Convergence in the SADC and African economic integration process: prospects and statistical issues

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Introduction

Convergence among countries with significant diversity or at different levels of economic development, as is the case in Africa, presents a platform for least developed countries to catch up. Poorer countries on the continent would attain levels of development that may reduce disparities. Regional economic communities realise that they cannot achieve economic union status unless there is sustainable macroeconomic convergence, which encompass activities aimed at promoting policies and strategies through which regional economic community member countries can work together to ensure monetary cooperation, secure macroeconomic and financial stability, facilitate intra-regional trade, and promote high employment as well as sustainable economic growth.

A number of regional economic communities in Africa have evolved over time to take into account the ever increasing challenges of globalisation. The birth of the European Union and the African Union (Mutasa 2003) among other processes has been inspirational in reviving regionalism in Africa. Key instruments that are at the disposal of governments to steer their economies towards an economically viable area include, among other indicators: inflation, fiscal balance and current account balance. The Southern African Development Community (SADC) has put in place a framework for achieving macroeconomic convergence in the region which requires commitment from member countries. Equally, SADC member countries are required to have quality statistics which are cardinal for the formulation of appropriate macroeconomic and financial policies as well as monitoring performance. This entails that member countries need to adopt sound statistical practices which are internationally accepted and promote best practices in the dissemination of economic and financial statistics.

Macroeconomic convergence – theoretical aspects

Macroeconomic convergence is a concept that has gained popularity for a variety of reasons. Proponents of economic convergence say that coordination of economic policies leaves countries better off without others being worse off. By cooperating to coordinate policies to take account of spillovers, each country may better achieve its specific objectives. Convergence is a prelude and is crucial to economic integration. The basics of economic integration were promulgated by Hungarian Economist Bela Balassa in the 1960s. Balassa indicates that as economic integration increases, barriers of trade among countries diminish.

It often makes sense for countries to coordinate their economic policies to generate benefits that are not possible otherwise. For instance cooperation in international trade by setting

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zero tariffs against each other, countries are likely to benefit relative to the case when countries attempt to secure short term advantages by setting optimal tariffs. Benefit may accrue to countries which liberalise labour and capital movements across borders, coordinate fiscal and monetary policies and who coordinate resource allocation. Balassa adds that economic integration tends to precede political integration. He believed that supranational common markets, with free movement of economic factors across national borders, naturally generate demand for further integration.

Economic convergence exists (Paola Barrientos 2007) when member countries tend to reach a similar level of development and wealth. According to Solow's economic growth model, an economy converges towards a steady state due to diminishing returns to investment in physical capital. Solow assumed that countries are equal in all aspects but their initial levels of capital per capita and poor countries have higher marginal capital productivity than rich countries, thus will eventually catch up. Solow's assumption was affirmed by the findings of Dowrick and Ngunyen (1989) where convergence was confirmed among developed countries. However, it was concluded that convergence does not apply among the poorest world economies. Pesaran (2007) nonetheless, cautioned that the conclusion of the existence of a convergence club may be spurious results, reflecting inconsistency in model structure, choice of sample period and data generation problems.

Three overriding reasons are cited in the literature for the absence of convergence. Sachs and Warner (1995) firstly, indicate that technology affects comparative advantage and has a tendency to increase economic growth. This conclusion of the role of technology is consistent with the findings in Goo and Park (2007). Secondly, they state that convergence holds among countries with sound human capital base and use of modern technology. Thirdly, Sachs and Warner point out that poor countries generally have low long-term potential. They, however, note that countries tend to grow faster when the gap between their current income and their long run potential is greater.

Economic Integration can be categorized into four stages depending on the degree of integration. These stages include:

- A Preferential Trade Agreement (PTA), where partner countries offer each other tariff reductions to a set of products. In other cases countries may agree to eliminate tariffs among themselves, but maintain their own external tariffs on imports from the rest of the world to form a Free Trade Area.
- A Common Market is a form of integration which establishes free trade in goods and services, sets common external tariff among members, in addition allows free mobility of capital and labour.
- The other form of integration is an Economic Union, which typically maintains free trade, set common external tariffs, free mobility of capital and labour and also regulates some fiscal spending.
- The next stage of integration is a Monetary Union whose salient feature includes a common currency among a group of member countries. This entails formation of a central monetary authority which will determine monetary policy for the member countries.

Depending on the degree of integration, member countries will be required to meet some convergence criterion. These may include among others, stable institutions, functioning market economy, removal of national barriers to flow of funds and harmonisation of regulation and supervisory standards for financial institutions.

Status of macroeconomic convergence in SADC

The Southern African Development Community has sequenced a number of activities in order to move toward economic integration in the sub-region. SADC launched a Free Trade Area in August 2008. According to the SADC Regional Indicative Strategic Development Plan (RISDP), once the FTA is attained, Customs Union will follow in 2010, thereafter in 2015 a Common Market will be formed. In 2016 a monetary union will be formed and a single currency will be introduced in 2018.

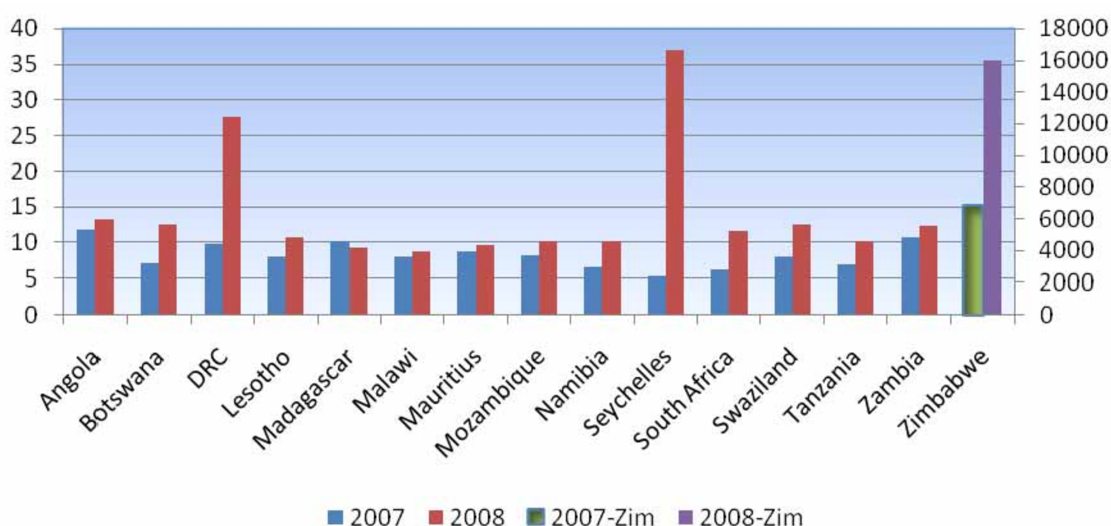
In order to prepare for the various degrees of economic integration set out in the RISDP, the Southern Africa Development Community has set itself four macroeconomic convergence benchmarks. These include attainment of single digit and stable rate of inflation, reduction in the ratio of budget deficit to GDP, ratio of public and publicly guaranteed debt to GDP and should take into account the debt sustainability index and status of current account should be in line with the Finance and Investment Protocol. These benchmarks are used to assess macroeconomic convergence at SADC level. A study conducted by Hakim Ben Hammounda, Stephen N. Karingi, Angelica E. Njuguna and Mustapha Sadni Jallab (2007) using different statistical tests showed significant negative coefficient of time when standard deviation of inflation was regressed with time.

This indicates a tendency of monetary policy convergence among SADC countries. Other analyses they carried out included the unit root test which was applied to data sets (1987–2002 data) of more than half of the countries in SADC including Madagascar, Malawi, Namibia, Swaziland, Tanzania and Zambia. The test rejected the presence of unit root, which imply convergence to regional inflation mean. At the time SADC countries showed some evidence of convergence in inflation, an indication of possible coordination with desired results in monetary policies. This was affirmed by the Economic Commission for Africa Southern Africa Office (2007) that the number of countries registering inflation rates within single digit increased steadily from four in 2002 to 9 in 2006 and 13 in 2007. The Commission indicated that apart from Zimbabwe, the rest of the SADC countries projections for 2007 were within the single digit range of 4–9 percent. However, the 2008 inflation outturn for most SADC countries, except Madagascar, Malawi and Mauritius was above the single digit threshold. The increase in inflation was due to high food and energy prices (see Chart 1).

Chart 1

Inflation in SADC countries

2007–2008



A report on the fourteenth meeting of the Intergovernmental Committee of Experts for Southern Africa projections for 2008 indicated that D R Congo, Swaziland and Angola would miss the less than 10.0 percent inflation target for 2008, with the three expected to record 10 percent rate of inflation. The committee further pointed out that Zimbabwe would continue to be in a hyper inflationary environment while other countries in the region were projected to meet the inflation target.

Less than 5 percent of budget deficit as a percentage of GDP

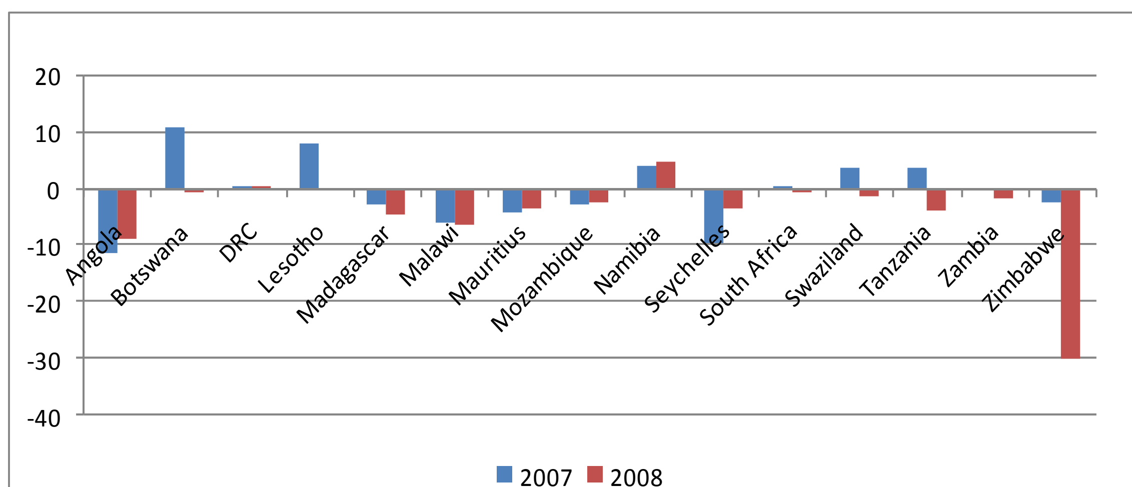
The Bank of Namibia, in a paper entitled Recent Developments in SADC (2006), indicated that most countries showed no improvement on average as public deficit increased to 3 percent of GDP in 2005 from 2.7 percent recorded in 2004. However, this was within the limit of less than 5 percent budget deficit as a percentage of GDP set in the SADC macoreconomic convergence criteria. The paper further states that Botswana and Lesotho with budget surpluses of 1.2 percent and 1.5 percent of GDP respectively, were the countries with good fiscal performance.

A study conducted in 2007 for the Friedrich Ebert Foundation by Tatiana Rakotonjatovo and Eric N. Ramilison found that the majority of SADC countries are still confronted with high budget deficits mainly due to the need to develop social and economic infrastructure. Similarly, the Economic Commission for Africa found that a number SADC countries were still grappling with fiscal deficits, with Angola, Zambia and Zimbabwe having widening budget deficits in 2006. In 2007, the region recorded an average fiscal surplus of 0.6% of GDP in 2007, lower than the 2.6% surplus achieved in 2006. All SADC member states, apart from Angola and Zimbabwe made tremendous progress towards achievement of the macroeconomic convergence target of fiscal deficit of less than 5% of GDP in 2008 (see Chart 2). This against the backdrop of declining commodity prices, hence less tax revenue for governments following the world economic slowdown.

Chart 2

Budget deficit as % of GDP

2007–2008



Less than 60 percent of public debt as a percentage of GDP

With regards public debt, the Bank of Namibia reported that there was a decrease in public debt with six countries recording a stock of public debt below the target of 60 percent of GDP. The Bank reported that there was an improvement in the public debt ratio in SADC

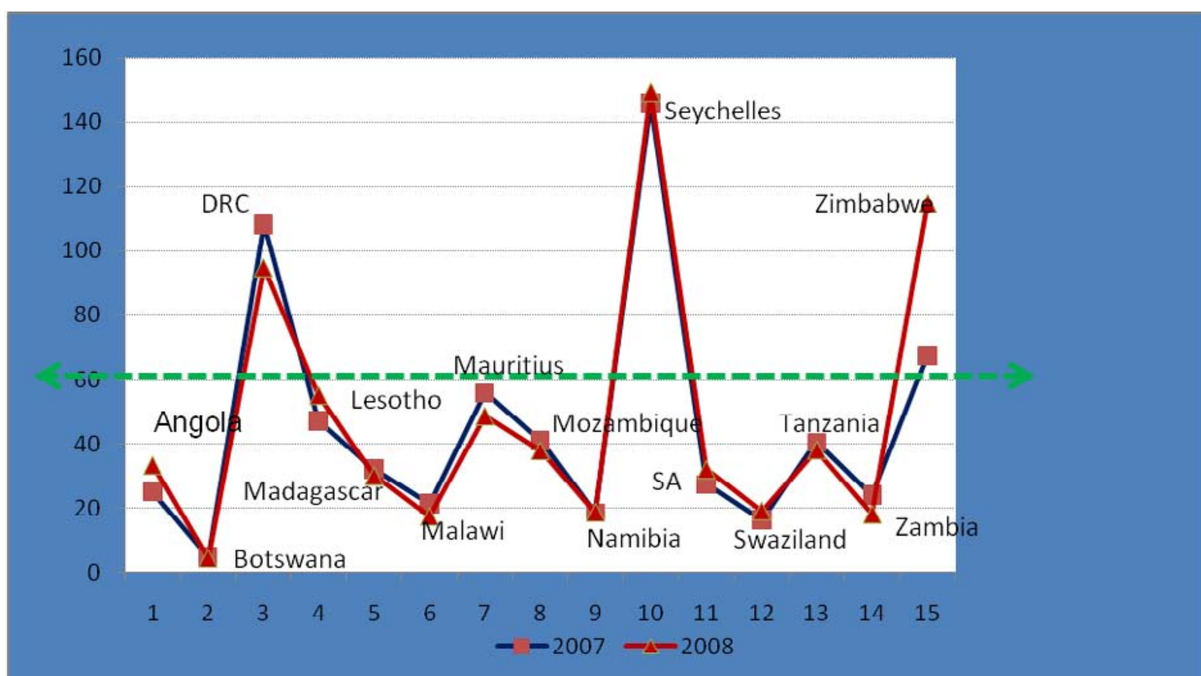
from 66.2 percent in 2004 to 56.4 percent of GDP in 2005. The reduction in the debt to GDP ratio was mainly on account of debt forgiveness extended to six SADC countries namely DRC, Madagascar, Malawi, Mozambique, Tanzania and Zambia under the enhanced HIPC initiative. According to the Economic Commission for Africa public debt to GDP ratio improved after debt forgiveness in the SADC region from 63.4 percent in 2002 to 44.9 percent in 2006, with a further projected reduction to 36.0 percent in 2007 (see Chart 3). As illustrated in Chart 3, only the DRC, Seychelles and Zimbabwe had ratios above 60 percent in 2007 and 2008.

However, David Maleleka (2007) views the achievement of the public debt benchmark as superficial because it was not driven by any improvement in the management of the economy in the respective countries.

Chart 3

Public debt as a % of GDP

2007–2008



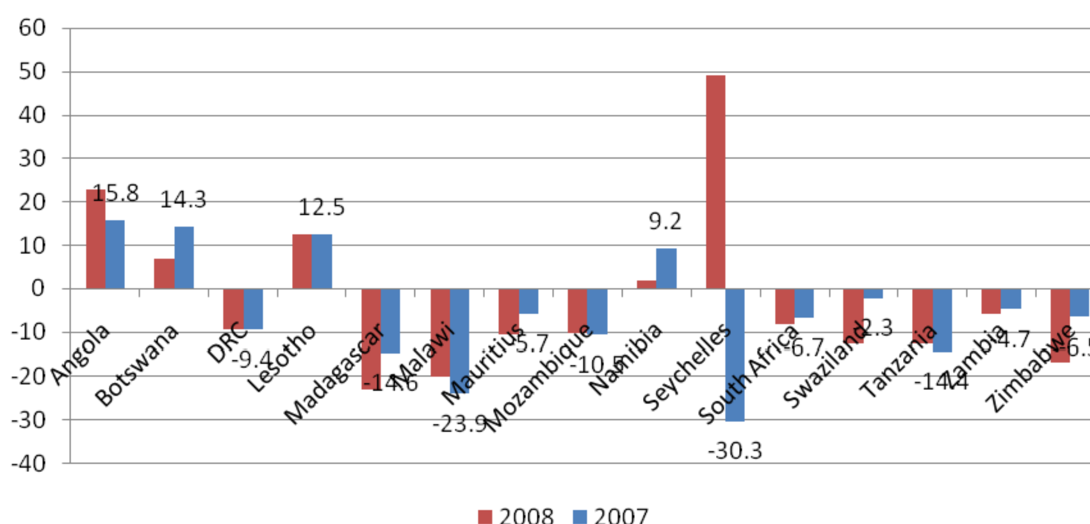
Less than 9 percent of GDP in current account deficit

According to the SADC Directorate of Trade Industry Finance and Investment, the region's current account balance deteriorated from an average deficit of 0.7% of GDP in 2006 to an average deficit of 1.8 percent of GDP in 2007, largely on account of a surge in intermediate imports (see Chart 4). The Economic Commission for Africa reported that in 2006, most of the SADC countries achieved the target of minus 9 percent balance on current account as a percentage of GDP. Current account status in 2005 as presented by the Bank of Namibia showed that current account as a percentage of GDP worsened to minus 4.0 percent from minus 3.3 in 2004, but still within the required convergence target of less than –9 percent. The Bank further reports that Angola, Botswana, Lesotho and Namibia recorded improvements in their current accounts, whereas the rest of SADC countries experienced worsening current accounts as percentage of GDP in 2005.

Chart 4

Current account deficit

2007–2008



Prospects for macroeconomic convergence in Africa

In a way macroeconomic convergence in Africa is already in motion through sub-regional groupings. These groupings have set benchmarks to achieve a climate of economic stability and growth which would enable trade and economic relations among countries in the region flourish and foster economic integration. Established sub-regional economic communities in Africa are acting as building blocks toward the entire continent's economic integration. To this end, sub-regional groupings have assumed formal frameworks to guide the transition process in order to promote harmonisation and convergence of national economic structures and macroeconomic policies.

Following the 1980 Lagos Plan of Action and the Abuja Treaty of 1994, a number of regional arrangements on policy coordination, economic cooperation or integration have been initiated and re-aligned to continental aspiration of economic integration. Several regional economic communities are in existence such as UEMOA, ECOWAS, COMESA, EAC, CEMAC and SADC. These communities have set macroeconomic convergence programs. Proponents of Africa's integration indicate that strong economic integration could present some opportunities among member states for increased trade, industrialisation and promotion of sustained economic development. Macroeconomic convergence can also help bring about macroeconomic efficiency, stability and presents a real opportunity for least developed nations to catch up. This entails Africa having efficient and non-distortionary markets. Economic integration would provide a wider market for African countries as well as a strong base for bargaining as a group on the world economic fora.

Factors limiting macroeconomic convergence

Africa faces a number of impediments to economic integration. According to the Journal of Business in Developing Nations (1998), Africa has yet to succeed in having a regional grouping that has all the three fundamental conditions necessary for the success of economic integration. These are sustained political dedication, regular growth of national

economies and no major economic sub-regional disparity. Daniel A. Tanoe (2007), in an analysis on macroeconomic policy convergence in Africa adds that limping economies can hardly constitute a viable economic bloc. He further states that countries with timid growth, insignificant production and manufacturing capability can hardly form a credible economic bloc.

Other limiting factors include inadequate and substandard transport systems, insignificant trade among African countries and lack of developed financial markets. Africa also lacks well developed infrastructure and has a number of restrictions on movement of both goods and factors of production across borders.

Statistical issues in macroeconomic convergence

Macroeconomic statistics are key in enabling policy decision makers plan countries' development process while at the same time such statistics are an essential tool for monitoring and evaluating economic performance against set targets. For macroeconomic statistics to be relevant in regional groupings, it is imperative to call for deeper harmonisation of economic statistics by employing internationally recognised compilation methodology, classifications and standards. This promotes cross country consistency and comparability. As part of the convergence process, conceptual frameworks, data sources and compilation methods of macroeconomic statistics should be harmonised based on internationally recognised standards such as the International Monetary Fund guidelines on the collection and compilation of various macroeconomic statistics. The benefits of such an integrated approach will increase policy significance of economic statistics, improve the capability of countries to produce data in a cost effective way and at the same time ensure better comparability and interpretability. Efficient tools for harmonisation of macroeconomic statistics are Special Data Dissemination Standards (SDDS) and General Data Dissemination System (GDDS), implemented by the IMF. In addition to the two systems, adherence to the IMF Data Quality Assessment Framework will ensure data integrity, methodological soundness, serviceability, accessibility, accuracy and reliability. Furthermore, use of IMF compilation guides on various statistics would promote harmonisation of statistics in the sub-region and Africa in general. (See also Krueger and Enoch's paper eslewhere in this booklet).

Definitions

The overall structure in terms of concepts and definitions should follow internationally accepted standards, guidelines, or good practices and these should be adopted by all member countries. In the absence of uniform definitions, member countries will be collecting different statistics, making comparability a daunting challenge.

Coverage

Statistical coverage, which should be standard in all member countries, when collecting macroeconomic data should be observed. A case in point here is a situation where some countries in the SADC region conduct consumer price surveys country-wide while others cover the capital city for the same surveys. This makes cross-country analysis a futile exercise.

Accuracy

To ensure accuracy and reliability, data sources should be credible and regularly assessed. Statistical techniques employed should conform to sound statistical procedures.

Timeliness

The IMF has established two dissemination standards, as mentioned earlier, namely SDDS and GDDS, through which countries commit to improve data quality and dissemination. Statistics should have adequate periodicity and timeliness and follow a predictable dissemination schedule. Periodicity and timeliness should follow internationally accepted dissemination standards.

Comparability

Integration demands consistency of definitions, as variations in basic concepts in various fields of macroeconomic statistics may cause data incomparability. To promote comparability and common interpretation, harmonisation of macroeconomic statistics is crucial.

Challenges in view of global financial and economic crises

The global financial and economic crisis has posed great challenges to most developing economies whose major export products are primary goods. With the tumbling of commodity prices, aggregate economic growth rate in these economies has slowed down. As a result of the crisis, countries have witnessed low export earnings, reduced revenue collections and capital flight. Other adverse effects include reduced foreign direct investment (FDI), low international reserves and widening fiscal deficits. These are threatening macroeconomic stability. Therefore, the major challenge is to maintain macroeconomic stability, curb capital flight and put in place strong measures to attract FDI and also promote economic diversification to manufacturing of secondary goods. Countries should formulate and Implement stringent financial system supervisory measures in order to strengthen the financial sector and make it resilient to external shocks.

The fall-out of the global economic crisis has made the road to regional and continental economic integration more challenging, as macroeconomic gains made over the last 10 years are being eroded at a fast rate. However, the devastating impact of the effects of the crisis is a reminder of the importance of macroeconomic convergence and regional integration. Anecdotal evidence seems to show that integrated regions such as the EU have provided better coordinated policy response to the global crisis. This has been more effective in calming the markets than the disjointed single country efforts in dealing with the effects of the financial and economic crises, particularly in Africa.

Recommendations

SADC Member countries are urged to continue working on achieving set targets despite the setback arising from global economic meltdown. Diversification of economies in the SADC region from primary goods producers to value addition would help most countries recover from the current economic downturn. Different levels of economic development in the region should inspire least developed to attain higher levels of economic integration, which will in turn facilitate accelerated growth and development. The choice is limited; economic integration is the viable way for economic development in the SADC and Africa in general.

Regarding macroeconomic statistics, member countries are encouraged to standardise statistical compilation, adopt internationally recognised standards and set time frame in which to achieve statistical convergence. Harmonisation of statistical definitions and data quality across the African continent as well as modernisation of government financial statistics will provide a firm foundation for pursuing macroeconomic convergence and economic integration.

Countries are further urged to adopt a formal arrangement of information exchange among statistical institutions such as central banks, statistical offices and finance ministries. In addition, the SADC secretariat should conduct surveillance in particular structural, institutional, and operational aspects, and provide technical expertise and assistance to help address any weaknesses in the statistics that are compiled and disseminated. Experience has shown that global economic and financial systems are forever evolving, in order to keep pace with these changes, the SADC Secretariat should continuously monitor statistical compilation and dissemination in member countries in order to meet the needs of the ever changing global economic and financial system.

Conclusion

Disparities in the levels of economic development among member countries in regional economic blocs and Africa as whole should not be a stumbling block, rather it should be an opportunity to speed-up economic integration to enable countries catch up, promote financial deepening, stabilise their economies, promote economic growth and provide a wider market. Economic integration will not only provide a wider market but also provide a stronger bargaining base in global fora and for mutual benefit in the form of accelerated growth and development among member countries.

Standardisation of statistical compilation would ensure availability of high-quality statistics and facilitate international comparability of data, and promote the analytical usefulness of statistics.

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