**Keynote Speech by Dr. Rob Davies, Minister of Trade and Industry, South Africa**

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# Implementing a Common Agenda towards Regional Integration in SACU

Honourable Majozi Sithole, Minister of Finance of Swaziland and the incoming Chair of SACU
The SACU Executive Secretary, Ms Moremi
Executive Secretaries from Regional Economic Communities
Representatives from Multilateral Organisations
The Director of Ceremonies
Distinguished guests
Ladies and gentlemen

Welcome to all of you to this SACU Regional Conference. This is the last in a series of such Conferences that have been held in Members States of SACU over the past year as part of the Centenary commemoration of the founding of SACU. Over the past year too, SACU has held three Summits at which our Heads of States and Government collectively provided new impetus to advancing the integration and development project in SACU. At these Conferences, Governments together with the SACU Secretariat have sought to reach out to national constituencies to share perspectives on the evolving effort to define and implement a common vision and agenda for SACU into the new millennium,

All this emerges in the context of profound changes in the global economy and on our Continent. We have argued that to remain a relevant and effective instrument for its Member States, SACU must firstly be transformed into a vehicle for advancing developmental integration at the sub-regional level. Secondly it must become an anchor in the SADC regional project, and thirdly it must serve as a platform for harmonised engagement in wider continental and global trade relations. SACU, we have argued, must move beyond what it was under colonialism and apartheid – a relationship of convenience held together by a common external tariff and revenue sharing arrangement, and become a vehicle for advancing regional integration within a developmental perspective.

Before I elaborate on this let me set out the context that compels us all to move together in this direction.

## Global Change

That the global economy is undergoing major structural change is widely recognised and undeniable. The past few decades have seen the rise of new sources of global economic growth, of trade and investment flows that are re-defining global economic geography. In broad terms, we are seeing a shift in the locus of economic power from the North and the West to the South and the East. Countries like China, India and Brazil have become key players and the main drivers of recovery from the *2008/09* "great recession". The figures for economic growth, trade and investment tell a compelling story. BRICS share of world GDP (in Purchasing Power Parity terms) increased from 16 per cent in 2000 to nearly 25 per cent in 2010. This growth is expected to continue to rise and by 2050, BRIC countries are expected to account for around 47 per cent of total global GOP. According to the IMF, BRICS countries will account for 61% of global growth in three years' time.

By 2050 the BRICS, plus Indonesia, Mexico and Turkey, together are projected to be 50% larger than the current G7 - US, Japan, Germany, UK, France, Italy and Canada. China will overtake the US as the largest economy in 2025, and India may achieve that by 2050. The World Bank's recently released Report entitled "Multipolarity: The New Global Economy" argues that corporations based in emerging markets will play an increasingly prominent role in global business and cross-border investment. It argues that the international monetary system is likely to cease being dominated by a single currency. Emerging-market countries which hold two-thirds of official foreign exchange reserves alongside sovereign wealth funds and other pools of capital will become key players in global financial markets.

Developing countries' share of international trade flows has also risen steadily, from 30 percent in 1995 to an estimated 45 percent in 2010. The IMF projects that developing countries' share of world trade will double over the next 40 years, from 37% in 2007 to reach 69% in 2050. Much of this rise will be due to an expansion of trade and investment not between developed countries and developing countries, but amongst developing countries.

## Africa's Prospects

These global changes have been accompanied by significant improvement in Africa's prospects for growth and development. Africa is already the second fastest growing continent of the world, after Asia. There has been significant and sustained growth across the continent driven in part by the boom in mineral commodities but also by growth in retail, agriculture, transport and telecommunication.

Africa's enormous reserves of raw materials, 60% of unused arable agricultural land globally, a young and growing population, a growing middle class with considerable purchasing power, urbanisation alongside steady improvements in economic governance have all been identified as potential drivers of growth which could see the continent becoming the next leading source of global economic growth.

Africa's output is expected to expand by 50% over the next five years, from 1.6 trillion US dollars in 2010 to approximately 2.6 trillion US dollars in 2015. Economic growth is projected to expand by an annual average real rate of 5.5% each year through the five year period. Africa's GDP per capita stood at 1,630 US dollars in 2010; it is expected to have increased to 2,200 US dollars by 2015, at a real annual growth rate of 5.7%, resulting in a 30% rise in the continent's spending power. Private final consumption in Africa's ten largest economies is expected to more than double, from around 730 billion US dollars today to over 1.5 trillion US dollars in 2015.

Africa's total trade is also expected to grow dramatically; from 654 billion US dollars in 2009 to around 1.6 trillion US dollars in 2015. Africa's total trade is expected to expand by an average of 17% per year and Africa's share of global trade to almost double, from the current 3.2% now to around 6% in 2015.

In making all these points, it is important to keep these trends in perspective. Countries of the current developed world remain important partners to all of us. They still contribute around 70% of world GDP. While US consumption is 18% of global GDP, China only contributes 3%. Collectively, China and India consumption is only one sixth of that of the US.

While emerging economies are growing their share of global trade, the gains of global trade growth - measured by trade in sophisticated, high value and high technology content - still accrue to advanced industrial countries. And we must remember that despite their impressive economic performance, emerging economies still remain developing countries required to confront severe developmental challenges, including widespread poverty, inequality and unemployment.

With respect to Africa's potential, sustainable growth and development will always remain a dream unless we address the challenges of inadequate infrastructure, small and fragmented markets, inadequate diversification of industrial output, similar product ranges resulting in relatively little trade potential, and lack of vertical integration in production to name but a few. The answer lies in promoting a developmental regional integration agenda that develops targeted programmes to address these fundamental constraints.

Since the end of the colonial era the need to respond to the reality that Africa was carved up into many small territories, has been clear. Africa needs regional integration to promote development. We have over the years made progress towards this end through the creation of regional economic communities. However, we are now on the brink of taking a major leap forward with the decision to embark on a "developmental integration" project including negotiating a "grand FTA" between SADC, the East African Community and the Common Market of Eastern and Southern Africa (COMESA). This will embrace 26 countries with a combined population of nearly 600 million and a combined GDP of US dollars 1 trillion, giving us the scale that could really launch a sizeable part of the continent onto a new developmental trajectory.

## The SACU Response

SACU's attempts to redefine its role in such a changing context have resulted in the adoption of a five-point work programme, focussing on

(i) Promoting regional Industrial development;
(ii) Trade facilitation;
(iii) Review of the revenue arrangement;
(iv) Establishing common institutions; and
(v) Building a framework for unified engagement in trade negotiations with third parties,

Each of these is an important component of what we call "development integration", Development integration sets out from the premise that in developing regions many of the major barriers to promoting increased mutually beneficial and equitable intra-regional trade arise not from tariff and other regulatory barriers but from underdeveloped production structures and inadequate infrastructure, It accordingly argues that promoting integration in developing regions must focus not just on institutional arrangement (for example, the move from a customs union to a common market) but also on promoting greater cooperation on overcoming 'real economy' constraints including promoting industrial development and infrastructure.

While all the 5 pillars of the SACU work programme are essential, one of the most important - as well as the most challenging in our view - is the work programme on regional industrial development. Both an extensive literature review and the practical experience of successful developing countries tell us that moving onto a path characterised by increasing, as distinct from diminishing, returns to scale requires identifying and building on value- added productive activities. Africa, in particular, needs to find ways to transform the current growth spurt driven by a minerals boom and internal market growth into sustainable development. Industrial development is key to this.

SACU is well placed to play an important role in this regard; it joins several smaller and less developed economies into a Customs Union with the most industrialised country on the continent. For most of the history of SACU, this was a matter of indifference and perhaps even a barrier to developmental efforts in the BLNS countries. Current circumstances, however, make it imperative that we approach this issue very differently, and act together to identify how this reality can be a spur to deepen and broaden mutually beneficial regional industrial development.

SACU Members have already agreed that while we build an overall policy framework for regional industrialisation, we should expeditiously identify specific areas of collaboration as well as specific interventions to build cross border, complementary value chains. Our objectives are to upgrade and link the region's industrial base, and to establish a broader spread of regional manufacturing.

Areas of possible collaboration have been identified including agro-processing, automotive and component manufacturing, clothing, and mineral beneficiation, amongst others. We need to nurture and defend our industrial base while broadening it, to enhance competitiveness so that the region can compete more effectively in global markets.

The work on trade facilitation represents our first step in a wider work programme of cross-border infrastructure. This effort is led by our respective customs authorities and seeks to reduce transaction costs and speed up transit of goods and services across SACU's internal borders. Over the longer term, we anticipate that this will lead to the identification of cross-border "hard" infrastructure projects in such areas as transport and communications to enhance connectivity between the economies of the SACU Members States.

The work on the review of the revenue sharing formula is being led by our respective finance departments. In our view, the outcome of this work should result in an arrangement that offers greater predictability in the shares of revenue, and also support our work on regional industrial and infrastructure development. We will also need to capacitate the SACU Secretariat to support this work programme more effectively.

Trade negotiations with third parties already are an important component of the SACU work programme. At the next SACU Council, we should be in a position to adopt a policy framework that sets out clear principles and procedures for such engagements. In our view, engagement with third parties must support regional industrial objectives, integration and development.

SACU will need to forge a common understanding both on the direction of future trade relations and on the content or commitments we are prepared to accept in trade agreements. We need to move beyond an over-reliance on traditional trading partners as there are new dynamic sources for trade and investment growth in emerging developing countries. It is in these relations, that we see opportunities to develop a new kind of economic relationship that prioritises collaborative and cooperative engagement, and avoids destructive competition. Our objective should be to build economic complementarities between ourselves and these economies.

SACU can be an anchor or nucleus for deeper integration in SADC through the concept of 'variable geometry'. SACU, as the most closely integrated grouping in Southern and Eastern Africa, can help to shape the processes of regional integration in SADC.

SACU can play a similar role in the Tripartite FTA negotiations. As you know, these negotiations were launched in June this year, and SACU, acted effectively as a collective thereby helping to define the principles, parameters and processes that will shape the Tripartite process. That unity needs to be strengthened for an outcome that will benefit us all.

## Conclusion

In conclusion, SACU has taken important steps towards implementing the common vision and work programme endorsed by our Heads of States and Government. This vision and work programme has emerged from a detailed collective assessment by the Member States of the challenges and opportunities confronting the SACU integration project.

It represents a collective understanding that our economic destinies are inextricably intertwined, and that effective implementation of this work programme offers us the best chance for SACU Member States to prosper in a changing global economy characterised by intensifying competition, significant challenges but also enormous new opportunities for growth and development.

Thank you