CHAPTER 1: INTRODUCTION AND METHODOLOGY

1.1 Introduction

There have been numerous regional integration efforts in Africa, but without much success. Integration attempts in Africa were mainly limited to the development and expansion of investment opportunities that would benefit Africa as a whole, reduce Africa's dependence on the outside world and create self-sustainable economic conditions that would enhance autonomous development.

The integration initiatives launched in the 1960s were to some extent more successful than the attempts at economic integration in the 1970s and 1980s which could not attain the objective of creating a sub regional economic market, let alone an economic community, despite the human and financial resources deployed (Asante, 1997:47).

Broadly speaking, a number of initiatives of regional integration in Africa have been undertaken, among others, a free trade area, a customs union and an economic union.

Examples of the above include: Communauté Economique de l'Afrique de l'Est Union (CEAO), Communiquote Economique de Pays des Grands Lacs (EPGL), the Economic Commission for West African States (ECONAS), the Manu River Union (MRU), the Common Monetary Area (CMA), the Southern African Custom Union (SACU), the West African Economic and Monetary Union (UEMOA), the Preferential Trade Union (PTA) and lastly the Southern African Development Community (SADC), to mention only a few (Asante, 1997:47).

These represent some of the various sub regional integration arrangements in Africa. The main integration arrangements in the southern African region are the

PTA, COMESA, SALU, CMA and SADC, to which special attention will be paid in later chapters.

The term economic integration has been growing in importance in the past three decades. It encapsulates a great many different types of integration in the international economic literature.
Some economists define it as 'state of affairs or a process involving the combination of separate economies into larger economic regions' (Asante, 1997:19). This could include all measures that aim at abolishing discrimination among the member countries of the unit, with the formation and application of coordinated and common economic policies to achieve various economic and welfare objectives.

In some literature studies the concept is used interchangeably as economic regionalism or economic union. This could also be defined as 'the design and implementation of a set of preferential policies within a regional grouping of countries aimed at the encouragement of the exchange of goods and factors between members of the group' (Mills & Handley, 1998:2).

Apart from economic integration, other forms of integration can also be identified, namely trade integration, which could be broken down into a preferential area, free trade area and a customs union. The other important forms of integration are sectoral integration or sectoral cooperation, which revolves around the uniform coordination of sectoral markets within a regional group.

The number of and types of integration initiatives grow, and now include capital, financial and monetary issues. These give rise to other forms of integration, termed financial integration and monetary integration.

Financial integration is a situation where there are open or competitive capital markets with the elimination of barriers to capital movements and a resultant gain on saving and investment. This could be categorised into regional financial integration and international financial integration.

Monetary integration revolves around the integration of monetary policies, the exchange rate system and the adoption of a single currency. Monetary integration or monetary union requires the convertibility of member countries' currencies and a central monetary policy, unified financial markets, capital market integration, identical rates of inflation, the harmonisation of fiscal systems, regional development and the coordination of economic policies among the member countries (Javanovic, 1997:43).

The focal point of discussion in this thesis is centred on regional financial integration in the southern African region.

1.2 Hypothesis

The rapidly increasing regionalism, globalisation of trade and financial markets, changing technology and integration of markets have created some pressure on Africa, which competes for trade and financial resources with the rest of the global economy.

The profound changes taking place in the global world economy present challenges and opportunities for Africa and compel Africa to revitalise and resuscitate regional financial integration. It is against this background that southern Africa should integrate financially, as a first step towards a sub regional block, establishing an African Economic Community and eventually working toward full global integration.

Although this particular study does not lend itself to the stating of a particular hypothesis, the researcher holds the view that the hypothesis under investigation would be '*Southern Africa is at a disadvantaged state of development with* *financial and monetary integration when its performance is measured against its own macroeconomic benchmark and that of the EU'*. The researcher is therefore investigating whether the hypothesis holds true or not.

1.3 The importance of the study

In the past three decades, global financial systems have been gradually changing and this has reached a climax in the earlier part of the 1970s with the collapse of the Bretton Woods system and the establishment of a flexible exchange rate regime.

The major economies of the world, for example America, Asia, Europe and Japan and those of the developing nations have become increasingly interdependent. The interdependency has inevitably compelled national governments to take cognisance of international factors in their formulation of national economic objectives.

The links between national policies are of prime importance in relation to the world's financial and capital markets and this has made borders less significant, to the extent that global financial linkages and capital movement are a top priority of the macro economic policy analysis of every economy.

The need for regional financial integration is paramount, especially so that emerging countries could hedge against the risks in the global competitive financial arena. Financial integration would help emerging economies, including African economies, to gain access to resources and technology to expand and diversify their markets.

Markets could be expanded through intraregional trade, which implies that member countries would benefit if the trade creation effects outweighed any trade diversion effects. This would allow the complementary production of goods and more potential for specialisation among the regional members.

Regional integration is perceived as having the potential for growth-enhancing investment in both physical and human capital. The efficiency of regional integration would increase both local and foreign investment. This would induce more foreign direct investment (FDI) in the region which would bring some credibility to the regional financial system (Hansohm, 2002:7).

Financial integration in the region would entail flexible policies, which includes investment, fiscal and monetary policy that would increase global integration, reduce the transaction costs and encourage more regional investment. These would afford the southern African region the opportunity to compete in the global financial markets because of a stable, reputable regional financial standing.

The success of regional financial integration could be evidenced by the EU and other East Asian and Pacific economies. These would be a step closer to the African Common Market or the African Monetary Union, because of the economic integration.

The importance of this study therefore lies in uncovering the problems that the SADC countries face in respect of monetary integration, what is required to resolve these issues, whether the macro economic framework for achieving convergence are plausible, and how achieving the macro economic targets for convergence would impact on SADC when measured against the convergence criteria of the EU.

1.4 The objectives of the study

The objective of this study is to analyse the need for regional financial integration in the southern part of Africa and focus on such integration as a building block towards achieving global financial integration. This process of financial integration is currently unfolding with some speed and sophistication, posing risks and challenges for emerging economies and other regional blocks.

As the international financial environment changes, there is likely to be considerable fluctuations in private capital flows to developing countries. These emerging economies will be highly susceptible to both domestic and regional shocks and to changes in the international financial arena, such as those in global interest rates.

Some contagion is possible; therefore prerequisites for attaining the benefits of regional financial integration have to be made to prepare developing countries and the southern African region to maintain a stable currency and to absorb financial market shocks which might occur in future processes.

The specific objectives of the study are to:

1. describe the concept of economic integration and the current developments in the southern African region
2. analyse developments in financial integration and regional financial integration in southern Africa
3. identify the risk factors associated with regional financial integration in southern Africa
4. analyse the banking sector and equity markets' readiness for financial integration
5. identify and determine the macro economic challenges pertaining to regional financial integration
6. identify and determine the extent of monetary cooperation and financial integration in the region
7. identify and determine the extent of fiscal cooperation and financial integration in the region

8. identify all obstacles to regional financial integration and recommended solutions to the crises related to financial instability
9. analyse the macro economic convergence performance of the region against the European macro economic convergence targets
10. analyse the macro economic convergence performance of the region against the SADC regional targets;
11. analyse SADCs' prospects of attaining the macro economic convergence targets
12. recommend a more attainable and plausible strategy towards financial, and specifically, monetary integration.

1.5 Overview of previous research

A literature study was undertaken of the theoretical aspects of regional integration in the southern African region. The research documented in literature has been mainly on integration in trade-related issues, socio-economic cooperation and sectoral cooperation, but little research has been conducted into sub regional financial integration.

Studies have been conducted by various institutional structures such as the International Monetary Fund (IMF), the Southern African Development Community (SADC), the United Nations Conference on Trade and Development (UNCTAD) and other institutional structures in Africa. No in-depth research has been done of regional financial integration in southern Africa, especially on all issues pertaining to the integration of exchange rate systems, capital and money markets, banking regulatory frameworks, and fiscal and monetary issues.

Only little effort had been done to study regional financial integration aspects by the various sub regional bodies such as SADC and COMESA. The main element contributing to this research is the need to apply integration theories and analyse the regional financial integration situation, identify risks, constraints and ways of overcoming the constraints on regional financial integration with the objective of achieving a solid integrated sub regional block that could compete with other international regional players such as the European Union.

This study looks at ways of managing the macro economic challenges facing regional financial integration and, most important, the study will also outline proposals and recommendations on making financial regional integration more successful than the previous attempts at regional integration in Africa. This would vitalise the envisaged development of an African Economic Community.

1.6 Confining the area of the study

The study will be confined to the geographic area of southern Africa which mainly comprises the SADC countries, namely Angola, Botswana, the Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

As SADC countries are also members of other regional arrangements in southern Africa, the scope of research will be extended to PTA, COMESA, SACU and CMA because of overlapping membership. The study focuses mainly on the issues of investment, capital, finance and monetary policies pertaining to the southern African region. Most integration attempts in Africa have addressed other regional economic development issues, such as trade and sectoral integration.

The study also focuses on macro economic convergence developments in the region and reviews SADC performance against the European macro economic convergence targets. An assessment is also made of the performance of the region against its macro economic convergence targets with a view to recommending a strategy in overcoming the obstacles. Southern Africa has to make progress towards achieving regional financial integration to establish a sustainable African Economic Community.

1.7 Research procedures and methodology

The research covers a comprehensive literature study. Extensive literature on regional integration and more specially theories of financial integration are analysed regarding integration issues, with a focus on financial integration issues. Risks and benefits of regional financial integration, constraints and alternative options of overcoming the impediments, and the fiscal, monetary and macro economic challenges of integration, are some of the specific issues attended to in this study. Analysis and recommended strategies for successful financial integration in southern Africa are done within the contexts of the international and sub regional political economy.

The researcher recommends certain options and possible solutions to regional financial integration. These solutions or options would achieve faster, more diversified and sustainable economic growth that would enable the southern African region or Africa as a whole to respond effectively to the challenges of global financial integration.

1.8 Outline of the study

In Chapter 1, an introduction to the thesis is provided. The chapter outlines, among other things the importance and motivation for the study. The hypothesis and objectives are clearly specified as well as the research methodology and a brief summary of the outline of chapters is provided.

Chapter 2 surveys the theoretical background of economic integration. The chapter also examines the integration models around the world, more specifically that of the European Economic Community. Various forms of economic integration are also studied which is followed by the levels or steps of economic integration which are outlined as follows, a preferential trade area (PTA), a free trade area (FTA), a custom union (CU), a common market (CM), an economic union (EU), a political union (PU), and total economic integration (TEI).

The chapter also explores the regional economic cooperation which has led to economic integration in southern Africa. Economic cooperation exists in the regional national states with varying degrees of rigour and intensity. Numerous bilateral and multilateral treaties on economic issues, between countries of the region in southern Africa, are investigated. Economic cooperation has resulted in the formation of the following multilateral organisations of economic integration in southern Africa with different objectives and treaties: PTA, SACU, CMA, SADC, ECOWAS and ESAF.

Chapter 3 reviews financial integration with the centre of attention on southern Africa. These economic integration initiatives are analysed and classified in the following sub regions: West, East, North, Central and the southern African sub region. Measurement of economic integration starting with the theoretical approaches of measurement and followed by an evaluation of the performance of southern Africa, are performed next in this chapter. The chapter includes a discussion of the Optimum Currency Area and African Integration Index Methods of measuring financial integration performance.

Chapter 4 starts with the regional constraints to financial integration in southern Africa, i.e. the barriers to financial integration, and it gets into the costs and benefits of financial integration. Finally, a macro economic overview, regional financial integration in southern Africa, capital flows in the region, structural changes in the international financial markets and regional developments in SADC financial markets, are investigated.

Chapter 5 investigates the financial integration attempts in southern Africa insofar as it concerns banking (monetary) sector integration, and the progress and performance is evaluated. This includes integration in various markets of the financial services sector, which are the banking sector, clearance settlement and payment system and integration of the equity markets. The chapter also studies the barriers to financial integration and takes a look at the regulatory framework required for sound financial integration.

Chapter 6 focuses on the concept of monetary policy integration, benefits from the global experiences of monetary integration with special reference to the European Monetary System and the West African Monetary Union. Lastly, it presents the monetary integration in southern Africa with a focus on the multilateral monetary area (MMA).

The macro economic convergence developments in southern Africa are assessed against the European Monetary Union targets and the SADC regional macro economic convergence targets. This chapter is mainly concerned with finding the final answers to the stated hypothesis.

Chapter 7 provides both a complete summary of the thesis, which is followed by the conclusions to this research, and recommendations and strategy for financial and monetary integration.

CHAPTER 2: THE THEORETICAL BACKGROUND OF ECONOMIC INTEGRATION

2.1 Introduction

The term economic integration has been growing in importance in the past three decades because of the astonishing changes taking place economically and politically around the globe. This is supported by growing integration initiatives taking place in Europe, Asia and other African regions.

Economic development in the southern African region has been accompanied by an equally significant evolution in thinking towards economic liberalisation and economic and political openness.

Structural adjustments of one sort or another are taking place in virtually all of the African region's economies. Key macro economics aggregates are being transformed throughout the southern African region with the ultimate objective of attaining a beneficial change in the region through political and economic development.

The region has opened up new possibilities for regional cooperation and integration. All governments in the region are in favour of the principle of greater political and economic cooperation. The regional countries have affirmed the links that exist. The international donor community also supports the move towards regional economic integration in southern Africa.

Economic integration encompasses the formulation and application of common regional trade, exchange and labour markets. Common fiscal and monetary policies at the regional level will lead to the development of a common currency and a single central bank or monetary authority. This would regulate the monetary environment within which national governments could function. Economic integration also allows movement of all factors of production and technology within the region (Rwegasira, 1996:15).

Generally, economic integration is defined as a state or process that derives its importance from the potential for its participants to achieve a variety of common goals more effectively by joint or integrated action as opposed to unilateral effort.

Some economists define it as "a state of affairs or a process involving the combination of separate economies into a larger economic region" (Asante, 1997:19). This could include all measures that aim at abolishing discrimination among the member countries of the unit, with the formation and application of coordinated and common economic policies to achieve various economic and welfare objectives. In some studies the concept of economic integration is used interchangeably with economic regionalism or economic union. Economic Integration could also be defined as "the design and implementation of a set of preferential policies within a regional grouping of countries aimed at the encouragement of the exchange of goods and factors between members of the group" (Mills & Handley, 1998:2).

Apart from economic integration there is also trade integration, which takes place through the establishment of either a preferential trade area or free trade area. Other forms of economic integration are custom unions, common markets, economic unions and total economic integration. Financial integration is a situation where there are open or competitive capital markets with the elimination of barriers to capital movements and a resultant gain in saving and investment (Van den Bergh & Sahajwala, 1989:15). This could be categorised further into regional financial integration and international financial integration. Monetary integration revolves around the integration of monetary policies, the exchange rate system and a single currency.

Monetary integration or monetary unions require the convertibility of member country's currencies and a central monetary policy, unified financial markets, capital market integration, identical rates of inflation, the harmonisation of fiscal systems, regional development and the coordination of economic policies among member countries (Javanovic, 1997:43).

The two concepts (monetary and financial integration) are closely interrelated and inseparable. However, the focal point of discussion in this thesis is on regional financial integration in the southern African region.

Strictly speaking, economic integration refers to the assignment of responsibility for formulating regional policies, developing rules and regulations and the application of these policies to the functioning of all markets at a regional level, superseding national control. This implies sacrificing and ceding sovereignty over specific economic functions, activities and policies to a union or regional authority, which exercises power at the regional level.

2.2 The types and forms of economic integration

The most common process to economic integration is through the progressive liberalisation of trade relations between member countries of a region and this could be taken a step further through various stages in a linear sequence and different modalities.

Different levels of economic integration exist, namely a preferential trade area, a free trade area, a customs union, a common market, an economic union and a political union. These are each defined in the following paragraphs, as summarised from the work of Balassa (1961).

A preferential trade area (PTA) is a form of economic integration, which is described by the existence of lower tariffs and intra regional trade in goods and services originating in member countries.

A free trade area (FTA) is described by the non-existence of tariffs on goods and services from other members leaving open the possibility of each member structuring and applying its own regime of tariffs to goods or services imported from outside the FTA.

A custom union (CU) involves free trade among member countries but applies uniformed external tariffs with members ceding sovereignty to a single unified customs administration or applying their own different tariff regimes alongside a common external tariff.

A common market (CM) arises when a customs union abolishes non-tariff barriers to trade to allow free trade among members. There are also greater harmonisation of trade, exchange rates, and fiscal and monetary policies. This requires some form of internal exchange rate stability and full internal currency convertibility.

An economic union (EUN) is an agreement by member countries on a common currency and a unified monetary policy which confines to specified convergence criteria and parameters within which national fiscal policy can operate.

A political union (PU) represents the ultimate stage or form of integration in which the legislative and judicial processes of member states are either unified or federated under agreed arrangements.

A political union has many elements, but usually depicts the existence and emergence of a political community based on trust, loyalty and common principles. It has four elements of integration namely institutional union, policy integration, attitudinal integration and security integration.

Total economic integration (TEI) represents on economic union with all the relevant economic policies conducted at the supranational level, possibly in compliance with the principle of subsidiarity. Both supranational authorities and supranational laws need to be in place.

The five steps of regional integration as structured by Balassa (1961) are summarised in Table 2.1 below.

Table 2.1: Five steps of regional integration

THE FIVE STAGES OF REGIONAL INTEGRATION	DEFINITION	SOME EXAMPLES
1. Free Trade Area (FTA)	An area where tariffs and quotas are abolished for imports from area members, which, however, retain national tariffs and quotas against third countries	- In 1992 ASEAN countries launched the ASEAN Free Trade Area (AFTA) plan. On 1 January 2002 six out of ten ASEAN countries reduced internal tariffs on most goods (so called 'inclusion list') to levels ranging between zero and five percent. The whole ASEAN area is scheduled to become a fully-fledged free trade area in the coming years - The USA, Canada and Mexico are in the process of completing a North-American FTA (NAFTA): many tariffs were eliminated already in 1994, with others being phased out over periods of 5 to 15 years
2. Customs Union (CU)	An FTA setting up common tariffs and quotas (if any) for trade with non-members	- European Economic Community since 1968 - The MERCOSUR aims at becoming a fully fledged CU by 2006
3. Common Markets (CM)	A CU abolishing non-tariff barriers to trade (products and services markets integration) as well as restrictions on factor movement (factor market integration)	- European Community since 1993 (establishment of the European Single Market). The CM had already set up an objective under the Treaty of Rome - The Andean Community aims at becoming a common market by 2005
4. Economic Union (EUN)	A CM with a significant degree of coordination of national economic policies and/or harmonisation of relevant domestic laws	- European Union nowadays
5. Total Economic Integration (TEI)	An EUN with all relevant economic policies conducted at the supranational level, possibly in compliance with the principle of subsidiarity To this aim, both supranational laws need to be in place	The euro area (i.e., 12 out of 15 countries of the European Union) can be currently classified somewhere between an EUN and a REI. Supranational authorities and rule making were established already with the Treaty of Rome in 1957, and subsequently enhanced

[Source: Compiled from Balassa (1961)]

According to Balassa (1961), five main stages are identified and defined as the outcome of policy decisions taken by regional inter governmental forums and/or supranational institutions in order to affect the depth and breath of regional integration. The definitions, structure and some examples are illustrated in Table 2.1 above.

2.3 Regional economic cooperation as a step towards economic integration in southern Africa

The term economic cooperation as used in the study denotes a willingness on the part of countries to work together in attaining regional economic goals on the assumption that, in the long run, this will enhance national economic interests, benefits and welfare. National interests might need to be subordinated in the short-run for the sake of regional interests.

This is pursued in threefold, namely through coordination of national economic projects, harmonisation of economic policies and integration of economic activities. Countries can benefit greatly from economic cooperation when they share common resources. In the presence of economies of scale or inter country externalities, market solutions are generally sub optimal, and failing to cooperate can be economically costly.

Economic cooperation already exists across national states in southern Africa with varying degrees of rigour and intensity. Numerous bilateral and multilateral treaties on economic issues, varying by sector have been agreed to, particularly between countries of the region in southern Africa.

Bilateral and multilateral arrangements to promote economic cooperation in the region have advanced tremendously in specific sectors, for example in tourism, mining, soil, conservation, environment, transport, fishing, agriculture, power, water, training, finance and investment, security, telecommunications, trade, labour etc.

Economic cooperation has been steered mainly by the following multilateral economic cooperation bodies:

- PTA, which entrenched its focus on developing and enhancing intra regional trade among regional members through the progressive reduction of tariff barriers.

- SACU, which comprises of South Africa and its neighbouring countries namely Namibia, Lesotho, Botswana and Swaziland, which was formed in 1910. This custom union provided economic cooperation and also provided member countries duty free trade.

- RMA/CMA currently known as the Multilateral Monetary Area provides a free flow of capital within the area but Lesotho, Swaziland and Namibia may impose restrictions if there is a detrimental outflow of funds to South Africa.

- SADC previously known as SADCC focuses broadly on general regional sovereignty through development, subsidiarity, market integration, bank and investment development and greater harmonisation at a progressively higher level of integration within the community as a whole.

- ECOWAS focussed mainly on promoting economic development by establishing a common market and harmonising economic policies, including agricultural policies, industrial development plant and incentives, and monetary policy. It also enhanced cooperation in other sectors like energy and minerals and for the joint development of infrastructure in member countries.

- ESAF the East and Southern African Banking Supervisors is a regional grouping, which was started in 1993. The main objective of the grouping is to harmonise banking legislation and banking supervision practices and share information on matters regarding banking supervision. At present the ESAF membership comprises of sixteen member countries namely: Angola, Botswana, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

- The other route of enhancing regional economic cooperation in southern Africa is through a sector by sector basis, which is accruing some welfare and efficiency gains for the region and that might be derived through this kind of cooperation.

2.3.1 Sectoral economic cooperation in southern Africa

Sectoral economic cooperation in southern Africa has grown very extensively in the region through the various bilateral and multilateral agreements bases.

This cooperation has been extensively perpetuated by the various regional integration agencies in southern Africa, which are PTA, MMA, SACU, SADC, COMESA and ESAF.

Economic cooperation was enhanced in the following sectors (Economic Integration in Southern Africa, 1993:35):

- Trade
- Finance
- Manufacturing
- Energy
- Transport
- Communication
- Construction
- Mining

- Agriculture
- Forestry and Fisheries
- Environmental Issues
- Natural Resources
- Tourism
- Labour
- Education and Training, and
- Health.

2.3.2 Economic cooperation in the financial sector

Financial sector cooperation is championed by the three multilateral groupings in the southern African region. These regional issues in finance are addressed by SADC through its two main structures namely the directorate of Trade, Industry and Finance and Investment and the Committee of Central Bank Governors in SADC (Hansohm, 2001).

The other multilateral grouping in the finance sector is ESAF, which also enhances financial sector cooperation. The Multilateral Monetary Area (MMA) is another important financial cooperation agent in the southern region of Africa, notwithstanding the importance of ECOWAS, which is comprised mainly by countries in the eastern and southern part of Africa.

Regional cooperation in finance is eminent, taking into consideration the complex nature of the financial systems of countries in the region. Throughout the region almost all countries are confronted by similar financial and monetary problems, which prohibit economic growth and development in the region.

Some of the basic common problems are fiscal laxity, bad monetary discipline, lack of institutional capacity, undeveloped financial markets and a shortage of investment and foreign reserves.

Regional financial cooperation would over time resolve these obstacles and enhance greater financial sector integration with greater economic benefits by achieving convergence in the region.

Regional cooperation in the financial sector must be done with the objective of promoting sustainable economic development and growth. Financial sector cooperation can be achieved through sound measures, which aim at macro economic stability, financial system strengthening, mobilising and using external and domestic savings more efficiently, and by encouraging expansion and diversification of international and intra regional investment.

Regional financial sector cooperation was thus far based on the following platforms: banking sector cooperation, cooperation in the insurance industry, money and capital markets cooperation, intra regional currency convertibility, external debt management cooperation, cooperation in attracting project and trade finance and clearing and settlement cooperation. These platforms also used by Hansohm (2001) are now discussed individually.

2.3.2.1 Banking sector cooperation

Banking sector cooperation should address the challenges facing the regional banking sector. Banking sector reform should ensure good banking practices that would attract foreign banks to the market and allow the development of domestic and regional banks. Banking cooperation focuses on the following areas: banking supervision, credit specifications, licensing and regulation, capital adequacy, deposit insurance, the inter bank deposit market, collateral, liquidity ratios and reserve requirements.

Numerous projects of cooperation have been undertaken on the above-mentioned issues. The SADC Banking Association was established to uniform norms and standards for the banking practices in the region. Banking cooperation will enhance the attainment of the right mix between national institutions' regional and global banks and that could benefit the region as a whole.

2.3.2.2 Insurance sector cooperation

The need for insurance sector cooperation is important because the sector is very small and undeveloped with the exception of South Africa and Zimbabwe. The development of the sector throughout the region is a priority in regional cooperation because this sector is a crucial source of long-term funding for investment and also a pillar for the development of other types of markets.

There are three potential areas for regional cooperation in the insurance sector, that is, the introduction of competition into a re-privatised insurance industry at national level, regionalisation of reinsurance and supervision and regulation of insurance companies.

2.3.2.3 Capital market cooperation

Most countries in the region have less developed or no stock exchanges, which could be utilised as a means of mobilising savings and facilitating privatisation of national assets. To date, countries with established stock exchanges are South Africa, Namibia, Botswana, Mauritius, Swaziland, Tanzania, Malawi, Zambia and Zimbabwe.

Regional cooperation on stock exchanges will enhance policies and strategies that would harmonise and rationalise operations of stock exchanges in the region. The process will include the exchange of information, expertise and experiences.

The Committee of Stock Exchanges was formed in January 1997 as a private sector initiative within the SADC framework to establish an integrated real-time network of the region's national securities markets. This will enhance harmonisation, regulation, surveillance, listing and other functions needed for the smooth operation of the markets in the region. The following exchanges have harmonised their listings requirements based on 13 principles extracted from the Johannesburg Securities Exchange listings requirements (Regional Economic Review, 2000):

- Botswana Stock Exchange
- Malawi Stock Exchange
- Namibia Stock Exchange
- Zimbabwe Stock Exchange
- Mauritius Stock Exchange
- Tanzania Stock Exchange

2.3.2.4 Money and debt market cooperation

The development of money and long-term debt markets are of critical importance to the development of the region's financial system. A developed regional Treasury Bond (TB) market will provide a benchmark against which to promote the development of long-term lending by banks and of financial intermediation.

2.3.2.5 Intra regional currency convertibility

The other important element for regional economic integration in southern Africa is convertibility of national currencies in the region. Markets are thinly traded and there is extreme exchange rate volatility.

The biggest success in convertibility cooperation is demonstrated by the establishment of the MMA, formerly called the Common Monetary Area (CMA), whereby the exchange rates of Namibia, Lesotho, and Swaziland are pegged to each other on a one-to-one ratio.

In recent years, there have been structural adjustments to stabilise the exchange rates in the region. The process towards more realistic exchange rates began at different times in different countries within the region and has progressed at different speeds.

2.3.2.6 External debt management cooperation

The excessive indebtedness of the countries in the region constitutes, directly or indirectly, a major impediment to regional trade and economic integration largely because it depletes the little financial resources available to expand trade or channel cross-border investment flows through trade and project debt finance. Generally, all southern African regional countries are in a bad state insofar as indebtedness is concerned, with the exception South Africa. This implies that the region’s import levels are supported largely, if not entirely, by concessional credits from multilateral organisations.

Such dependence provides little prospect of significant expansions in intra regional trade and financial activity without more meaningful debt relief. The performance of debt in the region is depicted in Table 2.2, which shows that the aggregate external debt in the region is very high with the exception of South Africa, Mauritius, Namibia, Botswana, Swaziland, Comoros and Seychelles, which are also a reflection on external trade in the region.

Table 2.2: External debt as a percentage of GDP in SADC, 1997-2007

COUNTRY	1997 - 2001	2002	2003	2004	2005	2006	2007
Angola	68.4	52.7	45.1	33.6	23.7	17.4	12.7
Botswana	10.2	7.5	5.3	4.5	4.0	3.7	3.3
Comoros	100.7	91.3	90.5	81.6	67.7	69.9	55.9
DRC	186.3	162.4	170.6	168.9	71.2	57.8	66.3
Lesotho	60.8	75.5	170.6	188.9	71.2	57.8	66.3
Madagascar	114.6	98.6	83.5	77.5	70.6	31.1	31.7
Malawi	137.2	590.6	657.8	621.3	572.3	202.4	133.8
Mauritius	24.4	20.9	17.9	14.2	13.3	12.3	12.0
Mozambique	101.7	88.1	83.0	73.8	68.1	40.5	41.6
Namibia	2.8	4.5	5.4	5.4	5.6	6.0	6.0
Seychelles	21.1	39.7	34.8	39.6	44.9	35.5	43.7
South Africa	3.4	4.5	3.0	2.3	2.1	2.0	1.9
Swaziland	17.4	24.7	18.5	21.5	15.7	14.8	14.3
Tanzania	83.4	54.2	53.1	50.9	48.1	48.4	15.9
Zambia	197.9	182.4	154.5	114.4	56.8	4.9	6.7
Zimbabwe	38.5	38.1	47.1	49.0	35.6	35.6	35.8

[Source: IMF, 2007]

The impact of debt servicing in draining foreign exchange reserves is apparent in the countries' reserve positions. Countries with high debt-service payments have low levels of reserves. There has been a gradual reduction in debt levels in the region through bilateral and multilateral debt relief programmes.

The Paris Club official DECD creditors agreed to some relief packages to ease the debt burden. The debt relief measures applied to the southern African region so far have succeeded in providing a modest amount of breathing space in the short-run. Regional economic cooperation could also address the debt problem more radically by working cooperatively within regional countries and also by looking at alternative debt reduction strategies. By expanding the scope of private debt reduction through a range of techniques including buy-bucks, debt-equity conversions, debt for development swaps and debt for local currency swaps, the region could further ease the debt burden.

2.4 Economic integration around the world

Over the past decade major changes in the world have taken place, which has turned the economies of the world into regional blocks, namely, East Asia, South Asia, Sub-Saharan Africa, Latin America, Caribbean and OECD, among others. The focus is on the southern African block based on the emergence of the European Monetary Union in 2000, which bears testimony to the success of economic integration to date. Other important trade block formations that are quite powerful today are the Free Trade Area in North America and the establishment of Mercosur, both which fulfil the optimum currency area criteria.

On the whole Latin America and Mercosur have shown some progress towards fully-fledged economic integration arrangements. In eastern and southern Asia, major transformations have already come to the fore and more is on the horizon. An attempt to intensify economic integration in some sense has primarily manifested itself within the context of the Association of Southeast Asian Nations (ASEAN). Also, the collapse of the Soviet Union has created much more potential to various political and economic integration initiatives in the east of Eurasia. At the same time, Africa has to adapt to the dynamic political and economic changes in order to cope with the pressures to promote economic development and economic growth. Throughout Africa vigorous efforts are being made to promote adjustment, development and economic regional integration.

The unfortunate failure of economic integration at the continental level has left only the option of integration at sub regional level, which has been much more successful in certain areas of the world. Some barriers to economic integration still exist in some sub regions.

Economic integration initiatives in Africa can be analysed and classified in the following sub regions namely:

- The West African Sub region
- The East Africa Sub region
- The North African Sub region
- The Central Africa Sub region
- The Southern African Sub region.

Economic integration at the regional level could in this light be interpreted as a leap towards a solution, at least on the front, for the African continent as whole. Economic integration in Africa is indispensable for the transformation and growth of 53 African economies and for Africa's integration with the global economy.

Economic development would be enhanced through economic integration based on efficiency in production, enlarged markets and better utilisation of economies of scale. Furthermore, mobility of factors of production across the whole continent and coordination and harmonisation of monetary and fiscal policies through a supranational organ would spill over into faster economic growth and enhanced welfare for the whole continent. Economic integration in Africa would move towards the integration of Africa as an integral part of the world economy and avoid further marginalisation.

2.4.1 Economic integration initiatives in Africa

Economic integration in Africa has been mainly orchestrated at regional and sub regional levels across the continent. This section looks at some developments with economic integration in all the five main sub regions of Africa.

2.4.1.1 The West African sub region

The West African sub region is geographically located in the Western side of Africa comprising fifteen member countries, of which eight are former French colonies, four former British colonies, one Portuguese and one Spanish.

There have been a lot of economic integration initiatives and attempts in the region in the form of the West African Customs Union (UDAO) in 1966, West African Customs and Economic Union (WEAO), West African Economic Community (CEAO) in 1973, Economic Community of West African States (ECOWAS) in 1975 and West African Monetary Union in 1985 (Ally, 1994:13).

ECOWAS bears testimony to the economic integration success of this region. Africa has regional economic communities, which could be used as building blocks for a continental economic integration. These are (Ally, 1994):

- The Arab Maghreb Union (AMU), with five members.
- The Common Market for Eastern and Southern Africa (COMESA), with 20 members.
- The Economic Community of Central African States (ECCAS), with 15 members.
- The Economic Community of West African States (ECOWAS), with 15 members.

- The Southern African Development Community (SADC), with 14 members.
- The Inter-Governmental Authority on Development (IGAD) with seven members in Eastern Africa.
- The Community of Sahel-Saharan States (CEN-SAD), with 18 members.
- The other seven are subsets of the above seven groupings.
- The West African Economic and Monetary Union (UEMOA) with eight members, also belonging to ECOWAS.
- The MUNO River Union (MRU), with three members, also belonging to ECOWAS.
- The Central African Economic and Monetary Community (CEMAC), with six members, also belong to ECCAS.
- The Economic Community of Great Lake Countries (CEPGL), with three countries, also belonging to ECCAS.
- The East African Community (EAC), with three members, two belonging to COMESA and one to SADC.
- The Indian Ocean Commission (IOC), with five members, four belonging to COMESA and one to SADC.
- The Southern African Custom Union (SACU), with five members, all of which belong to SADC and two to COMESA.
- The MMA, with four members. (Economic Commission for Africa, 2003:6).

Table 2.3 indicates that integration in the west of Africa (Economic Commission for Africa, 2003) started as early as 1959 with CEAO as a partial free trade area and evolved into a larger formation of economic community, ECOWAS (established 1975, bears some testimony to efficiency and success).

Table 2.3: Regional integration in West African communities

REI	MEMBERS	MEMBER-SHIP	ESTABLISH-MENT DATE	PURPOSE
1. La Communate Economique de L' Afrique L' Ouest	Burkina Faso, Ivory Coast, Mali, Niger, Senegal and Mauritania	6	1959	Partial free-trade area
2. West African Economic Community (UMVA) (WAEC)	Benin, Mali, Niger, Burkina Faso, Toyo, Senegal, Ivory Coast	7	1962	Common Central Bank Currency (CFA Franc)
3. West African Economic Community	Benin, Burkina Faso, Ivory Coast, Mali, Mauritania, Niger and Senegal	7	1974	Regional economic development
4. West African Development Bank (WADB)	Benin, Burkina Faso, Ivory Coast, Mali, Mauritania, Niger and Senegal	7	1962	Cooperation and sectoral integration
5. Economic Community of West African States (ECOWAS)	Benin, Burkina Faso, Cape Verde, Cote d' Ivoire, Gambia, Ghana, Guinea-Bissau, Liberia, Mali, Mauritania, Toyo, Niger, Nigeria, Senegal and Sierra Leone	15		Development of the Union and achievement of West Africa Integration

[Source: Economic Commission for Africa, 2003]

2.4.1.2 East African sub region

Economic integration in the east of Africa dates back as early as 1917 with the establishment of the East African Common Market (EACM), which is made up of Kenya, Tanganyika (now part of Tanzania) and Uganda.

This was followed by the signing of a treaty of East African cooperation in Kampala, Uganda on 06 June 1967, which led to the establishment of the East African Community (EAC), which collapsed in 1977 (Ally, 1994:16).

The East African Currency Board comprised of Kenya, Uganda, Tanganyika and Zanzibar was formed in 1919. The other important institution for economic integration was the East African Development Bank, which was established in 1967. The third organisation was founded by Uganda, Kenya and Tanzania in 1967 with the sole purpose of establishing an entity that would provide financial assistance to national projects and implement the efforts of national development finance institutions.

Because of the collapse of the EAC there is, to date, no active economic integration community service in the eastern region. Some eastern African countries have, however, subscribed to other regional economic communities like the PTA, ESAF, COMESA and SADC.

2.4.1.3 North Africa sub region

The North African sub region mainly comprises Algeria, Egypt, Libya, Mauritania, Morocco, Sudan and Tunisia. This region is by far the least active of all African sub regions in terms of economic cooperation and integration initiatives (Ally, 1994:20).

The most renowned economic arrangement in the region is the Maghreb Arab Union (MAU), consisting of Mauritania, Morocco, Algeria, Egypt, Tunisia, Libya, Sudan and Polisario, which was formed in 1989 (Matthews, 1998:22).

The purpose of this regional economic arrangement was economic cooperation and coordination of economic activities and the development of an Economic Community.

There is a slow pace of economic integration in this region and blame could be directed at the dual cultural identity of affiliating both to North Africa and the Arab world. Mauritania is also affiliated to the other regional economic arrangements in the west of Africa.

2.4.1.4 Central Africa sub region

There has also been slow progress in the central African region with economic integration issues. However, in 1959 an Equatorial Custom Union (UPE) was established with a hope of becoming a common market. This arrangement operated on the basis of free movement of goods and services, common external tariffs and harmonisation of fiscal policies (Ally, 1994:27).

Later, in 1964, the Economic and Customs Union (UDEAC) of Central African states was established, which had a broader scope in terms of objectives. This included a sub regional development policy.

The other important arrangement which was established in 1983 in this region was the Economic Community of Central Africa States (ECCAS), which included Burundi, Cameroon, Central African Republic, Chile, Congo, Gabon, Rwanda and Zaire. The main objectives of this community were fiscal harmonisation, trade liberalisation and economic development.

The region also had the establishment of the Bank of Central African States (BACAS) in 1973, which was founded by Cameroon, Chile, Central African Republic, Congo, and Equatorial Guinea. The region experienced some success because BACAS promoted and coordinated monetary policies and currency convertibility for the member states (Matthews, 1998:18).

Economic integration in the central region was enhanced by other institutions like the Economic Community of the Countries of the Grand Lakes, (CEPGL) and also the Central African States, (EEAC).

2.5 Economic integration in southern African regions

Economic cooperation and integration has occurred across national borders in southern Africa, with varying degrees of rigour, intensity and success, with some bilateral and multilateral entities in the southern African regions.

The frameworks of economic integration were essentially driven by the following integration communities:

- SADC
- PTA
- SACU
- MMA
- COMESA, and
- ESAF.

The southern African region, primarily encompassing Angola, Botswana, DRC, Lesotho, Malawi, Mozambique, Mauritius, Namibia, Swaziland, Seychelles, Tanzania, Zambia, Zimbabwe and some of the south eastern countries such as Kenya, Comoros, Burundi, Ethiopia, Rwanda, Uganda and Somalia, have subscribed to various economic integration initiatives.

2.5.1 The benefits of economic integration for southern Africa

The benefits to be derived from economic integration are insurmountable; these gains can yield greater economic development benefits through multilateralism rather than unilateral use of economic resources and policies. The southern African region will benefit regionally as a building block towards an African union. The benefits of economic integration in the region are enumerated on in the next section.

2.5.1.1 Trade development and diversification

Regional economic integration will enhance deeper intra regional trade and grow trade diversification in the southern region of Africa. Tariff and non-tariff barriers need to be eliminated in order to allow for a convergent tendency towards trade liberalisation in the region. This should result in efficiency gains from regionally enlarged markets.

2.5.1.2 Economies of scale

Economic integration will rationalise national economies and expand them. This will enhance investment flows and integrate production to achieve economies of scale. Economies of scale will be realised through large cost savings and rationalisation of projects through regionally coordinated investment in resources, and social and institutional infrastructure in the region.

Economic integration will also exchange public savings from rationalisation of investments in various sectors like energy, transport, water, agriculture, mining, health, labour, education, tourism, technology, telecommunication and industries.

Regional integration would also allow the member countries to benefit from positive externalities such as improvements in production methods which reduce costs, development of markets and market techniques which result into a larger production with diversity in the form of product diversity. This will also enhance specialisation in production of certain goods and services.

2.5.1.3 Benefits arising from externalities

Greater benefits would be realised with the existence of expanded markets and a stronger new currency being used by the member countries. Exchange rate shocks and balance of payment instabilities could easily be managed by the supranational structures of the regional formation.

2.5.1.4 Greater economic competitiveness

Financial integration enhances financial robustness which has spill over benefits to the regional economy in terms of its competitiveness in a number of areas like the currency, trade, exports, employment skills and market prices.

2.5.1.5 Inflow of foreign direct investment

Financial integration also improves growth prospects in the region and this will create greater opportunities for foreign direct investment needed for the development of the region. More foreign direct investment will flow to the region because of the integrated and developed financial system of the region. The financial system's robustness will eliminate the economic and financial risks to which southern African economies are prone.

2.5.1.6 Better policy coordination

Better policy coordination through regional synchronisation institutions would yield overall welfare gains and minimise welfare costs across the southern African regions. Much more gains could potentially be realised by the success of MMA (formerly MMS), SACU, COMESA and SADC.

2.5.2 The impediments to economic integration in southern Africa

The potential of achieving substantial benefit from economic integration in the southern region exists. It is heavily dependant on the reduction of various economic integration barriers, which hampers the success of effective integration. This section discusses these fundamental obstacles for regional economic integration in southern Africa.

2.5.2.1 Political instability

It is common knowledge that the African continent ranks high when it comes to political instability. The internal insecurity of many states has since been reinforced by the pandemic of military coups, countercoups, and threat of coups.

Economic development and economic integration are stalled by the high costs of political instability. However, the southern African region has sustained some peace and political stability when compared with other regions on the continent with the exception of Angola. Examples include the DRC, Zimbabwe and, relatively less so, Swaziland and Zambia.

Political stability is a crucial element for laying a foundation for economic integration in the region. The ability to plan and execute various projects of economic integration both at national and regional level requires strong elements of political stability.

2.5.2.2 Limited and undiversified production

The southern African region is confronted with a problem of limited and undiversified indigenous production, and this also affects welfare gains arising from trade creation. However, to the extent that increased imports from partner countries displace lower cost imports from the rest of the world, a country experiences welfare losses from trade diversion (Venables, 1999:4).

2.5.2.3 Acute shortage of foreign exchange in southern Africa

Throughout the region, there is an acute shortage of foreign exchange, which hinders trade and economic development in the southern African region. The region's monetary arrangements are not aligned and regional currencies cannot be converted to the other regional currencies and other international currencies, with the exception of South Africa.

2.5.2.4 Lack of trade finance and investment capital

This shortage of foreign exchange in the southern African region also prohibits trade finance and investment capital. This also constrains operating inflows of investment capital to the region and inhibits intra regional trade flows.

2.5.2.5 Labour market problems

The region is constrained by high unemployment levels with high labour migration to South Africa emanating from other member countries. The region’s labour force is unskilled and this requires regional coordination in respect of training and development in technical and technological areas in order for production capacity building by all the member states.

2.5.2.6 Overlapping functions of regional economic integration initiatives in southern Africa

Economic cooperation and integration in the southern African region experience duplication. Overlapping in terms of the objects, policies and principles of the various regional multilateral communities in the form of a PTA, such as COMESA, SADC, SACU and MMA, is rife. The need for an institutional framework at the continental level could resolve the problem at hand, without comprising the success of regional economic integration.

Overlapping also exists in membership with some member countries in the southern African region. This is due mainly to geographical vicinity, political diversity and differing economic interests.

Table 2.4: Integration aims and objectives of SADC and COMESA

SADC	COMESA
To achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of South Africa and support the socially disadvantaged through regional integration; to evolve common political values, systems and institutions; To promote and define peace and security; to promote self-sustaining development on the basis of collective self-reliance, and the inter-dependence of Member States; To achieve complementarities between national and regional strategies and programmes; To promote and maximise productive employment and utilisation of resources of the region; To achieve sustainable utilisation of natural resources and effective protection of the environment; To strengthen and consolidate the long standing historical, social and cultural affinities and links among the peoples of the region.	To promote joint development in all fields of economic activity and the joint adoption of macro economic policies and programmes to raise the standard of living of its peoples and to foster closer relations among its Member States; To co-operate in strengthening the relations between the common market and the rest of the world and the adoption of a common position in international arena; To co-operate in the promotion of peace, security and stability among the Member States in order to enhance economic development in the region; To co-operate in the creation of an enabling environment for foreign cross-border and domestic investment, including the joint promotion of research and adaptation of science and technology for development; to attain sustainable growth and development of Member States by promoting a more balanced and harmonious development of its production and marketing structures;

	and to contribute towards the establishment, progress and the realisation of the objectives of the African Economic Community.

[Source: Chanthunya & Musokotwane, 1992]

Table 2.4 above indicates that SADC and COMESA have extensive common ground in terms of the objectives of the two structures. Table 2.5 below illustrates close and common areas of cooperation, which exists among the two regional initiatives, namely SADC and COMESA.

Table 2.5: Areas of cooperation between SADC and COMESA

SADC	COMESA
Food, security, land and agriculture Infrastructure and service Industry, trade, investment and finance Human Resource Development, Science and Technology Natural Resources and Environment Social Welfare, Information and Culture Politics, Diplomacy, International Relations, Peace and Security Additional Areas to be decided by Council	Agriculture and rural development Transport and Communication Industry, Trade, and Monetary and Financial Human Resources Development, Science and Technology Natural resource and Environment Customs Energy Health Standardisation and Quality Assurance Tourism Information systems' Investment Promotion and Protection Peace and Security

	Free movement of Persons, Labour, Services, Right of Establishment and residence Other fields.

[Source: Chanthunya & Musokotwane, 1992]

Both PTA and COMESA have treaties, which contain explicit political and economic pursuits, which will accelerate regional cooperation and integration in the southern part of Africa.

There are similarities and differences in principles of the two communities, but there is greater common ground on principles, for example both COMESA and SADC advocate sovereign equality of members, solidarity, peace and security, human rights, democracy, the rule of law, and peaceful settlement of disputes.

Table 2.6: Common principles between SADC and COMESA

COMESA	SADC
Equality and inter-dependence of all member states Solidarity and collective self-reliance among member states Recognition, promotion and protection of human and peoples right in accordance with the provisions of the African Charter on Human and People's Rights Accountability, economic justice and popular participation in development peaceful settlement of disputes Non-aggression between Member	Sovereign equality of all member states solidarity, peace and security Human rights, democracy and the role of law Equality, balance and mutual benefits and peaceful settlement of disputes

States regional peace, stability and neighbourhood recognition of the rule of law Promotion and sustenance of democratic system Inter State cooperation Harmonisation of policies and integration of programmes among the member states	

[Source: Chanthunya & Musokotwane, 1992]

There has to be some level of harmonisation, rationalisation and coordination in order to resolve this overlapping problem in the region. The Joint Ministerial Committee of the PTA / COMESA and SADC Summit undertook a study on this matter, and made the following recommendations:

i. Option 1- Maintaining the Status Quo and making provisions for harmonisation, rationalisation and coordination.

ii. Option 2 - Merger of PTA and SADC

iii. Option 3 - Creating four regional groupings within the broader framework of PTA/ COMESA

iv. Option 4 - Splitting PTA / COMESA into PTA north including IOC PTA South

v. Option 5 - PTA/COMESA and SADC resolve issues towards rationalisation, and harmonisation of activities

vi. Option 6 - PTA/COMESA should provide Abuja Treaty as a building block of African Economic Community (Mudenda et al, 1994:1).

Table 2.7 illustrates the overlapping of memberships of economic integration in SADC.

Table 2.7: Economic integration membership in SADC

COUNTRY	PTA/COMESA	SACU	SADC	MMU	ESAF
Angola	YES		YES		
Botswana	YES	YES	YES	YES	
Comoros	YES		YES		
DRC	YES		YES		YES
Lesotho		YES	YES	YES	
Madagasca	YES		YES		
r	YES		YES		
Malawi			YES		
Mauritius	YES		YES		
Mozambiqu	YES	YES	YES	YES	
e			YES		
Namibia	YES	YES	YES	YES	
Seychelles	YES	YES	YES	YES	
South Africa	YES		YES		YES
Swaziland	YES		YES		
Tanzania	YES		YES		
Zambia	YES				
Zimbabwe	YES				

[Source: Hansohm et al., 2002]

2.6 Measuring economic integration in southern Africa

The African continent is characterised by having a multitude of cooperation and economic integration schemes, some of which had extremely disappointing results. Some collapsed and only a few became prominent such as ECOWAS, MRU, UDE, PTA, SADC, MMA, SADC and COMESA.

Economic integration in southern Africa can be measured on the basis of COMESA, SACU, MMA and SADC, which have shown evidence of success in their endeavours toward integration.

Measuring economic integration in the southern Africa region is a complex exercise. The study focuses on two basic methodologies of measuring economic integration, notwithstanding the fact that they have some limitations in design and in measurement. The first method to be deployed in measuring economic integration is the Optimum Currency Area theory, which was first developed by Mundell in 1961 (Dorrucci et al., 2002:12).

The second method is referred to as the African Integration Index Method which is constructed from the African Integration Indicators (Annual Report on Integration in Africa 2002:16).

It should be noted that there have been numerous attempts from around the globe and specifically within the EU to compile integration indexes to measure integration. The most well-known of these methods are, namely to measure integration by the degree to which trans-national firms are integrated by measuring an index of the flow of goods within firms internationally, and studies that measure the relationship between the level of integration by index method and the impact of higher levels of integration on employment, are just two examples of many conducted by employing integration indexing. However, depending on the objective of the measurement, the composition of these indexes varies rather widely.

The two methods under discussion are the main ones considered in evaluating African integration developments and hence receive the deserved attention.

2.6.1 The Optimum Currency Area (OCA) criteria

The Optimum Currency Area criterion measures economic integration by several yardstick measures, which are real, financial and monetary integration.

The OCA theory measures economic integration of the following variables:

- Convergence of inflation rates
- Exchange rate variability
- Trade openness and integration
- Convergence of interest rates
- Income convergence (Dorrucci et al., 2002:2).

In the southern African region the high level of synchronisation is only realised with the SADC, MMA, and SACU countries because of the common policies pursued in terms of trade, monetary and fiscal policies.

- **Convergence of inflation rates**

Economic integration is a very important variable for regional integration. Inflation convergence is also a key variable for the formation of European Monetary System as stipulated by the Maastricht Treaty. The inflation rate variable is a similarly important variable for SADC, COMESA, and other economic integration initiatives.

Table 2.8: Annual percentage change in consumer prices in SADC

Table 2.8: Annual percentage change in consumer prices in SADC							
COUNTRY	**1997-2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Angola	211.0	108.9	98.3	43.6	23.0	13.3	10.2
Botswana	2.9	6.3	0.6	0.3	2.0	5.3	1.5
Comoros							
DRC	3.8	3.1	1.5	3.6	2.5	4.0	3.5
Lesotho	7.2	12.5	5.0	5.0	3.4	6.1	6.0
Madagasca	7.3	16.2	-1.1	14.0	18.4	10.8	9.6
Malawi	28.1	14.9	9.6	11.6	12.3	9.0	7.0
Mauritius	6.1	4.4	5.1	3.9	5.6	5.1	10.4
Mozambique	6.7	16.8	13.5	12.6	6.4	13.2	5.9
Namibia	8.4	11.3	7.2	4.1	2.3	5.1	5.9
Seychelles	4.4	0.2	3.2	3.9	1.0	-0.5	11.0
South Africa	6.4	9.2	5.8	1.4	3.4	4.7	5.5
Swaziland	7.2	11.7	7.4	3.4	4.8	5.1	5.8
Tanzania	9.8	4.6	4.4	4.1	4.4	5.8	5.5
Zambia	24.7	22.2	21.4	18.0	18.3	9.1	8.0
Zimbabwe	47.4	133.2	365.0	350.0	237.8	1.016.7	2.879.5

[Source: IMF, 2007]

Table 2.8 indicates that there is a lot of non-convergence of inflation rates among the countries in the region. There are exceptions by members of MMA, which have a sound monetary policy correlation shared by South Africa.

- **Exchange rate variability**

Exchange rate stability lays a foundation for a common monetary area or sharing of a single currency. If the real exchange rate variability is low and currencies are stable or the other way round, the cost of abandoning exchange rate flexibility is lower or the chances of adopting a single currency for integration into a monetary union are slim.

- **Trade openness and integration**

OCA theory implies that the various member states in an economic integration arrangement benefit extensively from intra regional trade. Therefore, the ratio of intra regional trade to GDP is deployed as a fundamental indicator of trade openness in measuring economic integration in the southern African region.

Table 2.9 illustrates the extent of intra regional trade and trade with the rest of the world in the form of exports.

Table 2.9: Exports to other regional economic communities (RECs)

EXPORTS						
	Individual intra-REC exports as share of total Intra-REC exports		Share of intra-REC exports in total Africa exports		Individual Intra–REC exports as a share of its total exports	
	Per cent	Rank	Per cent	Rank	Per cent	Rank
CEMAC	1.1	10	0.1	10	1.9	11
CENSAD	12.8	3	1.3	4	3.6	8
CEPGL	0.1	12	0.0	13	0.5	12
COMESA	9.3	4	1.0	5	6.0	6
EAC	4.7	7	0.5	7	18.1	1
ECCAS	1.3	9	0.1	9	1.9	10
ECOWAS	19.9	2	2.1	3	10.2	5
IGAD	4.4	8	0.5	8	13.5	2
IOC	0.7	11	0.1	11	4.0	7
MRU	0.0	13	0.0	12	0.3	13
SACU						
SADC	31.3	1	3.3	2	12.8	3
UEMOA	5.9	6	0.6	6	11.2	4

UMA	8.6	5	8.6	1	3.1	9
Total	100		10.5			

[Source: Annual Report on integration in Africa, 2002]

According to Table 2.9, SADC countries have the greatest trade among themselves, with 31 percent of exports and 24 percent of imports emanating within the SADC region. Other countries which contributed towards trade in the region are Mauritius, Zimbabwe, Malawi and Mozambique. The SADC tops the other integration schemes despite the fact that it began implementing track protocol only in September 2000 (Annual Report on Integration in Africa 2002:10).

- **Financial market integration**

Financial market integration is another measure of weighing economic integration but it involves a number of variables like investment, capital and equity markets, centralisation of markets, instruments and also interest rate convergence. On this aspect (Kenen, 1976:20), Africa as a whole and also the southern African region is battling with creditability on this aspect. The success of interest rate convergence as a measure of financial integration is realised by the MMA, with South Africa leading MMA countries.

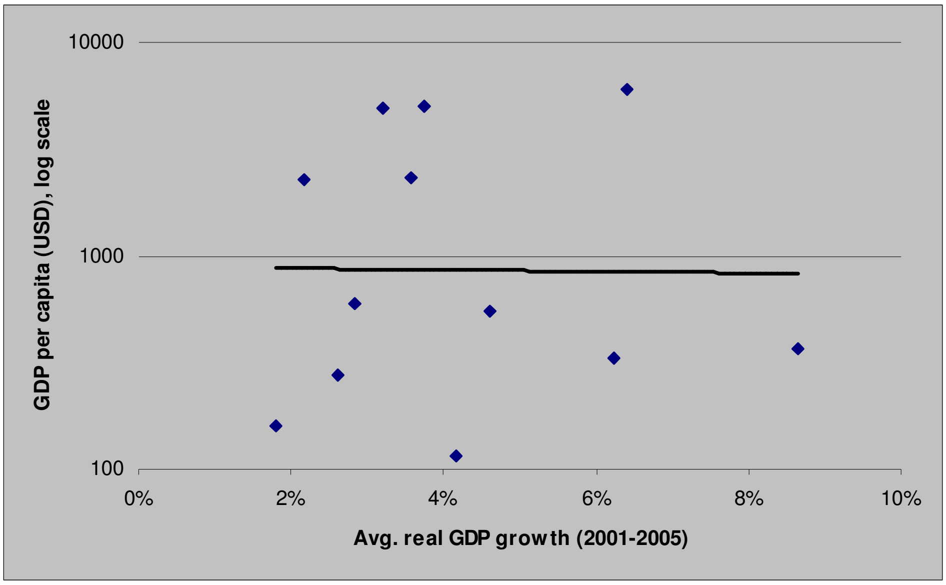
- **Income convergence**

Economic integration can also be measured by the convergence of income across countries in the southern region of Africa. The real GDP per capita could be the yardstick for income convergence.

There seems to be a steady growth trend in terms of income levels in the region. Figure 2.1 illustrates all the average GDP figures for SADC countries. Among the SADC countries GDP per capita shows a mixed picture. Botswana, Mauritius and South Africa have GDP per capita levels that are higher whereas on the other extreme, the majority of countries have lower levels of GDP growth per capita, namely Malawi, Namibia, DRC and Zimbabwe.

In general, the region shows no real signs of economic convergence in the region. Overall, the region remains unequal in terms of GDP per capita income growth with the majority of countries constantly below the region's average.

Figure 2.1: Real per capita GDP growth in SADC (excluding Angola and Zimbabwe), 2001-2005



[Source: Jefferis, 2007]

2.6.2 African integration index method

The method is constructed from the African Integration Indicators, with some limitations, which can be refined in the future. The indicators have been assembled for eight sectoral clusters of activity.

- Trade and market integration
- Monetary, fiscal and financial integration
- Transport
- Communication
- Industry
- Energy

- Food and agriculture
- Human development and labour markets

Each sectoral cluster comprises of a subset of variables, with the trend calculated as a weighted average of the components of the subset. For example, the trade indicator is a weighted average of intra regional exports and imports. The individual REC performances are measured against the best performance of each sectoral cluster. Scores are based on technical and statistical criteria with a benchmark of 10 for each individual index (Annual Report on Integration in Africa, 2002:16).

Table 2.10 illustrates the Composite Integration Index by REC. The various integration communities in Africa showed some progress in 1997, with the monumental weakening in some communities especially CEPGL, ECCAS, IUC and MRU. The southern regional economic communities have had a relatively mixed but dissatisfactory performance.

Table 2.10: Composite integration index by RECs

REC	1994	1995	1996	1997	1998	1999
CEMAC	100.0	127.5	133.8	134.1	132.5	122.0
CEPGL	100.0	91.0	89.9	95.1	91.0	87.3
COMESA	100.0	110.1	123.0	125.2	127.2	118.3
EAC	100.0	114.7	120.3	118.5	120.5	119.2
ECCAS	100.0	124.6	128.1	132.0	126.8	121.7
ECOWAS	100.0	117.3	132.2	131.0	137.7	134.2
IGAD	100.0	112.4	116.4	119.5	120.8	119.2
IOC	100.0	116.2	126.2	118.3	123.8	109.6
MRU	100.0	90.2	96.4	119.3	109.3	117.1
SADC	100.0	113.7	124.8	127.2	133.2	132.9

UEMOA	100.0	117.4	130.5	132.3	134.7	136.2
UMA	100.0	112.3	125.0	124.8	119.2	121.7
Average	100.0	113.1	121.4	124.1	123.0	120.1

[Source: IMF, 2007]

When consolidating the integration measurements in Africa and the southern African region there has been a slow pace, which could be blamed on a number of factors, political and economic in nature.

The southern African region has made tremendous inroads in terms of regional economic cooperation. There is a high degree of uncertainty surrounding the future of various multilateral economic arrangements, the pace of globalisation, the emergence of various trading blocks like the European Union, regional conflicts, and global political change, which are all major external challenges and opportunities for the southern region of Africa.

In dealing with all these opportunities and challenges, there has to be a consensus on a regional economic integration strategy of development for the region if it is to compete successfully with other trading blocks around the globe