



Who is driving regional integration in Southern Africa?

Peter Draper

Trade Research Fellow

24th November, 2008





OVERVIEW

- Review of SADC Trade Trends
- A Primer: Political Economy of African Integration
- SADC, SACU and the Interim EPA
- What Should SA Do Next?

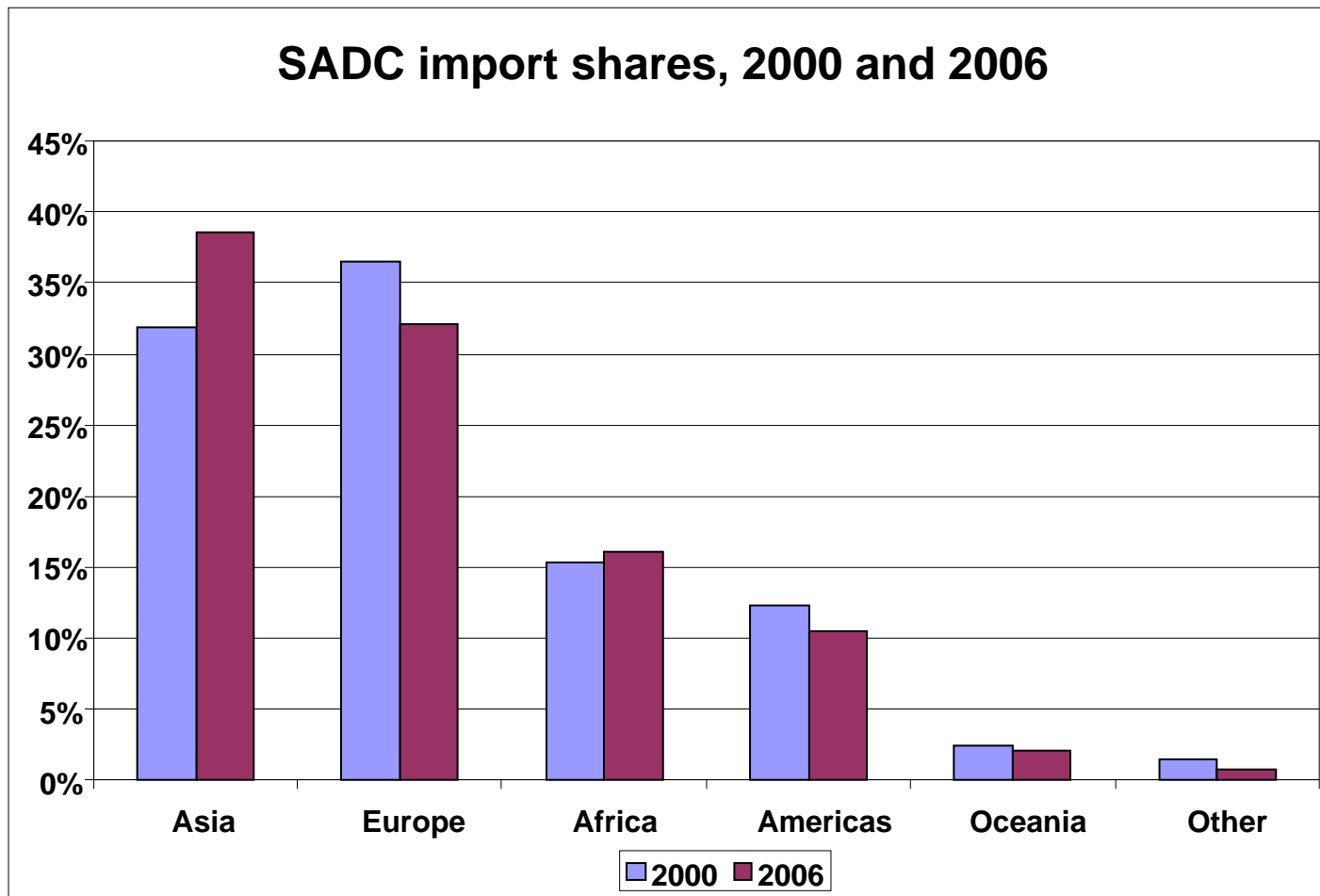




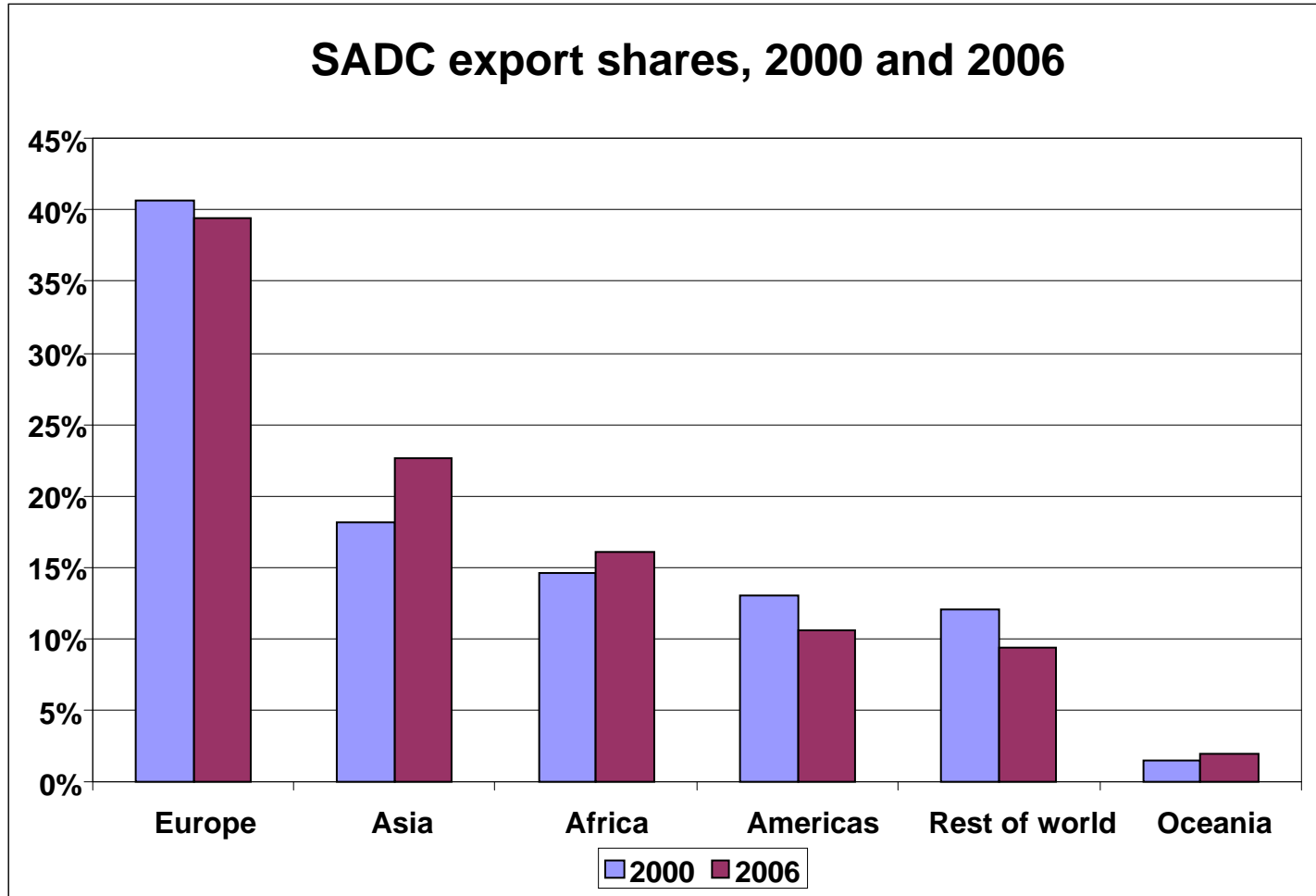
Review of SADC Trade Trends



Asia's Share of SADC Imports now Exceeds Europe's



Exports: Asia Rising Again, But Europe Still Dominates





Stylised Facts (1)

- Europe remains most important export partner (by far)
- South Africa dominates SADC exports to and imports from third parties (by far)
- Asia now most important import source (Recent shift due to China and India. Japan a long-standing important trade partner)
- Africa incrementally more important (i.e. increased intra-Africa trade)
- Americas remain important





Stylised Facts (2)

- Pattern of SADC exports to all major regions/blocs similar
- Main broad product categories:
 - Metals (precious and base) and metal products
 - Mineral products
 - Chemical products
 - Machinery
 - Transport equipment
 - Textiles (to China)
 - Vegetable products (to India)
- Since South Africa dominates SADC's external and internal trade, these reflect mainly South Africa's export strengths





Stylised Facts (2)

- Agricultural commodities relatively more important for other SADC members
- Niche agricultural products important for South Africa
- Clothing and some other light manufactures very important for certain SADC countries, such as Lesotho





Stylised Facts (3)

- Pattern of SADC imports from all major regions/blocs also similar
- Main broad product categories:
 - Machinery
 - Transport equipment
 - Precision equipment
 - Chemical products
 - Metal products (from EU, China, India)
 - Mineral products (from India)
 - Light manufactures, such as furniture, toys, footwear, apparel (from China)





Stylised Facts (3)

- Intra-SADC imports also dominated by machinery, transport equipment, metals, etc—probably reflecting SA strengths
- China increasingly replacing EU and US for high tech imports, especially IT products
- Light manufactures from China and India causing competitive pressure in all SADC economies

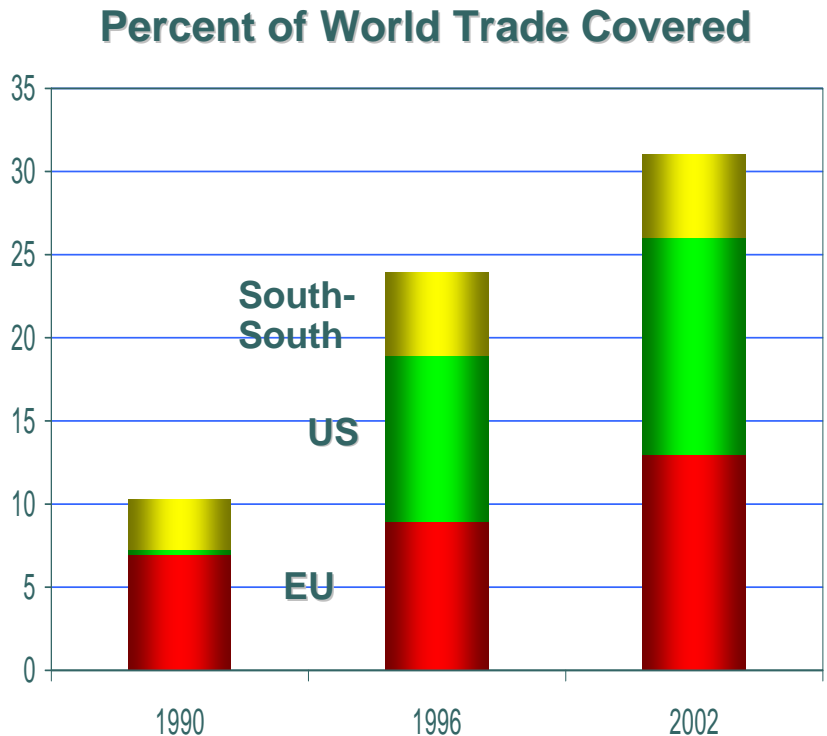
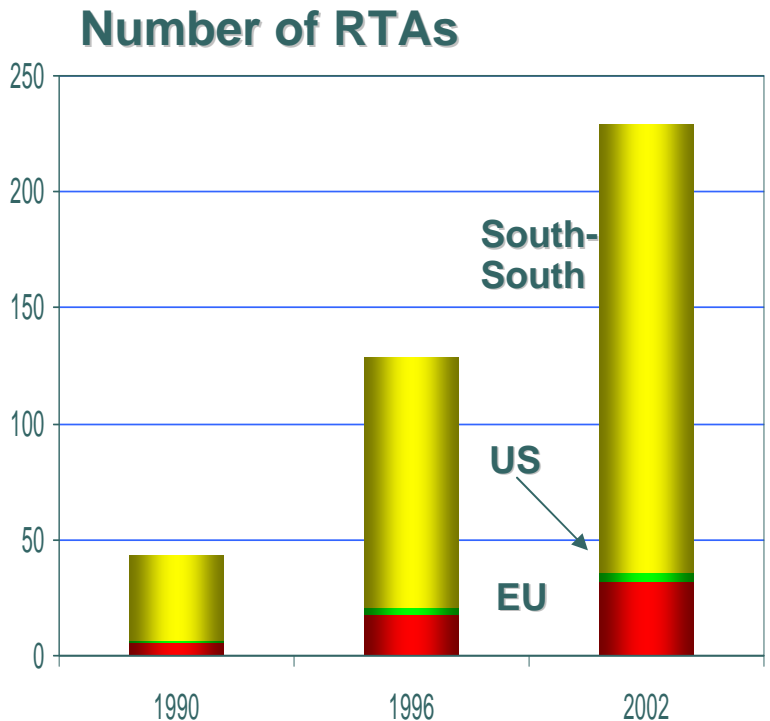




A Primer: Political Economy of African Integration



● ● ● | Globally South-South RTAs predominate in number, but not in trade covered



Source: World Bank, 2005






Approaches to integration: Regional and Bilateral

1. Several forms:
 - a. Free Trade Area (FTA)
 - b. Customs Union
 - c. Common Market
 - d. Monetary Union
 - e. Political Union
2. Some problems
 - a. “Spaghetti Bowl” effects
 - b. Potential trade diversion (revenue, welfare, efficiency impacts)
 - c. Agglomeration (geographic concentration of industry)

*Increasing
integration
and
institutional
complexity*





Economics of (Southern) African integration

- Dependence on trade with external partners
 - Commodities dominate exports
 - Intra-regional trade levels are low
 - But South Africa looms large
- New economic geography: north-south better than south-south
 - Agglomeration and its impacts
- Yet regional trade facilitation is important





Politics of African Integration

- Whose model?
- Sovereignty newly acquired
- Eastern and Southern Africa are, err, confused!
 - EPAs: spare some sympathy for the EU
 - Legal implications concerning negotiated commitments?





SADC, SACU and the Interim EPA



Interaction between SADC/SACU

- Overlapping memberships (eg: Swaziland)
- SADC contraction in light of COMESA CU ambition and EAC consolidation?
- SACU as SADC core group?
- SACU expansion?


NB: What does South Africa want?



The EU and SADC/SACU

- Despite grand regional plans, EU still dominates trade and investment
- EC now operates 4 trade regimes affecting SACU/SADC:
 - Everything but Arms (LDCs)
 - GSP (uptake not clear)
 - Trade, Development and Cooperation Agreement (South Africa)
 - Interim EPAs





Unpacking the SADC IEPA: Configuration(s)

- Initially 8 of 14
- 7 of 14 stayed the course (Tanzania joined EAC)
- 5 actually initialled the text
- Angola stated its intention to engage at the appropriate time
- South Africa refused to initial
- Currently stand-off between SA and EU (but EU has more cards)



Unpacking the SADC IEPA: Results

- SACU
 - Convergence between TDCA liberalization schedule and BLNS schedules?
 - Undermined by differentiated export treatment for SA
 - And associated rules of origin
 - But SACU has been implementing this under Cotonou and TDCA for decades
 - Revenue implications for BLNS?
 - Will SA step into the breach?
- SADC
 - Missing members
 - Any purchase on next phase (eg link to Customs Union plan)?





Unpacking the SADC IEPA: Implementation

- SACU: what if SA doesn't concur?
- Capacities to monitor divergent regimes?
- Implications of Joint Monitoring committees?
- Dispute settlement provisions?





Unpacking the SADC IEPA: What Next

- Incorporating SA? Complicated...
- Technical issues:
 - Signature date postponed – for now
 - Some tricky technical issues
- New generation issues
 - Does it make sense to wait before negotiating such issues externally?
 - Patchy implementation of SADC protocols means regional standards inadequately harmonised
- Appropriateness of EU regulatory norms?
 - The EU doesn't have harmonised regulations on some of these issues





EPA Implications

- At the end the EU will have the best access to SADC of all external (non-SADC) trade partners
 - Is this wise?
- New generation issues highly contentious—SA will need to make tough decisions
- Large question marks over SADC integration:
 - Half of SADC's members are in other EPA negotiating groups
 - What future for the mooted SADC customs union?
 - SACU may split



The SADC EPA: Implications for Regional Integration in Southern Africa

Negative

- Perforated CET
- Different rules of origin
- EC regulatory norms
- Entrenching EU orientation

Offsetting

- Convergence to TDCA
- Regional agricultural exclusions
- Prior experience through TDCA implementation
- Slow implementation of regional initiatives
- North-south integration economically beneficial





What Should SA Do Next?

- Foreign policy perspectives
- Economic policy perspectives
- Negotiations perspectives





Foreign policy perspectives

- Rescuing regional integration?
 - How important is this to SA?
 - Which forum/institution is more important: SACU or SADC
 - Can SADC's trade integration agenda be saved?
 - Do we really need customs unions?
 - SACU could still be the building block for a streamlined SADC
 - But not in its current form





Foreign policy perspectives

- Our standing in the AU?
 - EPAs are deeply unpopular
 - But SA is increasingly seen as a regional bully
- Rescuing bilateral relations?
 - Botswana, Lesotho, Swaziland, Mozambique
- But gaining (a) new friend(s)?
 - Angola?
 - Those with difficulties concerning EPAs?
- Geo-economics and south-south relations?
 - G4/G5 (G8 Outreach; OECD)
 - Brazil is prepared to compromise in the Doha round...





Economic policy perspectives: The case for services liberalization

- Services liberalization is in our own interest
 - Network services have economy-wide effects
 - In SA they are dominated by oligopolies or SOEs
 - Cost-structures either high or rising
 - “Creative destruction” arising from competition could be very healthy
 - This fits with ASGISA’s core thrust
- Flexibility here would:
 - Alleviate the foreign policy problem
 - Serve our economic interests
 - Potentially unlock further EU concessions





Economic policy perspectives: The case for services liberalization

- Other NGI's not of core interest
- Domestic politics?
 - “Development state” – hostile to this approach?
 - COSATU fundamentally opposes any discussions on services
 - Business needs to be mobilised (but government has to lead)





Negotiations perspectives

- “Conceding on services in EPAs means losing ground in the WTO”
 - Only if you don’t accept the economic logic
 - And bilaterals are fundamentally about going further than what you can do in the WTO
 - Ideally liberalization should be done unilaterally
- “We need to retain policy space”
 - Yes, which means understanding the intricacies better
 - This can be learned through negotiations
 - The first step is to accept the economic logic





Negotiations perspectives

- “Tricky issues as deal-breakers”
 - Which one(s)?
 - Continued differentiation of SA from BLNS (but the EU will not give much ground on this)
 - The free-circulation clause?
 - The MFN clause?
 - Opening services negotiations would be of real substantive value to the EU and could trigger reciprocal concessions on these issues

