The Roadmap towards Monetary Union in Southern Africa – is the European experience commendable and replicable?

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1. Introduction

Europe has set the world a commendable example of integration, both in expanding its membership and in deepening integration. This experience has not gone unnoticed in Africa. In fact, the experience of progressive European integration, culminating in the establishment of the Euro Zone in January 1999 and the introduction of the single currency in January 2000, is often propagated as a role model, specifically also as far as monetary union is concerned. When the African Union was launched, officials specifically referred to Europe's monetary integration and envisaged a common currency for Africa akin to the Euro.

At times the impression also exist that Europe, or at least some European Union representatives, regard its integration experience, including monetary union, as an exportable model, something that can and should be replicated in other regional groupings. The question, however, is whether it is appropriate to follow Europe and adopt what can be described as the Vinerian linear model of regional market integration in African regional economic integration. Is a comparison of the challenges, circumstances and experience of integration in Africa and Europe valid and relevant?

The paper addresses this question in a reconsideration of the political economy of regional integration in southern African. The focus falls on the Southern African Development Community (SADC), the broadest, albeit not the deepest regional integration arrangement (RIA) in the sub-continent,[2] and the destination of a monetary union set up as a final goal for SADC. It should be emphasised that the paper does not rigorously follow a route informed by the literature on optimum currency areas, although some elements of this approach will be adopted. The intention is rather to highlight the process incorporated in a roadmap of linear

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[2] Five members of SADC, namely Botswana, Lesotho, Namibia, South Africa and Swaziland, constitute the oldest operating customs union in the world, while these states, with the exception of Botswana, also comprise the Common Monetary Area (CMA). The CMA will feature at a later point in the paper.

integration which envisages a monetary union and the adoption of single currency a decade from now.

The paper uses a two-track approach in addressing the appropriateness of monetary integration in southern Africa. The first is to assess the goal of monetary union as a necessary final stage in the integration plans of SADC, modelled on the well-known process that starts with a free trade area and then proceeds step-wise to economic union. The second track is to address the question of whether monetary union is a development that will deliver the positive results expected of it. The conclusion of the paper is that monetary integration is neither likely to occur in the foreseeable future nor an objective that deserves priority over other more relevant regional development goals. The European experience remains highly relevant but contrariwise reveals important lessons which do not support the stated SADC integration targets and their timetable.

2. The Southern African Development Community and the linear model of integration

SADC was founded in 1992 in a transformation of its predecessor, the Southern African Development Coordination Conference (SADCC). SADCC was established in 1980 with the support of the European Union and the goal for member states to become less dependent on South Africa. While SADCC was not a market integration arrangement as such, SADC was established with an explicit economic integration agenda. SADC currently has 15 member states, most of whom (see Table 1, page 16) can on the basis of population and market size (GDP) be classified as very small economies and on the basis or per capita income as least developed countries (LDCs). It currently operates on the basis of a clear roadmap, stipulated in a Regional Indicative Strategic Development Plan, which was adopted in 2003 and launched in 2004. In the spirit of the linear integration model this plan provides for a fully operational free trade area by 2008, a customs union in 2010, a common market in 2015, monetary union in 2016 and the introduction of a single currency in 2018.

Observing the discourse and pronouncements on regional integration in the region it is clear that integration is seen as a step-wise process where each successive step depends on the previous one having been achieved. In adopting this approach the SADC roadmap reflects the general tendency to adopt the linear model of regional integration in Africa.[3] In seeking deeper integration African regional integration arrangements are characterised by the ambitious goals they have adopted. Of 14 regional economic communities that existed in 2001, nine have a full economic union as the specified objective, one (COMESA) aims to become a common market, one (SACU) is an established customs union and is indicated to remain that, while the remaining three aim for intra-regional free trade or regional cooperation (Economic Commission for Africa, 2004:28). These agendas are regarded as being in line with the desire of the African Economic Community to transform the African economic landscape and to achieve over three decades "a strong united block of nations" (Economic Commission for Africa, 2004: 28). An important phase is the strengthening of the constituent building blocks of regional economic communities, communities that "should evolve into free trade areas and customs unions, eventually consolidating and culminating in a common market covering the continent" (Economic Commission for Africa, 2004: 28). None of the regional integration arrangements, with the exception of SACU, which has a unique history imbedded in early colonial times, has actually progressed to a fully fledged customs union.[4] This indicates either a mismatch between the rhetoric on integration and actual commitment to implement or the inappropriateness of the approach adopted, or both.

In Africa, economic integration forms part of the final goal of political integration and unity. The "united block of nations" is in the end expected to be more than an economically integrated entity. Like in virtually all regional integration arrangements the political element is the driving force and the market integration arrangements are mere buildings blocks of the intended political construct. In seeking this unity Africa, although coming from a totally different set of circumstances, is emulating modern European integration.

It can even be argued that post-colonial thinking on integrating small markets into larger units to encourage inward-looking industrialisation along the lines eventually provided for in the Lagos Plan of Action[5] show many similarities with the thinking that encouraged nineteenth century German unification (McCarthy, 2007). Germany, like Africa, was a late-comer to industrialisation. Although, to the best of my knowledge, it has not been acknowledged in the

[3] For a critical assessment of the African integration paradigm by this author see McCarthy (2007).
[4] An important difference between SACU and other African regional integration arrangements is that the former started as a customs union to accommodate trade flows between separate political but economically integrated territories while other arrangements aim to become customs union.
[5] The Lagos Plan of action was adopted by the Heads of State of the Organisation for African Unity in 1980.

relevant literature on African integration, the German economist Friedrich List (1789-1846) propagated ideas and policies that would neatly fit into post-colonial African development thinking (List, 1922). The concern about the effect of small market size and the role that regional integration could play in solving this problem found explicit expression in List's work on infant industry protection. This is not surprising since List was successful as champion of the customs union of the German states (*Zollverein*), which was the embryo of German national unity. List's persuasive arguments in favour of the *Zollverein*, which earned him the status of a German national hero (Schumpeter, 1954: 504) and a description by the translator of his work as "the intellectual founder of the German Zollverein" (Lloyd in List, 1922: vii) rested on his understanding of the disadvantages for industrial growth of having a small market. Market size, however, should not necessarily prevent a country from developing its manufacturing industries through infant industry protection. It was in this context that he proposed a German customs union, thus consolidating different territories behind a protective common external tariff.

By accepting a model of integration which requires successive steps, the time scale of meeting targets and the commitment to the roadmap become important factors in achieving integration goals. African regional integration arrangements, compared to the European Union (EU) experience, have tended to adopt unrealistically short time lines in meeting integration targets, a problem that has been exacerbated by an apparent lack of commitment and capacity to implement adopted agreements. Commitment and capacity, it can be hypothesised, are linked causally in both directions. The implementation and management of deeper levels of integration require skills and experience, for example, in customs management that do not exist in sufficient quantities in Africa. The stumbling block that this creates must inevitably impact negatively on the commitment to plan and implement integration agreements. Simultaneously, it could be argued that the political commitment to devote resources to the development of the required capacity integration agreements does not exist.

But most importantly, it could be that the linear model is not likely to produce the desired results of faster economic development. The static welfare effects are not likely to materialise in the African context since the conditions for these do not exist. Trade creation, the static welfare enhancing outcome of market integration, is more likely if the member states have more competitive production structures and, therefore, a larger range of producers that overlap (Robson, 1998: 27). This creates more scope for the re-allocation of resources from higher to lower cost producers within the regional integration arrangement. The smaller this overlap, the more likely it is that trade diversion will result. Also, given a specific overlap, trade creation is more likely if the unit cost differs between producers of similar products in the different member states since these differences will determine the allocation gains derived from intra-regional free trade. However, most African countries are primary producers that in a hub-and-spoke pattern export primary commodities to countries of the industrialised world and in turn import manufactured goods from these countries. Their economies do not have competitive structures of production and lack the capacity to produce a diversified range of manufactured products. Therefore, trade creation is unlikely to be significant.

Achieving the static benefits, however, has never been the intention of post-colonial African regional integration. The rationale has been to achieve the dynamic advantages of integration. The typical expectation is that an integrated regional market encourages competition among producers and also enhances economies of scale. The latter would be economies internal to the firm with average cost of production falling when the larger market allows producers to move down the slope of the average cost curve. Should a customs union be in place, the impact of the integrated market is to create more room for producers to compete in a larger protected common customs area. Within such an area of free trade the quintessential benefit of regional integration comes into play, namely lower transactions costs of trade with a virtually seamless movement of goods across national frontiers.

It can be argued that the small market phenomenon and the achievement of economies of scale is an illusion (Harvey, 2000: 2). If you integrate very small economies you may still end up with an integrated market that is small by world standards. If as by magic the SSA economy should become a single market overnight its GDP (US$713 billion in 2006) will be about that of the Netherlands (US$662 billion in 2006), which is one of the smaller EU member states and in the European context hardly a market from which you would expect scale economies for the sake of rapid industrial growth. The SADC GDP (US$380 in 2006) is about the size of the Belgian economy (US$394 billion in 2006). Nevertheless, over the whole range of manufactured or processed products there are opportunities to increase production and lower average cost of production by integrating even small economies which should not be ignored. However, these are too limited to sustain the integration process.

What the small market hypothesis also points to is the importance, for the success of regional integration in improving scale economies, of having one or more of the larger economies in the region included in the regional integration arrangement. Regional integration that, hypothetically, excludes South Africa in southern Africa, Nigeria in West Africa and Kenya in East Africa would hardly make sense.

As far as the capacity to produce tradable goods is concerned, African policy makers should in considering emulation of the European integration path take cognisance of the fact that the EU commenced its integration efforts as a group of industrialised countries that could reap the static and dynamic benefits of market integration. The capacity to manufacture a wide range of goods existed; in countries that were devastated by the Second World War the capacity to produce was re-built in a relatively short period of time. In Africa the capacity to manufacture competitively is thinly spread, which in part explains the low level of intraregional trade and the hub-and-spoke trade pattern referred to earlier. The crucial question now is of the chicken-and-egg variety: must you have reasonable capacity to produce goods before you can reap the benefits of market integration or can market integration facilitate the creation of such capacity?

There is said to be a link between market integration and the building of capacity to produce tradable goods and this is through investment, which is argued to be positively influenced by regional integration. This is a further dynamic benefit of market integration which is anticipated to encourage investment, both domestic and foreign direct investment (Schiff & Winters, 2003: 101). Investment is necessary for economic growth and development and often countries that enter into regional integration arrangements do so in the belief that it will encourage investment. Investment, foreign investment in particular, is expect to be attracted by the favourable circumstances of a larger market and more competition, the lowering of transactions cost of trade, a whole range of political benefits such as bringing discipline to governance, improved policy credibility by locking in investment-favourable reforms, the maintenance and strengthening of democracy, a reduction in friction between neighbouring states and the promotion of peace through deeper arrangements to manage conflict between member states. Being a member of a regional integration arrangement is also expected to strengthen the negotiation positions that a group of countries can exert in international negotiations. These factors encourage investment by making the market more attractive, improving the quality of governance and enhancing the credibility of policy.

However, in their review of the link between investment and regional integration agreements Schiff and Winters (2003: 115) concluded that such agreements are neither sufficient nor necessary to induce investment. They argue that although the effect on investment could be positive "general policy reforms such as sound macroeconomic policies, well-defined property rights, and efficient financial and banking sectors are likely to be far more important in influencing investment and FDI than merely joining an RIA" (Schiff and Winters, 2003: 112). Investment depends on the anticipated performance of capital, which in turn is determined by the expected net return on capital formation. Observing investment behaviour world-wide it is difficult not to observe that national policies and circumstances are the deciding factor and not the membership of a regional integration arrangement. In the EU, Ireland, Spain and Portugal decidedly benefited as far as investment is concerned from their EU membership but it cannot be denied that their domestic policies allowed them to derive the integration benefits.

The argument so far has been that a regional market integration arrangement does not in itself solve the economic problems facing developing countries, which in most SADC member states boils down to a poor capacity to produce a range of products that can be traded within the regional market. To this may be added the poor performance of African states in reaching the targets they set themselves as members of regional integration arrangements. The target SADC set itself of establishing a free trade area has been achieved when on 18 August 2008 the FTA was formerly declared for 11 member states at a heads of state meeting in South Africa. Currently, 85 per cent of goods trade freely and the commitment is to cover all goods by 2012. In the run up to the FTA declaration much has been said about the next target of implementing a common external tariff in 2010 when a customs union is the next goal, followed by a common market five years later and ultimately monetary union and a single currency in 2016 and 2018 respectively.

The way the sequential process of deeper integration has been designed and its implementation conveyed imply that the achievement of each goal acts as a condition for the subsequent step. The logic of the process and how it is presented by SADC means that monetary union will only be attempted once all the other stages have been reached in the sequence laid down in the integration roadmap. This will prove to be a difficult process, and even impossible for the current configuration of SADC member states.

A major problem is the often emphasised overlapping SADC and COMESA (Common Market of Eastern and Southern Africa) membership, with eight SADC members[6] also being members of COMESA. Both arrangements aim to become customs unions, which is impossible in their current configurations. Add to this conundrum the position of a prominent SADC member, Tanzania, who has left COMESA but is a member of the East African Community (EAC), which is in the process of establishing a customs union. Should Tanzania re-join COMESA, membership of the EAC will not be problem because all the other EAC member states are also part of COMESA and hence would fit into a pattern of variable geometry within the wider arrangement. But in the end this is likely to force Tanzania to leave SADC. The final element of confusion is the split between SADC members in participating in the Economic Partnership Agreement (EPA) negotiations with the EU. The SADC EPA configuration consists of the five SACU member states plus Angola and Mozambique. Within this group a further split exists between South Africa who did not initial an interim EPA and the others who did, Namibia albeit conditionally. Tanzania initially formed part of this group but has left it to join the East African group. The DRC is part of the Central African configuration while the remaining SADC countries participate as part of the Eastern and Southern African group.

Assuming that a fully fledged FTA is in operation by 2012 an important obstacle remains that could prevent the step-wise development of SADC towards the final destination of monetary union, and this is the constraint non-tariff barriers pose to a free flow of goods. Implementation of the FTA removes one element that raises the transactions costs of intra-regional trade, namely the tariff, but non-tariff barriers remain. In the business community these are regarded as a more substantive constraint than tariffs. Among these barriers are customs procedures at border posts, different transport regulations and a weak transport infrastructure across a region characterised by long distances between the major (metropolitan) markets. It is ironic that within SACU - the deepest level of market integration within SADC - the implementation of the 2002 SACU Agreement and the adoption of a new revenue distribution mechanism have further constrained the seamless movement of goods one would expect in a customs union. Revenue distribution, which is a crucial element for the smaller member states, is calculated on the basis of each country's share in intra-regional

[6] DRC, Madagascar, Malawi, Mauritius, Seychelles, Swaziland, Zambia and Zimbabwe.

imports. This requires a more formal and rigorous recording of trade flows within the customs union, which is a regressive step in having regional free trade.

3. SADC Monetary union and its anticipated benefits

Bringing the transactions cost of trade into the story logically leads to the consideration of monetary integration and a single currency. Building further on the potential benefit of lower transactions costs as an outcome of market integration it is necessary to note that monetary integration and a single currency for SADC suggests itself as a logical development. What can be more conducive to lower transactions costs than having a common medium of exchange? This is widely understood by most people who travel to and in the Euro zone where the lower cost, both in terms of time and commissions, of using a single currency in different countries is a decided benefit. Add to this the benefit of being able to compare prices in terms of a single unit of account and for business people who trade across borders to conclude contracts in a common currency that is legal tender both sides of the border. Finally, a single currency will facilitate the maintenance of macro-economic balance among the members of the currency union that will benefit economic growth and development.

The introduction of a single currency in an arrangement of a number of independent nation states will provide the benefits of lower transactions costs and regional economic stability. It should be noted that lower transactions cost of trade does not in itself contribute to the building of capacity to produce tradable goods. But even if this point is ignored, two questions need to be addressed. The first concerns the challenge of macro-economic convergence, which is a precondition for monetary union and the adoption of a single currency, and the second concerns the downside of monetary union from a national policy perspective.

Macro-economic convergence as a necessary condition for monetary union is an empirical matter which seems be open to different findings. In the mid-1990s, Jenkins and Thomas (1996: 163) found that “SADC countries, if anything, diverged in the last twenty years”. Writing in 2005 Masson and Patillo (2005: 128) found the Jenkins and Thomas assessment and “its implications for the feasibility of a SADC monetary union still … as valid (as) when it was originally expressed”. Agbeyegbe (2008), using the method of time-varying (Kalman filter) analysis, investigated the feasibility of SADC monetary union by focusing on two crucial macro-economic variables, the exchange rate and the inflation rate. He found evidence of non-convergence among nine SADC members that do not form part of the CMA.

Contrary views are held by Knedlick and Povel (2007) and Rossouw (2006). Applying panel unit root tests to 14 macro-economic variables, Knedlick and Povel found evidence that further deepening of SADC integration to the point of monetary union is feasible (2007: 171). Rossouw, a researcher at the South African Reserve Bank, took as his point of departure the macroeconomic convergence goals for five target variables to be achieved by SADC countries in 2008. These are single digit inflation rates, budget deficits of less than 5 per cent of GDP, government debt of less than 60 per cent of GDP, foreign reserves covering 3 months' imports and central bank credit to the government of less than 10 per cent of tax income. He concluded that considerable progress has been made in achieving the convergence goals "indicating that the region is on track to its goal of a single currency and regional central bank by 2016" (Rossouw, 2006: 160).

The second question posed above concerns a downside to monetary integration. The benefit of lower transactions cost of trade must be weighed against the costs that a common currency may entail.

A single currency should facilitate intra-regional trade by lowering the transactions cost of trade and this can be regarded as the essential benefit of monetary union. It follows logically that the greater the level of existing trade or the potential for increased trade between prospective members of a currency union the greater the expected benefits will be. But a single currency by definition implies a single exchange rate for the currency area and a single central bank, which in turn implies a regional monetary policy and consequently the absence of national control of the interest rate. In the jargon of political economy this means a loss of policy space with respect to the exchange rate and the interest rate. Should the central bank be independent, and by this is meant a reasonably certain guarantee that the bank could not be forced to monetize the growth of government deficits (or adopt a lenient monetary policy to lower the rate of interest and so decrease the borrowing cost of governments), governments of member states will also be forced to align fiscal policies to the monetary policy adopted for the area, and thus have their policy space further restricted.

Against this background the downside of monetary union must be considered, specifically the ability to deal with or absorb asymmetric shocks to the member states of the union. An example would be a drastic fall in the world price of the principal export commodity of a member state coinciding with price increases in the export commodities of other member states. This means that the terms of trade of the countries are negatively correlated. Mundell, in his seminal article on optimal currency areas (1961), stressed as a crucial condition the existence of what Masson and Pattillo (2005) termed a shock absorber. In the words of Mundell: "an essential ingredient of a common currency, or a single currency area, is a high degree of factor mobility" (1961: 661). A fall in the real income of a country within the currency area because of a deterioration of the terms of trade, in the absence of adjustments in the exchange rate and the rate of interest, would be absorbed by a flow of labour from the suffering country to those that offer opportunities. Wage and price flexibility could be added to the condition of labour mobility and combined with fiscal transfers the problem of asymmetric shocks could be dealt with.

Table 1 in the final column provides evidence of the high degree of export concentration of the SADC countries, with most member states having more than 75 per cent of their export trade accounted for by five or fewer products. With the exception of Lesotho (who has about 51 per cent of exports concentrated in two garment lines) the products represent primary commodities. This situation is suggestive of the potential for asymmetric shocks which will be difficult to adjust to if the exchange rate cannot adjust. It is also difficult to envisage a change in the political mindset of member states that will allow restrictions on the intra-regional flow of labour to be removed. The recent unfortunate xenophobic reaction in South Africa points to the political difficulties that will be encountered in this regard.

4. Variable geometry – expanding CMA participation

Scepticism about the SADC roadmap and a single currency as final destination does not mean that one should ignore the benefits of regional integration and specifically the potential to deepen integration. The fact of the matter is that an effective monetary integration arrangement exists in the region, one which does not fit into the linear pattern of sequential integration. I am, of course, referring to the Common Monetary Agreement (CMA) which integrates three members of SACU – that is, Lesotho, Namibia and Swaziland - into the South African money and capital market.

Historically, the CMA has its origin in the de facto monetary integration of South Africa, Bechuanaland (now Botswana), Basutoland (now Lesotho), South West Africa (now Namibia) and Swaziland with the currency issued by the South African Reserve Bank (established in 1921) being the sole medium of exchange that circulated freely in the region. This dispensation remained in place when Botswana, Lesotho and Swaziland became independent in the 1960s. The currency union was formally embodied in the Rand Monetary Area (RMA) agreement concluded in December 1974. In 1975 Botswana opted out of the RMA in order to adopt its own monetary policy and break the exchange rate link with the rand.

Swaziland established its own central bank in 1979, followed by Lesotho in 1982. Both countries introduced their own currencies, which are pegged at par to the South African rand. In 1986 the RMA agreement was replaced with the Trilateral Monetary Agreement between South Africa and Lesotho and Swaziland, thereby establishing the Common Monetary Area. At independence in 1990 Namibia signed an agreement with South Africa that brought Namibia into the CMA and in 1993 introduced its own currency, also pegged to the rand at par. Currently the rand is legal tender in Lesotho and Namibia but not in Swaziland. Although a CMA committee provides for consultative meetings on monetary policy this policy is effectively determined by the South African Reserve Bank (Guillaume and Stasavage, 2000: 1397).

The existence of the CMA, with the South African rand and central bank being anchor institutions for participating countries, could serve as point of departure for an exercise in variable geometry in SADC found in the experience of EU integration. However, there is a fundamental difference in the sense that in Europe, monetary union came about in a process of linear integration with a number of member states within the wider group entering into a monetary union arrangement and the establishment de novo of a common central bank and single currency. In SADC, joining an expanding CMA will represent linking your currency to the rand which is issued by the central bank of the largest SADC economy, South Africa. The South African Reserve Bank has a long history of independence, an independence that is underwritten in the South African constitution, and from a stability and credibility perspective a gradual expansion of CMA participation would seem to be a sound option.

However, monetary union that leaves monetary policy under the control of the South African Reserve Bank is unlikely to be politically palatable for most of the other SADC states. The linking of three currencies at par to the rand as anchor currency in a monetary integration arrangement that has been in existence for decades seems to have a particular message for the adoption of a single currency for SADC in 2018. Anecdotal reports would seem to indicate extreme political reluctance on the part of Lesotho, Namibia and Swaziland to adopt a single currency issued by a single central bank. Tito Mboweni, the governor of the South African Reserve Bank, is reported as having told Parliament the following: "We have agreed we will do some research on what the feasibility is of a common central bank for South Africa, Lesotho, Swaziland, and Namibia. It is not a bad idea, but I don't think it will fly politically – it's a dead duck" (Cited in Masson and Patillo, 2005: 72-3). If longstanding participants in the CMA find a single currency unacceptable, it does not take much imagination to conclude that SADC states without this historical experience will find monetary union and a single currency politically even less acceptable.

In view of political constraints expectations of an expanding CMA need to be modest. The following views of Masson and Pattillo (2005: 127) are worth quoting in full:

> The impetus for creating a larger union would doubtless have to come from South Africa, since it is already at the center of a successful exchange rate union, the CMA. Monetary integration with other SADC members is likely to be on South Africa's terms, therefore, since its central bank is ….. the only institution in the region able to provide the credibility and stability that would make a monetary union a success. Hence a limited expansion of the exchange rate union to include a few SADC countries, with a dominant weight retained by South Africa, and selectivity in the admission of members, seems the likeliest outcome if the CMA were to be expanded or transformed.

Expanding CMA membership in significant numbers will be politically difficult and is highly unlikely. A question that remains is whether monetary union as an exercise independent from the CMA and a new common currency would not solve the problems associated with CMA expansion. The answer is short and simple. As noted above monetary integration will require South Africa's active participation and initiative but it is highly unlikely that South Africa will be willing to sacrifice its central bank and control over monetary policy and the exchange rate for a new institution.

5. Conclusion

European integration has been a remarkable success and can be regarded as a textbook model of linear integration, characterised by incremental, deeper integration in parallel with the expansion of membership. When monetary integration and finally monetary union and a single currency were brought onto the agenda, the principle of conditionality and variable geometry was implemented successfully. Can this experience be replicated in Africa, and specifically by SADC with its ambitious roadmap?

In 1957 a prominent economist, J.E.Meade, addressed the question of European integration and argued that the conditions for monetary union in Western Europe did not exist. According to Meade (1957: 388), at the time, "it is not a starter at the moment, and it would be a great shame to sacrifice the present real political possibilities of building a commercial free-trade area to this ideal of simultaneous monetary and budgetary integration". History proved Meade right; studious dedication to building a free trade area and a common market could after many decades be followed by monetary union. SADC is hoping for a fully fledged free trade area by 2012 and six years later a single currency. This surely, by comparison, must be overambitious, especially if note is taken of the poor capacity to produce tradable goods, and the inability of regional trade liberalisation as such to build this capacity and also remove the non-tariff barriers to trade that are a more severe constraint on intra-regional trade. Commitment to the linear integration model needs to be seriously re-considered in Sub-Saharan Africa and by SADC specifically.

Regional integration aims to lower the transactions cost of trade, amongst others, and in this regard monetary union and the introduction of a single medium of exchange, which is the quintessential means of lowering the costs of trading production surpluses, are respectable objectives. But again, a single currency does not in itself create capacity to produce goods. Add to this the downside of reducing sovereignty with respect to monetary policy and the exchange rate for countries that face asymmetric external shocks and a single currency's benefits become doubtful, even if there are indicators that macro-economic convergence is occurring.

The variable geometry in Europe's introduction of monetary union may set an example to follow, especially since SADC already has a monetary integration arrangement, the CMA, within its ranks. Having noted that the circumstances and origin differ, an expansion of CMA participation is likely to encounter severe political problems. Suffice it to conclude with a quote from Mundell's path-breaking article (1961: 661):

> In the real world, of course, currencies are mainly an expression of national sovereignty, so that actual currency reorganization would be feasible only if it were accompanied by profound political changes.

Only the supreme optimist will anticipate or expect these political changes in the region.

Table 1: Economic characteristics of the SADC member states						
	Population Million	**GDP US$ billion**	**GNI per capita US$**	**Life expectancy at birth, Years**	**Trade/GDP**	**Number of products accounting for more than 75% of exports**
Angola	16.6	45.26	1970	42	103	1
Botswana	1.9	10.66	5570	50	74	1
Congo DR	60.6	8.5	130	46	60	3
Lesotho	2.0	1.5	980	43	144	4
Madagascar	19.2	5.5	280	59	44	14
Malawi	13.6	3.2	230	48	55	4
Mauritius	1.3	6.3	5430	73	91	10
Mozambique	21.0	6.8	310	42	76	2
Namibia	2.0	6.6	3210	52	85	5
Seychelles	0.1	0.8	8870	72	153	3
South Africa	47.4	255.2	5390	51	53	39
Swaziland	1.1	2.6	2400	41	161	20
Tanzania	39.5	12.8	350	52	46	15
Zambia	11.7	10.7	630	42	62	5
Zimbabwe	13.2	3.4	340	43	121	16
Sources: World Bank 2008 & African Development Bank, 2007						

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