Political Economy of Regional Integration in Southern Africa (PERISA)

Paper for **Session 2**

Southern African Private Sector Drivers of Regional Integration

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1. Introduction of theme

In the Political Economy of Regional Integration in Southern Africa (PERISA) project we generally ask the question, ‘Who drives or drove this particular process or outcome?’ However, in this theme we would like to reverse the research question to, ‘If the private sector drives a process, what is the outcome for regional integration?’

The general consensus amongst development and poverty alleviation thinkers is that a robust private sector is necessary for effective and continued growth in developing countries. Public actors can stimulate some private sector growth, but for sustained growth, which delivers on more equal income distribution, the private sector needs to grow in strength and independence equal to the public sector. Support programmes for private sector development are legion and are especially supported by the European Union, Southern Africa’s largest donor. The PERISA project recognizes the role played by external actors in the promotion of private sector development and their involvement in regional initiatives. The case study on non-tariff barriers (NTBs) points out that an initial donor project encouraged private sector participation, which should continue even after the closure of the donor programme. Other initiatives were brought about without any donor initiation, like the Regional Communications Regulatory Authority of Southern Africa.

The private sector as a whole plays an interesting role within the Southern African region. At times private sector actors are considered the beneficiaries of all regional integration efforts and yet they can also be the implementers and drivers behind the process. At times they can hamper the process when strong lobby groups manage to influence governments in favour of certain outcomes, which do not necessarily benefit all actors or regional integration per se.

Within this theme, the case studies examine those examples where active participation and input from the private sector advanced regional integration. The reasons for this approach stem from a desire within the PERISA project to highlight where regional integration is successful and to tease out the reasons for this success. The work in turn should influence perceptions that regional integration in Southern Africa is largely a failed project.

The case studies focus on four themes, including manners in which NTBs are being addressed with private sector involvement; the effectiveness of the Southern African Sugar Board and its Technical Subcommittee; the Regional Communication Regulatory Authority as well as the SADC Banking Association and Central Bankers Committee’s impact on trade facilitation.

2. General Observations

A first general observation is that in three out of the four case studies we examined the role played by predominantly very large companies who can exert influence in the region in their own right. The fact that they chose to cooperate at the regional level in policy debates and push for certain outcomes, as in the case of telecommunications and banking, shows that benefits are to be had from active participation.

A second observation is that donors can still play a positive role within the private sector domain, as the NTB Monitoring Mechanism has shown. A deep understanding of the needs of the private sector in relation to the regional trade agenda with potential to finance an initiative that can survive beyond donor funding, has resulted in success.

A third observation is that there are benefits to be accrued from implementing basic requirements for integration even in a scenario where the regional agenda might be abandoned by policymakers – as is the case with monetary integration. The SADC Bankers Association and Committee of Central Bankers are forging ahead with the implementation of systems that would facilitate financial transfers whether or not a monetary union is still on the horizon.

A fourth observation is that the relative size of countries within this diverse group of countries does not always translate into initiatives being dependent on South Africa's active participation. Even within the diverse sector of the sugar industry in SADC, areas for cooperation are found that could exclude South Africa in certain instances and the NTB monitoring mechanism involves cases between countries that do not route through South Africa.

3. Abstracts of Case Studies

The Non-Tariff Barrier Monitoring Mechanism

The benefits of trade integration in Southern and Eastern Africa continue to be counteracted by the impact of non-tariff barriers (NTBs) on trade. Political exhortations by member states, and even hard rules, have not been sufficient for dealing with NTBs in the region. Over the years, it has been customary to utilise cooperative approaches to buttress and supplement the rules. But these soft approaches, too, have been met with limited success. The subject of this case study is a recent intervention – the COMESA, EAC, SADC Tripartite NTB Reporting Mechanism. The paper assess where it fits into the overall matrix for tackling non-tariff barriers, in the run up to an enlarged free trade area.

The study finds that the mechanism has positively distinguished itself from predecessor initiatives in at least three ways: the level of institutional involvement of the private sector; the contemporaneous handling of tariff negotiations and non-tariff barrier issues; and its institutional longevity. The mechanism has already received the buy-in of economic operators, recorded successes in bilateral resolutions of individual NTBs, and is receiving increasing endorsement by commentators. The study notes, however, that issues relating to the distributional gains of trade integration remain significant to the ultimate success of the mechanism.

SADC Payment Integration System

Successful regional financial integration (RFI) leads to an increase in capital flows moving towards an equalization of commodity and asset prices, and returns on financial assets traded in member states. Monetary and financial integration is a complex set of processes from collaboration to cooperation, to unified financial market codes, markets and services – and, is reliant on stable domestic financial systems within the particular region.

Unequal political commitment from SADC Member States has led to less than absolute support – through slower than desired ratification – of the various necessary protocols for integration. This has resulted in regulatory inconsistencies in a variety of sectors in countries across the region. The SADC countries are widely heterogeneous with different economic vulnerabilities. Smaller SADC countries are reportedly hesitant to relinquish economic (and political) sovereignty to a bloc where economics and politics are largely dominated by South Africa.

Payment, Clearing and Settlement Systems (also known as Financial Market Utilities) are an essential part of the global financial system, which allows financial institutions to serve customers and clients around the globe. This payment system consists of a set of instruments, banking procedures and interbank funds transfer mechanisms that ensure the circulation of money worldwide.

The SADC Committee of Central Bank Governors is responsible for the SADC Payment Systems and has a project team made up of representatives from the central banks of all SADC member states. Given the relative sophistication of the South African financial services sector and the early involvement of the South African government, the South African Reserve Bank has been an active member and agent providing momentum to the project. The SADC Banking Association, in particular through its secretariat (the Banking Association of South Africa), has secured the participation of its members, the corporate banking sector – especially in the pilot roll-out of the Common Monetary Area Payment Systems project in South Africa, Namibia, Lesotho and Swaziland. Some of the major private banks have assigned individual employees as In-Country Payment Leaders (IPLs). Their responsibility is to coordinate SADC Payment Systems Project activities in their countries and to be accountable for project execution, for developing governance frameworks to support project implementation and for leading individual payment streams.

The current crisis in the European Union has led to a questioning of the wisdom of monetary unions. Especially in light of the overlapping membership of countries in different RECs, SADC member states will likely continue to be tempted by alternatives to deeper SADC regional integration, such as the Tripartite Free Trade Area (FTA). This may lead to competing policy and regulatory requirements which will make compliance more difficult to ensure. Inconsistencies in commitment to regional financial integration objectives vis-á-vis long-term fiscal stability needed to achieve monetary union will create tensions in domestic policy processes. Moreover, the hegemonic relationships among SADC countries, embedded in the differing sizes and levels of economic and political influence of SADC members are likely to threaten economic and financial integration. South Africa as the economic and financial economic locomotive has significant political clout in shaping SADC activities, schedules, and outcomes of the project.

The Southern African Sugar Sector

The sugar industry has the potential to play a key developmental role in the SADC region. Beyond the basic fact of its economic importance and success in the region, it ticks many of the boxes of the most difficult development challenges: playing to comparative advantages, benefiting small nations, and employing many workers, including lower skilled workers and those in rural areas. But like many other agricultural sectors, sugar policy faces diverse, often opposing pressures from various actors. These range from the need for open supply to facilitate food security, a desire to balance the welfare benefits of small farming interests with the efficiency of large corporate millers, and the challenge of operating in a highly distorted international market.

Sugar's importance as one of the largest agricultural sectors in the Southern African region has given rise to a great deal of involvement from a multitude of actors. The private sector is highly organized and extremely diverse, and includes both very large corporate interests and hundreds of small farmers. State actors across the region work closely with the private sector, in an effort to assure a supply of this basic commodity and to protect a sensitive and very important part of their economy. Government and private interests often overlap, as many States hold key interests in sugar producing firms. At a regional level, this multitude of actors and competing interests make use of a range of forums for cooperation, some mandated by the SADC Agreement on Sugar and others privately organised.

There is a great deal of diversity in the export group. The DRC and Zimbabwe are both high potential sugar producers, with Zimbabwe being the second lowest cost producer in the world, but with capacity limited by current political and economic circumstances. Swaziland, Malawi and Zambia have all developed large, highly efficient sugar industries – ranked respectively as the third, fourth and eleventh lowest cost producers in the world in 2007 - off the back of favourable natural conditions and preferential access to the EU market under the European Union's ACP sugar protocol programs. Mauritius has similarly taken advantage of preferential market access, but remains a relatively uncompetitive, high cost producer of sugar, and as a result has been making efforts to diversify away from reliance on the sugar sector, which accounts for 25% of export earnings. South Africa is by far the largest sugar manufacturer in the group, and benefits from good natural conditions and a highly organized corporate sugar sector. The combination of factors means South Africa is the 17th lowest cost producer and the 15th largest producer worldwide.

The political economy of the region is characterized by a private sector that is wary of a highly distorted international market, but unified in the region by concentrated common ownership interests. Government actors have a two-fold vested interest in the protection of the sugar industry, through their ownership of these firms, and the strategic importance of the sugar industry to their economies.

Regional Cooperation in the Telecommunications Sector

This case study examines the telecommunications sector in Southern Africa and the role that the Communications Regulators Association Southern Africa (CRASA) plays in encouraging policy harmonization between SADC Member States. Policy harmonisation in SADC has traditionally been a very difficult process with few successes being achieved. The case study attempts to tease out the reasons for CRASA's success.

CRASA was established under the Protocol on Transport, Communications and Meteorology of 1997. CRASA is an implementing agency of SADC, which as a Secretariat cannot get involved in the actual implementation of regionally agreed policies as it has no implementing function at the national level. CRASA aims to harmonise the ICT sector in SADC in order to maximize the benefits the sector can offer to economic growth and development. A region that boasts a regulatory framework is more likely to attract investment, than a fragmented one.

Telecommunications policies increasingly today are set at the international level, although governments still have to maintain national policy coherence and implement policies. Internationally, there has also been a shift away from monopolistic national telecom companies, towards an open, competitive market in which large multi-national companies are active players. These companies often exert significant influence over governments, as they are large tax contributors, employers and key to growth and development. This is the case throughout the SADC region.

The private sector has been very active at the regional level through forming part of government delegations to CRASA deliberations. There is a strong cooperation amongst firms as well as governments. Policy transposition lags behind, as is the case with most regional efforts, but the element of competition amongst the private sector on issues like roaming costs, ensures that there is a level of urgency in implementing regionally agreed guidelines.

4. Dialogue Questions

Non-Tariff Barriers: How did the project come about – was it a donor-driven initiative with enthusiastic private sector support? Is the project likely to continue without this support? Who benefits from eradicating barriers? Are all governments winners or are there losers?

Southern African Sugar Board: Who initiated the establishment of the board? Why is there active private sector involvement on the board and its activities? Do governments benefit or lose out as a result? How do national interests get taken up within a regional body?

Regional Communication Regulatory Authority: What are the reasons for a very active regional player within this sector? Can it promote a regional agenda or does it ultimately only reflect the strongest national voice? How are companies represented and how important are their relationships with their national governments to achieve regional goals?

SADC Banking Association and Central Banker's Committee: Who is represented and why? Where does the decision-making authority lie? Why is this SADC initiative considered a success? What makes the entry points for the private sector more accessible? Who benefits from this process? Is private sector involvement critical to its success?