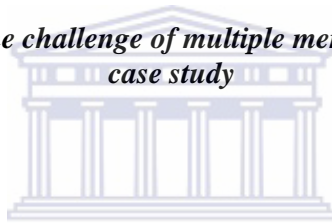


UNIVERSITY OF THE WESTERN CAPE
DEPARTMENT OF ECONOMICS



REGIONAL INTEGRATION IN SOUTHERN AFRICA

With a specific focus on the challenge of multiple membership, using SADC as a case study



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Research report presented in partial fulfilment of the requirements for the degree of Master in Commerce in the Faculty of Economics and Management Science, University of the Western Cape

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March 2009

DECLARATION

I, the undersigned, hereby declare that the work contained in this research report is my original work that I have not previously in its entirety or in part submitted for any degree or examination at any other university. All the sources used or quoted have been indicated and acknowledged as complete references.



Kangami, Divine Ngenyeh

March 2009

Signed.....

TO MY GRANDMOTHER



UNIVERSITY *of the*
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ABSTRACT

Regional integration dates back to the work of Jacob Viner who distinguished between the terms ‘trade creation’ versus ‘trade diversion’ in the context of the gains from customs unions. Since then regional trade agreements have been entered into all over the world and almost all members of the World Trade Organisation are members of at least one trade agreement. Moreover, individual countries have also signed free trade agreements with countries not involved in the same regional block. Also, in this era of globalisation, the demands of the WTO often work against progress to deeper integration in the specific regions.

Despite their relatively weak performance, Africa is home to the largest number of regional trade agreements where member states of a particular regional trade block also belong to another regional block or have signed preferential trade agreements with third countries. This phenomenon of multiple memberships is particularly true of trade blocks in Southern Africa. For example, the DRC, Malawi, Angola, Madagascar, Mauritius, Swaziland, Zambia and Zimbabwe are members of SADC, but also full members of COMESA.

This report presents a study on regional integration in Southern Africa and specifically focuses on the presence of overlapping memberships in Southern and Eastern Africa. It provides a descriptive overview of COMESA, the EAC, SACU and SADC where member countries of the former blocks are also members of SADC, but focuses specifically on the problems and challenges due to multiple memberships, such as different approaches to regional integration, problems related to different rules of origin and non-tariff barriers, amongst others.

Thereafter the focus is on SADC as regional trade block. The report discusses the establishment of SADC, its main aims and economic performance since its inception and also the special problems and challenges, such as the multiple memberships of its members. Finally South Africa’s preferential trade agreement with the European Union is discussed as example of how multiple membership impact on the development of trade relations between member countries of SADC.

ABBREVIATIONS

ACP	African, Caribbean Pacific
ADB	Asian Development Bank
AFDB	African Development Bank
AGOA	African Growth Opportunity Act
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BLNS	Botswana, Lesotho, Namibia, Swaziland
BOP	Balance of Payment
CBI	Cross Border Initiative
CET	Common External Tariff
CMA	Common Monetary Area
COMESA	Common Market for Eastern and Southern Africa
CU	Customs Union
CUSFTA	Canada-US Free Trade Agreement
DIR	Daiwa Institute of Research
DRC	Democratic Republic of Congo
EAC	East African Community
ECOWAS	Economic Community of West African States
EFTA	European Free Trade Association
EPA	European partnership Agreement
EU	European Union
EU-ACP	European Union African Caribbean Pacific

FDI	Foreign Direct Investment
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
GVC	Global Value Chain
IIT	Intra-Industrial Trade
IMF	International Monetary Fund
IOC	Indian Ocean Commission
LDCs	Least Developed Countries
Mercosur	Mercado Común del Sur (Southern Cone Market)
MFN	Most Favoured Nation
NAFTA	North American Free Trade Area
NTBs	Non-Tariff Barriers
OECD	Organisation for Economic Cooperation and Development
PTA	Preferential Trade Area
RCA	Revealed Comparative Advantage
ROO	Rules of Origin
RSF	Revenue Sharing Formula
RTA	Regional Trade Agreement
SA	South Africa
SACU	Southern African Customs Union
SADC	Southern Africa Development Community

SADCC	Southern African Development Co-ordination Conference
SADC FTA	Southern Africa Development Community Free Trade Area
SAPTA	South Asian Association for Regional Cooperation
SSA	Sub-Saharan Africa
TDCA	Trade, Development and Cooperation Agreement
WB	World Bank
WTO	World Trade Organisation
UNCTAD	United Nation Conference on Trade and Development
USA	United States of America
UEMOA	West African Economic and Monetary Union



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CHAPTER ONE

INTRODUCTION

1.1 PROBLEM STATEMENT

Regional integration in the form of various trade agreements is a process by which countries come together and sign treaties to form regional institutions in order to carry out mutual projects and regional cooperation. This normally occurs because countries in a particular geographical region come together to harmonize economic, political and trade policies. The majority of regional integration groupings around the world involve countries that share national boundaries. Efforts at regional integration in different parts of the world have often focused on removing barriers to free trade in the region, allowing the free flow of goods and services across national borders. Regional trade agreements (RTA) have been used to enhance the prospects of accelerating the potential of regional trade blocks because it redresses the constraints of low and limited production created by small and fragmented markets (Andriamananjara, 2003).

According to World Trade Organisation (WTO) regional trade agreements have flourished all over the world so rapidly that nearly all WTO members are now party to at least one bilateral arrangement (Andriamananjara, 2003). This rapid increase of RTAs over that last decade has resulted in different views regarding the gains to be derived from the agreements. Supporters of RTAs, such as Ethier (2008) and Krueger (1993), argue that RTA can help nations to gradually work towards free trade by giving member states enough time to increase output of goods and services produced to reach the level of competing with foreign firms and also allow domestic industries enough time to adjust. Moreover RTAs can be valuable opportunity for countries in that region to carry out joint regional projects, for example exploiting member states economic resources such as energy (Global trade negotiation, 2004).

However, other policy analysts such as Bhagwati and Panagariya (1996) express doubt about the benefits of rapid growing RTAs. Some describe them as “a complex web of competing trade interests that hinder multilateral agreements” (GTN, 2004). A closer investigation of south–south regional trade agreements¹ reveals that the majority of them have been met with little success as compare to north-north RTAs. For example the North American Free Trade Area (NAFTA) that involves both less developed and developed economies² benefited all its members (Blake, 2008). Also the European Union (EU) which represents the highest form of economic integration so far have achieve great success, whereas most south-south RTAs especially those in Africa have not realised their required expectations.

The analysis of Venter and Neuland (2007) of trade between less developed and developed countries shows that less developed countries are not attractive to modern industries that do not rely on economies of scale for competitiveness. RTAs in Africa are characterized by small economies, overlapping membership and contradictory policies that have reduced trade among the participating nations and thus constraining deeper economic integration in the continent. Overlapping membership is an important issue to be addressed in Africa and it can be considered as one of the main problem facing RTA in Africa particularly west and southern Africa. The multiplicity of membership in these RTAs will sometimes result in conflicting trade agendas and makes commitment by member states difficult.

A notable trade agreement in southern Africa is that of the Southern African Development Community (SADC). Most SADC member states are also members to different RTAs in Southern and Eastern Africa. RTAs between different trade regimes can introduce certain complexities and concerns for such countries involves as a result affecting the different sectors³ of the economy that produce the bulk of goods being traded. Recently, trade relation in SADC are characterised by a number of overlapping

¹ Regional trade agreements in the southern hemisphere especially those in Africa, Latin America and part of Asia.

² Mexico is considered a less developed country while Canada and United States of America are the Developed economies.

³ Especially the private sector that produced the bulk of the goods for exports

bilateral treaties and regional arrangements. Less than three years ago, it was only Angola, Democratic Republic of Congo, Lesotho, Swaziland and Zambia that did not have preferential trade agreements⁴ with other SADC countries, although Zimbabwe and Angola where are on the verge of concluding a preferential trade arrangement (Buthelezi, 2006). For example, Mauritius has a trade arrangement with Madagascar and Comoros within the milieu of the Indian Ocean Commission (IOC), Namibia, Lesotho, Swaziland, Botswana and SA are members of SACU, and the remaining SADC states are also registered members of the Common Market of Eastern and Southern Africa (COMESA).

The World Bank estimates that between 40% and 60% of world trade occur within regional a trading blocks. This does not hold in the case of SADC as less than 10% of trade by SADC countries is destined for other countries in the grouping. South Africa as a key player in the region produced a greater proportion of the region's total exports and her exports to the SADC region seems to outweigh her total imports from the region. South Africa's total trade with the EU seems to outweigh her trade with the other SADC member states. SADC member states total trade with SA seem to dominate their trade with the rest of the world and another important issue is the fact that SA trade with the EU outweigh her total trade in the SADC region. Countries in the SADC region are also at diverse levels of development, with South Africa being far more developed than any of the other countries. For example South Africa account for more than 70% of the region's GDP (Lieberman, 1997). A critical look at SADC will indicate that, the domestic markets of most member states are limited by low per capita purchasing power. This low purchasing power is often further reduced by the dependence of member states on primary commodities as their main source of revenues. Moreover, the region consists of economies that are primarily exporters of primary products for consumption and processing by industrialized countries. (Lieberman, 1997)

Traditional trade creation and trade diversion distinctions are unable to explain this situation. In short overlapping memberships in the SADC region and bilateral trade

⁴ A preferential trade agreement is a trade treaty between states (countries) that reduces trade barriers on certain goods to the countries who signed the treaty.

treaties that SADC members states are currently having with third countries might be constraining deeper economic integration in the SADC region. This is the main focus of the report.

1.2 OBJECTIVE

The overriding objective of this study is to investigate the problems and challenges which multiple membership pose to regional integration with specific reference to the Southern African Development Community. The specific objectives are as follows:

- To analyze the theories that addresses regional trade agreements.
- To determine how overlapping membership constrains deeper integration in Southern and East Africa.
- To assess the impact of South Africa's preferential agreements with the EU on trade flows in SADC
- To determine which lessons can be learnt the SADC trade block from other south-south regional trading blocs such as Southern Cone Market (Mercosur).

1.3 METHODOLOGY AND CHAPTER OUTLAY

This report presents a descriptive overview of regional economic integration and of the challenges due to multiple memberships. It is quantitative and qualitative in nature and uses secondary data sources. Secondary data are derived from different sources which include; United Nations Data Base, the United Nations Conference on Trade and Development (UNCTAD), the World Bank, World Trade organisation (WTO), SADC Trade Data Base, online articles and news reports and World Bank Development Indicators.

The report is structured as follows: Chapter two provides a theoretical framework of regional economic integration placing emphasis on theories explaining the rational behind regional trade agreement. The rational behind multiple memberships in regional trade agreement is further discussed.

Chapter 3 focuses on the different regional trade blocks and the problems and challenges of dual membership in regional integration. Here the problems and challenges in regional integration posed by multiple and overlapping membership are analysed. The preferential

trade agreements SADC member states are having with other regional trade blocks is also discussed. This chapter ends with an overview of Mercosur as a case study of a regional block with limited overlapping membership.

Chapter 4 presents the case of SADC as an example of regional economic integration where the phenomenon of multiple memberships in the region also brings very specific problems and challenges. Chapter 5 concludes.



CHAPTER TWO

THEORETICAL FRAMEWORK

2.1 INTRODUCTION

The analysis of regional economic integration dates back to 1950 when Jacob Viner pioneered the terms 'trade creation' and 'trade diversion' in his work on custom unions (Feentra, 2004). He had been commissioned by the United Nation to examine a suitable design for a world trading system after the devastating effect of the Second World War (Andriamananjara, 2003).

Many regional trade agreements are in the form of free trade areas (FTAs). Regional trade agreements have proliferated so rapidly so much so that it has revived the debate over their welfare implications and their impact on the global economy. This debate has led to different school of thoughts regarding the final welfare effect. One school of thought regards the regional trade agreements as a bad idea, reducing welfare for their members and detracting them from efforts to expand overall liberalization under the World Trade Organisation (WTO)⁵. More so, RTA can entail different forms of protection by implementing rules of origin that have protectionist effects (Galal, 2000). There are instances where a group of countries will not eliminate tariffs on goods imported from the rest of the world and decide to totally eliminate tariffs between themselves (Feentra, 2004:175).

Proponents⁶ of the second school of thought argue that regional trade agreements reflect a new regionalism. This school of thought further shows how empirical studies of growth in both developing and developing countries are of the view that trade liberalization policies have led to increased trade and have been associated with welfare gains (Robinson & Thierfelder, 2002:2). According to Maruping (2005), regional integration can promote competition, increase access to wider markets through trade, larger and more diversified investment and increase production. It also increases the bargaining power of member states in the international market and it can

⁵ The school of thought not in favour of regionalism include (Bhagwati and Panagariya (1996), Bhagwati and Krueger (1995), Srinivasan (1998), in Robinson & Thierfelder (2002:2)

⁶ Such as Ethier (1998) in Robinson & Thierfelder, 2002:2 and Krueger (1993) in Hoekman and Kheir-El-Din (2000)

foster coordination and harmonization among the countries involved in the RTA. It is thus clear that RTA is aimed at fostering trade among member states with the expectation from member countries that this trade arrangement will lead to an increase of national welfare.

The aim of this chapter is to bring together the key theoretical arguments related to regional economic integration. It is structured as follows: Section 2.2 explains the meaning of regional economic integration. Section 2.3 distinguishes between the different types of regional integration whilst section 2.4 explains the theoretical rationale behind economic integration. Section 2.5 deals with Krugman's geographic proximity in trade, while section 2.6 discusses the impact of globalization on regional integration. Section 2.7 focuses on the rationale behind multiple memberships. Section 2.8 examines the phenomenon of overlapping membership and the challenges it poses to regional trade. Section 2.7 concludes this chapter.

2.2 THE MEANING OF REGIONAL ECONOMIC INTEGRATION

Regional economic integration is the merging of economies and economic policies of two or more countries in a given region. Balassa (1961)⁷ defined regional economic integration as “a process in which a group of nations reduces tariff and non-tariff barriers to allow for the free flow of goods, services and factors of production (including labour and capital)”. The Daiwa Institute of Research (DIR) (2005: 15) further defines regional economic integration as “the gradual elimination or abolition of economic barriers which impede free movement of goods, services, capital and persons among a group of nation states”. Economic integration can, therefore, be looked upon as an indication of a state of affairs or a process involving attempts to combine separate national economies into larger economic regions (Bende-Nabende, 2002).

Finally, Van Niekerk (2005) explains that regional integration can be defined along three dimensions as follows:

⁷ In Mekong Brief (2007)

- Geographic scope: “This illustrates the number of countries involved in an arrangement.
- Substantive coverage: “It refers to sector or activity. It turn our attention to trade related regulatory issues as barriers to merchandise trade have come down and trade expanded, policy makers and trade negotiators are now forming bilateral agreements on issues such as service, investment, intellectual property rights and temporal movement of labour”.
- Depth of the regional integration: “This measures the degree of sovereignty a country is ready to surrender, which is from simple coordination or cooperation to deep integration and therefore implies a high degree of loss of sovereignty”.

Economic integration can therefore be regarded as any type of arrangement where countries agree on a common goal to coordinate their trade, fiscal, and/or monetary policies (Bende-Nabende, 2002).

2.3 REGIONAL INTEGRATION AGREEMENTS

Suranovic (1998) listed four main types of economic integration that represent different degrees of integration: Free Trade Areas, Custom Unions, Common markets and economic and Monetary Unions. The above four main types of economic integration are explained below from the simplest form of economic integration (Free Trade Area) to the deepest form of economic integration (Economic and monetary Union).

2.3.1 Free Trade Area (FTA)

A Free Trade Area (FTA) is where members establish a free-trade zone by eliminating import tariffs, quotas and other government-inspired impediments between member countries but maintain their own external tariff on imported goods from the rest of the world (McCarthy and Smit, 2000). The North American Free Trade Area (NAFTA) that includes Canada, Mexico and the US is good example of a Free Trade Area. Such an association requires a host of supplementary regulation to prevent trade deflection that is where goods from outside the group being imported into the lowest-tariff country are then exported to high tariff member. Because countries have different external tariffs, a FTA generally develops complicated ‘rules of origin’. These rules of origin are created to avoid goods from being imported into the FTA member country

with the lowest trade tariff structure and then reshipped to the country with higher tariffs (Suranovic, 1998).

Some analysts such as Bhagwati and Krueger prefer to address FTA as preferential trade agreements (PTA), because PTA is more accurate in calculating its impact on third parties. FTAs can be look upon as contracts signed by participating countries have reciprocal preferences among themselves at the same time excluding non-participating countries and are therefore discriminating (Dent, 2005).

2.3.2 Custom Union (CU)

A Customs Union, on the other hand, is a regional block much likely like a FTA except for the fact that member countries are obliged to conduct common external relations. For instance, they must adopt common external tariffs on imports from the rest of the world (Bende-Nabende, 2002). The Southern Cone Market (Mercosur) that includes Brazil, Argentina, Uruguay and Paraguay is a good example. In this case there is no free movement of labour across national borders, no common economic trade policies such as agricultural, transportation, labour market, and business practices. Once customs duties have been paid on entry into the area of the customs union, those goods circulate freely within the customs union in the same way as goods produced in one of the member states of the union.

According to Suranovic, (1998), a customs union is more beneficial than a FTA because it avoids the problem of developing complicated rules of origin, but introduces the problem of policy coordination. All member countries in this regard must be able to agree on tariff rates across many different import industries.

In order to qualify as a customs union GATT (GATT article XXIV 8 (a) in Suranovic, 1998), stipulates that members of a CU shall apply “Substantially the same duties and other regulations of commerce”. This provision implies the use of common external trade policies and a common external tariff. If a country wants to remain in two distinct customs unions there must be concerted efforts from the two customs unions to synchronize their external tariff policies. This is however only a theoretical possibility because in practice it will be unrealistic to apply two different external tariffs in one custom union (Kruger, 2007). FTA and custom union turns to violate the

MFN principle as countries are treated differently within the region from countries outside the region. But under article XXIV of GATT, such agreements are permitted provided that “the duties with outside partners shall not on the whole be higher or more restrictive than the general incidence of the duties prior to the formation” (Feentra, 2004).

2.3.3 Common Market.

A common market represents a more complete level of economic integration than a free trade area or custom union. A common market is an agreement in which a group of economies in a particular geographical region permits the free movement of factors of production across national boundaries (Bende-Nabende, 2002). The initiation of common external trade eliminate trade restrictions against non-members, allowing free movement of factors including labour, have common taxes and common trade laws (Carbaugh, 2008).

At present, the EU citizens share a common passport, can take up jobs in any EU member country without applying for a work permit and investors from any of the countries within the EU can invest throughout the union without restriction (Kruger, 2007). The establishment of a common market normally requires significant harmonisation of the policies of member states that includes the unification of fiscal and monetary policies due to increased economic interdependence within the region. The end result of the harmonisations of policies is that changes of one member country’s policies can affect the policies of other member countries (Holden, 2003).

2.3.4 Economic Union

An Economic Union is the highest form of economic integration. An economic union adds to a common market the need to harmonize a number of key policy areas, which include the harmonisation of national and social policies and administration by a supranational institution (Holden, 2003). According to Suranovic (1998) an economic union will “...maintain free trade in goods and services, set common external tariffs among members, allow the free mobility of capital and labour, and will also relegate some fiscal spending responsibilities to a supra-national agency”. It requires a single monetary system, one central bank, a unified fiscal system and a common foreign economic policy and a positive agreement by all member countries to transfer their economic sovereignty to new supranational institutions (McCarthy and Smit, 2000).

The task of creating an economic union is much more complicated than achieving the other forms of integration. This is because a free trade area, a custom union and a common market result primarily from the abolition of existing trade barriers, but an economic union requires the transfer of economic sovereignty to a supranational authority such as the European Union (Carbaugh, 2008)

An Economic union will only properly function if exchange rate uncertainty is eliminated. The absence of exchange rate uncertainty will allow for effective trade to follow efficient paths without being unduly affected by exchange rate considerations (Suranovic, 1998). The European Union is a good example of a monetary and economic union.

2.4 RELEVANT THEORIES EXPLAINING THE RATIONALE BEHIND REGIONAL TRADE INTEGRATION

2.4.1. Static Theory

2.4.1.1 Viner's Early Approach: In the 1950s Jacob Viner showed in his analysis that the creation of a custom union need not necessarily increase welfare and argued that a custom union might involve trade creation and trade diversion (Andriamananjara, 2003).

Trade creation is said to improve economic welfare within the group because resources are being shifted to more efficient uses. The trade creation effect of a custom union is composed of two parts: first by a production effect which consists of the substitution of cheaper foreign goods for domestic goods from within the union, and secondly a consumption effect is reflecting the gain in consumer surplus from cheaper goods (Thirlwall, 2003). The partner country would clearly gain from trade creation and therefore the free trade area as a whole would be better off.

On the other hand, trade diversion is said to reduce economic welfare because resources are being diverted from an efficient producer outside the region to a less efficient producer within the region. Trade diversion occurs when increased trade among members comes at the expense of imports from a low-cost supplier who is not a member of the regional trade agreement to a high-cost, less efficient regional

producer (Cooper, 2006). When two countries begin to trade within a union, but one of these countries had formerly imported goods from a country outside of the union. And if we assume that the importing country formerly had the same tariff with the rest of the world, but purchased from outside the union because the price was lower. After the union the country switches its purchases from the lower-price to a higher price country, so the final outcome may be a negative effect and the country could lose from joining the union (Feentra, 2004: 192). Trade diversion effect is also composed of two parts: the first is the substitution of higher priced goods from within the union for goods from outside the custom union. The second is the loss of consumer surplus that this entails (Thirlwall, 2003).

Viner placed more focus on the economic effects of customs unions, but his work has been generally applied to free trade areas (FTAs) and other preferential trade arrangements. It is also used to analyse the welfare effect of trade as a result of gains from regionalism and much of the welfare analysis also pertains to the formation of RTAs (Cooper, 2006). Viner completed a groundbreaking study entitled 'The Custom Union Issue' in 1950. In this study he postulated that, while a free trade area would increase the bilateral trade flow between two or more countries, it not necessarily meant that the increased trade flow would yield an economic efficiency gain. He stated that whether an increase in trade was desirable or not depended on the source of the increased trade (Venter & Neuland, 2007).

Viner (1950) as referred to in Venter & Neuland (2007: 33) postulated that trade diversion would be damaging to the home country because of the higher cost of imports. The partner country according to Viner's analysis would derive no benefit from this and therefore the FTA would be worse off. But in most situations FTAs can lead to both trade diversion and creation with the net effects decided by the structure of the FTA (Bende-Nabende, 2002). Even if two or more economies eliminate trade barriers among themselves and become a FTA, the FTA could create a situation where both the countries involved in the FTA and the world would become worse off if the FTA diverts more trade than it creates. In support of the Viner's argument, Burfisher, Robinson, and Thierfelder (2001) tried to measure the effect of trade creation and trade diversion in the context of welfare gains from regional integration and concluded that the welfare effect of a regional trade agreement depended on the

magnitude of trade creation, which is the expansion of intra-regional trade as member countries produce and export more of their comparative advantage goods, and this occur when there is a shift from a high-cost, less efficient regional producer to a low-cost, more efficient regional producer.

In summary, trade diversion reduces efficiency while trade creation improves welfare and efficiency. The net effect of a FTA is unclear as it has an end effect of shifting the economic resources either from lower to higher-costs or from higher to lower costs, depending on the circumstances.

2.4.1.2 Structural Assessment of the Static Theory of RTA

The static theory of regional integration arrangements has failed to yield generally applicable guidelines for policy making in promoting trade among countries in the same regional trade block (De Rosa, 1998). The static welfare effects of RTAs have become more complex since RTAs have increased dramatically in the last decade. Complications arise because PTAs magnify the problems that arise as countries try to restrict or liberalise trade on the basis of which product comes from which country (Bhagwati, et al 1998). This means that as soon as the European Union wishes to treat the imports from South Africa preferentially, it must establish a rule of origin which usually takes the form of some sort of content rule, for example that a product is considered to be South African only if its South African content exceeds an arbitrarily specified share of gross value (Bhagwati, et al, 1998).

According to other researchers, the welfare effects of regional trade agreement depend on the magnitude of trade creation and the expansion of intra-regional trade as member countries produce and export more of the goods in which they have comparative advantage (Burfisher, et al, 2001). In their analysis of Panagariya (2000) surveys in which he studied the theoretical models of regional trade agreements and their potential effects on welfare, addressing not only trade creation and trade diversion issues, but also the effects of transportation, economies of scale, imperfect competition, and rent-seeking⁸, Burfisher et al (2001) conclude that whether or not a regional trade agreement benefits its members will depend on certain parameter

⁸ Rent seeking occurs when an organization, or firm with the help of government policies seeks to make money by manipulating the economic environment rather than by making a profit through trade and production of wealth

values and the initial economic structure. These factors include the size of the economies signing the agreement and the size of their respective gross domestic products, the level of development and whether member states are landlocked or close to the sea.

In analysing the static gains from RTA, Dornbusch (1992) identifies the following:

- *“Static gains from improved resource allocation, which is the classical source of gains from freer trade”.*
- *“Access to a greater variety of goods, which raises productivity by providing less expensive or higher quality intermediate goods”.*
- *“The availability of imported intermediate goods and technology”.*
- *“A more economically rational market structure, that is, gains from liberalisation can also result from economies of scale that arise in wider markets; and a transfer of know-how”.*

Considering the terms of trade effect, when the price of a country's imports remains the same while its exports price increases, there is room for its terms of trade to improve and this may lead to additional gain in trade. When terms-of-trade changes occur, a regional trade block that is actually trade diverting can result in a welfare gain (Burfisher, Sherman and Thierfelder, 2003).

According to Van Niekerk (2005), static gains from RTA can be sub-divided into two categories, the traditional and non-traditional gains from trade.

2.4.2 Traditional Gains from RTA

The traditional gains come as a result of increase in gains from trade. Van Niekerk (2005) listed three main gains.

2.4.2.1 Trade gains: If goods have sufficiently strong substitutes, regional trade agreements will cause the demand for third party goods to decrease, which will drive down prices. In total, more intense competition in the trade zone may induce outside firms to cut prices and to maintain exports to the region. As a result positive terms of trade will be created for members although free trade can lead to trade diversion. The risk of trade diversion could be mitigated if countries implement very low external tariffs (Van Niekerk, 2005).

2.4.2.2 Increased returns and increased competition: In a region with very small market, a trade-off might arise between economies of scale and competition. Market enlargement removes this trade-off and makes possible the existence of larger firms with greater productive efficiency for any industry with economies of

scale and increased competition that induces firms to cut prices, expand sales and reduce internal inefficiencies (Van Niekerk, 2005).

If we look at Sub-Saharan Africa (SSA) as an example, it is characterized with high level of market fragmentation. It is expected that market enlargement would allow firms in some sectors to exploit more fully economies of scale and competition may lead to the rationalization of production and the removal of inefficient duplication of plants. Competitive effects will be larger if low external tariff allows for a significant degree of import competition from firms outside the zone. Otherwise, the more developed countries within the regional integration scheme would most probably dominate the market because they may have an upper edge. On the other hand, current technology may be obsolete in these countries compared to current and future needs of the regional market. Firms may then decide to explore new technology and relocate in other areas depending on factor costs. In this case, countries with the most cost effective infrastructure and human resources would be the beneficiaries (Van Niekerk, 2005)

To further elaborate on the possibility of reaping economies of scale in production, in industries where production technology is characterized by decreasing cost, the domestic market alone maybe too small to permit production at an optimal level. If the tariff rate is higher in the international market on those goods especially in foreign countries, international trade maybe of little help in allowing these firms to expand output toward the optimum. With the formation of intra-regional free trade, the expanded market could present the domestic market decreasing cost firms with adequate demand to produce at the optimum level (Kreinin & Plummer, 20002). As a consequence economies of scale are a possible argument in favour of economic integration.

2.4.2.3 Investment: Regional trade agreements may attract foreign direct investment (FDI) both from within and outside the regional trade arrangement as a result of market enlargement as foreign investors coming in with large amount of capital that might be viable to a given level of output. FDI may also lead to production rationalisation resulting in the reduction in marginal cost of production and reduced distortion in the market. Enlarging a sub-regional market will also bring direct foreign investment, which will be beneficial (Van Niekerk, 2005).

In addition to the above factors, a free trade area can also have several effects on the direction of investment flows. Firstly, after a free trade area is form, domestic capital previously invested in partner countries in order to evade tariffs will now be channelled to where return on capital is highest within the regional block. The result is a more efficient allocation of investment funds (Kreinin, et al, 2002: 28). Moreover, the formation of a custom union reduces the risk and uncertainty of investing in foreign countries. That is risk subject to changes in foreign commercial policy. It is important to recognize the fact that not everyone is excited about the inflow of investments in a particular region or country. Opponents are worried about the

possible negative effects of investment especially FDI. There are claims that the outflow of capital from one country to the other will export jobs and bring down wages in the countries where the outflow of capital originates (WTO, 1996). Regional trade agreements more specifically bilateral agreements can play an important role in promoting investments. That is reducing regulatory barriers to investment improving the benefits such as economies of scale and mass production that can be derived from FDI. RTA can help improve regional policies thus creating a favourable investment climate that can provide greater security and certainty to investors (FIRB, 2007).

2.4.3 Non-traditional Gains from Regional Integration Arrangements

Non-traditional gains from RTAs are normally important when it comes to investment. Since the incentive to invest depends not only on current trade policies, but on future trade policies relating the nature and level of uncertainty, and on the general macroeconomic and political atmosphere. Any impact that RTAs may create is likely to be particularly relevant to investment (Fernández, 1997).

Van Niekerk (2005) showed how the theoretical as well as applied literatures indicate several non-traditional gains from regional integration arrangements. He listed them as follows:

2.4.3.1 Lock in to domestic reforms: Entering into regional trade agreements (RTAs) may enable a government to pursue policies that are welfare improving but time inconsistent in the absence of the RTA. A well known idea in the economic literature first introduced in the seminal paper of Kydland and Prescott (1977)⁹ that is a government that maintains policy discretion will be tempted every so often to surprise the private sector and that this enticement undermines the credibility of optimal government policies. Hence adherence to rules that are binding will restore credibility and lead to superior outcomes. This lead to two conditions that is necessary for an RTA to serve as a commitment mechanism. The first is the benefit of continued membership that is greater than the immediate gains of exit and the value of returning to alternative policies. The second is that the punishment threat is credible. Regional integration arrangements work best as a commitment mechanism for trade policy.

RTAs can also serve as a mechanism to push a country in the region into micro and macroeconomic reforms or democracy if those policies or rules are stipulated within the agreement¹⁰ and the underlying incentives have changed following the implementation of the RTA. RTA may be an instrument for joint commitment to a reform agenda, but their effectiveness may be limited by the low cost of exit and

⁹In Fernandez, 1997

¹⁰ Deeper integration arrangements policies that are binding to all members the region.

difficulties in implementing rules and administering punishment (van Niekerk, 2005).

2.4.3.2 Signalling: Though entering RTAs might be costly (investment in political capital and transaction costs), a country may want to do so in order to signal its policy orientation approach, or some underlying conditions of the economy (competitiveness of the industry, sustainability of the exchange rate) in order to attract investment. This may be especially important for countries having a credibility and consistency problem (van Niekerk, 2005).

Here there is no need for the provisions of the RTA to be time-inconsistent, but the prime motivation for entering the RTA is not the provisions of the RTA itself, but the fact that entering the RTA at all is only optimal in certain circumstances and the country wants to persuade others that those circumstances do in fact prevail (Fernandez, 1997)¹¹.

There are two key conditions for a signalling to make sense; the first is that there has to be a significant information asymmetry. That is, the government has to have superior knowledge, either about its own preferred policies, or about the economy, than other agents. And for the second condition, there has to be a significant cost to entering the RTA, at least for some hypothetical governments in some circumstances (Van Niekerk, 2005).

2.4.3.3 Insurance: Another way in which a FTA can contribute to the welfare of its members if seen as providing at least one of them with insurance against possible future events. These events include; macroeconomic instability, terms of trade shocks, trade war, resurgence of protectionism in developed countries. This may also help to explain why some agreements, particularly those involving a large and a small country have the smaller entering on worse terms. For example, Fernandez (1997) shows how it appears that the binding constraint on EU membership for several central European countries is currently neither political nor macroeconomic, but the institutional and legal changes needed to bring these countries up to EU standards. Of course, some bureaucracies may give positive weight to using resources in this manner thus invalidating the use of this mechanism as a signal in those cases.

Within RTAs, coordination may be easier than through multilateral agreements since negotiation rules accustom countries to a give-and-take approach, which makes tradeoffs between different policy areas possible. Since RTAs may enable countries to coordinate their positions, they will stand in multilateral negotiations (e.g. World Trade Organisation) with at least more visibility and possibly stronger bargaining power. The collective bargaining power argument is especially relevant for the least developed and fractioned countries within a sub-region. It may help countries to develop common positions and to bargain as a group rather

¹¹ Since Potential investors are not particularly interested in the exact provisions of any RTA, but they do care about the type of government. In that case a government may wish to signal not its type but something about the underlying condition of the economy: for example, the prospective competitiveness of its industry, or the sustainability of the exchange rate to attract more investments from foreigners

than on a country-by-country basis, which would contribute to increased visibility, credibility and even better negotiation outcomes (Van Niekerk, 2005).

2.4.3.4 Security: The last non-traditional gain from regionalism according to van Niekerk (2005) is as a result increased security of increased intra-regional trade and investment that link countries in a web of positive interactions and interdependency. This is likely to build trust, raise the opportunity cost of war, and hence reduce the risk of conflicts between countries. RTAs could also create tensions among member countries should it result in more divergence than convergence by accelerating the trend of concentration of industry in one or a few countries. On the other hand, by developing a culture of cooperation and mechanisms to address issues of common interest, RTAs may actually improve intra-regional security. Cooperation may even extend to common defence or mutual military assistance, hence increasing global security.

Considering the nature of RTAs in Southern Africa that is characterised with overlapping membership, can be said that some of these trade blocks, and specifically SADC, have fulfilled most the criteria as stated by Jacob Viner in the 1950s in order to reap the potential benefits from trade creation? Whether this will realise depends on the willingness of member states in the region to change their economic policies. However, it is important to note that although trade liberalisation is a necessary condition for trade creation, it is not necessary sufficient. According to Urbach (2008), other complementary conditions must be met before countries can fully utilise the benefits of trade creation such as macroeconomic stability, credibility of policy, enforcement of contracts and the respect of private property rights. The governments of the countries of Southern Africa have it directly within their power to reform their economies and adopt policies that will lead to trade creation and growth.

2.4.4 Krugman's Geographical Proximity in Regional Trade

The traditional theories of trade, which assumed constant returns to scale and focused on static gains, provide a limited practical insight to regional integration policy issues. In resolving part of this problem, Krugman's (1991) 'economic geography model' attempts to explain the determinants of regional concentration of economic activity, although at that time it was yet to be fully explored and its practical relevance to be tested empirically particularly in the African context (Krugman, 1998). The basic idea of Krugman's hypothesis is that under the assumption of increasing returns to scale, economies of scale and trade cost considerations determine the location of economic activity. The implication of this hypothesis for regional integration is that regional

blocks could enhance economies of scale by locating a production activity in one location rather than having each activity in each country (Geda & Kibret, 2002).

In a seminal paper, Krugman (1991) formalized the role played by geographic proximity in the regionalization process. His analysis showed how proximity could lead to production agglomeration and hence regional bias in trade flows (Carrilo & Li, 2002). In this context, a pair of countries with low transportation costs between them will tend to have a higher volume of trade than countries further apart. Likewise economic integration yields greater benefits if the member countries are in close geographical proximity to each other. Proximally decreases transportation costs and increases the likelihood of consumer preferences as well as trading opportunities in neighbouring countries can cater for increased trade and consumer's preference (Venter & Neuland, 2007).

Until recently most international economists ignored distance and other geographical factors as determinants of trade. Frankel (1997) showed how one couldn't get far in to empirical analysis of bilateral trade between pairs of countries without recognizing the strong, inhibiting effect of distance on trade.

Geographical distance acts as a barrier to economic interaction. Costs of distance consist partly of direct travel or freight costs, and also time and information costs. Trade costs within countries have a lesser effect on economic activity than international borders with their associated differences in fiscal, legal, linguistic, and cultural standards (Venables, 2005). Venkat and Wakeland (2006) prove, using simulation experiments, that distance-based transaction cost has a significant impact on trade. They went further to analysed how trade will be highly efficient in moving goods between sellers and buyers without transaction costs especially distance. McCarthy and Smit (2000) support the above argument that transport cost constitutes an obstacle to trade and claim that the volume of trade decreases as distance increases between two trading partners. The terms of trade also deteriorate for both the exporting and the importing country.

The ever-rising capacity and falling costs of transportation effectively removed much of the barrier of distance. Today, almost every product is made up of different global

components that have travelled thousands of miles before reaching consumers. With the surge in oil prices, it therefore means that costs of most imports will tend to increase. With the additional cost passed on to the consumers, the demand for certain types of imports will drop. For example, Chinese export of steel to the US has been declining, giving a new lease of life to the US's domestic steel (Chanda, 2008). He used the example of the oil sector and showed that the current oil shock is likely to promote energy efficiency to produce goods locally thus reducing the cost of imported goods. As the cost of delivering raw materials rises, the burden will fall more on emerging industrial countries, fuelling inflation and reducing their abilities to produce low-priced goods. Developing countries that have benefited from cheap air travel by riding the wave of global tourism are likely to see a sharp drop in their earnings.

Regions closer to the sea have lower transport costs, which meant that they can benefit from greater trade and specialisation, while landlocked countries experience higher costs when trading with the rest of the world. If transport costs are very high, each region will be more or less self sufficient and activities will be widely dispersed serving local markets because it is too costly to transport inputs and output elsewhere (Thirlwall, 2003).

Empirical studies have also shown when a less developed nation form a regional block with a more developed nation it could lead to dynamic gains because of greater expected gains from economies of scale, technology transfer and increased investment flows. It may also force the developing country to adopt market based policy reforms (Kreinin & Plummer, 2002). This has been the case when Mexico joined the North American Free Trade Area (NAFTA) and with Vietnam's accession to ASEAN.

2.4.5 Intra-Industry Trade

In most industrialised countries and particularly in the EU, most firms have not been thrown out of business by increased competition from firms in partner countries. Instead, many of them have continuously increased their business over time. The reason for this is that these firms have specialised in certain lines of production that are supposed to satisfy distinct demand segment through out the EU. Trade takes place in these differentiated products and this phenomenon is known as intra-industry trade (Jovanovic, 1998:55).

Trade is growing fastest among the industrial countries and within industrial categories. This process has turned the attention of economists to the phenomenon of intra-industrial trade. Economists coined this term in the 1970s to describe the two-way trade within industries. An example will include trading South African wines for French wines. According to Lindert (1991: 96) economists have noticed that the two-way trade within each modern industry is an exchange of slightly different goods that use the same mixtures of factors of production¹². IIT is significantly more prevalent in industrial countries with economies of scale and in industries dominated by a few large firms. Certain research shows that incentives for intra-industry trade come from the relative level of per capita income and country size, product differentiation, participation in regional integration scheme, common border, as well as similar culture and language. IIT goes along with fewer costs compared to inter-industry trade (Jovanovic, 1998:56).

2.5 THE RATIONALE BEHIND MULTIPLE MEMBERSHIPS IN RTA

Other economic arguments as to why countries participate in multiplicity of RTAs are explained in the following paragraphs.

Spill over effects: It is generally believed that countries that are party to more than one RTA benefit from the spill over effect of the creation of knowledge capital and investment flows (Ibarra-Yunez, 2001). The knowledge creation-specialization, and investment flows, seem to be welfare improving even in the case of trade diversion and the asymmetric distribution of gains from bilateral trade. Another reason relates to trade diversification away from increased specialization and the dependency on a single market. Some countries prefer to be members to more than one RTA in order to diversify trade (Ibarra-Yunez, 2001).

Avoidance of trade wars: Tanzania's President believes customs unions which overlap could avoid trading wars by building long-term plans and common cross border trade approaches seeking to standardize investment and trade policies (Guardian, 2006).

¹² These factors of production include unskilled labour versus skilled labour, versus capital versus natural resource endowments.

According to ... the overlapping effect should at least facilitate immigration procedures, as in the case of processing multi-entry visas across the regions that turn to hinder the smooth mobility of labour, goods and services across borders (Guardian, 2006)

Minimising losses: Furthermore, due to the inequality in economic growth and development in most RTAs, some regional groupings do not last for long thus failing to achieve its objectives. As a result, it turns out to affect some economies negatively. This is especially true for economically weak countries and thus a strong incentive to belong to several blocks at the same time so that in cases where one RTA fails, it will be much easier for these economies to shift their membership to the next RTA that is performing relatively well. In cases where a weak economy is partner to just one RTA, if this RTA fails to attain its objectives, it will be difficult in the short run for member states to become member to another RTA to benefit from lower tariffs. Thus, they can take advantage of the gains from each block (One Africa, 2007). Some countries would deliberately seek membership to a number of RTA's with the hope of maximizing the advantages and benefits of integration and minimizing losses by spreading risks. For example, if one RTA fails to achieve its goals and collapse, the country that is involved in more than one RTA will eventually maintain its membership in the other trade blocks thus minimising the risk of export tariffs.

2.6 OVERLAPPING MEMBERSHIP

2.6.1 Meaning of Overlapping Membership

Overlapping membership is a phenomenon common in Africa where countries belong to several regional trade agreements concurrently. The idea that a free trade area is constituted through elimination of customs duties and other restrictive regulations of commerce to substantially all trade means that member states belonging to a certain free trade area can join another free trade area. This is possible because all a member state is required to do is include its trade in the elimination programmes of both free trade areas (Francis, 2007). However, if the different free trade areas have significantly different coverage of trade items and maintain different

regulations of commerce including rules of origin, these regimes would be obstacles for a member state that seek to join the other free trade area (Francis, 2007).

Another question that may arise is how does Krugman theory of geographical proximity explain why regional blocks in Africa overlap proximity? To answer this question it will be necessary to first of all look at the challenges and problems of overlapping membership in regional trade agreement.

2.6.2 Challenges/Problems due to overlapping membership

Multiple membership of overlapping RTAs with different trade regimes can introduce certain complexities and concerns for such countries involves as a result affecting the different sectors especially the private sectors as it produces the bulk of goods being traded in most countries. The lack of full involvement of the private sector at both planning and implementation stage of RTA has not been able to obtained maximum input from the private sector which is very important as it usually has bulk of the financial resources and possesses the productive capacity (Maruping, 2005). Overlapping membership increases the problems of lack of macroeconomic convergence among member states and risk of deflection of trade.

Macroeconomic convergence: Overall, there are five African regional economic communities that have set macroeconomic convergence criteria as a precondition for realising the goal of advancing towards higher stages of economic integration such monetary unions. These regional blocks are: CEMAC, COMESA, EAC, ECOWAS and UEMOA. The convergence targets cover areas such monetary and fiscal policies. UEMOA and CEMAC have had longer experiences of monetary integration through the CFA-franc that involved the strong influence of the French treasury. Within the East African trade block COMESA, two countries, namely Namibia and Swaziland, also share a common currency under the Common Monetary Area together with Lesotho and South Africa (Maruping, 2005).

Risk of trade deflection: Van Neikerk & Moreira, (2002) shows that if traders have to operate within a number of trade regimes each with its own tariff rates, rules of origin and procedures, the risk of trade deflection becomes high. For example in the case of overlapping membership in Eastern and Southern Africa, if goods that have been

preferentially imported say from Kenya (a member of COMESA) by say Malawi (a member of both COMESA & SADC) are subsequently preferentially exported to say SA (a member of SADC), this process of trade will eventually increase the problem of product triangulation¹³ and this may well be in violation of GATT Article XXIV (Van Neikerk & Moreira, 2002). GATT article XXIV allowed countries to offer special treatment to one another by establishing RTA (customs union or free trade areas) provided that duties and other trade restrictions would be eliminated considerably on all trade among the participants.

However, each RTA will tend to develop its own sub-trade regime, the coexistence in a single country of differing trade rules applying to different RTA partners has nowadays become a frequent feature. This can hamper trade flows merely by increasing the costs involved for traders in meeting multiple sets of trade rules (WTO, 2007). Therefore the cost of overlapping membership to member states will likely outweigh the benefits. Of particular concern are regional blocks in Latin America; they do not suffer from the effect of overlapping membership, although there are some signs that this may become a problem in the future. Latin American integration is more advanced than those in Africa. Although the economies of this region has had domestic economic instability, they haven't suffer greatly from overlapping membership.

2.6.3 Empirical Evidence

Empirical studies have shown that overlapping membership poses serious challenges in the different regional trade blocks in one way or the other. According to Feng and Genna (2003), the lack of convergence expected from the different economic integrations in Africa is likely due to the abundance of overlapping memberships. For example, few of the Economic Community of West African States (ECOWAS) members especially the Francophone members are also associated with the Franc Zone, a common currency area and most of the countries in Eastern and Southern Africa are members to at least two regional blocks (Feng and Genna, 2003).

Looking at the nature of RTA in other regions such as Asia and the Pacific, it can be seen that within the Asia and Pacific region there is no common pattern to the extent

¹³ Product triangulation occurs when member states in a regional trade block takes advantage of tariff rate differentials.

of overlapping PTA membership. It is also a concern, given fears concerning the devastating effect that compound sets of overlapping regulations will have on any efforts to liberalise trade in the future. Of particular concern is the membership of Asia-Pacific Economic Cooperation (APEC) that is free from dual membership (ADB¹⁴, 2002). Most of the other common memberships involve bilateral agreements; this is really in disparity with what is happening in other regions, where overlapping membership is more common. Regions like the South Asian Association for Regional Cooperation (SAPTA) and South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) members have fairly few commitments to other RTAs probably because these two agreements involve least-developed countries. Other PTAs in the Asia and Pacific region recently have higher number of other commitments because of the degree of preferential and bilateral trade agreements among member countries (ADB, 2002). In a study by Hur and Song (2007), they found that countries with characteristics such as low-middle income, those farther from the equator, those having effective government tend to have more free trade partner countries.



2.7 CONCLUSION

This chapter has provided a vivified discussion of the theories explaining regional economic integration. It begins by defining regional integration and went further to explain the different types of economic integrations. In this section regional economic integrations are in different stages or forms ranging from the simplest form called free trade area to the deepest form of integration called economic and monetary union. It has also been seen here that one of the goal of forming an RTA is to increase the level of trade of member countries and to increase welfare. The most effective way, though, to ensure that TRA leads to higher levels of efficiency, is for member states to remove its trade barriers against all countries involved in the arrangement. But RTA does not necessary to lead welfare gain all the time. It can also lead to welfare loss a phenomenon called trade diversion. The static theory of regionalism which is mostly focus on Jacob Viner theory of the “Custom Union Issue” differentiate between trade creation and trade diversion and Viner concluded that any RTA will be trade creating

¹⁴ Asian Development Bank

if the welfare is being improved within the group resulted from the shift of economic resources to more efficient uses.

The geographic model of Krugman is also hypothesised in this chapter which states that increasing returns, economies of scale and trade cost considerations determine the location of economic activities. It is also stated here that according to Krugman, distance acts as a barrier to economic integration and that countries that are landlocked might incur more transportation cost in international trade than those closer to the sea. The problem here is that when economic activities turn to centralise in a particular region, national governments may want to influence the location of manufacturing activities that might intensify tax competition and as a result leads to lower equilibrium tax yields (Wooton and Ludema, 1998). They also concluded economic integration might intensify tax competition and reduction in costs must under certain assumptions increase taxes.

This chapter concludes by considering the challenges and problems posed to RTA as a result of overlapping membership. Here it is realised that overlapping membership is common in Africa than anywhere else in the world and that it poses serious challenges to the smooth running of any RTA that is characterised with dual membership. Van Niekerk (2007) stated that countries that are members of more than one arrangement will be required to choose between them as it is impractical to claim membership of different RTA especially customs unions.

Another important aspect is to determine whether SADC and other regional trade blocks in Southern Africa fulfilled the criteria set up by Paul Krugman. According to Urbach (2008), what most SADC member states lack are the basic institutions of economic freedom, which include fundamental elements such as personal choice, voluntary exchange, freedom to compete and security of private own property.

To understand the nature and problems of overlapping membership in RTAs in Southern Africa and how the traditional theories are useful in explaining this phenomenon, it is important to analyse first the different regional trade blocks that exist and to indicate the extent to which these blocks overlap. Chapter three clearly demonstrate this problem of overlapping membership in regional trade agreements.

CHAPTER THREE

REGIONAL INTEGRATION IN SOUTHERN AND EASTERN¹⁵ AFRICA AND THE PROBLEMS OF OVERLAPPING MEMBERSHIP

3.1 INTRODUCTION

Africa is home to a higher number of regional trade blocks than anywhere else in the world according to the WTO (2005). The majority of these regional trade groupings are made up of diverse economies that differ greatly regarding their respective levels of development and their general economic performance (in terms of price level stability, rate of employment and economic growth) are relatively weak when compared to other south-south¹⁶ trade blocks such as the Southern Cone (Mercosur) of Latin America. Intra-regional trade is relatively low in most African regional blocks when compared to those of Latin America and Asia.

Despite the relatively weak economic performance of these regional blocks,¹⁷ most African leaders have continued to regard economic integration as one of the solutions to Africa's growing marginalization within the world economy (Lee, 2002). However, the existing structures of some regional blocks make it economically and politically troublesome which causes disagreement and even tension between member countries. One of the key challenges most African leaders are facing in this era of globalization is to develop a strategy that enhances their full participation in regional trade activities while simultaneously ensuring that the RTA do not further marginalise the different domestic economies that are competing within the global economy (Maruping, 2005).

Furthermore, it is a normal phenomenon for African countries to be registered members of two or more regional trade agreements simultaneously. For example, of the 53 economies in Africa, 27 are members of two regional groupings, 18 economies

¹⁵ Regional blocks in Eastern Africa are included in order to illustrate the problems of overlapping membership, as some of SADC member states are also key players in Eastern African RTAs.

¹⁶ South-south trade blocks are those regional groupings that are situated in the southern hemisphere.

¹⁷ These regional blocks include those in Africa such as CEMAC, COMESA, EAC, ECOWAS, SADC and SACU,

are registered members to 3 RTA's, and one country is a member of four. Only seven of these economies have maintained membership in one block (One Africa, 2007). This makes it more difficult for countries in these regional blocks to work towards the achievement of a common goal. The main regional trade groupings in Africa that are experiencing multiplicity of membership include the Economic Community Of West African States (ECOWAS), the West African Economic and Monetary Union (UEMOA), the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), the Southern African Development Community (SADC) and the Southern African Custom Union (SACU).

Southern and Eastern Africa have the highest number of RTAs in Africa, with the common characteristic of multiple and overlapping membership. As of December 2006 most of the countries in Southern Africa belongs to more than one RTA (Draper, Hallenson and Alves, 2007). Considering the EAC as an example, the World Trade Organization has observed that the membership of the countries of the EAC was likely to limit the proper functioning of their customs union, and that overlapping membership was rendering the trade block complex and difficult to manage (Nancy, 2006).



The overlapping membership problem is therefore a critical challenge that is constraining the economic and political resources and leading to conflicting commitments of member countries.

The aim of this chapter is therefore to describe some features of the main regional trade blocks in Southern Africa (Section 3.2) with specific focus on the problems of overlapping membership (Section 3.3) and to give a brief description of the different preferential trade agreements that member states in the SADC region have signed (Section 3.4).

3.2 REGIONAL BLOCKS IN SOUTHERN AFRICA WITH MULTIPLE MEMBERSHIPS

As mentioned earlier, Southern and Eastern Africa are two geographical regions characterised with numerous trade blocks. The major regional trade blocks where some member countries are also members of SADC are COMESA, SADC, the EAC and SACU (Draper, Hallenson and Alves, 2007)¹⁸. All four are either customs unions or FTAs. SACU and EAC are already custom unions with COMESA hoping to become a custom union by December 2008 (Mfunwa, 2008: 2). SADC as a FTA was finally established on the 1st of August 2008.

The following section briefly describes each of these RTAs in terms of its formation and other arrangements.

3.2.1 Common Market for Eastern and Southern Africa (COMESA)

COMESA is the largest regional grouping in Africa. It is made up of twenty member states, roughly half the total number of African countries. These are Angola, Burundi, Comoros, Democratic Republic of Congo (DRC), Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe (Draper et al, 2007).

COMESA as a FTA was established in 1994 as an organization of countries that agreed to co-operate in developing their economic resources for the well being of their citizens (USAID, 2005). Its main goal and focus have over the years centred on the formation of an economic and trading unit that will develop the capacity to overcome some of the constraints faced by member states such as political and economic instabilities (USAID, 2005).

One of the key aims of COMESA is to strengthen the process of regional economic integration in order to assist its members to achieve sustainable economic growth. The

¹⁸ Some of SADC member states such as Seychelles, Madagascar and Mauritius are also members of the Indian Ocean Commission (IOC) created in 1984. This a RTA made up of Islands in the Indian Ocean.

COMESA secretariat therefore focuses attention at encouraging participating countries to carry out more development of its production and marketing structures so as to increase trade among member states thus promoting local producers (COMESA Centre, 2006).

COMESA member countries do this by carrying out regional projects such as inter-regional transport, communications structures and the mutual implementation of macro-economic policies so as to raise the living condition of citizens in the COMESA trade block (COMESA Centre, 2006). COMESA members have been working hard to make its rules of origin simple. COMESA has made progress in the elimination of non-tariff barriers, such as removal of foreign exchange restrictions, the liberalisation of import licensing, easing of customs formalities and the removal of import and export quotas. In order to realise most of its outlined projects and programmes so as to become an effective RTA in the long run, COMESA has partnered with some financial institutions such as the African Development Bank and the World Bank (Draper et al, 2007). The African Development Bank has for more than 40 years actively promoted regional economic communities through regional economic cooperation, trade expansion and capacity building (AFDB¹⁹, 2008).

COMESA is in the process of advancing towards a Custom Union between the existing members of the FTA (COMESA Secretariat, 2008). According to the COMESA secretariat, the critical issue that is left is the harmonisation of other regulations of commerce and implementing modalities for the principles of the Customs Union agreed upon by the member states (Mbogo, 2008). The COMESA Treaty of 1994 seeks to promote joint development in the areas of economic activity and the adoption of joint macroeconomic policies and programmes among member states to improve the quality of life of its peoples (COMESA Centre, 2006). The 1994 Treaty also outlines a work plan towards achieving a customs union by 2004. (This was later postponed to a new date of 2008). Odhiambo (2008) quotes UNCTAD report entitled “Economic Development in Africa 2008” which states that “despite the many regional agreements in place, these are generally slow to be implemented and there is little private sector involvement in them as

¹⁹ AFDB is the abbreviation for African Development Bank

compared with their equivalents in Europe, Latin America or Asia”, in reference to why most regional blocks in Africa including COMESA are slow to achieve their ultimate goal in advancing toward higher stage of economic integration. The adoption of trade liberalisation measures such as the elimination of tariff and non-tariff barriers to trade has been used by COMESA as its primary instrument for broadening and deepening the integration process (Draper et al, 2007).

Jakobeit, et al (2005), indicate that member states of COMESA are also allowed to maintain trade arrangements with other regions that were signed before the treaty and even to enter into new trade arrangements, “as long as these arrangements do not obstruct and frustrate the objectives of the treaty”. Moreover, if a member state offers any preference to a third country, that preference has to be extended to all other member states according to the Most Favoured Nation (MFN) principle²⁰. Jakobeit et al (2005) cited the section of the treaty that deals with the MFN principles (Article 56) as follows.

- *“The member States shall accord to one another the most favoured nation treatment”.*
- *“ Nothing in this Treaty shall prevent a Member State from maintaining or entering into new preferential agreements with third countries provided such agreements do not impede or frustrate the objectives of this Treaty and that any advantage, concession, privilege and favour granted to a third country under such agreements are extended to the Member States on a reciprocal basis”.*

3.2.2 Eastern African Community (EAC)

The EAC dates back to the late 1960s as a FTA but collapsed later mainly due to Kenya’s dominant economic position in the region and the perceived unequal distribution of integration benefits among the member states of the EAC (Jakobeit et al, 2005). The treaty re-establishing the EAC, consisting of Kenya, Tanzania and Uganda, was signed on 30 November 1999 and became effective on 7 July 2000 (Draper et al, 2007).

²⁰ Under the WTO agreements, the most favoured-nation principle means that countries cannot normally discriminate between their trading partners. This means that if a country grants someone a special favour such as a lower customs duty rate for one of their products, that particular country has to do the same for all other WTO members.

The main objective of the EAC is to develop policies and programmes aimed at widening and deepening cooperation among the member states on political, economic, social and cultural matters, research and technology, defence, security, legal and judicial affairs (Jakobeit et al, 2005). Another objective of the EAC is to improve the uneven distribution of benefits that characterised the EAC in the 1960s when only Kenya seemed to have benefited. The EAC has set out a broad and impressive programme aimed at achieving both an economic and political federation between its member states. According to Draper et al (2007), the political federation includes the establishment of a three-year revolving presidency by 2011 and to have an elected president for the entire federation by 2013.

The EAC's main goal as stated in the treaty was to establish a custom union within 5 years, thereafter to create a common market, a monetary union and eventually a political federation. The vision that the EAC could represent a fast-track integration group within COMESA was undermined in 2000, when Tanzania left COMESA (Jakobeit et al, 2005). As the goal is to reach a CU where all members have the same external tariffs and external trade policy, it contains various provisions that aim to harmonise the policies of the member states as well as other regulations such as rules of origin.

Article 37 of the EAC Custom Union Protocol regulates trade arrangements with third countries and other regional organisations. It provides the following important points concerning trade arrangements with countries and organisations outside the Customs Union.

- *“The Partner States shall honour their commitments in respect of other multilateral and international organisations to which they belong”.*
- *“The Community shall co-ordinate its trade relations with foreign countries so as to facilitate the implementation of a common policy in the field of external trade”.*

Jakobeit et al (2005), explained article 27 in accordance with the EAC treaty as follows:

- *“In terms of Article 37 the EAC member states have to synchronize their trade relations with third countries in order to achieve a common external trade policy”.*

Thus paragraph 3 of the article requires them to ascertain the challenges arising out of their current overlapping membership of various RTAs and to set up a mechanism to address these issues. This means that the EAC will have to enter into bilateral agreement with both COMESA and SADC in order to achieve convergence of external trade policies of its members (Jakobeit, et al, 2005). The EAC Customs Union was established on 1 January 2005 and the first round of reductions on internal tariffs came into effect on 1 January 2006 (Gibb, 2006).

3.2.3 Southern Africa Custom Union (SACU)

SACU is the most advanced regional integration arrangement on the African continent and the oldest CU in the world (UNCTAD, 2007). The SACU member states include; South Africa, Botswana, Lesotho, Namibia, Swaziland. (Botswana, Lesotho, Namibia, Swaziland are normally referred to as the BLNS countries.) The SACU was formed in 1910 as a customs agreement between Botswana, Lesotho, South Africa and Swaziland (New Policy Brief, 2001). McCarthy (2008) explains: “The Custom Union was established as a pragmatic solution in colonial times...” and to “accommodate the foreign trade and distribution of the revenue generated by trade of the common customs area with the rest of the world”.

Namibia joined the SACU in 1990, the same year it became independent (UNCTAD, 2007). An important feature of the SACU is that it was never initially designed to promote the cause of regional economic integration and economic development among founding members, since it was a product of colonialism and supported by the then apartheid South Africa (Gibb, 2006: 6020). Also SACU member states have always had a common external tariff when compared with the other regional trade blocks in Africa (McCarthy & Smit, 2000:144).

The five member states formed the common monetary area (CMA) in 1986. It replaced The Rand Monetary Area (RMA), established in 1974. The RMA was signed between South Africa, Swaziland and Lesotho with the rand being legal tender in all the countries involved. In order to accommodate both political and structural changes in Swaziland, the CMA replaced the RMA in July 1986 (Van Zyl, 2003). All the other countries now have their own currencies pegged to the South African rand. Namibia became part of the CMA on 1st April 1992 (Schuler, 2008). The CMA also uses South Africa’s rand as the

common currency, although each country issues its own currency at par with the rand. Monetary policy is determined by the South African Reserve Bank and usually based on South Africa's own objectives (Buigut, 2006).

According to the UNCTAD secretariat (2007) the objectives of SACU are:

- *“To facilitate the cross-border movement of goods between the territories of the Member States;*
- *To create effective, transparent and democratic institutions that will ensure equitable trade benefits to Member States,*
- *To promote conditions of fair competition in the Common Customs Area;*
- *To substantially increase investment opportunities in the Common Customs Area;*
- *To enhance the economic development, diversification, industrialization and competitiveness of Member States;*
- *To promote the integration of Member States into the global economy through enhanced trade and investment,*
- *To facilitate the equitable sharing of revenue arising from customs, excise and additional duties levied by Member States and*
- *To facilitate the development of common policies and strategies”.*

The 2002 SACU agreement contains an important provision prohibiting any member state from signing trade negotiation with third parties without the consent of the other member states (WTO, 2003). According to Jakobeit, et al (2005), article 31 of the SACU agreement deals in general with trade relations towards third parties. It reads as follows:

- *“Member states may maintain preferential trade and other related arrangements existing at the time of entry into force of this agreement”.*
- *“No member state shall negotiate and enter into new preferential trade agreements with third parties or amend existing agreements without the consent of other member states”.*

Member countries have agreed to negotiate all trade agreements jointly and to establish a common negotiating mechanism (Jakobeit et al, 2005).

According to the WTO (2003) the SACU face serious challenges of economic diversity and uneven levels of development and the key response to this challenge for SACU members should be to identify common interests on regional issues and global trade, as well as the priority trade links that SACU should pursue and from which all

SACU members can benefit (WTO, 2003). However, SACU faces problems such as very different rates of economic growth and development in the region and the fact that most of the member states depend solely on SA for the importation of their finished products.

3.2.4 Southern African Development Community (SADC)²¹

SADC was formed in 1992 in Windhoek, Namibia, when the Declaration and Treaty of SADC was signed at the Summit of Heads of State and Government (SADC Today, 2005). SADC differs from other regional trade groupings in Southern Africa as it did not start off as a conventional regional trade arrangement. Its predecessor SADCC, was established as a development organization with its main objective to offset the dominance in the region of South Africa, which was under the apartheid regime (Jakobeit et al, 2005).

SADC's main objective is to ensure the economic wellbeing and improvement in the standard of living and quality of life and to provide freedom and peace to the inhabitants of Southern Africa (SADC Review, 2008).²² The SADC trade protocol signed in 1996 aims at tariff liberalization between member states. The trade protocol has rigid rules of origin (See chapter 4). Article 27 of the Trade Protocol deals with trade relations between SADC member states and with relation between SADC as a block and other regional and international entities in general (Jakobeit et al, 2005). The protocol is stated as follows:

- *“Member states may maintain preferential trade and other trade related arrangements existing at the time of entry into force of this protocol”.*
- *“Member States may enter into new preferential trade arrangements between themselves provided that such arrangements are not inconsistent with the provisions of this Protocol”.*

The SADC Trade Protocol (in theory similar to the SACU agreement) does not prohibit its members from maintaining any preferential trade arrangements which existed before the Trade Protocol was signed. Member states can therefore maintain other trade arrangements as long as it does not frustrate the main

²¹ Detail on SADC is discussed in chapter four.

²² See Chapter Four, Section 4.2.4, where the SADC trade and development protocol is explained in detail.

purpose of the trade protocol. Where a member wishes to maintain any such arrangement or enters into any new arrangement, Article 28 puts a further obligation on them (Graumans, 1997). According to Jakobeit et al (2005) it requires them to apply the Most Favoured Nation (MFN) treatment to the other members of the Trade Protocol. Therefore any SADC member state that gives trade preferences to another country, whether that country is a SADC member or not, that are more favourable than the preferences as negotiated in the liberalisation schedules of the Trade Protocol will have to extend such preferences to all other SADC member states.

3.3 PROBLEMS AND CHALLENGES OF MULTIPLE MEMBERSHIP

The overlap in membership of RTAs initiatives in the Southern and Eastern African region is a major challenge to deeper integration. Despite the formation of the regional trading blocks (SADC, COMESA, EAC and SACU) it is common to find that member states in these RTAs belong to two or more regional trade blocks. For example, countries such as the DRC, Malawi, Angola, Madagascar, Mauritius, Swaziland, Zambia and Zimbabwe are registered members of SADC and are also full members in COMESA.

3.3.1 Overview of Difficulties Adhering to Rules and Obligations

Given that each of these regional blocks in Eastern and Southern Africa have its own objectives and rules, it therefore means that countries that are members to COMESA²³ and are also members of SADC will find it difficult to adhere to the rules and obligations of the two regions. According to Buigut (2006) a strict implementation of the East African Community (EAC) customs union concluded in 2004 would violate existing COMESA and SADC free trade agreements.

Wasteful duplication of efforts: With almost all the countries of Eastern and Southern Africa committed to more than one customs union, the governments of member states

²³ These countries include Angola, DRC, Madagascar, Malawi, Mauritius, Swaziland, Zambia and Zimbabwe.

will have to decide which RTA they want to belong to and which common external tariff (CET) to apply. Countries will also have to decide not only which RTA will serve their interests best, but also how to restructure the institutional design supporting regional integration. The main concern for the governments of the region is to develop a formal and recognised working and trading relationship among the different regional institutions (Gibb, 2006). Notwithstanding, multiplicity of membership in RTA's poses several problems to the smooth running of the different trading blocks. It is observed that RTA operating within the same sub-regional space basically follows identical objectives and mandates, though there are a few variations in the modalities and pace of operations. The situation breeds wasteful duplication of efforts (One Africa, 2007).

Weak collective focus on common goal: Multiple memberships in RTAs also multiply the hurdles towards integration efforts in Africa because they tend to weaken the collective focus on the common goal of the African Union region tend to confuse integration goals and thus lead to counter-productive competition between countries and institutions (One Africa, 2007).

3.3.2 Different Approaches to Regional Integration

This section focuses on those elements built into the different treaties and trade protocol that makes dual membership in regional trade arrangement a problem and a challenge. These difficulties can come in different forms according to how the member states of each regional block coordinates and trade with other trade blocks in line with the different treaties signed.

COMESA and SADC are the two largest RTAs in Eastern and Southern Africa in terms of their population size and economic growth. These two regional trade agreements have followed different approaches to integration:

- In their attempt to increase trade between member states, COMESA has been following an approach based on classical Vinerian arguments (See Section 2.4.1.1) that considers the benefits created by regionalism from a trade point of view. Its integration programs are centred on trade and focus on the reduction of tariff and non-tariff barriers (Van Niekerk, 2005).

- In contrast, SADC has had a development approach to regional integration. This means that the SADC approach to regionalism has been largely based on sectoral cooperation. Economic cooperation among the economies in the region is different from one sector to the other and these sectors include the agricultural, mining and industrial sectors (Van Niekerk, 2005).

The different approaches will create problems to countries such as Zambia, Mauritius and Zimbabwe that are members to the two RTA's, as they will be faced with difficulties in deciding which approach to adopt that will best suit their interests, thus affecting their commitment to the different treaties (Van Niekerk, 2005).

3.3.3 Inconsistency in the Trade Protocol

The SADC Trade Protocol intends to have zero tariffs applied to approximately 85 percent of all intra-SADC trade by 2010 and to liberalize the remaining 15 percent by 2012 to reach the level of a full FTA status (The Guardian, 2006). A critical look into the nature of the SADC Trade Protocol suggests that it is not clear on the issue of dual membership in regional trade agreements. The SADC Trade Protocol Project shows contrasting trade liberalization offers and schedules between SADC, SACU and COMESA members. For example, The Guardian (2006) explains how the SACU offered to commit a 47 percent of its liberalization of SADC imports by 2004, Tanzania, Zimbabwe and Zambia between 32 and 39 percent while Malawi, Mauritius and by then Mozambique offer had ranged so far between 9 to 12 percent.

3.3.4 Non Tariff Barriers

Since most of the countries in these regions are also members to two or more of the trading blocks, each regional trading block suffers from a range of non-tariff barriers (NTBs). These are in the form of import quotas, licensing, permits and rules of origin, which constrain the free movement of goods. NTBs are normally considered by the WTO as trade barriers that restrict imports from other countries, but that are not usually in the form of a tariff. The adverse impact of NTBs varies between one block and another, so that dual membership of the various RTAs makes cross-border trading activities even more difficult to realise (Flatters, 2002).

3.3.5 Problems Related to Rules of Origin

Rules of origin form an important component of any RTA. They describe the conditions used to determine where a product's origin, in this way setting the platforms for preferential access to a given trade partner's domestic market. This means that rules of origin are the criteria used to determine the nationality of a product (Deb, 2006). They can thus promote or constrain trade, depending on the restrictiveness of the rules applicable (Naumann, 2005). Rules of Origin are a major factor determining whether RTAs achieve their objectives.

In most RTA's the Rules of Origin are normally enormously complex, since they require a specification of the production process for each and every good. According to Feentra (2004: 196) due to the complexity of these rules and the fact that they create artificial restrictions on the movement of goods, they can have unexpected consequences. The rules of origin in SADC are relatively complex making it difficult for trader's ad manufacturer to adhere to the rules. In some instances these rules may account for the lack of or entirely negative trade response to tariff reductions in SACU countries (COMESA Secretariat, 2008). The following paragraphs explain the nature and application of the rules of origin the SADC region.

a) Overlapping and conflicting rules of origin have over the years been applied to the different regional trade blocks. At times these rules conflict and overlap each other thereby making dual membership in these trade blocks conflicting. For example COMESA's rules of origin is based on the content of minimum valued added and it requires that local materials comprise at least 35 % in the final good for the product to be considered as local and therefore eligible for the preferential tariffs (Racha, 2003). On the other hand, many SADC rules of origin are based on the different sectors of production, and include specific requirements for different sectors and products.

Racha (2003) further illustrate using the example of textiles and garments that the rules of origin in SADC necessitate a double transformation of garments in order to qualify for tariff preferences. With a few exceptions on yarn, the rules of origin require double transformation in order to qualify for SADC tariff preferences – garments must be made from regionally produced textiles; By double transformation Flatters (2002) meant the fabric use in the production process must be made from

regionally produced yarns; yarn must be made from uncarded, uncombed fibre or from chemical products.

b) Complex and restrictive rules of origin can curb trade depending on how stiff the rules are applied. In SADC the rules are applied mostly to products that are facing steep competition in the world market such as garments, textile and flours. Traders in the region need to comply with the different rules of origin and will have to incur costs of complying with the certification requirements (Draper, et al 2006).

The situation is probably going to be worse in the case of membership to multiple and varied trade agreements, as is the case with many SADC member states, especially when such rules are not harmonized. Some of the rules seem to offset gains offered by declining tariff barriers, and are bound to increase cost, reduce flexibility of producers, reduce the potential for increased intra-SADC trade, and make international competitiveness more difficult to achieve (Draper, et al 2006). SADC's rules of origin will hinder regional economic integration and might not be able to make regional producers to significantly compete in the world market. The SADC free trade area has the ability to promote investment and economic growth but with the presence of restrictive rules of origin, this will minimise the benefits that could be derived from sourcing inputs and raw materials that are necessary for promoting global trade and competitiveness (Kirk, 2002).

c) Different application of the rules of origin is an important factor to consider. Rules of origin are applied differently in the SADC region depending on the kind of product. For example garment producers used to find it very difficult to trade within the region, as the rule of origin for garment is very restrictive. It was restrictive in the sense that most SADC member states have been postponing significant reductions of tariff (Flatters, 2002). EAC is has been negotiating the rules of origin under its planned customs union based on a combination of that of COMESA and SADC. However, Rocha (2003) states that the rules of origin that are commonly used at the moment by the operators across the region are those of COMESA, which have the advantages of their simplicity, low verification costs, and low protectionist level. Rocha (2003) goes further to states that once the EAC customs union is in place and SADC rules of origin are finalised, potential conflicting and confusing situations may arise over which trade

agreement should govern trade operations within the region. According to Nhala (2004), within COMESA, the rules of origin are based on minimum value added that requires that local materials constitute at least 35% of the value added in order for the product to benefit from the preferential tariffs and to be called locally produced good. On the other hand SADC rules of origin are sector specific and include different sectors and products.

3.3.6 Conflicting Obligations

Conflicting obligation makes it very difficult for countries in dual regional blocks to achieve their objective as is the case of Southern and Eastern Africa. On one hand, it is technically possible for the regional groupings such as COMESA, SADC, SACU and the EAC to co-exist, but on the other hand it is not possible for any member state to belong to more than one customs union regime, unless each of these regimes adopts trade regulations that are alike and the same common external tariff. In reality, one country cannot practically belong to two different customs unions. This poses a major obstacle to the development plans of the regional economic communities within Eastern and Southern Africa (Nhara, 2006).

Closer consideration of the Eastern and Southern African communities reveals that some countries are faced with more than one obligation as a result of their dual membership. For example, COMESA plans to have a customs union in place by 2004; EAC also plans to have its own customs union and free trade area in place by 2004, and SACU is already a customs union, while SADC plans to become a free trade area by 2008. As a result, a free trade area means that goods imported from one member of the FTA to another member of the FTA are free of duty. On the other hand a customs union signifies that all countries belonging to the customs union apply the same tariffs on all goods imported into the customs union, implying that if a product imported from outside the customs union and draw say a duty of 30 percent tariff, then all the other countries in the customs union must also apply a duty of 30 percent on the imported product after which the product can be transported from one economy to the other of the customs union duty free (Rocha, 2003).

Since in a custom union each country needs to apply the same tariff, it therefore means that one country cannot belong to two custom unions. In this circumstance, if

COMESA then becomes a custom union, it will not be able to offer preferences to other partners in a different FTA that is not also a member of COMESA. Therefore if COMESA and EAC had both become a custom union in 2004 as planned, member states in these regional trade blocks that are also participating in the SADC FTA implementation program may well be violating article XXIV of GATT²⁴ if they seek to maintain preferential tariffs for imports from the SADC countries (Rocha, 2003). However EAC is now a custom union with COMESA fallen short of achieving its goal of becoming a custom union by 2004 as member states still have to agree on a timescale for national tariff reduction before the next COMESA summit expected to take place in Zimbabwe by the end of 2008 (The Tripoli Post, 2007). Gibb (2006) concluded by saying that if this same process of overlapping membership continues in the above mention regional blocks, the institutional mess is bound to weaken the integration momentum and wipe out the potential benefits of regional integration.

To make matter worse, Tanzania, a key member of EAC had three years earlier dropped its membership in the COMESA thus complicating the region's participation in the European Partnership Agreement (EPA) negotiations while Kenya and Uganda remain members of the EAC and COMESA. As said earlier, according to WTO, any member state participating in such talks and negotiations are required to belong to a single economic block to avoid duplication of benefits (Allan, 2008).

In case of any trade dispute between two member states, it is possible for a potential spill over to other countries in the region and this can create problems for other regional trade agreements (Tumbarello, 2007). In the absence of a regional dispute settlement mechanism, there is a possible risk of interference in intra-regional trade in the region (Tumbarello, 2007).

3.4 PREFERENTIAL TRADE AGREEMENTS OF SADC MEMBER STATES.

Member countries of the relevant regional trade blocks (as discussed in Section 3.2) also have preferential trade agreements with other trade blocks and countries. These

²⁴ "According to WTO (2005), GATT article XXIV allowed countries to grant special treatment to one another by establishing a customs union or free trade association, provided that duties and other trade restrictions would be eliminated on substantially all the trade among the participants"

PTAs may also interfere with the proper functioning of the trade block and in this way constrain efforts at deeper integration.

This section looks at the key trading arrangements that SADC countries are involved. Specific bilateral agreements, such as the SA-EU agreement and its impact on SADC are discussed in detail in Chapter Four.

SACU/SADC

Recently some member states of SACU²⁵ completed a preferential trade agreement with the European Free Trade Association (EFTA). It was signed in 2006 but only became effective on the 5th of May 2008 (EFTA Secretariat, 2008). The member states of the EFTA are Switzerland, Liechtenstein, Iceland and Norway. It is the first time that the EFTA has extended its PTA to sub-Saharan Africa. Moreover, it is the first time that a least developed country such as Lesotho have become a PTA partner to the EFTA. According to the EFTA Secretariat (2008), the PTA allows SACU member countries free trade since it entered into force in all goods, whereas the SACU states will gradually reduce their tariffs until 2014. The main objective of the PTA is to achieve the liberalisation of trade in goods in conformity with WTO rules on PTA. The PTA also takes account of the parties' diverse levels of development and economic growth by allowing for the special treatment of Botswana, Lesotho, Namibia and Swaziland, and by setting out principles of technical assistance with these countries and economic co-operation.

The African Growth and Opportunity Act (AGOA) is also a form of PTA that has affected the SADC economies in their trade relation with the USA. It is a component of USA trade and investment policy toward Africa and it was signed in 2000 (Lewis et al, 2002). The main goal of AGOA was to increase access to US markets for African products and also to attract more US foreign direct investments into sub-Saharan Africa. 48 Sub-Saharan African countries (SSA) are eligible to benefit from AGOA. Under the eligibility criteria, all the beneficiary countries should individually make progress towards free market principles in their domestic economies (Lewis et al, 2002).

²⁵ Botswana, Lesotho, Namibia, South Africa and Swaziland

There is also the free trade agreement between all member countries in the SACU region and the US, although the benefits from the SACU–US agreement seem to be similar to the benefits gained by countries under AGOA (Carim and Mashabela, 2006). The FTA is a reciprocal offer of tariff reduction between SACU and the US on a range of products. Negotiations commence on 2-5 June 2003 (Carim and Mashabela, 2006). Given the disparities in the levels of economic growth and development amongst the countries involved, the FTA is to promote the economic development of especially Botswana, Lesotho, Namibia and Swaziland, that is the BLNS countries (Carim and Mashabela, 2006).

COMESA

The other regional trade blocks are also having trade relations with other trade blocks especially the EU. For example, COMESA is at present negotiating with the EU for an “Economic Partnership Agreement”. The provisional Economic Partnership Agreement (EPA) ²⁶ between COMESA and the EU was signed in November 2007 (High Commission of India Lusaka, 2008). In 2005, trade flows between COMESA and the EU stood at approximately 25 billion US dollars (People’s Daily, 2005). The US partnership with COMESA has grown over the years and has yielded substantial benefits to the COMESA region. According to the former United States Ambassador to Zambia (Carmen Martinez) in a report on the 18th of April: “...the US Agency for International Development’s regional office in Nairobi has helped COMESA to build capacity in a number of areas including trade development, telecommunications harmonisation, institutional strengthening and programme management” (US Department of State, 2006). COMESA is also member of AGOA and under AGOA, COMESA and the United of America signed the “Trade and Investment Framework Agreement (TIFA)” in 2001 that assisted COMESA with infrastructure and the building trade capacity (US Department of State, 2006).

The EAC also has trade relations with the EU and the United States. The US signed a trade and investment framework agreement aimed at deepening the US economic engagement with the EAC (Corey, 2008). According to Susan Schwab, the United

²⁶ EPA is the Economic Partnership Agreement the EU is currently having or negotiating with the different regional trade blocks in Africa including COMESA, EAC, SADC and the EU.

State trade representative to Africa, “The EAC is one of the leading regional economic organizations in sub-Saharan Africa,” Schwab told her audience.

“It is making significant progress in opening up regional trade and advancing economic integration among its members. We see the TIFA as a major step toward deepening the U.S.-EAC trade and investment relationship, expanding and diversifying bilateral trade, and improving the climate for business between U.S. and East African firms” (Corey, 2008).

The EAC and the EU have also signed an Interim Economic Partnership agreement last year aimed at guiding bilateral economic relation and trade (Mushi, 2008). Over the years trade with the two regions has greatly increased. The typology table below indicate the main trade treaties that Southern and Eastern Africa main trading trade blocks have signed with the European and US partners (Status as of June 2007).

Table 3.1 Southern and Eastern Africa: main trading blocks

	AGOA	EFTA	EPA	TIFA
COMESA	*		*	
EAC	*		*	*
SACU	*	*	*	
SADC	*		*	

Source: Compiled by researcher

3.5 REGIONAL INTEGRATION WITH LIMITED OVERLAPPING MEMBERSHIP: THE CASE OF MERCOSUR

In the past decade, regional trade agreement in Latin America has been fairly unique in the sense the region does not suffer from the negative effect of overlapping membership. However there are some signs that it may become a problem in the future (Feng and Gena, 2003).

This agreement, Mercado Comun del Sur, or Mercosur was derived from integration efforts of the 1960’s. After a period of economic stagnation in the wake of the debt crises of the 1980s, Mercosur nations began to reform their economies on the basis of

an outward oriented development strategy (The Economist, 1997). Mercosur represent 67%t of Latin America's land area, 47 percent of its population, and more than half of Latin America's gross domestic product. It is the most advanced RTA in the developing world (Ruiz-Dana, Goldschagg, Claro and Blanco, 2007).

Of particular concern is the Southern Common Market (Mercosur) as its membership is beginning to expand, but the route the Mercosur member states have chosen is to rely on associate status. By associated status I mean Mercosur member states are not fully integrated in the different regional trade blocks thereby limiting their membership to only free trade agreements and are not allowed by Mercosur protocol to move to higher forms of integration such as custom union. These overlapping memberships may result in slowing down the pace of convergence and stifle integration in Latin America (Feng and Gena, 2003). Southern Cone Market is now investing in trade relationships with other countries such as China, India and other rising economic powers. The meaning of globalization has expanded and it is been felt in the Mercosur region more than before where the region was tied up with the Washington Consensus policies²⁷ of the past (Global Envision, 2007). Mercosur is also on the verge of signing another trade pact with Jordan as Mercosur and Jordan forge ahead in trade talks (Rocha, 2008). The following sections give an overview of Mercosur and it also highlights some key successes in the area of trade and development that has contributed to member states economic.

3.5.1 Mercosur Membership

Four key nations make up the Southern Cone Market. These are Paraguay, Uruguay, Brazil, and Argentina (De la Balze, 2001). In 1991 Brazil, Argentina, Uruguay and Paraguay signed the Treaty of Asuncion to create a customs union with a common external tariff by December of 1994 that will eventually evolve into a common market (The Economist, 1997). Venezuela became a member of Mercosur in December 2005 while Bolivia and Chile joined Mercosur at the end of 2006 as associated members (Global Envision, 2007). The other associated members include Ecuador and Peru. These countries are called associated members because they do not enjoy full voting

²⁷ Comprehensive summary of the general policy reforms supported by the US government, the World Bank and the IMF. In 1989 it was the main American ideological export since anti-Communism (Finnegan, 2003)

rights or complete access to markets of Mercosur full membership (Klonsky and Hanson, 2007).

Mercosur is an example of south-south custom union in Southern America that is similar to that of SADC in the sense that they are all south-south RTA. Brazil is the region's biggest economy (Klonsky and Hanson, 2007). Brazil and Argentina are the largest two largest economies in the Mercosur region and the entire Latin America. These two economies are the most advanced and diversified in production, with a strong export base. The smallest economies had a less developed productive structure and an export base restricted to just a few agricultural products (Nogueira, 2007). A key difference between Mercosur and SADC is that Mercosur does not suffer from overlapping membership and since its creation, intra-trade has benefited all its members.

3.5.2 Trade Patterns in the Mercosur Region.

MERCOSUR is the fourth largest integrated market in the world, outranked only by NAFTA, the EU, and Japan. The size of Mercosur has greatly expanded markets for goods produced in all four member countries. Brazil's trade market has increased by an average of 50 percent, Argentina's by 300 percent. Foreign companies have for the past years have been quick to see the advantages of this new economic zone and have boosted their investments in the region substantially in recent years (The Economist, 1997).

Mercosur has large positive impact on all of Argentina's export, while Brazil experiences more moderate growth concentrated in manufacturing exports. In the past decade, Mercosur has witness a very large growth in manufacturing trade among member states. A study of Mercosur suggests that GDP gains of 1.8, 1.1, and 2.3 percent for Argentina, Brazil, and Uruguay, respectively. The larger economies gain less because they are already closer to reaping economies of scale (Schiff and winters, 2003). Trade flows and investments proved to be quite high both on the domestic and foreign fronts. In 2006 the block's balance of trade showed a robust surplus and reached US\$ 54 billion in the same period (Nogueira, 2007).

Mercosur's had applied the model of "open regionalism" and this has sustains the ambitious aim to move to higher stages of integration. By open regionalism Ruiz-Dana et al (2007) meant that regional economic integration in the Mercosur region is not discriminatory when it comes to trade against outside countries and typically a group of countries that agrees to reduce trade barriers on an Most Favorite Nation basis Flores (1997) showed how the benefits of increased variety, trade diversion, and changes in import and export prices have only minor effects on welfare in the Mercosur region.

3.5.2.1 Mercosur intra-trade

Studies have shown that intraregional trade grew at a much faster rate than did inter-regional trade. Between 1990 and 1997, real exports from Argentina, Brazil, Paraguay and Uruguay to Mercosur partners grew at an average annual rates of 30%, 43%, 18% and 7% respectively, while real external exports grew at rates of 0%, 4%, -20%, and -2.5%. However although some speculators argued that, this pattern might have emerged even without Mercosur. Manufactured goods are more important in intra-Mercosur trade than in extra-Mercosur trade (Kreining & Plummer, 2002).

During the period between 1990 and 1995, trade between the four nations have increased dramatically, especially for Brazil and Argentina. The table below shows the average annual value increased in trade from member states in the region.

Table 3.2 Mercosur intra-trade²⁸

Mercosur	Flow	Indicators	2000	2001	2002	2003	2004
Intra-trade	Exports	Total merchandise	17741	15170	10193	12719	17114
	Imports	Total merchandise	17713	15820	10666	13360	17879

*WTO statistics database Regional integration arrangement*²⁹

It can be seen from the table above that intra-trade in Mercosur has been significant between the period 2000 and 2004. Each member states imports quite a significant proportion of their total imports from the other trading partners within the Mercosur region. Intra-regional trade experienced a growth rate of 19.7%, reaching a total of around US\$ 25.8 billion in 2006 (Nogueira, 2007).

²⁸ Figures in US\$ at current prices Million

²⁹ Available online at [<http://stat.wto.org/StatisticalProgram/WSDBViewData.aspx?Language=E>]

In an effort to promote intra-Mercosur trade, Brazil has channelled significant part of investment in Argentina during the nineties in the oil and gas field. Brazil oil and gas industry “Petrobras”, is a leading investor. Argentina has also carried out investment in Brazil, especially in connection with various industrial products. The cross-investment also flows into Paraguay and Uruguay, thus boosting the integration process (Ruiz-Dana et al, 2007).

3.5.3 Challenges Faced by the Mercosur Trade Block

External shocks: The Mercosur RTA has also experienced external shocks, such as the Asian crisis. This led to severe macro-economic disturbances and a drop in foreign investment flows in the Southern Cone Market. Meanwhile, Mercosur’s undeveloped institutional structures were unable to absorb the shocks as the different economies worked around the process of economic and monetary cooperation (Ruiz-Dana, 2007). Moreover, Brazil’s currency devaluation in 1999 brought tensions among the regional trading partners in Mercosur and endangered the trustworthiness of the integration process. As a result of the above mention factors, intra-Mercosur trade fell noticeably and reached only 11.9 % in 2003 during the crisis period of the region’s global exports and in disparity to the 25.3% of intra-Mercosur trade in 1998 (Ruiz-Dana, 2007)

Economic disparity: Despite the challenges that the region faces, efforts have been made to cater for the economic disparity among member states. For example, persistent trade deficit of the small countries especially Paraguay and Uruguay compared to the big ones such as Brazil and Argentina renewed the debate on the difference in size and productive structure. A joined source of funding was set up in 2006 known as the MERCOSUR Structural Convergence Fund (FOCEM) with an initial capital of US\$ 100 million to finance economic projects of the smallest partners (Nogueira, 2007). This was aimed reducing the unevenness in the region and it also act as incentives for investments of Brazilian and Argentine companies in those small states.

Increased bilateral trade agreements: Mercosur's charter³⁰ does not allow its member nations to have free trade agreements with non-member states although member states are allowed to have preferential trade agreements with economies outside the Mercosur region. So in the case of Mercosur, the issue of overlapping membership is relatively low (Klongsky, 2007). Likewise, there are a number of bilateral trade agreements of recent that Mercosur have signed. These agreements include those signed by Mercosur, Chile, with Andean Community and with Mexico; the Free Trade Area of the Americas (FTAA) and a negotiation of a free trade agreement with the European Union (Leans and Terra, 2005).

Mercosur customs union was superimposed upon an import-substitution strategy and therefore intensified discrimination against outsiders. Regional integration between developing countries can be welfare enhancing only if it is outward-looking and minimizes discrimination against outsiders (Krein, & Plummer, 2002). This is the case with Mercosur, as an example of south-south integration; outward oriented policy has made member states to benefit greatly from intra-trade.

For Mercosur, a customs union was most appealing because it facilitates trade and investment between the nations while still securing national sovereignty. Three considerations entered the Mercosur decision-making process namely: political and security concerns, gains from opening international trade and gains from regionalizing production and allowing for international investment (The Economist, 1997).

3.6 CONCLUSION.

This chapter has analysed the problems of overlapping memberships in regional trade agreement. It has briefly outlined the nature of regional integration in Africa and placing more emphasis on those regional trade blocks in Eastern and Southern Africa that are currently facing the problems of overlapping membership. Also member states preferential trade agreements are illustrated so as to show the degree of overlapping membership in regional integration.

³⁰The charter is a document outlining the principles, functions and obligation of Mercosur member states., and organization of a corporate body; a constitution

This chapter has also discussed the key features that make overlapping membership a problem. These problems include differences in rules of origin in the different trade blocks and inconsistency of the SADC trade protocol. This chapter ends with a case study of south–south regional trade integration (Mercosur) as an example of an RTA with limited overlapping membership. It is seen here that Mercosur does not allow its members to have dual membership. It shows the benefits that the four participating countries have derived so far and it provides lessons and strategies that SADC can learn from.

The question to ask is whether Krugman's (1991) 'economic geography model' explains RTAs such as those in Southern and East Africa? In the case of COMESA, it is clear that not all member countries COMESA are linked together. For example Egypt is situated in North Africa and shares no boundary with any of the COMESA member states, nor has production agglomeration in the region turned out to be centrally located.

Efforts are being made at harmonising trade relations between the different trade blocks in southern and East Africa especially the EAC, SADC and COMESA. But analysts warn that even as EAC-SSADC and COMESA entered into deeper integration deals there should be caution to ensure that elements such as cross-border liberalisation yields targeted fruits (Odhiambo, 2008). His warning is based on a report by the UNCTAD indicating that recent reforms in Kenya and other African countries have failed to boost their export trade, but have instead weakened the trade balance within the continent.

The above analysis shows that regional integration in southern Africa can indeed play a role in boosting intra-trade, bringing about trade creation effects and has the potential to be a powerful tool in bringing peace and economic growth in the region. Of course, regional integration is not a magic potion that will solve all the regions' problems, but it may contribute significantly to bridging the divisions between member states in order to solve the problems and challenges of overlapping membership.

It is encouraging to note that a good number of RTAs in Africa are trying to take up the challenge to consult with and learn from one another. For instance, in West Africa, there is a growing understanding between ECOWAS and UEMOA that has bore fruits in terms of the adoption of a common program of action on a number of issues including trade liberalization and macro-economic policy convergence (One Africa, 2007). In the Eastern and Southern Africa sub-region IOC member states are already applying most of the integration requirements adopted within COMESA. The EAC and COMESA also have a memorandum of understanding to foster the harmonisation of their programmes and policies while COMESA and SADC have set up task forces to deal with common issues and invite each other to their policy and technical meetings.



CHAPTER FOUR

A STUDY OF SADC AS RTA

4.1 INTRODUCTION

The SADC countries are an exceptionally heterogeneous group as a result of which the development of trade in the SADC region faces many challenges and constraints (McCarthy, 1999). Unequal level of economic development, disparities in the region and overlapping membership are some of the biggest constraints to deeper integration (Alleyne, 2007).

Due to the inequality regarding the benefits from trade and development some of the countries in the SADC region (the smaller states such as Lesotho, Swaziland and Namibia) are almost solely dependent upon the bigger economies, especially on South Africa, for their trade. South Africa as the dominant economy in the region account for a greater proportion of SADC's GDP and its role in the economic development in the region is significant. One of the reasons been that other SADC member states are benefiting from FDI inflows from South Africa.


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This chapter provides a descriptive overview of SADC as RTA. It focuses on its inception and economic performance. It also discusses the problems and challenges facing the region, with a special focus on the multiple memberships of its members. Of particular concern is South Africa's preferential trade agreement with the EU. A typology table is given in this chapter to show the static future trade creation and trade diversion effect in the SADC region as a result of the EPA trade. Over the years the two parties have intensified trade relations to such an extent that the EU has become South Africa's number one trade and investment partner in the world (SAIIA, 2008).

Section 4.1 presents a background overview, whilst Section 4.2 briefly explains the objectives and trade and development protocol. SADC's economic performance is covered in Section 4.4, followed by a discussion of the problems of and challenges faced by the RTA in Section 4.5.

4. 2. BACKGROUND OVERVIEW

4.2.1 Origin: SADCC

The Southern African Co-ordination Conference was formed in 1980 as a loose alliance between nine countries in Southern Africa known as the Southern African Development Coordination Conference (SADCC). SADCC was formed at the Lusaka Summit Meeting in Zambia on 1 April 1980 following the adoption of the Lusaka Declaration (SADC Review, 1997). The member countries were Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe.

SADCC was formed with the following main objectives:

“Reducing member states dependence on South Africa that was under the apartheid regime”,

“To implement programmes and projects with regional interest” and

“To promote co-operation among members on mutual projects aimed at balanced regional development”.

Although the Co-ordination Conference had served the interests of its member states and demonstrated the crucial need to work together regarding their development efforts, trade among the participation nations was rather limited and the expected benefits from the creation of SADCC was not forth coming (McCarthy and Smit, 2000). However, the situation facing the SADCC states suddenly became worse in the years following its creation. Between 1981 and 1986, SADCC member states experienced economic recession, increased external financial dependence and severe droughts. Despite SADCC’s programmes and activities, the sub-region became even more dependent on trade and transport links with South Africa (Chimanikire, 2002).

The increased trade with and financial dependence of the SADCC member states on SA, demonstrated the need to shift the focus of the organisation from co-ordination of development projects to a more complex task of integrating the economies of member states. With the hope that South Africa could play a more positive role in the region and help to attain some modified goals towards more equitable regional development, a decision was made at a 1992 meeting in Maputo, Mozambique to maintain the organisation but in a more formally structured format, called the Southern African Development Community (SADC) (Lieberman, 1997).

4.2.2 The Establishment of SADC

The SADCC was changed from a Coordination Conference (SADCC) into a Development Community (SADC) on 17 August 1992 in Windhoek, Namibia, when the Declaration and Treaty was signed at the Summit of Heads of State and Government, thus giving the organisation a legal character (SADC Today, 2005).

Sectoral-based approach: In order to address national priorities through regional action most member states were allocated the responsibility of coordinating one or more sectors or activities in the SADC region (Thornhill and Van Dijk, 2002). This involved proposing sector policies, strategies and priorities and developing projects for inclusion in the sectoral programme, monitoring progress and reporting to the Council of Ministers. According to a report from the South African Department of Foreign Affairs, until 2001 the sector responsibilities within SADC member states were distributed as follows (Thornhill and van Dijk, 2002):

- Angola: Energy Commission;
- Botswana: Agricultural Research, Livestock Production and Animal Disease Control;
- Lesotho: Environment, Land Management and Water;
- Malawi: Inland Fisheries, Forestry and Wildlife Tourism;
- Mauritius: Tourism;
- Mozambique: Culture, Information, Sport, and the Transport and Communication;
- Namibia: Marine Fisheries and Resources Legal Affairs;
- South Africa: Finance, Investment and Health;
- Swaziland: Human Resources Development;
- Tanzania: Industry and trade;
- Zambia: Employment, Labour and Mining;
- Zimbabwe: Crop Production, Food, Agriculture and Natural Resources;
- DRC: No sector responsibility.

Structural modification: According to the South African Department of Foreign Affairs (2003) a decision was made at the SADC Summit held in Maputo, Mozambique, in August 1999 to commission a review of the institutions of SADC as well as their operations. In December 2000 the review was completed, accepted and approved by the SADC council. This new directive was based on the fact that under the sectoral-based approach (inherited from the SADC predecessor SADCC) the organisation was being constrained in its strive towards achieving regional

integration by devising and implementing regional policies and strategies in a co-ordinated and harmonised manner (South African Department of Foreign Affairs, 2003).

A relevant structural modification was agreed on due to the fact that the different member states could not achieve the envisaged results through managing the different sectors. Also, there was a mark significant shift merging the nineteen sectors into four clusters which were to be run by a centralised organ at the SADC Secretariat head quarter (Melber, 2006). The main clusters include the following areas:

- Trade, industry, finance and investment
- Infrastructure and service
- Food, agriculture and natural resources
- Social and human development

These areas are monitored by the SADC Secretariat based in Gaborone Botswana.

4. 3 SADC: Objectives and Strategies; Trade and Development Protocol

4.3.1 Objectives and Strategies

The SADC heads of state and government convened an extra-ordinary summit on the 9th of March 2001, in Windhoek, Namibia, at which they approved a report on the restructuring of SADC institutions. The report clearly spells out the objectives and a “Common Agenda” for SADC, based on the goals outlined in Article 5 of the 1992 SADC Treaty³¹.

Objectives: According to SADC Regional Synthesis Report (2003) the objectives that are relevant to the regional and economic development areas are:

- “the promotion of sustainable and equitable economic growth and socio-economic development that will ensure poverty alleviation, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged”;
- “to achieve complementarities between national and regional strategies and programmes”;
- to promote and maximise productive employment and utilisation of resources of the region” and finally
- “to promote and maximize productive employment and utilization of resources of the region” and

³¹ Article 5(1) of the 1992 treaty outlines the main objectives of SADC.

Strategies: The strategies designed to achieve these broad objectives are set out in Article 5(2)³² and those relevant to the socio-economic arenas are:

- “to harmonise the political and socio-economic policies of member states”;
- “to develop policies aimed at the progressive elimination of obstacles to the free movement of capital and labour, goods and services, and the movement of people across national borders”;
- “to improve economic management and performance through regional cooperation” and
- “to secure international understanding, co-operation and support, and mobilise the inflow of public and private resources into the SADC region”.

4.3.2 Trade and Development Protocol.

The SADC’s trade and development protocol plays a very important role in attaining SADC overall objectives. Member States have so far agreed on a number of protocols that define the objectives, scope and institutional mechanisms for co-operation and integration between them (SADC Today, 2005). The Trade Protocol became effective on 25 January 2000 after two thirds of the majority of SADC member states ratified it. Eleven member states have been implementing the Trade Protocol since September 1st 2000 in various phases.

A draft protocol was drawn up and adopted at the SADC Summit in Blantyre, Malawi on 14 August 2002 after the SADC treaty was adopted in 1992 and entered into force in 1993, and again modified by the 2001 Agreement. This agreement thus amends the treaty of SADC, which open a forum where the protocol was created (Department of Foreign Affairs, 2006)

The Trade Protocol aims at establishing a FTA in Southern Africa. It was finally realised in August 2008. The overriding goal is to promote trade in goods and services and also to promote the enhancement of cross-border-investments in key areas of cooperation among SADC members. The Protocol on trade and development has intensified bilateral as well as regional initiatives aimed at the promotion of regional economic integration and cooperation in order to liberalize trade (Draper, Hallenson and Alves, 2007). The trade protocol amongst others provides for the rules of origin.

³² Article 5(2) outline the strategies to achieve the objectives outlined in the SADC Protocol.

In general the ultimate goal of the on-going efforts of SADC is to extend the current trade arrangements so as to establish a common market by 2015. It is expected that the effective implementation of the Trade Protocol by member states will boost economic growth in the region by directing scarce productive resources to their best uses. (SADC Regional Synthesis Report, 2003).

Moreover, SADC member states are (at least in theory) implementing policies that encourage the movement towards regional macroeconomic stability and convergence through prudent fiscal and monetary policies (Buthelezi, 2006). In order to achieve and maintain macroeconomic stability, SADC member states agree that they need to unite on stability-orientated economic policies that will be implemented through a solid and efficient institutional framework and structure (SADC, 2008). Although it is yet to be fully implemented, some of these stability-orientated economic policies under Article 2 of the Memorandum of Understanding on Macroeconomic Convergence are (SADC, 2008):

- “Restricting inflation to low and stable levels”;
- “Maintaining a prudent fiscal stance based on the avoidance of large fiscal deficits, monetisation of deficits and high or rising ratios of public debt to gross domestic product (GDP)”;
- “Avoiding large financial imbalances in the economy” and
- “Minimising market distortions”.

The SADC Regional Synthesis Reports (2003) also states that the trade protocol is expected to lead to significant changes in the domestic economic policies and trade regimes of member states. This in turn will have significant implications for the region especially regarding the production and exchange of agricultural commodities and will impact on national and regional food security.

In order to provide strategic direction to the organisation so that the objectives of the protocols can fully realised in SADC, the “Regional Indicative Strategic Development Plan” (RISDP) according to SADC Review (2007) was put in place. The RISDP is a 15-year plan which will be implemented in phases of five years each. It is primarily a regional development plan as it outlines strategies and targets for different policies

and programmes (Southern African Trust, 2006). In 2007, the RISDP entered its third year of implementation. It reaffirms the commitment of SADC's member states to good political, economic and corporate governance entrenched in a culture of democracy, full participation by civil society, transparency and respect for the rule of law. It also outlined the necessary conditions that should be realised towards achieving those goals. In order to facilitate monitoring and measurement of progress, it sets targets and timeframes for goals in the various fields of cooperation (SADC Review, 2007).

The RISDP is indicative, setting defined targets and timeframes for the goals that are to be achieved. Some of the objectives are (Regional Synthesis Reports 2003):

- The establishment of a SADC Free Trade Area by 2008;
- Completion of negotiations on the SADC Common Market by 2015; single digit inflation across SADC by 2008;
- An increase in domestic investment levels to at least 30% of GDP by 2008;
- To achieve currency convertibility by 2008;
- Liberalising exchange controls and current account transactions between member states by 2006;
- The establishment of a SADC monetary union by 2016;
- The preparation of institutional, administrative and legal framework for setting up a SADC Central Bank by 2016; and
- The launch of a regional currency for the SADC Monetary Union by 2018.

According to Hartzenberg³³(2008), the establishment of the FTA meets a key objective of the SADC Trade Protocol and is an important landmark to reaffirm the commitment of SADC member states to good political, economic and corporate governance in regional integration as articulated in the RISDP. The distinction between the RISDP and the Trade Protocol is of the utmost importance. The RISDP is a strategic plan, which can be adapted whereas the Trade Protocol is a legally binding instrument. Thus far, member states have reaffirmed their commitment to regional integration according to the RISDP at every Summit in recent years.

4.4 SADC's ECONOMIC PERFORMANCE

This section focuses on some aspects of SADC's economic performance.

³³ Trudy Hartzenberg is Executive Director of Tralac. Comments on August 12th 2008 on the SADC Free Trade Area that was launched at the SADC Summit in Sandton, Johannesburg on 17 August 2008.

4.4.1 Economic Growth

As mentioned earlier SADC is a regional block characterised by economic imbalances among member states. The region's market size can be compared to that of Belgium, but is quite large relative in the African context. SADC's aggregate gross domestic product (GDP) of more than USD 226.1 billion is double that of ECOWAS, and equivalent to more than half the aggregate GDP of the total Sub Saharan Africa (SSA) (SADC Secretariat, 2003). SADC's total GDP was around US\$ 182 billion in 2000, while the average GDP per capita was US\$1,761. According to World Bank (2008), the annual GDP growth rate of SADC countries averaged 0.2 percent over the 1991-94 period and 2.5 percent during the period 1999-2001. The economies of the sub-region grew at a combined rate of 2.7% in 2001.

However, the economic performance through the 1990s has been very uneven in the region. For example between 2005 and 2006; real growth rate of Lesotho was 4% in 2005 and 6.2% in 2006, while that of South Africa was 5.1% in 2005 and 5% in 2006. For Namibia the real growth rate was 4.2% in 2005 and 4.6% in 2006 and for Swaziland it was 2.3% in 2005 and 2.8% in 2006 (Maleleka, 2007). Statistics on SADC show that only Mauritius and SA have sizeable manufacturing sectors contributing approximately 25% of the GDP (SADC Secretariat, 2003). Economic growth has remained strong in Mauritius (5.5%), Botswana (5.1%), Lesotho (4.1%), but much weaker in Zambia (1%) and Zimbabwe (1.4%).

The internal economic situation of Zimbabwe has adversely affected the economic performance in some of these countries. The economy of Zimbabwe has declined and is currently experiencing hyperinflation. The table below illustrates the position of some of SADC's main economic indicators.

Table 4.1 SADC Economic Indicators (2001 -2003)

SADC Selected Economic Indicators	2001	2002	2003
Population (million)	203.1	207.1	209.1
GDP (US\$ billion)	171.5	175.0	245.7
GDP growth (%)	2.7	4.1	2.7
DGP per capita (US\$)	844.4	845.0	1175.0
Fiscal deficit/GDP (%)	2.5	2.2	3.1
Inflation (CPI, %)	9.5	12.0	9.5
Export growth	3.8	0.6	-0.1

Source: World Bank 2006.

From the table above, SADC region did not perform so well in export domain between 2001 and 2003 as it jumped from 3.8% to 0.6 to -0.1 in 2001, 2002 and 2003. Boosting export potential will benefit the region to a greater extent.

4.4.2 Trade

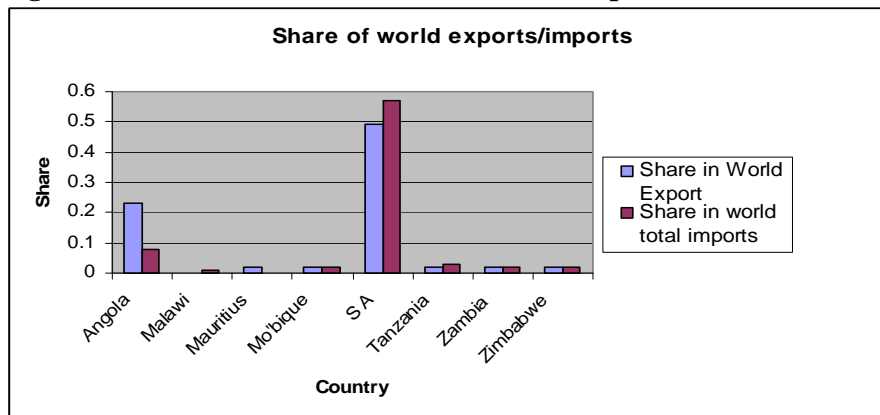
4.4.2.1 Intra-SADC Trade

South Africa accounts for close to 70 percent of the overall SADC trade flows, while other economies such as Lesotho, Swaziland and Namibia contribute relatively less and depend mostly on SA for their total trade. The region's major export commodities are energy products (oil and coal) and various minerals including diamonds, gold and copper (SADC Preable, 2004)

The potential gains and losses that the SADC countries might encounter from the SADC FTA depend on the existing and expected trade pattern among members as well as on their own trade structures relative to the degree to which member states trade among them selves.

Figure 4.1 below illustrates the relative shares of the SADC economies in world trade.

Figure 4.1 SADC Member's Share of World Exports



Source: Compiled by researcher. Data from WTO Statistics Data Base, Trade Profile, 2007,

It is clear that in the SADC region, South Africa accounts for close to 0.6 percent of the world imports and 0.5 percent of the world exports, followed by Angola with less than 0.2 percent of the world exports and the rest of the countries in the region account for less than 0.05% of world total trade (WTO, 2007). This shows clearly that

trade in the region is extremely uneven. It is also clear that the economic resources of the countries in the region have an influence in their trade performance.

For most of the member states in the SADC region, equipment, machinery and basic intermediates goods form a large portion of the region's total imports, with the exception of South Africa and Botswana. The region exports basic primary and intermediary products, such as mineral products and ferrous metal. These commodities and other metals are important export sectors for some SADC countries, such as Zambia (57% of the value of exports), South Africa (40 %), and Zimbabwe 20% (Lewis et al, 2002). The relatively higher export shares are consistent with the respective countries' endowment of natural resources. Over the years total outputs of most of the minerals has dropped significantly and continuous trade liberalization have affected the prices of these commodities in the world market.

Table 4.2 illustrates that the majority of the SADC states exports mostly agricultural produce, with the exception of South Africa and Mauritius where more than 50 % of their total exports are manufactured goods. Manufactured products fetch more revenue in the world markets than agricultural (both primary and semi-processed) products. Manufactured products form basically a very small proportion of the exports of most of the SADC states.

Table 4.2 Breakdown of total exports of the SADC countries by main commodity groups

	Angola	Malawi	Mozambique	Mauritius	SA	Tanzania	Zambia	Zimbabwe
Agricultural products	0.5	83.3	15.8	27.6	8.2	52.3	25.9	46.9
Fuel & mining products	96	0.2	74.7	0.6	29.5	6.5	48.3	24.9
Manufactures	3.5	15.4	7.2	65.3	59.1	14.6	25.8	28.2

Compiled by researcher. Data from UNCTAD Handbook of Statistics Online (2005)

4.4.2.1 Intra- SADC trade

Although some progress has been recorded on intra-SADC trade, this is not enough to assess whether it would be feasible to expand intra-SADC trade (Chauvin & Gaulier, 2002). The intra-regional trade will to a great extent depend on the economic and political commitment of the leaders of the member states. Intra-SADC trade has been relatively lower than expected and intra-trade as a share of total trade remains at a low average of 10%-level, reflecting the lack of harmonization between the economies in the region. The overall figure for intra-regional trade stood at roughly 25% by 2003 but this is expected to increase further by the time the FTA is fully implemented (Lighelm, 2007). The question is whether intra-trade in the SADC region is going to increase significantly with the establishment of the SADC FTA. The trade shares of member states within SADC vary widely, from a low but increasing 2.1% of overall trade for Mauritius to up to some 80% for Swaziland. Malawi, Zambia and Zimbabwe trade 40 and 50% of their overall trade (imports and exports) with SADC partners (UNCTAD Handbook, 2005).

Trade between the member states in the SADC region represents a relatively small fraction of their total world trade. Less than R1 out of every R10 of trade by SADC countries is destined for other countries in the regional block (Lighelm, 2007). According to the World Bank it takes on average 91 days to comply with all trading requirements for intra-regional SADC trade, compared with 53 to 60 days for trade between SADC and the countries of the Organisation for Economic Co-operation and Development (OECD) (Le Roux, 2008). This is a matter which needs serious consideration.

Reviewing this lack of progress, Szepesi and Bilal (2003) note that missed opportunities for effective regional integration, as well as non-compliance with WTO rules regarding the liberalisation of trade in all traded projects exist within the FTA, endanger the future of the economic integration process as envisaged by the Trade Protocol.

One method that is commonly used to evaluate intra-SADC regional trade is to determine the index of revealed comparative advantage (RCA)³⁴. In this context

³⁴ RCA is an index use to analyse specialisation patterns in the trade data of countries.

Chauvin & Gaulier (2002) presumed that the country groupings that have a narrower range of RCA indices and few products are less likely to find grounds to sustain exports as a result of regional trade agreement. They concluded that the range of comparative advantages is less concentrated for South Africa compared to that of the other SADC states and that RCA might be biased and thus underestimate the trade potential insofar as trade restrictions for certain goods exist, especially in the case of sensitive goods such as textiles. SADC trade with the rest of the world shows a steady increase although the overall balance of trade has been decreasing (SADC Economic Overview, 2004).

According to Alweendo (2004), an increase in intra-regional trade in the SADC region will promote deeper economic integration and appears to revolve around two main considerations:

- *“The first is the establishment of a free trade agreement and is increasingly being seen as part of a strategic push to integrate the region and also a way of reinforcing regional structure and demonstrating a commitment to regional solidarity”.*
- *“The second consideration is the desire to counteract perceived economic and political weakness which dates back to the period of colonial rules by putting in place regional institutions of which a move towards higher stages of integration will be a strong symbol. If the above considerations are realised, then trade creation will surely outweigh the intensity of trade diversion”.*

Now that SADC FTA has been realised, great expectation awaits member states to devote their available time and resources to overcome the perceived weakness. As Galal (2000) puts it:

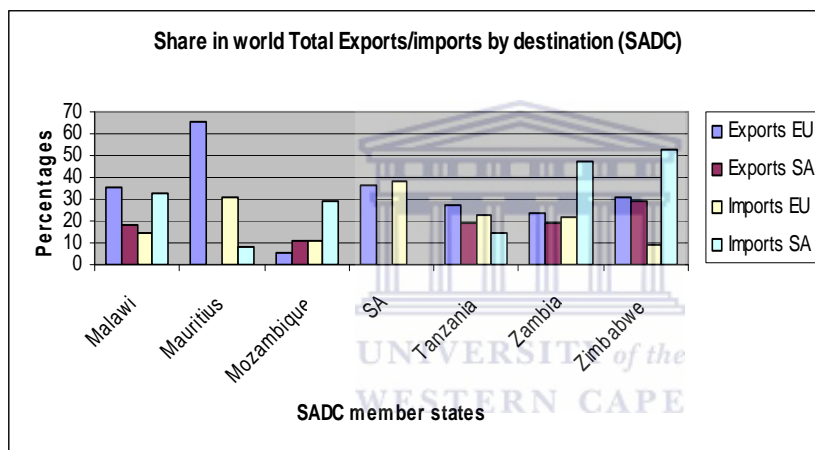
“Regional integration only becomes a reality when the parties involved have sufficient economic and political incentives”, and concluded that “when such incentives are lacking, regional integration will not occur in practice no matter how many times politicians and the different lobbying groups declare their intention to work towards regional integration”.

4.4.2.2 Low Demand for SADC inputs

Another important feature of the SADC region is the fact that the demand of SADC goods by member states (excluding SA) is generally weak as most of the economies in the region exports bulk of their goods to the EU and imports most of their finished goods from SA as shown in figure 4.2. SADC countries do not depend heavily on SA for their total exports while the EU is a major market for their exports. The export

shares to South Africa range from 0.4 % for the rest of SADC to 13 % for and Zimbabwe and Botswana (Lewis et al, 2002).

Figure 4.2 Shares of SADC Member States Exports by Destination



Source: Compiled by researcher. Data from UNCTAD Handbook of Statistics On-line

One of the reasons for the low demand for SADC products is the prevalence of primary commodities in the region. The low level of development in most SADC economies also constrains the intra-regional market potential. As a consequence there is not enough opportunities for the growth of intra-industrial trade, which according to economic theory is generally associated with trade in manufactured goods that can lead to higher levels of employment and domestic demand (Nabli and De Kleine, 2000).

4.4.3 Inflation Rate

The inflation rate among some members especially those of South Africa, Botswana, Lesotho, Namibia, and Swaziland was less than 10 per cent, same as in Mauritius, Seychelles and Tanzania. Mozambique, Malawi, Zambia experienced increase in

their inflation rate. The level of inflation remained very high in countries that have experience civil strife such as Angola and the DRC. In 2000, the inflation rate exceeded 500 per cent in DRC. It was 325 per cent in Angola and 55 per cent in Zimbabwe and for Angola and Mozambique inflation decreased significantly in 2005 (SADC Annual Report, 2002). Inflation rates in SADC countries excluding Zimbabwe on average increased from 9.3% in 2004 to 10.0 in 2005. If Zimbabwe is included the average inflation rate will be 585 percent in 2005, up from 350 percent in 2004, the average inflation rate for SADC stood at 51.1 percent from 33.7 percent in 2004 (Bank of Namibia, 2006).

4.4.4 Foreign Investment

4.4.4.1 Overview of SADC's foreign investment.

An important objective of SADC, like other RTAs is to attract significant flows of FDI. At present its share of global FDI flows is very small (Kwena, 2008). Between 1995 and 2001, the SADC economies experienced a mixed response to attracting FDI. According to a report from the World Bank (2003), the net inflow of capital into the SADC region shows that in 1995 the region received US\$ 2566 million which declined to US\$ 1932 million in 1996 and then increased to US\$ 5226 million in 1997. Because of the poor economic performance of some of its member states, the region is facing serious challenges in attracting FDI, especially from more developed countries (Kwena, 2008).

FDI inflows into the SADC region have been very uneven during the 1990s. Some countries have experienced a significant increase in FDI flows while others have stagnated or even showed tendencies of regression in their total FDI inflow (Dahl, 2002). FDI inflows into the SADC region are predominantly resource seeking and market-seeking motive (Kwena, 2008).

Angola and South Africa received the largest shares of FDI in region (Buthelezi, 2006). South Africa received the major share with more than US\$ 17 billion, while Angola is the second with US\$ 64 billion in 2002. The remaining members of the SADC region received between US\$ 0.2 billion to US\$ 1.9 billion (Makola, 2003).

In the case of Angola, most of the investments are in the oil industry as the industry now produces approximately 1.8 million barrels per day (behind only Nigeria in Africa). The exportation of crude oil products accounts for 51% of Angola's gross national product, 95% of total exports and 80% of government revenues³⁵. On the other hand, South Africa alone represents more than 65% of intra-SADC trade. Foreign companies in SA are carrying out investment in the mining, service and auto industries, and also in the stock exchange market.

4.4.4.2 South Africa's foreign investment into the SADC region

South Africa's expansion in the region through foreign direct investment (FDI) is particularly important, as it has tended to be more diverse in both type and activity. It is argued South Africa's role in regional trade is mainly positive, but there is substantial scope for improvement as long as SA maintains a positive role in the region helping its neighbours to develop their economic resources. Growth of SADC imports from SA outpaced imports from the rest of the world, yet it is questionable whether South Africa's policies as regard to its trading relation with the rest of the world especially the EU are to be blame for this state of affairs; rather it reflects a structural economic relationship that many African countries have with the entire world and will most likely change slowly (Draper, Alves and Kalaba, 2006: 121).

Alden & Soko (2005) pointed out that South Africa has emerged as the largest foreign investor in Southern Africa in recent years and represents more than 70 percent of SADC's GDP. In 2001, South African investment in the region amounted to R14.8 billion followed by that of the UK at R3.98 billion. South African investment deals in the region in 2001 and 2002 included: US\$20 million investment by South African Airways (SAA) for its stake in Air Tanzania; US\$6 billion by Eskom enterprises in the Inga project in the Democratic Republic of Congo (DRC); US\$56 million by Sun International in its hotel in Zambia just to name a few (BusinessMap 2002).

³⁵ In an article posted by AngolaPress (February 2008).

4.5 PROBLEMS AND CHALLENGES

4.5.1 Geographical Situation and Transport Cost

SADC is a RTA so diverse in its geographical distribution. Economies such as Zimbabwe and Malawi are landlocked and therefore being deprived of certain infrastructural networks such as seaports. The landlocked countries in the SADC region experience high cost of transportation making it difficult to effectively compete in trade with the other SADC economies that are close to the sea. Some of these states have poor transport facilities and so depend on other countries transport network such as SA thus making the region unattractive for foreign investment (Makumbe, 2007). Other countries like SA, the DRC, Namibia, Tanzania and Mozambique are close to the sea making it easy for them to trade with their overseas partners at lower cost when compared with their landlocked counterparts.

South Africa has a more diversified production structure, and this has led to complementarities between the South African economy and the neighbouring countries. In addition there is the geographical proximity factor resulting in cheaper transport costs, insurance and freight compared to European competitors. Obviously, this places South Africa in a favourable position to compete in the regional market (BusinessMap, 2002).

High transaction cost is seen as an important devastating factor affecting trade regimes. According to Hoekman and Kheir-El-Din (2000) “complementary reforms that centred on reduction of transactions costs and improving the performance of infrastructures service providers such as transport and port service areas are important if no more important than trade policy reforms”. They then concluded that trade regimes could be made more transparent by lowering transaction cost.

4.5.2 Economic Stability

The reliance on internationally traded commodities leaves most of the SADC countries vulnerable to external shocks of international market price fluctuations (World Bank, 2008). Price stability is of utmost importance to the SADC region to advance to a higher stage of economic integration. Inflation rate differs in the SADC

region as more countries have focused their policies towards increased monetary discipline and a reduction of their budget deficits.

Buthelezi (2006), states that there are a number of risk factors, which investors continue to identify. Some of these risk factors that tend to drive away potential prospective investors relate to regulatory uncertainty and foreign exchange instability, macroeconomic instability and transaction cost. Despite the fact that there some strong performing countries in the region such as SA and Mauritius, there are still numerous countries still in poverty, partly reflecting the persistence of income inequality inherited from the Apartheid regime (SARB, 2006).

Persistent imbalance in trade between SA and its SADC partners as SA exports more than six times to the SADC region than it imports from its SADC partners (Erwin, 2002). The low level of intra-industry trade among SADC members is also contributing to the low of development and convergence in the region. According to Erwin (2002) “the reliance on few low-values added economic activities, a narrow industrial export base, and a persistent mismatch between the exports of member countries and their import needs are to blame for the failure of regional initiatives that aim to deepen and broaden trade”. Asymmetric tariff reductions will likely narrow the gap of trade inequality with the SADC region. This will boost trade especially exports by member states to SA and member states companies to gain access in to the global market (ANC, 2003)

4.5.3 Overlapping membership

The Formation: Shortly after the launch of South Africa's first democratic government in 1994, foreign affairs ministers from the EU and the Southern Africa Development Community (SADC) met in Berlin. The meeting produced the "*Berlin Declaration*" in which the EU pledged to offer support to SA as it moves toward democracy and regional economic integration (SACC, 2000).

After a series of negotiations, SA made a proposition to the EU called the Trade, Development and Cooperation Agreement (TDCA). The TDCA is meant to address SA's developmental needs that will promote regional integration. Deliberation on the proposed TDCA began in 1997 and lasted for two years as negotiators battled over the

details of approximately 8000 tariff arrangements associated with specific agricultural products. In January 1999, the two teams agreed on common terms and concluded the preferential trade agreement (SACC, 2000). Implementation of the TDCA's trade provisions has been going on since 2000 and it is aimed at establishing a FTA between South Africa and the EU by 2012 (BuaNews, 2008).

The most important feature of the agreement is that the SA-EU PTA will eliminate import duties over a period of twelve years on the South African side and a maximum of ten years on the EU side. This will eventually lead to the free movement of goods, services and capital between the EU and South Africa (Akinkugbe, 2000). In particular, the EU is going to liberalise 95% of its South African imports within the specified period of 10 years, while SA is going to liberalise 85% over a period of 12 years (Gibb, 2006: 601).

The objective of the preferential trade agreement is to consolidate the economic and social foundations of South Africa's transition to democracy (FCO, 2001). The agreement will give a significant boost to trade between the EU and South Africa (which in 2001 runs at approximately £10 billion per year). EU exporters will also benefit greatly from the agreement because it will help to reinforce the EU's position in SA as a result of the reduction in tariffs.³⁶

Implications: Thurlow and Holden (2002) did a study on ninety different products that some member states of SADC states export to SA. They concluded that the reduction of South African tariffs on EU imports is likely to affect the SADC member states at a disproportionate rate. For example, Mauritius appears to be the most seriously affected country and stands to lose 2.9 percent of its exports to SA. The influx of imports from the EU into South Africa will eventually replace more of the goods coming from Mauritius especially those that are easily substitutable.

According to Akinkugbe (2000) the competitive advantage of the other SADC states will be eroded as SA producers can now compete with their neighbouring partners to access the EU market on almost equal terms. Increased South African exports may thus replace some of the exports products that SADC states are currently exporting to the EU.

³⁶ The EU Foreign and Common Wealth Office (FCO)

In another analysis, Thurlow and Holden (2002) state that the products that will be most likely affected are those which will probably face direct competition from the European Union. These products generally include textiles, clothing, and footwear and leather products. One possible reason for the low impact of the SA-EU PTA on some countries in the SADC region is that many of the products exported to SA prior to the trade agreement faces zero tariffs regardless of country of origin. This would imply that the EU-SA PTA would have no effect on the operation of the markets for those products since there would be no change in the relative margin of preference granted to any of the foreign countries (Thurlow and Holden, 2002: 10).

Trade relations between SA and the other SADC countries versus South Africa and the EU might become more complicated as the EU- SADC Economic Partnership gets intensified. Tension is mounting between the EU and SA in negotiations for an Economic Partnership Agreement (EPA) between the EU and the entire SADC trade block. This arrangement could threaten the benefits that some SADC members, especially SA are currently receiving from the EU, because the preference of tariff reduction on products exported to the EU will then be extended to the entire SADC region (Creamer, 2000).

Germany's Coordination Southern Africa (KOSA) published the findings of another study of the SA-EU PTA's impact on SADC. The analysis envisaged that the PTA will have a particularly severe impact on some SADC member states especially those under the SACU custom union. The study projected a potential loss of revenue of between 5 and 9% for Botswana, 13-21% for Lesotho, 8-14% for Namibia and 14-23% for Swaziland (SACC, 2000). The report also concluded that the agreement would impede regional integration by undermining the SADC's free trade protocol and by requiring South Africa and its neighbours to deal with the EU on different terms³⁷.

³⁷ South Africa asked the EU to delay free trade negotiations for ten years to permit regional integration to get a head start, but the EU refused (SACC, 2000).

4.5.4 The Impact of SADC-EU Trade Negotiations

In addition to the SA-EU trade agreements, the EU is also having a different trade agreement with the entire SADC region under the Economic Partnership Agreement (EPA). The EPAs are trade and development agreements that the EU is presently negotiating with the African, Caribbean and Pacific (ACP) regions. As negotiations for an economic partnership agreement (EPA) get deeper, regional groupings such as SADC find themselves having to overcome certain obstacles. That is the problem of overlapping membership will make it difficult to conclude the EPA except the different regional blocks decide to merge together or members that have dual membership must be willing to surrender one (Ngwawi, 2006).

About six countries³⁸ that are members of both SADC and COMESA have broken ranks with SADC for the principal reason of negotiating and discussing a separate arrangement with the EU under the Eastern and Southern Africa (ESA) banner. This will facilitate the negotiation to a certain extent but also affects deeper integration in the SADC regions (Ngwawi, 2006). The EPA to some economists is controversial as members of SADC opted to participate in different regional configurations. The EPAs which include trade agreements with Africa, Caribbean and Pacific countries means that the various configurations have separate tariff liberation schedules, creating different tariff regimes, which means the possibility of creating a common external tariff (Le Roux, 2008). For SADC to achieve the goal of becoming a custom union by 2010 means that the entire region must harmonise their tariff structure starting with the SADC EPA partnership.

The EPA-SADC negotiation is expected to bring both positive and negative effects on some if not all the SADC economies. But the most important point is to look at the net benefits for these countries. . Table 4.3 shows the trade creation and trade diversion effect of the future SADC-EU trade negotiation. The trade creation and diversion

³⁸ These countries include DRC, Madagascar, Malawi, Mauritius, Zambia and Zimbabwe.

effect was as a result of an impact assessment study carried out by Szepes and Bilal (2003) to show the future effects EPA could have on SADC economies.

Table 4.3 Trade creation and trade diversion of selected countries in SADC (USD millions).

Trade creation and trade diversion of selected countries in SADC (USD millions)			
SADC	Trade creation	Trade diversion	Net trade effect
Botswana	25.7	0.6	25.1
Malawi	18.4	14.1	4.3
Mozambique	21.0	6.5	14.5
Tanzania	103.0	78.8	25.5
Zimbabwe	82.9	21.5	61.4
Mauritius	136.5	87.5	49.0
SACU	835.0	472.0	363.0

Szepes and Bilal (2003) estimate that³⁹, for all SADC countries, free trade with the EU will bring net (trade) welfare gains to the region as a whole. To put it differently, trade creation will certainly outweighs trade diversion, as shown in Table 4.3 above. Szepes and Bilal (2003) went further to state that countries that currently have higher tariffs in comparison to the EU (that is Mauritius, Zimbabwe and the SACU countries) will experience relatively more trade creation than countries with lower tariffs.

Presently SA is not really an active participant in the EPA negotiation. South Africa participates only as an observer after having concluded its own trade agreement with the EU in the late 1990s. The challenges of overlapping membership are likely to weaken negotiating positions of SADC and COMESA. Complicating the situation will be the appeal by South Africa for the EU to consider having a single SADC trade deal based on its own free trade deal with the European Union (Ngwawi, 2006).

The table below summarises the above discussion by showing the number of RTAs that the different member of SADC belong to

³⁹ Adopting a static, partial equilibrium analysis and assuming that all excise duties are completely phased out during three periods of four years (i.e. 50% in 2012, another 30% in 2016 and the remaining 20% in 2020, leading to a cumulative reduction of 100%).

Table 4.4 Topology Table Showing SADC member States and the Different RTA in Eastern and Southern Africa (Status as of July 2006)

	COMES A	SAD C	SAC U	EA C	ICO 40	SADC EPA⁴¹	COMES A EPA⁴²
Angola	*	*				*	
Botswana		*	*			*	
DRC	*	*					*
Lesotho		*	*			*	
Madagascar	*	*			*	*	
Malawi	*	*				*	*
Mauritius	*	*			*		*
Mozambique		*				*	
Namibia	*	*	*				
South Africa		*	*			Observer 43	
Swaziland		*	*			*	
Tanzania		*		*		*	
Zambia	*	*					*
Zimbabwe	*	*					*

Source: Jakobeit et al (2005)

Table 4.4 shows the number of different trade agreements that SADC member states are involved in. It shows an illustration of the current pattern of overlapping membership in Eastern and Southern Africa. Each country belongs to at least two regional trade agreements. This process further complicates the already existing problems of overlapping membership discussed in chapter three.

⁴⁰ IOC is the Indian Ocean Commission and includes in addition to the countries listed La Réunion

⁴¹ SADC EPA stand for SADC Economic Partnership Agreement with the EU

⁴² COMESA EPA is COMESA Economic partnership Agreement

⁴³ SA has not yet signed the SADC EPA as it has a separate trade a PTA with the EU

4.6 SUMMARY AND CONCLUSION

The analysis of this chapter is based on the nature of regional integration in the SADC region by looking at structure of SADC as a whole, the pattern of trade flow, foreign direct investment and the PTA member states are currently having with the European Union. This was done to bring out the differences in economic and geographic patterns that exist among the SADC economies that increase some of the challenges the region is currently facing.

The differences among the member states will surely determine the space at which SADC is moving toward the achievement of goal stipulated in the SADC protocol. The movement of the SADC region to the more advanced stages of integration will depend on how member states and especially the most developed economies such as SA is fully committed in helping the region especially the least developed economies to develop their economic resources and trade potential. Therefore, if SADC member states needs to embark on improved competitiveness and quality of standards of their products, they region must strive towards harmonizing trade policies, ensure that trade policies in SADC would conform to a global economy as per WTO regulations, diversify in tradable commodities according to each country's comparative advantage. By so doing, the region might then be able to overcome many of the difficulties that is currently facing.

Finally, SADC needs to be careful with its trade agreements with third countries, especially considering the SA-EU preferential trade agreement because increased European trade in SA is already and will continue to affect most of the SADC member states and the increased expansion of trade may increase the level of trade diversion in the SADC region. It is also clear that the SADC-EU trade negotiations will lead to trade creation if the parties involved will adhere to the rules binding the agreement. The problem that may arise is that increased SADC- EU trade relations may eventually weaken the SADC RTA especially if net trade effect that SADC member states will derive from the EU outweighs the gains from within the region. This therefore means that greater effort is needed from member states to move the trade block to a higher level of integration.

CHAPTER 5

GENERAL CONCLUSION

This research report has analysed regional integration in Southern Africa based on the problems of multiple memberships. We have seen that SADC is a regional block in Southern Africa that is characterized with divergent in growth rate, differences in the size of the economies, and some of the countries been landlocked such as Zimbabwe, Lesotho and Malawi.

According to Venter and Neuland (2004: 13)⁴⁴, the regional economic integration of developing countries provides a unique solution to two main problems.

- *“First, it provides an opportunity for free trade with other countries and regions that are more or less at the same pace of economic development and therefore able to compete on somewhat equal terms”.*
- *“Secondly, it presents a way to trade with developed countries without much risk of being harmed by the superior economic power of the more advanced country”.*

In this regard there is need for the member states to fully cooperate through the harmonisation of their domestic policies and for them to be in conformity with the rules and regulations set out in the RTA protocols. The same apply to SADC and for this to happen, certain problems and challenges especially that of overlapping membership need to be overcome. Also, the different protocols especially those on trade must be flexible enough to accommodate policies that benefit mostly the least developed states.

Chapter two analysed the theories that explain the rationale behind RTA. It shows how the static gains from regional trade can lead to both trade creation and trade diversion. The degree of trade creation and trade diversion will depend on member states commitment and full participation in carrying out joint economic activities that will increase intra-regional trade in the long run.

⁴⁴ In Venter & Neuland (2007:22)

In chapter three, we saw how overlapping membership is a key problem in the SADC region. Overlapping membership makes commitment by the participating countries to RTA difficult. Most SADC states have multiple memberships that are spread out in the four key regional blocks (EAC, COMESA, SACU or the IOC) in Eastern and Southern Africa. Each of this regional trade has it own unique objective and strategies to attain their main goal. Countries that belong to more than one regional trade blocks find it difficult to apply the rules and laws contains in the different treaties of the different RTAs. Differing and overlapping rules of origin resulting from different RTAs can be so complex as to be trade distorting, contributing higher costs and trade diversion pressures. In addition to the rules of origin, conflicting obligation and the inconsistency of the SADC trade protocol is furthering constraining deeper economic integration in the region.

As mention in chapter four, countries in the SADC region are at diverse stages of development, with SA accounting for more than 60% of total GDP, while others such as Lesotho, Malawi, and Swaziland contribution to the growth rate of the region are relatively small. These small economies can also benefit under the umbrella of the big economies as the RTA prevent third countries from marginalising the small economies. The more advanced economies (SA) should be ready to make substantial financial sacrifices in developing the resources in the region and also to boast trade in the different domestic economies and the end results will increase intra-trade.

On one hand, most SADC economies are engage in the production of primary commodities that are rarely in high demand in the SA market while on the other hand; SA exports to these countries are mostly finished goods of high value. Thus income from manufacturing goods contributes to GDP growth more than revenue generated from primary products. On average, increase in gross domestic expenditure leads to similar growth in import demand over time. Increase in industrial production in the SADC region has a similar impact on South African non-commodity exports. South Africa developed a comparative advantage in manufactured commodities partly because of its natural resource endowments and it geographic proximity in the region. The study found out that most SADC states export more of their produce to EU and imports more than 50% of their total imports from South Africa. This leads to trade

balance in favour of SA. SA is having a favourable position in the SADC region in terms of its trade position with its neighbours.

Lessons can be learned from Mercosur as it has proven to be successful since its creation in increasing trade and FDI among member states to a great extent. Some of the key features of Mercosur that have made it successful include; few member states making it to be managed easily⁴⁵, less divergence in growth rate among member states, absence of overlapping membership although Mercosur at present is at the verge of becoming an overlap. Industrial goods play a significant role in Mercosur intra-trade than primary and tertiary products.

Therefore, for SADC to attain the overall objectives of the SADC trade protocol there is a need for deeper cooperation among the governments within the region including the private sectors and the different civil groups and stakeholders. The elimination of multiple memberships might seem difficult in the Eastern and Southern Africa, as the different RTAs are not of the same degree of integration. One way of solving this problem is for the four regional blocks to strive to work toward common goals for the establishment of a long-term supranational trade block in Southern and Eastern Africa.

A critical area where SADC member states can work together is in the energy sector. Regional Stakeholders in the field of energy have called for member states to pool resources through cooperation in the energy sector (Richard, 2008). This is acknowledged in the Prime Minister of Tanzania's opening speech at the fifth "Regional Electricity Regulators Association (RERA) of Southern Africa" held in Tanzania in November where he said "We are all aware of the absolute necessity of pooling our electricity infrastructure as a region in order to reduce costs, increase security and enhance global competitiveness as a region" (Richard, 2008).

⁴⁵ Although there are prospects of enlarging the Mercosur trade block to include other countries in Southern America.

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