

**THE IMPACT OF THE ECONOMIC PARTNERSHIP AGREEMENT
FOR REGIONAL INTEGRATION IN THE SOUTHERN AFRICAN
CUSTOM UNION MEMBER STATES**

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Dissertation submitted in fulfillment of the requirements for the degree of Masters of
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DECLARATION

I Leonard Nkotsoe, hereby declare that this research report is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not been previously in its entirety or in part submitted at any university in order to obtain academic qualification.

A handwritten signature in black ink, consisting of a stylized 'L' and 'M' followed by a cursive 'N' and 'K'.

LM Nkotsoe

Date: 07/09/2012

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Dedication

This thesis is dedicated to my late father, who taught me to never give up in life, to my late mother, who taught me to pray unceasingly, to my sisters who taught that tenacity brings success.

Abbreviations

ACP	Africa Caribbean Pacific
ANC	African National Congress
BLNS	Botswana, Lesotho, Namibia, Swaziland
BRIC	Brazil, Russia, India and China
CAP	Common Agricultural Policy
CET	Common External Tariff
CEMAC	Central Africa Economic and Monetary Community
CIE	Centre for International Economics
CGE	Computable General equilibrium
CMA	Common Monetary Area
COMESA	Common Market for Eastern and Southern Africa
CRP	Common Revenue Pool
CPA	Contonuo Partnership Agreements
CU	Custom Union
DIRCO	Department of International Relations and Co-operation
DFQF	Duty Free Quarter Free
EAS	East African Community
EBA	Everything But Arms
EC	European Commission
ECSC	European Coal and Steal Community
EEC	European Economic Community
EFTA	European Free Trade Association
EPA	Economic Partnership Agreements
ESA	East and Southern Africa
EU	European Union
FTA	Free Trade Area
FDI	Foreign Direct Investment
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GNU	Government of National Unity
GSP	General System of Preference
HTC's	High Commission Territories

IEPA	Interim Economic Partnership Agreements
IMF	International Monetary Fund
LAFTA	Latin America Free Trade Area
LDC	Less Developing Countries
LCD	Lesotho Congress for Democracy
MFN	Most Favoured Nations
NAFTA	North American Free Trade Area
NEPAD	New Partnership for Africa's Development
NP	National Party
NTB's	Non-Tariff Barriers
PTA	Preferential Trade Agreements
REC	Regional Economic Community
RoO	Rules of Origin
RSF	Revenue Sharing Formula
SACU	Southern African Customs Union
SADCC	Southern African Development Coordination Conference
SADC	Southern African Development Community
SSA	Swaziland Sugar Association
SDR	Special Drawing Right
TDCA	Trade, Development and Cooperation Agreement
UNECA	United Nations Economic Commission for Africa
VAT	Value Added Tax
WTO	World Trade Organisation

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Abstract

The Cotonou Agreement introduces new fundamental principles with respect to trade between the European Union and African, Caribbean and Pacific (ACP) countries relative to the Lomé Convention: in particular non-reciprocal preferential market access for ACP economies will only last until 1 January 2008. After that date, it will be replaced by a string of Economic Partnership Agreements (EPA) meant to progressively liberalise trade in a reciprocal way. The progressive removal of barriers to trade is expected to result in the establishment of Free Trade Agreements between the EU and ACP regional groups in accordance with the relevant WTO rules and help further existing regional integration efforts among the ACP.

Most discussions of economic development in Africa focus on regional integration as an important element. From the first post-colonial meetings, African leaders emphasised regional integration as a key element of their strategies. In the most recent African plan for economic development, the New Partnership for Africa's Development (NEPAD), regional and sub regional approaches to development are again a key element. The plan sees the small size of countries, low incomes, and consequently limited markets as a limit to economies of scale, thus denying attractive returns to investors and in so doing constraining the diversification of production and exports. This is the key reason for pooling resources in order to enhance regional economic integration.

The decision by Botswana, Lesotho and Swaziland to sign the interim EPA came in the result of SACU's failure to negotiate as a bloc with a view to sign the EPA.

In this research, the following statistical techniques were applied: t-test, f-test, regression analysis and its forecasts model for seven Southern African Development Community-Economic Partnership Agreement (SADC EPA) group trading with the European Union, is used to simulate the opportunities and benefits of EPAs for countries of the SADC region.

Simulation results show that EPAs with the EU are welfare-enhancing for SADC overall, leading also to substantive increases in real GDP. For most countries further gains may arise from intra-SADC liberalization.

Key words: EU-SADC-EPA, SACU member states, regional economic integration and Minitab (t and f test).

CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1 Introduction

“The major point I would like to make with regard to Africa’s challenge to claim the 21st Century is that the Continent has to take the necessary steps to ensure that it occupies its rightful place within the global community of nations, bearing in mind the ineluctable process of globalisation. This means that Africa must, practically, regain its right to determine its destiny and use this right to achieve the objective of the all-round upliftment of the African masses”.

Thabo Mbeki, 2010¹

For many years, regional integration has been considered an important and successful tool of economic growth and development. Regional integration in the Southern Africa region is needed, hoping that it will help in enhancing economic development and growth in the region.

The fate of African countries has become one of the modern civilisation’s major sources of concern. The extreme and persistent poverty, hunger, disease, and ignorance which have come to characterize life in much of Africa today have, no doubt, overwhelmed the continent, and, very unfortunately, there are clearly no easy answers to the seemingly self –perpetuating socio economic problems the continent is facing (Kyambalesa and Houngnikpo, 2006:31).

Most discussions of economic development in Africa focus on regional integration as an important element. From the first post-colonial meetings, African leaders emphasised regional integration as a key element of their strategies. In the most recent African plan for economic development, the New Partnership for Africa’s Development

¹ Africa Day Lecture at Tshwane, RSA 27 May 2010

(NEPAD), regional and sub regional approaches to development are again a key element. The plan sees the small size of countries, low incomes, and consequently limited markets as a limit to economies of scale, thus denying attractive returns to investors and in so doing constraining the diversification of production and exports. This is the key reason for pooling resources in order to enhance regional economic integration (Hansohm, et al., 2004:1).

The first regional cooperation treaty in Southern Africa was signed already during the Colonial period in 1889. This first customs union eventually developed through various phases to what is currently called the Southern African Customs Union (SACU), which consists of the BLNS countries (Botswana, Lesotho, Namibia and Swaziland) and South Africa (Sidaway and Gibb, 1998:172).

The concept of a regional economic co-operation in Southern Africa was first discussed at a meeting of the Frontline States foreign ministers in May 1979 in Gaborone. A larger regional cooperation scheme was launched in 1980, when Zimbabwe, Mozambique, Angola, Swaziland, Lesotho, Botswana, Malawi, Zambia and Tanzania founded the Southern African Development Co-ordination Conference (SADCC). After adopting the declaration, which was to become known as ‘Southern Africa: Towards Economic Liberation (Institute of Security Studies, 2003).

The main objective of this new organisation was to reduce its member’s economic dependence on the Republic of South Africa, but also to start a process of regional political and economic integration between these so-called front-line states². The end of the apartheid regime in South Africa, at the beginning of the 1990s, changed the regional context in which SADCC operated, and in 1992 the organisation was transformed into the Southern African Development Community (SADC). At the same time, the objective of creating genuine and equitable regional integration in Southern Africa gained more importance on SADC’s agenda (Hannun, 2010).

² That meeting was subsequently convened in Arusha, Tanzania, in July 1979. The Arusha meeting led to the birth to the Southern African Development Co-ordination Conference a year later

In discussing regionalism in Southern Africa, it is important not to underscore the fact that the region is characterised by acute imbalance and inequities. Not only are the size and level of development of the economies of the various countries very different, but also the historical pattern of interaction in the regional economy has been uneven. Fundamentally, the main centre of accumulation has long been located in South Africa, while the economies of the other countries were integrated in subaltern position as providers of migrant labour, services and as 'captive markets' for South African exports. The imbalances were exacerbated in the 1970s and 1980s with the violence and destabilisation that typified the late apartheid period (Nyirabu, 2004:23).

Regional integration can be a key force for sustainable development. It can promote economic growth, reduce poverty, foster social development or protect the environment. But, it can also have negative economic and social impacts, notably when the domestic regulatory framework is inadequate or not implemented effectively (Draper, and Alves, 2006:7).

A close examination of the various regional structures and agreements in Southern Africa highlights the potential problems of overlapping membership, particularly among those with commitments to forming a customs union with common external tariffs and those negotiating economic partnership agreements with the European Union. Within southern Africa there are a number of regional integration agreements and bilateral agreements taking place within the context of the worldwide multi-lateral trading system. These include (among others): SACU, SADC, Common Market for Eastern and Southern Africa (COMESA) and Eastern Africa Community (EAC). While the existence of numerous agreements within the region in itself is not a problem, although it does mitigate the benefits to be obtained from integration overlapping membership between the groupings has the potential to cause conflict and certainly imposes greater transaction costs on the business communities and governments (Hess and Hess, 2004).

The European Union (EU) is an economic and political union of 27 member states which are located primarily in Europe. The EU traces its origins from the European

Coal and Steel Community (ECSC) and the European Economic Community (EEC) formed by six countries in the 1950s. In the intervening years the EU has grown, in size, by the accession of new member states and, in power, by the addition of policy areas to its remit (Michael, 2000).

As established under the Cotonou Agreement, EPA negotiations began in 2002 and are to be negotiated during a five-year preparatory period, concluding on the 31 December 2007. In the negotiations, ACP countries are split into six regional groups: West Africa; Eastern and Southern Africa (ESA); Southern African Development Community (SADC); Central Africa; the Caribbean (CARIFORUM); and the Pacific. Each of these groups is negotiating a separate EPA with the EU (Patel, 2007:6).

At the outset of the EPA's negotiations with the European Commission (EC) in 2002, SADC was divided. Four groupings emerged in the negotiations process:

- The SADC EPA Group comprising of (BLNS) as well as Mozambique, Angola and Tanzania
- EAC comprising Kenya, Uganda
- Central Africa Economic and Monetary Community (CEMAC) that includes the Democratic Republic of Congo
- The East and Southern African Group (ESA) comprising of all other SADC members

As the negotiations proceeded, Tanzania was compelled to leave the SADC EPA Group and negotiate as part of the EAC. The emerging EPA outcome now creates a series of the new policy division in SADC, among the SADC EPA Countries as well as in SACU. South Africa joined the SADC EPA Group February 2006 in an attempt to resist further fragmentation in SADC (The Business Diary, 2011).

In April 2007 South Africa joined the other SACU members as a full negotiating member of the SADC EPA Group which consists of the SACU member states, Angola and Mozambique.

At the end of 2007, the governments of five countries that were party to the SADC interim Economic Partnership Agreement (IEPA) negotiations (Botswana, Lesotho, Namibia, Mozambique and Swaziland) initialed an interim EPA with the EU, with the government of one of these countries (Namibia) expressing formal reservations about specific aspects of the text put forward for initialing, and requesting further consultations on these issues to resolve 'contentious issues'. The government of Tanzania declined to initial the SADC-EU IEPA and instead joined the EAC- IEPA configuration. The governments of Angola and South Africa declined to initial the SADC-EU IEPA (Agritrade, 2010).

Regional integration has been considered an important and successful instrument of political cooperation, economic growth, socio-economic development and general stability.

In the Southern African region, with its comparatively small economies, it was hoped that regional integration would play a crucial role in pursuing common strategic interests for the successful socio-economic and political development of the countries involved. However, the latest developments surrounding the EPAs of some SADC member states with the EU, and the current debate about the future of the SACU, already seem to be having a negative impact on achievements as regards creating common ground among SADC member states towards the EU and to the benefit of the SADC region as a whole (Bosl, 2009).

Botswana, Lesotho, and Swaziland signed the agreement on the 4th of July 2009, shortly followed by the Republic of Mozambique on the 15th of June 2009.

Botswana stated it needs the interim EPA to maintain the preferential duty free access to the EU market for its exports. The Minister of Trade and Industry, Neo Moroka stated that they have agreed with the Europeans to sign and notify it to the WTO to have Duty Free, Quota Free access and confirmation from the World Trade

Organisation (WTO) that trade under the EPA is actually WTO complaint. The decision to get into an interim EPA was simply to ensure that there would be uninterrupted flows from the ACP countries into the European market. A similar rationale applies to Swaziland and Lesotho but the choice to move ahead with the EPA has greater implications (Walker, 2009).

This is particularly because of the rules of origin for clothing, textiles, and sugar that are more favourable in the interim EPA than what they have as alternative trade arrangements. Of great concern is that 70 percent of Swaziland's and 60 percent of Lesotho's state revenue is earned through the SACU revenue-sharing arrangement which signing the interim EPA threatens to destroy. Economists in the region estimate that Lesotho could lose up to 25 percent of its gross domestic product overnight, and Swaziland could see a 20 percent decline. This contraction would have a devastating effect on growth, employment, and poverty. Namibia initialed the interim EPA to maintain its preferential access to the EU, but is not yet ready to sign it. Angola and Namibia are showing solidarity with South Africa in outstanding issues of economic and political significance such as the Most Favoured Nation (MFN) clause and the definition of the parties to the agreement (Walker, 2009).

A meeting of the SACU Task Team on regional integration was held from 2 to 3 June 2008 in Johannesburg, South Africa. The purpose of the meeting was to discuss the draft studies on regional integration as well as to consider a background paper on the implications of the EPA negotiations on SACU.

The Task Team considered a report of the Impact Assessment Study on SACU Member States due to SADC Free Trade Area (FTA) and Customs Union (CU). The Report employed a Computable General Equilibrium (CGE) model in order to assess the impact of the SADC FTA and CU on SACU Member States. On the basis of the model output, the report concluded that most of the benefits of integration for SACU Member States will be achieved through the FTA and that a CU would only marginally benefit SACU Member States. The Task Team considered a background paper prepared by the Secretariat on the impact of the EPA negotiations on SACU. The paper highlighted that

the Interim EPA undermines the objective of the SACU Agreement as a tool for promoting regional integration in SACU (SACU, 2008).

SACU has been experiencing growing internal dissent. Two factors are largely responsible for this acrimonious situation. The first is the increasing concerns about the revenue sharing arrangement, the SACU revenue pool, in terms of which South Africa makes significant transfers to the smaller member states. The second reason for growing dissent in SACU stems from the negotiations with the EU to conclude an EPA (Bosl, et al., 2007).

South Africa resistance to the signing of the EPA with Europe has been described by critics as part of an attempt to ensure that the continent's largest economy enjoys market monopoly throughout the 14 member SADC. Such speculation has been backed by the fact that in 1999, South Africa signed a Trade, Development and Cooperation Agreement (TDCA) with the EU while other SACU member states were trading under the now expired Cotonou Agreement.

1.2 Problem Statement

Out of the eight countries forming the SADC EPA negotiation group, only four of them have already signed an IEPA with the EU. Botswana, Lesotho, and Swaziland signed the agreement on the 4th of July 2009, shortly followed by the Republic of Mozambique on the 15th of June 2009. Namibia initialled the agreement in December 2007 with reservations to re-open negotiations on the various anomalies and imbalances contained in the IEPA. South Africa and Angola have not yet initialled or signed the said IEPA, with South Africa still exporting to the EU under a TDCA.

Several developments over recent months/years have brought a number of contentious issues to the fore. Key among these is the ongoing EPA negotiations, which have caused a rift between Botswana, Lesotho and Swaziland, on the one hand, and South Africa and Namibia, on the other. In addition, the 2008–2009 global financial crisis has

highlighted the precarious position of the BLNS countries and their reliance on the revenue pool for the bulk of their fiscal income. It has been reported that the pool has shrunk by as much as 40% as a result of the crisis. In addition, the inauguration of President Zuma administration in South Africa has consolidated thinking on the preferred content and structure of regional integration in Southern Africa (Hichert, et al., 2010).

The future of the SACU has been threatened after Botswana; Lesotho and Swaziland members signed the interim EPAs with the EU.

Botswana, Lesotho and Swaziland conduct goes against the SACU Agreement of 2002, Section 31 under which members are prohibited from entering into new trade agreements without the consent of other members of the trade bloc. This, in essence, means that the countries have to either associate with SACU or break away from SACU to join other trade bodies (Ndjebela, 2009).

The signing of the interim EPA by three out of the five SACU members threatens the functioning and, possibly, the very existence of the SACU. The Customs Union has a Common External Tariff (CET) and therefore does not allow any single SACU member to negotiate a trade agreement bilaterally with third parties. The SACU-EPA 'three' were consequently faced with a stark choice: work to reach a consensus within the Union to respect its internal rules and sign the interim EPA as a bloc, or prioritise trade with the EU and sign immediately as individual countries (Walker, 2009).

The purpose of this research is to investigate challenges and opportunities of the EPA, as part of the economic regional integration and what impact does the EPA pose to the existing SACU member's states. Angola, have taken sides with South Africa in protesting against the signing of the EPA.

If the customs union (SACU) was abandoned, what would replace it? Since all SACU members are also members of SADC, the SADC Free Trade Area would govern trade

among the parties if SACU were to collapse. The SADC FTA came into force on January 2008 with an estimated 85 percent of all trade in goods having been liberalised, and the remaining tariff lines expected to be phased out by 2012 (Draper and Khumalo, 2009).

The relevance of regional integration is a very relentless issue in Southern Africa, specifically in view of political and economic backwardness. The region is still confronted with rooted levels of poverty, minimal share of world trade, and low pace of development in human capital and infrastructure and faced with excess of challenges from external pressures.

Ensuring that regional economic integration succeeds in Southern Africa is vital, not only because of the prospective challenges stated, but also because the policies that are required to ensure its fruitfulness are the same as those needed if Africa is to benefit from the process of globalization and integration into the world economy .

Regional integration in Africa is needed, hoping that it will help in enhancing economic development and growth on the continent. The decision by Botswana, Lesotho and Swaziland to sign the interim EPA came as the result of SACU's failure to negotiate as a bloc with a view to sign the EPA. SACU's reluctance to engage the EU on the EPA prospects has been spearheaded by South Africa, who has been advocating for members not to sign the trade agreement with Europe. The EU is an important economic partner, and the EPA provide an opportunity for the region to reduce its trading administration with EU, this opportunity should not be undermined, as it coincides with the deeper economic integration of SADC (BUSA, 2009).

Because of South Africa's dominance, the integration process will not be automatically beneficial for all members of the SADC. This naturally creates some reluctance in some members of the Community to deepen the process, since the most obvious requisite for a successful integration process, is that it has to benefit all members. Without any kind of corrective mechanisms, the implementation of economic integration can lead to a

situation where most of the benefits of integration are concentrated in South Africa and some of the less-developed members can even find themselves to be worse-off as a result of the integration process. Therefore, the need for the equitable distribution of benefits of economic integration is stressed in various academic studies (Hannun, 2010).

The importance of the study lies in the uncovering the challenges of the EU-EPA's on SACU in respect to regional economic integration, the importance also lies in what is required to solve these challenges, whether the EPA does bear opportunities to SACU, and how achieving the objectives of the EPA's would possibly impact on SACU member states.

1.3 Purpose of the study

The study attempts to assess the challenges of the conclusion of the EPA, as part of regional integration in Southern Africa, particularly on the member states of SACU. The study further reflects on the opportunities of the impending EPA on SACU member states and possible impacts of the EPA on SACU member states.

1.4 Aims and objective

1.4.1 Aims

The aim of the study is to address the challenges, opportunities and possible impacts of the EPA's on regional economic integration on SACU member states, being Botswana, Lesotho, Swaziland, Namibia and South Africa.

The study further attempts to investigate the importance of the EPA's, as to whether they are likely to benefit or constrain regional economic integration within SACU member states whether EPA's pose a threat to the long existing customs unions which the five member states have been enjoying.

1.4.2 Objectives

The objective of the study is a twofold stratagem:

The study attempts to assess the possible impact, challenges and opportunities of the EPA's on the SACU member states challenges being addressed by the study are that there are delays in the signing by the EPA's, therefore it is imperative that an assessment be made on the limitation and prospect that are either lost or could be gained if the EPA's negotiations can be attained.

The study must also assess the following:

- Ascertain constraints towards meeting set target;
- Challenges posed by the EPA on SACU;
- Monitoring of trade benefits;
- Analyse regional economic integration; and
- Ultimately the study must come up with conclusions and recommendations on what needs to be done in order to attain the broad objective.

1.5 Hypothesis

The following are the hypotheses of the study:

1.5.1 There is a need for a stronger regional economic integration within Southern Africa; with SACU continues playing a pivotal economic role for revenue generation for its member states.

1.5.2 The EPA's present opportunities to further regional economic integration in Southern Africa, however these opportunities also present the deterrent that could hamper or discredit the performance of SACU in the region.

1.5.3 The proposed benefits of the EPA's in comparison to the role played by SACU in the region pose a negative threat to the existence of SACU member states and require to be monitored.

1.6 Method of Investigation

Regional integration is a process of deepening cooperation over areas that parties agree on as common interests shared by each one. In essence this involves a process of economic liberalisation among countries. This process is heavily dependent upon the political will and commitment of the governments concerned, and a sustained desire to cooperate over the long term (Van Langenhove and Costea, 2007).

Economic integration is a term to which development theorists have attached a variety of meanings, but more would agree that it embraces several forms of international economic cooperation, including at least free trade areas, customs unions, common markets, and economic unions. This arrangement represents successfully higher degrees of integration, whose ultimate objective is to attain free trade (Buthelezi, 2006:1).

Regional economic integration is generally accepted as an important step towards a wider global involvement. This is particularly true in Southern Africa; there are many countries with rather small economies. This has been realized very early: SACU, SADC can be considered as vehicles for integration both economically and probably also politically.

The literature attempts to address the challenges of economic integration in southern Africa, which is in line with the SADC Treaty which states that SADC is an international organisation, which tries to achieve the following objectives (Amended SADC Treaty, Article 5:1):

- Promote sustainable and equitable economic growth and socioeconomic development that will ensure poverty alleviation with the ultimate objective of its eradication, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged through regional integration.
- Promote common political values, systems and other shared values which are transmitted through institutions which are democratic, legitimate and effective;
- Consolidate, defend and maintain democracy, peace, security and stability;
- Promote self-sustaining development on the basis of collective self-reliance, and the interdependence of Member States;
- Achieve complementarity between national and regional strategies and programmes;
- Promote and maximise productive employment and utilisation of resources of the Region;
- Achieve sustainable utilisation of natural resources and effective protection of the environment;
- Strengthen and consolidate the long standing historical, social and cultural affinities and links among the people of the Region;
- Combat HIV/AIDS or other deadly and communicable diseases and
- Ensure that poverty eradication is addressed in all SADC activities and programmes; and mainstream gender in the process of community building.

1.7 Limitations

The study mainly focuses on SACU member states in relation to regional economic integration and the on-going EPA negotiations and further monitoring the developments of these negotiations to determine if they pose any danger to SACU. Consideration for all SADC EPA regional integration will therefore be limited.

1.8 Research Methodology

1.8.1 Data collection

A combination of two methods namely, literature review and secondary data obtained from SACU Merchandise Trade Statistics and World Bank was used.

1.8.2 Literature review method

An extensive literature and documentation study was conducted. These studies will include relevant conference papers, newspaper articles, journal articles and web based articles and documents.

1.8.3 Data Analysis

Both quantitative and qualitative methods of analysis were employed. With regard to quantitative methods both the descriptive and inferential statistics techniques were used. Descriptive statistics were used to summarise the essential features of the data collected and inferential statistical technique for hypothesis testing. All these were achieved by using Minitab and excel. An in-depth analysis of qualitative information was done by thoroughly going through the responses from the key informant interviews.

1.9 Deployment of dissertation

The dissertation is arranged in a number of chapters:

1.9.1 Chapter One is a General Introduction to the dissertation. It outlines the problem statement, aims and objectives and the research methodology and the structure of the dissertation.

- 1.9.2 Chapter Two is a literature review of available current literature, on regional integration and regional economic integration used in the study to assist in analysing and concluding the findings. This chapter gives an in-depth look at the regional integration in order to gain insight on the relevancy of the material to the problem statement. This includes various regional economic integration models, other international economic regional integration models, role of economic integration.
- 1.9.3 Chapter Three: explores the theoretical foundation on the role players and dynamics, and significance of each player in the current negotiations of the economic partnership agreement.
- 1.9.4 Chapter Four: This chapter highlights in depth the research methodology and design.
- 1.9.5 Chapter Five: outlines the presentation, analysis and interpretation of data used in this research. These include graph and demonstration the opportunity that arise from trade between the SADC group and the EU.
- 1.9.6 Chapter Six: provides a summary of the findings of the objective of the research, with concluding remarks and recommendation for all parties involved in the negotiations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Defining Regional Integration

Regional integration can be defined along three dimensions (Van Niekerk, 2008)

- Geographic scope illustrating the number of countries involved in an arrangement(variable geometry),
- The substantive coverage or width that is the sector or activity coverage (trade, labour mobility, macro-policies, sector policies, etc.), and
- The depth of integration to measure the degree of sovereignty a country is ready to surrender, that is from simple coordination or cooperation to deep integration.

International economic integration does not have a clear cut meaning for all economists. One of the first definitions of integration was given by Tinbergen (1954:122); he defined on the one hand, negative integration as the removal of discriminatory and restrictive institutions and the introduction of freedom for economic transaction. On the other hand, the adjustment of existing and the establishment of new policies and institutions endowed with coercive powers were identified as positive integration. Kahnert et al., (1969:11) understand integration as a process of the progressive removal of discrimination that exists along national borders. Holzman (1976:59) states that economic integration is a situation in which the prices of all similar goods and similar factors in two regions are equalised. This marks the two regions in essence one region or market. El-Agraa (1985:1) refers to international economic integration as the discriminatory removals of all trade impediments between participating nations and the establishment of certain elements of coordination between them, later on, El-Agraa (1998:XIII) takes international economic integration to mean an act of agreement between two or more nations to pursue common goals and objective (Jovanovic, 1998:5- 8).

2.2 Why Regionalism?

Many factors lay behind the recent spurt in regionalism. Among the objectives, stated and implicit, were: (Schiff & Winters, 2003:6, 8)

- Governments wish to bind themselves to better policies including democracy, and to signal such bindings to domestic and foreign investors
- A desire to obtain more secure access to major markets
- The pressures of globalisation, forcing firms and countries to seek efficiency through larger markets, increased competition, and access to foreign technologies and investment
- Governments desire to maintain sovereignty by pooling it with others in areas of economic management where most nation states are too small to act alone
- A desire to jog the multilateral system into faster and deeper action in selected areas by showing that the General Agreements on Trade and Tariffs (GATT) was not the only game in town and by creating more powerful blocs that would operate within the GATT system
- Desires to help neighbouring countries stabilise and prosper.
- The fear of being left out while the rest of the world is swept into regionalism

In the post World War II period many nations pursued the objective of trade liberalization. One device used to achieve this was the GATT and its successor, the WTO. Although the GATT began with less than 50 member countries, the WTO claimed 132 members by 1997. Since GATT and WTO agreements commit all member nations to reduce trade barriers simultaneously, it is sometimes referred to as a multilateral approach to trade liberalization. An alternative method used by many countries to achieve trade liberalization includes the formation of preferential trade arrangements, free trade areas, customs unions and common markets. Since many of these agreements involve geographically contiguous countries, these methods are sometimes referred to as a regional approach to trade liberalization (Suranovic, 2010).

2.3 Theory of Regional Integration

Regional integration is a multidimensional phenomenon, which can take different forms. It can be functional cooperation in some fields of inter-state relations. It can also take a broader form when participating States try to incorporate convergence of their policies in different sectors under a single framework. Regional integration is thus a process of deepening cooperation over areas that parties agree on as common interests shared by each one. In essence this involves a process of economic liberalisation among countries. This process is heavily dependent upon the political will and commitment of the governments concerned, and a sustained desire to co-operate over the long term. The region has been defined in many ways and for various purposes. Regions have been seen as 'imagined communities' produced by region-building elites (Neumann, 1994: 53- 74). The region is prominent among contemporary reconfigurations of international space that have been termed multiple 'transnational spatialisations' (Rose, 1999), for some, regions are ethnic and cultural units, for others, economic ones or geographical ones, and yet for others, they are simply political subdivisions of the nation-state (Hannun, 2010).

In reality, almost all existing cases of economic integration were either proposed or formed for political reasons even though the arguments popularly put forward in their favour were expressed in terms of possible economic gains. However, no matter what the motives for economic integration are, it is still necessary to analyse the economic implications of such geographically discriminatory groupings (El-Agraa, et al., 1997:24).

Grinspun and Kreklewich, (1999:19), in defining institutionalism of integration stated that, a process of integration bring together two or more social units, thus strengthening the economic and social links, communication and exchange between them, such integration can be formalised through among countries (generally among governments of particular countries, provinces and states), or can happen through informal mechanism (through the action of various social actors in those countries).

Regional integration has been defined as an association of states based upon location in a given geographical area, for the safeguarding or promotion of the participants, an association whose terms are fixed by a treaty or other arrangements. Lombaerde and Van Langenhove: 2007 define regional integration as a worldwide phenomenon of territorial systems that increase the interactions between their components and create new forms of organisation, co-existing with traditional forms of state-led organisation at the national level. According to Hans van Ginkel, (2003), regional integration refers to the process by which states within a particular region increase their level of interaction with regard to economic, security, political, and also social and cultural issues. In short, regional integration is the joining of individual states within a region into a larger whole. The degree of integration depends upon the willingness and commitment of independent sovereign states to share their sovereignty. Deep integration that focuses on regulating the business environment in a more general sense is faced with many difficulties.

The importance of international economic integration is well recognised, it has touched most of the countries in the world and it became an unavoidable element in most economic policy decisions. In fact most of the countries throughout the world have attempted to integrate with others (Jovanovic, 1998:1).

The increasingly integrated global economy present policy makers with both opportunities and challenges, global economic integration is widely thought to improve the allocations of resources, promote technology transfer, and enhance living standards. But, at the same time, economic integration has frequently blamed for growing trade imbalance, increased financial market volatility, and less effective domestic macroeconomic policies (Kahn, 2001:5). International economic integration does not have a clear cut meaning for all economies. One of the first definitions of integration was given as stated previously was by (Tinbergen 1954: 22). He defined, on one hand, negative integration as the removal of discriminatory and restrictive institutions and the introduction of freedom for economic transactions. On the other hand the adjustment of existing and the establishment of the new policies and institution endowed with coercive powers were identified as positive integration (Jovanovic, 1998:5).

a) Advantages of Economic Integration

Other scholars not contrary to Tinbergen observe the following advantages and disadvantages of economic integration:

Trade Creation: Member countries have (a) wider selection of goods and services not previously available; (b) acquire goods and services at a lower cost after trade barriers due to lowered tariffs or removal of tariffs (c) and encourage more trade between member countries the balance of money spend from cheaper goods and services, can be used to buy more products and services.

Greater Consensus: Unlike WTO with high membership (147 countries), easier to gain consensus amongst small memberships in regional integration is possible.

Political Cooperation: A group of nations can have significantly greater political influence than each nation would have individually. This integration is an essential strategy to address the effects of conflicts and political instability that may affect the region. A useful tool is to handle the social and economic challenges associated with globalization

Employment Opportunities: As economic integration encourage trade liberation and leads to market expansion, more investment into countries and greater diffusion of technology creates more employment opportunities for people to move from one country to another to find jobs or to earn higher pay. For example, industries requiring mostly unskilled labour tends to shift production to low wage countries within a regional cooperation.

b) Disadvantages of Economic Integration

Creation of Trading Blocs: It can also increase trade barriers against non-member countries.

Trade Diversion: Because of trade barriers, trade is diverted from a non-member country to a member country despite the inefficiency in cost. For example, a country has to stop trading with a low cost manufacturer in a non-member country and trade with a manufacturer in a member country which has a higher cost.

National Sovereignty: it requires member countries to give up some degree of control over key policies like trade, monetary and fiscal policies. The higher the level of integration, the greater the degree of controls that needs to be given up particularly in the case of a political union economic integration which requires nations to give up a high degree of sovereignty.

The pros and cons for regional economic integration, similar to global economic integration, as well as the benefits for regional economic integration centre on both political and economic dimension. Politically, regional economic integration promotes peace by fostering closer economic ties and building confidence (Peng, 2008:215).

2.4. Economic Integration and WTO Rules

The rules of the WTO, allow the formation of economic integration schemes on the understanding that although free trade areas and custom union, among others are discriminatory associations, they may not pursue policies which increase the level of their discrimination beyond that which existed prior to the formation, and that tariffs and other trade restrictions (with some exceptions) are removed on substantially all the trade amongst the participants. Hence once allowance was made for the provision regarding the external trade relations of the economic integration scheme³, it seems to the drafter of the Article XXIV that economic integration did not contradict the basic principle of WTO- trade liberalisation on the MFN basis, no discrimination, transparency of instruments used to restrict trade and the promotion of growth and stability of the world economy (El-Agraa, et al., 1997:4).

2.5 Types of Regional Integration

Any type of arrangement in which countries agree to coordinate their trade, fiscal, and/or monetary policies is referred to as economic integration. Obviously, there are many different degrees of integration, Jonanovic, (1998:15) also states that all types of

³ The Common External Tariff level, or the common level of discrimination against extra-area trade, in a custom union, and average tariff or trade discrimination level in a free trade area

international economic integration provoke interest because they both promote and restrict at the same time. Trade is liberalised, at least partly, among the participating countries, while it is also distorted with third countries as there are various barriers between the integrated group and the rest of the world. On those grounds the analysis of international economic integration is delicate, complex and speculative.

2.5.1. Preferential Trade Agreement (PTA)

A preferential trade agreement is perhaps the weakest form of economic integration. In a PTA, countries would offer tariff reductions, though perhaps not eliminations, to a set of partner countries in some product categories. Higher tariffs, perhaps non-discriminatory tariffs, would remain in all remaining product categories. This type of trade agreement is not allowed among WTO members who are obligated to grant most-favoured nation status to all other WTO members. Under the MFN countries agree not to discriminate against other WTO member countries. Thus, if a country's low tariff on bicycle imports, for example, is 5%, then it must charge 5% on imports from all other WTO members. Discrimination or preferential treatment for some countries is not allowed. The country is free to charge a higher tariff on imports from non-WTO members, however. In 1998 the US proposed legislation to eliminate tariffs on imports from the nations in sub-Saharan Africa. This action represents a unilateral preferential trade agreement since tariffs would be reduced in one direction but not the other. PTA is also used, more generally, to describe all types of economic integration since they all incorporate some degree of "preferred" treatment (Suranovic, 2010).

Economic integration in Africa, had previously formed a PTA in 1981, a free trade area was created by fifteen nations from Eastern and Southern Africa: Angola, Botswana, the Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe, they were later joined by another five nations. Although the PTA for East and Southern Africa has conspicuously failed to deliver significant benefits and replaced COMESA, which in addition aims to create a monetary union. Most, SADC members are also members of COMESA,

although SADC decision in August 1994 requires its members to withdraw from the PTA (El-Egraa, et al., 1997: 19, 348, 350).

2.5.2. Free Trade Area (FTA)

A free trade area occurs when a group of countries agree to eliminate tariffs between themselves, but maintain their own external tariff on imports from the rest of the world. The North American Free Trade Area (NAFTA) is an example of a FTA. When the NAFTA is fully implemented, tariffs of automobile imports between the US and Mexico will be zero. However, Mexico may continue to set a different tariff than the US on auto imports from non-NAFTA countries. Because of the different external tariffs, FTAs generally develop elaborate "rules of origin". These rules are designed to prevent goods from being imported into the FTA member country with the lowest tariff and then transshipped to the country with higher tariffs. Of the thousands of pages of text that made up the NAFTA, most of them described rules of origin (Suranovic, 2010).

A FTA is a group of countries that remove trade barriers among themselves. Each still maintains different external policies regarding non-member. An example is NAFTA (Peng, 2008:217-218).

El-Agraa, et al. (1997:1), describes FTA as, where the member nations remove all trade impediments amongst themselves but retain their freedom with regard to the determination of their own vis-a-vis the outside world (the non participants- for example, the European Free Trade Association (EFTA) and the demise Latin American Free trade Area (LAFTA).

Whilst many economists and organisations espouse the benefits of free trade, some groups oppose free trade and see it as disadvantageous to many people, particularly in developing countries, where local producers and employees are vulnerable to exploitation. These groups promote the idea of 'fair trade' (Egde, 1999).

A. Advantages of free trade

Free trade occurs when there are no artificial barriers put in place by governments to restrict the flow of goods and services between trading nations. When trade barriers, such as tariffs and subsidies are put in place, they protect domestic producers from international competition and redirect, rather than create trade flows.

i. Increased production

Free trade enables countries to specialise in the production of those commodities in which they have a comparative advantage. With specialisation, countries are able to take advantage of efficiencies generated from economies of scale and increased output. International trade increases the size of a firm's market, resulting in lower average costs and increased productivity, ultimately leading to increased production.

ii. Production efficiencies

Free trade improves the efficiency of resource allocation. The more efficient use of resources leads to higher productivity and increasing total domestic output of goods and services. Increased competition promotes innovative production methods, the use of new technology, marketing and distribution methods.

iii. Benefits to consumers

Consumers benefit in the domestic economy as they can now obtain a greater variety of goods and services. The increased competition ensures goods and services, as well as inputs, is supplied at the lowest prices. For example in Australia imported motor vehicles would cost 35% more if the 1998 tariff levels still applied. Clothing and footwear would also cost around 24% more

iv. Foreign exchange gains

When Australia sells exports overseas it receives hard currency from the countries that buy the goods. This money is then used to pay for imports

such as electrical equipment and cars that are produced more cheaply overseas.

v. **Employment**

Trade liberalisation creates losers and winners as resources move to more productive areas of the economy. Employment will increase in exporting industries and workers will be displaced as import competing industries fold (close down) in the competitive environment. With free trade many jobs have been created in Australia, especially in manufacturing and service industries, which can absorb the unemployment, created through restructuring as firms close down or downsize their workforce. When tariffs were increased substantially in the period 1974–1984 for textiles and footwear - employment in the sector actually fell by 50 000, adding to overall unemployment.

vi. **Economic growth**

The countries involved in free trade experience rising living standards, increased real incomes and higher rates of economic growth. This is created by more competitive industries, increased productivity, and efficiency and production levels.

B. Disadvantages of free trade

Although free trade has benefits, there are a number of arguments put forward by lobby groups and protestors who oppose free trade and trade liberalisation. These include the following: (Edge: 1999).

- With the removal of trade barriers, structural unemployment may occur in the short term. This can impact upon large numbers of workers, their families and local economies. Often it can be difficult for these workers to find employment in growth industries and government assistance is necessary.
- Increased domestic economic instability from international trade cycles, as economies become dependent on global markets. This means that

businesses, employees and consumers are more vulnerable to downturns in the economies of our trading partners, for example Recession in the USA leads to decreased demand for Australian exports, leading to falling export incomes, lower GDP, lower incomes, lower domestic demand and rising unemployment.

- International markets are not a level playing field as countries with surplus products may dump them on world markets at below cost. Some efficient industries may find it difficult to compete for long periods under such conditions.
- Developing new industries may find it difficult to become established in a competitive environment with no short-term protection policies by governments, according to the infant industries argument.
- Free trade can lead to pollution and other environmental problems as companies fail to include these costs in the price of goods in trying to compete with companies operating under weaker environmental legislation in some countries.



Table 2.1 Schematic presentations of economic integration schemes (El-Egraa, et al., 1997: 2)

Scheme	Free intra scheme trade	Common commercial policy	Free factor mobility	Common monetary & fiscal policy	One government
Free trade area	yes	no	No	No	no
Custom union	yes	yes	No	No	no
Common Market	yes	yes	Yes	No	no
Economic union	yes	yes	yes	Yes	no
Political union	yes	yes	yes	Yes	yes

2.5.3 Customs Union

Before the theory of second best was introduced (Meade, 1955; Lipsey and Lancaster, 1956; 1957), it used to be an accepted tradition that custom union formation should be encouraged. The rationale for this was that since free trade maximised the world welfare and since the custom union formation was a move towards free trade, custom union increased the welfare even though they did not maximise it. This rationale certainly lies behind the guidelines of WTO article XXXIV, which permits the formation of the custom union and free trade areas as the special exception to the rules against international discrimination (El-Agraa, et al., 1997:35).

According to Peng, (2008:217-218), a custom union is a one step beyond FTA. In addition to all arrangements of an FTA a custom union imposes common external policies on non participant to combat trade diversion.

A customs union occurs when a group of countries agree to eliminate tariffs between themselves and set a CET on imports from the rest of the world. The European Union represents such an arrangement. A customs union avoids the problem of developing complicated rules of origin, but introduces the problem of policy coordination. With a customs union, all member countries must be able to agree on tariff rates across many different import industries (Suranovic, 2010).

None of the types of international economic integration may exist in its pure theoretical form. A custom union does not only deal with the elimination of tariffs and quotas and the introduction of the common external tariff, but also with industrial policy and specialisation. It may also deal with non –tariff barriers (NTB) and foreign direct investment (FDI) for partner countries, as well as from outsiders. Free mobility of labour in a common market does not only require the elimination of discrimination of labour from partner countries, but also some degree of harmonisation of social policy (social security, unemployment benefits, pension funds and vocational training). Without harmonisation of these issues, distortions may be created which may induce

labour to move in response to other signals than purely to its relative abundance and returns (Jovanovic, 1998:170)

Custom unions, which are very similar to free trade areas except that member nations must conduct and pursue common external commercial relations, for instance, must adopt CET's on imports from non- participants as is the case in the European Union (EU) (El-Agra, et al., 1997:2).

Motives for economic integration, at the custom union and free trade area levels, and the possible sources of economic gain from economic integration can be attributed to:

- Enhance efficiency in production made possible by increased specialisation in accordance with the law of comparative advantages, due to the liberalised market of the participating nations;
- Increased production levels due to better exploitation of economies of scale made possible by the increased size of the market;
- An improved international bargaining position, made possible by the larger size, leading to better terms of trade (cheaper imports from the outside world and higher prices for export to them);
- Enforced changes in efficiency brought about by intensified competition between firms, and
- Changes affecting both the amount and quality of the factors of production due to technological advances, themselves.

If the level of economic integration is to go beyond the free trade area and custom union El-Agraa, et al., (1997:6) states that the source of economic gain also become possible because:

- Factor mobility across the borders of the member nations will materialise only if there is a net economic incentives for them, thus leading to higher national incomes;

- The coordination of monetary and fiscal policies may result in cost reduction since the pooling of efforts may enable the achievement of economies of scale, and
- The unification of efforts to achieve better employment levels, lower inflation rates, balanced trade, higher rates of economic growth and better income distribution may make it cheaper to attain these targets.

The intuition behind the classical theory of custom unions is the proposition that the potential consumption of goods and services in a custom union is higher than the sum of individual consumption of the potential member countries is distorted by tariffs and quotas. In this situation one should, at least partly, remove the impediments.

I. Static Model

A static model of theory of custom unions considers the impact of the formation of a customs union on trade flows and consumption in the integrated countries. The classical (orthodox or static) theory of customs unions relies on a number of explicit and implicit assumptions. This model makes theoretical consideration easier, but it also simplifies reality to the extent that the policy recommendations are to be considered with great care (Jonanovic, 1998:16).

II. Dynamic Model

The classical theory of customs unions assumed that the static effects of resource reallocation occurred in a timeless framework. If one wants to move the theory of customs unions reality one must consider dynamic, i.e. restructuring, effects. It is widely accepted that markets are imperfect and that there are externalities such a economics of scale and product differentiation that make competition imperfect. When market structure is like this, regionalism or integration may be justified, because the market may be extended and because the market power of firms may be reduced which may have a positive impact on competition, productivity, innovation and reduction in prices (Jonanovic, 1998:39).

2.5.4 Common Market

A common market combines everything a custom union has. In addition a common market permits the free movement of goods and people. Today EU's is a common market (Peng, 2008:217-218).

The entire analysis of a custom union applies to common markets too, due to the free mobility of factors of production in a common market. A customs union involves product market integration, while a common market adds to that development integration of factor market. It is expected that a free flow of factors within the bloc will improve the allocation of resources over the one achieved in either a free trade area or a customs union. The neo-classical Heckscher-Ohlin trade theory concludes that a country with a rich supply of labour may either export labour-intensive goods or import capital and export labour, under the assumption that technology is the same in all countries. In either case the country is equally well off (Jovanovic, 1998:120).

A common market establishes free trade in goods and services sets common external tariffs among members and also allows for the free mobility of capital and labour across countries as the good example is the EU. The EU was established as a common market by the Treaty of Rome in 1957, although it took a long time for the transition to take place. Today, EU citizens have a common passport, can work in any EU member country and can invest throughout the union without restriction (Suranovic, 2010).

El-Agraa, et al., (1997:57), combines the common market and economic unions, and explains that the analysis of a custom union needs drastic extension when applied to common market and the economic unions. Firstly the introduction of free factor mobility may enhance efficiency through a more rational reallocation of resources but it may also result in depressed areas therefore creating regional problems and imbalance (Mayes 1983 and Robson 1984). Secondly, fiscal harmonisation may also improve efficiency by eliminating non-tariffs trade barriers (NTB's) and distortion and by equalising their effective protective rates. Thirdly, the coordination of monetary and fiscal policies which is implied by monetary integration may ease unnecessary severe

imbalances, hence resulting in the promotion of the right atmosphere for stability in the economies of the member nations.

2.5.5 Economic Union

An economic union has all features of a common market. Members also coordinate and harmonise economic policies (in areas such as monetary, fiscal and taxation) to blend their economies into a single economic entity. Today EU is an economic union. One possible dimension of economic union is to establish monetary union, which has been accomplished by 12 EU members through the adoption of the euro (Peng, 2008:217-218).

An economic union typically will maintain free trade in goods and services, set common external tariffs among members, allow the free mobility of capital and labour, and will also relegate some fiscal spending responsibilities to a supra-national agency. The European Union's Common Agriculture Policy (CAP) is an example of a type of fiscal coordination indicative of an economic union (Suranovic, 2010).

The creation of an economic union can be defended by the same arguments which are used in favour of the creation, implementation and protection of a single economic policy in a country which has different regions. Monetary policy is a key element in the economic strategy of an economic and monetary union. As it one of the most sensitive economic policies, the Treaties establishing the EU made special references to these issue. Integration of monetary policies in the EU is necessary not only for the stability of rates of exchange, prices, balance of payments and investment decisions, but also for the protection of the already achieved level of integration, as well as for the motivation for further integration in the future (Jovanovic, 1998:170 -171).

2.5.6 Monetary Union

Monetary union establishes a common currency among a group of countries. This involves the formation of a central monetary authority which will determine monetary policy for the entire group. The Maastricht treaty signed by EU members in 1991 proposed the implementation of a single European currency (the Euro) by 1999. The

degree of monetary union that would arise remains uncertain in 1998. Perhaps the best example of an economic and monetary union is the United States. Each US state has its own government which sets policies and laws for its own residents. However, each state cedes control, to some extent, over foreign policy, agricultural policy, welfare policy, and monetary policy to the federal government. Goods, services, labour and capital can all move freely, without restrictions among the US states and the Nations sets a common external trade policy (Suranovic, 2010).

Jovanovic, (1998:171-172), states that a monetary union requires the following elements:

- Convertibility (at least internal) for the participating countries currencies;
- Centralisation of monetary policy;
- A single central bank or a system of central banks that control stabilisation policies;
- Unified performance on the international financial markets;
- Capital market integration;
- Identical rates of inflation;
- Harmonisation of fiscal systems;
- Replacement of balance of payments disequilibria with regional imbalances;
- Similar levels of economic development or a well endowed fund for transfers of real resources to the less developed regions and
- Continuous consultation about and coordination of economic policies among the participating countries, as well as the adjustment of wages on the union level.

Table 2.2 Types of international economic integration

Policy action	Free Trade Area	Custom Union	Common Market	Economic Union	Total Economic Union
Removal of tariffs and quotas	yes	yes	yes	Yes	Yes
Custom external tariff	No	yes	yes	Yes	Yes
Factor mobility	no	no	yes	Yes	Yes
Harmonisation of economic policies	no	no	no	Yes	Yes
Total unification of economic policies	no	no	no	No	Yes

Source: Jovanovic, (1998:11)

An example of a Common Monetary Union, which indicates regional cooperation in Southern Africa does exist, and is based on an agreement signed in 1986 between Lesotho, South Africa and Swaziland (Namibia joined in 1992). The agreement formalized the existing, de facto monetary integration, as the South African currency had been serving as legal tender in Lesotho and Swaziland since the 1920s. Hence, unlike most other regional cooperation schemes, the creation of the Common Monetary Area (CMA) was not accompanied by far-reaching, long-term objectives. The CMA agreement provides for fixed exchange rates among its members and common bloc floating vis-à-vis other currencies, as well as intraregional capital account liberalization, the distribution of seignior age and intraregional financial transfers. Both the Lesotho loti and the Namibian dollar are pegged at par to the South African rand; and although Swaziland legally withdrew from this commitment in 1986, it is still honouring its de facto. Botswana participated in the CMA negotiations in the 1970s, but

it opted out in favour of a managed floating of its currency, the pula. Since then, Botswana has pegged the pula to a trade-weighted basket of rand and special drawing right (SDR) whose specific composition is not disclosed; however, the South African rand has a large weight in the basket. Each of the four members has its own central bank, which issues its currency and is formally responsible for monetary policy within its respective country (Metzger, 2008).

2.5.7. Political Union

A political union is the integration of political and economic affairs of a region. The United States and the former Soviet Union are the two examples; overall these five major types feature intensification of the level of economic integration (Peng, 2008: 217-218).

2.6 Regional Economic Integration in Southern Africa

Support for regional economic integration in Africa runs high among the continent's international development partners and African elites. This is most loftily expressed in the African Union's stated goal of achieving a continental economic integration scheme, African Economic Community, by 2028.

As is often, however, the rhetoric does not match the reality. African economic integration suffers from a litany of problems, ranging from overlapping memberships, through unfulfilled commitments, to unrealistic goals (Draper et al: 2007).

“Reculer pour mieux sauter” (to draw back in order to make a better jump) is not a dictum that seems to carry much weight among African governments involved in regional integration. On the contrary, if a certain level of integration cannot be made to work, the reaction of policy makers has typically been to embark on something more elaborate, more advanced and more demanding in terms of administrative requirements and political commitment, thus although the PTA for East and Southern Africa has conspicuously failed to deliver significant benefits, it has been replaced by the much

more ambitious COMESA, additionally aims to create a Monetary Union. Likewise, although the West African Economic Community (CEAO- Robson, 1998) was not fully implemented, it has been replaced by an Act constituting an economic and monetary union (El-Agraa, et al., 1997:348).

Draper (2011), contents that the dominant model pursued in Africa mimics European forms, and as such is not appropriate to regional capacities and may do more harm than good. In recent research (Draper 2010), set out to reconceptualise the foundations of African economic integration through reviewing relevant debates within the international relations and economics literatures (Draper, 2011).

Africa has a long tradition of regional cooperation, its trade and monetary integration schemes being the oldest in the developing world. Since the beginning of the 1990s, African regional cooperation has been revitalized due to two main developments. First, the abolition of the apartheid regime in South Africa began a normalization of political and economic relationships in Southern Africa which led to a deepening of already existing regional integration. Second, with the transformation of the Organization of African Unity (OAU) into the African Union (AU) and the launching of the NEPAD initiative in 2001, the old idea of a common African currency has been revitalized. NEPAD considers regional economic communities as building blocs for pan-African cooperation and integration (NEPAD 2002); a process which would enlarge already existing sub regional groups and finally result in a pan-African political and economic area with an African Parliament, an African Central Bank, an African Monetary Fund and a common African currency (Metzger, 2008).

The political case for building regional economic integration is centred primarily on security considerations. The reference point is principally European, specifically the origins of the European Community as a means to managing Franco-German relations in a bid to avoid a rerun of the World Wars. The role of strong states, France and Germany, was essential to the EU's success. This gave rise to the theory of hegemonic stability (Gilpin: 2000) which posits that a hegemony is central to maintaining

adherence to liberal international economic regimes, and by extension liberal peace, through underwriting the costs of maintaining the regime (e.g. by providing access to its own market) rather than coercion.

However, the “liberal peace” paradigm is a very challenging proposition for African states (Clapham, 2001). The current character of many post-colonial African states does not obviously lend itself to constructing a “liberal peace”; many are managed by former liberation movements or authoritarian, effectively single party governments. And governance remains an abiding concern throughout the sub-continent, characterised in particular by institutional frailties. There by building viable national states, never mind intra or inter-regional organisations, is a challenging proposition. Furthermore, in light of the relative “youth” of states in the region (de-colonisation being a very recent historical process) it is not surprising to find that leaders in many countries are reluctant to really yield their prerogatives to regional institutions. Instead, regional forums, particularly those comprising Heads of State, can provide both a refuge from domestic concerns and a source of external legitimacy. Therefore it is not surprising to find gaps emerging between pronouncements made at Heads of State level and translation of those pronouncements into practical implementation requiring actual surrender of sovereignty (Draper, 2011).

Southern African integration arrangements encompass the Republic of South Africa, together with BLNS. Except for Botswana, which has had its own currency for a number of years, all of these countries participate in both the SACU and the Rand-based CMA. The custom union arrangements themselves have an unbroken history going back from 1910. The existing SACU Agreement was signed in 1969 and was amended in 1976 (El-Agraa, et al., 1997:351-352).

The debate in transitional South Africa over regional economic integration or cooperation centered on a disagreement over SADCC, SACU and an organisation for Southern African Cooperation, should provide the guiding principles for regional economic relations. The different types are not mutually exclusive and the classification

of the different approaches and the theories associated with those approaches are not always clear. For instance the metamorphosis of the SADCC into SADC has been described in different ways. The original SADCC pursued developmental cooperation through project coordination and sectoral cooperation, while the new SADC at the beginning, embraced laissez-faire process but still supported a strategy based on developmental cooperation. Thus the new SADC has been labelled “developmental” and “market” regional integration (Hentz, 2005: 11).

Yaoundé, Lome and Contonou are conventions laying down the principles and objectives of the European Community’s cooperation with ACP countries. The cooperation started with the first associations between ACP and EEC member in 1963 with Yaoundé I, the cooperation’s states back from the dawn of the Treaty of Rome, establishing the EEC in 1957, which expressed solidarity with the colonies and overseas countries and territories, and a commitment to contribute to their prosperity. Its main characteristics are the partnership principle, the contractual nature of relationship, and the combination of aid, trade and political aspects, together with its long-term perspective. Yaoundé I was followed by Yaoundé II in 1969. Lome I (1973), Lome II (1980), Lome III (1985), Lome IV (1995) and finally the Contonou (2000) (Paredis,et al., 2009:179).

In a number of respects the Contonou Partnership Agreement (CPA) represents a significant change, as compared with the previous Lome Conventions. The objectives of the Contonou Agreement are formulated more specifically and more detail than in the Lome conventions (Telo, 2009:184).

The Cotonou agreement was aimed at promoting and expedites the economic, cultural and social development of the ACP States, with a view to contributing to peace and security and to promoting a stable and democratic political environment (Article 1, contonou agreement).

The ACP-EU partnership Agreement which was signed in Cotonou in June 2000, provides for the conclusion between the ACP and the EU, of new WTO compatible trading arrangements, removing progressively, barriers to trade between them and enhancing cooperation in all areas relevant to trade (Article 36, Cotonou Agreement).

Negotiations on EPAs between the ACP and the European Community were opened on 27 September 2002 in Brussels. During the first 12 months, horizontal issues of general interest were addressed at an all-ACP-EC level. Numerous meetings at ambassadorial and technical level took place around groups of issues such as the development dimension of EPAs, market access, agriculture and fisheries, services, legal issues and trade-related areas. A meeting at ministerial level between the ACP and the EC on 2 October 2003 marked the transition from the first phase of all-ACP-EC negotiations to the second phase of regional negotiations.

It was agreed that EPAs must be instruments for development, promoting sustainable development of ACP countries, their smooth and gradual integration into the global economy and eradication of poverty. Therefore, EPAs will take account of the specific economic, social, environmental and structural constraints of the ACP countries and regions concerned. Furthermore, a joint report was adopted which referred to the areas of convergence and divergence of the discussions in the first phase. Areas of convergence are:

- Regional integration is of crucial importance as a step towards the development of the ACP countries;
- Regarding market access, EPAs will foresee flexibility, asymmetry and the improvement of current market access for ACP countries under the Cotonou Agreement, while being WTO compatible;
- the coverage and the length of transitional periods will be defined in detail at regional level, taking account of the specificity of the regions concerned; appropriate safeguard measures will be important;

- As “behind the border issues” are often serious barriers to trade, EPA negotiations should cover these trade related issues (as foreseen in the Cotonou Agreement);
- EPAs need to be accompanied by appropriate development support measures;
- for the second phase, both sides will establish an all-ACPEEC Technical Monitoring Committee, to maintain transparency with regard to regional negotiations and to ensure a free flow of information between all parties and
- The Joint ACP-EC Ministerial Trade Committee will have the task of ensuring the overall coherence of the various regional negotiations (European Commission, 2003).

The regional integration agenda in southern Africa maintains a very high profile on the broader development agenda of this region. During 2009 several important developments highlighted specific challenges for policy makers in southern Africa. It is of course also important to recognise that the global economic crisis continued to impact on the region in 2009.

The fall out of the debt crises in the euro countries, initiated by the Greek debt crisis and the financial assistance this necessitated, are also having a negative impact on world financial markets which could be transmitted to real economic activity in the course of 2010. The open economies of southern Africa will not be isolated from these events. Although the SACU is not recognized as one of the eight building blocks of the African Economic Community, developments in this regional economic community have important implications for the broader Pan African integration agenda. All SACU members are also members of the SADC and with South Africa as the anchor member of SACU, its policy on regional integration can be expected to have an important impact on the broader Southern African region. (Bosl, et al., 2009).

2.7 Origins of the EPA

Under the 1975 Lome Convention between the EC and the ACP countries, the EC gave substantial trade preference as well as aid and investment to the ACP signatories. While this was primarily aimed at the former colonies of the European countries, the number of the ACP signatories rose at the Convention was revised and expanded in the 1980's. In the 1990's, the WTO Dispute Settlement Body ruled the Convention incompatible to the WTO rules. As a result it was replaced in 2000 by the Cotonou Agreement, a broader aid and developmental agreement between the EU and the ACP countries. The principal difference, in terms of trade, between the Lome Convention and the Cotonou Agreement was the ending of non- reciprocal trade agreements between the EU and the ACP countries, reciprocal EPA would be introduced instead. However the LDC in the ACP could instead choose to trade under the terms of the EU's "Everything but Arms" initiative, this gives them duty and quota free access to European markets on all products other than weapons. The Cotonou Agreement stated that the EPA will come to force in January 2008, however the agreements were not finalised by this deadline. The Cotonou Agreement also states the EPA should be signed on regional basis as EAS, SADC, Central African Economic and Monetary Union, West African Economic and Monetary Union, the Caribbean Forum of the ACP states and the Pacific region (European Union Committee, 2008:34).

The EU previously offered ACP countries, excluding South Africa, duty-free and quota-free access to its market under the Cotonou Agreement. With Cotonou's trade regime having expired at the end of 2007, some ACP countries chose to sign an interim (IEPA) while others continue to access the EU market under the Generalized System of Preferences (GSP). Only LDCs qualify for the GSP's and EBA initiative, which have the same Rules of Origin (RoO) as the GSP but without quotas or import duties. Historically, the EU has developed an elaborate and complex RoO regime for setting the conditions under which origin status is allocated to products. This has been guided not only by its own strategic and protectionist prerogatives, but also the fact that no single RoO methodology provides a universally simple and equitable solution to the task of determining origin. The absence of any binding WTO standard on preferential

RoO does not help to alleviate the inevitable negotiating trade-offs that take place in RoO negotiations. Currently, EU agreements employ various methodologies in the determination of origin, which are either based on a technical or specific processing requirement; value-added thresholds; or a change in tariff heading, where origin is conferred when materials are transformed into products that can be classified under a different tariff heading. The RoO negotiated in the context of the IEPA are based on the EU model protocol and are largely structured around the provisions previously encountered under Cotonou. However, various sector-specific changes have been implemented, some with potentially significant implications for producers and exporters in participating countries (Naumann, 2008).

The Lome Conventions, buttressed with generous non-reciprocal preferential market access into the European market for ACP exports but having failed to achieve these goals, are now to be replaced with new reciprocal regional FTAs. The five-year mandate for the negotiations that should lead to the establishment of these FTAs beginning January 2008 came to an end in December 2007. Very deliberately, these FTAs have been called EPAs since they go beyond liberalisation of markets known of standard FTAs to include some of the development dimensions that characterized the Lome agreements, albeit now, within the rubric of trade liberalization. For that reason, EPAs have been understood to be development oriented, and not classical hard-nosed, FTAs. As tools for development, EPAs are intended to build the trading capacity and competitiveness, and strengthen the regional integration processes in the ACP sub-regions as a means to achieving the three end goals (Ogala, 2007:6).

Current growth hypotheses provide the theoretical basis for EPAs with a particularly strong focus on the policy-hypothesis of economic growth. The policy hypothesis of growth states that an open trade regime is a prerequisite for economic growth because it increases domestic competition, attracts investment, promotes diffusion of technology, stimulates cooperation and learning processes and leads to economies of scale. The importance of institutions in initiating growth is acknowledged in the theoretical concept of EPAs but is not the main element. This is reflected in the fact that aid for trade is decoupled from EPAs. The Commission believes that an open trade regime will

have a positive impact on ACPs institutional development, it does not however, consider effective institutions to be a prerequisite for gaining from EPAs (as for example Borrmann and Busse, 2006 argue). EPAs are designed to 'lock-in' policy reforms by establishing binding regulations in the areas of trade, investment and other trade-related issues. This in turn will enhance institutional effectiveness (Meyn, 2008).

The EPAs between the EU and ACP group of countries are aimed at promoting trade between the two groupings and through trade development, sustainable growth and poverty reduction. The EPAs set out to help ACP countries integrate into the world economy and share in the opportunities offered by globalisation. For well over 30 years, exports from the ACP countries were given generous access to the European market. Yet preferential access failed to boost local economies and stimulate growth in ACP countries. And the proportion of EU imports from ACP countries dropped from 7% to 3% of EU imports.

The EPAs aim to remedy this situation. EPAs: (European Commission, 2011)

- Date back to the signing of the Cotonou Agreement in 2000.
- Are "tailor-made" to suit specific regional circumstances.
- Go beyond conventional free-trade agreements, focusing on ACP development, taking account of their socio-economic circumstances and include co-operation and assistance to help ACPs implement the Agreements.
- Opened up EU markets fully and immediately (unilaterally by the EU since 1st January 2008), but allowed ACPs 15 (and up to 25) years to open up to EU imports while providing protection for the sensitive 20% of imports.
- Provide scope for wide-ranging trade co-operation on areas such as services and standards; and
- are also designed to be drivers of change that will kick-start reform and help strengthen rule of law in the economic field, thereby attracting foreign direct investment (FDI), so helping to create a "virtuous circle" of growth.

By the expiration of the WTO waiver of 31 December 2007 covering the trade relations between the ACP countries and EU, none of the four African sub region negotiations groupings was able to conclude a comprehensive EPA. What this mean was that the African less developing countries (LDCs) had to fall fully on the Everything But Arms (EBA) initiative, while African non- LDCs were to resort to the General System of Preference (GSP) trade regime for their export to EU. In order to avoid trade disruption and be in the a WTO compatible trade regime, all African non LDC's, except for Nigeria, Cape Verde, Republic of Congo, Gabon and South Africa, initialed Interim EPA's to secure market access to EU under a preferential trade regime. The five non LDCs that did not initialed the I-EPA's are currently exporting under the GSP, except for South Africa, where trade with the EU is governed by the TDCA and Cape Verde where trade is under EBA (United Nations, 2009:92).

2.7.1 SADC EPA countries (European Commission, 2011)

- Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland and South Africa are negotiating their EPAs through the SADC EPA Group.
- The other six members of the broader SADC political region – Democratic Republic of the Congo, Madagascar, Malawi, Mauritius, Zambia and Zimbabwe -are negotiating EPAs within other regional groups.

2.7.2 Economic Partnership Agreement

An interim EPA has been concluded with Botswana, Lesotho, Namibia, Swaziland and Mozambique in 2007. It was signed by Botswana, Lesotho, Swaziland and Mozambique in June 2009, with Namibia still pending. It includes:

- no duties/quotas for SADC imports to the EU.
- no duties/quotas for 86% of EU exports to Botswana, Lesotho, Namibia and Swaziland (excluding sensitive sectors for local producers, e.g. agricultural goods and textiles). Liberalisation to take place over 4 years or by 2015 at the latest. This brings the situation into line with the separate TDCA between South Africa and the EU.

- no duties /quotas for 81% of EU exports to Mozambique (excluding sensitive sectors for local producers, e.g. farm goods and textiles). Liberalisation will take place gradually by 2023.
- the possibility for all participating countries to re-introduce duties/quotas to help safeguard local economies
- EU commitments to foster trade within the region and help exporters meet EU import standards (see examples of trade facilitation)
- commitment of all interim EPA partners except Namibia to conclude an EPA covering services and investments
- clauses for Angola and South Africa to join the agreement
- Angola has not yet presented a tariff offer, but maintains market access through the EU's "Everything but Arms" (EBA) scheme for least developed countries. South Africa has a separate trade and development agreement with the EU, the TDCA.

Regional integration and regional economic communities (RECs) have been considered as important and successful instruments of political cooperation, economic growth, socio-economic development and general stability. Whilst globalisation with all its implications has taken its irreversible and speedy course, the dynamics of regional integration are slow and RECs, especially in Africa, are not fully meeting their visions, not fulfilling all their promises, and not yet delivering the desired outcomes and services to the members of their communities and states.

Especially the Southern African region, with its comparatively small economies, it was hoped that regional integration would play a crucial role in pursuing common strategic interests for the successful socio-economic and political development of the countries involved. However, the latest developments surrounding the EPAs of some SADC member states with the EU, and the current debate about the future of the SACU, already seem to be having a negative impact on achievements as regards creating common ground among SADC member states towards the EU and to the benefit of the SADC region as a whole. Although SADC was not affected by the global financial

crisis to the extent suffered by other countries and regions in the world, it could have, as a strong REC, responded more effectively to it (Bosl, et al., 2009).

The negotiations for the EPA's between the EU and the ACP group started in September 2002 and were provisionally concluded in September 2003. The main objective of all ACP-EU phase 1 negotiations was to define the format, structure, principles for detailed negotiations, particularly on common cross cutting issues. The main areas for negotiations included market access, services, agriculture and fisheries, trade related issues, development cooperation and legal issues (Lui and Bilal, 2003).

2.8 Conclusion

The presentation by many scholars in this chapter indicates the value of regional economic integration. However as stated by Tinberger and other scholars, they have identified the disadvantages and advantages of regional integration. Irrespective they all agree that, there is a need for regional integration as a goal to welfare to any country participating in integration. The negative integration as stated by Tinberger is short lived while the positive integration is a creation of coercive powers which has long run benefits.

It should further be noted that the Southern Africa region, especially the five member states of SACU, in early 1900 understood the importance of regional integration, and SACU saw a need for regional economic integrations because of the expected benefits from them. The challenges of regional integration in the Sub Saharan Africa are mainly posed by cross cutting membership which is a deterrent of regional integration as described by other scholars. The challenges of cross cutting membership will be discussed in Chapter 3.

CHAPTER THREE

THEORETICAL FOUNDATION ON ROLE PLAYERS AND DYNAMICS

"It is better that we face the problems of Africa as Africa. For our history of being pushed around is an African history, and our strength to stop this in an African strength."⁴

Julius Nyerere, 1972

3.1 SOUTH AFRICAN CUSTOM UNION (SACU)

Within Southern Africa, there are three international organisations that promote patterns of economic and political interactions among their members and there by create a high degree of regional interconnectedness. The first is the CMA, whose members are Lesotho, Namibia, South Africa and Swaziland the second is SACU which includes members of the CMA plus Botswana. The third and the largest, is the Southern African Development Communities (SADC), which groups the five members of SACU and the nine other states to the north and in the Indian Ocean (McGowan, et al., 2007:323).

3.1.1 Historical Overview

As the world's oldest custom union, SACU dates back to 1889 Customs Union Convention between the British Colony of Cape of Good Hope and the Orange Free State Boer Republic. A new agreement, signed on June 29, 1910, was extended to the

⁴ Julius Kambarage Nyerere, first president of Tanzania, from his speech *All Men Are Equal*, August 1972.

Union of South Africa and the British High Commission Territories (HCTs), i.e. Basutoland (Lesotho), Bechuanaland (Botswana), and Swaziland, South West Africa (Namibia) “was a *defacto* member, since it was administered as part of South Africa” before it became a *dejure* member. The primary goal was to promote economic development through regional coordination of trade (SACU, 2010).

SACU, roots of which can be traced back to the late nineties century currently functions on the basis of the treaty signed in 1969, between South Africa and the three previous HCT’s of the Bechuanaland, Basutoland and Swaziland. At independence in the 1960’s these territories became the Republic of Botswana, and the Kingdom of Lesotho and Swaziland that is so called the BLS States. When Namibia gained independence in 1990, it formally joined SACU, having earlier been indirectly part of SACU as an area administered by South Africa, (Lundahl, et al., 2003:163).

The 1910 SACU Agreement which was in effect until 1969, created the following:

- A CET on all goods imported into the Union from the rest of the world;
 - a common pool of customs duties as per the total volume of external trade and
 - Excise duties based on the total production and consumption of excisable goods.
- Free movement of SACU manufactured products within SACU, without any duties or quantitative restrictions.

The 1969 SACU Agreement, signed by the sovereign states of Botswana, Lesotho, and Swaziland and South Africa, on December 11, 1969 provided two major changes.

However, similar to the 1910 agreement, South Africa retained the sole decision making power over customs and excise policies. Because of the “absence of a joint decision-making” process, the BLS requested factoring compensation into the revenue sharing formula, in order to address the loss of fiscal discretion (From 1969 onwards), the BLS expressed their concern with the following three key issues:

- No joint decision making processes, prior to 2002 SACU was administered on a part-time basis by annual meetings of the Customs Union Commission and there were no effective procedures to ensure compliance or resolve disputes.

- The issue of most concern in the 1969 Agreement was the Revenue Sharing Formula (RSF), which determined each country's share of the Common Revenue Pool (CRP). Following negotiations, the RSF was amended in 1976 to include a stabilization factor that ensured that the BLS received at least 17 percent, and at most 23 percent, of the value of their imports and excise duties.
- The BLS argued that South Africa consistently entered into preferential agreements which benefited only one of the five members (SACU, 2010).

Table 3.1 the table below indicates the difference coverage's of the 1969 SACU Agreement and the 2002 SACU Agreement.

POLICY ISSUE	1969 SACU AGREEMENT	2002 SACU AGREEMENT
Common external tariff	Determined by South Africa.	Determined by consensus
Common external tariff	Determined by South Africa.	Determined by consensus
Customs Legislation	Identical	Identical
Revenue sharing	Formula applied to notional customs and excise pool.	Formula applied to actual Customs and excise collections.
Transit Trade	Transport rate discrimination not permitted.	Transport rate discrimination not permitted.
Trade Relations with Third Parties	Permitted subject to obtaining prior concurrence.	Negotiations with Third Parties to take place through a Common negotiating mechanism.
Dispute Settlement	Allowed for consultation.	Allows for the creation of a Formal structure to make binding recommendations.
Industrial	Excluded.	Agreement in principle to

Development Policy		develop common policies and strategies
Limitations on Internal Trade	Permitted, by unilateral action	Permitted, by unilateral action
Protection of Infant Industries	Permitted, but only by BLNS	Permitted, but only by BLNS
Agricultural Policy	Excluded.	Agreement in principle to cooperate on policies
Agricultural Marketing	Permitted, but must be nondiscriminatory	Permitted, but must be nondiscriminatory.
Competition Policy	Excluded.	Each Member State to develop Its own competition policy and cooperate.
Unfair trade practices	Excluded	Agreement to develop policies and specific instruments aimed at addressing unspecified unfair trade practices
Technical Barriers to Trade	Excluded.	Includes reference to WTO.
Sanitary and Phyto-Sanitary Measures	Excluded.	Includes reference to WTO.

Source: (Kirk, Stern, 2003:12)

3.1.2 Institutional structure of SACU

At a meeting of Ministers of Trade and Finance Departments from the five SACU member States, held in Centurion, Pretoria on 5 September 2000, the Ministers reached consensus on the principles of underpinning the Institutional reform in the SACU.

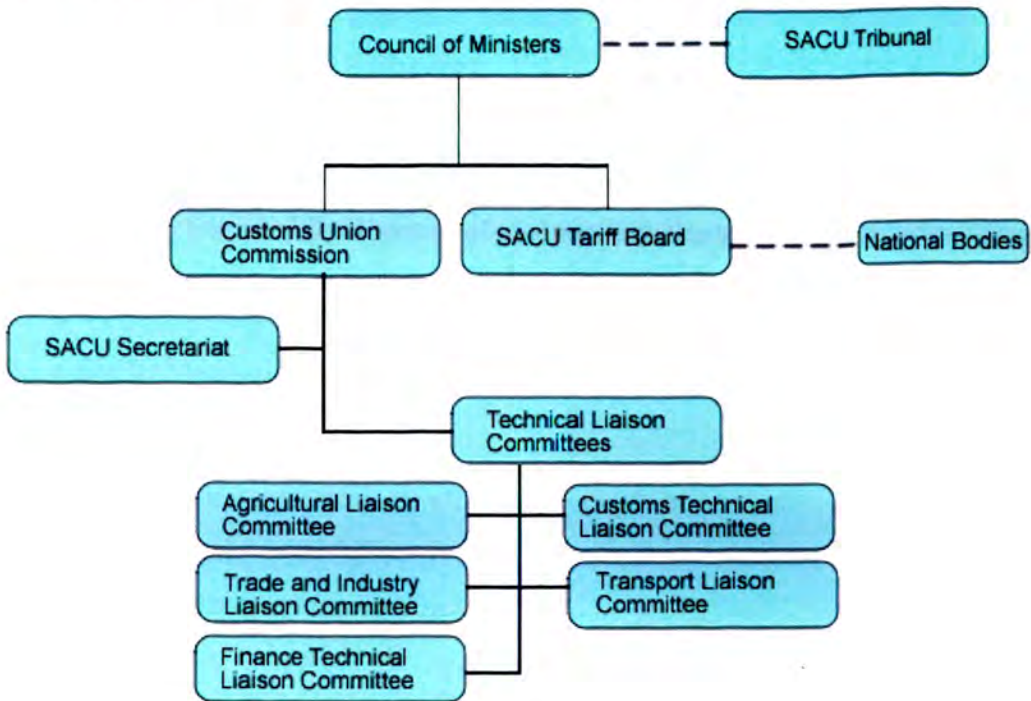
Table 3.2 Structure of SACU

<u><i>Council of Ministers:</i></u>
<ul style="list-style-type: none"> • A body represented by one Minister from each SACU member state. It would be the supreme SACU decision-making body and would meet on quarterly basis. The decisions taken by this Council would only be by consensus.
<u><i>Commission</i></u>
<ul style="list-style-type: none"> • Administrative body comprised of Senior Officials, three Technical Liaison Committees and an established Agricultural Liaison Committee.
<u><i>Tribunal:</i></u>
<ul style="list-style-type: none"> • An independent body of experts. It would report directly to the Council of Ministers. The tribunal would be responsible for tariff-setting and the Anti-dumping Mechanism.
<u><i>Secretariat</i></u>
Responsible for day to day operations of the pool. It would also be funded from the revenue pool. Its location would be determined by Senior Officials who were directed to meet after a period of a month to develop proposals for the implementation of the revised SACU Institutional Structure.

The Administrative Institutional structure of the revenue pool that was discussed was agreed and further SACU Ministers further agreed that the revenue share accruing to each member state should be calculated from three basic components:

- a share of the customs pool;
- a share of the excise pool; and
- a share of development component

Figure 3.1 below shows the institutional structure of SACU



Source (Southern African Custom Union)

3.1.3. Objective of SACU

The objectives of SACU as contained in Article 2 of the 2002 SACU Agreement are: (SACU, 2010).

- To facilitate the cross-border movement of goods between the territories of the Member States;
- To create effective, transparent and democratic institutions which will ensure equitable trade benefits to Member States;
- To promote conditions of fair competition in the Common Customs Area;
- To substantially increase investment opportunities in the Common Customs Area;

- To enhance the economic development, diversification, industrialization and competitiveness of Member States;
- To promote the integration of Member States into the global economy through enhanced trade and investment;
- To facilitate the equitable sharing of revenue arising from customs, excise and additional duties levied by Member States; and
- To facilitate the development of common policies and strategies (www.sacu.int)

3.1.4 SACU Member States

SACU is the oldest and the most effective example of economic integration in Africa (Mc’Gowan, et al., 2007:323). It is made out five members, Botswana, Lesotho, Namibia, Swaziland and South Africa.

The five members of the SACU have close economic relations going back over a century. Four of the members also form part of a monetary union. The defining characteristic of the SACU is the economic dominance of South Africa in contrast to the size of the other four members. The BLNS depend heavily on South Africa for a significant proportion of their trade, investment and in some cases (migrant) employment. The defining characteristic of SACU is the demographic and economic dominance of South Africa in contrast to the other four members. With a population of 48.5 million, South Africa accounts for 88 percent of the total population in SACU. Equally large is the size of the country’s economy relative to the BLNS countries. It is estimated that 92 percent of the total output in SACU is produced in South Africa. South Africa also accounts for 89 percent and 86 percent of the total SACU imports and exports, respectively (Kirk and Stern, 2003: 3).

Table 3.3: SACU Economic Indicators (2008)

	Botswana	Lesotho	Namibia	Swaziland	BLNS	RSA	% of SACU	
							BLNS	RSA
Population ¹	1.7	1.88	2.0	1.1	6.68	48.5	12.11	87.89
GDP ²	8.458	1.059	5.692	1.820	17.030	183.249	8.5	91.5
GDP/capita ³	4.497	502	2.714	1.557	2.549	3.764		
Imports ²	2.788	2.061	1.546	2.076	8.470	66.478	11.3	88.7
Exports ²	4.472	570	1257	1563	7861	50166	13.55	86.45
Inflation ⁴	12.7	10.72	10.35	13.3	11.77	9.8		
Interest Rates ⁵	8.67	7.64	8.38	8.17		11.61		

1millions; 2millions of constant 2000 US Dollars; 3 constant 2000 US Dollars; 4 Year-on-year Percentage changes in the all items national composite consumer price index; 5 deposit rates Source: World Bank World Development Indicators Online.

SACU member states deposit their customs and excise collections in a common revenue pool which they share using a formula that has evolved over the years. According to the new RSF the total payment (P) to each SACU member country (i) is calculated from its share of three different components: $P_i = C_i + E_i + D_i$

Where :

$$C_i = \frac{M_i}{\sum_{i=1}^{i=n} M} * C \quad (1)$$

$$E_i = \frac{GDP_i}{\sum_{i=1}^{i=n} GDP} * C \quad (2)$$

$$D_i = \left[1 - \left(\frac{GDPC_i}{\sum_{i=1}^{i=n} GDPC_i} \right) / 10 \right] * D/n = \left[11 - \left(\frac{GDPC_i}{\sum_{i=1}^{i=n} GDPC_i} \right) \right] * D/10n \quad (3)$$

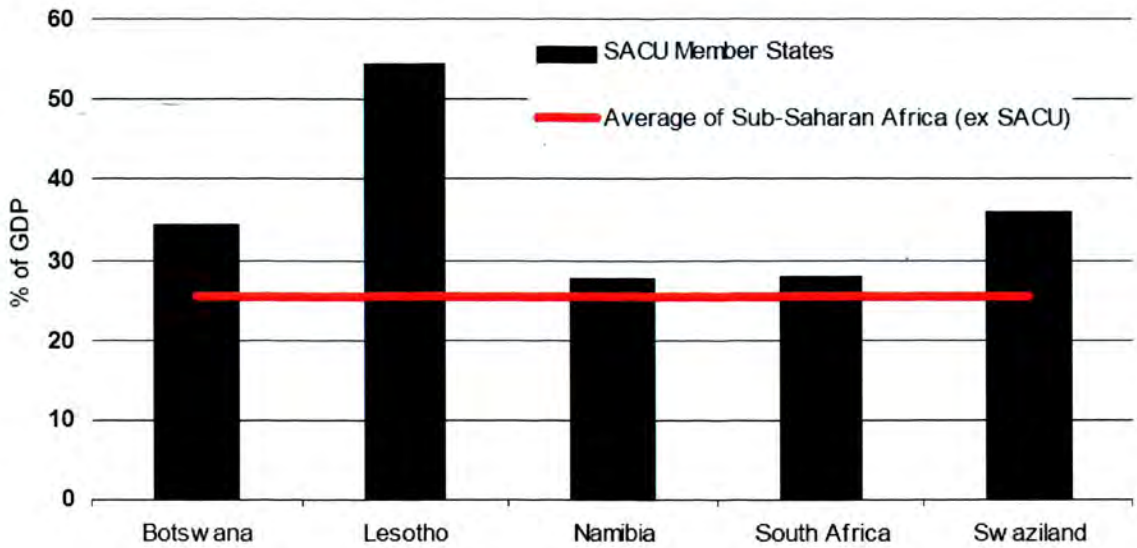
And:

- C = total customs duties collected in SACU (the customs component)
 E = total excise duties collected in SACU less D (the excise component)
 D = a predetermined share (initially 15%) of total excise duties collected in SACU (the development component)
 GDP_i = GDP of country i
 GDP_{Ci} = GDP per capita of country i
 M_i = total intra-SACU imports of country i
 n = number of member countries in SACU (Kirk and Stern, 2003)

Under the 2002 revenue sharing formula, the BLNS countries together get nearly half of the collections although their joint gross domestic product is less than 10 percent of SACU GDP.

A related point is that the large fiscal transfers from South Africa to the BLNS have created a dependence on SACU revenue. Some SACU member states are more reliant on revenue from customs than any other country in the world. This has reduced their incentive to diversify the revenue base and keep a tight rein on government spending. According to International Monetary Fund (IMF) data, government spending as a share of gross domestic product (GDP) is significantly higher in a number of SACU member States, compared with other countries in the region (figure. 3.2). Some commentators have questioned whether expanding the size of the government sector in the poorer SACU member (Center for International Economic, 2010).

Figure 3.2: SACU, Government spending as a share of GDP, average 2005-2009

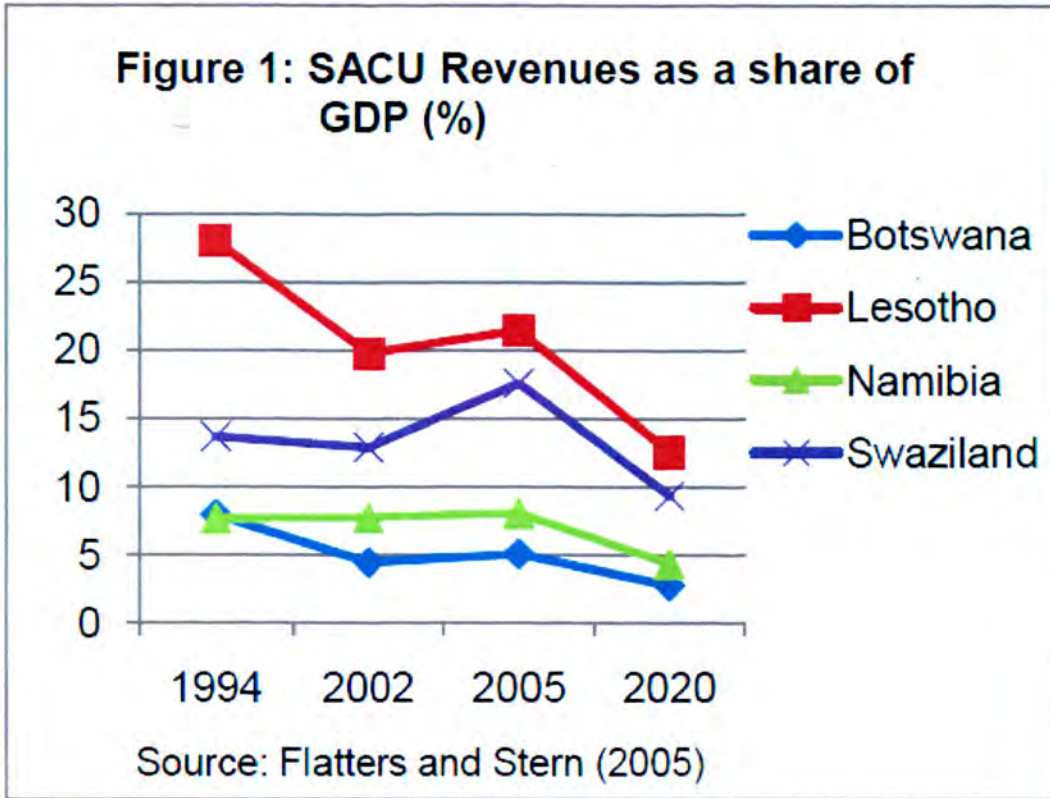


Source: IMF, World Economic Outlook Database, October 2010.

The above graph indicates the reliance of some member states on the SACU revenue. It is evident that Lesotho economy heavily depends on the revenue, followed by Swaziland and Botswana. These three (3) member states signed the IEPA, which goes against the SACU agreement of 2002, prohibits member states from entering into new agreements without the consent of other members of the trade bloc.

Maybe the move by these members states was caused by fact that, Flatters and Stern predict that Swaziland's SACU revenue as a share of its GDP will decline from 17.6 percent in 2005 to 9.4 percent in 2020; Lesotho's share will go down to 12.6 percent of GDP in 2020 from 21.5 percent of GDP in 2005; while Namibia's and Botswana's shares will drop from 8.1 percent and 5.1 percent of GDP in 2005 to 4.4 percent and 2.8 percent of GDP, respectively in 2020, below figure shows the declining of SACU revenue in years. According to Flatters and Stern the BLNS countries are expected to be affected by the declining revenue.

Figure 3.3, SACU revenues as a share of GDP



3.1.4.1 Botswana

Botswana, formerly known as Bechuanaland, was a British colony from 1885 until 1966 when it gained its independence. Botswana is a landlocked country surrounded to the south by the Republic of South Africa, to the west and north by Namibia, and to the east by Zimbabwe. It borders Zambia at a single point (Kazungula on the Zambezi River) in the northeast. It comprises 570,000 square kilometers about the size of France, Kenya or Texas. The environment is mostly arid and 84% of the country is Kalahari sand, supporting thorn bush savannah vegetation (Tlou and Campell, 2007).

By all accounts Botswana is a remarkable exception in Southern Africa, indeed in Africa as a whole. Of little interest to European settlers, Botswana experienced an apparently mild colonisation by the British. The territory experienced a peaceful transfer of power from British to indigenous rule in 1966, avoiding any resort to arms

to gain its independence. Since its independence in 1966, Botswana has been able a stable, multiparty democracy (through clearly a party system in which one party dominates). Botswana at its independence was one of the poorest countries in the world, with a per capita gross national income of U.S. \$3,630 (U.S. \$8,810 at purchasing power parity) in 2001. Since diamonds and other minerals were discovered in the 1960's and 1970's, Botswana has experienced enviable economic growth rate averaging 6.1 percent from 1966 to 1991. By 2003, Botswana was the largest producer of diamonds by value in the world. Botswana faces challenges of highest HIV/AIDS infection rate of any country in the world; however the government of Botswana has openly acknowledged the problem and is working vigorously to combat it (Bauer and Taylor, 2005: 81-104).

The economic history of Botswana is to a large extent the story of natural resource management, generous gifts and limiting scarcity, which thus have an inescapable place in a structural analysis. It is most unlikely that the Botswana growth miracle could have occurred unless diamonds had been found at Independence, and the government had nationalised all sub-soil mineral resources in 1967, thereby gaining control over future revenues. Without diamonds, the country could very well have had a functioning institutional structure offering economical and political stability, but it is hard to imagine any other way of achieving comparable consistent growth. Parallel with its diamond deposits, the country has severe constraints to economic expansion. It is landlocked, resulting in high transport costs, it has no internationally competitive wage advantage, the climate is unfriendly to agricultural expansion and intensification, and there are no other comparatively valuable natural resources. Until the 1970s, economists in general had a favourable view of abundant natural resources (Hillbom, 2008:200-201).

Current economic planning includes effort to move away from total dependence on the mining sector by encouraging more diversification. Government at all levels is committed to an open, free market economy that encourages foreign participation (Lassanyi and Olson, 1997: 62).

The global economic crisis has had a devastating impact on Botswana's economy, mainly because of the latter's heavy dependence on the mining sector, which accounts for more than a third of GDP, and particularly on diamond exports. The collapse in demand for diamonds forced operators to suspend mining activities in late 2008 and early 2009. The government recently announced a 2 percentage point increase in value added tax (VAT) in an effort to boost domestic revenue. In addition to immediate revenue shortfalls, the Botswana economy is likely to face considerable economic challenges in the coming years. In the short term, policy will need to support the recovery until the world diamond market recovers fully. Structural problems need to be addressed to diversify the economy and foster growth potential. Despite many attempts over the years to upgrade the national skills base, the supply of skilled labour does not match the demand, which is a major hindrance to efforts to diversify the economy and move it into a higher growth path. As a result of the skills gap, vacancies for skilled labour cannot be filled, while at the same time unemployment is high, particularly among the young. According to a 2008 Central Statistics Office report, the unemployment rate in 2005/06 was over 60% among 15- to 19-year-olds and around 45% among 20- to 24-year-olds (African Economic Outlook, 2010).

Country Notes: Botswana

Table 3.4 - Macroeconomic Indicators

	2008	2009(e)	2010(p)	2011(p)
Real GDP growth	2.9	-4	3.4	3.1
CPI inflation	12.6	8.2	6.8	5.1
Budget balance % GDP	5	-5.4	-4.9	-4.8
Current account % GDP	6.3	-4.2	-4.4	-3.2

Source: Data from Central Statistics Office, estimates (e) and prediction (p) based on authors' calculations.

3.1.4.2 Lesotho

Basutoland was founded in the 1820s by Moshoeshoe I, uniting various Sotho groups who had fled predation by the Zulu. Having escaped the Zulu, Moshoeshoe brought his people to the stronghold of Butha-Buthe, and then the mountain of Thaba-Bosiu (about

20 miles from what is now the capital of Lesotho, Maseru). But he had not yet found peace. Moshoeshoe's territory was being picked off by the trekboers, and he approached the British for aid. In 1884 Basutoland became a British Crown Colony. Lesotho gained independence from Britain on 4 October 1966. Completely surrounded by South Africa, the country has 11 716 square meters of miles of land and with population of at least two million people. Ever since the political independence in 1966, the major economic challenges facing Lesotho has been to create domestic employment opportunities for the country's rapidly growing population and to encourage the emergence of a national economy from a very small base. A clear unbalance exists between the supply of labour and demand for labour in Lesotho (Lundahl, at el., 2003:10).

Lesotho borders only one country, South Africa, which has the most developed economy in Africa. One cannot discuss Lesotho's economic structure and performance without mentioning its close economic integration with South Africa. The level of economic interaction with South Africa is high for three main reasons: the size differential, proximity and the customs union. Because of its size and relatively high level of economic development, South Africa supplies more than 90 percent of Lesotho's import needs. Like most small economies Lesotho is very open. In 1998, 27 percent of the GDP was exported (merchandises export) while imports came to 109% of the GDP. International trade therefore plays a important role in Lesotho economy. SACU does not represent the totaling of relevant regional integration arrangements, in fact among the countries of southern Africa, Lesotho together with South Africa constitutes the centre point of the variable geometry that exist in southern African regional integration arrangements (McCarthy, and Petersson, 2003:163).

On a political front, Lesotho is said to be a one party dominant state, with Lesotho Congress for Democracy (LCD) in power, opposition parties are allowed but considered to have no real chance of gaining power. Financially, the Lesotho government has been deriving around one-half of its revenue from the common pool of revenue of the SACU. The country main industry is livestock farming which produces

wool and mohair, leading crops are maize, sorghum, barley, beans and peas. There are a few small industries including diamond polishing. The global crisis badly affected Lesotho's economy in 2009 and its outlook for 2010 and beyond. GDP growth fell from 4.4% in 2008 to 1.1% in 2009 as the manufacturing and the mining sectors both shrank. The government estimates that employment in the manufacturing sector declined by 4.1% in 2009. Unemployment also increased because of layoffs in the textile industry and the mining sector in South Africa. The number of migrant mine workers in South Africa declined by 10% in the third quarter of 2009 (African Economic Outlook, 2010).

Country Notes: Lesotho

Table 3.5 - Macroeconomic Indicators

	2008	2009(e)	2010(p)	2011(p)
Real GDP growth	4.4	1.1	2.3	3.3
CPI inflation	10.7	4.8	5.5	5.4
Budget balance % GDP	19.5	8.2	-4.6	-12.3
Current account % GDP	3.2	-0.2	3.3	-0.1

Source: Data from Lesotho Bureau of Statistics and Central Bank of Lesotho; estimates (e) and prediction (p) based on authors' calculations.

3.1.4.3 Namibia

Since independence Namibia has successfully completed the transition from white minority apartheid rule to a democratic society. Multiparty democracy was introduced and has been maintained, with local, regional and national elections held regularly. Several registered political parties are active and represented in the National Assembly, although Swapo Party has won every election since independence. Namibian government has promoted a policy of national reconciliation and issued an amnesty for those who had fought on either side during the liberation war. The Namibian economy rests on four pillars: mining, agriculture, fishery and tourism. Mining generates about one third of the gross domestic product and the biggest portion of the income in foreign currency. Namibia is very rich in natural resources with some minerals occurring exclusively under Namibian soil. Out of a great variety of minerals, mainly diamonds, uranium, gold, silver, zinc, copper, lead, tin, marble and granite as well as semi-

precious stones are being mined. Almost half of the revenue brought in from the export of mining products comes from diamonds alone (Namibia Guide, 2010).

On a political front, Namibia is a one party dominant state with the South-West Africa People's Organisation in power. Opposition parties are allowed, but are widely considered to have no real chance of gaining power. Namibia's economy, heavily dependent on mining exports, contracted 1.5% in 2009, only the second negative growth rate recorded since independence in 1990 as the global crisis undercut overseas demand. Diamond output and prices fell sharply and tourism was badly hit, forcing job losses in many areas. Increased uranium production, a recovery in diamond prices, additional investment in infrastructure and a rebound in tourism, especially as a result of the 2010 FIFA World Cup in neighbouring South Africa, should help the economy return to growth of 2.2% in 2010 and 2.6% in 2011 (African Economic Outlook, 2010).

Country Notes: Namibia

Table 3.6 - Macroeconomic Indicators				
	2008	2009(e)	2010(p)	2011(p)
Real GDP growth	3.3	-1.8	3.0	3.9
CPI inflation	10.3	8.8	6.2	6.1
Budget balance %				
GDP	0.9	-2.2	-3.6	-3.9
Current account %	22.4	5.7	2.9	0.6
GDP				

Source: Central Statistics Office data; estimates (e) and prediction (p) based on authors' calculations

3.1.4.4 Swaziland

The kingdom of Swaziland was granted independence from the Britain in 1968. The government of the new country was a constitutional monarchy, based on the British system. But the Swazi King and his royal advisory council have more power than the British system. Since independence, events in Swaziland have been greatly influenced by the competition between the three groups, the Swazi royalty, the educated African

elite, and the white population. The economy of Swaziland is heavily dependent upon the economy of South Africa. Government land policies during the 1970's transferred more valuable property in the hands of the African elite and the royal family (Oluikpe, 1997: 54).

Autonomy for the Swazis of Southern Africa was guaranteed by the British in the late 19th century; independence was granted in 1968. Student and labour unrest during the 1990s pressured King MSWATI III, the world's last absolute monarch, to grudgingly allow political reform and greater democracy, although he has backslid on these promises in recent years. A constitution came into effect in 2006, but political parties remain banned. The African United Democratic Party tried unsuccessfully to register as an official political party in mid 2006. Talks over the constitution broke down between the government and progressive groups in 2007. Swaziland recently surpassed Botswana as the country with the world's highest known HIV/AIDS prevalence rate (The World Factbook, 2009).

Swaziland is Southern Africa second smallest economy after Lesotho and it faces a host of economic challenges in the short and medium term. The combination of low investment, the end of the EU preferential treatment, for the country main sugar and textile export, low productivity, deteriorating trade receipts, has resulted in the expansion of poverty and unemployment. The alarming 32.4% prevalence rate of HIV/AIDS will continue to exert pressure undue pressure on government resources and has restricted Swaziland annual population growth to about 0.4% since 1997. Swaziland's economy grew by 2.4% in 2008 before declining to an estimated 0.2% in 2009. Projections for 2010 and 2011 are that growth will rebound to 2.2% and 2.4%, respectively, below the 5% government target to reduce poverty to 30% by 2015. Inflation improved to a single-digit figure as commodity prices fell and the lilangeni remained relatively stable against the US dollar (Africa Economic Outlook, 2010).

Cash-strapped Swaziland has approached RSA for financial assistance in 2011, the Department of International Relations and Co-operations (DIRCO) finally confirmed.

South Africa has denied reports of a loan request by the kingdom. In March, the Swaziland government proposed salary cuts and an indefinite pay freeze for public servants. Reports were that the kingdom was also struggling to meet its international obligations. "The South African government is in receipt of a loan request from the Swaziland government." In this regard, the South African government is considering the request," the department's spokesman, Clayson Monyela, Treasury spokeswoman Lindani Mbunyuza blamed a fall in revenue from the SACU for Swaziland's financial woes. "As a result of the recession, the SACU revenue pool has been reduced. This impacted more on smaller countries like Lesotho and Swaziland," Ms Mbunyuza said (businessday, 2011).

Country Note; Swaziland

Table 3.7 - Macroeconomic Indicators

	2008	2009(e)	2010(p)	2011(p)
Real GDP growth	2.4	0.2	2.2	2.4
CPI inflation	12.7	4.1	5.5	7.2
Budget balance % GDP	2.7	-3.3	-8.3	-14.2
Current account % GDP	-4.4	-2.6	-5.4	-7.4

Sources: Data from Central Statistical Office & Ministry of Finance, Swaziland, Jan. 2010; estimates (e) and prediction (p) based on authors' calculations.

3.1.4.5. South Africa

In the first ever, all race election in 1994, South Africa achieved what only a short time before had seemed unthinkable, a peaceful transition of power from a white minority regime to a democratic, popularly elected black majority government. As a result of that election, the principal and long standing liberation movement the African National Congress (ANC) emerged as the leader of a new government of national Unity (GNU). Several of South Africa's attributes proved auspicious in its renewed promise and newfound legitimacy, the country economic base, its leadership, and the nature of its negotiated transition to democracy. First although the last years of apartheid and National Party (NP) rule had badly damaged the economy, South Africa could

nonetheless claim a level of GDP, and industrial development, as well as an economic infrastructure and degree of sectoral diversity that is unsurpassed in Africa. Labour friction and deindustrialisation have not prevented South Africa from boasting the strongest, most diversified economy on the African continent. Yet it is also one of the most unequal societies, in terms of not only distribution of wealth, but also industry and landowner ship. The economy and poverty remain the principal obstacles to future stability in South Africa (Bauer & Taylor, 2005:237-273).

South Africa occupies the southernmost portion of the African continent, stretching from the Limpopo River. To the north South Africa shares common boundaries with Namibia, the Republic of Botswana and Zimbabwe. The republic of Mozambique and the Kingdom of Swaziland lie to the north east. Completely enclosed by South African territory in the south east is the Kingdom of Lesotho. Like most African countries abutting on the sea, South Africa has even, closed coastline with few bays or indentations naturally suitable for harbours (South Africa year book, 1989-1990: 4).

On a political front, South Africa is a democratic but one party dominant state with the ANC in power. Opposition parties are allowed, but are widely considered to have less chance of gaining power. Thanks to its prudent macroeconomic policies; South Africa was one of the few countries on the continent able to implement strong and coordinated countercyclical fiscal and monetary policies. Fiscal stimulus measures together with cyclical revenue shortfalls resulted in a sharp deterioration of the fiscal position by 6.2 percentage points of GDP, culminating in a deficit 7.3% of GDP in 2009/10. The Central Bank responded to the recession by cutting the repo rate by 500 base points. Weak demand and the appreciation of the currency helped reduce inflation from its peak of 11.5% in 2008 to 7.1% in 2009. A sharp increase in electricity prices and wage cost pressures prevented a further decline of inflation into the target range of 3-6%. This made the trade-off between fighting the recession and achieving low inflation more delicate, causing public debate over the mandate of the Bank. Inflation is expected to decrease in 2010, falling back into the target range. President Zuma, elected in April 2009, must achieve a delicate balancing act: reassuring the international and

domestic business community by upholding market friendly policies, while delivering on his promises to alleviate poverty, against a backdrop of sharply increased unemployment. Public resource mobilisation has improved, as shown by the rising number of registered taxpayers, both individuals and corporations. However, the recession resulted in significant revenue shortfalls in 2009 (African Economic Outlook, 2010).

South Africa, with approximately 49 million inhabitants, has the 25th largest population in the world, and occupies a position of geo-strategic importance in the Southern hemisphere. A strong relationship has evolved between the EU and South Africa since the birth of South African democracy in 1994. This relationship is underpinned by the TDCA signed in 1999, which provides the legal basis for close relations on trade, development, economic cooperation and political dialogue. The EU-South Africa Joint Cooperation Council is the body that oversees the overall implementation of the TDCA. The EU is the most important donor to South Africa by far. The Commission and the EU member states together provide approximately 70% of the total cooperation funds received by South Africa. The EU as a whole is by far South Africa's largest trading partner: it accounted for 23% of South African trade flows in 2010. EU-South African trade flows represented more than €38.5 billion in 2010, topping the pre-crisis total of €36 billion in 2008. Largely due to the global economic downturn, the trade volume had decreased to around €25 billion in 2009 (European Union, 2010).

Country Notes: South Africa

Table 3.8- Macroeconomic Indicators

	2008	2009(e)	2010(p)	2011(p)
Real GDP growth	3.7	-1.8	2.4	3.3
CPI inflation	11.5	7.1	5.8	6.1
Budget balance % GDP	-1.2	-7.3	-6.4	-4.0
Current account % GDP	-6.6	-4.5	-5.6	-6.3

Source: Data from estimates (e) and prediction (p) based on authors' calculations.

3.2 SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC)

SADC is an inter-governmental organization headquartered in Gaborone, Botswana. Its goal is to further socio-economic cooperation and integration as well as political and security cooperation among 15 southern African states. It complements the role of the African Union. SADC member's states are Angola, Namibia, Botswana, Seychelles, DRC, South Africa, Lesotho, Madagascar, Swaziland, Malawi Tanzania, Mauritius, Zambia, Mozambique, and Zimbabwe.

Chapter one states category what led to the establishment of SADC, the formation of SADC had to have objectives and these objectives need to be explained.

The main objective of SADC is to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the peoples of Southern Africa and support the socially disadvantaged through regional integration. These objectives are to be achieved through increased regional integration, built on democratic principles and equitable and sustainable development. The countries of Southern Africa have adopted a framework of co-operation based on:

- Deeper economic co-operation and integration, on basis of balance, equity and mutual benefit, providing for enhanced investment and trade, and freer movement of factors of production, and goods and services across national borders;
- Common economic, political, social values and systems, enhancing enterprise and competitiveness, democracy and good governance, respect for the rule of law and the guarantee of human rights, popular participation and the alleviation of poverty; and
- Regional solidarity, peace and security, in order for the people of the region to live and work together in peace and harmony (Institute of Security Study, 2003).

3.3.1 Structures of SADC

Table 3.9: SADC structure

<u>Summit of heads of state and government</u>
The Summit is the ultimate policy-making institution of SADC. It is responsible for the overall policy direction and control of functions of the Community.
<u>Troika</u>
The Troika system consists of the Chair, Incoming Chair and the Outgoing Chair of SADC which has been effective since it was established by Summit at its meeting in Maputo, Mozambique in August 1999.
<u>Council of Ministers</u>
The Council of Ministers consists of Ministers from each Member State, usually from the Ministries of Foreign Affairs and Economic Planning or Finance. The Council is responsible for overseeing the functioning and development of SADC and ensuring that policies are properly implemented.
<u>Standing committee of officials</u>
The Standing Committee of Officials consists of one Permanent/Principal Secretary or an official of equivalent rank from each Member State, preferably from a ministry responsible for economic planning or finance. This Committee is a technical advisory committee to the Council.
<u>SADC national committees</u>
Their main functions are to provide inputs at the national level in the formulation of regional policies and strategies, as well as to coordinate and oversee the implementation of these programmes at the national level.
<u>Secretariat</u>

The Secretariat is the principal executive institution of SADC responsible for strategic Planning, co-ordination and management of SADC programmes. It is headed by an Executive Secretary and has its headquarters in Gaborone, Botswana. Priorities for the Secretariat are based on how the Secretariat can best contribute to the overall objective of SADC. These priorities were recently agreed upon and include:

- Trade, Finance and Investment
- Enhancing capacity for human resources development
- Stakeholder participation
- Gender mainstreaming
- Promotion of SADC image
- Policy, formulation and harmonisation
- Strengthening of institutions involved in community building

Organ on Defence, Politics and Security Cooperation

The Organ is responsible for promoting peace and security in the region. It reports to the SADC Summit and is headed by a Troika, consisting of a Chairperson, Incoming Chairperson and Outgoing Chairperson.

Tribunal

A protocol to establish the Tribunal was signed in Windhoek, Namibia during the 2000 Ordinary Summit.

Source: (SADC)

The SADC Treaty states that SADC is an international organisation, which tries to achieve the following objectives: (Amended SADC Treaty, Article 5:1).

- Promote sustainable and equitable economic growth and socioeconomic development that will ensure poverty alleviation with the ultimate objective of its eradication, enhance the standard and quality of life of the people of

Southern Africa and support the socially disadvantaged through regional integration;

- Promote common political values, systems and other shared values which are transmitted through institutions which are democratic, legitimate and effective;
- consolidate, defend and maintain democracy, peace, security and stability;
- Promote self-sustaining development on the basis of collective self reliance, and the interdependence of Member States;
- Achieve complementarity between national and regional strategies and programmes;
- Promote and maximise productive employment and utilisation of resources of the Region;
- Achieve sustainable utilisation of natural resources and effective protection of the environment;
- Strengthen and consolidate the long standing historical, social and cultural affinities and links among the people of the Region;
- Combat HIV/AIDS or other deadly and communicable diseases; and
- Ensure that poverty eradication is addressed in all SADC activities and programmes; and mainstream gender in the process of community building.

Regional integration and regional economic communities (RECs) have been considered as important and successful instruments of political cooperation, economic growth, socio-economic development and general stability. Whilst globalisation with all its implications has taken its irreversible and speedy course, the dynamics of regional integration are slow and RECs, especially in Africa, are not fully meeting their visions, not fulfilling all their promises, and not yet delivering the desired outcomes and services to the members of their communities and states.

In the southern African region, with its comparatively small economies, it was hoped that regional integration would play a crucial role in pursuing common strategic interests for the successful socio-economic and political development of the countries involved. However, the latest developments surrounding the EPA's of some SADC member states with the European Union, and the current debate about the future of the

SACU, already seem to be having a negative impact on achievements as regards creating common ground among SADC member states towards the EU and to the benefit of the SADC region as a whole. Although SADC was not affected by the global financial crisis to the extent suffered by other countries and regions in the world, it could have, as a strong REC, responded more effectively to it (Bosl, et al., 2009).

Seven member states of SADC (Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland and South Africa) are negotiating an EPA with the EU as the SADC EPA Group. South Africa initially participated as an observer and in a supportive capacity but formally joined negotiations in 2007. The other eight SADC Member States (DR Congo, Madagascar, Malawi, Mauritius, Seychelles, Tanzania Zambia and Zimbabwe) are negotiating in other regional EPA configurations. On the 23rd of November 2007 Botswana, Lesotho, Swaziland, Mozambique agreed an interim region-to-region EPA with the EU, and shortly followed by Namibia who agreed the IEPA on the 3rd of December.

Due to a series of disagreements on some key provisions of the text, South Africa refused to join the agreement. Angola also did not join the agreement, because it has not tabled a tariff offer yet. However, the interim EPA contains a clause which would allow both Angola and South Africa to join rapidly. In the meantime Angola, being a Least Developed Country, maintains duty free market access to the EU under the Everything but Arms initiative while EU - South Africa trade is covered by the TDCA (European Commission, 2009).

3.3. EUROPEAN UNION (EU)

3.3.1 Origin and Evolution

The EU is the most significant and influential of international economic integration schemes. Three reasons account for the significance. First, the EU comprises some of the most advanced nations of Western Europe, each with its own unique and complicated

economic and political system. Second, from a voluntary viewpoint, it is the oldest such scheme. Third, and most important, it is the only scheme seeking the most involved and demanding type of international integration (El-Agraa, et al., 1997: 97).

The EU operates through a hybrid system of supranational independent institutions and intergovernmental made decisions negotiated by the member states. Important institutions of the EU include the European Commission, the Council of the European Union, the European Council, the Court of Justice of the European Union, and the European Central Bank. The European Parliament is elected every five years by citizens. The EU has developed a single market through a standardised system of laws which apply in all member states including the abolition of passport controls within the Schengen area. The modern-day European Union is a direct result of a determination among European politicians to prevent future violent conflicts in Europe after World War II. The original aim was to tie countries together by forging closer industrial and economic cooperation. Since then, the EU's responsibilities have grown in response to new challenges and many more countries have joined (The World Factbook, 2009).

Although European economic integration its now often noted for its economic benefits, its origin was of political nature. In 1951, Belgium, France, Germany (the known as Western Germany), Italy, Luxemburg and the Netherlands signed the ECSC Treaty, which was the first step toward what, is now the EU. In 1957, six member countries of the ECSC signed the Treaty of Rome which launched the EEC, later known as the European Community (EC). Starting as an FTA, the ECC / EC progressed to become a custom union and eventually a common market. In 1991, 12 member countries signed a Treaty on EU in Maastricht, Netherlands to complete the single market and establish an economic union. The title the EU was officially adopted in 1993 when Maastricht treaty went into effect (Peng, 2008:218).



No one really expects the EU to become a united state, because Europe is composed of many people with their own nation states, language, culture and histories. The basic idea of the European Union is unity in diversity. The question is really how well these countries have been able to cooperate to achieve their common goals. Most commentators would say the EU has contributed to peace and security on the European continent for more than 50 years. It has created more economic growth than might have occurred without free trade. The EU has strengthened democracy and human rights in Europe and beyond (Kahn, 2008: 23).

3.3.2 EU structure and institutions

The European Union has four main institutions: the Council of Ministers, the European Commission, the European Parliament and the European Court of Justice.

Table 3.10, EU structure

The Council
<ul style="list-style-type: none"> The Council is the main decision-making body of the European Union. It meets regularly in Brussels or Luxembourg to discuss and agree policy and legislation. The Council brings together heads of state and ministers from member countries, along with the President of the European Commission. Each member state holds the Presidency of the Council for six months in rotation.
The European Commission
<ul style="list-style-type: none"> The Commission is the administrative and executive body of the European Union. Its headquarters are in Brussels. The Commission is charged with drafting initial proposals for legislation and policy for consideration by the Council of Ministers and the European Parliament. There are currently 25 Commissioners, one for each member state. The Commissioners serve for five years and are nominated by national governments.
The European Parliament
<ul style="list-style-type: none"> The Parliament consists of over 700 democratically elected MEPs (Members of the European Parliament) from each of the member states. MEPs are elected for a five-year term. When the EU was enlarged in 2004, membership increased from 626 to 732 MEPs - the UK has 78. Working in Brussels and Strasbourg, the Parliament scrutinises the activities of other EU institutions, passes the annual EU budget, and shapes and decides new legislation jointly with the Council of Ministers.
The European Court of Justice
<ul style="list-style-type: none"> The Court, has a judge from each member state, adjudicates on all legal issues and disputes involving Community law. The 25 judges and eight advocates-general, who are appointed by

member states, give a preliminary ruling on each case before a final judgment. The Court deals with two main types of actions: those referred to it by national courts for rulings of interpretation of Community law; and those started by one of the other institutions.

3.4.3 Aims and objectives

The principal aims of the EU are to:

- Promote peace, its values and the well-being of its peoples.
- Offer its citizens an area of freedom, security and justice without internal frontiers, and an internal market where competition is free and undistorted.
- Work for sustainable development of Europe based on a social market economy, aiming at full employment and social progress, and with a high level of protection and improvement of the quality of the environment.
- Combat social exclusion and discrimination; promote social justice and protection, equality between women and men, solidarity between generations and protection of the rights of the child.
- Promote economic, social and territorial cohesion and solidarity among member states.
- Respect its rich cultural and linguistic diversity and shall ensure that Europe's cultural heritage is safeguarded and enhanced.
- Uphold its values and interests in its relations with the wider world. It shall contribute to peace, security, the sustainable development of the Earth, solidarity and mutual respect among peoples, free and fair trade, eradication of poverty and protection of human rights and in particular the rights of a child, as well as to strict observance and to development of international law including respect for the principle of the United Nations Charter.

The basic objective, structures and operations of the EU are laid down within a number of treaties. The treaties make up the constitution of the EU and provide a legal basis for legislation and other measures. All member states have to abide by the treaties and the legislation agreed under them (Unite the Union, 2008).

3.4 SADC trade with the EU

The EU is the group's largest trading partner, with Southern Africa accounting for most imports/exports.

The main exports are:

- Wine and fruit (South Africa)
- diamonds (Botswana)
- oil (Angola)
- fish and beef (Namibia)
- sugar (Swaziland)
- aluminium (Mozambique)

Main SADC EPA Group's imports from the EU include mechanical and electrical machinery, vehicles, iron and steel.

The below diagrams shows the trade between the EU and SADC countries

European Union, Imports from SADC EPA Group (Million euros)

	2003:	2004:	2005:	2006:	2007:	2008:	2009:	2009 6m:	2010 6m:
Extra EU27:	935,265	1,027,522	1,179,569	1,352,787	1,433,402	1,564,946	1,199,196	590,221	703,269
SADCgroup:	19,002	20,608	23,992	25,261	28,581	32,121	21,716	10,841	11,868
Angola	1,137	974	2,833	2,140	4,158	7,718	4,016	2,445	1,062
Botswana	1,513	1,907	2,394	1,799	581	407	372	214	164
Lesotho	6	24	53	63	123	109	161	47	56
Mozambique	602	841	1,017	1,283	1,394	809	679	255	670
Namibia	559	909	953	1,312	961	452	569	268	447
Swaziland	121	111	117	120	159	144	131	45	61
South Africa	15,057	15,812	16,835	18,535	20,805	22,362	14,927	7,567	8,808

European Union, Exports to SADC EPA Group (Million euros)

	2003:	2004:	2005:	2006:	2007:	2008:	2009:	2009 6m:	2010 6m:
Extra EU27:	869,237	952,955	1,052,720	1,160,101	1,240,541	1,309,818	1,094,411	523,065	630,137
SADCgroup:	16,080	18,231	20,714	23,487	25,154	26,311	22,249	10,464	12,903
Angola	1,910	1,623	2,017	3,048	4,023	5,277	5,167	2,609	2,292
Botswana	153	130	138	90	157	138	199	95	61
Lesotho	20	16	15	19	13	13	11	8	5
Mozambique	205	192	229	255	258	324	413	192	236
Namibia	180	193	180	158	189	311	371	138	150
Swaziland	18	27	30	26	28	27	28	14	12
South Africa	13,592	16,051	18,105	19,891	20,487	20,222	16,041	7,408	10,144

Source: (EPA interim agreement SADC EPA group Sept. 2010)

The above diagrams will be used as secondary data for the presentation, analysis and interpretation in Chapter 5. Data will be reflected as appendix B in the research.

Negotiations for a full EPA cover services and investment as well as some "outstanding" issues such as the MFN clause. Full EPA negotiations also cover tariff discussions between the EU and South Africa. Negotiations continued in 2009 and 2010, addressing market access issues with South Africa, rules of origin, services and investment and sustainable development. All sides are committed to finalise the full, comprehensive regional EPA as soon as possible (SADC, 2010).

3.5 CHALLENGES OF THE EU-SADC- EPA

The 2008 EPA offers were only provisional, and they applied only to trade in goods. The second phase of the negotiations would include trade in services, investments, telecommunications, etc. In addition, when the time came for the duty free quarter free (DFQF) access to be reciprocated for EU exporters in countries like Botswana, it can be concluded that this will lead to great confusions regarding which import tariff schedules to apply to EU imported products (i.e. current SACU (effectively TDCA) versus reciprocated EU free access). This will be a big institutional challenge for all SACU members. An analysis of the EPA impacts on Botswana's import markets and her general welfare must consider the following points: (Roux, 2008).

- a) Currently, the EU imports to Botswana are not that significant, because an overwhelming 76% of Botswana's imports originate from the SACU region and more specifically from South Africa (WTO, 2007).
- b) Since Botswana's import tariffs are the common SACU tariffs, the effects of any new tariffs must be compared to the effects of South Africa's TDCA, since TDCA provided the effective tariff schedule for the whole SACU region given South Africa's dominance in the region.

On the other hand, since it is not clear what effects the EPA negotiations on services, investments, etc., would have on Botswana and other SACU members (Rampa, 2007). Therefore, although the EPAs may appear attractive when looking at immediate gains for sectors like Botswana's exporters it is most likely that a high level of adjustment costs will be incurred in future (Roux, 2008).

BLNS countries in SACU, which do not possess the same levels of economic development compared to South Africa (and which have had significantly lower levels of bargaining power within SACU), had different ambitions and economic pursuits regarding trade agreements affecting their agricultural export products. While Botswana's concerns were focused on protecting the preferential access of her beef exports to the EU, Tanzania's concerns revolved around protecting her fisheries industries and South Africa's interests lay with pursuing a more liberal trade environment, which was encouraged by the TDCA with the EU. It was, therefore, hardly surprising that the various SADC member countries signed their EPAs with varied intentions and within different regions. For example, Tanzania signed her EPA within the East Africa Community (EAC) and South Africa chose not to sign the SADC-negotiated EPAs at the start of 2008. The BLNS countries in SACU (including Mozambique) in the SADC region signed EPAs with the EU, which maintained preferential access into selected EU markets. The agreements were only provisional and were to be negotiated further to include trade agreements on issues like trade in services (Mbatha & Charalambides, 2008).

The EPA negotiations between the EU and the ACP countries have attracted so much attention, been the subject of so many analysis, raised so many expectations and caused so many fears that it becomes difficult to identify areas of the debate where commentators seem to agree. There is little doubt that the debate has become emotional and politicised. One point of convergence is that the EPAs can potentially have a large direct impact on development and that impact could be positive or negative. Another closely related point of convergence is that, because EPA's can seriously affect development, their design and implementation are fundamentally important, albeit

complex. Even when defending contradictory position, all negotiation sides claims to be pursuing a developmental outcome (Jones and Marti, 2009:9).

One of the issues that pose risk to the economic welfare of the SADC region is the outcome of the negotiations on the EPA's, the outcome of the negotiations has exposed a rupture among member states of the SADC-EPA group. If they are not resolved, the differences within the SADC over the EPA negotiation could impair the broader regional integration in southern Africa (Mkandawire, 2008:17).

The Customs Union has a CET and therefore does not allow any single SACU member to negotiate a trade agreement bilaterally with third parties. The SACU-EPA 'three' were consequently faced with a stark choice: work to reach a consensus within the Union to respect its internal rules and sign the interim EPA as a bloc, or prioritise trade with the EU and sign immediately as individual countries. The decision by Botswana, Lesotho and Swaziland to sign the interim EPA came in the result of SACU's failure to negotiate as a bloc with a view to sign the EPA (Walker, 2009).

To say the EPA's negotiations have been bedeviled by controversy is an understatement. Most African countries have expressed concern on the missing development links within EPAs. To date, only 10 of the 47 countries involved in the negotiations have signed an EPA. A further nine countries have initialled EPAs but have delayed signing them. The delays have been precipitated by outstanding contentious issues. In places where comprehensive EPAs could not be agreed in time, interim EPAs were initialled which are now being signed. This was done ostensibly to safeguard preferences and move on with negotiations on comprehensive EPAs. In 2009 there were intense negotiations to get countries that initialled EPAs by the end of 2007 to sign them before the end of 2009. Some of the contentious issues include; the understanding of 'substantially all trade'; MFN clause, Development Cooperation; the bilateral safeguards and rules of origin. The unresolved issues have led to some countries refusing to sign in the SADC region, for example Angola, Namibia, and South Africa. In the ESA-EPA grouping, Zambia and Malawi have refused to

sign. There are also countries that have signed EPAs but have not ratified them because of sub-regional concerns like Lesotho and Botswana who are in the SACU (Makombe, 2010).

3.5.1 CONTENTIOUS ISSUES IMPACTING ON THE ONGOING NEGOTIATIONS

Though appearing to be a technical in nature, the various issues considered by the ACP negotiators as ‘contentious’ are viewed as having significant economic and political consequences for their development. The importance of the issue lies in the fact that unless some way is found of overcoming disagreements there is a very risk that negotiations on comprehensive EPAs will not be concluded. This would leave the process of regional integration, one of the original motivations for EPA negotiations in the first place, in several ACP regions in a difficult position. It would also represent a lost opportunity to foster development in the ACP through increasing the coherence of the EU trade and development policies, facilitating the integration of the ACP states into the global economy and the promotion of regional integration within the ACP regions (Makombe, 2010).

- **Most Favoured Nation clause (MFN)**

South Africa still refuses to sign despite concessions by the EU to “sweeten” the deal. Previously the major point of disagreement has been EU’s insistence that a “Most Favoured Nation” clause be inserted into the agreement. This would bind South Africa to make sure that any trade concession that it grants to a country enjoying more than a one percent share of world merchandise exports - such as India for example - is automatically extended to the EU, too. South Africa enjoys excellent relations with the BRIC countries (Brazil, Russia, India and China) and is therefore not in a position to accept a deal that compels it to extend to the EU concessions it chooses to make to the BRIC countries. The MFN clause is problematic for all ACP countries because it limits

their leverage to make deals with countries especially in the emerging economies where ACP exports are growing fast.

Namibia has not signed because it is unhappy at what it perceives to be the lack of proper consultations and what it believes are moves that undermine the partnership. Namibia's Trade and Industry Minister, Hage Geingob is on record saying: "A partnership means that all partners are equal (The Namibian, 2009).

The inclusion of a MFN clause whereby preferences granted to a large economy in the future would have to be extended to the other parties of an EPA has also been passionately debated. While this is not required or proscribed by the WTO, it is one of the most politically sensitive issues at stake. From the ACP side, it is not acceptable as a matter of principle. ACP policy makers consider it an unacceptable constraint on their future trade agreements with third parties. The EU, however, views it as a matter of "fairness" given their generous concessions under the EPA.

This clause by the EPA is very restrictive and for the EPA to be concluded the EU should remove or dilute this clause, as there is no doubt that South Africa and Namibia will just give away on this clause. This clause has less interest in the SACU member's states and undermines these negotiations.

- **Signing to avoid shut-out**

It seems that what has happened is that some SACU members have decided to prioritise their individual trade with the EU rather than reach a consensus within SACU.

- **Loss of fiscal revenue**

The liberalisation in goods commitments envisaged under the various interim EPAs will lead to a significant loss of revenue.

- **Rules of Origin**

Rules of Origin (RoO) in EPAs are still very restrictive and will continue to hamper the industrialisation of low income countries. They will even be more problematic in the SACU context where Botswana, Lesotho and Swaziland have signed an EPA with EU. This is because South Africa is considering tightening its borders with these countries. South Africa's trade minister, Rob Davies believes this is necessary "to prevent European goods enjoying easier rules of origin or lower tariff levels in the signatory countries from entering South Africa as a result of the SACU regime," (Hormeku, 2009).

- **Revising and signing interim agreements**

The EU Commission insists that it is not possible to revise interim EPAs and goes as far to say they must be signed in order to notify them to the WTO. The EU Commission further takes the position that while it is prepared to revise contentious issues in the interim EPAs, it can only do so in the context of continued negotiations for final EPAs and this condition that ACP countries negotiate trade-related issues or services.

- **Non-binding cooperation clauses**

There is also the problem of Non-binding cooperation clauses. EPAs have comprehensive but non-binding clauses on development cooperation. What this means is that EPAs make no firm commitments on finance for development on the side of the EU. This means for instance for all SADC countries there are no enforceable obligations for the significant revenue losses that are expected.

- **Export taxes**

The issue of export taxes is also important as these taxes are a source of government revenue for African countries. EPAs insist on the elimination of export taxes or in some cases want to forbid the introduction of new taxes. Were this to be accepted, it would seriously limit the support that African governments can offer to their domestic

industries. Export taxes are an important tool that can be used to promote food security through local production. Namibia has over the years been able to successfully support its beef and brewery industries.

- **Free circulation of goods**

The EU also seeks to ‘smuggle’ goods through the provision of the free circulation of goods. This is because under this provision EU goods imported in ACP would pay import duty only once or when they enter another country in the same customs union. As the Ministry of Trade and Industry has pointed out, this clause poses a challenge because it “ignores the individual customs territories of the SADC EPA parties, current regional trade arrangements under SACU and SADC, as well as the regional economic integration programme in Southern Africa (Namibia Ministry: 2007 p3). In the SACU context it means EU goods in Swaziland could potentially flood South Africa even though South Africa has not yet agreed to a deal with the EU.

- **Dispute Settlement Mechanism**

A major contention with the suggested mechanism is that the only mode of remedy is trade sanctions. Given that SADC economies are by far smaller compared to EU’s, it means the SADC countries are in no position to impose trade sanctions on the EU. A progressive way forward would be to have provisions in the mechanism to financially compensate ACP countries for disadvantages suffered.

- **Infant industry protection**

Industrialisation is important to addressing the developmental challenges faced by SADC. Both SADC and ESA have in the re-negotiations on the infant industry come up with standalone infant industry provision. Countries in these two groupings had made the case during the negotiations for infant industry provisions that would not expire after 10-15 years as reflected in the old text. The understanding promoted by the old text created the impression that after 10-15 years there would not be any infant industries. Furthermore, the clauses were no more than ordinary safeguards that were really limited to mitigating the damage of import surges for existing sectors and did not

cover for the building of new sectors. More than anything, the clauses were applicable for only a short time.

- **Rendezvous clauses**

The United Nations Economic Commission for Africa (UNECA) has also pointed out that the interim EPAs contain clauses on the continuation of the negotiations. Some issues listed in these clauses are contentious, as their negotiation is not foreseen by the Cotonou Agreement, but only appear in the EU negotiating mandate and African countries have consistently opposed their negotiation (UNECA, 2008:8).

- **Non-execution clause**

Cotonou Articles 96 and 97 have non-execution clauses that allow for the imposition of trade sanctions for political violations committed in the exporting country. Article 96 allows for the imposition of sanctions in the case of failure 'to fulfil an obligation stemming from respect for human rights, democratic principles and the rule of law', while article 97 allows for sanctions in serious cases of corruption. The inclusion of this clause in the EPAs has been roundly objected to by ACP ministers; even ACP legal experts have advised the rejection of a non-execution clause (ACP Council: 2003:8).

- **Standstill clause**

ACP countries are obligated to freeze their import tariffs at the current applied level. This clause is there in all EPAs. However in the interim EPAs, it is only the SADC text that does not contain a standstill clause freezing all applied tariffs as soon as the EPA is in force. In some agreements the freeze extends to tariffs that are excluded from liberalisation.

The MFN clause in the EPA, is been viewed as threat to South- South trade and Brazil has raised serious concerns that a clause in the EPAs between the EU and ACP countries could pose a serious threat to improving trade between developing nations. The Latin American country, which voiced its fears during the WTO General Council

in Geneva on February 5, pointed to the negative effects of the so-called ‘most-favoured-nation’ (MFN) clause included in both the Caribbean and interim EPAs. This controversial MFN clause requires that any ACP country which has concluded a deal with Brussels must automatically extend to the EU “any more favourable treatment” (i.e. deeper market access) that the region or any of its member states grants to any other major trading economy in future FTA (Dieye and Hanson, 2010).

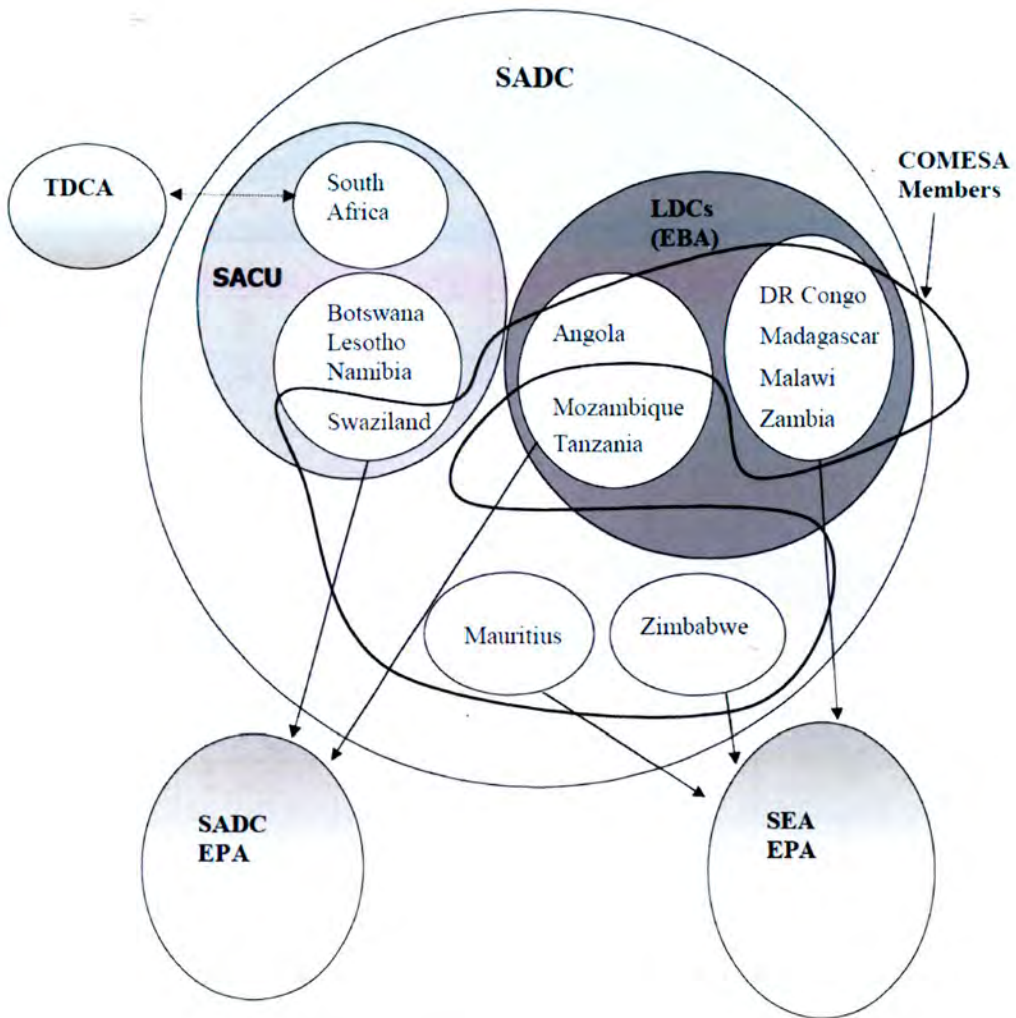
3.6 CROSS CUTTING MEMBERSHIP IN SADC COUNTRIES AS AN IMPEDIMENT TO CONCLUDE THE EPA

Membership of a regional integration arrangement is a political choice of any one country, whether based on political, social, geographic and or economic considerations. A salient feature of ESA is the existence of multiple overlapping regional agreements, namely the SACU, SADC, COMESA, and EAC (Niekerk and Moreira, 2002).

The Southern African countries are faced with the cross cutting membership and EPA negotiations do not, as originally envisaged by the EU, reduce Southern African countries’ overlapping memberships but do further complicate regional integration in Southern Africa, resulting in contradictory decisions that are rather motivated by political considerations than economically driven (Meyn, 2004).

The EPA negotiations have proved to be very more challenging that could have been expected by any of the parties, and these negotiations have served to highlight the parlous state of regional integration, especially in Southern Africa. Given that the groups of countries constituting negotiating configurations cut across existing regional economic communities, they have added to an already complex regional integration agenda. The figure below is the cross cutting regional membership in the Southern African region (Bösl, et al., 2009).

Figure 3.4 indicates the overlapping membership of Southern African countries



Source (Meyn, 2005:7)

These overlap of membership among regional economic communities in the ESA region to an extent unparalleled anywhere else in the world. This has a bearing on the costs and benefits particularly of deeper integration.

The table below also depicts the cross cutting membership of ESA, the membership of SADC countries in regional organisation.

Table 3.11 representing cross cutting membership

COUNTRY	SADC	SACU	COMESA	EAS
Angola	•		•	
Botswana	•	•		
DR Congo	•		•	
Lesotho	•	•	•	
Malawi	•		•	
Mauritius	•		•	
Mozambique	•		•	
Namibia	•	•		
Seychelles	•		•	
South Africa	•	•		
Swaziland	•	•	•	
Tanzania	•			•
Zambia	•		•	
Zimbabwe	•		•	

3.6.1 SACU and SADC

All five SACU countries are members of SADC and in the process of implementing the SADC Trade Protocol. The different integration agendas of SACU and SADC do not pose any problems at this point in time, as all members of SACU are in the process of implementing the SADC FTA. Once SADC establishes a CU, SACU countries will not be able to still be part of SADC unless the two organizations' customs rules and CETs can be harmonized (Jakobeit, et al., 2005).

3.7.2 SACU and COMESA

Swaziland is the only SACU member that is also a member state of COMESA. It wants to become part of the COMESA FTA, but as it has to implement the CET of SACU, COMESA FTA members had to give Swaziland derogations from its obligations under the COMESA FTA. This means that Swaziland enjoys preferential access to the markets of COMESA FTA states, but Swaziland does not have to reciprocate these preferences. This is necessary as Swaziland cannot break SACU's CET without the consensus of the other SACU member states (Jakobeit, et al., 2005).

3.7.3 SADC and COMESA

Of the fourteen SADC member states, eight are also members of COMESA. Tanzania, Namibia and Lesotho have recently withdrawn from COMESA while the Seychelles opted to pull out of SADC but later rejoined. Madagascar is in the process of completing its accession to SADC (Jakobeit, et al., 2005).

Swaziland is a member of SADC, COMESA and SACU, and currently the sitting chair of COMESA, this overlapping brings challenges to these regional bodies in achieving regional economic freedom as envisaged by the African Union. The implications of Swaziland are complex as it has already initialled the IEPA, and more to its problems facing a political and economic unrest, and most of its GDP is derived from SACU.

3.7.4 SADC and EAC

The position of Tanzania within the EAC further complicates matters. Tanzania announced its withdrawal from COMESA in July 1999, citing the proposals by COMESA to reduce customs duties by 90% as the main reason. It announced that it wanted to focus on its membership of the EAC and on implementing the SADC Trade Protocol. This state of affairs will however have to change once SADC moves towards becoming a CU, as Tanzania cannot implement more than one organization's CET (Jakobeit, et al., 2005).

3.7.5 COMESA and EAC

Kenya and Uganda are both members of the EAC and of COMESA. Up to very recently this did not pose problems, as the EAC is basically a fast track of the COMESA integration agenda (Jakobeit, et al., 2005).

Africa is fragmented in its negotiations with the EU. The issue of simultaneously implementing a free FTA with both the SADC and COMESA is a source of consternation. In September 1995, it was decided at a SADC meeting that membership of both COMESA and SADC was unsustainable. At the time, SADC states were asked to withdraw from COMESA. COMESA on the other hand has argued that it is not possible to conduct trade using more than one trade regime. In fact a joint COMESA/SADC study was to look at the harmonisation of the two organisations. The two organisations agreed on the need to promote integration in Southern Africa. While COMESA and SADC agendas overlap, there is the problem that South Africa which is an economic powerhouse in Africa is not a member of COMESA having turned down the invitation to join in May 1994. The fragmented nature of all these negotiations and deals has the potential to scupper the proposed merger of SACU and COMESA into a single customs union under the Southern Africa Development Commission. This merger is supposed to take place before the end of 2010 (Makombe, 2010).

The issues arising from overlapping membership in regional association in Africa, all member states of SADC belongs also to one or more other regional integration grouping with partly conflicting objectives (European Union, 2009:142).

As the implication of regional integration, SADC is a split, which implies significant challenges of its custom unions, which was to be launched in 2010. Half of the SADC member states are members of COMESA as presented in the table above.

3.7 POSSIBLE IMPACT OF THE EPA'S ON SACU

The EU's tactics resulted in a split between the members of the SADC configuration, as well as the members of SACU. The initialling of an IEPA by Botswana, Lesotho and Swaziland, and later the conditional initialling by Namibia, with South Africa's decision not to initial an IEPA, caused tensions between the Member States of SACU. Article 31.3, of the SACU 2002 Agreement states specifically that, no member shall negotiate or enter into new preferential trade agreements with third parties without the consent of the other members. Botswana, Lesotho and Swaziland initialled an IEPA without the consent of Namibia and South Africa, while Namibia consulted with South Africa before it conditionally initialled the IEPA. These unilateral decisions placed a high degree of pressure on the integrity of SACU. Furthermore, Article 31.2 of the SACU 2002 Agreement explicitly states that the members shall establish a common negotiating mechanism when negotiating agreements with third parties. Taking into account the outcome at the end of 2007 with regards to the initialling of the IEPA, it is clear that the stipulation in Article 31.2 was never followed (Roux, 2008).

Due to the common revenue sharing formula, all BLNS countries receive positive net trade revenues from SACU's common revenue pool, while South Africa's net revenue from the same pool is negative. The implication is that South Africa not only controls the trade policies of BLNS countries via its dominance in exports to BLNS markets, but also via the net revenue transfers to SACU countries Tralac, 2008 (cited by Mbatha and Charalambides, 2008:429).

3.7.1 The case for Botswana

According to Rampa and Makhan (cited by Mbatha and Charalambides, 2008:421), it is argued that in terms of making immediate gains in total welfare, it was sensible for Botswana to sign an EPA with the EU. In terms of achieving her long term developmental goals, however, it is not so clear cut that the signing was as sensible. Being part of the SACU region, the case of Botswana's EPA negotiations should not only be analysed by comparing its economic outcomes to the MFN or GSP tariff

schedules, but also to outcomes stemming from South Africa's TDCA. More than 75% of Botswana's imports come from the SACU region, of which a majority comes from South Africa. Because of the SACU common external tariff, Botswana was by and large subjected to tariffs paid at South African borders (Tralac, 2008c).

Rampa, (2007), also agrees that the signing of an EPA may have been sensible in protecting some agricultural sectors (like the beef sector) and rural households who were dependent on it, however, the move had associated costs with regard to the country's long term development. With EPAs having been signed by Botswana and other SACU members (excluding South Africa), one of the biggest challenges for the region has to be institutional in nature. The EPA signatories in SACU must now formulate and apply tariff schedules to EU exports to reciprocate the EU's DFQF offer. These pose a conflicting challenge to SACU's common external tariff and revenue sharing as agreed to in 2002. For such import tariff schedules to be independently set for EU exporters by the EPA signatories, the SACU members would have to renegotiate the 2002 agreement. In making these decisions, Botswana has to think about how her current imports from SACU, especially from South Africa would be affected. In the event that the SACU agreement breaks down, all BLNS countries may have to forego any net benefits from the common revenue pool. Many of the institutional challenges posed on the SACU agreement by the EPA, also apply to the proposed SADC FTA with fourteen members.

3.7.2 The case for Lesotho

This new reciprocal agreement means that both sides will open their markets to the exports of the other, although Lesotho (and other countries) has been given a much longer period of time within which to reduce their import duties for EU products. Lesotho on the other hand will enjoy the immediate scrapping of all import duties for products exported into the EU from the start of 2008 (with a short transitional period for sugar and rice). RoO form a critical component of the new EPA preferential trade agreement. They are important to garment producers / exporters as they set the specific

conditions under which a product can gain duty-free market access to the EU. Under the EPA, Lesotho's clothing and textile exporters may export goods to the 27 EU member states free of import duties or quotas a saving of up to 12% on most items. For clothing, the general rule is now based on the "single-stage" transformation requirement whereby only the making up of the garment must be undertaken locally; in other words, producers may source fabric from anywhere in the world without being disqualified from exporting clothing to the EU free of duty. However, two words of caution are needed. First, the fact that South Africa has not yet signed the agreement brings with it uncertainties regarding the net impact for Lesotho regarding SACU revenue streams. Second, it is not known how, and to what extent, manufacturers will respond to the EU market (MTICM, 2008).

3.7.3 The case for Namibia

The Namibian farm sector thus needs the necessary space to reposition itself as an exporter of naturally produced goods, if it is to stay competitive in an EU market which increasingly demands higher production and food safety standards. This is particularly true for Namibia's main exports of beef and table grapes, which are likely to face stiff tariff increases in 2008 if the EPAs are not agreed in a timely fashion. These two commodities have a combined yearly export value of around €100 million - almost on a par with Namibian fish exports valued at approximately €120 million. The matter is further complicated by the fact that no tariffs under the GSP the regime which will automatically be applied to Namibia - are available for meat and meat products, nor is the Commission likely to introduce any. Therefore, Namibian beef would face tariff increases of between 63 and 132 percent, leading to additional duties of €30.76 million per year. Further exports of Namibian meat to the EU markets would thus be both unrealistic and unprofitable. On the other hand, Namibia will benefit from GSP tariffs for exports of table grapes and the country is likely to apply for GSP and tariffs in 2009, when this opportunity will be made available. Yet this leaves Namibia at a distinct disadvantage against competitors also exporting table grapes to the EU: Chile enjoys a zero tariff regime under the EU-Chile Free Trade Agreement, while South

Africa's tariffs are currently reduced under the TDCA to 4.3 percent with a zero tariff envisaged in 2012 (Rampa, 2007).

The interim agreement includes provisions on market access and a commitment to continue negotiations towards a full and comprehensive EPA. Angola and South Africa did not initial the Interim EPA. As a LDC, Angola continues to receive EU preferences under the EBA initiative. South Africa, on the other hand, has the South Africa-EU the TDCA. Although Namibia initialled the IEPA, it is now refusing to sign, saying it wants the IEPA to be amended to reflect that their concerns on infant industry protection, food security and free circulation of goods will be addressed. Namibia's Trade and Industry Minister, Hage Geingob, has gone to the extent of asking that the EU's commitments be included in an annexed declaration to the existing interim EPA. This suggestion has been rejected by the EU. Although Botswana, Lesotho, Mozambique and Swaziland have signed, there are still many areas of disagreement in the SADC-EU IEPA, including export taxes, quantitative restrictions, Food and the Most Favoured Nation clause. Namibia has also been irked by the lack of proper consultations and what it believes are moves that undermine the partnership. Geingob said: "A partnership means that all partners are equal. Why else would you include the word partnership in the EPA? It also means transparency (Makombe, 2009).

3.7.4 The case for Swaziland

Early 2009, the Swaziland Sugar Association (SSA) disclosed that local sugar sales to the EU had increased from 152 000 tonnes in 2005/06 to 209 000 tonnes in 2008/09. SSA revealed that they were now exporting sugar to the EU under the interim EPA. The market access arrangements previously regulated by the Sugar Protocol will now be governed by the EPA, and because Swaziland has already signed the interim EPA with the EU, which covers trade in goods (including sugar), there are no significant negative effects expected on the local sugar industry from the lapse of the Sugar Protocol. Government continued commitment to sign the full EPA once negotiations had been concluded provided sufficient comfort that there would be no

new adverse consequences. The signing of the interim EPA led to a rift among countries under the SACU. The faction that did not sign accused those who signed of contravening the SACU Agreement of 2002, which says negotiations of trade agreements with third parties should be done as a bloc, not individually. The main areas of concern by Angola, Namibia and South Africa were the EU's demand for a MFN clause and the issue of the definition of the parties (Swazi times, 2009).

3.7.5 EPA on South Africa

The EU is committed to pursuing its engagement with South Africa and to strengthening the strategic partnership with its largest trading partner in Africa. It is the only African member of the G20 and the BRICS, and a non-permanent member of the UN Security Council in 2011-2012. EU development cooperation with South Africa is financed from the EU budget (Development Cooperation Instrument). It has been operational since 1995, and since then yearly financial commitments have averaged €125 million. For the years 2007-2013, the indicative amount assigned by the EU to cooperation with South Africa is €980 million, i.e. €140 million a year. This is the largest EU bilateral envelope worldwide. Its main objective is the reduction of poverty and inequality in South Africa (European Union, 2011).

Some of the reported reasons for South Africa not signing an EPA with the EU are with regard to potential future costs of this agreement. These relate to potential costs to regional integration as well as national industrial development objectives (Roux, 2008).

The EU and South Africa share a common goal, to improve market access and to open up the protective trading environment that they have jointly established and defended over the years. For South Africa, the chief objective is to improve market access for goods without disrupting its own successful industrial policies, while the EU wants to open up trade in services in the region. Both parties realise that trade in services has become more important than trade in goods, and South Africa's desire to maintain its

hegemony in this sector is equally as strong as the EU's wish to enter the market (Rampa, 2007).

Connected to the allegation from various quarters that the current EPAs have betrayed their initial development agenda for ACP countries (e.g. Makhan, 2007; Rampa, 2007) was South Africa's refusal to sign an EPA, because the agreement would undermine the country's trade-based industrial policies. Among other factors, the signing of a liberal TDCA with the EU was to implement the South Africa's competition policies. An EPA, otherwise, would undermine any competitiveness of local industries. It is then quite ironic that while Botswana has accused South Africa and her dominance in SACU for undermining her own industrialisation history (UNDP, 2008), Botswana has signed an EPA which, at least in the short run, offers a high level of protection to inefficient local exporters. With the signing of the TDCA, South Africa opted to expose her industries to international competition at a much faster rate than EPAs would allow (Mbatha and Charalambides, 2008:426).

3.8 Conclusion

In conclusion to SACU arrangements, SACU is faced with challenges. The two that are fundamental to its continued existence and that are widely covered in this research are:

- The reform of the much contested RSF and
- And the EPA negotiations with the EU.

Economic traders argue that SACU is the most functional regional economic integration in Africa, although there is plenty of room for improvement, much has been achieved in terms of trade facilitation and political and economic unity within the region.

It should further be noted that the SACU secretariat had tasked the Centre for International Economics (CIE) to review the formula used to share revenues accruing to the Union's CRP and recommend an equitable system. The CIE report dated 14

December 2010 was rejected on the 24 June 2011 by the Council of Ministers meeting held in Windhoek, Namibia. The Ministers returned a vote of no confidence on the Australian consultants and decided in their wisdom to institute a Task Team formed by Finance Officials from all SACU member states. The question that one could pose is that with challenges on the reviewing of SACU RSF, what deterrent does this pose with regard to the signing of the long awaited SADC EPA, as SACU requires to be united in going forward with other regional economic integration.

This chapter examined the theoretical foundations of the role players namely, SACU, SADC and the EU and their dynamics on regional economic integration. The EU-EPA negotiations with SADC are generally called the SADC EPA group, and it should be noted that all SACU member states are SADC member's states.

The relationship between the role players in the negotiations in moving towards the finalisation of the full EPA is referred to as the EU-SADC –EPA. The investigation in this chapter further shows the challenges of regional integration in Southern Africa, one of its detriments being the cross cutting membership. Swaziland is a member of SACU and SADC and further has cross cutting relationship with COMESA, and is the only SACU member that has membership with another regional block.

In 2008, the SACU Task Team considered a background paper prepared by the Secretariat on the impact of the EPA negotiations on SACU. The paper highlighted that the Interim EPA undermines the objective of the SACU Agreement as a tool for promoting regional integration in SACU. It has implications on the maintenance of the integrity of the CET and severely limits SACU's trade policy space through the MFN provision. The Interim EPA has implications on the free movement of goods in that there may be a need to introduce internal customs controls procedures which may affect the free flow of goods amongst SACU Member States. The Report indicated that the role of the SADC–EC EPA Joint Council and its decision making competences may have a direct and substantial impact on the mandate of the SACU Council of Ministers

to make decisions on issues covered by the 2002 SACU Agreement. It was agreed that the SADC-EC Interim EPA does undermine the objectives of the 2002 SACU Agreement as set out in Article 2 thereof. The Task Team suggested recommendations that will minimise the impact of the EPA on SACU as a Customs Union (SACU, 2010).

In SACU framework, Botswana, Lesotho and Swaziland signed the IEPA on June 4, 2009, thus by leaving South Africa and Namibia behind on concluding the EPA. After Botswana, Lesotho and Swaziland initialling the IEPA in 2009, reports indicated that South Africa had intended to withdraw itself from SACU, threatening the future for SACU.

The SACU members that signed the EPA with the EU would need to move towards ratification of the EPA, whereby the agreement would go through each country's parliament, and would come into force in the future. Where the problem was said to arise, was that if these countries implemented the interim EPA in its current form, it would immediately create a tariff differential facing the EU, and that would mean that a range of products could get into Botswana, Lesotho, and Swaziland at lower tariff duties, and with more liberal rules of origin. This could potentially lead to trade deflection, where products came in through BLS countries, but were actually destined for South Africa. This was why South Africa may need to step up border controls between these countries, particularly considering the sensitive clothing and textile industries (Draper, 2009).

Namibia is still considering whether to sign. South Africa has not signed the Interim EPA. South Africa on the other hand has the TDCA with the EU. Although Botswana, Lesotho and Swaziland have signed, there are still many areas of disagreement in the IEPA, including export taxes, quantitative restrictions, Food and the MFN clause.

In February 2010, SACU Ministers wrote to the EC advising it that some of their members had legitimate concerns that were still the subject of negotiations. SACU called for an alternative approach that would accommodate this ongoing process without resulting in any country being worse off, or being forced to sign an agreement

that does not serve their best interest. SACU is convinced that the damage that may be caused by an inclination to move towards notification, ratification and implementation of the Agreement will close interested SADC EPA states out, even for a temporary period. This, in our considered will constitute a great risk (SACU, 2010). The EC response skirt around the issues raised and insists on the signing of the agreement even as it talks about: 'the need to preserve the integrity of the SACU CET. In signing the IEPA, Botswana, Lesotho and Swaziland broke ranks with other members of the SACU, South Africa and Namibia. This is a direct threat to the very existence of SACU. This is because SACU has a CET and therefore forbids any single member to negotiate a trade agreement bilaterally (Makombe, 2010).

It has become evident that SACU members states especially South Africa has moved forward and pulled back from threatening to withdraw itself from SACU, and taking a leadership role resolving contentious issues with the EPA, President Zuma during the state visit of President Ian Khama in 2010, stated that South Africa is committed in concluding the EPA, after some issues raised by SADC group are (contentious issue) resolved.

SACU has reached a common agreement on how to proceed with the EU on EPA negotiations. This is the position that the Presidents of Botswana, Lesotho, Namibia, Swaziland and South Africa agreed to in 2010, and would ensure that there is no difference in tariffs or rules of origin among SACU member countries when negotiating with the EU. The challenges include developing the necessary policies and procedures to conclude the establishment of institutions, and developing SACU positions on new generation issues, taking into account ongoing negotiations. SACU has also agreed to work on strengthening internal matters such as ensuring that all work on industrial, agricultural and competition policies, unfair trade practices and other priority commitments in the SACU agreement are being implemented, as well as developing a SACU trade and tariff policy, and trade strategy that support industrialisation in SACU. The heads of state have realised that there is an urgent need to develop deliberate initiatives to promote intra-SACU trade. The other pressing matter is how to finance

cross-border trade and the meeting has agreed that the SACU secretariat investigate various financing options. Unfair trade practices, as well as industrial, agricultural and competition policies must be addressed to make the SACU more effective. According to SACU Executive Secretary, Moremi, one of the problems the customs union faced was ensuring its members followed the principle of unified engagement in trade negotiations with third parties (Heita, 2010).

Literature has proven that the possible impact on SACU member states appeared to be technical in nature on the context of the IPEA and moving towards the full EPA. In 2007 the EU used tactics and threatened African countries with loss of markets for their products unless they signed interim EPAs. Against a background of such threats, some countries rushed to initial the agreement.

The challenges of the EPA lies on the contentious issues, these issues are the most problematic, and very genuine by nature as raised by SADC group, the SADC technical expert and governments of SADC countries were very alert, had SADC group rushed to signed the full EPA without analyzing the content of the EPA, this would have a serious problem for Southern Africa as this could have a negative impact to regional integration in the region.

In signing the IEPA, Botswana, Lesotho and Swaziland broke ranks with other members of the SACU, South Africa and Namibia. This is a direct threat to the very existence of SACU. This is because SACU has a CET and therefore forbids any single member to negotiate a trade agreement bilaterally. It seems that what has happened is that some SACU members have decided to prioritise their individual trade with the EU rather than reach a consensus within SACU. Both Swaziland and Lesotho receive over 60 percent of state revenue through SACU; it is not clear how they intend to deal with the potential loss that could be brought about by the IEPA (Makombe, 2009).

The result of the SACU heads of state meeting in Windhoek seems to have averted the implications and possible impact of the EPA on the future of SACU; however the

possible impacts are part of the challenges in finalising the full EPA, which are tabled in this chapter as contentious issues of the EPA.

It can also be argued that, to conclude the EPA, or any regional economic integration as a block, requires a political will. For SADC and SACU members a political will is required to conclude these negotiations, stronger economic countries in the region in this research being South Africa, a political will, could speed up the process, however South Africa has a bilateral TDCA with the EU dating back from 1999, while other Angola trade on EBA with the EU.

South Africa resistance to the signing of the EPA with Europe has been described by critics as part of an attempt to ensure that the continent largest economy enjoys market monopoly throughout the 14 member SADC.

CHAPTER FOUR

RESEARCH DESIGN AND METHODOLOGY

4.1. Introduction

This chapter covers the research designs that have been used by the study. Research methods, research design, research methodology, data collection, measuring instruments, motivation for the use of self-administered questionnaires, sample design, data analysis, procedures and quality assurance are discussed. In describing research design, Leedy, (1985:92) states: It is planning. It is the visualization of the data and the problems associated with the employment of those data in the entire project. Research designs the common sense and the clear thinking necessary for the management of the entire research endeavor- the complete strategy of attack upon the central research problem.

4.2. Research Methods

Research is the systematic process of collecting and analyzing information to increase our understanding of the phenomenon under study. It is the function of the researcher to contribute to the understanding of the phenomenon and to communicate that understanding to others. This chapter explains what research is and what it is not (Venkataram, 2009).

Research has been defined by several authors in different ways, but there appears to be agreement that research is a process of enquiry and investigation, it is systematic and methodical and research increases knowledge (Hussey & Hussey, 1997). Leedy (1993) defined research as: "A studious inquiry or examination, especially a critical and exhaustive investigation or experimentation having its aim, the discovery of new ideas and facts and their correct interpretation, the revision of accepted conclusions, theories, or laws in the light of newly discovered facts or the practical application of such conclusions, theories or laws". People often use a systematic approach when they

collect and interpret information to solve the small problems of daily living (Leedy, 2001:4).

Research is, by its nature, cynical or more exactly, helical. The research process follows a cycle and begins simply (Leedy, 2001:8).

Data collection involves a range of activities, from the individual in a library extracting information from volumes of national and international statistics to a team of thousands carrying out national census. This research focuses on primary data, “primary data which is captured at the point where it is generated”. Such data is captured for the first time and with a specific purpose in mind (Wagner, 2007:26). Therefore, the designing of a plan for primary data collection calls for a number of decisions on research approaches, a sampling plan and research instruments to be used because it focuses on people’s knowledge, attitudes, preferences or buying behavior. The problem at hand also has a bearing on which data collection technique to use in the gathering of the data. The researcher used a structured survey making use of a list of questions. Survey research is one of the most widely used methods for primary data collection. According to Wagner (2007: 27), the major advantage of the primary data is that it offers greater control over data accuracy and it is directly relevant to the problem at hand. Depending on the survey design, it provides information more quickly and at a lower cost than other data collection methods. A sample must be representative of all the members of the target population if it is to produce valid and precise statistical inferences of the population parameters based on the sample evidence (Wagner, 2007:212). According to Wagner (2007:215), there are four probability sampling methods of randomly selecting observation to include in the survey namely: simple random sampling; systematic random sampling; stratified random sampling and cluster random sampling.

4.3. The Research Design

Before examining types of research designs it is important to be clear about the role and purpose of research design. We need to understand what research design is and what it is not. We need to know where design fits into the whole research process from framing

a question to finally analyzing and reporting data. Social researchers ask two fundamental types of research questions: 1. what is going on (descriptive research)? 2. Why is it going on (explanatory research)? (Vaus, 2001)

Research methodology is perceived as an “operational framework within which the facts are placed so that their meaning may be seen more clearly” (Leedy 1985: 88). Different methodologies can be employed depending on the type of research that one undertakes. These include the qualitative and quantitative methods. In this study the researcher only used the quantitative methods. The research objectives allow for a quantitative data. Mouton (2008:160), states that paradigms in research methodology are quantitative and qualitative. Quantitative consists of statistical figures. Qualitative evaluation approaches involve the use of predominantly qualitative research methods to describe and evaluate the performance of programmes in their natural settings, focusing on the process of implementation rather than (quantifiable) customers. For the purpose of this project, the quantitative evaluation will be used because systematic nature of statistics can ease efforts at replication and extension; it allows one to formally include uncertainty in one’s appraisal of the evidence and the results are statistically reliable.

4.3.1. Research Methodology

Smelster (1980) and Hussey & Hussey (1997) maintain that it is not uncommon in business research to use a mixture of methodologies especially in methods of collecting and analyzing data.

4.3.2. Data Collection

In collecting data, the researcher has a choice of using different research instruments. As a result, from the several key data collection instruments the researcher selected one which is more relevant to the study for the purpose of data collecting. Secondary data

was used from SACU Merchandise Trade Statistics 2009, and the European Union, imports and exports from SADC EPA Group.

4.3.3. Measuring Instruments

The study used the survey method, in selecting an applicable data relevant for the research. With a purpose of reflecting that SACU cannot trade alone, while there are advance large regional blocks like the EU. EU imports and exports from SADC group and SACU intra trade where used.

4.3.4. Sample design

A sample is a subset of all members of a target population (Wagner, 2007:213). It is not always easy to gather data from every possible member in a population, but where the size of the population permits it is advisable to include as many members as possible. Sampling is generally preferred to a census for the following reasons: cost; timeliness; destructive testing; and accuracy (Wagner, 2007:213). The study concentrated on data from relevant sources regarding the EU SADC EPA group.

4.3.5 Data analysis procedure

A secondary data which has already been captured was used for the purposes of the study. The following statistical techniques were applied: t-test, f-test, regression analysis and its forecasts. For these reasons, preliminary analysis started with visual inspection and not with numerical summaries.

4.4. Conclusion

In this chapter, a research plan was developed for data collection starting with research objectives to be addressed by the study. In chapter 5, the data is analyzed using relevant statistical techniques and results of the study are discussed.

CHAPTER FIVE

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

5.1 Introduction

The chapter presents data obtained from SACU Merchandise Trade Statistics 2009 (SACU merchandise trade statistics: 2010) and European Union, Imports and export from SADC EPA Group from (SADC EPA Group, 2011).

The data is presented and analyzed in the order of the research objective presented earlier in chapter one.

Figure 5.1: European Union Imports to SADC EPA Group

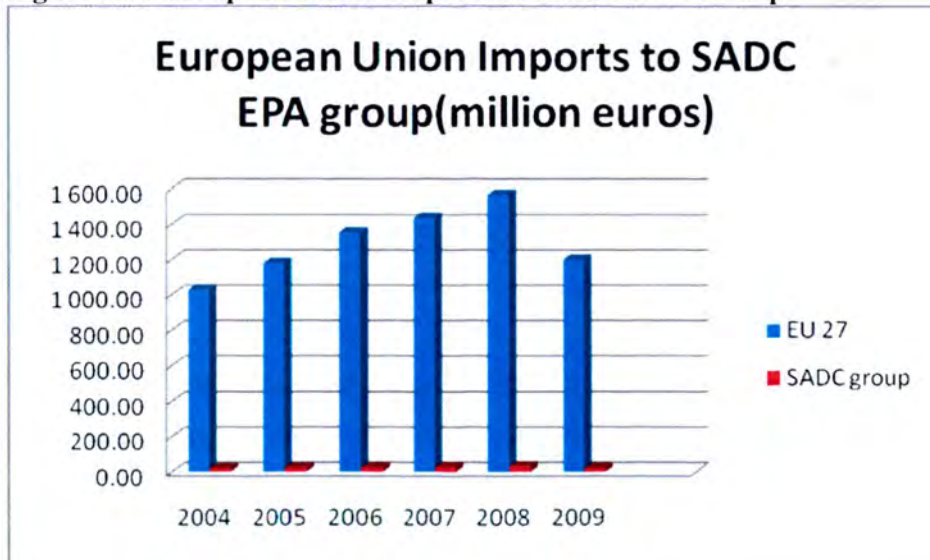


Figure 5.1 above, is the trade between the EU-27 and seven (7) SADC EPA Group. It is evident that EU dominates the SADC group with imports and a small margin of imports from the SADC group reaches EU, SADC group heavily depends on the EU. Data shows the upward moving trend from year 2003 until 2008 and the assumption could be that the reason of the decline in 2009 could have resulted from the economic crisis that hit the world around that period. The EU27 group has been contributing tremendously

to the world economy. It should further be noted that EU, has 27 member states while the SADC group in this figure is made of 7 member states. It should further be stated that SADC consist of 15 member states, in totality, but eight other SADC member states are negotiating the EPA not under SADC group, due to overlapping membership raised in chapter 3.

Figure 5.2: European Union Exports to SADC EPA Group

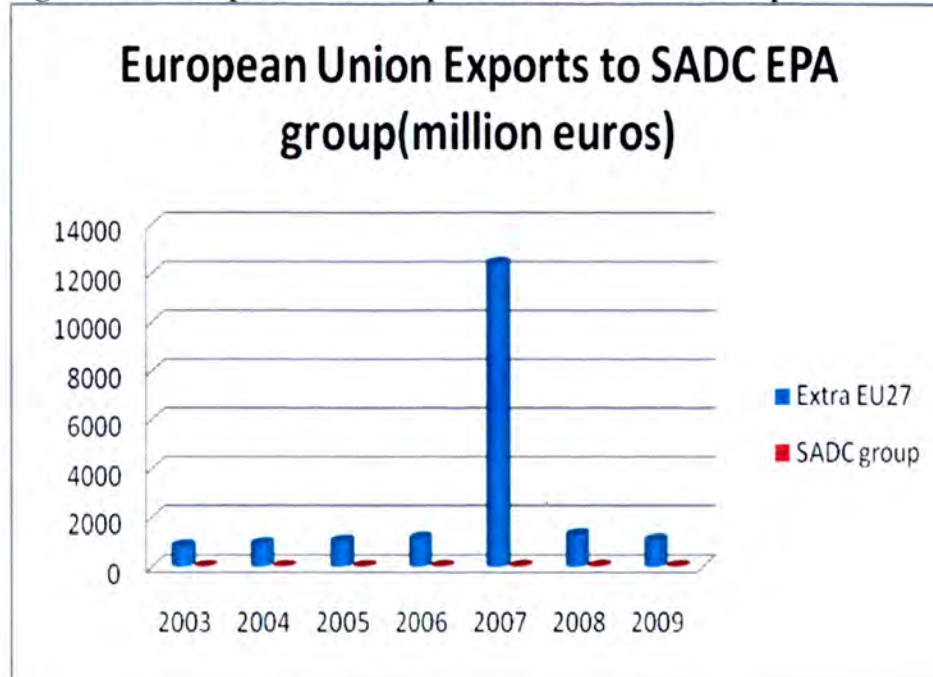


Figure 5.2 above shows that data trend for the year 2003 through to 2006 was below the 2000 points and in 2007 the EU27 data sky rocketed just over 12000 points. It normalized back to the 2000 in the last two years. The EU exports to the SADC group is lower than its imports as demonstrated on Figure 5.1, however EU still dominates the SADC group on exports.

Scale: 1=2003, 2=2004, 3=2005, 4=2006, 5=2007, 6=2008 and 7=2009

Figure 5.3: Exports

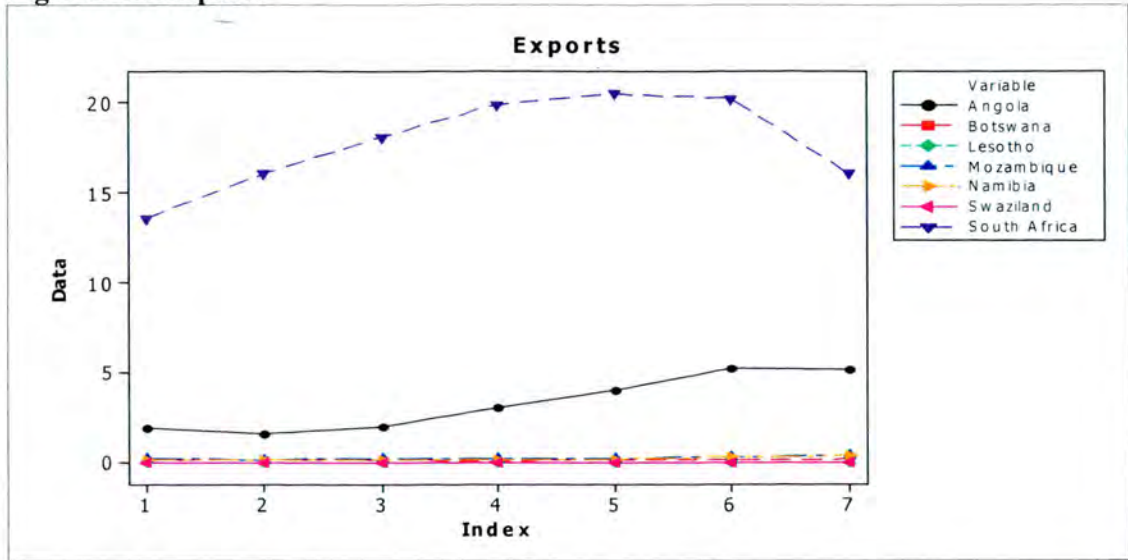


Figure 5.3 above shows that South Africa is exporting more than other SADC EPA countries and it is followed by Angola. The rest of the member states in the group are way below a base point.

Figure 5.4: Imports

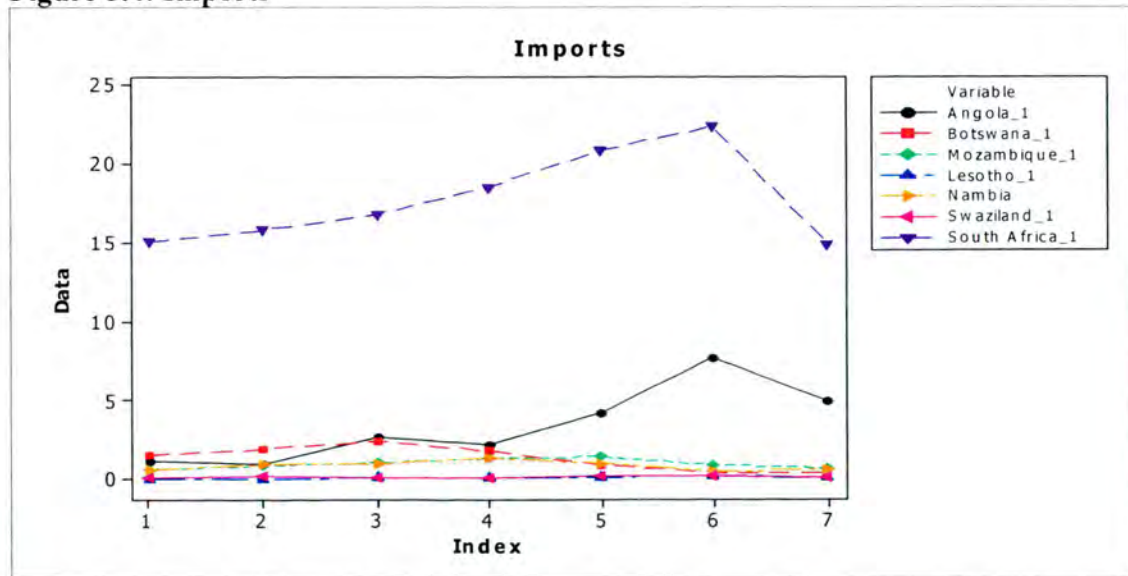


Figure 5.4 shows that South Africa is importing more than other countries. Swaziland and Lesotho are the least in terms of imports. The graph also indicates that there was a

structural break around 2008. The structural break could have resulted from the economic crisis that was experienced around that period.

Figure 5.5

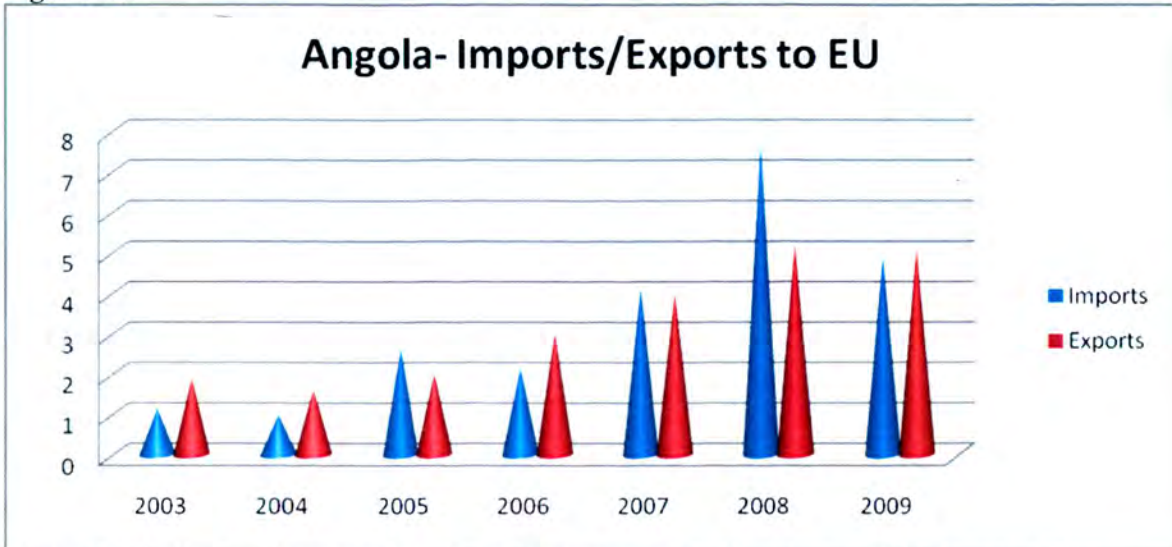


Figure 5.5 indicates that Angola’s imports are more than its exports, which means that Angola is importing more goods and in 2003 they were at their lowest point.

Figure 5.6

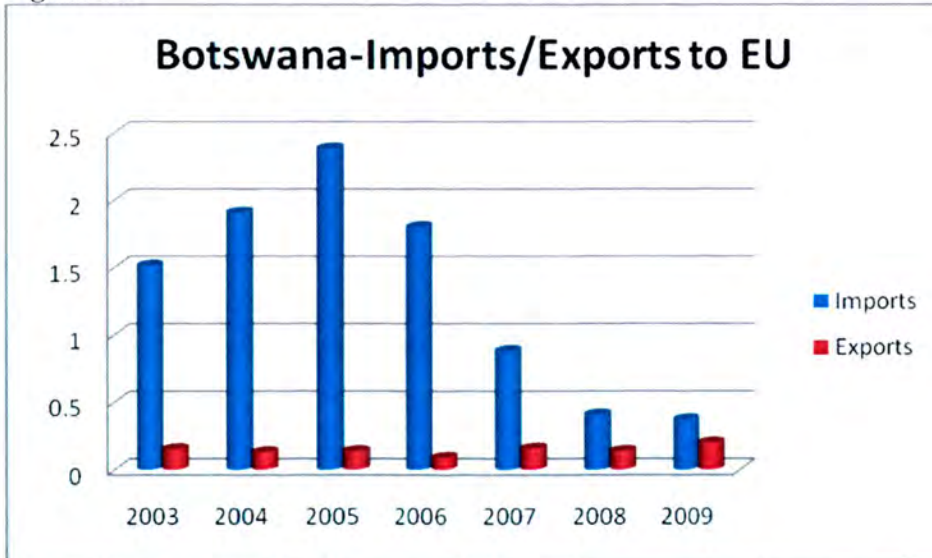


Figure 5.6 indicates that Botswana is importing more than its exports but there was a structural break in 2005. The data represent a normal curve shape and has never resuscitated improve after the 2007 structural break.

Figure 5.7

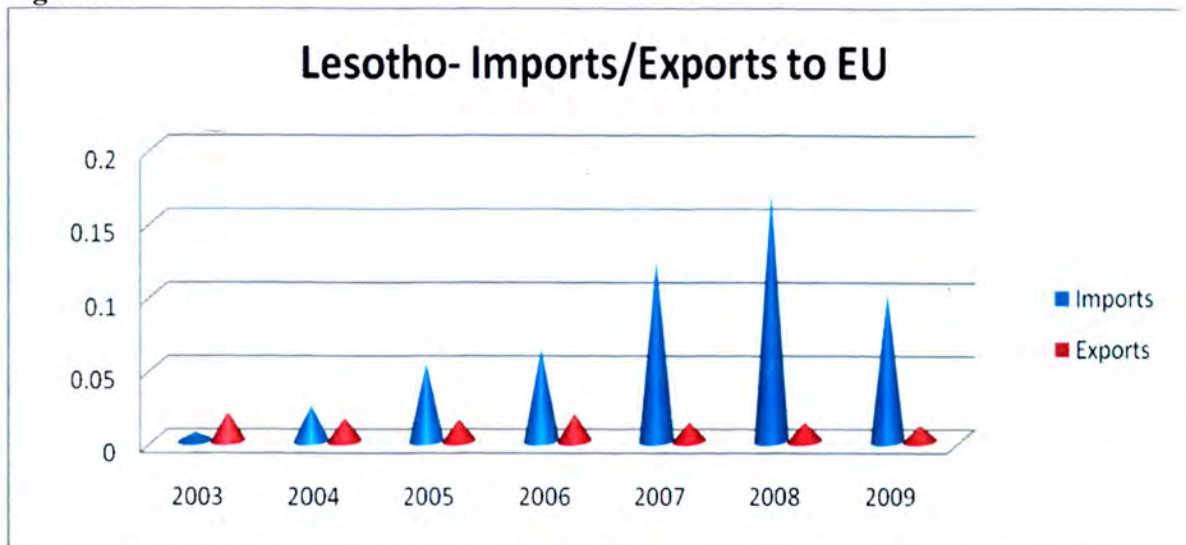


Figure 5.7 above shows that Lesotho imports more than it exports but there was a structural break around 2008 which led to a decline in their imports.

Figure 5.8

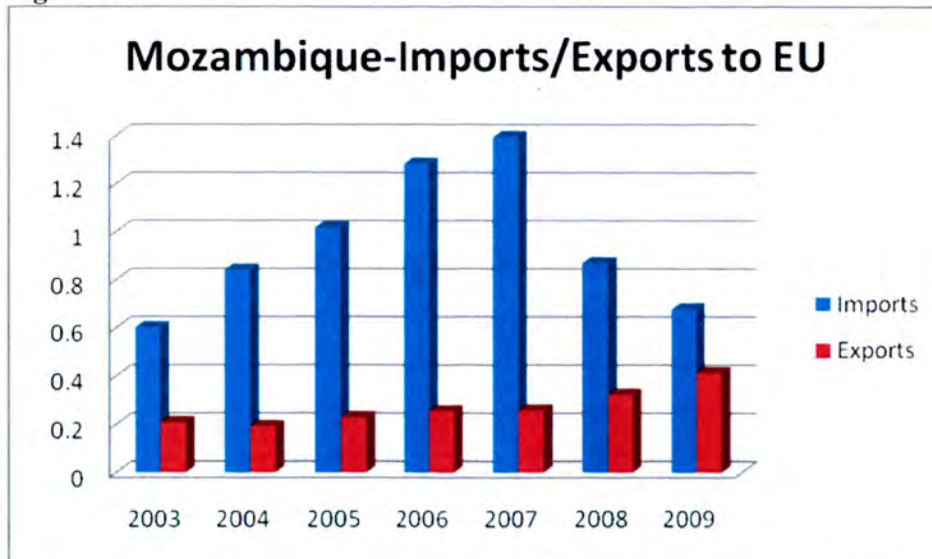


Figure 5.8 indicates that Mozambique is importing more goods and there was also a structural break in 2007.

Figure 5.9

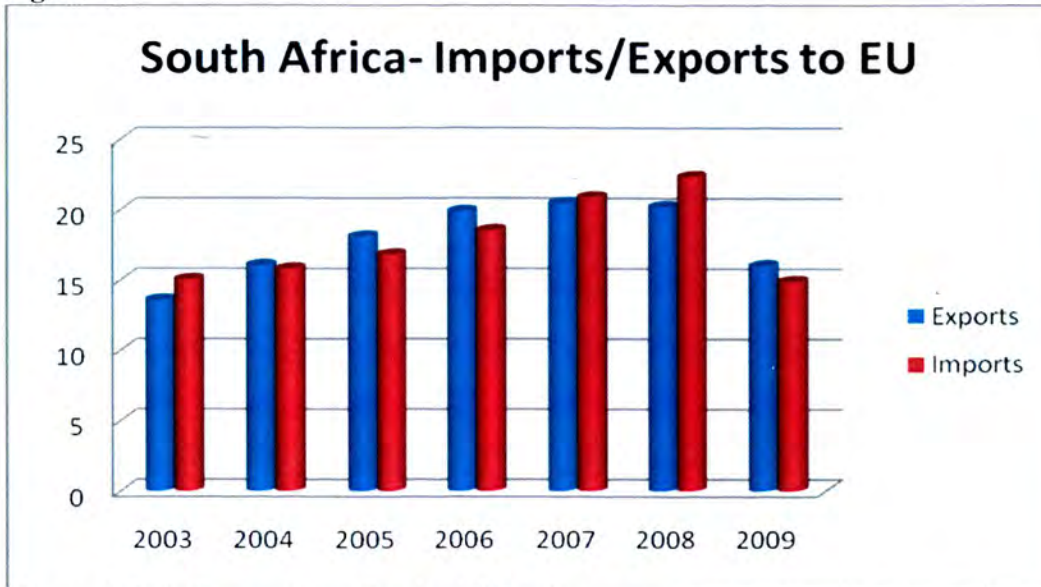


Figure 5.9 indicates that South Africa is on average exporting more than they importing. In 2003 South African import were higher than the exports and the situation since changed in 2004 with the exports exceeding imports all the way through 2007. In 2008 South Africa imported more, and even though in 2009 the export were more that the imports they were at the lower point compared to the three previous years.

Figure 5.10

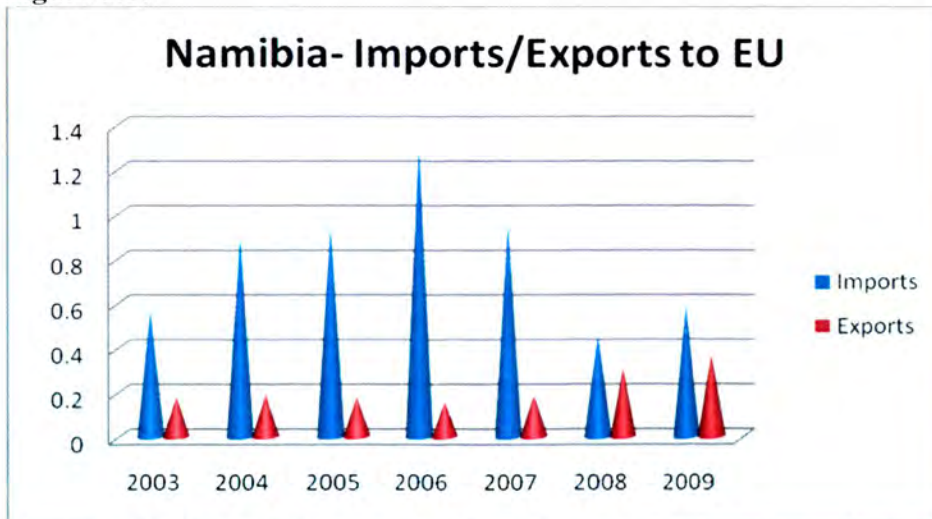


Figure 5.10 above indicates that Namibia is on average importing more than it is exporting. Namibian exports have not exceeded the imports indicating that they depend more heavily on their SADC EPA partners for goods and services.

Figure 5.11

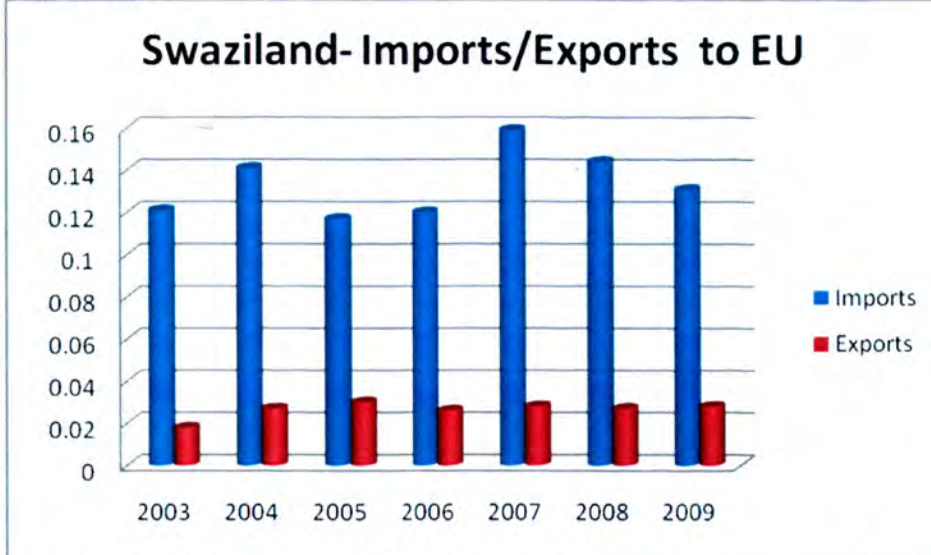


Figure 5.11 above indicates that Swaziland is on average importing more than it is exporting. Swaziland like Namibian exports has not exceeded the imports indicating that they depend more heavily on their SADC EPA partners for goods and services.

Figure 5.12

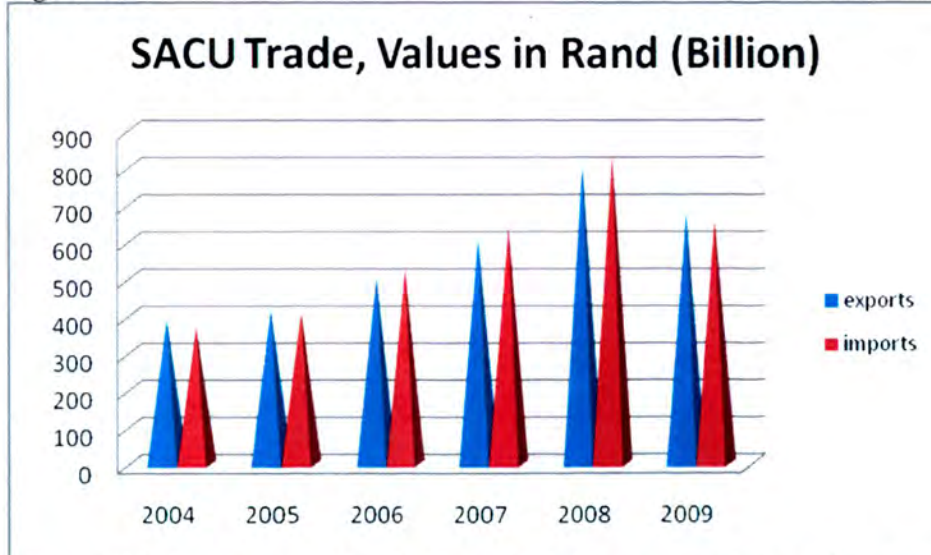


Figure 5.12 above shows that the intra-SACU imports and export have an upward trend indicating growth in imports and exports from 2004 until 2008 and a sudden decline in 2009 which could have resulted from the global financial crisis.

Figure 5.13

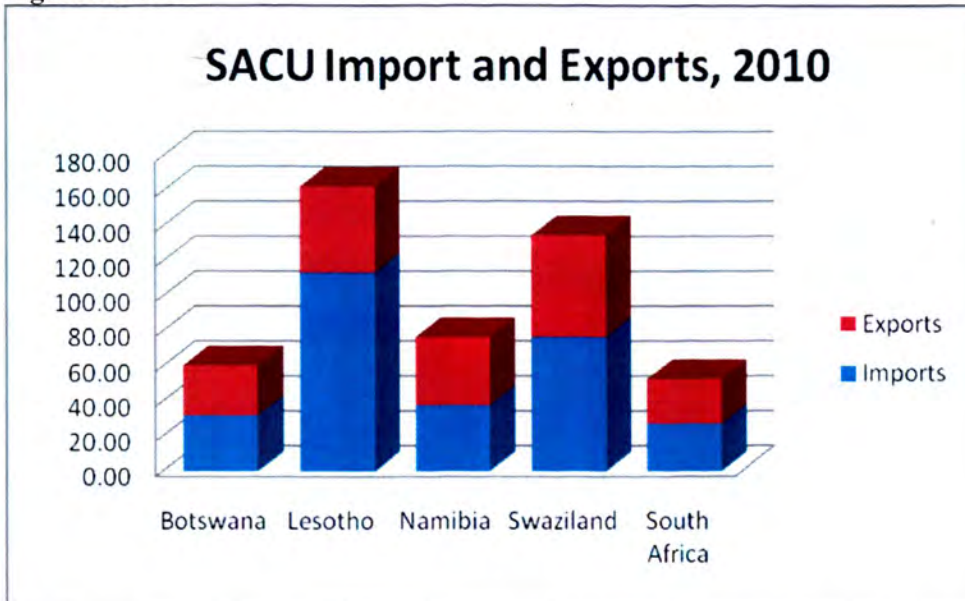


Figure 5.13 above, indicates that, for the year 2010, intra-SACU imports accounted for a big share of the total imports for most Member States with the exception of South Africa and Botswana.

Figure 5.14

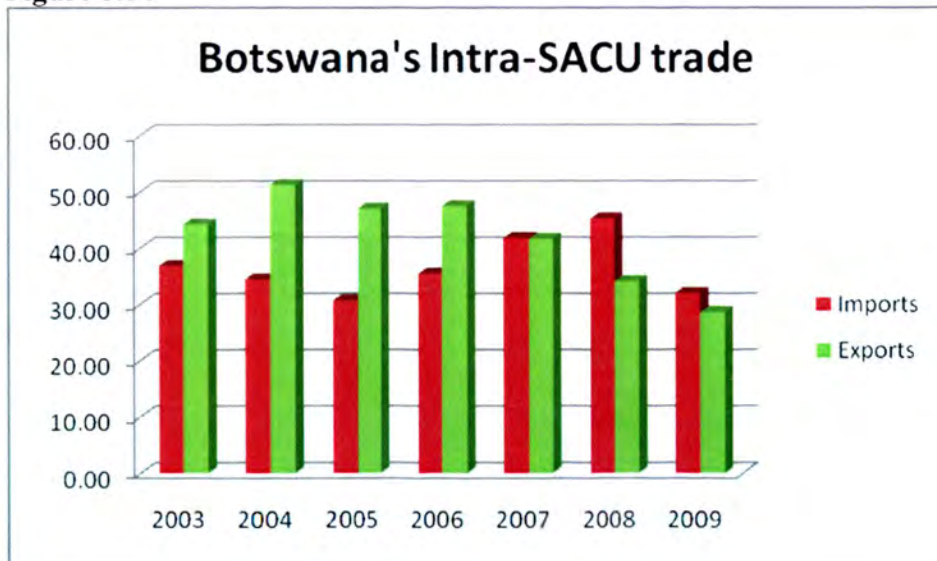
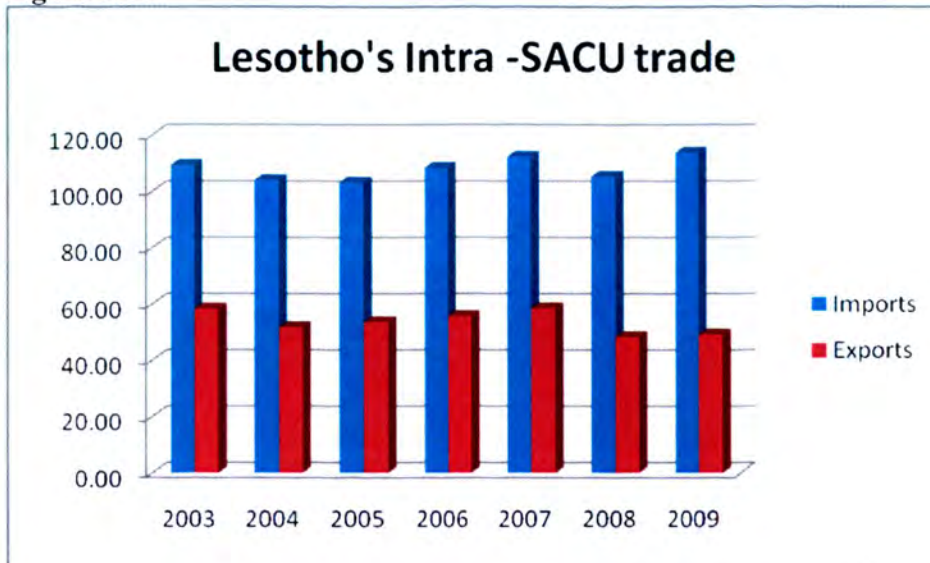


Figure 5.14 above indicates that in 2006, Botswana hit the lowest point in their imports and got the highest exports in 2005. There were various factors contributing to all the increase and the decreases.

Figure 5.15



In figure 5.15 above Lesotho intra-SACU trade data shows a steady and consistency in the imports and more or less the similar trends in relation to the exports and off course the Lesotho Exports are by a wide margin less than the imports.

Figure 5.16

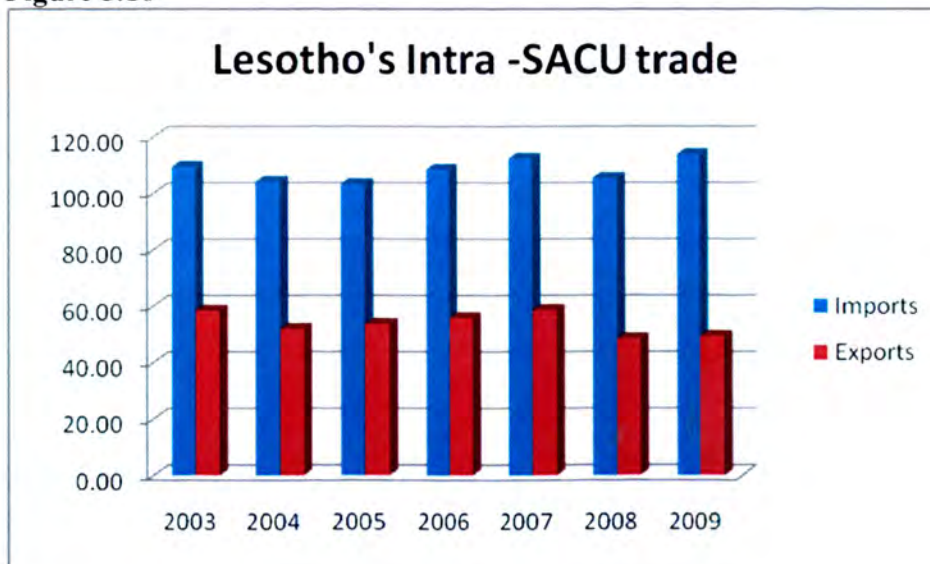
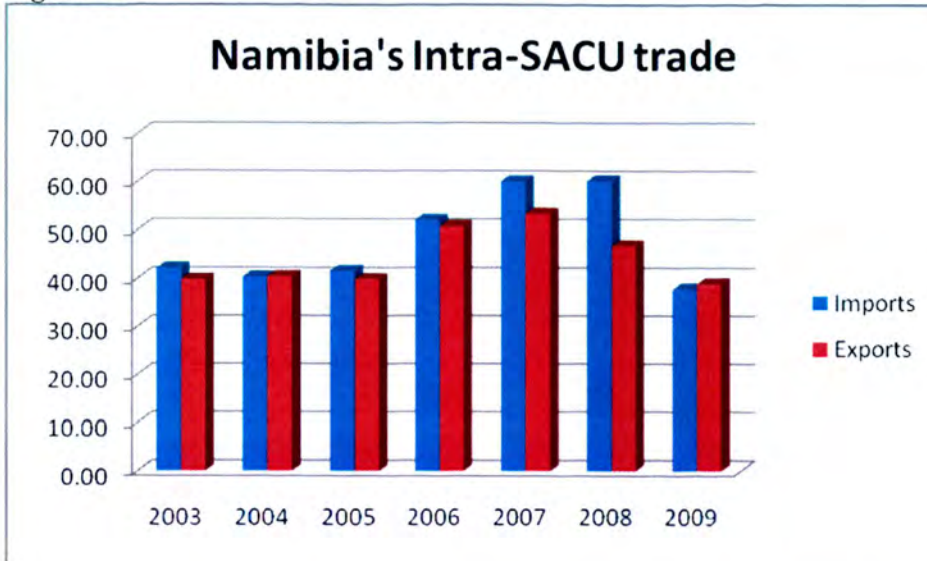


Figure 5.16 above indicates that Namibia's intra SACU trade data illustrates a normal curve over the years both for imports and exports. The data declined sharply in 2009 and this could be resulting from the late response to the world economic crisis.

Figure 5.17



In figure 5.17 above shows Swaziland's intra-SACU trade data and the data has shown a downward trend over the years and the exports are wearing off quicker than the imports.

Figure 5.18

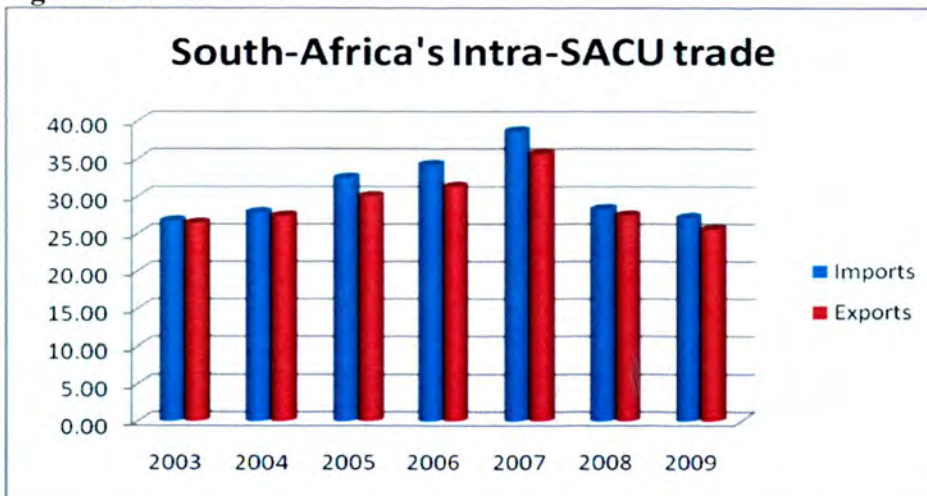


Figure 5.18 above shows South Africa's intra SACU trade data illustrates a normal curve over the years both for imports and exports. The data was forming an upward trend until it got to the peak in 2007 and the data declined in 2008 and this could be resulting from the response to the world economic recession.

Figure 5.19

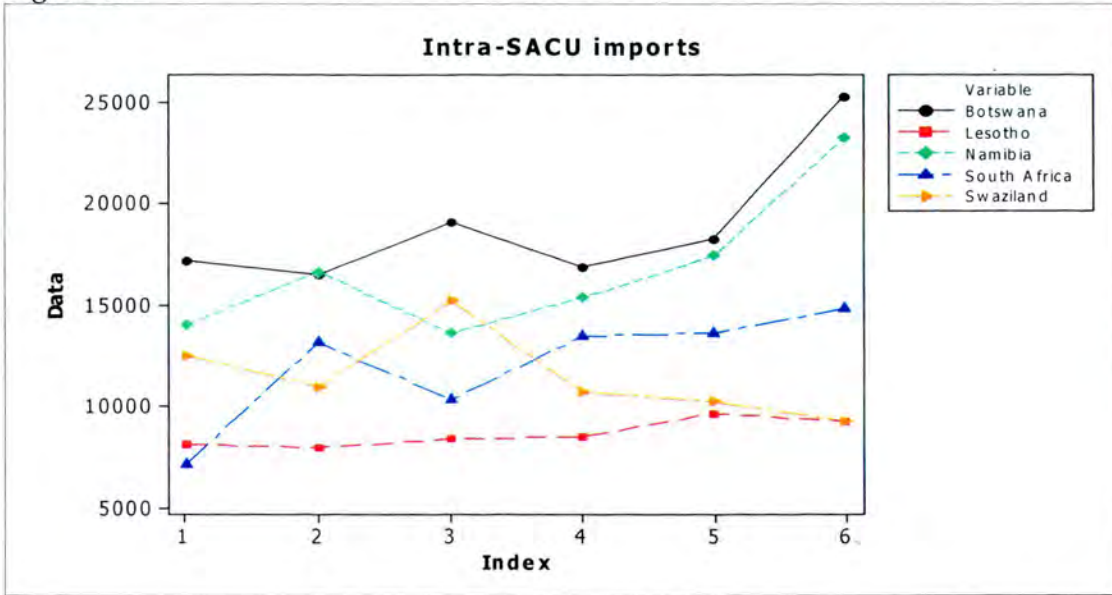
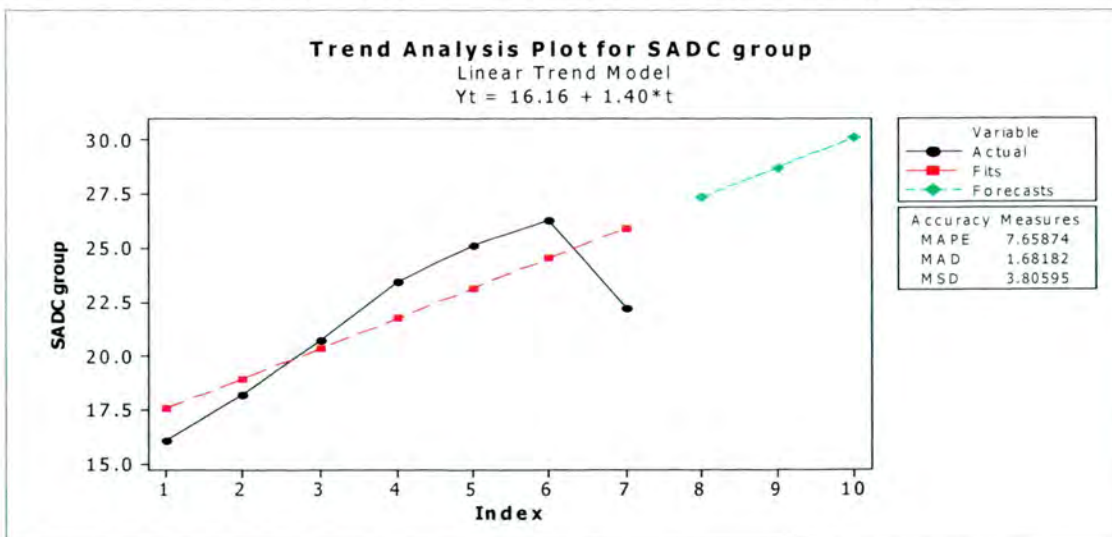


Figure 5.19 above indicates that Botswana is leading other SACU members with imports, followed by Namibia and South Africa in the last three year.

Figure 5.20: Forecast of European Union, Exports from SADC Group



Regression model is

$$Y_t = 16.16 + 1.40t$$

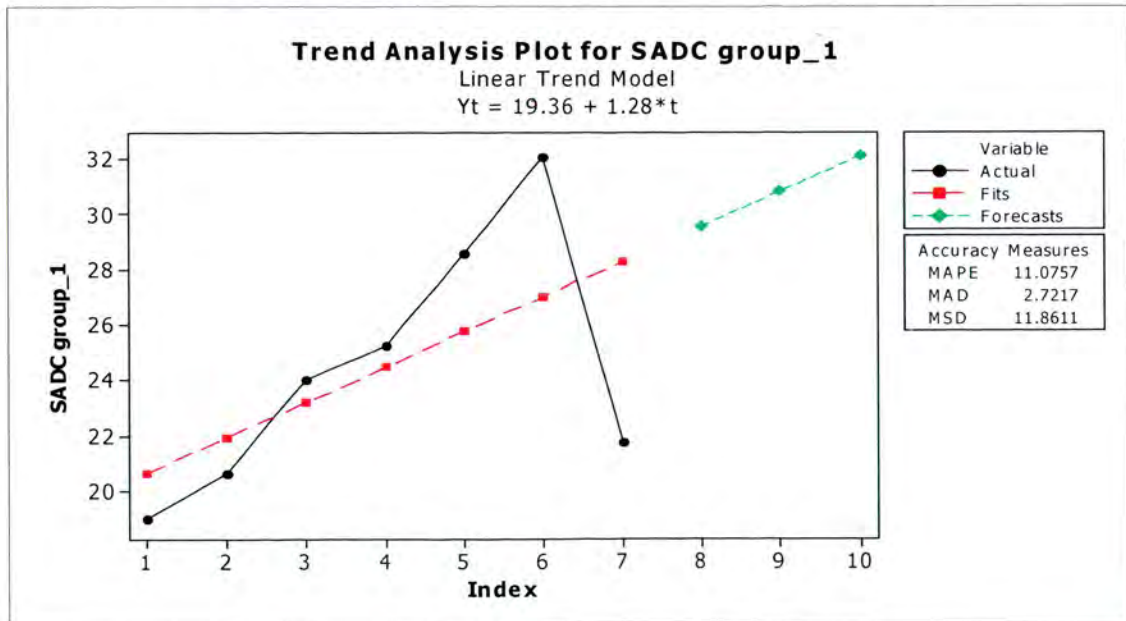
$t(8.283) \quad (3.201) \quad R^2 = 0.355$

Forecasts

Period	Forecast
8	27.3333
9	28.7300
10	30.1266

The data revealed that there will be a growth in imports from SADC group. R^2 is a measure of how well the regression line fits the data or the proportion of the variability in Y that can be explained by X. The $R^2 = 0.355$ (35.5%) which signifies that the Y (EU exports) value is not well explained by the X (SADC group exports).

Figure 5.21: Forecast of European Union, Imports from SADC Group



Regression model is

$$Y_t = 19.36 + 1.28*t$$

$t(5.622) \quad (1.658) \quad R^2 = 0.672$

Forecasts

Period	Forecast
8	29.5769
9	30.8539
10	32.1309

The data revealed that there will be a growth in exports from SADC group. R^2 is a measure of how well the regression line fits the data or the proportion of the variability in Y that can be explained by X. The $R^2 = 0.672$ (67.2%) which signifies that the Y (EU imports) value is well or satisfactorily explained by the X (SADC group imports).

5.2 Conclusion

Chapter 5 presented empirical data. The data was cross-tabulated for ease of presentation and interpretation. However, the raw data was processed through Minitab and excel. The data on European Union imports and exports to SADC group was graphically presented. The research also looked into how much each member state contributes towards the EU bilateral trade (imports & exports). The chapter further presented the Intra SACU trade data per member state. A regression model was fitted to project the future imports and exports values for SADC group. The exports data revealed a weak R^2 value as compared to a good import R^2 value.

The next chapter discusses the results and concludes with recommendations.

CHAPTER SIX

DISCUSSIONS OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

Chapter six presents and discusses findings from the study. The discussion is based on the results obtained on each of the research objectives. Based on the discussions, conclusions and recommendations are made. Finally, areas that need further research are proposed.

6.2 Discussion of the results

6.2.1 Research Objective: To assess the impact, challenges and opportunities of the EPA's on the SACU member states.

The data revealed that there are benefits enjoyed by some of the member's state of the SACU on the EU trading. Swaziland, Lesotho, Namibia and Botswana enjoyed the most as their imports and exports show a statistically significant difference. Botswana, Lesotho, Swaziland and Namibia have already initialed and signed the IEPA, in exception for Namibia as it has not signed the IPEA, but only initialed, while South Africa and Angola from the SADC group are hesitant to initial or sign the IEPA in its current form. It is evident from the data that the said three countries have more reasons to sign as oppose to South Africa and Angola.

It would seem that the countries that initialled the IEPA were afraid that if they did not sign, the European market would be shut out for them. Botswana Minister of Trade and Industry said as much.

6.3. DRAWING CORRELATION ANALYSIS.

Correlation Analysis of exports and imports of SADC EPA Group

SADC members states	Correlation
Botswana	-0.591
Lesotho	-0.735
Mozambique	-0.191
Nambia	-0.690
Swaziland	0.275
South Africa	0.880
Angola	0.914

The above table shows correlation between imports and exports by country. A correlation value of less than 0.5 is weak, at 0.5 it is moderate, the correlation values more than 0.5 is strong correlation and this could be on the positive or negative side. There is a strong negative correlation in the Botswana, Lesotho, Namibia imports v/s exports and strong positive correlation in the South Africa and Angola imports v/s exports and Mozambique and Swaziland showed a weak negative and weak positive correlation respectively on their imports v/s exports.

Table 6.1: Exports F-test on SADC EPA grouping with EU

ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>Df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	524062	6	87343.67	44.97938	9.96E-17	2.323994
Within Groups	81558.14	42	1941.86			
Total	605620.1	48				

The above Analysis of Variance Test (F-test) table revealed a statistically significant different result on the exports implying that the average contribution by member SADC EPA countries to the EU27 exports are not the same.

Table 6.2: Imports F-test on SADC EPA grouping with EU

ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>Df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	1716.875	6	286.1458	131.9494	1.28E-25	2.323994
Within Groups	91.0813	42	2.168602			
Total	1807.956	48				

The above Analysis of Variance Test (F-test) table revealed a statistically significant different result on the imports implying that the average contribution by member SADC EPA countries to the EU27 import are not the same.

6.4 RECOMMENDATIONS

With challenges confronting the negotiations in concluding the EPAs, SACU ought to participate as group not as individuals countries, a move by Botswana, Lesotho and Swaziland in initialling and signing the IEPA not as a block, should be avoided in future. This shows signs of disunity in the region and could bring negative regional integration for Southern Africa, the EU is negotiating the EPA with SADC group, and all groups have shown interest in this agreement but require contentious issues which a genuine issues, to be resolved first. It is imperative that SACU and SADC should formulate strict policies that require member's states to negotiate as block.

The increasingly integrated global economy present policy makers with both opportunities and challenges, global economic integration is widely thought to improve the allocations of resources, promote technology transfer, and enhance living standards

Initialling the EPAs not as collective was bound to cause a friction for SACU, of great concern is that 70 percent of Swaziland's and 60 percent of Lesotho's state revenue is earned through the SACU revenue-sharing arrangement which signing the interim EPA threatens to destroy. Economists in the region estimate that Lesotho could lose up to 25

percent of its gross domestic product overnight, and Swaziland could see a 20 percent decline. This contraction would have a devastating effect on growth, employment, and poverty (Walker, 2009).

Economic literature suggest that, small countries (Molle, 2002) are pushed towards regionalism as they think that if they are left out in the cold their relative position can be impaired. To them regional integration agreements are in a sense an insurance against the risk of trade disputes with major partners (Perroni and Whalley, 2000). However, they also fear regionalism with major partners, as the force of the economy may lead to concentration in the largest market freezing out the similar ones (Molle, 2006:24)

Literature review states that in pursuing regional integration advantages and disadvantages will be met, similarly as presented by Tinbergen(1991) the advantages of regional integration, could have trade creation, greater consensus, political cooperation, and employment opportunities, as the disadvantages could lead to creation of trading blocs, trade diversion and national sovereignty which could require member countries to give up some degree of control over key policies like trade, monetary and fiscal policies.

This is demonstrated by the contentious issues raised by the ACP countries, clauses of MFN and RoO, in my observation as per literature is a form of disadvantages of trade, losing national sovereignty to bigger markets can put small countries (economies) in a disadvantages position as the have loose control or dictate of their monetary and fiscal policy. Economic integration has frequently been blamed for growing trade imbalance, increased financial market volatility, and less effective domestic macroeconomic policies

Several developments over recent months/years have brought a number of contentious issues to the fore. Key among these is the ongoing EPA negotiations, which have caused a rift between Botswana, Lesotho and Swaziland (BLS countries), on the one

hand, and South Africa and Namibia, on the other. In addition, the 2008–2010 global financial crises have highlighted the precarious position of the BLNS countries (Botswana, Lesotho, Namibia and Swaziland) and their reliance on the revenue pool for the bulk of their fiscal income. It has been reported that the pool has shrunk by as much as 40% as a result of the crisis (Hichert, et al., 2010).

EU should also understand the problems of the Southern African countries by imposing clause like MFN and RoO which are restrictive in this agreement are likely to hamper regional economic integration in the region. South Africa notably from chapter 5, graphical presentations, shows its stronger market in the SADC and SACU group, and one will not be surprised as it did not agree to initial the EPA in their current form. South Africa is also member of BRICS countries and trade with the EU under the TDCA.

Literature suggest that, large countries participation means an increase in both its powers inside the regional integration agreements where it can extend its influence, and its power outside the regional integration agreements as it enter into trade negotiations as a bigger block (Molle, 2006:24)

The opportunities and benefits of the EPA to SACU member states, has been stated by the Director General of the EC, Peter Mandelson in September 2005, stating that, The 21st century offers new challenges and opportunities as old political and economic certainties make way for new patterns of trade and development. These changes affect everyone, in the European Union, Eastern and Southern Africa, and everywhere else for that matter. In order to ensure that globalisation can become a positive force for Africa's development, the EU and Africa need to build an economic framework which will stimulate sufficiently rapid and broad-based economic growth in order to contribute to an effective reduction of poverty. Without economic growth, few African countries will have the sustainable revenues they need to deliver basic social services such as education and health care. Boosting economic growth will thus be a key factor in achieving the Millenium Development Goals. The Cotonou Agreement is unique in

linking development assistance and trade relations. Now the challenge is to link those two elements with a third, namely local efforts to create a regionally competitive market. Take the three together, and we have a powerful tool for development (European commission, 2005).

Sub-Saharan Africa has been hit hard, first by the food crisis, by the financial and economic crisis and at the same time grappling with the challenges of adapting to climate change.

The EPAs in its endeavour to regional economic integration within the ACP countries, promised the creations of new opportunities towards sustainable development. Some of the commitments made by the Economic Commission are (www.trade.ec.europa.eu):

- To generate sustainable development, the people in SADC region need jobs and opportunities that allow them to take control of their future and take their rightful place in the world economy.
- Partnership Agreements that will define future EU-SADC trade relations.
- Regional integration: strength through joining forces, the small and vulnerable economies of the SADC region can create more favourable conditions for trade, investment and growth if they co-operate within their region.
- Towards an EU-SADC economic partnership agreement, not just about trade the EPA will indeed improve access of the SADC group's products to EU markets.
- Towards better market access: trade in goods, The EPA will enable the SADC region to maintain and improve market access, a commitment clearly set out in the Cotonou Agreement.
- Towards a new economy: trade in services, Trade in services is growing in some of the SADC countries. Services, such as telecommunication, energy, finance and transport are all on the list of services that favour trade and economic development.
- Towards a stable business environment: rules of the game any trader or investor will say that clear, stable and transparent rules are vital for doing business. If the rules can be simplified and harmonised across an economic area, that can make

business prospects even more attractive. What rules? Border controls such as tariffs, for instance, but also customs procedures themselves, to make trade easier.

Towards a better deal for households, The EPA is not just concerned with high-level economics. Building regional markets and improving trade arrangements also translates into real benefits for families.

Therefore it has become evident from the data analysed that the SADC EPA group, being Angola, Botswana, Lesotho, Namibia, Swaziland and Mozambique with the exception of South Africa (as South Africa enjoys rising benefits of trade with the EU, under the TDCA), that it becomes imperative for the EPA to be concluded, after the contentious issues are been implemented by the EC, as some of the issues raised by the ACP countries are genuine and could hamper the development in the ACP countries.

The contents of the SACU in terms of its constitution for member states requires to be tighten, so that members states are able to conclude future economic deals as a block, as it has become apparent after, Botswana, Lesotho and Swaziland signed the IPEA, by doing that undermining the policies of SACU, to negotiate as a block, finally leading to threatening the existence of the SACU.

SADC has seven LDCs: Angola, the Democratic Republic of Congo (DRC), Lesotho, Malawi, Mozambique, Tanzania and Zambia (Tekere and Rusare, 2001).

Lesotho is the only member state of SACU, which is classified as an LDC; one might pose a question, as to why Lesotho had rushed to sign the IPEA as, it could have traded with the EU, on the EBA initiative.

Countries of SADC groupings should also be allowed room to trade with whoever they feel would be beneficial to trade with outside the member states of the SADC EPA grouping, provided it does not hamper regional integration in the region. It is essential that EU-SADC EPA needs to be concluded in order for SADC groupings to benefit and

boost the regional economic integration. Further study can be undertaken to draw comparison on the agreements themselves with other foreign regional bodies.

Further than that a benefit impact analysis need to be drawn on why countries would like to take part in such agreements when they already have their individual trade partners.

6.5 CONCLUSION

The data revealed a statistically significant difference in the contribution by the SADC EPA member states both on imports and exports. It is from this premise that some countries are benefitting at the expense of others. In the light of countries that do not produce more than they require it is advisable to conclude the EPA for their economic benefit. The EPA's have the potential to help SACU members accelerate their economic growth and develop more resilient economies.

While other members of SACU and SADC group have initialled the IEPA, and South Africa and Angola having not initialled, both sides continue negotiations which should lead to a full EPA, while preparing for the signature and WTO notification of the IEPA. The IEPA initialled at the end of 2009 is a stepping stone agreement towards a comprehensive full EPA.

These intra-regional developments pose serious questions with regard to the political cohesiveness and economic sustainability of the regional grouping. But more important is to understand what is really at stake for some of the SACU members in their EPA negotiations and what economic consequences their choices could have in their short and long run attempts at economic development (Mbatha & Charalambides, 2008).

There are all kinds of studies on the possible effects of the EPAs on African economies. While it is fair to acknowledge that some of the presumed impacts (positive and negative) may be exaggerated, there is abundant evidence that the EPAs would be damaging. What is worrying is that it is difficult to point to any significant net benefit of EPAs to Africa. Already 33 out of the 47 countries are LDCs and therefore qualify to export 'on EBA initiative with the EU with 100% duty-free and quota-free. So, what is the additional benefit to these countries? For the remaining 14 non-LDC countries, it is curious why the EU cannot accede to the request by the African Union (AU) to treat Africa as the world's classic LDC region and grant the same EBA to all of the countries. Or, alternatively there are several proposals about benchmarking and sequencing the conditionalities to synchronize with economic advancement of these remaining 14 countries. So far, these proposals have not been accepted by the European Commission even for discussion (Soludo, 2012).

The current trade negotiations pave the way for the dream of African industrialisation to become a reality. With the EPA, we can secure trade policies that are fair for business and good to our people. Fair and equal trade policies are those that ensure that our people are protected against exploitation and abuse. Good trade policies support development. This starts with increasing our competitiveness, especially in the agricultural sector, which is the backbone of most African economies. It also implies respecting and taking into consideration the different levels of development in different countries. Some need technical assistance by the EU, while others depend on further preferential market access or specialised protection for weak industries. The EPA can administer this and also help shield weak sectors that could be exposed while competing in the global market. For many so-called "sensitive" products in the agricultural sector, this has been achieved. The opportunities within the EPA go beyond this. We see the agreement as a developmental tool, not mere tools for trade. The EPA has a broad scope and acknowledges the fact that trade and human rights are closely linked. If there is unfair competition and the local economy is weakened, it will have a negative impact on individual human lives. People will lose their jobs and livelihoods, leading to increased child labour, exploitation, criminality or even political uprisings.

Imbalanced trade relations destabilise societies. The new trading schemes help bring us closer together. Exchange between our continents can light a spark – not only in our businesses and economies but our societies as well. The more we know about each other, the more we feel responsible for one another (Ogalo, 2009).

The EU is the SADC's largest trading partner. The exports and imports of the EU to SADC group indicated in chapter 5 shows a far above the ground value. EU imports from SADC are dominated by a few products such as diamonds (mostly from Botswana), petroleum (Angola), fish and beef (Namibia), sugar (Swaziland) and tobacco.

Appendix 1

The below tables show the trade between the EU and SADC countries

European Union, Imports from SADC EPA Group (Million Euros)							
	2003	2004	2005	2006	2007	2008	2009
Extra EU27	935.266	1.027.522	1.179.569	1.352.787	1.433.402	1.564.946	1.799.196
SADC group7	19.002	20.608	23.992	25.261	28.581	32.121	21.716
Angola	1.137	0.974	2.633	2.149	4.158	7.718	4.916
Botswana	1.513	1.907	2.384	1.799	0.881	0.407	0.372
Lesotho	0.006	0.024	0.053	0.063	0.123	0.169	0.101
Mozambique	0.602	0.841	1.017	1.283	1.394	0.869	0.679
Namibia	0.568	0.909	0.953	1.312	0.961	0.452	0.589
Swaziland	0.121	0.141	0.117	0.12	0.159	0.144	0.131
South Africa	15.057	15.812	16.835	18.535	20.905	22.362	14.927

Source: EPA Interim Agreement SADC EPA Group Sept 2010

European Union, Exports from SADC EPA Group (Million Euros)							
	2003	2004	2005	2006	2007	2008	2009
Extra EU27	869.237	952.955	1.052.720	1.160.101	1.240.541	1.309.818	1.094.411
SADC group7	16.08	18.231	20.714	23.487	25.154	26.311	22.249
Angola	1.91	1.623	2.017	3.048	4.023	5.277	5.187
Botswana	0.153	0.13	0.138	0.09	0.157	0.138	0.199
Lesotho	0.02	0.016	0.015	0.019	0.013	0.013	0.011
Mozambique	0.208	0.192	0.229	0.255	0.258	0.324	0.413
Namibia	0.18	0.193	0.18	0.158	0.189	0.311	0.371
Swaziland	0.018	0.027	0.03	0.026	0.028	0.027	0.028
South Africa	13.592	16.051	18.105	19.891	20.487	20.222	16.041

Source: EPA Interim Agreement SADC EPA Group Sept 2010

Appendix 2

The below table shows the SACU Imports and Exports

SACU Imports and Exports in Rand(billions)											
Country Name	Botswana		Lesotho		Namibia		Swaziland		South-Africa		
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	
2003	36.89	44.23	109.39	58.41	42.08	39.81	92.80	90.10	26.72	26.42	
2004	34.46	51.25	104.12	51.88	40.31	40.45	93.37	89.14	27.85	27.38	
2005	30.66	47.02	103.27	53.59	41.56	39.85	87.24	84.60	32.45	30.01	
2006	35.42	47.46	108.48	55.74	52.04	50.73	79.68	78.34	34.23	31.29	
2007	41.78	41.64	112.35	58.55	60.07	53.38	78.67	63.19	38.63	35.60	
2008	45.24	34.07	105.44	48.33	60.16	46.84	76.92	60.14	28.29	27.43	
2009	31.94	28.56	113.80	49.17	37.82	38.93	76.86	58.10	27.12	25.54	

Source: World bank 2010

Appendix 3

Regression Model for Imports

Summary Output

<i>Regression Statistics</i>	
Multiple R	0.595673
R Square	0.354827
Adjusted R Square	0.225792
Standard Error	4.074994
Observations	7

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	45.66297	45.66297	2.749857	0.158161
Residual	5	83.02789	16.60558		
Total	6	128.6909			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	19.36057	3.443999	5.621538	0.002466	10.50749	28.21365	10.50749	28.21365
X Variable 1	1.277036	0.770102	1.658269	0.158161	-0.70257	3.256645	-0.70257	3.256645

Regression Model for Exports

Summary Output

<i>Regression Statistics</i>	
Multiple R	0.819847
R Square	0.672149
Adjusted R Square	0.606579
Standard Error	2.308319
Observations	7

ANOVA

	df	SS	MS	F	Significance F
Regression	1	54.61990889	54.61991	10.25084	0.023949822
Residual	5	26.64167282	5.328335		
Total	6	81.26158171			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	16.15986	1.95088525	8.283346	0.000419	11.14494696	21.17477	11.14495	21.17477
X Variable 1	1.396679	0.436231204	3.201693	0.02395	0.275310564	2.518047	0.275311	2.518047

Appendix 4

GATT: Article XXIV: Territorial Application, Frontier Traffic, Customs Unions and Free-trade Areas states that as follows:

1. The provisions of this Agreement shall apply to the metropolitan customs territories of the contracting parties and to any other customs territories in respect of which this Agreement has been accepted under Article XXVI or is being applied under Article XXXIII or pursuant to the Protocol of Provisional Application. Each such customs territory shall, exclusively for the purposes of the territorial application of this Agreement, be treated as though it were a contracting party; Provided that the provisions of this paragraph shall not be construed to create any rights or obligations as between two or more customs territories in respect of which this Agreement has been accepted under Article XXVI or is being applied under Article XXXIII or pursuant to the Protocol of Provisional Application by a single contracting party.
2. For the purposes of this Agreement a customs territory shall be understood to mean any territory with respect to which separate tariffs or other regulations of commerce are maintained for a substantial part of the trade of such territory with other territories.
3. The provisions of this Agreement shall not be construed to prevent:
 - (a) Advantages accorded by any contracting party to adjacent countries in order to facilitate frontier traffic;
 - (b) Advantages accorded to the trade with the Free Territory of Trieste by countries contiguous to that territory, provided that such advantages are not in conflict with the Treaties of Peace arising out of the Second World War.
4. The contracting parties recognize the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries parties to such agreements. They also recognize that the purpose of a customs union or of a free-trade area should be to facilitate trade between

the constituent territories and not to raise barriers to the trade of other contracting parties with such territories.

5. Accordingly, the provisions of this Agreement shall not prevent, as between the territories of contracting parties, the formation of a customs union or of a free-trade area or the adoption of an interim agreement necessary for the formation of a customs union or of a free-trade area; Provided that:

(a) with respect to a customs union, or an interim agreement leading to a formation of a customs union, the duties and other regulations of commerce imposed at the institution of any such union or interim agreement in respect of trade with contracting parties not parties to such union or agreement shall not on the whole be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable in the constituent territories prior to the formation of such union or the adoption of such interim agreement, as the case may be;

(b) with respect to a free-trade area, or an interim agreement leading to the formation of a free-trade area, the duties and other regulations of commerce maintained in each of the constituent territories and applicable at the formation of such free-trade area or the adoption of such interim agreement to the trade of contracting parties not included in such area or not parties to such agreement shall not be higher or more restrictive than the corresponding duties and other regulations of commerce existing in the same constituent territories prior to the formation of the free-trade area, or interim agreement as the case may be; and

(c) Any interim agreement referred to in sub-paragraphs (a) and (b) shall include a plan and schedule for the formation of such a customs union or of such a free-trade area within a reasonable length of time.

6. If, in fulfilling the requirements of sub-paragraph 5 (a), a contracting party proposes to increase any rate of duty inconsistently with the provisions of Article II, the procedure set forth in Article XXVIII shall apply. In providing for compensatory

adjustment, due account shall be taken of the compensation already afforded by the reduction brought about in the corresponding duty of the other constituents of the union.

7.

(a) Any contracting party deciding to enter into a customs union or free-trade area, or an interim agreement leading to the formation of such a union or area, shall promptly notify the Contracting Parties and shall make available to them such information regarding the proposed union or area as will enable them to make such reports and recommendations to contracting parties as they may deem appropriate.

(b) If, after having studied the plan and schedule included in an interim agreement referred to in paragraph 5 in consultation with the parties to that agreement and taking due account of the information made available in accordance with the provisions of sub-paragraph (a), the Contracting Parties find that such agreement is not likely to result in the formation of a customs union or of a free-trade area within the period contemplated by the parties to the agreement or that such period is not a reasonable one, the Contracting Parties shall make recommendations to the parties to the agreement. The parties shall not maintain or put into force, as the case may be, such agreement if they are not prepared to modify it in accordance with these recommendations.

(c) Any substantial change in the plan or schedule referred to in paragraph 5 (c) shall be communicated to the Contracting Parties, which may request the contracting parties concerned to consult with them if the change seems likely to jeopardize or delay unduly the formation of the customs union or of the free-trade area.

8. for the purposes of this Agreement:

(a) A customs union shall be understood to mean the substitution of a single customs territory for two or more customs territories, so that

(i) duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories, and,

(ii) Subject to the provisions of paragraph 9, substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union;

(b) A free-trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated on substantially all the trade between the constituent territories in products originating in such territories.

9. The preferences referred to in paragraph 2 of Article I shall not be affected by the formation of a customs union or of a free-trade area but may be eliminated or adjusted by means of negotiations with contracting parties affected.* This procedure of negotiations with affected contracting parties shall, in particular, apply to the elimination of preferences required to conform with the provisions of paragraph 8 (a) (i) and paragraph 8 (b).

10. The Contracting Parties may by a two-thirds majority approve proposals which do not fully comply with the requirements of paragraphs 5 to 9 inclusive, provided that such proposals lead to the formation of a customs union or a free-trade area in the sense of this Article.

11. Taking into account the exceptional circumstances arising out of the establishment of India and Pakistan as independent States and recognizing the fact that they have long constituted an economic unit, the contracting parties agree that the provisions of this Agreement shall not prevent the two countries from entering into special arrangements

with respect to the trade between them, pending the establishment of their mutual trade relations on a definitive basis.*

12. Each contracting party shall take such reasonable measures as may be available to it to ensure observance of the provisions of this Agreement by the regional and local governments and authorities within its territories.

Ad Article XXIV

Paragraph 9

It is understood that the provisions of Article I would require that, when a product which has been imported into the territory of a member of a customs union or free-trade area at a preferential rate of duty is re-exported to the territory of another member of such union or area, the latter member should collect a duty equal to the difference between the duty already paid and any higher duty that would be payable if the product were being imported directly into its territory.

Paragraph 11

Measures adopted by India and Pakistan in order to carry out definitive trade arrangements between them, once they have been agreed upon, might depart from particular provisions of this Agreement, but these measures would in general be consistent with the objectives of the Agreement.

B. Understanding on the Interpretation of Article XXIV of the General Agreement on Tariffs and Trade 1994

Members,

Having regard to the provisions of Article XXIV of GATT 1994;

Recognizing that customs unions and free trade areas have greatly increased in number and importance since the establishment of GATT 1947 and today cover a significant proportion of world trade;

Recognizing the contribution to the expansion of world trade that may be made by closer integration between the economies of the parties to such agreements;

Recognizing also that such contribution is increased if the elimination between the constituent territories of duties and other restrictive regulations of commerce extends to all trade and diminished if any major sector of trade is excluded;

Reaffirming that the purpose of such agreements should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other Members with such territories; and that in their formation or enlargement the parties to them should to the greatest possible extent avoid creating adverse effects on the trade of other Members;

Convinced also of the need to reinforce the effectiveness of the role of the Council for Trade in Goods in reviewing agreements notified under Article XXIV, by clarifying the criteria and procedures for the assessment of new or enlarged agreements, and improving the transparency of all Article XXIV agreements;

Recognizing the need for a common understanding of the obligations of Members under paragraph 12 of Article XXIV;

Hereby agree as follows:

1. Customs unions, free-trade areas, and interim agreements leading to the formation of a customs union or free-trade area, to be consistent with Article XXIV, must satisfy, inter alia, the provisions of paragraphs 5, 6, 7 and 8 of that Article.

Article XXIV: 5

2. The evaluation under paragraph 5(a) of Article XXIV of the general incidence of the duties and other regulations of commerce applicable before and after the formation of a customs union shall in respect of duties and charges be based upon an overall assessment of weighted average tariff rates and of customs duties collected. This assessment shall be based on import statistics for a previous representative period to be supplied by the customs union, on a tariff-line basis and in values and quantities, broken down by WTO country of origin. The Secretariat shall compute the weighted average tariff rates and customs duties collected in accordance with the methodology used in the assessment of tariff offers in the Uruguay Round of Multilateral Trade Negotiations. For this purpose, the duties and charges to be taken into consideration shall be the applied rates of duty. It is recognized that for the purpose of the overall assessment of the incidence of other regulations of commerce for which quantification and aggregation are difficult, the examination of individual measures, regulations, products covered and trade flows affected may be required.

3. The "reasonable length of time" referred to in paragraph 5(c) of Article XXIV should exceed 10 years only in exceptional cases. In cases where Members parties to an interim agreement believe that 10 years would be insufficient they shall provide a full explanation to the Council for Trade in Goods of the need for a longer period.

Article XXIV: 6

4. Paragraph 6 of Article XXIV establishes the procedure to be followed when a Member forming a customs union proposes to increase a bound rate of duty. In this regard Members reaffirm that the procedure set forth in Article XXVIII, as elaborated in the guidelines adopted on 10 November 1980 (BISD 27S/26-28) and in the Understanding on the Interpretation of Article XXVIII of GATT 1994, must be commenced before tariff concessions are modified or withdrawn upon the formation of a customs union or an interim agreement leading to the formation of a customs union.

5. These negotiations will be entered into in good faith with a view to achieving mutually satisfactory compensatory adjustment. In such negotiations, as required by paragraph 6 of Article XXIV, due account shall be taken of reductions of duties on the same tariff line made by other constituents of the customs union upon its formation. Should such reductions not be sufficient to provide the necessary compensatory adjustment, the customs union would offer compensation, which may take the form of reductions of duties on other tariff lines. Such an offer shall be taken into consideration by the Members having negotiating rights in the binding being modified or withdrawn. Should the compensatory adjustment remain unacceptable, negotiations should be continued. Where, despite such efforts, agreement in negotiations on compensatory adjustment under Article XXVIII as elaborated by the Understanding on the Interpretation of Article XXVIII of GATT 1994 cannot be reached within a reasonable period from the initiation of negotiations, the customs union shall, nevertheless, be free to modify or withdraw the concessions; affected Members shall then be free to withdraw substantially equivalent concessions in accordance with Article XXVIII.

6. GATT 1994 imposes no obligation on Members benefiting from a reduction of duties consequent upon the formation of a customs union, or an interim agreement leading to the formation of a customs union, to provide compensatory adjustment to its constituents.

Review of Customs Unions and Free-Trade Areas

7. All notifications made under paragraph 7(a) of Article XXIV shall be examined by a working party in the light of the relevant provisions of GATT 1994 and of paragraph 1 of this Understanding. The working party shall submit a report to the Council for Trade in Goods on its findings in this regard. The Council for Trade in Goods may make such recommendations to Members as it deems appropriate.

8. In regard to interim agreements, the working party may in its report make appropriate recommendations on the proposed time-frame and on measures required to

complete the formation of the customs union or free-trade area. It may if necessary provide for further review of the agreement.

9. Members parties to an interim agreement shall notify substantial changes in the plan and schedule included in that agreement to the Council for Trade in Goods and, if so requested, the Council shall examine the changes.

10. Should an interim agreement notified under paragraph 7(a) of Article XXIV not include a plan and schedule, contrary to paragraph 5(c) of Article XXIV, the working party shall in its report recommend such a plan and schedule. The parties shall not maintain or put into force, as the case may be, such agreement if they are not prepared to modify it in accordance with these recommendations. Provision shall be made for subsequent review of the implementation of the recommendations.

11. Customs unions and constituents of free-trade areas shall report periodically to the Council for Trade in Goods, as envisaged by the CONTRACTING PARTIES to GATT 1947 in their instruction to the GATT 1947 Council concerning reports on regional agreements (BISD 18S/38), on the operation of the relevant agreement. Any significant changes and/or developments in the agreements should be reported as they occur.

Dispute Settlement

12. The provisions of Articles XXII and XXIII of GATT 1994 as elaborated and applied by the Dispute Settlement Understanding may be invoked with respect to any matters arising from the application of those provisions of Article XXIV relating to customs unions, free-trade areas or interim agreements leading to the formation of a customs union or free-trade area.

Article XXIV: 12

13. Each Member is fully responsible under GATT 1994 for the observance of all provisions of GATT 1994, and shall take such reasonable measures as may be available

to it to ensure such observance by regional and local governments and authorities within its territory.

14. The provisions of Articles XXII and XXIII of GATT 1994 as elaborated and applied by the Dispute Settlement Understanding may be invoked in respect of measures affecting its observance taken by regional or local governments or authorities within the territory of a Member. When the Dispute Settlement Body has ruled that a provision of GATT 1994 has not been observed, the responsible Member shall take such reasonable measures as may be available to it to ensure its observance. The provisions relating to compensation and suspension of concessions or other obligations apply in cases where it has not been possible to secure such observance.

15. Each Member undertakes to accord sympathetic consideration to and afford adequate opportunity for consultation regarding any representations made by another Member concerning measures affecting the operation of GATT 1994 taken within the territory of the former (<http://www.wto.org>).

Appendix 5

Proposed Content of the over all ACP-EU Framework Agreement

The ACP-EU Partnership Agreement signed in Cotonou between the European community and the ACP States provides for the negotiation of “new WTO compatible trading arrangements, progressively removing barriers to trade between them and enhancing cooperation in all areas relevant to trade” (Article 36.1).

2. Formal negotiations for EPA’s will start from September 2002 and will be undertaken in accordance with Article 37.5 of the Cotonou Agreement.

“Negotiations of the Economic Partnership Agreement will be undertaken with ACP countries which consider themselves in a position to do so, at the level they consider appropriate and in accordance with the procedures agreed by the ACP Group, taking into account regional integration process within the ACP.”

3. For those ACP countries who consider EPA’s appropriate, it is stated that the process of negotiations:-

“shall take account of the level of development and the socio-economic impact of trade measures on ACP countries, and their capacity to adapt and adjust the economies to the liberalisation process.” (Article 37.7)

4. Against this background it is held that the negotiations will therefore be:-

“as flexible as possible in establishing the duration of a sufficient transitional period the final product coverage, taking into account sensitive sectors, and the degree of asymmetry in terms of time table for tariff dismantlement.” (Article 37.7)

5. However, this flexibility is qualified by the stipulation that this flexibility must remain

“in conformity with WTO rules then prevailing”

6. In the text of the agreement it is implicitly recognised that the introduction of reciprocal trade preferences with the EU will pose a major competitive challenge to producers in ACP countries. It is therefore proposed that:-

“The preparatory period shall also be used for capacity building in the public and private sectors of ACP countries, including measures to enhance competitiveness, for strengthening of regional organisations and for support to regional trade integration initiatives, where appropriate with assistance to budgetary adjustment and fiscal reform, as well as for infrastructure upgrading and development, and for investment promotion”. (Article 37.3)

Objectives of the Cotonou Agreement

7. The Cotonou Partnership Agreement is a comprehensive development cooperation agreement between the ACP countries and the European Community for a duration of twenty years. It is based on three pillars namely political, economic and trade and development finance cooperation. Its primary objective in accordance with Article 1 of the Agreement is to “promote and expedite the economic, cultural and social development of ACP States, with a view to contributing for space and security and to promoting a stable and democratic political environment.” Reducing and eventually eradicating poverty consistent with the objective of sustainable development and the gradual integration of ACP countries into the world economy is central to the agreement.

Objectives of Economic and Trade Cooperation

8. These general objectives are further confirmed and consolidated under the specific objectives for economic and trade cooperation. Article 34.1 states:-

“Economic and trade cooperation shall aim at fostering the smooth and gradual integration of the ACP States into the world economy, with due regard for their political choices and development priorities, thereby promoting their sustainable development and contributing to poverty eradication in the ACP countries.”

9. In this context, economic and trade cooperation shall aim at enhancing capacity in the field of production, supply and trade and to attract investment.

10. It is significant to note therefore that the negotiations for EPA's should be placed in the broader context of the development objectives of the Cotonou Agreement. The forthcoming negotiations should therefore never lose sight of this crucial factor in that:-

- (i) development needs of ACP countries/regions should drive the process;
- (ii) it will determine the scope and extent of flexibility in liberalisation schedules and time frames;
- (iii) it will enable a case for adjustment costs;
- (iv) it will demand the harmonisation of capacity building with the liberalisation process;
- (v) it will ensure that trade liberalisation be conceived in conjunction with support for trade-related infrastructure improvement, development programmes and investment promotion.

11. The overall ACP-EU framework agreement should define the objectives and principles of the EPA which have to be consistent with the objectives and principles of the Cotonou Agreement, in particular with those of the Economic and Trade Cooperation provision enshrined in title II. The general objectives to be achieved are

high level of economic growth of the ACP, sustainable development, poverty reduction and the transformation of the ACP economies such as to ensure their smooth integration into the global economy.

12. These development objectives can be achieved through a negotiated package of measures aimed at:-

- (a) enhancing the productive capacities of the ACP in the main sectors, including the elaboration of measures to address capacity constraints in the trading sector,
- (b) increasing the competitiveness of the productive sectors;
- (c) attracting greater volumes of investment and technology in key sectors of the economy;
- (d) diversifying the production and export bases of the ACP;
- (e) enhancing capacity in human resources;
- (f) maintaining and improving preferential access.

13. The basic principle of the negotiations should therefore rest on a development agenda that ensures sustained growth and improves the welfare of the people in the ACP as a whole. It shall, however take due account of the different levels of development of the ACP countries, including the specificities of LDC, SIDs and land lock countries. To that end a differential approach to the negotiations shall be adopted that allows the extension of special and differential treatment based on the levels of development and the specificities of the ACP countries. While ensuring that WTO compatibility of the EPA remains one of the core principles of the negotiations, it is imperative that developments taking place at the WTO regarding negotiations aimed at clarifying and improving disciplines and procedures under the existing WTO provisions

applying to regional trade agreements be duly taken into account. More over the negotiations of EPA's should aim at consolidating the regional integration initiatives of the ACP countries and ensure coherence and cohesion with the ACP Group and between the various ACP regiona.

14. One among the core principles of EPA's should be to preserve and further consolidate the unity, solidarity and cohesiveness of the ACP as a group. The negotiations themselves should be all inclusive and involve all the cross sections of the community, including the private sector, civil society and various levels of Government. Trade creation and not trade diversion should be at the basis of the EPA's.

15. The package of measures to address the development objectives set out at para 2 shall consist, amongst others of:-

- (i) an EPA development fund distinct from the EDF to be negotiated between the ACP and the EU;
- (ii) access to soft loans at concessional rate;
- (iii) access to credit and investment finance;
- (iv) support to industrial innovation, transfer of technology, training, research and technological development;
- (v) a comprehensive programme geared towards the development of the private sector;
- (vi) assistance in elaborating trade development strategies;

- (vii) a capacity building programme aimed at developing professional skills in the productive, trade related and service sectors;
- (viii) elaboration of an incentive package for the investor community in the EU aimed at promoting capital flows and the transfer of technology into the ACP;
- (ix) reinforcing the instruments of Cotonou.

16. In the first phase (2002-2005), the modalities for the negotiations of new trading arrangement with the EU shall also be negotiated. These negotiations shall build on the “acquis” of the previous Lome Conventions and the Cotonou Agreement and shall aim at further enhancing the preferential access of the ACP to the EU market, through, amongst others the following:-

- (i) a complete review of the existing Rules of Origin with a view to making them less stringent and development oriented;
- (ii) improving cumulation provisions and negotiate terms and conditions of cumulation with other developing countries;
- (iii) improving the provisions relating to derogations from the Rules of Origin;
- (iv) the elaboration of an assistance package to step up product standards and to meet technical and sanitary and phytosanitary requirements in the EU;
- (v) elimination of Non Tariff Measures that act as unnecessary barriers to trade

- (vi) elimination of tariff on products of interest to the ACP while safeguarding the acquis of special arrangements.

17. As the negotiations of New Trading Arrangements will entail revenue loss to the ACP and will impact on the competitive edge of the Domestic industries, an **adjustment package** will have to be negotiated that addresses the fiscal and competition adjustment costs. While the adjustment cost relating to competition may be negotiated as a one off package to be complemented by the EPA development fund through concessional loans, the fiscal adjustment package should take into account revenue loss on a sufficiently long period of time, including the implications of the trade diversion effect on the ACP.

18. With a view to enabling the ACP countries to support the Domestic Industry in the event if increased imports from the EU cause injury or threat of injury to the Domestic Industry, appropriate safeguard measures will have to be negotiated as part of the framework agreement. The provisions on safeguards should contain special treatment for the ACP countries and should be used sparingly, if not at all by the EU. The safeguard provisions to be negotiated should in spirit reflect in general terms the WTO Agreement on safeguards but the investigation procedures and the application of the measures themselves should be simplified. Similarly antidumping provisions to curb unfair trade practices should also be negotiated. The ACP countries however should be provided with adequate flexibility in the conduct of antidumping investigations and in the imposition of antidumping measures.

19. A framework agreement on trade in services based on the architecture of the GATS should also be negotiated as part of the overall framework agreement. The negotiations should be conducted on two parallel tracks:-

- (i) negotiations of a specific assistance package to strengthen the capacity in the supply of services as provided for under Art 41.5;

- (ii) negotiations for the phased liberalisation of selected services sectors based on a positive list approach using the GATS architecture. The negotiations should be based on the principle of asymmetry, taking due account of the specificities of single service exporters and small service suppliers. Due account shall be taken of those service sectors in which the ACP have particular export interests, in particular the movement of natural persons. The negotiations should therefore cover all the modes of supply identified in the GATS.

20. With a view to maintaining consistency between the Cotonou Agreement and the EPA, the parties should reaffirm their commitment to cooperate in the trade related areas identified in Articles 45-52 of the Cotonou Agreement. As regards to the new issues, the parties will be guided by the Doha Work Programme.

21. In the same vein and pursuant to Art. 36.2 of the Cotonou Agreement, the parties should reaffirm the importance of the commodity protocols and should ensure that the benefits derived therefrom are safeguarded through appropriate solutions.

22. A Dispute Settlement Body as part of the overall framework agreement shall be negotiated. Any dispute arising on either side in the implementation of the EPA shall be referred to the Dispute Settlement Body. Art XXII and XXIII of GATT 94 and the understanding on rules and procedures governing the settlement of disputes could provide vital guidance on the kind of structure that could be put in place to deal with disputes.

23. Schematically the elements to be negotiated during the first phase can be presented as at annex. The first phase which will see the conclusion of a framework agreement will be negotiated between 2002 and 2005. The second phase (2005-2007) will be dedicated to negotiations of new trading arrangements between the ACP and the EU. These negotiations will be based on a variable geometry approach and will fully

take into account the levels of development of the ACP countries in particular the LDC's, the specific situation of SIDS and land lock countries.

Framework Agreement (all ACP)

- Modalities, principles and objectives of the EPA, including the negotiations of New Trading Agreements.
- Addressing the challenge of designing and implementing programmes of support to overcome supply side constraints in ACP countries, to enable them to adapt to the more competitive environment and to exploit new opportunities emerging as a result of the establishment of the FTA.
- Capacity building in:
 - (i) Human resources and institutional development; and
 - (ii) Trade and Economic Productive sectors including the development of the private sector.
- Customs and Administrative Cooperation issues: rules of origin, including cumulation of rules; quality control; mutual recognition and/or harmonisation of norms and standards; and certification etc.
- Collaboration in trade related areas.
- Common safeguard provisions, dispute settlement and anti-dumping provisions.
- Modalities for the calculation of transitional costs in terms of loss of Government revenue, resulting from tariffs reductions/elimination in reciprocal trade liberalisation under EPAs.
- Assessment of financing needs of ACP States to make the necessary adjustment to their economies in order to enable them to face increased competition under EPAs.
- Special and differential treatment for LDC's, landlock countries and small Island Developing States.
- Product coverage and transitional period with respect to the NTA.
- Overall structure and format of the NTA; establishment of a common framework, phasing of the negotiations.
- Treatment of the commodity protocols, in particular the safeguarding of the benefits of the Protocol.
- Elaboration of a framework agreement on Trade in Services, including S&D treatment.
- Assistance package in trade related issues and Trade in Services.
- Investment promotion package, including measures to promote the transfer of technology, know-how and skills, development of ICT. Promotion of technological development in ACP States and cooperation in the field of education and health.
- The setting up of institutional mechanisms for the negotiations and the implementation thereafter of the EPA.

Appendix 6

TREATY OF THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC)

The SADC Treaty was adopted in 1992 and entered into force in 1993, and was modified by the 2001 Agreement Amending the Treaty of SADC. In the document reprinted here, the 2001 amendments have been integrated into the founding treaty.

PREAMBLE

We, the Heads of State and Government of [SADC countries]

Having regard to the objectives set forth in “Southern Africa: Toward Economic Liberation – A Declaration by the Governments of Independent States of Southern Africa”, made at Lusaka, on 1 April 1980;

In pursuance of the principles of “Towards a Southern African Development Community – A Declaration made by the Heads of State and Government of Southern Africa at Windhoek, in August 1992,” which affirms our commitment to establish a Development Community in the Region;

Determined to ensure, through common action, the progress and well-being of the peoples of Southern Africa;

Conscious of our duty to promote the interdependence and integration of our national economies for the harmonious, balanced and equitable development of the region;

Convinced of the need to mobilise our own and international resources to promote the implementation of national, interstate and regional policies, programmes and projects within the framework for economic integration;

Dedicated to secure, by concerted action, international understanding, support and co-operation;

Mindful of the need to involve the people of the region centrally in the process of development and integration, particularly through the guarantee of democratic rights, observance of human rights and the rule of law;

Recognising that, in an increasingly interdependent world, mutual understanding, good neighbourliness and meaningful co-operation among the countries of the region are indispensable to the realisation of these ideals;

Determined to alleviate poverty, with the ultimate objective of its eradication, through deeper regional integration and sustainable economic growth and development;

Further determined to meet the challenges of globalisation;

Taking into account the Lagos Plan of Action and the Final Act of Lagos of April 1980, the Treaty establishing the African Economic Community, and the Constitutive Act of the African Union;

Bearing in mind the principles of international law governing relations between states;

Have decided to establish an international organisation to be known as the Southern African Development Community (SADC), and hereby agree as follows:

...

CHAPTER THREE: PRINCIPLES, OBJECTIVES AND GENERAL UNDERTAKINGS

Article 4: Principles

SADC and its member states shall act in accordance with the following principles:

- a) sovereign equality of all member states;
- b) solidarity, peace and security;
- c) human rights, democracy, and the rule of law;
- d) equity, balance and mutual benefit; and
- e) peaceful settlement of disputes.

Article 5: Objectives

1. The objectives of SADC shall be to:

- a) promote sustainable and equitable economic growth and socio-economic development that will ensure poverty alleviation with the ultimate objective of its eradication, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged through regional integration;
- b) promote common political values, systems and other shared values which are transmitted through institutions which are democratic, legitimate, and effective;
- c) consolidate, defend and maintain democracy, peace, security and stability;
- d) promote self-sustaining development on the basis of collective self-reliance, and the interdependence of member states;
- e) achieve complementarity between national and regional strategies and programmes;

- f) promote and maximise productive employment and utilisation of resources of the region;
- g) achieve sustainable utilisation of natural resources and effective protection of the environment;
- h) strengthen and consolidate the long-standing historical, social and cultural affinities and links among the peoples of the region;
- i) combat HIV/AIDS and other deadly or communicable diseases;
- j) ensure that poverty eradication is addressed in all SADC activities and programmes;
- k) mainstream gender in the process of community building.

2. In order to achieve the objectives set out in paragraph 1 of this article, SADC shall:

- a) harmonise political and socio-economic policies and plans of member states;
- b) encourage the peoples of the region and their institutions to take initiatives to develop economic, social and cultural ties across the region, and to participate fully in the implementation of the programmes and projects of SADC;
- c) create appropriate institutions and mechanisms for the mobilisation of requisite resources for the implementation of programmes and operations of SADC and its institutions;
- d) develop policies aimed at the progressive elimination of obstacles to the free movement of capital and labour, goods and services, and of the peoples of the region generally, among member states;
- e) promote the development of human resources;
- f) promote the development, transfer and mastery of technology;
- g) improve economic management and performance through regional co-operation;
- h) promote the coordination and harmonisation of the international relations of member states;
- i) secure international understanding, co-operation and support, and mobilise the inflow of public and private resources into the region;
- j) develop such other activities as member states may decide in furtherance of the objectives of this Treaty.

Article 5A: SADC Common Agenda

1. The SADC Common Agenda shall be as reflected in article 5 of this Treaty.
2. Without prejudice to paragraph 1 of this article, the Council shall develop and implement the SADC Common Agenda.

Article 6: General Undertakings

1. Member states undertake to adopt adequate measures to promote the achievement of the objectives of SADC, and shall refrain from taking any measure likely to jeopardise the sustenance of its principles, the achievement of its objectives and the implementation of the provisions of this Treaty.
2. SADC and member states shall not discriminate against any person on grounds of gender, religion, political views, race, ethnic origin, culture, ill-health, disability or such other ground as may be determined by the Summit.
3. SADC shall not discriminate against any member state.
4. Member states shall take all steps necessary to ensure the uniform application of this Treaty.
5. Member states shall take all necessary steps to accord this Treaty the force of national law.
6. Member states shall co-operate with and assist institutions of SADC in the performance of their duties.

CHAPTER FIVE: INSTITUTIONS

Article 9: Establishment of Institutions

1. The following institutions are hereby established:
 - a) the Summit of Heads of State and Government;
 - b) the Organ on Politics, Defence and Security;
 - c) the Council of Ministers;
 - d) the Integrated Committee of Ministers;
 - e) the Standing Committee of Officials;
 - f) the Secretariat;
 - g) the Tribunal; and
 - h) SADC National Committees.

2. Other institutions may be established as necessary.

Article 9A: Troika

1. The Troika shall apply with respect to the following institutions:

- a) the Summit;
- b) the Organ;
- c) the Council;
- d) the Integrated Committee of Ministers;
- e) the Standing Committee of Officials.

2. The Troika of the Summit shall consist of:

- a) the Chairperson of SADC;
- b) the Incoming Chairperson of SADC who shall be the Deputy Chairperson of SADC;
and
- c) the Outgoing Chairperson of SADC.

3. The respective offices of the Troika of the Summit shall be held for a period of one year.

4. The membership and term of office of the Troika of the Council, the Integrated Committee of Ministers and the Standing Committee of Officials shall correspond to the membership and term of office of the Troika of the Summit.

5. The Troika of the Organ shall consist of:

- a) the Chairperson of the Organ;
- b) the Incoming Chairperson of the Organ who shall be the Deputy Chairperson of the Organ; and
- c) the Outgoing Chairperson of the Organ.

6. The Troika of each institution shall function as a steering committee of the institution and shall, in between the meetings of the institution, be responsible for:

- a) decision-making
- b) facilitating the implementation of decision; and
- c) providing policy directions.

7. The Troika of each institution shall have the power to create committees on an *ad hoc* basis.

8. The Troika of each institution shall determine its own rules of procedure.

9. The Troika of each institution may co-opt other members as and when required.

Article 16: The Tribunal

1. The Tribunal shall be constituted to ensure adherence to and the proper interpretation of the provisions of this Treaty and subsidiary instruments and to adjudicate upon such disputes as may be referred to it.

2. The composition, powers, functions, procedures and other related matters governing the Tribunal shall be prescribed in a Protocol which shall, notwithstanding the provisions of article 22 of this Treaty, form an integral part of this Treaty.

3. Members of the Tribunal shall be appointed for a specified period.

4. The Tribunal shall give advisory opinions on such matters as the Summit or the Council may refer to it.

5. The decisions of the Tribunal shall be final and binding.

...

CHAPTER SEVEN: CO-OPERATION

Article 21: Areas of Co-operation

1. Member states shall cooperate in all areas necessary to foster regional development and integration on the basis of balance, equity and mutual benefit.

2. Member states shall, through appropriate institutions of SADC, coordinate, rationalise and harmonise their overall macro-economic and sectoral policies and strategies, programmes and projects in the areas of co-operation.

3. In accordance with the provisions of this Treaty, member states agree to co-operate in the areas of:

a) food security, land and agriculture;

b) infrastructure and services;

c) industry, trade, investment and finance;

d) human resources development, science and technology;

e) natural resources and environment;

f) social welfare, information and culture; and

g) politics, diplomacy, international relations, peace and security.

4. Additional areas of co-operation may be decided upon by the Council.

Article 22: Protocols

1. Member states shall conclude such Protocols as may be necessary in each area of co-operation, which shall spell out the objectives and scope of, and institutional mechanisms for, co-operation and integration.
2. Each Protocol shall be approved by the Summit on the recommendation of the Council.
3. Each Protocol shall be open to signature and ratification.
4. Each Protocol shall enter into force thirty (30) days after the deposit of the instruments of ratification by two thirds of the member states.
5. Once a Protocol has entered into force, a member state may only become a party thereto by accession.
6. Each Protocol shall remain open for accession by any state subject to article 8 of this Treaty.
7. The original texts of each Protocol and all instruments of ratification and accession shall be deposited with the Executive Secretary who shall transmit certified copies thereof to all member states.
8. The Executive Secretary shall register each Protocol with the Secretariat of the United Nations Organization and the Commission of the African Union.
9. Each Protocol shall be binding only on the member states that are party to the Protocol in question.
10. Decisions concerning any Protocol that has entered into force shall be taken by the parties to the protocol in question.
11. No reservation shall be made to any Protocol.

Article 23: Non-governmental Organisations

1. In pursuance of the objectives of this Treaty, SADC shall seek to involve fully the peoples of the region and non-governmental organisations in the process of regional integration.
2. SADC shall co-operate with, and support the initiatives of the peoples of the region and

non-governmental organisations, contributing to the objectives of this Treaty in the areas of co-operation in order to foster closer relations among the communities, associations and peoples of the region.

...

CHAPTER TWELVE: SETTLEMENT OF DISPUTES

Article 32

Any dispute arising from the interpretation or application of this Treaty, which cannot be settled amicably, shall be referred to the Tribunal.

CHAPTER THIRTEEN: SANCTIONS, WITHDRAWAL AND DISSOLUTION

Article 33: Sanctions

1. Sanctions may be imposed against any member state that:

- a) persistently fails, without good reason, to fulfil obligations assumed under this Treaty;
- b) implements policies which undermine the principles and objectives of SADC; or
- c) is in arrears for more than one year in the payment of contributions to SADC, for reasons other than those caused by natural calamity or exceptional circumstances that gravely affect its economy, and has not secured the dispensation of the Summit.

2. The sanctions shall be determined by the Summit on a case-by-case basis

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