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REGIONAL ECONOMIC INTEGRATION IN AFRICA: BENEFITS FOR LESOTHO

The move towards regional economic integration in Africa continues to gain momentum. For instance, the recent implementation of the SADC free trade agreement marked an important step towards further regional unification in the SADC region. This has profound implications on the economies concerned such as Lesotho……………

Introduction

Regional economic integration is the coming together of two or more economies through joint preferential trade agreements. Although the issue of regional integration has a long history in Africa (way before attainment of independence in many countries), recent interest in the formation of regional blocs has been rekindled by the successful launch of the European Monetary Union (EMU). Similarly, the African Union (AU) has, as one of its top priorities, the establishment of an African Monetary Union (AMU) by 2021. This goal would be achieved via establishment of regional blocs, as a first step, which would at a later stage be merged to form AMU. On the one hand, one of the key reasons to form regional economic blocs in Africa is to counter possible marginalization of small economies by big ones. On the other hand, African policy makers hope that regionalism can serve as a remedy for problems encountered by underdeveloped markets in least and less developed economies.

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But a key question that remains is: what are the benefits and costs for countries participating in regional economic blocs; do costs outweigh benefits?

Lesotho participates in three regional economic blocs, namely, Southern African Customs Union (SACU), Common Monetary Area (CMA) and Southern African Development

Community (SADC). Thus it is instructive to ask: what are the benefits for Lesotho in taking part in these regional arrangements? This paper aims at providing a brief discussion on regional economic integration in Africa, and in particular to gauge the benefits accruing to Lesotho for participating in these regional arrangements. The benefits for Lesotho are assessed with reference to the abovementioned regional economic blocs in Southern Africa. Amongst the key milestones is the recent implementation of the SADC free trade agreement which marked a crucial step towards deeper economic integration in Southern Africa. In addition, SADC, through the formation of the Committee of Central Bank Governors (CCBG), envisages to have a common SADC Central Bank in place by 2016. Therefore, it is important to also assess the expected benefits for Lesotho in that respect.

Why Regional Economic integration?

In discussing regional economic integration, an appropriate and logical question would be: why is there so much interest in regional integration, or put differently, what is the economic rationale behind regional integration? The Economic Commission for Africa (ECA) (2004) summarizes the gains from regional integration as follows: first, it is often argued that regional integration encourages competition among producers and also leads to gains in economies of scale. Second, integration would boost overall investment by reducing distortions and enlarging markets. Third, through regional integration, countries can enhance their international bargaining power. Thus, regional integration can contribute to economic growth.

Regional Economic Integration in Southern Africa

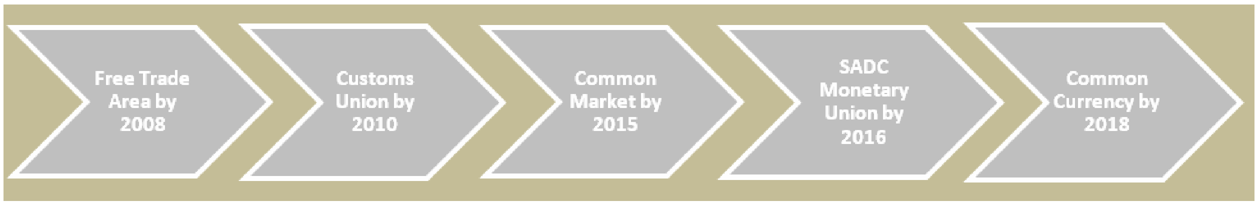
Regional economic integration is at a fairly advanced stage in Southern Africa, with both the CMA and SACU having been in existence for quite a long period. SACU, the oldest customs union in the world, comprises Botswana, Lesotho, Namibia, Swaziland and South Africa. SACU has benefited its members tremendously over the years. Intra-SACU trade is high, allowing small members to enjoy high quality imports. In addition, SACU revenue from the common eternal tariff form a large part of government revenue, usually more than 50 percent of total revenue in the LNS countries.

The CMA comprises all the SACU members excluding Botswana. The currencies of the LNS countries are pegged one-for-one with the South African currency, the rand. The CMA has a very long history as it was in existence even prior to the establishment of the SARB in 1921, although at that time the arrangement was highly informal.

The other regional economic bloc is SADC, which comprises Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Swaziland, South Africa, Tanzania, Zambia and Zimbabwe. SADC was initially created with the goal of reducing economic dependence on

SA during the apartheid era. However, following the transformation of the organization in 1992, the key goals of the organization were to achieve development and economic growth, and to alleviate poverty through regional integration. SADC now follows a linear model in its endeavor to attain regional integration. As *figure 1* depicts SADC aims at achieving a free trade area by 2008, a customs union by 2010, a common market by 2015, a monetary union by 2016 and adoption of a common currency in 2018.

Figure 1



Are there Benefits for Lesotho?

As earlier highlighted, the benefits for Lesotho are assessed in relation to the three economic blocs that Lesotho participates in; the CMA, SACU and SADC.

Discussion of Benefits under SACU and CMA

Under the CMA and SACU arrangements, the most important benefit that Lesotho reaps is the bulk of imports of goods and services from other members especially South Africa, motivated by the one-to-one exchange rate between member countries. These imports have a positive spillover effect on the rest of the economy. SA accounts for about 85 percent of LNS countries imports, which are free from tariffs and barriers to trade. Furthermore Lesotho benefits through importation of the credible SA's monetary policy. However, it can be argued that since the CMA is not a fully fledged monetary union, Lesotho bears a cost through lack of monetary policy autonomy. Under a fully fledged monetary union, all countries surrender control over their monetary and exchange rate policies to a regional (common) central bank. Since monetary policy decisions are to a larger extent determined solely by the South African Reserve Bank (SARB), other CMA members stand to lose because South African monetary authorities undertake decisions that suit their own economic circumstances, not what obtains in other CMA member countries. However, there are some mitigating factors in that, generally, the economies of CMA countries tend to respond to external shocks in a similar manner.

The CMA countries have since recognized the fact that the benefits of the CMA can be maximized by moving towards a fully fledged monetary union. Under such an arrangement, SA would have to give up control over monetary policy and this is likely to have positive effect on Lesotho's economy. The recent shocks (both oil prices and drought) bear testimony to the magnitude of the costs to the member economies, as Lesotho cannot independently absorb the shocks. The other cost Lesotho is exposed to under the CMA arrangement is loss of seignorage revenue through co-circulation of the rand in the member countries. Although the SARB compensates the CMA countries for the forgone seignorage, it is not yet established if the compensation fairly approximates the forgone seignorage revenue.

Discussion of Benefits under SADC

In discussing the benefits that Lesotho gets in the SADC region, reference it made to trade integration efforts in SADC, in particular, the FTA that has been implemented recently. Furthermore, the other important economic integration that SADC envisages to achieve is establishment of a monetary union in the SADC region. CCBG has already been established to facilitate achievement of the goal.

A logical question to ask, in this regard, is: what would be the benefits for Lesotho from joining the envisaged SADC monetary union? There are several benefits that Lesotho can get from such a monetary union. First, a common central bank would be independent of government influence. This, in turn, would foster discipline on fiscal policies or provide an 'agency of restraint' for them. Second, adopting a common currency reduces transactions costs in the region because trade no longer entails conversion of currencies by the individual countries. However, for Lesotho to fully reap the benefits, it would have to diversify its production base.

On trade integration, Lesotho will reap the following benefit from the FTA: Lesotho can acquire new markets, especially for manufactured goods in SADC. Moreover, given relatively cheap labour cost in Lesotho, goods from Lesotho are likely to be more price-competitive in the SADC region. The market creation would also increase employment prospects. However, elimination of tariffs would imply a squeeze on tax revenue, more so given that smaller economies such as Lesotho rely heavily on customs revenue due to their limited sources of revenue. Furthermore, the extent of the benefit from the trade integration efforts would depend on whether trade creation is greater than trade diversion.

Conclusion

The paper attempts to examine regional economic integration efforts in Africa, and in particular to gauge the benefits that Lesotho reaps from participating in the regional economic blocs in Southern Africa. The paper further discusses the benefits, to Lesotho, that result from its membership in CMA, SACU and SADC. It is found that the benefits that accrue to Lesotho through its participation in these regional blocs, by and large, outweigh the costs.

2. Money Laundering and Economic growth

Introduction

Poverty poses an enormous challenge to many countries across the globe, particularly those in the developing world like Lesotho. According to the 2006 Household Budget Survey, there is an improvement in poverty between 1994/95 and 2002/03 in Lesotho. Nonetheless, the report indicates that poverty remains a major problem because 50.2 percent of the households were below the poverty line in 2002/03. Consequently, the Government adopted a pro-poor growth strategy.

One of the crucial pillars of economic growth is financial development. Finance provides the funds that are necessary for fostering robust economic activity. However, the impact of financial development on growth can be undermined by the prevalence of money laundering. Thus anti-money laundering legislation was put in place in Lesotho as an attempt to combat it. This article discusses the role that money laundering plays in retarding economic growth, as well as the importance of putting in place anti-money laundering policies to discourage it.

Money laundering hinders capital formation

Money laundering is defined as any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources. This is actually "washing" of dirty money through financial institutions. Thus funds or assets obtained or generated by criminal activity are moved or concealed to obscure their link with criminal acts. Purchases and sales of goods and services at point of sale (POS) using cash bear no identity of the buyer or seller. As such, there is no audit trail of transactions with suspicious customers in a case where they do not operate bank accounts.

Money laundering erodes financial institutions, which are crucial for economic growth. It diverts resources and encourages crime and corruption which impede economic growth and development. Tax evasion becomes rampant due to under-reporting of income with a consequence of reduced tax revenue.

The effects of money laundering can be severely detrimental to the macro economy. For example, due to unpredictable changes in money demand, money laundering poses a huge threat to the soundness of the financial system, and contaminates legal financial transactions. As a repercussion of unanticipated cross-border transfers, severe increases in volatility of international capital flows may ensue. It can have a dampening effect on foreign direct investment if a country's commercial and financial sectors are perceived to be driven by criminal activities.

Money Laundering and economic growth, and poverty

It has been argued in the foregoing that money laundering hurts economic growth by undermining financial intermediation. If poverty responds to growth and changes in income distribution then such growth is pro-poor. Strong financial intermediation fosters robust economic growth, hence reduces poverty. It is noteworthy that economic growth is a necessary but not a sufficient condition for poverty reduction. Economic growth accompanied by progressive distributional changes is fundamental to poverty reduction.

Money laundering may lead to formulation of inappropriate policies arising from errors of measurement in macroeconomic statistics. Tax evasion precipitates enormous revenue losses which directly reduce the pool of available resources, therefore, can undermine government's efforts to provide services, and finance programs that are geared to poverty reduction. It also has the potential to introduce market failure because businesses that fulfill their tax obligations face unfair competition from those that do not.

Conclusion

A brief expose of the erosive effects of money laundering on the economy .

has been made in this article. The developing world is attractive to money laundering due to the weak regulatory framework. The adverse impact of this phenomenon warrants attention. The Government of Lesotho has, by enacting anti money laundering laws, taken a first step in the right direction. It is important to:

- strengthen international co-operation on information exchange and law enforcement;
- embrace proper mechanisms for handling suspicious reports;
- encourage a compliance culture among financial institutions, and to ensure that they put proper systems and procedures in place;
- encourage financial supervisors to apply bank licensing procedures strictly, exchange information, and provide adequate training to practitioners;
- increase public awareness of the threat from money laundering;
- enhance co-ordination between the multiple agencies (national and international) involved and to improve the limited intelligence sharing.

3. Selected Monetary and Financial Indicators

	2008		
	July	**August**	**Sept**
1. Interest rates (Percent Per Annum)			
1.1 Prime Lending rate	*16.58*	*16.58*	*16.58*
1.2 Prime Lending rate in RSA	*15.50*	*15.50*	*15.50*
1.3 Savings Deposit Rate	*5.28*	*5.28*	*5.28*
1.4 Interest rate Margin(1.1 – 1.3)	*11.30*	*11.30*	*11.30*
1.5 Treasury Bill Yield (91-day)	*9.94*	*9.94*	*10.01*
2. Monetary Indicators (Million Maloti)			
2.1 Broad Money (M2)	*4337.04*	*4375.75*	*4378.56*
2.2 Net Claims on Government by the Banking System	*-4677.78*	*-4346.04*	*-3939.21*
2.3 Net Foreign Assets – Banking System	*10189.05*	*10021.10*	*9891.51*
2.4 CBL Net Foreign Assets	*8007.13*	*7791.54*	*7766.18*
2.5 Domestic Credit	*-3151.06*	*-2786.73*	*-2404.32*
2.6 Reserve Money	*572.17*	*581.73*	*723.49*
3. Spot Loti/US$ Exchange Rate (Monthly Average)	***7.6272***	***7.6680***	***8.0599***
4. Inflation Rate (Annual Percentage Changes)	***10.5***	***11.2***	***12.1***
5. External Sector (Million Maloti)	***2007***	***2008***	
	QIV	***QI***	***QII***
5.1 Current Account Balance	*328.65*	*507.48*	*824.12*
5.2 Capital and Financial Account Balance	*-83.21*	*330.96*	*117.74*
5.3 Reserves Assets	*-116.19*	*-774.19*	*-165.33*

+These indicators refer to the end of period. Prime and deposit (savings) rates are averages of all commercial banks' rates operating in Lesotho. The Statutory Liquidity Ratio in Lesotho is 25 percent of commercial banks' short-term liabilities