countries’ double membership does not infringe with their obligations in the respective integration body.\textsuperscript{19}

In 2001, SADC and COMESA have agreed on the establishment of a common task force, aimed to improve the coordination of their programmes and to collaborate on trade-related issues such as customs procedures, standardisation, and statistical trainings (Kritzinger-van Niekerk and Moreira 2002:128). However, the envisaged agreement on a common external tariff for SADC and COMESA is very doubtful since the economic powers of the block, South Africa and Egypt, focus more on trade with industrialised countries than with the region and are not ready to compromise on their CET. Furthermore, both, South Africa and Egypt have a bilateral FTA with their main trading partner, the EU, so that their CET is to a certain extent “locked in”.

In summary, it can be stated that not only the overlapping membership but also the great variety of trade regimes, tariff levels, and the high dependency on trade tariffs for most member countries make it difficult for

\textsuperscript{18} The condition of double transformation refers to two stages of production, i.e. the transformation from yarn to fabric and from fabric to clothing must take place within any SADC country. The clothing industry is therefore forced to source inputs from SADC countries (which is not the cheapest option) or to risk losing its preferred market access (Erasmus et al. 2004:16-8).

\textsuperscript{19} The exceptions are Swaziland and Tanzania. Swaziland is member of the SACU, SADC and COMESA. Since the other SACU members are also SADC but no COMESA members, Swaziland is not in a position to join the COMESA FTA without concurrence of SACU members, which is highly unlikely to be given. Tanzania again forms together with Kenya and Uganda the CU EAC. Kenya and Uganda are COMESA but not SADC members while Tanzania has recently withdrawn its COMESA membership but stays with SADC. Since the members of a CU share a common external tariff, any tariff reduction granted by one member state to a third country, affects the other CU member countries. Kenya’s membership in the COMESA FTA, Uganda’s tariff reduction offer vis-à-vis COMESA members and Tanzania’s accession to the SADC FTA do therefore infringe with the basic idea of a CU.
SADC and COMESA to move towards deeper economic integration and to agree on a common external tariff when establishing a CU\textsuperscript{20}. Additionally, the high trade imbalances in favour of the most advanced member countries, supply- and demand-side constraints to penetrate markets, above all in advanced member countries, and the missing political will and financial ability to establish compensatory mechanisms slow down the effective implementation of agreed economic integration steps and promote protectionist action of single member countries. Since the costs of economic regionalisation occur immediately while the benefits are insecure, many countries are hesitant to deeper economic integration in the region.

The question that should be elaborated on in the next section is whether a North-South FTA in form of the EU’s Economic Partnership Agreement (EPAs) can help SADC and COMESA to overcome their supply-and demand-side constraints, to reduce the inconsistency of member countries’ regional integration strategies and to promote intra-regional trade.

What is the impact of external pressure that pushes southern African countries by setting deadlines for the formulation of common, regional negotiation positions in order to enter into a North-South FTA? Does such an approach enable SADC and COMESA countries to follow a more consistent regional integration strategy and to promote deeper economic integration or does it lead to a further fragmentation of regional integration in southern Africa?

**The Challenges EPAs Pose for SADC and COMESA**

The EU is an important trading partner for all SADC and COMESA countries and the most important trading partner for South Africa, Egypt, Burundi, Comoros, DR Congo, Mauritius, Madagascar, and Seychelles. On average, the EU accounts for around 30% of total SADC and COMESA imports and absorbs around 40% of their exports (World Bank 2002)\textsuperscript{21}.

With the exception of South Africa and Egypt all SADC and COMESA countries are members of the Cotonou Agreement, the successor of the Lomé Agreements, and form together with South Africa the group of 77 African-Caribbean-Pacific (ACP) states\textsuperscript{22}. The EU granted its former colonies and overseas territories unilateral preferences since the start of the Lomé Convention in 1975, which are however going to expire by

\textsuperscript{20} Depending on the CET the countries agree to implement, SADC and COMESA countries have to change up to 6000 tariff lines per country. For the SACU countries, which have bound a great number of tariff line in the WTO, a possible increase of tariff rates under a SADC CU would also infringe with the regulations of the WTO (Khandelwal 2004:26-7).

\textsuperscript{21} Only Djibouti, Eritrea, Lesotho, Rwanda, and Angola export less than 15% of their total exports to the EU. Malawi, Zambia and Zimbabwe are the only countries that receive only around 10% of the total imports from the EU (World Bank 2002).

\textsuperscript{22} South Africa became the 71\textsuperscript{st} ACP member in 1997 but benefited due to its comparable high development degree only to a limited extent from the Lomé Convention before in January 2000 the EU-South Africa FTA entered into force (European Commission 1999:25).
the end of 2007\textsuperscript{23}. The successor of the Lomé Agreements, the Cotonou Agreement (2000) foresees that regional blocks of ACP countries enter into “Economic Partnership Agreements” (EPAs) with the EU by 01 January 2008.\textsuperscript{24}. EPAs are supposed to be WTO-compatible, which implies that they cover “substantially all trade”, liberalised within “a reasonable length of time” (GATT, Art. XXIV, § 4-10), which is generally interpreted to liberalise around 90\% of bilateral trade within 10 years\textsuperscript{25}.

Southern African countries decided to negotiate EPAs in two different blocks, namely the SADC EPA and the Eastern Southern African (ESA) EPA. Due to overlapping membership, already existing bilateral FTAs with the EU and existing custom unions, the EU now has the following trade regimes with SADC and COMESA countries:

1) The EU-South Africa FTA
   - South Africa has entered into an FTA with the EU in 2000, liberalising around 90\% of bilateral trade by 2012.

2) The SADC EPA
   - Comprises seven SADC member countries, namely Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland and Tanzania.
   - Botswana, Lesotho, Namibia and Swaziland (BLNS) form together with South Africa the SACU. BLNS are locked-in the EU-South Africa FTA liberalisation schedule since they share a CET with South Africa. Thus, BLNS have \textit{de facto} already an FTA with the EU.
   - Due to imperfect supervision of rules of origin in the region, this implies that any EPA that contains the BLNS countries has to follow the EU-South Africa FTA on the import-side. As a result it was only the SADC members Angola, Mozambique and Tanzania that joined the BLNS countries to form the SADC EPA, while the other SADC member countries decided to join the ESA EPA.

3) The EU-Egypt FTA
   - Egypt is not classified as ACP countries but part of the Euro-Mediterranean Partnership of 1995, which established bilateral FTAs between the EU and 10 Mediterranean countries, including free trade in non-agricultural goods, service and free movement of capital.

\textsuperscript{23} For an analysis of the internal and external reasons for the failure of Lomé: see Eurostep (2000), Stevens (2000) and Wolf (1996).

\textsuperscript{24} ACP countries classified as Least Developed Countries (LDCs) can maintain their non-reciprocal market access to the EU under the „Everything But Arms“ (EBA) initiative. However, EBA (which is the expanded GSP) is a non-contractual agreement that can be withdrawn at any time. Furthermore, EBA does not include a development component and shows restrictive rules of origin so that it is not very attractive for ACP LDCs (Brenton 2003). All SADC and COMESA LDCs have therefore opted to explore the options of EPAs before they might decide to keep non-reciprocal trade relations under the EBA.

\textsuperscript{25} According to Annex 1A, GATT on the “Understanding on the Interpretation of Art. XXIV” (WTO 1994)
4) The ESA EPA

- Comprises 16 countries, namely all COMESA members with exception of Angola, Egypt and Swaziland.
- The SADC and COMESA members DR Congo, Malawi, Mauritius, Zambia and Zimbabwe decided to negotiate in an ESA framework.
- Kenya and Uganda, which form together with Tanzania the customs union EAC, are negotiating an ESA EPA, while Tanzania negotiates in a SADC EPA framework.

In the case where the SADC EPA agrees on different tariffs for EU imports than the ESA EPA, the inspection of origins of imports from the EU will not only be an enormous administrative burden but also hardly feasible, taking the imperfect supervision of rules of origin in southern Africa into account. The perpetuation of non-reciprocal trade relations between the EU and southern African LDCs is therefore only a theoretical but not a workable alternative. From an economic point of view, it would therefore be best if the countries of the SADC EPA and the SEA EPA agreed on a CET towards the EU. This could avoid smuggling, trade diversion and economic polarisation; and intra-regional trade and regional integration in southern Africa could be promoted. However, such a joint approach is rather unrealistic taking southern African countries’ different economic interests in the region and the disparity of SADC countries’ trade relations to the EU into account (Meyn 2004).

Another option would be that Angola and Swaziland drop out of COMESA and DR Congo, Malawi, Mauritius, Zambia and Zimbabwe drop out of SADC so that overlapping membership will be reduced and North-South and South-South integration takes place in the same regional bodies. However, to date economic and political interests have not permitted the reduction of infringing regional memberships. On the contrary, countries have even increased the confusion of “regional spaghetti” as the new membership of the COMESA/ESA member Madagascar in SADC or the membership of EAC member Tanzania in the SADC EPA shows. Since the countries of the SADC EPA and the ESA EPA are still allowed to switch their EPA configuration, it remains to be seen how the issue of overlapping membership will be addressed by EPAs. However, the time frame for changing the EPA configuration is limited. Once EPAs have been concluded and a common external tariff (CET) vis-à-vis the EU has been established, southern African countries are also locked-in a certain African integration framework - given that the CET of the ESA EPA and the SADC EPA differs. Southern African countries are therefore well-advised to evaluate their long-

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26 The EU has called upon Tanzania to choose between SADC and EAC (The East African, 16/05/05). Considering the depth of economic integration, Tanzania’s interest lies in the EAC, which accounts for the bulk of Tanzania’s intra-African trade (Sitta 2005). Thus, in order to make its regionalisation strategy coherent, Tanzania could either leave the SADC EPA and join the ESA EPA or negotiate together with Kenya and Uganda an EAC EPA (which would of course imply that Kenya and Uganda had to leave the ESA EPA).
term trade and investment interests in the region carefully before finally deciding for one EPA configuration.

**Costs and Benefits of EPAs for SADC and COMESA Countries**

The immediate costs arising from EPAs are expected to be considerable for many African countries and have resulted in a strong opposition against EPAs. Though it is to date insecure how EPAs concretely look like, they are expected to imply severe revenue losses for most African countries since African countries are going to liberalise their import regime towards a major trading partner. These revenue losses are expected to range between 1% for Uganda and Tanzania to 10-12% for Mauritius and Rwanda (Khandelwal 2004:32)\(^27\).

Another concern articulated by African negotiators is the limited option for infant industry protection. Since EPAs are supposed to liberalise around 90% of trade between the EU and southern African, the countries would be left with few options to industrialise (Goodison 2004). In this respect it is also critically highlighted that southern African countries hardly have the capacities to implement effective safeguard measures in order to protect their industries from serious injury caused by “unfair competition”, such as subsidised EU agricultural exports (Botha 2005). Considering these circumstances it is proposed that EPAs should exclude *a priori* sectors that are regarded as highly sensitive as well as products that are subject to EU export subsidies. However, to date the EU’s mandate on safeguards and anti-dumping does not take African countries’ concerns in this respect into account (Steven and Kennan 2005)\(^28\).

On the other hand, southern African customers and producers might benefit from cheaper imports, which could also offer the chance to build-up backward and forward-linkages for niche products and to increase the domestic value addition of production. Still, it remains questionable whether it is the right approach to force a country to liberalise its trade regime when it is not ready to. The EU aims to achieve a 76% liberalisation of the imports of the SADC EPA and an 80% liberalisation of the imports of the ESA EPA (Maerten 2004 as cited in Stevens and Kennan 2005:4).

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\(^{27}\) Stevens and Kennan (2005) argue that increased imports as a result of liberalisation might compensate for revenue losses. On the other hand, it is also likely that trade diversion, i.e. the replacement of third country imports by EU imports, accelerate revenue losses. These dynamic processes make it in fact impossible to calculate the scale of revenue losses for African countries exactly.

\(^{28}\) Another serious concern of EPA negotiations is the demand of the EU to include services and the “Singapore Issues” (competition policy, investment, trade facilitation and government procurement) into EPA negotiations. African countries reject this demand because of the biased negotiation power and the capacity constraints they face. African countries do therefore fear to lose out when including trade-related policies into EPA negotiations. Furthermore, a regional policy on these issues does not exist (EAC 2005).
Whether EPAs offer SADC and COMESA countries improved access to the EU market is whereas insecure. Today, sub-Saharan African countries can export around 95% of their total EU exports duty free (Davenport et al. 1995). However, significant restrictions for products that fall under the EU Common Agricultural Policy, tariff escalation for agro-processed products and complex rules of origin that requires a minimum local content of 45% of product value restrict the access to the EU market. Furthermore, stringent health and consumer standards hinder southern African countries’ exports to the EU market. The extension of EU preferences to all African products, more generous rules of origin that allow SADC and COMESA countries to source input from more developed countries, such as South Africa and Egypt, EU-wide harmonised standards that reflect not only consumer protection but do also take developing countries’ capabilities into account as well as technical and financial support to cope with increasingly stringent standards are therefore necessary to improve Africa’s effective market access the EU (UNECA 2005, UK Commission for Africa 2005).29

To what extent EPAs can help southern African countries to tackle their supply-side constraints and to increase production is also unsure. On the one hand the EU made clear that no additional financial means to the 9th EDF are granted. On the other hand, the € 30 million support given to the countries of the ESA configuration in order to improve their institutional capacities and the € 70 million for the SADC regional indicative programme shows that the issue of supply-side constraints is a priority of EU development cooperation (Nielson 2004). However, effective support that helps southern African countries to overcome supply-side constraints, such as lack transport and telecommunication infrastructure, poor financial services, and poor production facilities is a long-term development goal that can only be supported by EPAs but not solved by them.

As the discussion has shown, a successful development of infrastructure services and industrial capabilities is also crucial for increased intra-regional trade in southern Africa since high costs of doing business and the non-complementary trade structure and the low degree of industrialisation are major factors for the low level of intra-regional trade in SADC and COMESA.

29 The UK Commission for Africa (2005:291) proposes that African countries should be allowed to source globally and that industrialised countries should require a minimum of only 10% value added in Africa. Research findings from the Institute for Development Studies (IDS) confirm that such a generous regulation would help to boost African exports (Stevens 2005). However, the implications of generous rules of origin on the development of domestic value addition of production processes should also be considered. As the example of AGOA shows, many African countries were able to expand their export significantly but experienced increasing trade deficits vis-à-vis the USA (www.agoa.info). The development impact of AGOA is therefore disputed (see UNCTAD 2003 and Stern/ Netshitoboni (2002) for a critical discussion of AGOA.
Conclusions and Outlook: Can EPAs help SADC and COMESA to move towards Deeper Economic Integration?

SADC and COMESA have adopted different approaches of economic regionalisation. While the dirigiste-approach of SADC has addressed infrastructure and supply-side constraints by the instrument of sector cooperation, COMESA has taken the neofunctional approach of market integration focussing on the removal of trade barriers. However, neither SADC nor COMESA has been able to implement its ambitious agenda of regional integration and economic development yet. Both trading blocks show only low levels of intra-regional trade and limited political will of their members to move towards deeper economic integration. The reasons for this are complex, starting from a non-complementary trade structure and a low level of industrialisation, thus limiting the expansion of intra-regional trade, to very different economic development degrees among member countries, which has resulted, in addition to protectionist attitudes, in polarisation effects. Furthermore, supply-side constraints, such as lack of infrastructure, cumbersome customs procedure and limited production capacities have contributed to limited intra-regional trade in SADC and COMESA. Southern African countries’ trade relations are still highly biased towards industrialised countries, mainly towards the EU.

EPAs might help African countries to increase intra-regional trade by lowering their external tariffs and by granting financial and technical assistance to decrease their dependency from trade duties and to support their endeavours to tackle supply-side constraints effectively. However, this would require a strong development component of EPAs, which is not guaranteed yet. As the discussion showed, EPAs pose severe challenges to southern African countries with respect to revenue losses, capacity building and regional integration.

Whether EPAs help to reduce southern African countries’ overlapping memberships in regional trade body and make their regionalisation strategy more consistent remains to be seen. To date, EPAs have rather added confusion to regional integration in southern Africa. Considering the current situation of “regional spaghetti” in southern Africa and the announcement of the EU that countries are still allowed to change their EPA formation, it is impossible to predict what the situation looks like in 2008 when EPAs enter into force. The following outlook should however elaborate on the chances and risks of different EPA formations for regional integration in southern Africa.

- **SACU:** The exclusion of South Africa from EPA negotiations and its existing FTA with the EU undermine regional integration in SACU. The new SACU Agreement aims to move towards deeper integration, such as the establishment of common trade-related policies. This approach of deeper integration is constrained if member countries show different trade regimes with the EU. The mid-term review of the EU-South Africa
FTA offers the option to discuss the inclusion of South Africa into EPA negotiations. Since South Africa has also experience in negotiating trade in services, intellectual property rights and government procurement (SACU-USA FTA), South Africa’s inclusion could also help to reduce the bias in negotiation power. A SACU EPA would make SACU’s trade relations with its major trading partner consistent and could help to promote deeper integration within SACU.

Angola’s and Tanzania’s membership of the SADC EPA is problematic since these countries are hardly integrated in regional trade. Mozambique again shows strong trade and investment linkages with the SACU and is exploring the costs and benefits of a SACU membership (see the discussion of Meyn in previous Yearbook).

- **EAC:** The EAC CU has officially entered into force in December 2004 but the countries have not established a CET yet. EPAs pose the risk that the EAC will not implement a common external tariff since Tanzania negotiates EPAs in a SADC framework and Kenya and Uganda in an ESA framework. Considering the comparable advanced integration degree of the EAC, the intra-regional economic interests of the countries and their geographical proximity, it would make sense if they negotiated commonly an EPA with the EU in an EAC configuration.

- **SADC:** The decision of the SADC members DR Congo, Malawi, Mauritius, Zambia and Zimbabwe to negotiate an ESA EPA, which contains only COMESA countries, undermines economic regionalisation in SADC. Since the CET of the SADC EPA is likely to mirror the one of the EU-South Africa FTA and unlikely to be accepted by the ESA EPA, SADC member countries will have locked-in two different CET vis-à-vis their main trading partner, which makes a move towards deeper integration in form of a CU impossible.

The non-LDCs Mauritius and Zimbabwe, which show much stronger economic linkages with SADC (namely South Africa) than with COMESA, are recommended to evaluate whether their long-term economic interests are really with COMESA or whether it would be wise to join a SACU EPA despite the concessions they would have to accept with respect to the CET.

- **COMESA:** If one excludes Mauritius and Zimbabwe, all COMESA members (but Egypt, which is not an ACP country) are classified as LDCs. These countries could maintain non-reciprocal trade relations with the EU under the EBA initiative.

30 To make the EBA more attractive for COMESA LDCs, the rules of origin should be formulated more generously, allowing countries to increase the sourcing of foreign inputs for production (Brenton 2003). It is often argued that the EBA initiative is not attractive for LDCs because of its non-contractual character. However, it remains uncertain whether EPAs are more attractive considering the costs they imply for LDCs, i.e. with respect to losses of tariff revenues and harmful competition.
The confusion EPAs add to African countries’ regional integration strategies shows that they are not integrated into the development strategy of African countries as announced by the EU (Nielson 2004). In fact, the EU’s understanding of regional integration does not imply that regional markets are build first before entering into a North-South FTA. The EU promotes “open regionalism” assuming that regional integration in Africa and North-South integration will go hand in hand. However, to negotiate a North-South FTA with the EU as a region requires that a certain level of integration exists and that countries have agreed on common positions towards the EU, e.g. with respect to their external tariff structure, their strategy on how to deal with trade-related aspects and their requirements to improve their access to the EU market effectively. To date, most SADC and COMESA countries have not even established a national position on all aspects to be negotiated in EPAs so that regional EPA negotiations with the EU do rather reflect positions of single national stakeholders but not those of the region. Without according support for capacity building, more time to form common regional strategies and flexible approaches that also take the development needs of the least developed SADC and COMESA countries into account, EPAs will remain a political construct of the EU that does not sufficiently reflect southern African countries’ economic interests in the region.

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31 One example is the declaration of concerned SADC EPA stakeholders, which was worked out and presented by Namibian stakeholders at the launch of SADC EPA negotiations in Windhoek, 08 July 2004.
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Conclusion: Progress Towards Integration in Southern Africa in 2004-2005

Dirk Hansohm, Willie Breytenbach, Trudi Hartzenberg and Colin McCarthy

The various chapters of this book assess economic, political and institutional dimensions of integration in Southern Africa, from the points of view of different authors. As in previous years, the picture of progress in regional integration is mixed and contradictory. Regional integration is a multi-dimensional process. Contributions of this year’s yearbook demonstrate the complex influences on regional integration within the regional itself, and also the implications or external influences on the process of regional integration.

Southern Africa has progressed over the last year in terms of political stability and consolidation of democracy. Within Africa, Southern African the sub-region is higher integrated, better developed, and better governed. Democracy and economic and social development reinforce each other.

The civil society becomes an increasing force in the region. Churches, trade unions, professional and business organisations, NGOs, the press, institutionalise on the regional level and raise increasingly their voice. Issues that were previously regarded as national territory, are coming under regional scrutiny. This is an important element and underpinning of regional integration.

However, the region remains heterogeneous. Notably, the DR Congo, Swaziland, and Zimbabwe are exceptions to the reinforcing trend of democratic, economic and social development mentioned above. The two lusophone countries – Angola and Mozambique – that had been marginal to the regional process have progressed. However, Angola lags considerably behind Mozambique that is now a major trading partner in Southern Africa.

The agenda for political and security co-operation remained important. It is difficult, however, not to conclude that continental issues such as peace in Darfur, Cote d'Ivoire, the DRC and Burundi took centre stage in 2004, overshadowing the developments in Southern Africa.

On the continental level, progress was deeper with the inauguration of the African Peace and Security Council, the African Standby Force and the implementation of the Pan-African Parliament.

In the SADC region, no new political and security initiatives were implemented. Nothing significant took place within SADC or the Organ for Politics, Defence, and Security (OPDS). Much development however took place at the bilateral level such as co-operation between South Africa and Mozambique and cross-border interactions by civil society organisations on the Zimbabwean elections.
Peaceful elections took place in South Africa, Namibia, Mozambique and Botswana. With the exception of Zimbabwe and Swaziland, the democratic outlook throughout the region stabilised, even improved. But many countries in the regions suffered setbacks in their Human Development Indexes and per capita incomes. If affluence is required to sustain democracies, challenges still lie ahead.

Within southern Africa there is a renewed focus on regional economic integration and its implications, particularly on the implications on multiple membership of regional arrangements. The implications of overlapping membership are becoming clearer as the process of regional integration is expected to deepen. Assessment of the implementation of the SADC Trade Protocol, and specifically of the role that rules of origin play in regional integration emphasise the importance of rules that can facilitate good business (and especially cross-border) decisions in the region. The importance of implementation capacity, if the ambitious goals of regional integration are to be realised, is obvious. At the same time the impact of the transaction costs of doing business, on regional integration focuses attention on the services sectors; the provision of efficient, reliable services at reasonable cost.

The divergence between private sector-, market-led processes of regional integration are evident from a review of FDI performance in the region. Private business seeks out and takes advantage of market opportunities, in many cases battling its way around the complex regulatory snarl-ups in the region. For an efficient business environment, governance (rules, regulations, agreements) needs to catch up with market-led processes of integration. In its absence, resentments against the dominance of South African business is growing in the small countries that may lead to a ‘backlash’ against regional integration.

Common policy development marks a significant advance in the process of regional integration – an advance that is in fact necessary if the ambitions stated in the various agreements are to be fulfilled. The 2002 SACU Agreement requires the development of common policies in various areas (different levels of policy coordination, cooperation and common policy development are provided for). The development of a common industrial policy for SACU poses daunting challenges, related to the levels of economic development of the member states, diversity and varying depth of industrial development, and options for industrial development. New thinking on industrial policy is required, and a difficult balance needs to be found between developing an industrial policy that will inform the trade policy, and especially the common external tariff of SACU, and those dimensions of an industrial policy that will facilitate the development of a more robust industrial structure across member states, and export diversification as well as a vehicle for addressing key challenges such as job creation.

The impacts of external developments on regional integration are becoming clearer as the focus on, and involvement in the negotiations with the
European Union to conclude Economic Partnership Agreements (EPA) gathers momentum. EPAs are to replace the non-reciprocal preferences enjoyed by countries in the region under the Cotonou Agreement, and for the least developed countries, under the Everything- but- Arms (EBA) Initiative. This is complicated by the fact that South Africa (although part of the customs union) has a free trade agreement with the EU already, and the fact that the negotiating coalitions that have formed to negotiate with the EU cut across regional integration arrangements. The SADC-EPA group consists of the BLNS countries (Botswana, Lesotho, Namibia, Swaziland), Mozambique, Angola and Tanzania. While the EPA negotiations have made a tentative start for the SADC group, the Trade and Development Cooperation Agreement (TDCA) between South Africa and the EU is being reviewed, with until very recently marginal if any involvement of the BLNS, despite the fact that this is obviously of material importance to them.

While EPAs should not define regional integration priorities for southern Africa, it is an opportunity for consideration of the regional integration priorities and for countries to make the choices that will not only facilitate national, but also regional integration and development. The question arises: Is there political will to make these choices?

What the contributions to this Yearbook show, is the importance of institution building for regional integration arrangements to succeed. This will turn out to be a serious challenge, since it will require the building of institutional capacities in a situation where national institutions in the constituent member states might not be very strong. The importance of institutions and the strengthening of national and regional institutions need to be given increasing attention in future studies on regional integration. It should be noted that institutional development in this context does not refer to the agreements that are concluded but, along the lines of the New Institutional Economics, are more concerned with practices, customs and policies that provide the framework and foundation for modern economic activity.

In the event of national economic performance it is not unknown that in the process of development countries are tripped up “in the transition from one set of `institutions’ to another” (Pritchett 2003: 148). The formation of a regional integration arrangement requires that regional institutions be developed to which important facets of national economic and political decision making will be subordinate. The successful establishment of a regional integration arrangement, therefore, requires a major transition, which can easily trip participating countries up. This may explain why the conclusion of regional integration agreements is not matched by the active participation of member states in the integration exercises and why progress is not made in those activities that measure the effectiveness of integration, for example, intra-regional trade.

Elements of institutional failure can also be observed in southern Africa. The Southern African Customs Union, for example, has a new agreement that was concluded in 2002 and came into force in July 2004, but near the end
of 2005 the operational institutions that give content to the new agreement have not yet been established. SADC, in turn, has not significantly growth intraregional trade (that is, excluding South African exports to the rest of SADC) and has not yet completed a process of institutional reform and overhaul that was supposed to take two years. As an integration arrangement it also faces an uncertain future development path. Thus, while the economic integration in real economic and political terms is carrying on, the institutional integration is lagging dangerously behind.

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Some Comparative data on Southern Africa

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Human Development Index trends 1995-2002

Source: [http://hdr.undp.org](http://hdr.undp.org)
Some Comparative data on Southern Africa

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Socioeconomic Development trends 1997-2002,

Source: [http://hdr.undp.org](http://hdr.undp.org)
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### Development of Political Freedom 1990-2004

Source: www.FreedomHouse.org

**Notes:**

- Rankings may have changed simply due to the change in the ranking intervals now used by Freedom House for 2004 e.g. a country which had a rank of 1.2 may have to be fitted into either 1.0 or 1.5.
- The lower the score the greater the freedom: 1.0 to 2.5 = free, 3.0 to 5.0 = partly free, while above 5.0 = not free.
### Some Comparative data on Southern Africa

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<td>Negative</td>
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</tbody>
</table>

*Development of the Corruption Perceptions Index (CPI) 1998-2004*


CPI Score relates to perceptions of the degree of corruption as seen by business people and country analysts and ranges between 10 (highly clean) and 0 (highly corrupt).
<table>
<thead>
<tr>
<th>Country</th>
<th>SADC Protocols</th>
<th>Other Legal instruments</th>
<th>All Legal instruments</th>
</tr>
</thead>
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<tr>
<td></td>
<td>Signed only</td>
<td>Ratified/</td>
<td>Signed only</td>
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<td></td>
<td></td>
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<td>20</td>
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<td>22</td>
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<td>Seychel.</td>
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<td>Zimbabwe</td>
<td>9</td>
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<td>1</td>
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</tbody>
</table>


Source: [www.sadc.int](http://www.sadc.int)

Signed MoU’s that do not require ratification are taken as ratified, and where the country is not required to ratify/accede the protocol, it is taken as it has ratified it e.g. protocol on tribunal, SADC has a total of 32 legal instruments to date (with 24 protocols)
Interesting Website Links on Southern Africa

African Development Bank Group:
www.afdb.org

African Union:
www.africa-union.org

CIA World Factbook:
www.cia.gov/cia/publications/factbook/geos/

COMESA Bankers’ Association:
www.comesabankers.org

Committee of Central Bank Governors in SADC:
www.sadcbankers.org

Common Market for Eastern and Southern Africa (COMESA):
www.comesa.int

Development Bank South Africa (DBSA):
www.dbsa.org

Freedom House:
www.FreedomHouse.org

Institute for Global Dialogue:
www.igd.org.za

Institute for Security Studies:
www.iss.co.za/

New Partnership for Africa’s Development:
www.nepad.org

SADC Food Security Programme:
www.sadc-fanr.org.zw

SADC Trade, Industry and Investment Report:
www.sadcreview.com

South African Institute of International Affairs:
www.wits.ac.za/saiia

Southern Africa Trade Research Network:
www.tips.org.za/satrn/

Southern African Development Community (SADC):
www.sadc.int

Southern African Poverty Research Network:
www.sarpn.org.za

Trade and Development Studies Centre (Harare, Zimbabwe):
www.tradescentre.org.zw

Trade and Industry Policy Secretariat:
www.tips.org.za
Trade Law Center for Southern Africa:
www.tralac.org

Transparency International:
www.transparency.org

United Nations Statistics Division:
unstats.un.org/unsd/

World Bank, World Development Indicators Online:
www.worldbank.org/data/