

# South Africa and broader African economic integration

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Worldwide, illegal immigration and economic integration are pressing issues. Whether it concerns open borders or reducing trade barriers, economic integration meets fierce resistance and governments are battling to respond effectively.

South Africa is not alone among emerging economies in attracting economic migrants and grappling with their treatment. Chile takes in doctors and domestic workers from Peru. In Africa, Libya expels African migrants and a Moroccan newspaper has called African migrants invaders. South Africa's situation is not unique. On the contrary, as sub-Saharan Africa's economic leader, it is to be expected.

Poor and uneducated immigrants are always an unwelcome source of competition for locals. However, if they perform unskilled jobs better and at a lower wage they benefit the economy, helping businesses contain costs and lowering inflationary pressures. Illegal immigrants are also consumers, thereby supporting local enterprises and jobs.

In addition, many illegal immigrants display a sorely needed entrepreneurial spirit. Illegal immigrants own at least 8% of Gauteng's informal businesses. These businesses provide jobs, further contributing to the South African economy. Economic migrants are also unlikely to be drawn to South Africa's ungenerous welfare system. As with urbanisation, they are attracted by the possibility of jobs and a better life. However, this does not mean that there are no negatives. Some become involved in crime and their influx strains public services.

Important questions are how many economic migrants South Africa can take in and how can we welcome foreigners when struggling to provide for our own? The US, for example, has accepted immigrants since its founding, with each wave contributing to its prosperity. Most of the illegal immigrants who come to South Africa are unskilled, but the country has attracted professionals from Africa too and in 2007 the ministry of education decided to hire foreign teachers. Those against immigration should also remember that South Africa, especially the gold mining industry, has been employing workers from neighbouring countries for decades.

## **African economic integration and what the world can teach us**

While South Africa sees itself at the receiving end of illegal immigration from Africa, many African countries feel they are being invaded by South African products and companies. The European Union (EU), which the African Union (AU) seeks to emulate, has successfully expanded on the back of two ideals: the free movement of goods and the free movement of people. Can Africa do the same and what is South Africa's role?

Closer regional integration is a hallmark of an increasingly globalised world. Alongside the EU stand the North American Free Trade Agreement (NAFTA); the Association of Southeast Asian Nations (ASEAN) and South America's Mercosur. In Africa, six regional economic communities (RECs) are the basis for continent-wide integration: the Common Market for Eastern and Southern Africa (COMESA); the Southern African Development Community (SADC); the Economic Community of West African States (ECOWAS); the Economic Community of Central African States (ECCAS); North Africa's Arab Maghreb Union (AMU); and the Intergovernmental Authority on Development (IGAD) in northeast Africa.

These six RECs are the main drivers of African economic integration and consist of various sub-groups, namely: the Southern African Customs Union (SACU); the Economic and Monetary Union of Central African States (CEMAC); and the West African Economic and Monetary Union (UEMOA). These three sub-groups are the most integrated, encompassing free trade areas, customs unions and common or de-facto single currencies. Among RECs though, none have achieved this level of integration, with COMESA and SADC being the only two to have established free trade areas.

Slow progress does not mean that Africa is wrong to pursue economic integration. The EU began with a customs union and only later achieved a single market and economic and monetary union - which are still not fully implemented. An important step was taken on 22 October 2008 when SADC, COMESA and the East African Community agreed to form a free trade area within six months. The new entity will be known as the “African Economic Community” and will also allow for the creation of a customs union. Integration has benefited Europe by permitting the free flow of goods, people, services and capital. This breaking down of barriers has increased trade and investment between members and created the world’s largest economy in nominal terms and a huge market of 497 million people. As a result it is now easier and less costly to do business. Africa can possibly benefit in the same way.

However, the EU has not been an unqualified success. The Eurozone has until recently shown slower growth than the US, certain countries exhibit protectionist and uncompetitive behaviour and questions have been raised about the success of monetary union. The European Central Bank (ECB) has had a tough time setting monetary policy for 15 nations often at different stages of the economic cycle. For instance, while Ireland and Spain were booming and in danger of overheating, larger economies like Italy and France were sluggish. As a result, the ECB could not loosen monetary policy to help the latter two because then it would increase inflationary pressures in Ireland and Spain.

As Africa ponders further economic integration, it will also have to decide what form it will take and how far to proceed. At present, as most African countries are primary exporters rarely making competing products, a free trade area would be preferable. However, one problem with a free trade area when compared to a customs union, is that even though it eliminates trade barriers between members, it does not require members to pursue the same policies with respect to non-members. This can be a disadvantage if Africa wishes to follow Europe and project a strong voice in trade negotiations. The AU should also look at the experience of other emerging market groupings such as ASEAN and Mercosur, which are at a similar stage of development. There are many models to follow and the AU can learn from others’ mistakes.

### **South Africa’s role**

As the continent’s largest economy, South Africa definitely has a role to play in African economic integration. The country produces 24.57% of African GDP, as well as 63.47% and 86.43% of SADC’s and SACU’s output, making it inconceivable that meaningful integration can occur without it. SACU is also a de-facto single currency area, with the South African Reserve Bank’s actions affecting the whole region.

However, despite South Africa’s dominance, it does not trade much with Africa. No African country is among South Africa’s top five trading partners. In 2007, just 0.6% of total imports came from SACU and only 6.8% came from SADC countries. South African exports to non-SACU members of SADC were a slightly better 9% of total exports. This is low when compared to the EU and NAFTA.

Why is South Africa not trading more with Africa? Firstly, most African economies are small relative to South Africa’s in terms of market size and are a lot poorer. Secondly, African countries are mainly exporters of natural resources, whereas most of South Africa’s imports comprise machinery and high-tech products. This is not to say that trade will not increase in the future or that barriers must not be reduced further, but African countries must industrialise first to have something to offer each other. This is one reason why even though the deepening of economic links between African countries is desirable, broader economic integration will not be achieved for many years.

Another important reason for the lack of trade could be the failure of South African manufacturers to pursue opportunities in Africa. They should have a natural advantage as their home market is similar and many of the products they make are more suited to an African environment. A good example is the world-class mining equipment that is manufactured locally.

This failure is mainly due to the political and economic risks associated with doing business in Africa, with complacency and lack of interest additional factors. However, at a time when Africa has been growing at its fastest rate in decades, there is surely room for a homegrown producer. Furthermore, with fuel and transportation costs rising until quite recently, some locally made products should have become more competitive.

South Africa can increase trade with Africa by pushing for more integration with SADC, joining COMESA, and pursuing free trade agreements with more African countries. With trade would come increased investment opportunities for South African companies, which have been quick to expand in Africa, but mainly within the retailing, telecommunications, financial services and mining sectors. What about manufacturing? Africa has the potential to become a low cost producer of labour intensive products.

South Africa does not have to lose from the last scenario. Local companies can use Africa as an export base to the rest of the world, earning profits that can be repatriated in the process. More advanced machinery can continue to be made in South Africa and exported to the rest of Africa to be used in new factories. This would also slow illegal immigration to South Africa.

In addition, South Africa, with its world-class financial system, can play a key role as a source of capital. Its capital markets are by far the largest, most advanced and most liquid in Africa. The JSE Ltd is the world's 19<sup>th</sup> largest stock market, with a market capitalisation of about USD940 billion at the end of October 2007.

At present, Bicc Cafca Ltd, Hwange Colliery Company Ltd, and Oando plc, are the only three African companies listed on the JSE Ltd. The government can promote Johannesburg as "Africa's financial centre", helping to finance the continent's development. It can assist the JSE Ltd in encouraging more African companies and governments to raise funds locally. Johannesburg can be to Africa what London and New York are to the world.

## **Issues and future progress**

Why has the JSE Ltd struggled to attract African companies? The exchange has proposed a continental board and promoted dual listings. However, the proposals have been received unfavourably. The exchange's problems are similar to those facing African economic integration and can be summed up as follows: fear of South African dominance, economic nationalism, competition at a national level and lack of interest. These problems are real and in some cases have deep roots.

African countries have always been concerned about competing with a country that is so large relative to them. They worry about competition from South African products and their ability to attract investment. For example, many multinationals set up operations locally first and only expand further into Africa once established.

African countries, especially the bigger ones, such as Nigeria and Kenya, also dislike South Africa throwing its weight around. Nigeria, as Africa's most populous country and sub-Saharan Africa's second largest economy, sees itself in many ways as South Africa's equal. When it comes to a "Pan-African Stock Exchange", Nigeria is promoting itself as Africa's economic leader.

Regional economic integration was also happening before the AU was established. The CFA Franc has been used by UEMOA members since 1945 and is issued by the Central Bank of West African States. Many countries have made a lot of progress on integration within their own regions and are interested in further integration in this context only.

South Africa is also not blameless and can be accused of sending mixed signals. It does not think that work should begin immediately to achieve a SADC customs union by 2010 and has threatened to pull out of SACU if other members implement economic partnership agreements with the EU. The xenophobia against illegal immigrants has also tarnished the country's image. South Africa cannot claim to be leading Pan-African integration when the country is not seen as playing a positive role and SADC is making slow progress.

In addition, the way that some South Africans feel about illegal immigration is the same way that some African countries feel towards South Africa. For broader economic integration to succeed, African governments, including South Africa's, must address public concerns. They should explain that short-term pain will be outweighed by long-term benefits. The South African government can learn from the JSE Ltd, which, despite the cool reception the exchange's proposals have received, will be establishing an Africa board to showcase the continent's biggest companies by February 2009.

These issues place South Africa in an interesting yet difficult position. African economic integration cannot happen without South Africa. Regionally it can, but not on the continent as a whole. People may question the viability of African economic integration, but the EU was also just a dream once. Africa does not want to be left behind in a world dominated by regional trading blocks. Economic and monetary union may be out of the question right now, but the continent has to begin somewhere and trade would be a good first step.

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