

## **Regional Integration in Southern Africa: Motor of Economic Development?**

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In late 2000 member countries of the two leading regional integration agreements (RIA) in Southern Africa – COMESA and SADC – started to abolish the remaining trade restrictions within each RIA. By the end of this decade they will have created FreeTrade Areas, which will be accompanied by other substantial modes of economic integration and harmonization. Like their prominent counterparts in other regions of the world – EU and NAFTA or the envisaged Free Trade Area of the Americas – Southern Africans want to provide their economies with a substantial growth impetus by deepening their regional integration. Though, the region itself consists of a messy cluster of different overlapping multi- and bilateral trade arrangements.

Since the early nineties we experience a boost in the number of RIAs, which traditionally have worked best among high-income countries. In Southern Africa the RIAs are predominantly among low-income countries or between (relatively) high-income countries and developing countries. Do these kind of RIAs also foster economic development of their member countries? Where do the economic benefits of a regional trade agreement generally come from – especially when there are so many overlapping arrangements? As regional integration will lead to a relocation of economic activities, do we expect to see more of interregional trade creation or is there a danger of diversion of economic performance? So, which of the liberalizing countries is more (or less) likely to profit welfare wise? Hereby, the past and future enlargement of the European Union provides us with substantial insights.

Based on theoretical work on preferential trade areas and the respective empirical evidence, we will provide answers to the questions stated. We present graphical models of free trade area and customs union as well as one that captures economies of scale and imperfect competition. All of them are addressed to the Southern African context, whereby South Africa as the major and most industrialized economy of the region is given special emphasis.

In general, a free trade area or a customs union will increase economic growth potentials. But these benefits are not evenly distributed among and within the different member countries: e.g. in some cases consumer welfare rises, while the custom revenues deteriorate. By taking economies of scale into account, we can show that a customs union between South Africa and Zimbabwe will lead to a substantial relocation of industries in both directions – with all its strain on the labor market.

Also, it seems that a South-South RIA (COMESA, SADC) has significant more potential drawbacks than a North-South RIA (Cotonou, SA-EU). In the Southern African context the overlapping trade agreements deters foreign direct investment due to the little transparency provided and they are slowing the pace of liberalization and harmonization in general.