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OPENING REMARKS FOR THE ICM
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The Challenges

1. The central challenge facing SADC at this juncture is to strengthen the political and technical mechanisms to drive the region's economic development and integration agenda. This requires visionary leadership, political commitment and a well capacitated and focused secretariat.

2. In terms of the 1992 Treaty that established SADC, its central objectives are:

a. Promoting development, poverty reduction and economic growth through regional integration;
b. Consolidating, defending and maintaining democracy, peace, security and stability;
c. Promoting common political values and institutions which are democratic, legitimate and effective;
d. Strengthening of links among the people of the region; and
e. Mobilisation of regional and international private and public resources for the development of the region.

3. While the political agenda has advanced, progress on the economic front has been limited. This is evidenced by the fact that intra-regional trade within SADC (as well as Africa's other regional economic communities), remains low compared with non-Africa RECs (EU, ASEAN, etc).

4. Obstacles to poor inter-regional trade within SADC (and other African RECs) remain non-complementarity of domestic production, poor infrastructure linkages, lack of enforcement of regional protocols, sovereignty, prohibitive customs and border controls, and lack of international trade financing. The status quo is therefore disintegrated markets and industries, where individual SADC countries are constrained by the small size of their economies.

5. A further illustration of the paralysis of the economic integration agenda is that the Finance and Investment Protocol – which is central to resource mobilisation, capital market deepening and macroeconomic convergence – has not yet been implemented. Indeed, a meeting of Finance Ministers to approve the most recent version of the Protocol was abruptly cancelled in early June.

6. The key reason that the economic integration agenda has stalled, is that most Member States do not see any concrete benefits from economic integration, against the substantial cost of surrendering sovereignty. This is not unique to SADC: the unwillingness of individual Member States to give up sovereignty for a future of common good has been the central challenge to regional integration agreements the world over.

7. This is exacerbated by the absence of appropriate decision-making structures to drive economic integration, alongside inadequate technical capacity. This has arisen because the decision taken by the SADC Summit in March 2001 to restructure SADC's institutional framework has resulted in the dismantling of sector coordinating units in Member States, without replacing this capacity in the centralised technical structure located in the Secretariat . Moreover, the decision to streamline SADC's decision-making structures by creating an Integrated Committee of Ministers (ICM) resulted in the exclusion of a number of Ministers that are key to driving the economic agenda, including Finance Ministers.

8. A further factor constraining the advancement of economic integration is the fact that many Member States are members of other regional groupings. Indeed, the rationalisation of RECs has been a central preoccupation of the AU. The issue of how to rationalise membership across SADC, COMESA, SACU and the EAC is critical to securing political commitment to the integration agenda.

9. A stark illustration of the challenges confronting SADC is that of the 27 protocols that have been crafted, only two (the Protocol on Trade and the Amended Protocol on Trade) have been implemented, 18 have entered into force

but not been implemented and 7 have not yet entered into force. This highlights both the lack of political commitment to the economic integration process and the lack of adequate technical capacity to implement it.

The Opportunities

10. SADC's economic integration and development agenda, which is articulated in the RISDP, has the potential to substantially enhance the growth and development prospects of all the Member States. The region has a total population of 210 million and a combined gross domestic product (GDP) of about US$170 billion, making it the largest market in Sub-Saharan Africa. Regional integration enhances the prospects for accelerating the region's growth because it redresses the constraints created by small and fragmented markets. Critically, despite the malaise in implementing the economic integration agenda spelled out in the Regional Indicative Strategic Development Programme (RISDP), trade and capital flows have been increasing over the past decade.

11. Intra-regional trade was estimated at about 20 percent of total trade in1997. The overall figure for intra-regional trade stood at roughly 25 percent by 2003 and is expected to increase further by the time the FTA is fully implemented. Member states' trade shares with SADC vary widely, from a low but increasing 2.1 percent of overall trade for Mauritius to up to some 80 percent for Swaziland. Malawi, Zambia and Zimbabwe trade 40 and 50 percent of their overall trade (imports and exports) with SADC partners. Notably, intra-regional trade is diversifying slowly but gradually, and more manufactured goods are now making up a larger share of overall trade in the region.

12. RSA's total trade with SADC in absolute terms is estimated at R38bn having increased over the last five years by 36 percent. The country's trade balance by 2005 stands at R21.4bn. South Africa's imports from SADC have grown much faster at an annual average growth rate of 19 percent over the past five years, while exports grew sluggishly by 3 percent.

13. As regards capital flows in the region, it is common cause that South Africa accounts for a high proportion of FDI in SADC countries. The data suggests that South Africa has been the primary foreign investor in many SADC countries over the past 10 years, including Botswana, the DRC, Lesotho, Malawi, Mozambique, Swaziland and Zambia. A defining characteristic of South African investment is

its diversity – FDI has not been confined to natural resource extraction but also the industrial and services sectors.

14. South African SOEs – in particular Spoornet and Eskom – are playing a major role in infrastructure investment in the region. Both Spoornet and Eskom have a presence in 8 SADC countries. Eskom is furthermore involved in electricity supply to the region through its participation in the Southern African Power Pool. South African Airways has codeshare agreements with various SADC airlines and is looking to increase its African business. The Department of Public Enterprises is currently developing a strategic framework for these investments, to ensure that their developmental impact is enhanced.

15. These private sector led elements of the integration process highlight the fact that there is immense potential to drive the region's economic development through the implementation of the RISDP. It will serve to enhance the developmental impact of these flows of goods and capital, as well as mobilising additional resources for development and removing the constraints to growth in the region.

Key Elements of an Economic Integration and Development Agenda

16. The central objective of the RISDP is deeper regional integration through

a. Peace and security;
b. Transparent and accountable governance; and
c. The establishment of a Common Market.

17. The first two goals are regarded as pre-requisites, and are mainly dealt with in the Strategic Indicative Programme for the Organ (SIPO). In terms of the establishment of a Common Market, the following priorities have been identified:

a. Development of a regional institutional capacity;
b. Macro-economic convergence, including exchange rate alignment;
c. Free flow of goods, services, capital and people;
d. Financial integration; and
e. Delivery of regional public goods.

This contains elements of both shallow integration (i.e. removing barriers to the movement of goods, capital and people) and deep integration (i.e. harmonisation and alignment of policies). Both need to be pursued in tandem in a manner that yields benefits to Member States.

18. It must be acknowledged that in many cases, the RISDP has unrealistic targets. The specific target of a SADC Customs Union by 2010 needs to be reviewed at the highest level and must be informed by the progress of establishing the full FTA. Moreover, although SADC accepts the principle of variable geometry, the pace of regional integration is determined by Member States with the slowest pace of (non) implementation. This negatively affects the sequencing of RISDP timeframes, which reflects the expectation that all member states would simultaneously attain the objectives of each stage, and preferably as rapidly as possible within the timeframe accorded.

19. The key to developing the region is stronger and sustained economic growth. This will create a positive environment in which other SADC reforms and sector programmes would be politically more viable because of increasing public revenue to invest in new sectors and projects. While some SADC countries have experienced periods of accelerated economic growth, these have often not been sustained and have had little positive spill-over effects on neighbouring economies in the Southern African region.

20. Developing the capacities of SADC countries to trade is a critical driver of growth. This requires more than just reducing tariff barriers. Better coordination and cooperation will be needed to address supply-side constraints and to identify new growth and integration opportunities in the region. Greater economies of scale could be achieved by investing in institutional capacities in areas such as customs and revenue capacities and compliance with product standards in regional and global markets.

21. Investment in infrastructure is a priority for the region, because it is an area of collective regional interest. Clearly, if an economically and socially integrated region is to be built more resources need to be allocated to economic infrastructure to link the countries of the region so that their economies can become integrated.

22. During the ADB annual meetings in June this year, SA argued that Africa' infrastructure investment levels are far too low to support the magnitude and character of growth and development that the continent needs. In correcting these imbalances by scaling up investment in infrastructure, governments must take responsibility for driving their own development trajectories.

23. There is substantial agreement that regional infrastructure in the form of power pools, road corridors and communications networks are critical to the

support of growth and competitiveness, in achieving economies of scale and in reducing costs.

24. Improved Infrastructure not only improves the living conditions of the poor, but also reduces the costs of business, and further encourages business to invest in productive assets. It enlarges markets. It is not surprising that the poor of Africa perceive the isolation associated with the lack of infrastructure to be the cause of their poverty and marginalisation. Too far from markets, too far from arable land, too far from hospitals and clinics.

25. The responsibility for ensuring the rapid expansion of infrastructure lies squarely with the state: the government budget will continue to be the main driver of infrastructure development. The domestic public sector remains the dominant source of finance for infrastructure all over the developing world. It accounts for 70 percent of current spending on infrastructure, with the private sector accounting for somewhere between 20 and 25 percent, and ODA for 5 to10 percent. But that’s a global statistic; in Africa private investment in infrastructure is a fraction of this developing country average.

The Way Forward

26. At this juncture in the region’s political and economic development, the imperative is to revitalise SADC’s economic integration and development agenda. The following essential elements are required to do this:

a. Political commitment at the highest level, which requires surrendering some elements of sovereignty for a future of common good;
b. Adequate technical capacity to implement the economic integration agenda. This requires an honest assessment of the secretariat’s current inability to implement the integration agenda;
c. Effective mechanisms for decision-making and driving implementation. This requires Ministers responsible for economic issues, including Finance Ministers, to play a more prominent role in decision-making.
d. A comprehensive understanding of the costs and benefits associated with the various elements of the economic integration process.

27. South Africa is committed to ensuring that these measures are implemented, as the development of the SADC region remains the centrepiece of our foreign policy and our own economic development priorities.