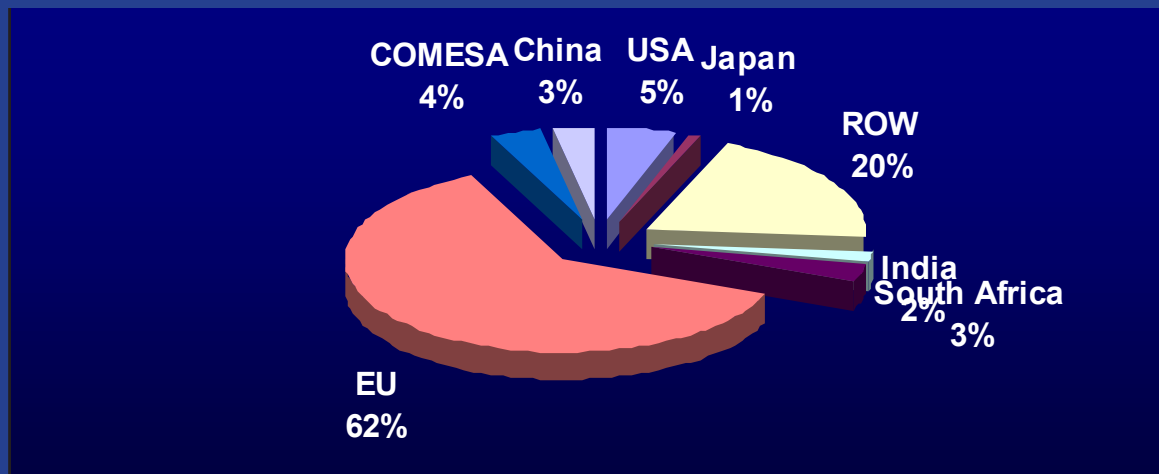ZIMBABWE ECONOMIC POLICY ANALYSIS AND RESEARCH UNIT

PRECONDITIONS FOR ADOPTING SINGLE CURRENCIES IN SADC AND COMESA

COMESA 4% | China 3% | USA 5% | Japan 1% | ROW 20% | India 2% | South Africa 3% | EU 62%

May 2011

Erinah Chipumho

ABSTRACT

The paper investigates the preconditions that ought to be satisfied before adopting a single currency in SADC and COMESA regions. A review of the theory of the OCA and a selected review of empirical literature was done. The paper reveals that the divergence in economic conditions for both SADC and COMESA do not favour a single currency. Statistical data in both SADC and COMESA regions, indicate that the regions do not meet all the criteria suggested by the OCA theory, neither is there convergence in most of the economic variables. However, SADC is better placed to make progress due to a large single country (South Africa), which is relatively industrialised and diversified although most other countries are small and relatively undiversified, with dependence on a small range of primary commodities for exports. In addition, a CMA is already operating in SADC. The paper also noted that most SADC countries have concentrated export structures, hence they are highly vulnerable to shocks. Alternative adjustment mechanisms, especially well-functioning markets with price flexibility, and capital and labour mobility between countries, are limited.

ACKNOWLEDGEMENTS

TABLES OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF ACRONYMS

ASEAN	Association of South East Asian Nations
CMA	Common Monetary Area
COMESA	Common Market for Eastern and Southern Africa
DRC	Democratic Republic of Congo
EAC	East African Community
ECOWAS	Economic Cooperation of West African States
EU	European Union
GDP	Growth Domestic Product
HIPC	Indebted Poor Countries
MDRI	Initiative and have qualified for Multilateral Debt Relief Initiative
NAFTA	North American Free Trade Agreement
OCA	Optimum Currency Area
PRGF	Poverty Reduction and Growth Facility
RISDP	Regional Indicative Strategic Development Plan
RTAs	Regional Trade Agreements
SACU	Southern Africa Customs Union
SADC	Southern African Development Community
SCU	Scandinavian Currency Union
SME	Small and Medium Enterprise
UK	United Kingdom
USD	United States Dollar
VAR	Vector Auto Regression
WAEMU	West African Economic and Monetary Union

1   INTRODUCTION

Single currency areas are clearly designed as strategies for promoting a region within the global economy. Integrated markets are seen as a mechanism to enhance and promote the region's competitiveness vis-à-vis other trading blocks and enlarged internal markets. The key elements of this process are the removal of the internal trade barriers and the free flow of the factors of production, especially labour and capital.

A single currency area is when individual countries give up their national currencies and adopt a new currency or a currency of a larger country. A new central bank would be set up, a regional central bank, that conducts a region-wide monetary policy, in particular the setting of interest rates. This means loss of separate national monetary policies, interest rates and exchange rates. It should be noted that handing over control of monetary policy to a regional central bank not under the sway of, or at least less influenced by, any individual government may be an indirect way of gaining the benefits of central bank independence. However, should an individual country want to introduce an economic policy to fight back against a shock (say, unemployment), it cannot do so as this can only come from the regional central bank.

2   RATIONALE OF JOINING A SINGLE CURRENCY AREA

2.1   Benefits

Mostly advantages of joining a single currency area accrue at micro level. The most often cited benefits are increased intra-regional trade, integrated markets which promote regional growth and economic development, price stability, increased aggregate investment, and the elimination of the exchange rate risk, lower operating costs, large market economies (for example, European Union (EU)) and monetary policy credibility. Each advantage is elaborated in turn below.

A single currency area leads to gains in economic efficiency emanating from two sources. The first one is that it can eliminate the transactions costs that are incurred when converting their currency for another within the region. It also promotes price transparency as customers can readily assess the relative prices of similar products from anywhere within the single currency area. Secondly, a single regional currency can help to eliminate risk from uncertainty in the movement of exchange rates (De Grauwe, 1997). It is argued that the elimination of the exchange rate risk would allow for increased capital inflow and regional investment opportunities resulting in welfare gains and economic growth.

Economic theory and experience suggest that a single regional currency is expected to have a more stable internal and external value. Therefore, the benefits of price stability and monetary policy credibility are more likely to be realized in a single currency area. This is especially true if the regional monetary authority is autonomous in carrying out its functions and where its primary objective is price stability. Also, the prospect of sustained low-inflation

under the responsibility of an independent regional central bank should reduce long-term interest rates and stimulate sustained economic growth and competitiveness. One country can no longer devalue its currency against another member country in a bid to increase the competitiveness of its exporters.

A single currency area provides potential for reinforcing discipline and credibility of fiscal and monetary policy (Dupasquier and Jacob, 1997). This is necessary for the attraction of investments, which eventually translates into economic growth as potential investors would only invest if they have full confidence that they would get sufficient returns on their investments.

In addition, labour distribution will improve as countries suffering a higher unemployment rate, export their workers to those countries with less labour market problems. The region also integrates the national financial markets, leading to higher efficiency in the allocation of capital within the region.

2.2   Costs

There are quite a number of costs that may accrue to member states of a single currency area. The main disadvantage is loss of independence over monetary and exchange rate policy. When a country relinquishes the exchange rate as an instrument, it loses a mechanism for protecting itself from economic shocks. Arguably, national autonomy over monetary policy is supposed to give a country the maximum freedom and flexibility, through the use of various monetary policy instruments, such as interest rates and reserve requirements, to steer the economy in a particular direction. Given that monetary policy is a key instrument of macroeconomic management, the constraints imposed by a single currency area on the pursuit of country-specific objectives may therefore be viewed as constituting a hindrance to achieve country-specific economic goals. Such diversity would make it difficult to sustain a monetary union, given that countries may have different shocks that may require different policy responses.

However, the costs are less severe if the shocks affect all the members of the currency union similarly (symmetric), as a common policy response would be appropriate. But if the shocks affect the members differently (asymmetric) due to, for example, different industrial structures, then a common policy might not be appropriate, in which case the inability to use the exchange rate to make the needed adjustments could result in greater volatility in output and employment. The disadvantages of a common monetary and exchange rate policy are, however, reduced if prices and wages are flexible, and also, if labour is sufficiently mobile (De Grauwe, 1997). The flexibility of prices and wages, and the mobility of labour allow adjustment to a shock to occur more promptly. A member state may also face higher business cycle volatility if the member country's output is not sufficiently correlated with the region's as a whole.

Another cost associated with a single currency area is that the ability of the government to conduct fiscal policy is constrained by the limits collectively agreed and imposed in respect

of budget deficit financing. The imposition of limits on deficit financing is necessitated by the desire to prevent member states to run large unsustainable deficits that could put upward pressure on interest rates and exchange rates in the entire single currency area. However, the restriction on deficit financing is a benefit and not a cost, because it encourages prudence in fiscal management. Credit institutions, especially banks and savings banks, will also lose their income from the currency exchange process.

3 THE THEORY OF OPTIMUM CURRENCY AREA (OCA) AND A SELECTIVE REVIEW OF EMPIRICAL LITERATURE

3.1 Traditional Approach

Mundell's seminal article in 1961 set out the theoretical foundation that gave the framework for the debate about OCA (details of OCA are given in Box 1 below). He emphasized the importance of factor (especially labour) mobility in an OCA, arguing that factors must be highly mobile internally, but relatively immobile in moving outside the area. Other researchers, for example, McKinnon (1963) and Kenen (1969), explored the issue of OCAs following Mundell's work. Over the years, due to developments in macroeconomic theory, the theory of OCAs has been extended and modified.

Box 1: OCA Criterion

An OCA is an optimal geographic domain of a single currency, or of several currencies, whose exchange rates are irrevocably pegged. The single currency, or the pegged currencies, can fluctuate only in unison against the rest of the world:

- The domain of the OCA is defined by the sovereign countries choosing to adopt a single currency or to irrevocably peg their exchange rates;
- Optimality is defined in terms of several OCA properties. These include mobility of labour and other factors of production, price and wage flexibility, economic openness, diversification in production and consumption, similarity in inflation rates, fiscal integration and political integration; and
- Sharing the above properties reduces the usefulness of nominal exchange rate adjustments within the currency area by fostering internal and external balance, reducing the impact of some types of shocks, and facilitating the adjustment thereafter. Countries would relinquish direct control over monetary policy and the exchange rate in expectation of significant current and future net benefits: i.e., benefits exceeding costs.

Factor mobility
If the degree of factor mobility between the potential members is high, then they would be better candidates for a currency union. This is because the mobility of factors provides a substitute for exchange rate flexibility in undertaking adjustment when a disturbance occurs (Mundell, 1961).

Openness
With the introduction of a single regional currency, individual countries completely surrender their right to unilaterally alter the exchange rate. For an individual country therefore, the nominal exchange rate becomes redundant as a policy instrument.

McKinnon (1963) reveals that the more open an economy is, the less effective is the nominal exchange rate as a policy instrument for adjustment. Thus, if an economy is more open, it makes it easier for it to enter into a currency union arrangement since the nominal exchange rate is already redundant as a policy instrument. Frankel and Rose (1996) also noted that a small open economy will find it gainful to enter into a currency union with her trading partners who are equally open. This is because it reduces transaction costs and exchange rate risk that would be suffered if a flexible exchange rate were to be maintained against each other. Also, such a currency union would provide a credible nominal anchor for monetary policy in the individual countries. They further argue that such open economies are integrated in terms of capital flows, labour mobility, or similar economic behaviour, the need to maintain the exchange rate as a policy instrument in individual countries becomes less.

Degree of product diversification
If an economy is more diversified in the goods it produces, it can forgo the need to frequently change its nominal exchange rate in case of an external shock. This is because an economy producing a wider variety of products would also export a wider variety of products. In that case, if a fall in the demand occurs for some of its products, the effect of such a shock would not create a large fall in employment. However, if an economy is less diversified, a shock that can affect one sector would necessarily have a bigger total effect on the economy. Moreover, in a more diversified economy, if independent shocks affect each of the products, the law of averages would ensure that the economy remains stable. Thus, a more diversified economy is more suitable for a currency union than a less diversified one (Kenen, 1969). This is more so if sufficient occupational mobility exists to re-absorb labour and capital that is made idle by the shocks.

Flexibility of prices and wages
If prices and wages are flexible between and among the regions, the need of using the exchange rate for adjustment is diminished. This is because the transition toward adjustment between regions is not likely to be associated with unemployment in one region and inflation in another.

In studying how wages in Zimbabwe are affected by short- and long-run changes in variables, Verner (1999) found that a macro wage curve does exist and wages are flexible both upwards and downwards. So, the labour market is able to adjust to both positive and negative shocks. It was concluded that wages are negatively affected by changes in the unemployment rate and positively by increases in productivity, prices, and economic activity. The main cause of falling real wages in Zimbabwe is reduced economic activity. Matsaseng (2008) tested the speed of adjustment of prices in the SADC and Common Monetary Area (CMA) regions after a shock. The results suggested that the level of price flexibility is high within the CMA as opposed to SADC. The implication is that the CMA arrangement has managed to foster price flexibility among its member countries.

Similarity in industrial structures
Countries that have similar industrial structures are better candidates for a currency area because they are affected in a similar way by sector-specific shocks. As such, it negates the need for undertaking a unilateral adjustment in the exchange rate in response to terms of trade shocks (Bayoumi and Ostry, 1995).

High covariation in economic activities
Countries may have different industrial structures but if they exhibit high covariation in their economic activities, they will still be candidates for a currency union because it means that they are likely to experience similar economic shocks. This reduces the significance of exchange rate policy autonomy for making necessary adjustments (Bayoumi and Ostry, 1995).

Less often mentioned is the size of shocks. If shocks are quite small, it should not matter much if they are not very highly correlated among economies sharing a currency. An alternative view is that it is better for countries with dissimilar business cycles to hold their reserves jointly so that when one country experiences outflows the others experience inflows (Mundell, 1973).

Similar inflation rates
If countries have different inflation rates, it indicates that there are differences in the way they conduct their economic policies, and also that there are differences in the structure of the economies. Thus, if countries are to be good candidates for a currency union, the patterns of inflation should be similar as this can make the convergence in inflation rates easier once they belong to a currency area (Jonung and Sjöholm, 1998).

Political factors
In the formation of a currency area, political factors are important. That is to say, strong political will by the leaders in government is needed, and also, there has to be strong public support (Jonung and Sjoholm, 1998). Without political will and public support, the commitment to the currency union would be lacking, which in turn can lead to the demise of the union. Political will among leaders is important because belonging to a currency union must involve agreeing to, for example, loss of independence over monetary and exchange policy harmonisation and co-ordination of policies with member states of the currency union.

An empirical study by Cohen (1993) supported the importance of political factors. In this study of six currency unions, Cohen found that political factors dominated economic criteria in successful currency areas. The dissolution of the East African Currency Board in 1966 is an example of lack of political will to sacrifice domestic policy needs for the sake of the currency union. However, this paper dwells more on economic factors.

Jonung and Sjoholm (1998) studied whether Finland and Sweden should form a monetary union with each other, and with the rest of Europe. In their evaluation, they calculated indices on the degree of wage flexibility and product diversification, the degree of factor mobility, the similarity of production structures, the covariation in economic activities, the similarity of economic policies, and political and other factors. They concluded that Finland and Sweden could constitute an OCA, while they are not obvious candidates for membership in a European monetary union.

Tjirongo (1995) used the theory of OCA to evaluate Namibia's suitability of being a member of the CMA consisting of South Africa, Namibia, Lesotho, and Swaziland. He also examined the costs and benefits of its membership and the instruments that could be used to address asymmetric shocks. His conclusion was that membership to the CMA could bring about positive net benefits due to the long-term benefits of price stability, and also, it helps to enhance the reputation of economic policy management. These could in turn promote macroeconomic stability. It was thus, beneficial for Namibia to remain within the CMA.

Bergman (1999) also used the theory of OCA to examine whether the countries which formed the Scandinavian Currency Union (SCU), namely Denmark, Norway and Sweden, constituted an OCA. He estimated a structural Vector Auto Regression (VAR) model to examine the symmetry of country-specific structural shocks in each of the three countries. He found that country-specific structural shocks in the SCU members were not highly symmetric during the union period; hence the three Scandinavian countries did not form an optimum currency union.

Trade patterns
The higher the levels of trade between countries, the more closely output movements are likely to be correlated. Similar patterns of trade with third parties or a similar industrial composition of trade can have a comparable effect. Such similarities make it more likely that a shock to one country will lead to, or occur simultaneously with, a shock to the others.

Fiscal transfers
Fiscal transfers across countries in a single currency area could cushion them from asymmetric shocks. Income transfers from countries less affected by a particular shock could make up for losses of income and help keep labour and capital employed. In assessing the extent of fiscal transfers, it is necessary to distinguish the stabilisation (transfers in different directions in different years) and redistributive (transfers in similar directions over time) roles of fiscal policy. Redistribution seems less essential for the success of a monetary union than stabilisation, and the latter can in principle be performed by national governments.

Harvey *et. al.* (2001) examined COMESA macroeconomic convergence during 1980-1998. They concluded that COMESA does not meet the criteria for an OCA. However, their study paints a pessimistic picture for COMESA integration, on the premise that South Africa, under the SADC, was a major detracting factor for those countries belonging to both SADC and COMESA. As an alternative, they recommended that COMESA members forge macroeconomic linkages with the Euro zone.

3.2   Endogenous OCA Theory

Whereas earlier work on OCAs sought to identify the characteristics that the economy should satisfy prior to joining a monetary union (i.e., ex ante), the new theory of OCA has focused on changes in economic structure and performance that may result from participation in a currency union (i.e., ex post). According to Endogenous OCA theory, a currency union affects the economy's performance through increased trade integration and enhanced credibility.

Trade Integration

Greater trade integration is thought to increase growth by increasing allocative efficiency and accelerating the transfer of knowledge. Endogenous OCA theory posits that a common currency (as opposed to separate currencies tied together with fixed exchange rates) can promote trade and growth. The basic intuition underlying this hypothesis is that a set of national currencies is a significant barrier to trade. According to this view, in addition to removing the costs of currency conversion, a single currency and a common monetary policy preclude future competitive devaluations, increase price transparency, facilitate foreign direct and portfolio investment, and the building of long-term relationships, and might, over time, encourage forms of political integration within the union (Tavlas, 2007). These effects are said to increase the productivity of capital and labour and, therefore, to raise potential output (De Grauwe, 2002). Additionally, increased trade integration is said to result in more-highly-correlated business cycles because of common demand shocks and greater intra-industry trade, lessening the need of country-specific monetary policies (Frankel and Rose, 1998).

Credibility

Credibility is typically interpreted as the extent to which the present announcement by the monetary authorities in the present of future intentions is taken at face value. The benefits of joining a currency union with a credible regional central bank can be substantial, even if a particular country's characteristics, such as openness, asymmetry of shocks, and labour-market flexibility, do not appear to be very favorable for monetary unification.

Other considerations

A final point to highlight from the OCA literature is that the criteria are to some extent endogenous. Joining a single currency area may itself, alter the characteristics of an economy, a point made in Mundell's original article. For instance, it is likely to increase trade with countries using that currency, and so increase the correlation between their economic performances. For example, United Kingdom (UK) Treasury (2003) finds some evidence of

increased correlation between regions of the US. In this way, a country that appears to fail OCA criteria before joining may satisfy them once it is inside. Such endogeneity has some bearing on the debate between those arguing that economies should meet convergence criteria before joining regional currency area and those who argue this is less important as convergence will follow from joining (Mundell, 1993).

Development of financial markets
The creation of a single currency area may spur the development of local financial markets. In principle, a currency area could help overcome some of the disadvantages to countries in having 'small' financial systems. The capital market for the regional currency area could be larger and more liquid than in the individual country. There could be greater opportunities for banks to exploit economies of scale.

However, how significant such gains are in practice depends on a number of factors, other than the use of a regional currency. For instance, van Beek *et. al.* (2000) found that domestic financial institutions in the Eastern Caribbean Currency Union often restrict their activities to their home country. This tendency is reinforced by restrictions on foreign ownership (even by companies from other member countries), different tax arrangements for non-members and prohibitions on residents' purchase of foreign currency securities or real estate abroad. Even in Europe, few of the bank mergers since currency union have been cross-border.

In Africa, neither of the long-standing regional currency areas are highly financially integrated. Inter-bank markets are rudimentary and money transfers across borders take a long time to materialise. Similar considerations apply in the creation of deeper and more integrated capital markets. Larger markets tend to be more liquid and to attract foreign investors. A larger financial market will have more scope for specialised financial institutions. It also allows institutions to diversify credit risk without incurring foreign exchange risk. But a regional currency by itself is not a guarantee that such markets will develop. Divergent market practices, different legal, tax and regulatory regimes, capital controls and some countries' wish to foster their financial markets can all stand in the way of the necessary convergence. For example, the western African countries have a regional stock exchange, but in fact few companies are listed and transactions are few. The central African countries have a project to establish a regional stock market in Libreville, Gabon, but the Cameroonian authorities, with the region's largest economy, have chosen to proceed with their own stock exchange, in Douala. Given the small number of actual and potential transactions, competition between the two exchanges is likely to hinder the establishment of a true regional financial market.

While a firm commitment to use another currency, or fix rigidly to it, would virtually eliminate currency risk, it would not eliminate national credit risk. Credit risk premia could also fall if it were thought that other members of a regional currency area would provide support to prevent a default. However, it is possible that credit risk might even increase, as the country would no longer have the option of preventing default by issuing its own money.

4 SADC AND COMESA'S PROGRESS TOWARDS ADOPTION OF A SINGLE CURRENCY

The global economy has witnessed an upsurge of regional trade agreements (RTAs) namely the North American Free Trade Agreement (NAFTA), Association of South East Asian Nations (ASEAN), EU, Economic Cooperation of West African States (ECOWAS), SADC, Southern Africa Customs Union (SACU), EAC and COMESA, among others. These regional groupings were created on the back of increasing regionalism in global trade. The goals and objectives of these RTAs are to accelerate economic growth and to eliminate barriers to trade. Some regional groupings have already introduced a single regional currency or adopted a currency of a larger country, such as Eurozone, WAEMU, and CMA. This paper focuses on assessing the preconditions for the adoption of single currencies in SADC and COMESA regions.

4.1 SADC's Brief Background and Macroeconomic Convergence Status

The main feature of monetary integration in SADC is the CMA (formerly the Rand Monetary Area (RMA)), which currently has South Africa, Namibia, Lesotho and Swaziland. In the CMA the rand floats freely against international currencies, while the currencies of other members are pegged one-for-one with the rand. Member countries make inputs to the South African Reserve Bank (SARB)'s monetary policy decision making process. While Namibia, Lesotho and Swaziland have formal monetary policy independency, their monetary policy is essentially determined by the SARB, given the pegging of their exchange rates to the rand and the absence of capital controls and capital movements within the CMA. It should be noted that although South Africa is by far the dominant economic power within the CMA, accounting for 96% of CMA GDP, the degree of monetary integration in the CMA is very high.

SADC is made up of fifteen member states with economies which differ in size and structure. South Africa, is by far, the largest economy (accounting for about 65% of total SADC gross domestic product (GDP)), and is relatively industrialised and diversified while most of other economies are small and undiversified with a narrow range of commodity exports (see Table 1 below and Table 2 in the Appendices). Angola contributes 13.5% of SADC GDP whereas Zimbabwe contributes a mere 1.1%, due to macroeconomic challenges that bedeviled the economy. The rest have an individual contribution of less than 4% of SADC GDP.

Table 1: SADC Countries Selected Economic Indicators

	GDP 2007 (USD) billions	Real per capita GDP (2009)	% of total SADC GDP 2007	Trade % of GDP	Population (millions)
Angola	59.263	1388	13.5	138.1	16.4
Botswana	12.382	4289	2.8	74.7	1.8
DRC*	9.977	100	2.3	40.9	59.3
Lesotho	1.565	392	0.4	125.5	1.8
Madagascar	7.343	238	1.7	74.9	19.1
Malawi	3.326	191	0.8	59	13.2
Mauritius	7.521	4835	1.7	104.6	1.3
Mozambique	8.121	395	1.8	62.1	20.1
Namibia	8.803	2768	2.0	84.2	2.1
South Africa	285.935	3691	65.0	52.7	47.4
Swaziland	2.946	1805	0.7	176	1.1
Tanzania	16.691	458	3.8	45.6	39.5
Zambia	11.541	428	2.6	51.2	11.9
Zimbabwe	4.657	375	1.1	45.8	13.1
SADC	**440.071**	**1109**	**100.0**		

DRC - Democratic Republic of Congo
Source: Regional Economic Outlook: Sub-Saharan Africa, April 2010, International Monetary Fund (IMF)

Table 2: SADC Contribution of Economic Activity (% of GDP)

	Agriculture		Manufacturing		Mining	
	2005	2008	2005	2008	2005	2008
Angola	17	13	24.9	18.3	0.3	0.2
Botswana	2	2	4	4	43	43
DRC	48	46	6	6	13	14
Lesotho	8	8	18	18	8	9
Madagascar	28	27	14	14	2	2
Malawi	34	34	10	10	3	3
Mauritius	6	4	19	18	2	2
Mozambique	26	27	15	15	7	7
Namibia	11	10	13	15	13	13
Seychelles	4	3	10	10	2	1
South Africa	3	3	18	19	10	12
Swaziland	9	8	38	40	2	1
Uganda	26	24	7	7	5	5
Zambia	21	21	11	10	6	8
Zimbabwe	19	18	18	16	4	4

Source: United Nations National Accounts Main Aggregates Database, accessed 15 November 2010

Diversification helps build competitive economies that can productively be integrated into the regional and global economy. Several SADC economies suffer from low levels of diversification in exports and very little change over the past two decades. However,

compared to other sub-regions, SADC is the most diversified sub-region on the continent, followed by COMESA and North Africa.

A successful restructuring of SADC member states should lead to more diversified economies and to a significant reduction in the member states over dependence on primary commodities. This would also contribute to increases in the volume of intra-regional trade. The widening in the gap between member states incomes' needs to be reversed in a reasonable time frame to achieve equitable and balanced development of Member states.

4.1.1   SADC free movement of factors of production

In Article 5.(2)(d) of SADC, member states aim to 'develop policies with progressive elimination of obstacles to the free movement of capital and labour, goods and services … among Member States'. A first protocol on the topic of free movement of labour was rejected by South Africa, Botswana, and Namibia, i.e. potential receiving countries, which are concerned about a sharp increase in immigration. The subsequent redraft of a less ambitious protocol on the Facilitation of Movement of People (1997) was shelved by the SADC council of ministers in 2000. The discussion about free movement of persons and rights to establishment was revived only in 2003 and some progress has been made towards visa exemptions as follows:

- Entry of citizens from a member country on the territory of another member country is not subjected to obtaining a visa for a maximum period of ninety days per year.
- Authorization to reside on the territory of a member country must be obtained through application of a permit from the authorities of the concerned country in conformity with the legislation of the member state.
- The right to settlement consists of a permit given to a citizen of another member country by a member state in conformity to its national legislation to undertake an economic activity or a profession, either as a salaried person or as an investor.

4.1.2   Progress towards Macroeconomic Convergence in SADC

The rationale for choosing macroeconomic convergence criteria is to ensure that countries participating in the integration process develop sound and common macroeconomic policies. In other words, the convergence criteria is designed in terms of prudent values of key variables summarizing the overall macroeconomic policy stance. Like a number of regional economic groupings including SADC and COMESA, convergence criteria are centred on price stability, sustainability of fiscal and current accounts, limiting of deficit financing by the central bank and maintaining sufficient foreign reserves. In addition, achieving and sustaining high economic growth, supported by high domestic savings and investment among member states, is a necessary, but not sufficient condition for achieving macroeconomic convergence.

SADC developed and adopted a Regional Indicative Strategic Development Plan (RISDP) which lays out regional economic integration targets as follows:

Box 2: SADC Regional Economic Integration Targets

Target 1: Free Trade Area - 2008;

Target 2: Completion of negotiations of the SADC Customs Union - 2010;

Target 3: Completion of negotiations of the SADC Common Market - 2015;

Target 4: (i) Diversification of industrial structure and exports with more emphasis on value addition across all economic sectors - 2015

(ii) Taking into account indicators relating to diversification, intra-regional trade and an increase in manufacturing as a percentage of GDP to 25% by 2015.

Target 5: Macroeconomic convergence on targets for inflation, fiscal balance and public debt.

Target 6: Other financial indicators, including external reserves/import cover; central bank credit to government; savings; investment; payments systems interconnection; currency convertibility; dual and cross listing on regional stock exchanges; liberalization of exchange controls between member states; and increasing the share of credit accessed by women and Small and Medium Enterprises (SMEs).

Target 7: The establishment of a SADC monetary union, with a SADC central bank by 2016 and a regional currency by 2018.

RISDP also sets macroeconomic convergence targets to be met by member states from 2008 to 2018. Table 5 (in the Appendices) depicts performance by different macroeconomic convergence targets of member states. The SADC members that did not achieve the different convergence targets between 2005 and 2009 are highlighted in red shade as opposed to light green shade for those, which have achieved the targets. Progress made so far in trying to achieve the macro convergence targets is outlined below.

Inflation

Inflation is the most basic indicator of lack of balance between the demand and supply of resources in the economy. High and rising inflation demonstrates an imbalance in resource utilization in the economy and serves as a prime indicator of macroeconomic instability. It erodes the purchasing power of the local currency and introduces uncertainty into decision-making and colludes with debt to deepen poverty.

Based on table 5, inflation continued to register an increase in disparity from 6.2% in Mozambique to a hyperinflation rate of 231 million % for Zimbabwe in 2008. As for Zimbabwe, excessive growth in money supply remained a major factor underlining the resurgence of inflation in the economy. Other factors include supply bottlenecks, attributable to poor agricultural harvests and the upsurge in the international prices of oil; as well as the foreign exchange shortages, which contributed to creating shortages of goods and the build-up of inflationary pressures. The number of countries registering inflation rates within single digit levels decreased steadily from six (Lesotho, Mauritius, Namibia, South Africa, Swaziland and Tanzania) in 2005 to four (Malawi, Mauritius Mozambique and South Africa) in 2008. Inflation for 2009 shows that most countries in the region, except Angola, DRC and Tanzania, are

within the inflation target band due to mainly compliance with this criteria, which calls for a tight monetary policy stance to ensure price stability.

Government Budget Deficit (as % GDP)
Fiscal performance is the ability of governments to balance expenditure against revenue and to pursue sound fiscal policy. It can be a critical determinant of long-term economic success. It is believed that the deficit gives the best indication of both fiscal discipline and performance in the region.

In 2005, three countries (Mauritius, Tanzania and Zimbabwe) failed to restrict their budget deficits within the acceptable margin. In 2008, all countries except Tanzania and Malawi achieved the target fiscal deficit of less than 5% of GDP. However, Zimbabwe's true deficit is much larger than the recorded deficit due to large scale off-budget spending, notably quasi-fiscal operations by the central bank. The RBZ's quasi-fiscal operations estimated at USD1.1 billion (36% of GDP) in 2008, up from USD0.8 billion (23% of GDP) in 2007, included election-related expenses, transfers to parastatals, subsidized directed lending, below-cost provision of equipment and fertilizers to farmers, and the allocation of foreign exchange at subsidized exchange rates (IMF, 2009).

Eight countries (DRC, Lesotho, Madagascar, Mauritius, Namibia, Seychelles, Zambia and Zimbabwe) out of fifteen managed to maintain the fiscal deficit within the target in 2009. Zimbabwean authorities refrained from quasi-fiscal activities and implemented cash budgeting system (i.e., matching monthly expenditure to monthly revenue) in 2009.

The recent improvements in budget deficits reflect a number of important developments in the region, including:
• Increased focus on fiscal sustainability:
  o national ownership of fiscal restraint programmes;
  o adoption of medium-term expenditure frameworks;
  o realisation of the adverse impact of fiscal imbalances; and
  o the demonstration effect of fiscal success stories in other countries;
• Ending of civil conflicts, and hence reduced need for defence spending;
• Five SADC countries (Madagascar, Malawi, Mozambique, Tanzania and Zambia) have reached the completion point under the enhanced Highly Indebted Poor Countries (HIPC) Initiative and have qualified for Multilateral Debt Relief Initiative (MDRI) debt relief, that is, (reducing the burden of debt interest payments on the fiscus);
• Addressing domestic/internal debt problems as well as external; and
• Donor assistance for good reformers/performers.

Notwithstanding the general improvement in fiscal positions, many countries remain highly dependent upon donor grants to fund public spending, especially development (investment) spending (notably Madagascar, DRC, Tanzania, Mozambique, Zambia and Malawi). Hence, fiscal sustainability in these countries is, in the short-to-medium term at least, dependent upon continued access to donor funds, the availability of which is in some respects beyond the control of the recipient countries.

External Debt (as % GDP)
Five SADC countries benefited from debt forgiveness under the HIPC initiative (i.e. Madagascar, Malawi, Mozambique, Tanzania and Zambia). Consequently, there has been a decrease in external debt in these countries recording a stock of external debt below the SADC target of 60% of GDP. Other SADC countries achieved the target except Zimbabwe, where external debt accelerated from 112% in 2008 to 1000% in 2009. However, the debt/GDP ratio may not be a relevant indicator of debt sustainability in HIPC countries. These countries may have sustainable debt levels, due to ongoing debt relief and access to concessionary debt, even if debt ratios are above the SADC target.

Current Account Balance (as % of GDP)
The current account of the balance of payments is the sum of the balance of trade (exports minus imports of goods and services), net factor income (such as interest and dividends) and net transfer payments (such as foreign aid). A current account surplus increases a country's net foreign assets by the corresponding amount, and a current account deficit does the reverse. The balance of trade is typically the most important part of the current account. This means that changes in the patterns of trade in SADC region is the key driver of the current account.

Angola, Botswana, Lesotho, Namibia, South Africa, Swaziland and Zambia consistently attained the conventional prudential levels of the SADC RISDP (i.e the target of –9%) for the years, 2005, 2008 and 2009. DRC, Madagascar, Mozambique, Seychelles, Tanzania and Zimbabwe failed to meet the target in 2008 and 2009. Although Malawi and Mauritius failed to achieve the target in 2008, their current account balance was within the prescribed range in 2009. Botswana in particular has run consistent current account surpluses over the past decade (except in 2009). The high level of export earnings from diamonds has supported a surplus on the trade account.

The exception is Angola, which has had a volatile record, with recent benefits from high oil prices. By 2005, most countries had current account deficits within the SADC 2008 target, assisted by considerable donor grants inflows in many cases. Essentially, the financing of the current account deficits in most of these countries is donor-dependent. In recent years, current account deficits have been affected by high oil and hard commodity prices, with many oil-importing countries facing sharply higher import bills while oil exporters benefiting.

Gross Domestic Product
SADC countries still face the critical challenge of raising the rate of GDP growth and sustaining high growth rates over an extended period. While growth has recovered over the past few years, very few countries have achieved and maintained the growth rate of at least 7%, which is necessary to reduce poverty and create employment. Average economic growth in SADC slightly declined from 6.7% in 2005 to 5.4% in 2008 and further declined to -0.6% in 2009. Three countries in the region registered marked increases in GDP growth rates of 7% and above in 2008 (Angola, Madagascar and Malawi), while the rest, except Zimbabwe, registered positive growth rates. Zimbabwe continued to register negative growth rates, which declined sharply to -14.8% in 2008. In 2009, quite a number of countries (Angola,

Botswana, Madagascar, Namibia, Seychelles and South Africa) registered negative growth rates, whereas Zimbabwe recorded a positive growth rate of 4% due to macroeconomic stability which characterized the economy. Malawi is the only country which managed to maintain the growth rate above the 7% target, due to debt relief and external capital flows. Unfavourable factors that lead to the decline in GDP growth rate in other member states are lack of diversification of production and export base; high oil prices which hurt oil importers through the current account; inefficient public infrastructure, unreliable energy supply at the national level and fluctuations in commodity prices.

4.2   COMESA's Brief Background and Macroeconomic Convergence Status

COMESA was founded in 1993 as a successor to the Preferential Trade Area for Eastern and Southern Africa (PTA), which was established in 1981. COMESA formally succeeded the PTA on 8 December 1994 upon ratification of the Treaty. COMESA member states comprise of Burundi, Comoros DRC, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

The structure of production of COMESA countries is characteristic of a developing region, where large shares of GDP originate in the agriculture sector (see Table 3). In addition to having a small manufacturing sector, COMESA countries do not produce a diversified range of manufactured products.

Table 3: COMESA Contribution of Economic Activity (% of GDP)

	Agriculture		Manufacturing		Mining	
	2005	2008	2005	2008	2005	2008
Burundi	35	37	14	13	1	1
Comoros	49	48	4	4	2	2
DRC	48	46	6	6	13	14
Eritrea	23	24	7	6	1	1
Ethiopia	46	51	5	4	2	2
Kenya	27	26	12	11	3	3
Madagascar	28	27	14	14	2	2
Malawi	34	34	10	10	3	3
Mauritius	6	4	19	19	2	2
Rwanda	41	40	7	6	1	2
Seychelles	4	3	10	10	2	1
Sudan	33	32	9	9	10	11
Swaziland	9	8	38	40	2	1
Uganda	26	24	7	7	5	5
Zambia	21	21	11	10	6	8
Zimbabwe	19	18	18	16	4	4

Source: United Nations National Accounts Main Aggregates Database, 2010

The percentage of intra-COMESA trade to total COMESA trade has remained low attaining an average of 4% for the last 4 years (see Figure 1). This, in part, can be attributed to the fact that third world country trade consists of raw material exports, some of which have had significant price increases in recent years. Hence, this surge in third country exports potentially implies a lower intra-COMESA trade to total trade ratio.

Figure 1: COMESA's Key Export Market Shares
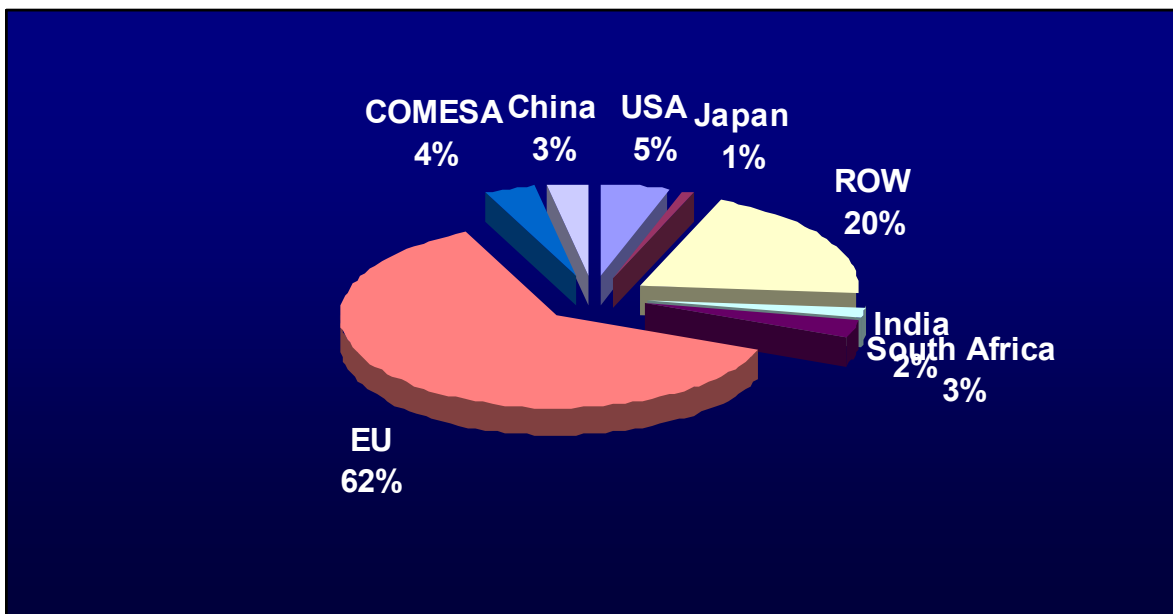
Source: COMSTAT Database, 2010

The export market share for intra-COMESA trade in 2007 was dominated by Kenya with a split of 28%, albeit a decline from 34% the previous year, followed by Zambia, Egypt and Uganda with shares of 16%, 13% and 9%, respectively. Zimbabwe, which was ranked number 5 contributed 6.5% of intra-COMESA export market share.

On the overall, 24% of COMESA's total imports originated from the EU hence making it the most import source market for COMESA imports. Swaziland, Zambia and Zimbabwe had South Africa as their key import source market with proportions of 95%, 45% and 43%, respectively. DRC registered the biggest intra-COMESA import share of 15% followed by Uganda and Sudan with intra-COMESA import shares of 11% and 10%, respectively. Zimbabwe's intra-COMESA import market share was 6.9%.

4.2.1   COMESA Free Movement of Factors of Production

The COMESA Treaty envisions a community within which goods, services, capital and labour are free to move across national borders.

COMESA has adopted two Protocols on facilitating free movement of persons. These are:

• The Protocol on the Gradual Relaxation and Eventual Elimination of Visas which was adopted and signed on 22 December 1984, in Bujumbura, Burundi; and

- The Protocol on the Free Movement of Persons, Labour, Services, Right of Establishment and Residence was adopted at the Sixth Summit of the COMESA Authority held in Cairo, Egypt in 2001.

The Protocol on the Gradual Relaxation and Eventual Elimination of the Visa requirements continues in force as it is saved under Article 164 of the COMESA Treaty.

COMESA has made great progress in free movement of persons to the extent that visa problems are treated with a lot of flexibility for residents of the community. The adoption of common visa arrangements in COMESA, including the right of establishment leading eventually to the free movement of bona fide persons tally with the requirement of labour mobility in the forthcoming currency union. In this regard, a protocol on gradual relaxation of visa requirement is being implemented and several member states are currently giving visas to citizens of other COMESA countries on arrival at the airport or border post.

The COMESA timetable for free movement of people leading to right of establishment and residence is as follows:
- 2000-2002: Gradual removal of visa requirements;
- 2002-2006: Movement of skilled labour and movement of services;
- 2006-2010: Right of establishment; and
- 2014: Right of residence (20 years from date of entry of COMESA Treaty).

Currently four states, Kenya, Rwanda, Burundi and Zimbabwe had signed the Protocol on the Free Movement of Persons, Labour, Services, Right of Establishment and Residence. Chiefs of Immigration Officers of COMESA started to put together a mechanism to facilitate movement of COMESA citizens. A key issue under study is the harmonization of visas so that by 2014 there can be total free movement of people as well as freedom of residence and establishment within COMESA.

4.2.2 Progress towards Macroeconomic Convergence in COMESA
This section explores COMESA's macroeconomic performance vis-à-vis convergence targets for the period 2005, 2008 and 2009 (see Table 6 in the appendices). The specific targets are classified into primary and secondary criteria.

Primary Criteria
1) Overall budget deficit/GDP ratio (excluding grants) of not more than 5%;
2) Annual inflation rate not exceeding 5%;
3) Minimize central bank financing of budget deficit towards 0% target; and
4) External reserves of equal to or more than 4 months of imports of goods and non-factor services.

Secondary Criteria
1) Achieve and maintain stable real exchange rates;
2) Achieve and maintain market based positive real interest rates;
3) Achieve sustainable growth rates of real GDP of not less than 7%;

4) Sustained pursuit of debt reduction initiative on domestic and foreign debt (i.e. reduction of debt as a ratio of GDP to a sustainable level);

5) Total domestic revenue to GDP ratio of not less than 20% ;

6) Reduction of current account deficit (excluding grants) as a ratio of GDP to a sustainable level; and

7) Achieve and maintain domestic investment rate of at least 20%.

There are a number of motivations behind the commitment to macroeconomic convergence. Economic instability in one or more countries in the region, as has been the case historically, and has negative effects on both the countries themselves and the region more broadly through spillover effects. Hence, the most basic component of macroeconomic convergence is to achieve macroeconomic stability across the region, thereby avoiding instability in terms of high inflation, unstable currencies, and other forms of macroeconomic imbalance.

Inflation

Burundi, Mauritius and Seychelles, managed to maintain their inflation rates within the COMESA target of not exceeding 5% in 2005. Other single digit inflation nations (Comoros, Kenya, Rwanda and Swaziland) are barely above target. In 2008, not even a single country met the target. Only Comoros, Malawi and Mauritius managed to achieve single digit inflation rates. Rampant inflation occurred in Burundi (25.7%), DRC (27.6%), Eritrea (30.2%), Ethiopia (55.3%), Rwanda (22.3%) and Seychelles (63.3%). Zimbabwe's hyperinflation environment which skyrocketed to 231 million % in July 2008 decelerated to -7.7% in December 2009 after adopting a dis-inflationary program which curbed inflation. Comoros, Ethiopia, Mauritius, Seychelles and Zimbabwe achieved the COMESA target in 2009. Other countries that achieved single digit inflation in 2009 are Burundi, Madagascar, Malawi, Rwanda and Zambia. Inflation remained high in DRC (52.3%) and Eritrea (30.2%) in 2009. Notwithstanding some countries still struggling to meet the target, a broad disinflation process has taken place in COMESA member states.

Fiscal deficit

Most COMESA members have witnessed fiscal deficits of not more than 5% between 2005 and 2009 except Eritrea and Zimbabwe. Burundi and Mauritius narrowly missed the target in 2005. In 2008, only Eritrea failed to meet the target although Zimbabwe's fiscal deficit is debatable since it did not include quasi-fiscal operations by the Reserve Bank of Zimbabwe. In 2009 Eritrea (-14.7%) missed the target by a larger margin whereas Malawi (-5.3%) and Swaziland (-6.3%) narrowly missed the target. The rest met the COMESA target. Fiscal improvements were realised as some nations (e.g. Uganda, Malawi, Zambia and Rwanda) are under the Poverty Reduction and Growth Facility (PRGF) and HIPC facilities, supported by the World Bank and IMF.

External Debt

External debt as a ratio of GDP was sustainable in the majority of the countries in COMESA member states. In 2008, Burundi (126%), DRC (97.5%), Eritrea (61.9%) and Zimbabwe (112.3%) were unsustainable especially if one adopts the SADC and EU target of 60% as the upper limit. In 2009 the debt to GDP ratio of Burundi declined to 26.4% whereas that of DRC increased

slightly to 101.5%. Zimbabwe's debt to GDP ratio skyrocketed to 1000.1% in 2009. The debt to GDP has been rising in fixed exchange regimes, a possible scenario since such countries have to borrow abroad to support the regime in the face of low exports. The external debt continued to grow mainly as a consequence of new payment arrears and interest and penalty charges on existing payment arrears, but new private sector short-term borrowing also added to the external debt estimated at US$7.1 billion (162% of GDP) by end of 2009.

Current Account Balance
COMESA does not attach specific convergence and sustainable target on the current account. Consistent with the World Bank and IMF programs for least developing countries undergoing major investment phase supported by external savings, a current account deficit (excluding grants) in percentage of GDP of 12% may be considered sustainable, given the development and investment needs for these countries. This is particularly so, if such a deficit is perceived to reverse in subsequent periods, following strong export performance. DRC, Madagascar, Seychelles and Zimbabwe exceeded the 12% target in 2008 and 2009. Other COMESA countries managed to achieve that target with Burundi's current account balance just above the target.

Economic Growth
Recent trends suggest economic growth varying markedly, with countries like Ethiopia, Malawi and Uganda growing at more than 7% per annum in 2008 and 2009. However, other countries (Burundi, Comoros, DRC, Kenya, Malawi, Swaziland and Zambia) registered positive growth, but below the 7% target during the same period. Madagascar and Rwanda registered growth above the target in 2008, but substantial slow down was registered in Madagascar, which recorded negative growth rate of -5% in 2009. Eritrea and Zimbabwe posted negative growth rates in 2008 but managed to achieved positive growth rates in 2009 although the rates were below the target. In terms of real GDP growth target (7%), this has only been achieved consistently by a few countries hence; accelerating economic growth to achieve COMESA target requires major drive efforts.

5   CONCLUSION AND RECOMMENDATIONS

SADC economies are of course quite different in economic size and structure, with South Africa being relatively industrialised and diversified while most other countries are small and relatively undiversified with dependence on a small range of primary commodities for exports, which vary considerably across countries; as a result, the structures of GDP vary a great deal. Furthermore, most SADC countries have concentrated export structures. Hence, most SADC members are highly vulnerable to shocks, and the nature of that vulnerability is likely to be quite different between countries. In these circumstances, nominal exchange rate flexibility is likely to be a potentially important adjustment mechanism. Furthermore, alternative adjustment mechanisms, especially well-functioning markets with price flexibility, and capital and labour mobility between countries, are limited. Therefore, it is unlikely that at present SADC qualifies as an OCA in terms of the conventional criteria.

Indeed, deeper integration of the regional economy should lead to economic convergence amongst member states. Despite that, significant improvements have been achieved in the area of macroeconomic management and performance, a lot still remains to be done to attain convergence of member states. Selected macroeconomic indicators have shown that GDP growth rates, inflation, fiscal deficits, current account deficits and the burdens of external debt, remain far from the desired and sustainable levels which could set the appropriate stage for a successful cooperation and integration process. In view of this situation, SADC Member States have to individually and collectively, continue deepening and improving their macroeconomic fundamentals. COMESA member states' economic growth and development across the region are heterogeneous, with some countries attaining high growth rates and others achieving very low growth rates.

Some measures to promote labour mobility and the free movement of people between countries have been undertaken by SADC and COMESA. However, cooperation between countries and economic communities on free mobility of labour has been obstructed by security considerations, lack of employment opportunities and competition for limited job opportunities. SADC and COMESA need to relax visa requirements for skilled labour through adopting common travel documents. Moreover, there is need for harmonization of labour laws and labour markets to encourage skilled labour mobility across countries. However, the implementation of these proposed amendments requires political will.

The traditional theory of OCA concludes that a currency union is likely to be successful if there is a significant degree of economic convergence among the member countries in respect of some of the macroeconomic variables. Furthermore, a single currency area will be more feasible among countries with open economies and strong trade links with each other. However, in reality, economic conditions may not be the only decisive reasons for the formation of a monetary union. Other factors, for example, historical, cultural and political, may also play a part in influencing the decision.

Statistical data in both SADC and COMESA regions, indicate that the regions do not meet all the criteria suggested by the OCA theory, neither is there convergence in most of the economic variables. The process of establishing a single currency area will therefore be long because of the macroeconomic convergence that must be established first. However, it can be noted that in reality it may not be crucial to meet all the criteria prior to the formation of a currency union. It is possible for member countries to agree to meet some of the criteria only after the formation of the single currency area. Experience has shown that in the case of the EU, it was not only the economic argument that was the defining factor in the formation of the monetary union, but also the political drive for unification.

6   REFERENCES

COMESA Merchandise Trade Statistics (2008), Bulletin No. 7, November 2008, COMESA

African Union (2009), Status of Integration in Africa, Addis Ababa, Ethiopia

Bank for International Settlements (2003), Regional Currency Areas and the Use of Foreign Currencies, No 17, Monetary and Economic Department, BIS Papers

Bayoumi, T., and Eichengreen, B., (1998), "Exchange Rate Volatility and Intervention: Implications of the Theory of Optimum Currency Areas", Journal of International Economics, 45, 191-209

Bergman, U. M, (1999), "Do Monetary Unions Make Economic Sense? Evidence from the Scandinavian Currency Union, 1873-1913", Scandinavian Journal of Economics, 101 (3), 363-377

Common Market for Eastern and Southern Africa (COMESA) Treaty

De Grauwe, P., (1997), The Economics of Monetary Integration, Oxford University Press

Dupasquier, C., and Jacob, J, (1997), "European Economic and Monetary Union: Background and Implications", Bank of Canada Review, Autumn

Frankel, J. A., and Rose, A. K., (1996), "Economic Structure and the Decision to Adopt a Common Currency", Background Report for the Swedish Government Commission on EMU

Hawkins, J., and Masson, P., (year missing)Economic Aspects of Regional Currency Areas and the Use of Foreign Currencies, BIS or the Brookings Institution
http://www.bis.org/publ/bppdf/bispap17c.pdf

International Monetary Fund (2009), Zimbabwe: 2009 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Zimbabwe, IMF Country Report No. 09/139

IMF Executive Board Concludes 2010 Article IV Consultation with Zimbabwe; Public Information Notice (PIN) No. 10/62, May 25, 2010

Ishiyama, Y., (1975), "The Theory of Optimum Currency Areas: A Survey", IMF Staff Papers, XXII, 344-383

Jonung, L., and Sjoholm, F., (1998), "Should Finland and Sweden Form a Monetary Union?", Working Paper Series in Economics and Finance, No. 224, February 1998

Kenen, P. B., (1969), "The Theory of Optimum Currency Areas: An Eclectic View", in Mundell, R.A., and Swoboda, A.K., (ed.), Monetary Problems of the International Economy, The University of Chicago Press

Matsaseng, K., (2008), Price Flexibility in the Common Monetary Area, South African Journal of Economics, 76(2),176-188

McKinnon, R., I., (1963), "Optimum Currency Areas", The American Economic Review, 53, 717-725

Miguel-Angel G. M., (year missing), Economic Policy Implications of the Implementation of the Single European Currency

Mkenda, B. K., (2001), Is East Africa an Optimum Currency Area? Working Papers in Economics, no 41, Department of Economics, Göteborg University

Mongelli, F. P (2002), 'New' Views on the Optimum Currency Area Theory: What is EMU Telling US? European Central Bank

Mundell, R. A., (1973): "Uncommon Arguments for Common Currencies", in H Johnson and A Swoboda (eds), The Economics of Common Currencies, Allen and Unwin, pp 114-32

Mundell, R. A., (1993): "EMU and the International Monetary System", Oesterreichische Nationalbank working paper, no 13, July

Mundell, R. A., (1961), "A Theory of Optimum Currency Areas", The American Economic Review, 60, 657-665

Regional Economic Outlook: Sub-Saharan Africa, April 2010, World Economic and Financial Survey, International Monetary Fund

SADC (2009), Review of the SADC Macroeconomic Convergence Programme for 2008

Jefferis, K., (year missing); The Achievement of SADC Macroeconomic Convergence Targets: Performance and Policy Issues, Funded by the Trade and Economic Development Component implemented by GFA Consulting Group under the GTZ Program to Strengthen the SADC Secretariat

SADC Secretariat (2003), Draft Regional Indicative Strategic Development Plan

Tavlas, G. S., (1993), "The 'New' Theory of Optimum Currency Areas", The World Economy, 16 (6), 663-685

Tavlas (2007), The Benefits and Costs of Monetary Union in Southern Africa: A Critical Survey of Literature, South African Bank Working Paper, South African Reserve Bank

te Velde, D. W., Meyn, M., (2008), Regional Integration in African, Caribbean and Pacific countries: A review of the literature, The study is supported by the European Commission, DG Development

Tjirongo, M. T., (1995), "Short-Term Stabilisation Versus Long-Term Price Stability: Evaluating Namibia's Membership of the Common Monetary Area", Centre of the Study of African Economies, WPS/95-18, Oxford

United Nations National Accounts Main Aggregates Database
http://unstats.un.org/unsd/snaama/resCountry.asp

Verner, D., (1999), The Macro Wage-Curve and Labor Market Flexibility in Zimbabwe, Policy Research Working Paper 2052, The World Bank, Washington, D.C
What are the arguments for and against joining the Euro

Zwizwai, B., (2007), Regional Integration in Southern Africa, Deepening Integration in SADC, Zimbabwe – Missing SADC Macroeconomic Targets, Vol. 10, A study conducted for the Friedrich Ebert Foundation, IDS

Zwizwai, B., (2007), Regional Integration in Southern Africa, Vol. 10, Deepening Integration in SADC, Zimbabwe – Missing SADC Macroeconomic Targets, A study conducted for the Friedrich Ebert Foundation, IDS

7   APPENDICES

Table 4: Major Export Products for SADC Countries

	Year	Exports	Share of Total Exports
Angola	2003	Crude oil	89.7
		Diamonds	8.3
		Refined petroleum products	1.4
		Total	99.4
Botswana	2005	Diamonds	72
		Copper nickel	9.8
		textiles	4.7
		Total	86.5
DRC	2004	Diamonds	45.7
		Crude oil	19.9
		cobalt	13.8
		Total	79.3
Lesotho	2005	Clothing	65.4
		Diamonds	15.4
		Machinery`	3.8
		Total	84.7
Madagascar	2004	Vanila	46.3
		Shell fish	18.6
		Cloves	10.5
		Total	75.4
Malawi	2003	Tobacco	53
		Tea	18.6
		Sugar	10.5
		Total	75.4
Mauritius	2004	Sugar	85.8
		Chemicals	3.3
		Cut flowers	0.9
		Total	90
Mozambique	2004	Aluminium	60.8
		Electricity	6.8
		Prawns	6.1
		Total	73.7
Namibia	2004	Diamonds	45.2
		Other manufactured products	16

		Fish	9.8
		Total	71
South Africa	2006	Monetary gold	8.2
		Bituminous coal	4.7
		Platinum	4.2
		Total	17
Swaziland	2003	Edible concentrates	55.1
		Cottonseed and lint	15.9
		Wood pulp	12.9
		Total	83.8
Tanzania	2004	Gold	49.6
		Fish and products	10.5
		Total	60.1
Zambia	2004	Copper	58.3
		Nonmetal exports	25.7
		Cobalt	16
		Total	100
Zimbabwe	2004	Gold	15.6
		Tobacco	13.5
		Ferrous alloys	11
		Total	40.2

Source: International Monetary Fund Recent Economic Developments (various issues)

Table 5: SADC Macro-economic Convergence Targets vs Actual Performance, 2005 - 2009

	Inflation			Fiscal Deficit			External Debt			Current Account Balance			GDP growth		
	2005	2008	2009	2005	2008	2009	2005	2008	2009	2005	2008	2009	2005	2008	2009
Angola	18.5	13.7	14	7.3	8.8	-7.3	23.8	9	13.6	16.8	7.5	-3.3	20.6	13.2	-0.4
Botswana	11.3	13.7	5.8	6.9	-2.8	-9.1	3.9	2.7	11.9	15.2	4.9	-5.1	1.6	3.1	-6
DRC	21.3	27.6	52.3	-3.8	0.4	-4.4	152.9	97.5	101.5	-10.4	-15.9	-13.1	7.9	6.1	2.8
Lesotho	3.5	10.6	5.1	5.2	5.3	0.3	50	42.6	42.6	-7.9	9.6	-1.5	1.1	4.5	1.4
Madagascar	11.5	10.1	8	-4.3	-2.1	-3.5	69.8	23.7	30	-10.6	-20.5	-16.8	4.6	7.1	-5
Malawi	16.6	9.93	7.6	-1.3	-5.4	-5.3	108.3	17.4	19.7	-15.4	-9.9	-7.9	3.3	9.4	8
Mauritius	3.9	6.8	1.5	-5.1	-3.5	-3.4	13.1	12	12.5	-5.2	-10.4	-8.2	1.5	4.2	1.5
Mozambique	11.1	6.2	4.2	-2.8	-2.5	-5.6	70.7	21.4	27.8	-11.6	-11.9	-11.9	8.7	6.7	6.3
Namibia	3.5	10.9	7	-0.5	3.3	-4.7	4.4	4.2	8.2	4.7	2.7	-2.2	2.5	3.3	-0.7
South Africa	3.6	9.5	6.3	0	-1.9	-6.1	2	1.8	1.8	-3.5	-7.1	-4	5.3	3.7	-1.8
Swaziland	6.3	12.9	5.4	-2.6	1	-6.3	12.5	11.8	12.9	-4.1	-4.1	-6.3	2.2	2.4	0.4
Tanzania	5	13.4	12.1	-5.2	-5.1	-6	41	14.3	17.8	-4.1	-9.8	-9.4	7.4	7.4	5.5
Zambia	15.9	16.6	9.9	-2.8	-1.5	-3	57.5	8.7	12.9	-8.4	-7.1	-3.3	5.3	5.7	6.3
Zimbabwe	237.8	231 mn	-7.7	-10.4	-3.2	-1.7		112.3	1000.1	-13.2	-24	-30.1		-14.8	4
SADC				0.2	-0.7	-6	13.5	7.8	9.1	-1.7	-4.7	-4.9	6.7	5.4	-0.6
SADC Macroeconomic convergence targets	Single digit inflation by 2008			Deficit smaller than 5% by 2008			Less than 60% of GDP			Deficit not wider than 9% of GDP			Not less than 7%		

Source: RISDP and Regional Economic Outlook: Sub-Saharan Africa, April 2010, International Monetary Fund

Table 6: COMESA Macro-economic Convergence Targets vs Actual Performance, 2005 - 2009

	Inflation			Fiscal Deficit			External Debt			Current Account Balance			GDP growth		
	2005	2008	2009	2005	2008	2009	2005	2008	2009	2005	2008	2009	2005	2008	2009
Burundi	1	25.7	8.5	-5.2	-0.8	61.4	182	126	26.4	-1.2	-12.2	-12.2	0.9	4.5	3.5
Comoros	7.2	7.4	2.2	0.1	-2.5	0.8	67.7	50.2	50.8	-7.2	-11.6	-5.1	4.2	1	1.1
DRC	21.3	27.6	52.3	-3.8	0.4	-4.4	152.9	97.5	101.5	-10.4	-15.9	-13.1	7.9	6.1	2.8
Eritrea	18.5	30.2	30.2	-22.2	-21.1	-14.7	65.7	61.9	47.8	0.3	-5.5	-5	2.6	-9.8	3.6
Ethiopia	13	55.3	2.7	-4.4	-2.9	-0.9	48.2	10.6	13.5	-9.1	-5.6	-5	12.6	11.2	9.9
Kenya	7.6	13.8	11.5	-3	-3.6	-4	28.9	20.5	21.2	-0.8	-6.9	-6.2	5.9	1.5	2.1
Madagascar	11.5	10.1	8	-4.3	-2.1	-3.5	69.8	23.7	30	-10.6	-20.5	-16.8	4.6	7.1	-5
Malawi	16.6	9.93	7.6	-1.3	-5.4	-5.3	108.3	17.4	19.7	-15.4	-9.9	-7.9	3.3	9.4	8
Mauritius	3.9	6.8	1.5	-5.1	-3.5	-3.4	13.1	12	12.5	-5.2	-10.4	-8.2	1.5	4.2	1.5
Rwanda	5.6	22.3	5.7	0.9	1	-2.3	58.3	14.4	13.9	1	-4.9	-7.2	9	11.2	4.1
Seychelles	1.6	63.3	-2.5	0.7	-1	2	36.7	31.7	29.5	-19.7	-44.7	-23.1	5.8	-0.9	-7.6
Swaziland	6.3	12.9	5.4	-2.6	1	-6.3	12.5	11.8	12.9	-4.1	-4.1	-6.3	2.2	2.4	0.4
Uganda	10.7	12.5	12.3	-0.6	-3	-2.1	47.9	12.2	14.6	-1.4	-3.2	-4.8	6.3	8.7	7.1
Zambia	15.9	16.6	9.9	-2.8	-1.5	-3	57.5	8.7	12.9	-8.4	-7.1	-3.3	5.3	5.7	6.3
Zimbabwe	237.8	231 mn	-7.7	-10.4	-3.2	-1.7		112.3	1000.1	-13.2	-24	-30.1		-14.8	4
COMESA	...	...	...	-0.7	0.5	-3.8	43.7	17.1	20						
COMESA Macro-convergence targets	Inflation not exceeding 5%			Budget deficit of not more than 5%			Less than 60% of GDP			Deficit not wider than 12% of GDP			Not less than 7%		

Source: Regional Economic Outlook: Sub-Saharan Africa, April 2010, International Monetary Fund

CONDITIONSFORADOPTINGASINGLECURRENCYINSADCA

rdgraphix