**Mr Stals discusses regional trade and financial integration in the Southern African Development Community**

Address by the Governor of the South African Reserve Bank, Dr Chris Stals, at a meeting for business people arranged by the Reserve Bank of Zimbabwe in Harare, Zimbabwe on18 June 1999.

**Reasons why international financial cooperation is important**

There is a worldwide trend towards an integration of financial markets. This process of globalisation is no longer restricted to the industrial countries of the world, but emerging markets, countries in transformation and the developing countries of the world are all being drawn into this process.

In many parts of the world, this process of globalisation goes through an intermediate phase, and that is one of regional economic cooperation or integration. The European Union, which has been developing over the past thirty years, has now reached the advanced stage of almost full financial integration. There are many other examples, such as Mercosur in South America, NAFTA in North America, and ASEAN in East Asia, where similar initiatives for economic integration are in progress.

The smaller countries of the world can easily be marginalised in this process of global financial integration, unless they form part of some regional cooperation arrangement to guide them into this highly competitive global system of integrated financial markets. The Southern African Development Community (SADC) provides the opportunity for the countries of Southern Africa to approach the process of global financial integration through first combining forces in a regional cooperation arrangement that will, in a second phase, facilitate the real worldwide integration process.

There are, of course, a number of other more localised reasons why financial integration within the Southern Africa region will hold advantages for all participating countries. These can be summarised as follows:

- The expansion of trade between Southern African states will be supported by a simultaneous integration of the financial sector. Payment and settlements will be facilitated by the removal of unnecessary financial obstructions and constraints.

- The extension of services across borders will be made easier. Such services can include insurance, business, legal advice and assistance, engineering, architectural, medical, and other professional services.

- The movement of people within the region will become easier in support of activities such as tourism, inter-governmental services, exchange of skills, and the mobility of labour.

- It is of vital importance for the Southern Africa region that maximum use shall be made of scarce resources. The coordination and sharing of limited resources such as skills, technological infrastructure and financial systems will contribute to a higher rate of economic development for the region as a whole.

**What has been achieved so far?**

The Southern Africa Development Community is a political association of the Governments (Heads of State) of fourteen countries in Sub-Sahara Africa (including Mauritius and Seychelles). It has, of course, much wider objectives than just financial cooperation in the region.

The Governors of the central banks of the 14 member states of SADC made use of the opportunity to create within the SADC structure an independent Committee of Governors of SADC with the objective of promoting financial cooperation within the region. The South African Reserve Bank set up a small Secretariat and Research Unit for SADC within the Economics Department of the Reserve Bank to assist the Governors' Committee with its programme. A number of working groups and sub-committees were created within the structure to give attention to specialised projects.

The work done by the Governors' Committee over the past 3½ years can be summarised under a few headings:

**(i) Enhanced cooperation amongst central banks:**

It was important for the central bankers of the region to know each other better. Meetings were therefore arranged, not only between Governors and Managers, but also between staff members at all levels. Specialised groups, such as economic research staff, bank regulators and supervisors, information technologists, computer operators, money and financial market dealers and traders, and security officials, met from time to time to exchange views on their functions.

A database was established for each central bank on its structure, functions, internal administration, relations with government, statistics and legal aspects. This mass of information is now available in book form, and also on a special website provided on the Internet for the distribution of SADC information.

Discussions took place within the Governors Committee on the exchange controls and exchange rate policies, interest rate policies and accommodation facilities provided by each central bank to its national banking institutions. Assessments were also made of the implications of last year's East Asian crisis for the countries of our region.

The independence of central banks is a topic which is often discussed in this forum. There are many reasons why central banks should be given some autonomy for the implementation of monetary policy. It is accepted that governments (Parliament) established central banks and gave them the special power to create money. Because of this special power, central banks have a great responsibility, and that is to protect the value of the currency (that is, to keep inflation low). The monetary policies needed to keep inflation low, are often very unpopular, and politicians normally do not like to take responsibility for such unpopular measures.

Furthermore, the power to create money can easily be abused for short-term gains, but any excessive creation of money in the short-term will eventually lead to higher inflation (and therefore higher interest rates).

It is also understood that, because Parliament has vested the power to create money within the central bank, this institution must remain accountable to Parliament for its policies.

**(ii) Cooperation amongst bank regulators and supervisors**

The Governors' Committee has encouraged bank regulators and supervisors in the region to work together in order to standardise and coordinate policies followed to control the banking system. Special attention has been given to:

- the implementation of the Basel Committee's recommendations for capital adequacy;
- the implementation of the BIS Core Principles for Banking Supervision;
- training of bank regulators and supervisors in the region; and
- identifying and eliminating money laundering and illegal banking transactions.

**(iii) The expansion of training facilities for central bankers in the region**

The South African Reserve Bank expanded its Training Institute to accommodate participants from the other central banks of SADC.

We also coordinated our training programmes with those provided by other central banks (for example, Bank of Tanzania) and institutes (Macroeconomic and Financial Management Institute of Eastern and Southern Africa [MEFMI]) in the region. Our training efforts within SADC are now getting recognition from the International Monetary Fund and other central banks, such as the Bank of England, and can make an important contribution to the improvement of central banking skills in the region.

**(iv) Development of the payment, clearing and settlement systems in the region**

An analysis was made of the existing facilities for inter-bank clearing, payment and settlement systems in each one of the original 12 members of SADC.

The sophisticated SAMOS system of South Africa, which provides for real-time on-line settlement for large transactions and full daily settlement for smaller transactions, can eventually be expanded to other countries, and can provide a system for cross-border settlement of intra-regional transactions.

**(v) Cooperation amongst (private sector) banking institutions in the region**

The Committee of Governors formed a sub-committee, consisting of the private sector banking institutions in the region, to encourage cooperation at this level.

**(vi) Cooperation amongst stock exchanges**

The Association of Stock Exchanges of the SADC region is making a useful contribution to the development of financial integration in the region. This sub-committee has been instrumental in providing for:

- dual listing procedures;
- the reduction of exchange control restrictions; and
- sharing of information technology.

**(vii) Harmonisation of exchange controls**

The existing exchange controls in the region were analysed by a sub-committee of the Governors' Committee with a view to gradual harmonisation. Participating countries are being encouraged to remove remaining exchange controls for transactions within the region as quickly as possible. Arrangements were made for the repatriation of banknotes amongst participating countries, and for an easing of private sector investments across borders in the region.

Three countries, i.e. Botswana, Mauritius and Zambia, have removed all exchange controls and some others are making steady progress in the implementation of this programme.

**A vision for the future**

As already mentioned, the SADC organisation is a political association that covers a much wider objective than just financial cooperation within the region. This wider objective, however, has more potential for disputes and friction, and will also at times be constrained by the red-tape of a long drawn-out inter-governmental decision-making process. I believe that the Committee of Governors of the Central Banks of SADC provides a unique body that should be able to proceed with a programme of financial cooperation in the region, without being unduly constrained by the more complex political decision-making processes.

At this stage, I believe work should continue to proceed on the accepted road of focusing on identified projects that can be developed on a regional basis without full economic integration of the 14 countries now forming part of SADC. Most of these programmes will also not require any formal inter-governmental agreements. In the process, we shall provide a basis for gradual but effective co-operation and integration of the financial systems and markets of Southern Africa.

In the longer term, the vision should be:

- to make it possible for residents of the whole SADC region to move funds around within the region without formal exchange control restrictions or border controls;

- to make it possible for residents of the region to invest in the shares of companies in every country of the region without restriction, to buy and sell on any one of a series of closely-linked stock exchanges, and to arrange for settlement anywhere in the region; and

- to make it possible for business people to do their business, whatever kind of business it might be, anywhere in the region without any undue financial restriction.

To reach these objectives, however, I believe that the central banks of the region should, for the time being, continue to work on an almost informal way to establish a sound basis for the more ambitious plan of eventual full economic integration of the region. The momentum built up over the past few years amongst the central banks, with the attention focused on the building of a compatible financial infrastructure in the region, must be maintained.

We must first establish:

- independent central banks with strictly defined monetary policy objectives;

- well-managed and sound private sector banking institutions;

- well-functioning and well-coordinated financial markets, including foreign exchange markets; and

- effective clearing and settlement arrangements within and amongst countries,

before we can proceed to the more ambitious plans for macroeconomic integration. Only after the basic financial structures have been established in our countries can we harmonise interest rate, exchange rate, money supply and inflation policies.

Cooperation on this basis will strengthen the position of the SADC region in the on-going process of financial globalisation. As part of the strategy, SADC countries should indeed now begin to give more attention to the development of a common economic strategy vis-à-vis the outside world for the eventual integration of the SADC region in the global financial markets.