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## Two Logics of Regionalism:

### The Importance of Interdependence and External Support for Regional Integration in Southern Africa

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#### **Abstract:**

Existing theories of European integration and political economy usually assume that economic interdependence is an important precondition for successful regional integration. This includes that regional integration among developing countries is unlikely to be successful, because their economies are usually more dependent on developed countries in the North than on their neighbours in the South. However, this article argues that developing countries use regional integration more in order to improve their standing vis-à-vis other world regions in the global economic system than to govern intraregional interdependence. Thus, the progress of regional integration in the South is at least as dependent on the feedback from other regions as it is on developments within the own region. This argument will be illustrated at the example of the Southern African Development Community (SADC), which made important steps towards regional integration in the last decade. It centralised its institutional structure in 2001 and announced a Free Trade Area in 2008. This development can partly be explained by interdependence between the less developed countries of the SADC and the relatively well developed Republic of South Africa, but it was also favoured by external support from other world regions, especially the European Union (EU). Nevertheless, further regional integration towards a customs union is disturbed by external influence, because the EU currently negotiates different Economic Partnership Agreements with the SADC member states, which prevents the harmonisation of tariffs for imports from outside the region.

**Keywords:** integration theory, international political economy, interregionalism, new regionalism, regional integration, SADC, Southern Africa

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## 1. Introduction

Within the last ten years, the Southern African Development Community (SADC)<sup>1</sup> has made two important steps toward closer political and economic integration: In 2001, the SADC adopted an institutional reform, which strengthened the central secretariat in Gaborone, set up a SADC court and included a body for defence and security politics into SADC's structure (Oosthuizen 2006: 51-115, Vogt 2007: 125-162). And in 2008, twelve SADC member states (excluding Angola and the Democratic Republic of the Congo) announced the implementation of a free trade area, wherein the intra-regional trade of 85% of all goods is no longer affected by tariffs.<sup>2</sup> Even if these two steps seem to be modest from a European perspective, they lead to the fact that the SADC is one of the most advanced regional integration schemes among developing countries, and that it is the most successful one on the African continent. However, recent events indicate that this path towards closer integration may come to an end in near future. The negotiations about different Economic Partnership Agreements (EPAs) with the EU pose enormous problems for the SADC, because they prevent the adoption of harmonised tariffs and the establishment of a SADC customs union (Stevens and Kennan 2006).

These ups and downs of regional integration in Southern Africa are a puzzle for scholars of regional integration. Existing theories usually implicitly or explicitly assume that successful regional integration depends on liberal democracies and advanced economic development. The spill-over concept of neofunctionalism is built up on the idea that intraregional trade has dynamic effects on the European integration process (Haas 1958). Liberal intergovernmentalism states that economic interdependence between member states is the driving force behind European integration (Moravcsik 1998). And aside of the specific European debate, political economist assume that the demand for regional integration results from the potential to exploit comparative cost advantages and economies of scale by intraregional trade (Mattli 1999). However, economic interdependence and the potential for intraregional

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<sup>1</sup> The member states of the SADC are: Angola, Botswana, Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

<sup>2</sup> SADC (2008): "Final Communiqué of the 28<sup>th</sup> Summit of SADC Heads of State and Government" (<http://www.sadc.int/fta/index/browse/page/203>).

trade are usually lower among developing countries of a region like Southern Africa than they are in regions of the North like Europe or Northern America. Developing countries usually produce more raw materials than processed goods, and the share of subsistence farming is relatively high. As a result, developing countries do not constitute significant export markets or investment destinations for each other, but they are more dependent on trade with and investment from more developed countries. Thus, it is more important for them to reduce barriers of trade and investment to the First World than to abolish them among each.

If less developed countries are more dependent on trade with wealthier countries in the North than with their neighbours in the South, they may use regional integration as a tool to improve their position in the global economic system (Schirm 2002). This may happen in three ways: Regional integration may improve the attractiveness of small developing countries for foreign investors, because these may gain access to a larger market by investing within the region (Büthe and Milner 2005, Jaumotte 2004). Regional integration may help to raise financial aid from donors – especially from other regional integration schemes like the European Union (EU) –, because the money may be spent more efficiently within a larger region than within a small state (Robson 1993). And finally, regional integration may strengthen the voice of the region within multilateral or bi-regional negotiations, if the participating countries speak with one vote (Mansfield and Reinhardt 2003).

Consequently, regional integration may bring some advantages for developing countries, but these advantages are different from that of regional integration among industrialised countries. Whereas regional integration in the North is a self-sustaining development which is pushed forward by interests from within the region, regional integration in the South is mainly directed outwards and is always dependent on the reaction of actors within other world regions. If these reactions are favourable, they may strengthen the integration process. But the dependence on other world regions includes that the opposite may also happen, i.e. that regional integration comes to a halt if feedback from outside is less favourable. Thus, regional integration in the South is at least as dependent on interregionalism – the relationship with one or more other regions – as it is on developments within the respective own region.

In the following, this article analyses the particularities of regional integration in the South at the example of the SADC. Thereby, it proceeds in two steps. In its theoretical part, the article reviews two logics of regionalism – namely the traditional theoretical approaches to regional integration, as well as other rationales for regional integration in the South and their likely consequences for the integration process. Subsequently, in its empirical part, the article demonstrates that intraregional trade and economic interdependence cannot fully explain the relative progress of regional integration in Southern Africa, but that external factors – especially support from the EU – help significantly to explain the ups and downs of integration in Southern Africa. In its conclusion, the article discusses the consequences for regional integration in Southern Africa in particular and among developing countries in general.

## **2. Integration Theory and South-South Integration**

When studying regional integration outside of Europe, one notices soon a surprising gap in the academic literature. On the one hand, regional integration is rather popular in the South (e.g. Andean Community, CARICOM and MERCOSUR in Central and Southern America, EAC, ECOWAS and SADC in Africa, ASEAN and SAARC in Asia), and there exist more regional integration schemes in the South than in the North. On the other hand, the vast majority of theories deals only with regional integration in Europe (Rosamond 2000), and just a few approaches from the field of international political economy take a broader perspective and compare different regional integration schemes (e.g. Mattli 1999). But even these comparative approaches mainly concentrate on regional integration in the North, and neglect the particularities of regional integration among developing countries. In order to reduce this gap between empirics and theory, the following section explores two logics of regionalism – namely as a reaction to intraregional interdependence on the one hand and to economic dependence from other world regions on the other.

### *2.1 The First Logic: Regional Integration as a Reaction to Intraregional Interdependence*

The oldest and most well-known theory of European integration is neofunctionalism, which was developed by Haas (1958) in reaction to the set up of

the European Coal and Steel Community in 1951. According to this theory, European integration is – once it has started – pushed forward by spill-over processes. Such spill-over occurs if integration in one area leads to functional pressure to integrate another area in order to exploit efficiency gains. For example, the establishment of a single market requires the harmonisation of health and safety standards if the respective products are traded among national borders (Krapohl 2009: 17-32). Thereby, supranational bodies like the Commission and the European Court of Justice (ECJ) are the addressees of political demands for more harmonisation, and they actively reinforce the integration process (Hooghe 2001, Stone Sweet and Sandholtz 1997). This development should lead from a free trade area to a customs union, a single market, a currency union, and finally to an economic and political union (Balassa 1961). However, the preconditions for such a development are increasing intraregional trade and economic interdependence. If products were not traded on a single market, different product standards would not act as barriers of trade. Thus, there would be no political demands for more harmonisation, and the supranational institutions could not really reinforce the integration process. Spill-over processes would not occur, because the transmission belt which links different economic and policy areas is missing.

Not only neofunctionalism, but also its younger opponent liberal intergovernmentalism (Moravcsik 1998) is built up on the assumption of economic interdependence. In contrast to neofunctionalism, liberal intergovernmentalism is much more sceptical in regard to the automatic spill-over processes, and to the influence of supranational bodies on the integration process. Liberal intergovernmentalism argues that the EU member states still control the integration process, and that supranational institutions only help the member states to credibly commit themselves to cooperation (Moravcsik 1998: 67-77). However, the reason why the EU member states cooperate that closely with each other is economic interdependence between them (Moravcsik 1998: 24-50). Due to that interdependence, they can no longer regulate their economies independently from each other, and they have to cooperate in order to avoid negative externalities of individual action. As a result, economic interdependence is as important for liberal intergovernmentalism as it is for neofunctionalism. If this interdependence did not exist, the EU member states would have no interests to bargain about common

economic policies, and to commit themselves to these policies with the help of supranational institutions.

The few theoretical approaches which explicitly try to grasp different regional integration schemes inside and outside of Europe were mostly developed by political economists (Mansfield and Milner 1997, 1999). They all have in common that they see regional integration as an answer to globalisation or to successful regional integration in other parts of the world (Mattli 1999, Schirm 2002). Thus, regional integration is a way to improve the own position within the international system. However, political economists also stress the importance of intraregional interdependence for regional integration. According to Mattli (1999: 41-67), the success of regional integration schemes depends on the fulfilment of a demand and supply function. Economic demand for integration results from the fact whether the abolishment of trade barriers allows for the exploitation of economies of scale and comparative cost advantages by intraregional trade. Thus, the potential for such trade is again the driving force for the integration process. And political supply of regional integration depends either on the existence of a benevolent hegemon who supplies regional integration on its own or on regional institutions which help the member states to overcome their cooperation problems. If both economic demand for and political supply of regional integration exists, the respective schemes are likely to be successful. As a result, Mattli (1999: 68-188) argues that regional integration is likely to be more successful in the North (i.e. NAFTA and EU) than in the South (i.e. ASEAN and MERCOSUR), because the limited potential for intraregional trade in the latter reduces the demand for regional integration.

Whereas these theoretical approaches differ in respect to the relative importance and influence of regional institutions – i.e. whether these are the driving force behind integration, whether they only indicate necessary credible commitments or whether they could be replaced by benevolent hegemons – , they all have in common that they are based on the assumption of economic interdependence within a regional integration scheme. It is this economic interdependence, which leads to demand for regional integration and to the establishment of regional institutions (how influential they may ever be vis-à-vis the member states). In the words of historical institutionalism (Arthur 1994, Pierson 2000), the developmental path of regional

integration is supported by positive feedback from stakeholders within the region, because these stakeholders profit from intraregional trade or investment. And this feedback is likely to improve further, the more successful regional integration is, and the more intraregional trade and investment increase. As a result of this positive feedback, it is unlikely that the developmental path of regional integration is left.

## *2.2 The Second Logic: Regional Integration as a Reaction to Economic Dependence on other World Regions*

According to the existing theories, regional integration in the South should either not exist or should be doomed to failure. Because of low levels of industrialisation, less developed countries usually produce mainly agricultural goods or raw materials, and their potential to process these goods is rather limited. Thus, the economies of the respective countries are highly dependent on the export of unprocessed products and on foreign direct investment (FDI) to develop their economies further. The main problem is that the neighbours within the respective region usually do not constitute relevant markets and do not provide FDI. Because the neighbours themselves are less developed, they also try to export raw materials and to attract FDI. The respective economies are competitive and can rarely profit from trade or investment with each other. Economic interdependence does not so much emerge within a region of the South, but rather between regions of the South (exporter of raw materials) and regions of the North (exporter of processed goods and source of FDI). As a result, economic interdependence cannot be the rationale behind regional integration among developing countries. Instead, regional integration in the South takes place in order to deal with the dependence on the North, and to improve the regions' standing in the international economic system.

Firstly, regional integration may improve the standing in the international system if it makes the respective regions of the South more attractive for FDI from the North (Büthe and Milner 2005, Schirm 2002). If several countries of the South integrate, war between them becomes less likely, which substantially adds to the region's attractiveness as destination for investment. And if the member states establish a free trade area or a customs union, they constitute a larger market than if they follow protectionist policies. If investors produce goods in one member state of this region,



they automatically get easy access to all the other markets of the free trade area or the customs union. Thus, investment becomes more promising, because economies of scale are increasing (Jaumotte 2004). Besides, regional integration may lock in important policy choices. If some member states of a regional integration scheme have a bad reputation among investors, they may rebuild their reputation by committing themselves to regional institutions. For this reason, formerly autocratic or socialist countries may commit themselves to a regional project of liberalisation and de-regulation. All in all, the smaller and the more politically unstable the member states of a region are, the more may regional integration help them to attract FDI.

Secondly, a similar rationale also applies for countries of the South which try to attract development aid from donors of the North (Robson 1993). Regional integration may reduce the risk of conflicts, which in turn reduces the risk that investment in developmental aid is lost. Besides, regional integration may increase the economy of scale of such aid, because larger transnational development projects can be supported. And further, regional institutions may also lock in certain policy choices of developing countries, what depicts them more attractive to donors. Aside of these rationales – which look similar to that for the attraction of FDI –, regions in the North may also support regional integration in the South for their very own reason. Especially the EU openly encourages regional integration elsewhere in order to export its own developmental model (De Lombaerde et al. 2008, Doctor 2007, Lenz 2008). Thereby, it tries to strengthen the importance of regions in world politics in general, and aims to get significant influence on the respective integration schemes in particular. To sum up, regional integration in the South may help to increase development aid especially when the developing states are small and potentially unstable, and when the donors have corresponding policy preferences towards regional integration.

Finally, regional integration may improve the bargaining position of small developing countries vis-à-vis other countries or world regions (Mansfield and Reinhardt 2003). As long as small developing states act on their own within international negotiations, they are likely to be relatively unimportant for more powerful countries of the North, and thus, their voice is unlikely to be heard. However, if the respective countries of a region integrate and speak with one voice in

international negotiations, any disregard will be more difficult and their importance and influence is likely to increase. Thus, they may gain much better chances to negotiate preferential trade agreements with other regions like the EU. This effect is the more important, the smaller the respective countries are, and the better they are able to find a common bargaining position.

As a result, there is a range of arguments why less developed countries of the South may opt for regional integration, but the rationale behind these arguments is fundamentally different from that of regional integration in the North (Robson 1993). Whereas regional integration in the North aims to deal with economic independence within the region, regional integration in the South mainly aims to deal with economic interdependence with – or dependence on – other world regions. This also has an effect on the positive feedback on regional institutions and on the resulting stability of the developmental path. Regional integration schemes in the North receive positive feedback from within the region. If they are successful with their task of liberalising trade and investment, economic interdependence increases and regional integration is further supported by stakeholders who profit from this interdependence. In contrast, regional integration schemes in the South need to seek positive feedback from outside the region. If they are successful, FDI increases, development aid grows and international negotiations end with better results. However, all these positive feedbacks are not dependent on the respective region alone, but they are also heavily influenced by external factors. The supply of FDI depends not only on the attractiveness of a region, but also on the global economic climate. The amount of development aid does also not only depend on regional factors, but also on economic and political factors within the donor countries. And the outcome of international negotiations is also dependent on the strategic behaviour of other negotiators. As a result, at least in the short-run, the success of regional integration schemes in the South remains to be dependent on the behaviour of external actors.

### *2.3 Consequences for Regional Integration in the South*

Because of the generally low level of development in regions of the South, it is likely that the second logic of regional integration prevails over the first one – which leads to the assumption that regional integration in the South remains to be

dependent on external support from other world regions. As long as the latter support integration, it is likely that the respective developmental path will be followed. But also the reverse is true, and regional integration may come to a halt if feedback from outside the region is contradictory, missing or negative. The consequence is that regional integration in the South is a much less stable developmental path than in the North, because the positive feedback is dependent on many factors which are outside of the scope of the integration project.

A self-sustaining integration process which follows the first logic can only emerge to some limited degree if at least one country of the region is developed enough to profit from trade with other states of the region and to be a significant source of FDI – or even development aid – within the region. In this case, economic interdependence emerges, because the developed state is dependent on the markets of its neighbours, whereas the neighbours themselves are dependent on FDI or development assistance from the relatively more developed state. This economic interdependence may reinforce the integration process, because it leads to positive feedback from stakeholders who profit from it. However, as long as only one member state of a regional integration scheme in the South is fairly developed, economic interdependence is likely to remain significantly weaker than within regional integration schemes of the North.

Only if FDI and developmental aid helped to develop the respective region, intraregional trade and economic interdependence could significantly increase in the long run and positive feedback from within the region could finally support the regional integration scheme. Thus, the second logic of regionalism may be step-by-step replaced by the first one if the strategy of regional integration is successful. The crux is that the respective regions have to integrate first before economic interdependence will follow at a later stage. This is only likely to be successful if integration is supported from outside of the respective region.

### **3. Regional Integration in Southern Africa**

From all the different regional integration schemes on the African continent (inter alia the Economic Community of West African States, the East African

Community, the Common Market for Eastern and Southern Africa and SADC), the SADC is probably one of the most constant, realistic and promising regional integration projects that already has reached a considerable degree of integration and shows certain dynamics. At the beginning of the new millennium, it has reformed and centralised its institutional structure, and it has just recently established a FTA. A customs union is envisaged for 2010, but overlapping regional integration schemes in the region and several EPA negotiations with the EU pose problems in this respect. Although regional integration within Southern Africa seems to be low in European standards, the recent integration steps make SADC to one of the most successful regional integration schemes among developing countries. The following sections will demonstrate that this relatively successful integration cannot be fully explained by economic interdependence within the region, but that it is rather dependent on the support of actors from other world regions.

### *3.1 The First Logic: Economic Interdependence within Southern Africa*

Generally, Southern Africa is a region with low economic interdependencies between its constituent countries as most of them are classified as less or least developed with poor economic performance. To a general lack of industrial capacity comes the existence of undiversified, subsistence economies where the few goods suitable for export – as precious minerals, metals, oil and other raw materials – predominantly originate from the primary sector. The structure of domestic markets and the spectrum of tradable goods are very similar within the region and thus the chance to exploit complementarities rather little. This becomes visible by the fact that intra-regional trade in Southern Africa is with circa 12 %<sup>3</sup> of total trade at a very low level because countries are strongly export-orientated to global markets in overseas as it has been since colonial times (ECA 2007: 143-157). Economic interdependence within Southern Africa does only exist with regard to the Republic of South Africa (RSA), which is the economic giant of the region and a fairly industrialised and developed nation from a global perspective. South Africa accounts for about 70 % of SADC's GDP and its share of SADC's total exports and imports is not much smaller with 64 % respectively 48 % (2006). However, South Africa's exports to and imports

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<sup>3</sup> The figures regarding the intra-regional trade in SADC differ in the literature and rank between 8 and 25 % (Adelmann 2003: 52; Lee, 2003: 102). The given number results from an own calculation from the SADC Trade Database (<http://www.sadctrade.org/tradedata>).

from SADC only account for about 10 % respectively 3.5 % of its total trade volumes (2006).<sup>4</sup> This fact highlights again the low intra-regional interdependence of Southern Africa and its dependence on overseas markets.

Within the region, South Africa's economy is the only one which is quite diversified. The Republic's exports to SADC and its members consist to a major part of value-added manufactured goods, while imports are composed largely of lower-value primary commodities (Cureau 2004: 103-105). The trade balance between the RSA and the rest of SADC is throughout advantageous for the first for decades. In 2006 its trade surplus totalled about three billion US-\$.<sup>5</sup> With the opening of markets and the liberalisation of trade within SADC, South Africa's export-orientated manufacturing industry could benefit by exploiting economies of scale and flooding the much lesser developed neighbouring countries – particularly in the North of SADC – with its own manufactured products that often cannot compete on global markets. Hence, one example of a classic asymmetric 'North-South' trading-pattern seems to exist within the broader framework of 'South-South' cooperation in Southern Africa.

However, whereas South Africa's economic development interdependence may explain its interest to pursue regional market integration, the less does it clarify why weaker and less developed states in Southern Africa should be interested to become members of a regional integration project as economic interdependencies between them are negligible. One reason for this might be that the less developed SADC members try to attract South African FDI and the benefiting effects on socioeconomic development attributed to it. Since the end of apartheid, the RSA provides a considerable share of FDI to several smaller countries in the region and was the top foreign investor in seven from 14 SADC countries between 1994 and 2003. (Grobbelaar 2004: 93-95). However, besides the relatively large impact, which South African FDI has for some of SADC's poorer member states, Africa in general receives only a marginal share of the Republic's total outward FDI flows, whereas by far the most money is invested in other world regions (Goldstein 2004: 51-52, Odén

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<sup>4</sup> Figures regarding the year 2006 retrieved from the International Trade Centre: 'Trade Map' (<http://www.trademap.org>).

<sup>5</sup> Figure according to Trade and Industrial Policy Strategies (TIPS) SADC Trade Database (<http://data.sadctrade.org/st>).

2001: 90). Here again, economic interdependence within the region is much less importance than economic relationships to other world regions.

The same is true with regard to the attraction of developmental assistance. Within the SADC, South Africa itself starts to emerge as a regional donor and recently established the African Renaissance and International Cooperation Fund as an instrument to deliver developmental assistance to relevant institutions and countries in the region (Tjønneland 2008: 19). The strong dependence of the BLNS<sup>6</sup> states on membership in the Southern African Customs Union (SACU) and on South Africa's benevolence highlights this asymmetric interdependence within the region. The Common Revenue Pool and its recently modified distributional formula to the advantage of the BLNS countries are side-payments from South Africa to SACU's less developed members (Bach 2005: 143-147, McCarthy 1999). Similar to SACU, the SADC plans to implement a Regional Development Fund as an institution to compensate smaller members' impending tax losses resulting from removed trade-barriers and lower customs revenues in the SADC FTA (Draper and Khumalo 2005: 23-24, Landsberg and Monyae 2006: 141). Nevertheless, compared to developmental assistance from other world regions, this limited aid from the RSA is only a very small fraction. Generally, the SADC member states are much more dependent on developmental aid from other world regions than on side payments within the region.

In sum, classical approaches of regional integration face difficulties when explaining the relative success of regional integration in Southern Africa. Intraregional trade and economic interdependence within the region is very low, and the SADC member states are more dependent on good economic relationships with more developed regions in the North than with their less developed neighbours within the own region. But why did the SADC establish an FTA if the potential for trade is low? And why were the regional institutions of the SADC strengthened if they do not need to govern intra-regional interdependence? Thus, other factors than the traditional ones have to be taken into account in order to explain regional integration in Southern Africa.

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<sup>6</sup> The BLNS states are Botswana, Lesotho, Namibia and Swaziland.

### *3.2 The Second Logic: Positive Feedback from Outside*

Regional cooperation and integration schemes in Southern Africa have a rather long tradition of asymmetric, dependent relationship with regions and regional actors of the Northern hemisphere. The Southern African Development Coordination Conference, founded in 1980, was the highly decentralised predecessor of SADC and mainly aimed to fight the economic and infrastructural dependence on the South African apartheid regime. In doing this, SADCC was very outward orientated as the organisation depended strongly on official development assistances and donors' funds. This strategy was very successful as SADCC and its member states received large amounts of money for their purposes, with about 90 % of it originating from countries or institutions of the Western world (Oosthuizen 2006: 64-69, Vogt 2007: 57-84). This tradition of strong external donors' support towards SADCC continues today with respect to its organisational successor. SADC can be seen as a magnet for various kinds of developmental aid where membership is the key to access or participate in these funds (Oosthuizen 2006: 324). This positive effect is additionally underpinned by the fact that developmental policies of major international, regional – particularly the EU – and national actors have changed and nowadays focus explicitly on strengthening and supporting regional integration projects and their institutional frameworks (Kennes 1999: 38, Tjønneland 2008). Between 1992 and 2002, about 80 % of the costs of total internal SADC projects were financed by external donors (Lee 2003: 53, Vogt 2007: 101-102).

As an example, the European Union as an institution provides at present time about € 104 million for a variety of ongoing SADC projects directly to the organisation. These projects focus inter alia on the promotion of investment and intra-regional trade, institutional capacity building, improvement of infrastructure and supporting EPA negotiations. Particularly important for SADC as an organisation is the financial support for the SADC Secretariat's and Directorates' technical capacity where the EU<sup>7</sup> is again the major external donor (Tjønneland 2008: 15, 39-45). For the time period 2008-2013 the EU intends to allocate another € 135 million under the

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<sup>7</sup> The European Commission's Delegation to Botswana gives a detailed overview of ongoing EU-SADC projects ([http://www.delbwa.ec.europa.eu/en/eu\\_and\\_sadc/examples.htm](http://www.delbwa.ec.europa.eu/en/eu_and_sadc/examples.htm)).

10<sup>th</sup> European Development Fund for development cooperation with SADC (Köseler 2007: 24).

Comparable to the flows of developmental assistance, a second asymmetry between Southern Africa and the developed regions in the North exists with respect to the direction of FDI flows. While South Africa plays a significant role in providing FDI for some less developed neighbouring countries, the country itself is heavily dependent on the influx of FDI from overseas if sustainable and industrial development shall be achieved. The country's share of total FDI inflows to the rest of SADC has been about 72 % in 2007 and shows – since 1998 together with Angola – the highest, although sometimes oscillating, figures in the years before (Dahl 2002: 74, Hartzenberg and Kalenga 2007: 135, UNCTAD 2008: 254). With regard to the RSA the EU is by far the major source of FDI to the country with a share of e.g. 65.5 % of total FDI between 2003 and 2004. Generally, although figures are often very volatile with respect to particular years, the SADC region experienced a considerable increase in total FDI inflows from 1990 onwards up until now. In 1995, the region received for the first time inflows significantly higher than 1 billion US-\$ and by 1997 the 5 billion US-\$ barrier was surpassed regularly (Dahl 2002: 74, Hartzenberg and Kalenga 2007: 135, Lee 2003: 170). In 2007, the total inflow of FDI to SADC member states amounted about 9.7 billion US-\$ which is again is a considerable increase compared to about 2.1 billion US-\$ in 2006 and 7.2 billion US-\$ in 2005 (UNCTAD 2008: 41-42, 254).

To sum up, regional integration in Southern Africa clearly follows the second logic of regionalism. The region is much more dependent on the economic relationships to more developed regions within the North than on the successful governance of intra-regional interdependence. Thus, integration is mainly used to improve the regions standing vis-à-vis its donors and foreign investors. As long as the feedback from these external effects is positive – e.g. as long as developmental assistance and FDI are increasing like during the last decade – the developmental path is strengthened and regional integration is likely to proceed.

### *3.3 Negative Feedback from Outside? The Case of the EPAs*



If regional integration in Southern Africa is mainly dependent on external support from outside, the crucial question is what happens if this external feedback is less positive for regional integration. In this case, one would expect problems for the integration process, because most member states would give first priority to the negotiations with more developed regions in the North, which provide developmental aid and foreign direct investment. Only if single member states were more dependent on aid or FDI from a more developed country like South Africa, they would nevertheless choose to integrate in order not to endanger this economic relationship.

At present time, the EU claims to foster regional integration in the SADC region through its pending EPAs which implicate mutual – but asymmetric – trade liberalisation and include policies and measurements of regional capacity building and particularly developmental assistance and aid. Under the new Cotonou Agreement, the EPAs are WTO-compatible and aim to create larger, economically integrated regional markets as stepping stones for liberalised world trade. Thus, they could be regarded as instruments to foster regional integration in Southern Africa with Europe being the external source for positive feedback (Oosthuizen 2006: 156-158). According to the EU<sup>8</sup>, the EPAs will support the regional integration process, and they will be built up in a way to reflect the socioeconomic conditions in the SADC member states.

However, in practice the situation is different. Due to overlapping integration schemes in the region and the obviously indifferent standing of the EU, the EPAs have initiated a serious split in the region and across regional integration schemes. Although the majority of SADC members belong to the SADC EPA<sup>9</sup> grouping, some member states chose for various reasons to be part of the Eastern and Southern African (ESA) EPA<sup>10</sup> group that was initiated by the Common Market for Eastern and Southern Africa. Tanzania and the DRC are neither part of these two groupings.<sup>11</sup> Furthermore, in 1998 South Africa already bilaterally adopted a reciprocal free trade

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<sup>8</sup> European Commission (2005): "Trade for Development EU – SADC. Economic Partnership Agreement" ([http://trade.ec.europa.eu/doclib/docs/2006/february/tradoc\\_127350.pdf](http://trade.ec.europa.eu/doclib/docs/2006/february/tradoc_127350.pdf)).

<sup>9</sup> SADC member states that belong to the SADC EPA grouping are Mozambique, Botswana, Lesotho, Namibia, Swaziland (signed) and Angola and South Africa (not signing).

<sup>10</sup> SADC member states that belong to the ESA EÜA grouping are Madagascar, Mauritius, Zimbabwe (signed) and Malawi and Zambia (not signing).

<sup>11</sup> Worldbank (2008): "Africa. Economic Partnership Agreements between Africa and the European Union: What to do now?", Report 45945 APR ([http://www.dgroups.org/groups/CoOL/docs/EPAs-Africa-What\\_to\\_do\\_Now-World\\_Bank\\_1008.pdf?ois=no](http://www.dgroups.org/groups/CoOL/docs/EPAs-Africa-What_to_do_Now-World_Bank_1008.pdf?ois=no)).

agreement – the Trade and Development Cooperation Agreement (TDCA) – with the EU. This agreement inevitably includes the BLNS states – which are more dependent on South Africa than other states of the region – as members of SACU although they were not explicitly involved in the negotiation process and despite the fact that they are likely to face considerable negative consequences to their national budgets (Oosthuizen 2006: 76, Mushiri 2008: 120, 125, van der Staak 2007: 4-5). Regarding the EPA negotiations, the SADC region thus looks even more like a mixture of spaghetti and cannelloni (Draper, Halleson and Alves 2007) than a homogenous block.

With the adoption of the TDCA, the EU undermined the evolving regional integration process for the first time as it provided separate trade conditions to South Africa and de facto SACU than to the rest of SADC. This will lead to intraregional interferences and complicate the situation if the SADC EPA should fully enter into force. An impracticable overlapping between the South Africa-SACU TDCA and the SADC EPA could become true if no harmonisation between them took place (Köseler 2007: 30-31, Oosthuizen 2006: 76). The crux of the EPAs is that their implication of a common free trade agreement between the EU and the regional grouping demands an internal FTA between the latter countries in order to be operational. This will additionally lead, as it can already be observed today, to the creation of several FTAs in the region with some SADC members being part of more than a single one.

Additionally, the EPAs and their alleged impact strongly push for fast-track implementation of the relevant trade protocols in the regional groupings and for the creation of respective customs unions. It is only that way, that the partner countries in Southern Africa could prepare their socio-economic and institutional infrastructure for the trade liberalisation process and better cushion alleged negative impacts related to the implementation of the EPAs. The possible negative effects of such short-sightedly established institutions are not taken into account yet (Köseler 2007: 29-30, Mushiri 2008: 118, 124-127, Shilimela 2008: 19-23). However, exactly these negative implicit intentions of the EPAs could be responsible for a final split in SADC if both, the SADC and the ESA EPA, would result in an undeliberate and non-harmonised creation of customs unions. In that case, some present day SADC members would

have to do a final decision to what regional integration project they would like to belong to in the end.

To conclude, despite the EU's statements regarding the support of regional integration in developing countries in general and Southern Africa in particular, in practice the TDCA and the EPAs can be judged as negative feedback to the regional integration process of SADC as they endanger the 'territorial integrity' of the integration project. At present time, the whole situation is rather unclear and not yet finally settled as negotiations between the EU and the various EPA groupings in Southern Africa still continue and no customs union beside SACU has been operational yet. Due to time pressures, only an interim-EPA has been adopted so far. Perhaps the EPAs might speed-up the formation of customs unions in Southern Africa, but probably not within the borders of the regional integration schemes as we know them today. Keeping in mind the limited financial resources and capacity in SADC countries, the territorial integrity of the SADC becomes even more unlikely if the EU does not harmonise its inconsistent policies towards the region through concessions in the EPAs.

#### **4. Conclusion**

Despite the fact that existing literature on regional integration stresses the importance of intra-regional trade and economic interdependence for the success of regional integration schemes, there exists at least a second logic of regionalism, which has fundamental different consequences for the integration process than the first one. According to the first logic, regional integration is an answer to govern interdependence within the respective regions. If this is successful, the developmental path of regional integration receives positive feedback from concerned stakeholders within the region. In contrast, according to the second logic, regional integration is a way to deal with dependence on other world regions and to improve one's own standing within the global economic system. The main difference to the first logic is that positive feedback for regional integration according to the second logic is much less direct and is dependent on many more factors, which are outside the scope of the integration scheme. The attraction of FDI and development aid, as well as the improvement of the own bargaining position is not only dependent

on successful integration, but also on the reaction of external actors. If this reaction is positive, it is likely that the developmental path of regional integration is strengthened. However, if the feedback from outside is negative or ambivalent, regional integration may face problems.

The problem for regional integration in the South is that it is much more based on the second logic than regional integration in the North. Members of regional integration schemes in the South are usually less developed and their economies are heavily dependent on the export of raw materials and agricultural products. Thus, the respective economies do not constitute markets or investment goals for each other. Intra-regional trade and economic interdependence remain low. In contrast, regions of the South are much more dependent on the attraction of developmental aid or FDI from other regions, especially from those in the more developed North. Although regional integration may help them in this respect, the result is much more uncertain than in the case of regional integration in the North. Consequently, regional integration in the South is much more dependent on positive feedback from outside. Integration according to the first logic may only occur in the South if at least one member state is developed enough to trade and invest within the region, or if regional integration is that successful that economic development and this more economic interdependence are the results.

The case of Southern Africa supports this hypothesis in respect to regional integration in the South. Limited intra-regional trade and economic interdependence exist only in respect to the fairly developed RSA, but remains to be low among the other SADC member states. In sum, the SADC member states are much more dependent on the economic relationships to more developed regions of the North than on that to their neighbours. As a result, regional integration in Southern Africa proceeds as long as it is supported from outside. During the last decade, both developmental aid and FDI were increasing within the region, and consequently, the integration process proceeded. This development may now come to an end, because feedback from outside becomes much more ambivalent or even negative. Whereas the EU officially states that it aims to support regional integration among developing countries in general and in Southern Africa in particular, the EPA negotiations are likely to have negative effects. Instead of negotiating with the SADC directly, the EU

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negotiates with at least three different groups of Southern African States. If this should lead to different EPAs with different trade conditions, the establishment of a SADC-wide customs union would be fundamentally disturbed, because the SADC members could not establish a common external tariff. A possible result is that the SADC splits and that a smaller core of countries which are especially dependent on the RSA (a 'SACU plus') proceeds with integration, whereas the others are left behind or participate in other integration schemes.

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