UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

THE CONCEPT OF ECONOMIC INTEGRATION WITH SPECIFIC REFERENCE TO FINANCIAL INTEGRATION IN SOUTHERN AFRICA

BY

SHIMA HENOCK NOKANENG

Submitted to the

Faculty of Economic and Management Sciences
Department of Economics

In accordance with the requirements of the degree

PHILOSOPHIAE DOCTOR (PhD)
(Economics)

Supervisor: Professor M C Breitenbach
Joint-Supervisor: Professor TI Fényes

University of Pretoria
April 2009

ACKNOWLEGDEMENTS

I could not have achieved an enormous project like this one without the assistance of many great minds, colleagues, friends and my academic mentors. Therefore, I would like to express my sincere and heartfelt gratitude to all those who have offered their time, help and resources to make this thesis a success.

- Professor Breitenbach for his valuable advice, contribution and prompt feedback
- Professor Fényes for his support and patience and guidance
- The South African Reserve Bank Staff for their support in acquiring the latest economic data
- The editor, Ms. Megan Southey
- My parents Prof Mogobo Nokaneng and Portia Nokaneng
- My family for their patience and support
- In particular, my wife for the tireless typing done and her encouragement on this project

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

DECLARATION

I declare that:

THE CONCEPT OF ECONOMIC INTEGRATION WITH SPECIFIC REFERENCE TO FINANCIAL INTEGRATION IN SOUTHERN AFRICA

is my own work, that all the sources used or quoted have been acknowledged by means of complete references and that this thesis was not previously submitted by me for a degree at another university.

Signed: **Date:**

______________________________ ____________________

SHIMA HENOCK NOKANENG

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

ABSTRACT

THE CONCEPT OF ECONOMIC INTEGRATION WITH SPECIFIC REFERENCE TO FINANCIAL INTEGRATION IN SOUTHERN AFRICA

The objective of the study is to establish how original financial integration could be attained in southern Africa in order to attract more foreign investment and develop a financially robust and stable region in the southern part of Africa; also to deal with the challenges, risks and remedies of prospective future financial crises.

Financial markets are rapidly integrating into a single global market. Developing countries of various regions are drawn into the process with little choice, and without having sound financial infrastructure and policies in place. It is against this background that countries and regions of global integration choose policies that would benefit their regional economy and avert potential economic shock.

The challenges posed to countries and regions by the progressive global integration of financial markets are becoming more urgent by the day. These challenges need to be addressed more effectively, either nationally or regionally, as demonstrated by the 1998 financial turmoil in Asia.

Private capital flows are becoming intra regionally concentrated, particularly in the USA, Europe, Asia and Latin America. Be that as it may, failure in one market is likely to have immediate and large regional repercussions. Globalisation also marginalises Africa and other Least Developed Countries (LDC), leaving them more impoverished and with greater disparities in terms of income, GDP and FDI.

Regional financial integration has to be efficient and sound in order to prevent or contain currency and capital market crises in the southern African region. This study identifies macro economic challenges and risks associated with financial integration. Recommendations are made about methodologies of addressing these issues in

order to realise the benefits of regional financial integration in southern Africa, which could be a building block in realising the dream of an African Monetary Union.

The study contributes greatly to the debate around the most appropriate criteria that are to be met by the SADC countries, before monetary integration can become a reality. A comparison of the benchmark macro economic convergence criteria of the EU and of the African Monetary Union is done and the performance of SADC countries is assessed in terms of both sets of benchmarks. Southern African states are found to not even be at a comparable level with regard to the EU targets of 1997. The thesis is also critical to the impact of the political instability in the SADC region on prospective monetary integration. Most importantly, SADC would be at a permanent disadvantage and face a long-run depreciation of its common currency, should it continue to integrate financially at macro economic benchmark levels inferior to those of its major trading partner, the EU.

TABLE OF CONTENTS

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

LIST OF TABLES

LIST OF FIGURES

Keywords: Financial integration, capital flows, financial markets, SADC, monetary integration, monetary policy, regional economic integration, risks, financial liberalisation, Political economy, southern Africa monetary union