Bodies of Conflict or Part of the Bigger Picture?

Introduction

The inconclusive economic partnership agreement (EPA) of 2007 had to give way for other trade-related topic as developing countries have other challenges. EPAs have always been associated with additional confusion beyond the multiple memberships. Implementation of the regional integration in *conjunction* with the EPAs was always going be complicated from a developing country view and there are still concerns that EPAs will undermine regional integration initiatives.

Unity within SACU was tested during the EPA negotiation, with Botswana, Lesotho and Swaziland breaking ranks to initial an agreement. Facing a possibility of market access losses, Namibia signed an interim accord a few days later, leaving out South Africa as the only member not signing. To be fair to the EU, Southern and Eastern African countries were already in this conflicting memberships even without the EPAs, and therefore one should spare a thought and be *sympathetic* towards the developed world.

There are at least six regional integration initiatives in Eastern and Southern Africa. Although they have the same overall objective, implementing all of them at the same time is a challenge. The big picture that all the initiatives aim to achieve is the highest integration that would lead to economic development through sharing resources, utilising economies of scale, cooperating on joint projects and ensure that economies of the region converge. However, Figure 1 shows that there are many initiatives which use resources just to belong to them. The irony of these conflicting agendas is that African Union (AU) has a mandate of creating a single continental economic integration by 2028. That integration process will be achieved through joining five continental groups of which only two are represented (and recognised by the AU) in Figure 1.

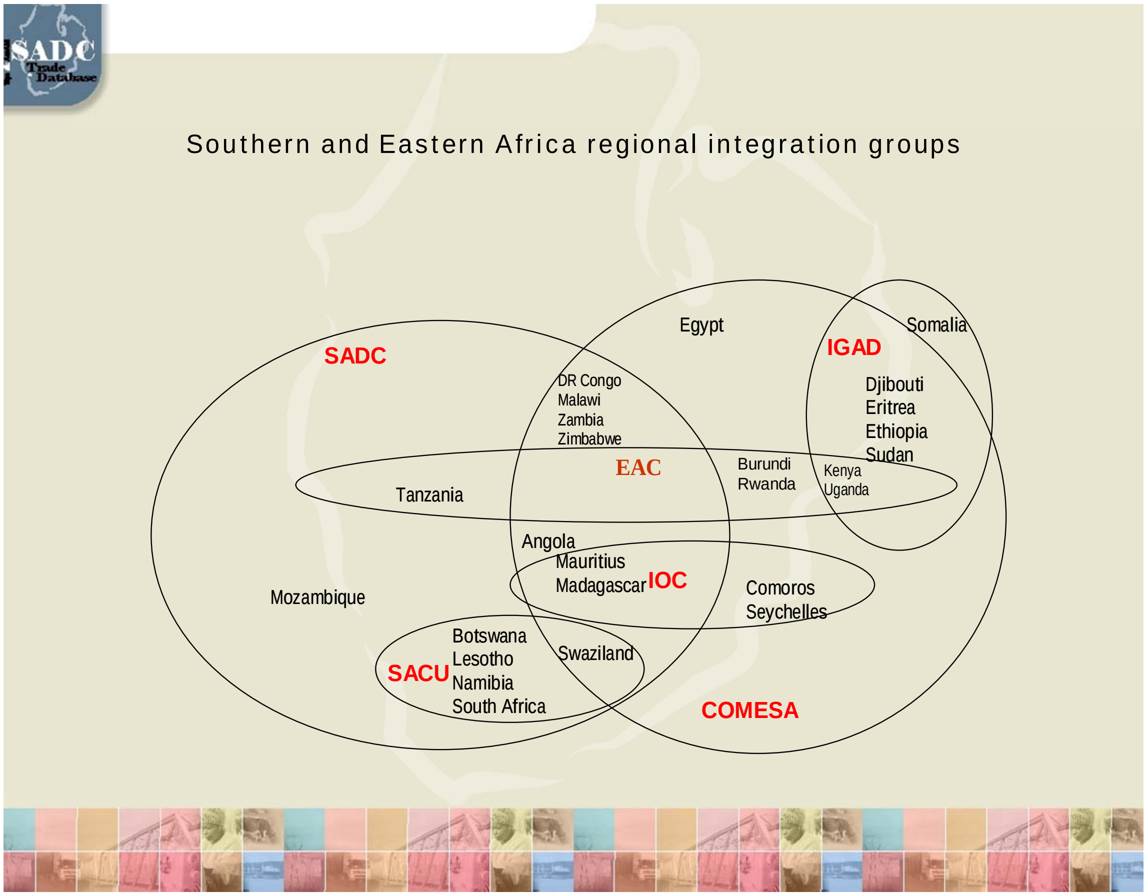

Figure 1: Regional Integration Initiatives in Eastern and Southern Africa
Source: Kalaba, 2007 adapted from Olympio *et al*.
SADC: Southern African Development Community, COMESA: Common Markets of Southern and Eastern Africa, SACU: Southern African Customs Union, IOC: Indian Ocean Commission, EAC: Eastern African Community and IGAD: Inter-Government Authority on Development

SADC vs SACU

SACU is the oldest Customs Union in the world, established in 1910 with the aim of facilitating trade between member states and promoting economic development. On the other hand SADC was formed in 1980 by the frontline states[1] with a political aim of reducing dependence from apartheid South Africa by coordinating development projects. Although SADC has transformed to include socio-economic issues on its agenda, its prominence is still on the political front.

The regional integration initiatives of both SADC and SACU tend to be on a conflicting path, especially as SADC moves closer to deeper levels of integration. SADC is working towards achieving a free trade area (FTA) while SACU has gone past that stage. The difference between the two is that customs union is a higher degree of integration

[1] The founding Member States are: Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe.

characterised by free trade between members, common external tariffs (CET) applied by all members, and all members negotiate as a unit at multilateral negotiation. In the case of an FTA, most of the trade (at least 85%) between members is free and have individual tariffs with countries outside an FTA. SADC aims to achieve the FTA status sometime in 2008 and custom union status two years later.

A casual analysis of this situation would suggest that everything seems to be according to plan since all five SACU members are also in SADC together with nine other Southern and Eastern African countries. However, all those other members (with exception of Mozambique) belong to other regional integration initiative that have same objective of becoming customs union as SADC. The most significant is COMESA, which plans to be a customs union this year. Therefore, once countries become members of one CU, then it is impractical and legally impossible to join another custom union.

As mentioned earlier, one of the basic principles of custom union is CET, and therefore all members can only implement one tariff schedule. This implies that those other eight SADC members will not join SADC customs union in 2010 once they join that of COMESA, unless they withdraw from the latter.

Serious Problem

Given that SACU is already a customs union, it is difficult to comprehend why the SADC integration was approached the same way. The other side of the coin is the question of why was the SACU agreement consolidated in 2002 after SADC has made its long term goals known? Nevertheless, as a driver for integration, SACU is effectively the most functioning CU on the continent compared to others such as EAC. SACU members receive custom revenue from the pool which contributed more than one fifth of total government revenue of all members except South Africa. This revenue serves as compensation for the cost raising effects of SACU as well as collection of taxes and common excise and customs revenue.

Furthermore, there is a development component which has distributional effect from wealthier members to poorest. For example, Lesotho receives the highest share of that component, followed by Swaziland, while South Africa receives the least amount. Table 1 shows SACU receipts for the 2006 year as a share of GDP and government revenue.

Table 1: 2006 Receipts from SACU Revenue Pool

Country	Revenue Received (R m)	Share of GDP (%)	Share of Government revenue (%)
Botswana	5,634	9.0	20.1
Lesotho	2,837	28.2	53.0
Namibia	5,463	12.2	41.0
Swaziland	3,708	24.1	56.9
South Africa	17,625	1.0	3.9

Source: Flatters and Stern, 2006

The SADC plan towards a customs union does not stipulate any compensatory mechanisms. It is a known fact that trade liberalisation generates losers and winners, however it is the compensation mechanisms that make everyone benefit, and SADC failed to notice that. Therefore, SADC customs union at this stage appears less appealing compared to SACU, and may be even COMESA considering that it will be happen earlier. However, SADC has a larger population than SACU, and it can be used as a springboard to the rest of the continent.

Possible outcomes

Given that SACU is at an advanced stage than SADC, one possibility to resolve the situation is let to SACU remain a customs union, and expand through additional members. Studies have been done in Mozambique to assess the feasibility of acceding to SACU, and Angola was reported to have enquired about the same. The advantage of this option is that negotiations will not be complex and lengthy as new members are required to adjust rather than negotiate the deal. Furthermore, SADC can maintain its FTA status and members will not be required withdraw even if they belong to other FTAs or customs union. And most importantly, SADC can continue to play the important political role since *political principles are independent of economic and trade* guidelines as specified by the World Trade Organisation.

On the downside, current SACU members are likely to loose out if new members join as their share from the revenue pool will go down. This possible solution may not be in the best interest of Lesotho and Swaziland. Another disadvantage is the loss of trade and monetary policy space. However, that is part of the tradeoffs that are inevitable. The reality is that this debate has been avoided for some time, yet it cannot be dodged forever. In two years time, a decision will be required, and it does not have to be done hastily like the way EPAs were concluded.

References:

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