Mr Mboweni considers the role of the South African Reserve Bank in economic integration in the Southern African Development Community

Speech by Mr Tito Mboweni, Governor of the South African Reserve Bank, as a contribution to the Africa Dialogue Lecture Series presented by the University of Pretoria's Department of Political Sciences, the Institute for International Affairs and Accord, in the Senate Hall at the University of Pretoria on 21 September 1999.

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1. Introduction

There are many buzzwords in today's world. One of the most recognisable ones in the economic vocabulary is globalisation. Many people define themselves as being either for or against globalisation. My own view is "good luck" to those who want to demonstrate against globalisation. I would rather people spent time on how they can maximise the benefits of globalisation.

But today our discussion is about the role of the Reserve Bank in economic integration of the Southern African Development Community (SADC) which obviously has to be placed within the context of globalisation.

Some people blame globalisation for many of the problems confronting the world today, ranging from widening income disparities in the industrialised world to financial crises in emerging markets. But even some of the most vociferous critics acknowledge that globalisation can be a powerful and positive force for generating wealth and reducing poverty, as rising trade volumes create opportunities for entrepreneurs, and developing countries may gain greater access to capital from the rich countries of the world.

Globalisation seems to be encouraging economic regionalisation as many big and small economies establish economic blocs to maximise their collective competitive advantage. The advantages of regional economic integration are well known, but it is worth pausing, for the purposes of this discussion, to mention a few. Among others, economic integration enables entrepreneurs to take up new business opportunities by cutting red tape and facilitating the flow of transactions. Integration with neighbouring countries can produce economies of scale when competing with other regions in the world and can be one of the ways that countries ensure that the best use is made of the resources, capabilities and abilities within their region.

Economic integration means that individual nations are becoming less important internationally as regional groupings gain in significance, especially when it comes to investment and trade in goods and services. To name a few examples, regional free trade initiatives have either been implemented or are in the process of being implemented in North, Central and South America, East Asia and in the European Union where full financial integration is not far off. Africa also has a number of economic cooperation initiatives, including the Southern African Development Community (SADC) which has 14 member states.

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

The forerunner of the SADC was a regional grouping of nine Southern African states which started working together in 1980 with a view to reducing their economic dependence on the then apartheid ruled South Africa. Over time, more members joined and by the time South Africa entered the fold after the democratic elections of 1994, the aim of the regional grouping was to work towards economic integration.

Whilst it is factually correct that South Africa is the largest economy in our region, accounting for some 65% of the region's gross domestic product in dollar terms, we are, however, on a per capita basis, the third best off — behind Mauritius and Botswana. Mauritius has a GDP per capita of more than $3,500 while South Africa's is less than $3,000. In the rich countries of the world, per capita incomes are about eight times as high as they are in this subregion of Africa.

As part of the process of promoting regional economic integration, each SADC member country was allocated an economic sector to coordinate, based on the country's actual or potential capacity. South Africa has been allocated responsibility for the coordination of the finance and investment sector of the SADC. The coordination of the sector is led by the Minister of Finance of South Africa. The finance and investment sector was given to South Africa in recognition of its developed financial markets and institutions.

The Committee of the SADC Central Bank Governors which meets twice a year, forms part of the finance and investment sector and is chaired by the Governor of the South African Reserve Bank. The Committee of Governors met for the first time in November 1995. Its terms of reference focus, among other things, on closer cooperation among central banks in the SADC in the areas of monetary policy and policy instruments, bank supervision, money and capital markets, international financial relations, payment, clearing and settlement systems, training, and money laundering.

Information technology is one of the most important areas of cooperation. The concerns with properly functioning financial and banking systems naturally made Year 2000 preparedness one of our priorities this year.

More generally, it is crucial to note that financial and banking issues cannot be looked at in isolation, without reference to other SADC concerns such as trade, industrial and fiscal policies and political factors too.

2. South Africa prepares to open its markets

Compared with other regional groupings, the idea of a European Union-like economic union is still some way off for the SADC, although progress is being made towards implementing a free trade agreement.

A target implementation date has been set for January next year to begin the process of lowering trade barriers, streamlining customs and border procedures, and harmonising external tariffs. SADC trade and industry ministers are due to meet soon for negotiations on the trade protocol in the run-up to the start of implementation next year. There have been suggestions that South Africa might extend market access concessions on a unilateral basis after certain key agreements have been reached.

We understand that South Africa plans to eliminate most duties on imported goods from other SADC countries by 2004 and the region could ultimately develop into a free trade zone.

The free trade discussions and negotiations have received some attention in the media. Generally speaking, it seems that people welcome the progress made by the SADC as a sign that it is finally getting down to business. Also in the development programmes are infrastructure developments in the region, such as the Maputo Corridor which has spurred investments into various economic sectors estimated at R35bn. One example of a big investment is the Mozal aluminium smelter, which has triggered the renewal of the Maputo Harbour. A very welcome development indeed.

Far less immediately newsworthy, but also very important for the establishment of a regional economic bloc, has been the work done by the Committee of Central Bank Governors. The work is an important building block towards the creation of a free trade zone.

One cannot implement free trade in goods and services without having the proper financial systems in place; the work of the Committee of Central Bank Governors can be seen as providing the oil that makes the wheels of commerce turn faster in the region.

The implementation of a free trade agreement is made easier if national payments systems function properly and are compatible with individual states in the region. In addition, investors who want to take advantage of the liberalisation of trade will feel more comfortable if there is a high and uniform standard of bank supervision; in other words, legal familiarity, certainty and a good sense of a stable, well regulated and properly supervised banking system. Similarly, investors and potential business partners usually want easy access to reliable basic macroeconomic information of countries in the region.

For goods to flow smoothly across borders, it is also important that capital should flow smoothly in the region, while bearing in mind that potentially destabilising and volatile capital swings must be avoided.

These are a few examples of how the Committee's work fits in with the overall concept of economic cooperation and free trade. The Committee's work has mainly been focussed on the following areas: development of payment, clearing and settlement systems; the impact of exchange controls on the cross-border flow of goods, services and capital in the SADC region; the development of a monetary and financial data base; coordination and training of central bank officials within the region and the collection of information on the legal and operational frameworks of central banks within the region. Cooperation in the field of information technology has been an important focus area for the Committee which has resulted in improved communication and collaboration.

3. Development of the payment, clearing and settlement systems in the SADC region

In support of the SADC objective of establishing free trade within the region by 2004, the Committee of Central Bank Governors decided at its inception to develop the payment, clearing and settlement systems of SADC countries.

The benefits of improved payments systems include: promotion of economic activity, both regionally and internationally; improved control of monetary aggregates resulting from reducing float levels and minimising delays; a more productive use of resources as a result of lowered transaction costs; improved management of both credit and systemic risk as financial transfers are completed efficiently and quickly; facilitation of financial sector development; improved trust in the security and reliability of payment instruments and international acceptance.

One aspect of the SADC payments system project has been an awareness campaign to sensitise a large cross-section of stakeholders in each of the countries about payments system issues. Workshops on payments system issues have been held in most SADC member states.

Now that the awareness campaign is complete and information on the existing payments systems in countries has been collected, the next step is to develop a strategic framework for each country – and for the region as a whole. Capacity building is, as always, an important theme.

Mauritius has already decided that it is feasible to implement the South African Multiple Option Settlement (SAMOS) system in that country, in line with its goal of real-time gross settlement. Other SADC central banks have also indicated they would like to implement SAMOS to their banking systems.

4. The impact of exchange controls on the cross-border flow of goods, services and capital in the SADC region

Exchange controls may be, in the case of many countries, a necessary mechanism in a world in which volatile capital swings can wreak havoc on small economies, as we saw last year. However, controls within a region which is working towards greater economic integration can be a stumbling block in the way to smooth and effective cooperation, as well as a deterrent to investors.

The Committee of Central Bank Governors has a subcommittee on exchange controls. Existing controls in each country in the SADC region have been analysed with a view to gradual harmonisation and the removal of controls for transactions within the region. However, the region's central bank officials recognise that the sequencing and speed of exchange control liberalisation depend on the characteristics of each individual economy and also on the political realities.

The target date of 2004 for the creation of a free trade zone implies that all intra-regional exchange controls should be abolished by then. However, the subcommittee on exchange controls felt liberalisation should be completed more rapidly. Controls that directly inhibit the cross-border flow of goods, services and capital should be tackled first. The subcommittee asked that central banks in the region formally report on the progress made on easing exchange controls when the Committee of Central Bank Governors meets again next month.

Some countries like Zambia, Mauritius and Botswana have liberalised their exchange controls in a short time. However, rapid easing might not be the correct speed for other countries.

Zimbabwe reintroduced exchange controls in the wake of last year's global financial turmoil. However, the country has indicated that the controls will be reversed as soon as the balance of payments position improves and inflationary pressures subside. Information at our disposal indicates that Zimbabwe will continue to liberalise capital flows gradually.

South Africa's exchange controls favour investment in the SADC region, as requirements for these investments are less onerous. Although foreign direct investment (FDI) in the SADC region accounts for a relatively small portion of the total planned FDI by South Africans, it is nevertheless growing in importance.

From March 1995 until mid-September this year, approvals by the exchange control department of the Reserve Bank for direct investment by South African companies in the SADC region totalled R7.85bn. Globally, South African companies have received exchange control approval for a total of R74.5bn in foreign direct investment, or FDI, all over the world.

The investment appetite of South African companies in SADC countries has been on the rise. Their growing interest is apparent from the steady rise every year in exchange control approvals for FDI in the SADC region – from less than R500m in 1996 to R1.5bn in 1997, R2.5bn last year and almost R2.9bn so far this year.

Based on net asset value, actual foreign direct investment – which differs from approved FDI which has not necessarily taken place yet – by South African companies in the SADC region stood at R3.2bn at the end of December 1997, the latest available figure. The net asset value of total South African investments in the SADC region, including portfolio and fixed investments, was almost R6bn.

The investment flows to South Africa from other countries in the region are also fairly sizable. Based on net asset value, total investment from SADC countries in South Africa was valued at R7bn at the end of December 1997. So there is a good two-way flow in the relationship between South Africa as the largest economy and the region as a whole.

5. Gathering of information

A database comprising monetary and financial statistics of individual countries has been established and is freely accessible on the Internet at the website www.sadcbankers.org. Each central bank takes full responsibility for the updating and accuracy of its own data. The International Monetary Fund is providing technical assistance for further development of the database.

In addition, an information bank has been compiled on the structures and policies of central banks in the region as well as on the financial markets of member states. This information paves the way for future cooperation on monetary policy in the region.

A project has also been undertaken to summarise the legal and operational frameworks of each of the central banks in the region, analysing differences in their structures and then proposing measures towards greater compatibility.

6. Cooperation in the field of information

The committee of central bank governors established an IT Forum which, among others, aims to develop a common application architecture for bank supervision. The Forum which has obtained funding from the World Bank plans to begin developing common bank supervision models early next year.

The Forum has also been keeping track of Year 2000 readiness in member states. Information on the Y2K bug has been shared, and bank supervisors have been encouraged to participate in Y2K certification of financial institutions in each country.

7. The development of financial markets

The SADC Committee of Stock Exchanges, which reports to the SADC Ministers of Finance through the Committee of Central Bank Governors, is set to announce the harmonisation of listing requirements in the region. Other projects include the introduction of automated trading into all SADC exchanges, electronic clearing and settlement as well as education and training.

On the development of bond markets, agreement was reached that trading in equities and bonds should be accommodated on the same exchange rather than that new bond exchanges be established. It was also decided that stock exchanges that wished to implement bond listings requirements would use the new listings requirements of the South African bond exchange.

The South African bond exchange has submitted a proposal for the establishment of a centralised debt securities market for the region. The proposal argued against allowing the development of separate licensed bond exchanges and was in favour of building on existing infrastructure.

The Committee of Central Bank Governors has studied the characteristics of money markets in individual states, but no decision has yet been taken on further development of money markets.

A SADC Banking Association was established in July last year aimed at encouraging member states to implement internationally accepted banking standards and uniformity of banking legislation. The South African Banking Council is a member of the Association which is chaired at present by Malawi.

8. Conclusion

From my report-back to you today on the work of the SADC Committee of Central Bank Governors it should hopefully be clear that the vision of full economic integration, with free and unfettered movement of goods and capital, is still a long way off. However, slowly but surely we are laying the foundation for a robust regional economic bloc. The central banks of the region are working together to put in place a common financial architecture which can form the basis of closer economic integration.

Before full economic integration can be attained, we need to have sound financial systems that can withstand sudden international shocks and which can accommodate increased economic activity. We need efficient and coordinated financial markets and reliable and compatible clearing and settlement arrangements between our countries.

The SADC finance and investment sector is convinced that it has already laid the foundation for macroeconomic convergence and integration.

As the new chairperson of the SADC Committee of Central Bank Governors, I will make every effort to ensure that we continue with the construction of a strong financial infrastructure for the region, so that globalisation can work to the advantage of the Southern African region.

In conclusion, I would like to express the hope that the region will have confidence in its ability to make globalisation work in its favour. To illustrate this point, I would like to quote from a speech made last year by President Thabo Mbeki, in which he talked of an African Renaissance and about the weight that past enslavement has placed on Africans' confidence:

"It continues still to weigh down the African mind and spirit, like the ton of lead that the African slave carries on her own shoulders, producing in her and the rest a condition which, in itself, contests any assertion that she is capable of initiative, creativity, individuality and entrepreneurship."

Initiative, creativity, individuality and entrepreneurship – we in the Committee of Central Bank Governors know the people of the SADC region possess these qualities in abundance. We know that Southern Africa has the potential to become a lasting success story.