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Political Economy of Regional Integration in Southern Africa Series

The Private Sector as a Driver of Regional Integration

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INTRODUCTION OF THEME

The Political Economy of Regional Integration in Southern Africa (PERISA) project generally asks the research question: 'Who drives or drove this particular process or outcome?'. This theme, however, seeks to reverse the question to: 'If the private sector drives a process, what is the outcome for regional integration?'.

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

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

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

The case studies focus on four themes. These are: the manner in which NTBs are being addressed with private-sector involvement; the effectiveness of the Southern African Sugar Board and its Technical Subcommittee; the Regional Communication Regulatory Authority; and the impact of the Southern African Development Community (SADC) Banking Association and Committee of Central Bank Governors on trade facilitation.

GENERAL FINDINGS

Three out of the four case studies examined the role played by predominantly very large companies that can exert influence in the region in their own right. Their choice to co-operate at the regional level in policy debates and push for certain outcomes, as in the case of telecommunications and banking, shows that benefits are to be had from active participation.

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

There are benefits to be accrued from implementing basic requirements for integration, even in a scenario in which the regional agenda might be abandoned by policymakers – as is the case with monetary integration. The SADC Banking Association and Committee of Central Bank Governors are forging ahead with the implementation of systems that would facilitate financial transfers, irrespective of whether a monetary union is still on the horizon.

The relative size of countries within this diverse group of countries does not always translate into initiatives being dependent on South Africa's active participation. Even within the diverse sector of the sugar industry in SADC, areas for co-operation are found that could exclude South Africa in certain instances; and the NTB Monitoring Mechanism involves cases between countries that do not route through South Africa.

ABSTRACTS OF CASE STUDIES

CASE STUDY 1

THE NTB MONITORING MECHANISM

The benefits of trade integration in Southern and East Africa continue to be counteracted by the impact of NTBs on trade. Evidently, political exhortations by member states, and even hard rules, have been insufficient for dealing with NTBs in the region. Over the years it has been customary to utilise co-operative approaches to buttress and supplement the rules. But these soft approaches, too, have been met with limited success. The subject of this case study is a recent intervention to address the issue, known as the Common Market for Eastern and Southern Africa (COMESA), East African Community and SADC

Tripartite NTB Reporting, Monitoring and Eliminating Mechanism. The study assesses where the mechanism fits into the overall matrix for tackling NTBs in the run-up to an enlarged free trade area. The study finds that the mechanism has distinguished itself positively from predecessor initiatives in at least three ways: the level of institutional involvement of the private sector; the contemporaneous handling of tariff negotiations and NTB issues; and its institutional longevity. The mechanism has already received the buy-in of economic operators, recorded successes in bilateral resolutions of individual NTBs, and is receiving increasing endorsement by commentators. The case study notes, however, that the ultimate success of the mechanism hinges on issues relating to the distributional gains of trade integration.

CASE STUDY 2

SADC PAYMENT INTEGRATION SYSTEM

Payment, clearing and settlement systems (also known as financial market utilities) are an essential part of the global financial system, which allow financial institutions to serve customers and clients across the world. This payment system consists of a set of instruments, banking procedures and interbank fund transfer mechanisms that ensure the circulation of money worldwide.

In July 2013 the SADC Integrated Regional Electronic Settlement System (SIRESS) went live for the four countries of the Common Monetary Area: South Africa, Namibia, Lesotho and Swaziland. This is a first step towards implementing a common payment system across all member states of the SADC regional economic community. The aim is to achieve harmonisation in areas such as trade tariffs and border controls, and integration in information and communications technologies (ICT) and financial infrastructure.

SIRESS has relied on the active participation of the private sector, commercial banks – which are members of the SADC Banking Association – and the facilitation by central banks in the SADC member states. Through this electronic system, money clearance across borders can now take place within one working day; whereas with cheques and other paper-based procedures, the clearance period is between seven and 21 working days.

CASE STUDY 3

THE SOUTHERN AFRICAN SUGAR SECTOR

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

Sugar's importance as one of the largest agricultural sectors in the Southern African region has given rise to a great deal of involvement from a multitude of actors. The private sector is highly organised and extremely diverse, and includes both large corporate interests and hundreds of small farmers. States across the region work closely with the private sector in an effort to ensure a supply of this basic commodity and to protect a sensitive and very important part of their economy. Government and private interests often overlap, as many states hold key interests in sugar-producing firms.

At a regional level, this multitude of actors and competing interests make use of a range of forums for co-operation, some mandated by the SADC Agreement on Sugar and others privately organised. There is great diversity in the export group. The Democratic Republic of Congo and Zimbabwe are both high potential sugar producers, with Zimbabwe being the second-lowest cost producer in the world, but with capacity limited by current political and economic circumstances. Swaziland, Malawi and Zambia have all developed large, highly efficient sugar industries – off the back of favourable natural conditions and preferential access to the EU market. Mauritius has similarly taken advantage of preferential market access, but remains a relatively uncompetitive, high-cost producer, and, as a result, has been making efforts to diversify away from its reliance on the sugar sector, which accounts for 25% of export earnings. South Africa is by far the largest sugar manufacturer in the group, and benefits from good natural conditions and a highly organised corporate sugar sector.

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

CASE STUDY 4

REGIONAL CO-OPERATION IN THE TELECOMMUNICATIONS SECTOR VIA CRASA

This case study examines the telecommunications sector in Southern Africa and the role that the Communications Regulators' Association of Southern Africa (CRASA) plays in encouraging policy harmonisation between SADC member states. Traditionally policy harmonisation in SADC has been a difficult process, with few successes being achieved.

The case study attempts to identify the reasons for CRASA's success. CRASA was established under the 1997 Protocol on Transport, Communications and Meteorology. CRASA is an implementing agency of SADC, which as a secretariat cannot become involved in the actual implementation of regionally agreed policies, as it has no implementing function at the national level. CRASA aims to harmonise the ICT sector in SADC in order to maximise the benefits the sector can offer to economic growth and development. A region that boasts a regulatory framework is more likely to attract investment than a fragmented one.

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

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

ABOUT THE AUTHOR

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