

RATIONALE AND ARCHITECTURE OF REGIONAL INTEGRATION IN SOUTHERN AND EASTERN AFRICA

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ISSUES TO BE ADDRESSED

- **Definitions**
- **Benefits and costs of RI**
- **Architecture of RI in the region**
- **Selected competition issues**

DEFINITIONS

- **Focus on two models:**
 - **Free trade area/agreement (FTA) on intra-regional trade in goods**
 - **Customs union, which is an FTA with a common external tariff (CET)**
 - **Deeper integration extends to capital and labour flows (common market) and finally monetary and fiscal integration (economic union)**
 - **In practice the phenomenon of variable geometry**

BENEFITS OF REGIONAL INTEGRATION

- **Achieving political objectives**
- **Possibility to substitute high cost domestic producer with lower cost producer elsewhere in the area (trade creation)**
- **Access to a larger market and commensurate economies of scale and increased competition (dynamic benefits)**
- **In the case of a CU lower transactions cost of intra-regional trade**

BENEFITS (CONT.)

- **Encourages investment, local and foreign**
- **In a policy environment of outward-looking development RI has an incubator effect in building export capacity**
- **Improvement in policy credibility**
- **More clout and better use of scarce expertise in international negotiations**
- **Opportunities to revise/simplify tariff structure**

COSTS OF REGIONAL INTEGRATION

- Trade diversion (opposite of trade creation)
- Loss of policy sovereignty (CU in particular)
- Agglomeration economies that could increase regional inequality
- For CUs, required decision-making at supra-national level causes delays in policy decisions and implementation

Final evaluation depends on perceived net benefits

RIAs IN THE REGION

- **SACU - SA, BLNS**
- **EU-SA FTA (TDCA)**
- **Common Monetary Agreement (CMA) - SA, LNS**
- **Southern African Development Community (SADC) - SACU members + 9 with a roadmap to a CU and beyond**
- **COMESA – with a roadmap to a CU and EAC (KUT)**
- **EPA negotiations of EU with**
 - (a) SADC 7 (BLNS, Angola, Mozambique & Tanzania, SA as observer) likely to become 6**
 - (b) ESA**

COMPETITION AND OTHER ISSUES

Managing competition complicated by regional agreements and economic structure

- **Deeper integration within an FTA in order and even advisable; vide SACU and CMA within SADC**
- **Overlapping membership of potential CUs by definition unworkable**
- **Consequently, serious RIA re-engineering an imperative**

COMPETITION AND OTHER ISSUES (CONT.)

- **Major issue is how to deal with potential conflicts of South Africa's economic dominance**
 - **As a potential source of growth and increased consumer welfare**
 - **As a threat to balanced regional industrial development**

CONCLUSION

Effective economic integration is crucial but in the complicated world of RI in Southern and Eastern Africa the development of competitive markets will require an appreciation of the workable, a commitment to restructure RIAs, and to be modest in our expectations and roadmap designs