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Storming, Norming, Performing – Implications of the Financial Crisis in Southern Africa

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Abstract

Southern Africa seems to be a remote region. Far away from stock market crashes, bank runs and toxic assets, one might assume at first sight that the financial crisis would hit the developing and least developed countries less hard. Yet, reality tells a more ambivalent story, as Southern African states have been affected in different ways and have found specific ways of dealing with the consequences of the financial crisis. This article explores implications of the financial crisis on the Southern African Development Community (SADC), a supra-national community in Southern Africa, which has undergone massive liberalisation and restructuring processes during the last decade. Factors such as

- trade policy norms (liberal trade policies versus protectionist trade policies),
- economic diversification and integration (world market versus regional markets, namely South-South cooperation),
- political and regulative capacity (good governance versus weak governance)

shape the vulnerability, capability and performance of SADC states and allow for certain policy strategies – be it State Keynesianism, South-South cooperation, incrementalism or regional integration. The cases of South Africa, Angola and Botswana serve as examples for different forms of managing, regulating and interpreting the financial crisis and its consequences.

A. Introduction

Southern Africa seems to be a remote region. Far away from stock market crashes, bank runs and toxic assets, one might assume that the financial crisis would hit the developing and least developed countries less hard. In fact, the implications for Southern African states may be less noticeable, but by no means less direct. Onflow effects such as limitations on regulative capacity, decreasing governmental revenues, highly volatile prices for mineral and agricultural resources and declining foreign direct investment all pose threats for vulnerable developing countries. Acknowledging that trade policy paradigms such as classical trade liberalism or respectively protectionism have already been losing trust and compliance, this ‘normative vacuum’ in trade policies has been widened due to the financial crisis. Neither the protectionist trade policy paradigm of Lomé nor its liberalised version negotiated in the policy process for Economic Partnership Agreements are able to offer a coherent response in the current situation. Thus, Southern African states find themselves choosing between the old recipes of trade liberalisation and world market integration on the one hand, and potential strategic alternatives such as South-South cooperation and regional integration on the other. For some states, intensified South-South cooperation allows for a re-interpretation of economic policy and gives way to alternative development paths in order to overcome the worst effects. At the same time, other states experience only limited policy space due to the path dependencies of classical North-South trade relations.

My paper focuses on the implications of the financial crisis on the Southern African Development Community (SADC), a supra-national community in Southern Africa, which has undergone massive liberalisation and restructuring processes during the last decade. In the course of policy processes hitherto, for instance during the negotiations for Economic Partnership Agreements with the European Union, the EU has acted as a "normative power"[1] pushing forward market liberalisation and beyond-border measures. Following this impetus, nearly all SADC states have started to cut down tariffs and quotas, while some even began to liberalise capital movements, investment conditions and service sectors. Yet these paradigmatic policy changes towards market liberalism have been contested in the SADC region. Market-opening policies eventually found the consensus of most SADC states, following a long period of lobbying and policy pressure imposed by the EU's Directorate-General for Trade. Although any beyond-border policies were adamantly refused by SADC, on an individual basis, some policy transfer towards this kind of "deep trade integration"[2] has taken place. However, this economic transition is still in the implementation stage. Thus, in the current situation the financial crisis not only has a severe economic impact on the SADC region, but also influences policy-making on the discursive and normative level. The cases of SADC states such as South Africa, Angola and Botswana can serve as examples for different forms of managing, regulating and interpreting the financial crisis and its consequences. Factors such as

- normative aspects (liberal trade policies versus protectionist trade policies),

1 I. Manners, 'Normative Power Europe: A Contradiction in Terms?', 40 *Journal of Common Market Studies* (2002) 2, 235–258.

2 R.Z. Lawrence, *Regionalism, Multilateralism and Deeper Integration* (1996), 10-20.

- economic diversification and integration (world market versus regional markets, namely South-South cooperation),
- political and regulative capacity (good governance versus weak governance)
- shape the vulnerability, capability and performance of SADC states dealing with the crisis and allow for certain policy strategies – be it State Keynesianism, South-South cooperation, incrementalism or regional integration.

In the next sections, my aim is to give an overview of the implications the financial crisis has had for South Africa, Botswana and Angola. This is followed by an analysis of the policies these states chose as a response to the financial crisis, and by a look at the activities happening on the regional level. Theoretically, my paper is situated in the field of International Relations and Public Policy Analysis and uses elements of argumentative discourse analysis[3] in order to identify relevant trade policy discourses, their structures and the discourse coalitions that represent and articulate them. Drawing on policy analysis theorist John W. Kingdon, I take the financial crisis as a "policy window"[4] that allows for rapid policy changes amidst an otherwise incremental policy development process – at least if "policy entrepreneurs"[5] use the window in order to push forward their agenda and their specific policies. Earlier policy windows had paved the way for certain transfers of liberal norms and ideas from the EU to the ACP states – processes in which the EU played the role of a "policy entrepreneur", using normative power in order to liberalise external trade and export certain liberal, social and environmental norms. Certain policy narratives and storylines, such as 'world market integration' or full reciprocity' have gained relevance since the end of the Lomé era. They now offer distinctive interpretations of trade relations, and are increasingly shared by the different European and Southern African members of the discourse coalitions that shape the EU-ACP / EU-Africa relations. At the same time, the so-called 'Spirit of Lomé' and its ideas of non-reciprocity, non-alignment, protectionism and stable terms of trade has lost its meaning and can no longer serve as a discursive bridge within North-South relations. These political and discursive transfers have until now been only partly successful and have led to a

3 M. A. Hajer, *The Politics of Environmental Discourse - Ecological Modernization and the Policy Process* (1995), Chapter 2.
4 J. W. Kingdon, Agendas, *Alternatives and Public Policies*, 2nd ed. (2003), 166-170.
5 *Id*., 179-183.

patchwork of policies that lacks coherence. Yet, the current state of crisis has created a 'normative vacuum' that remains to be filled. The question that is still open is which norms, ideas and concrete policies will be the ones that prove to offer strategic alternatives in times of crisis.

B. Liberalising Goods, Trading Norms – EU-Africa Trade Relations

Many Southern African states underwent a massive economic transformation during the 1990s. Following the end of the Cold War and its geostrategic shifts, the European Union's search for a new role in its foreign policies made way for a thorough reform of the relations between the EU and its former colonies in Africa, the Caribbean and the Pacific islands. Both the European Union and rising powers such as the BRIC states[6] changed their geostrategic interests with a focus on agrarian and mineral resources from Sub-Saharan Africa. Yet up until now, duty obligations, import quotas and limited freedom of establishment formed hindrances for foreign investors. A shift took place from trade protectionism, which had been the dominant policy paradigm in the era of the Lomé[7] and Yaoundé[8] Conventions between 1963 and 1998, towards market liberalism, but only in the form of incremental policy changes. The search for a new trade policy paradigm between the EU and the ACP countries (later with a specific focus on Southern African countries) started with the Mid-Term Evaluation of Lomé IV[9] in 1995. The results gave credence to the assumption that the protectionist trade policies had neither been successful in integrating the ACP states into the world economy, nor in creating a stimulating environment for regional integration[10]. Furthermore, the results of the Uruguay Round and

6 The Acronym 'BRIC' stands for the four 'rising powers' Brazil, Russia, India and China. It was first introduced in 2001 in an analysis of the consulting agency Goldman Sachs, which focused on changes in international and external trade relations.

7 *Lome I*, 28 February 1975,, 14 I.L.M. (1975), 595; *Lome II*, 31 October 1979, 19 I.L.M. (1980) 327; *Lome III*, 8 December 1984,:24 I.L.M. 571 (1985); *Lome IV*, 15 December 1989,: 29 I.L.M. 783 (1990).

8 *Yaoundé II -Convention d'association entre la Communauté économique européenne et les Etats africains et malgache associés à cette Communauté*, 29 July (1969), Council of Europe: European Yearbook, Vol XVII/1969, 521–587.

9 *Lome IV*, *supra* note 7..

10 R. Kappel, 'Die Entwicklungskooperation zwischen Europa und den AKP-Staaten – Eine entwicklungspolitische Bewertung der Folgen des Lomé-Modells' in: M.A. Ferdowsi (Ed.), *Vom Enthusiasmus zur Ernüchterung? Die Entwicklungspolitik der Eu-*

the establishment of the WTO also allowed for a more critical look at trade protectionism. Here, the articles 1 and 24 of the General Agreement on Tariffs and Trade (GATT)[11] form the basis for liberal trade policies. Specifically, the GATT states that any preferences given by WTO members to others must either be non-discriminatory (Art. I) or fully comprehensive and reciprocal in order to qualify as a customs union or free trade area (GATT Art. XXIV). Following changes in firm preferences towards an aggressive export orientation in the 1980s, an "embrace of liberal ideas", especially at the Directorate-General for Trade, has emerged in the mid-1990s.[12] It led to the adoption of the Cotonou Agreement[13] in 2000. Being an agreement full of ambiguities, Cotonou functions as a discursive bridge between the former 'Spirit of Lomé' and the yet-to-be-realized Economic Partnership Agreements. As it focuses both on liberal trade policies, especially on the idea of reciprocal liberalisation, and on developmental and social issues, it bridges the gap between the consistent aspects of those ideas and seeks to achieve a compromise between the different bundles of liberal, social and developmental norms. First of all, the Cotonou Agreement extends the classical aims of liberal trade policy ideology to ACP-EU relations. The preamble speaks of a "smooth and gradual integration into the world market economy"[14] and thus strives for a non-reciprocal trade agreement compatible with GATT Art. XXIV. Second, the concept of "deep trade integration"[15] for the first time is embedded into a framework agreement with developing countries. This concept goes 'deeper' than classical trade liberalisation does, as it espouses trade policies that do not aim just at trade distorting measures occurring at the border, such as tariffs, taxes and quotas, but places emphasis on harmonising trade issues 'beyond borders', such as the liberalisation of services, investment conditions, public procurement and the establish-

ropäischen Union. Arbeitspapiere zu Problemen der Internationalen Politik und der Entwicklungsländerforschung, No. 27/1999, Forschungsstelle Dritte Welt, Ludwig-Maximilians-Universität München (1999), 23.

11 1867 U.N.T.S. 187.

12 A. R. Young, 'Trade Politics Ain't What It Used to Be: The European Union in the Doha Round', 45 *Journal of Common Market Studies* (2007) 4, 789-811.

13 *Partnership Agreement Between the Members of the African, Caribbean And Pacific Group of States of the one Part, And The European Community And Its Member States, of the other Part*, 23 June 2000, OJ L317/3 [*Cotonou Agreement*].

14 *Id.*, Art. 34.

15 R. Z. Lawrence, *supra* note 2, 10-20.
K. C. Shadlen, 'Exchanging development for market access? Deep integration and industrial policy under multilateral and regional-bilateral trade agreements', 12 *Review of International Political Economy* (2005) 5, 750–775.

ment of strict intellectual property rights. As all of these measures influence the national sovereignty of states and the freedom to define one's own trade policy agenda, the so-called 'beyond-border issues' have not found their way on the WTO agenda, due to strong opposition by developing countries. Thus, they have been re-introduced in bilateral negotiations for free trade treaties. Third, Cotonou also focuses on environmental and social issues such as labour standards, consumer policies and environmental issues.

Technically speaking, Cotonou paved the way for the still-ongoing negotiation process for Economic Partnership Agreements (EPAs) between the EU and the ACP States. These agreements aim at creating another trade regime that allows for more coherence between trade and developmental policies – hence resulting in a 'mainstreaming' of market liberal norms and ideas. Here, the shift towards reciprocal and progressive liberalisation and the "smooth and gradual integration into the world economy"[16] became clearer. The mandate of the EU Commission for the EPA negotiations reveals a concretisation of the diffuse "cocktail of ideas and interests"[17] that characterised Cotonou. The EPA agenda confirms the classical liberal aim to foster the smooth and gradual integration of ACP States into the world economy and takes regional integration as a key instrument for the integration of ACP countries into the world economy.[18] At the same time, it indicates that from a European perspective, compatibility with WTO standards as such is not sufficient. In fact, the free trade agreement with the ACP states is anticipated to go beyond WTO provisions, as the concept of progressive and reciprocal liberalisation had been carefully chosen in order not only to underline compliance with WTO rules as a minimum, but also to reaffirm the intrinsic dynamics of liberalisation. Also in the EPA negotiations, the 'deep integration agenda' was made more concrete, but remained contested, especially among African ACP states. Due to their objections, only interim free trade agreements with a number of African states including most SADC states were initialled between December 2007 and June 2008. They now pave the way for the irrevocable abolition of

16 *Cotonou Agreement, supra* note 13.

17 J. Orbie, 'The European Union's Role in World Trade: Harnessing Globalisation?', in J. Orbie (ed.), *Europe's Global Role. External Policies of the European Union* (2008), 35-66.

18 Draft SADC: Economic Partnership Agreement between the SADC Group of States, of the one part, and the European Community and its Member States, of the other part; Draft EC consolidated proposal, June 2007, available at http://www.bilaterals.org/IMG/doc/280m-07_EC-SADC_EPA_draft_consolidated_June_2007-2.doc (last visited 22 March 2010).

tariffs and quotas, and also contain tight schedules for the opening of service sectors, investment conditions and capital movements. Regarding the normative and discursive dimension, they function as the concrete result of a partly successful normative transfer. Following a 15-year process of political communication and policy entrepreneurship, the market liberal norms of ‘full reciprocity’ and ‘smooth and gradual world market integration’have been finally transferred into the political agendas of several ACP states, but are yet to be implemented into concrete policies.

C. Regional Context: Integration and Liberalisation Processes in the SADC Region

These shifts in economic and foreign policy interests, and the associated processes of trade liberalisation in Sub-Sahara Africa and especially in the SADC region altogether, influence the political positioning and vulnerability of SADC states in the current situation of financial crisis. These developments can best be explored by taking a closer look at the SADC region. SADC is a regional supranational community that was established in 1992, in order to strive for closer regional and political integration in Southern Africa.[19] It encompasses both developing countries such as South Africa, Namibia, Botswana and Mauritius, and some of the world’s poorest countries, e.g. Tanzania or Malawi. States like Angola are extremely export-dependent, while others such as South Africa have a highly diversified economy. Some SADC countries like South Africa, Botswana or Mauritius have been stable democracies for the last 15 years, whereas the Democratic Republic of Congo and Zimbabwe can be labelled as ‘failing states’. These regional disparities, together with high differences in wages, education, health, prosperity and political stability, mean that conflicts between economic and developmental policies affect the way and pace of integrating national policies.

Despite these diversities, SADC has always put strong emphasis on regional integration, yet from a quite functionalist and abstract perspective, which was often limited to mere lip service. In the SADC charter the member states commit themselves to equal treatment, support of freedom and security, promotion of universal human rights and democracy. The main

19 Member states are: Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

objective of the cooperation lies in the establishment of liberal democracies and a single market, although this transformation should bear more policy space and domestic regulative capacities than the typical structural adjustment programmes or WTO obligations had intended. While cooperation focused mainly on infrastructural issues during SADC's early years, trade and financial policies as well as security issues have been the subject of intense debate during the last couple of years, and have resulted in a number of treaties with a set of shared norms and ideas. In the field of trade policies, the SADC states agreed on the implementation of two far-reaching development plans: the Regional Indicative Strategic Development Plan aims at the creation of a customs union and a single currency by 2018. Tariffs should be abolished for 85% of internally traded goods by 2010. A free trade area has been proclaimed in 2010; an extension to the East African regional communities, East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA), is underway. Another common initiative encompasses finance and investment policies. The SADC Protocol on Finance and Investment came into force in August 2006. Its objective is to enhance the attractiveness of the region for foreign investors through further liberalisation and deregulation. Therefore a number of measures have been scheduled:

- anti-corruption strategies
- deregulation of capital movements
- banking supervision in the SADC region
- harmonisation of financial and monetary policies
- centralised coordination of taxation
- common investment policies on the supra-national level.

At this point, the implementation of this protocol is not yet completed. A coordinated collaboration exists only in the field of banking supervision, where the SADC Subcommittee of Bank Supervisors serves as a common supranational institution. In general terms, commitment for regional integration and common trade and financial policies in SADC has grown, but concrete outcomes are still low. Openness to regional integration has increased, but the pace and extent are still controversial issues. The diversity of the region, for example regarding conflicts between import-oriented and export-oriented countries, limits the possibility of compromise.

In the field of external trade policies, SADC countries have acted in even more diverse and ambiguous ways, reflecting the still-weak integration, and leading to higher vulnerability of the region as a whole. The history of bilateral negotiations with the EU evidences a destabilisation in shared interests, norms and ideas during the last couple of years. For the EU, SADC is of particular strategic and economic interest. Following the Lomé era, the EU's search for a new external identity that reflects the EU's global role and "normative power"[20] resulted in stronger offensive and defensive economic and strategic interests for this region. This encompasses resources such as copper, gold, platinum, uranium and coltan, but increasingly also the service sector, such as financial and telecommunications industries as well as biofuels. At the same time, the EU – especially the Directorate-General for Agriculture and Rural Development, or DG Agri – holds a protectionist agenda, due to highly competitive agricultural goods such as sugar, wine, beef, fruits and vegetables exported by the SADC.[21] This increased interest is visible not only in the field of changing trade policies, but also regarding concrete monetary flows. Foreign Direct Investment (FDI) in the SADC region had been constant between 1995 and 2000, but has been continuously rising since then. In the years 2007 and 2008 FDI flows were higher than the annual official development aid flows.[22] SADC states such as South Africa, Botswana, Namibia, Mauritius and Angola have increasingly been regarded as attractive targets for foreign investment. Explaining factors for this trend are the growing political stability (e.g. the independence of Namibia and Botswana, the end of Apartheid, the end of the civil wars in Angola and Mozambique), the establishment of regional facilities for investment support between EU and SADC and the ongoing processes of liberalisation and deregulation in the region[23]. New discoveries of mineral

20 I. Manners, *supra* note 1, 238-244.

21 Swedish Board of Agriculture, *Agriculture and Development in the EPA Negotiations* (2006), 49, available at http://www.bilaterals.org/IMG/pdf/ra06_32E.pdf (last visited 22 March 2010).

22 United Nations Conference on Trade and Development, '*World Investment Report. Transnational Corporations, Extractive Industries and Development*' (2007) available at http://www.unctad.org/en/docs/wir2007_en.pdf (last visited 25 March 2010), 35-36. United Nations Conference on Trade and Development, '*World Investment Report. Transnational Corporations and the Infrastructure Challenge*' (2008), available at www.unctad.org/en/docs/wir2008_en.pdf (last visited 25 March 2010), 38-39. Own calculation, based on OECD International Development Statistics (2010), available via http://stats.oecd.org/qwids/# (last visited 25 March 2010).

23 A. Goldstein, *Regional Integration, FDI and Competitiveness. The Case of SADC* (2003), 12, 72. available at http://www.sarpn.org.za/documents/d0000680/P755-Investment_Roundtable_SADC.pdf (last visited 22 March 2010), 12, 72.

resources, for example in Botswana and Angola, are another influential factor. All these developments result in intense political pressure by the EU in order to achieve fast policy change, a trend that became visible during the EPA negotiations. Yet the SADC as a community has always remained critical towards a fast-paced liberalisation schedule. The negotiation agenda of the SADC in the EPA negotiations provides a good example, as it reveals that there are only a few areas of consensus on trade policies, and that the normative gap between the EU and SADC is difficult to overcome. Regarding the classical goals of liberalisation, the negotiation framework still allows for some common ground, as the idea of reciprocal liberalisation is shared by both actors. SADC declared their openness for liberalisation, but during a longer period of time than the EU, and with a schedule based on a weaker interpretation of the "substantially all trade" phrase in GATT Art. XXIV.[24] Regarding the 'new generation issues', SADC officials state that they should not be part of a free trade agreement, but should be subject to non-binding cooperative arrangements in order to allow time for building institutional capacity at national level, and should find a political consensus on the supra-national level later. Thus, no agreement on the supranational level could be signed. In autumn 2008, after five years of negotiations, SADC had been divided into several smaller groups of states, each one with a separate liberalisation schedule, and each one separated from the other parties' commitments and capacities. The different bilateral interim agreements with states such as Botswana, Swaziland, Lesotho, Namibia and Mosambique, the 'walk-out' of South Africa,[25] and the preference of alternative trade regimes with fewer obligations such as Everything but Arms by Angola and Sambia all reflect painstakingly, that trade policy norms and trade policy paradigms are no longer shared by the region as a whole. Instead, some SADC member states have already included some 'deep integration' issues into their trade policy agendas, and liberalised on an individual basis, based on their individual economic interests, and

S. Wolf, *On the Determinants of Domestic and Foreign Investment to SADC: What Role for Regional Integration?* (2002), 15 available at http://www.tips.org.za/files/586.pdf (last visited 22 March 2010).

24 From SADC's perspective, referring to the Trade Development and Cooperation Agreement this would cover only 86% of all imports, whereas the EU mandate takes 90% as a minimum.

25 South Africa had been taking part in the EPA negotiations since 2004 with the intention to be part of an EPA in order to strengthen regional integration. After no consensus with the EU regarding the 'deep integration' agenda and some tight liberalisation schedules could be reached, they decided to walk out of the negotiations and only remain as an observer. This move led to a severe loss of negotiation capacity.

sometimes with extremely tight schedules, resulting in massive losses of governmental revenues due to the sudden loss of import taxes. In terms of governance, this means that policy-making in the field of external trade policies has become an issue that is dealt with individually and mainly on a national level. Today, in the field of external trade policies, a variety of 'policy paths' can be found, which differ significantly in terms of market opening, trade policy norms, role of the state and policy instruments. In times of crisis, this lack of supranational regulative and governmental capacity adds to the already extant economic vulnerabilities, as the three cases of Botswana, South Africa and Angola will show.

Botswana represents *moderate and selective external trade policies*. While Botswana's industries are extremely export-oriented, the opening of markets for foreign investors is happening only slowly and only in the field of certain key industries, such as diamonds, gold, copper and some tourism sectors. Under the presidency of Festus Mogae, the abolition of capital controls in 1999 led to a gradual opening of financial markets, but the interest of foreign investors in the local currency (Pula) remained low most of the time. FDI flows only rose in the last years. Both FDI flows from the European Union (approximately US$400 million in 2007) and intra-African FDI flows (approximately US$300 million in 2007) have reached a significant level and seem to back the ongoing regional integration of the country.[26] At the same time, the presence of the public sector in key industries has remained important. Here a number of joint ventures between state-owned mines and foreign investors, e.g. the diamond company DeBeers, have taken place. Access to branches such as retail, the building sector or food processing, where the presence of numerous small and medium-sized enterprises creates a diversified business environment, has been denied to foreign investors. In the current situation this selective liberalisation strategy has its merits, while its outcomes are limited by marginal political capacities and possibilities for governmental intervention.

South Africa has gradually moved away from this policy path. A move towards *market liberal and diversified trade policies* was made already under the Mandela presidency. Despite unemployment rates rising to 30%, the political objectives of a low inflation rate and a budgetary deficit of less than 3% have been retained unchanged. The implementation of the

[26] U.S. Department of State, Bureau of economic, energy and business affairs, 'Investment Climate Statement – Botswana' (February 2009) available at http://www.state.gov/e/eeb/rls/othr/ics/2009/117416.htm (last visited 22 March. 2010).

Basel-II guidelines has also been part of this liberal strategy. Since 2000 South Africa has been regarded as an attractive ‘emerging market’ for business and private investors alike, and FDI flows to the banking and automotive sector have grown continuously. At the same time, South Africa is very proactive in various areas of South-South cooperation, for instance in the IBSA Forum with India and Brazil, in cooperations with the states of the common market *Mercado Común del Sur* (Mercosur) and in a number of resource transfer agreements with Venezuela and Russia. Thus it is one of the few SADC states which has truly diversified its external trade relations.

In contrast to these policy paths, Angola keeps an agenda of *radical liberalisation and export orientation.* While 27 years of civil war had isolated the country almost completely, Angola strives since 2002 to get access to world’s resource markets. Import duties had been cut and now average 15%, which is a relatively low rate for a Sub-Saharan country. Extreme concentration on oil and diamonds results in serious dependency on the two main importers, USA and China. Annual growth rates of approximately 20% were achieved due to the exploitation of these resources. Due to this strong concentration on resource exports, Angola is a classical example for the “Dutch disease”,[27] which means in the present case that the domestic sectors, such as the agricultural sector, suffer from lack of investment and weak governmental capacity.[28]

D. “Storming” – Economic Implications of the Financial Crisis

The financial crisis affected the SADC region in at least four ways. In the finance sectors, the subprime effects were of less significance than in the global North; because most SADC states are not intensively involved in global monetary flows, the ‘contagion’ was of limited extent. The less complex financial architecture of SADC states proved to be an advantage in the current situation. In contrast to business conduct in the European and Northern America banking sectors, bundling of assets is rarely practised in South-

27 A. Blakely *et al.*, *CSR in the Oil Sector in Angola:World Bank Technical Assistance Study* (2003), 3, available at http://siteresources.worldbank.org/INTPSD/Resources/Angola/Angola_CSR_Report_-_FINAL3.pdf (last visited 22 March 2010).

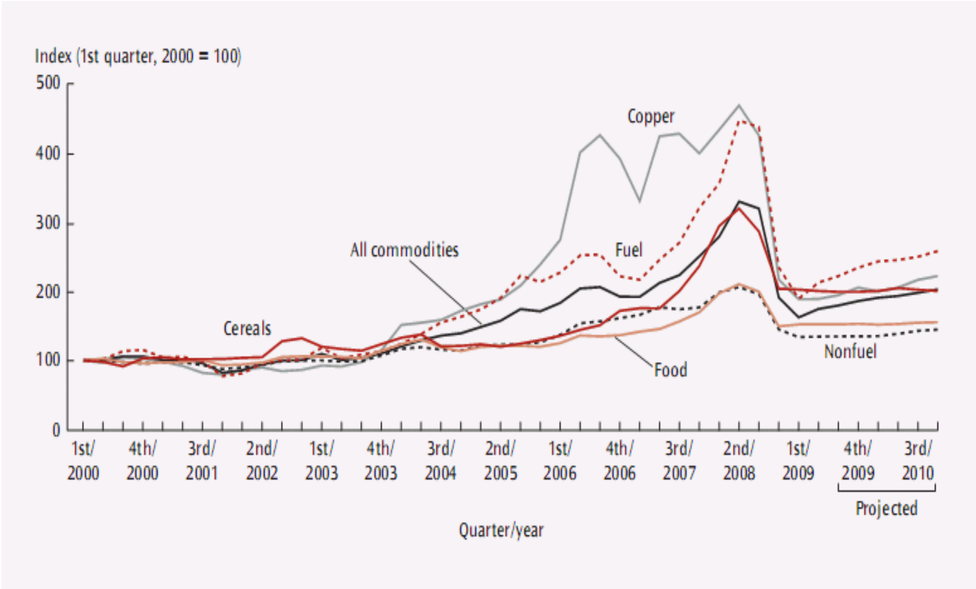
28 U.S. Department of State, Bureau of economic, energy and business affairs, ‘Investment Climate Statement – Angola’ (February 2009), available at http://www.state.gov/e/eeb/rls/othr/ics/2009/117406.htm (last visited 22 March 2010); World Bank Group, *Angola – Oil, Broad Based Growth and Equity* (2007), 30-33.

ern Africa. However, in a number of areas, such as overseas investments in pension funds, public and private budgets in SADC states have come under threat. Additionally, stock markets were hit as in any other place of the world. Another effect in the financial sector was the decline of FDI flows, as investments were cancelled or postponed. For Southern Africa as a whole, FDI has declined by 36% in 2009.[29] This might lead to credit crunches in the SADC region too, and will further limit investments. Yet the most severe effects were clearly experienced in the field of resources. While the resource boom of the last few years contributed to rises in the gross domestic products of some emerging markets, in the middle of September 2008 mineral and agrarian resources were the first sectors to be targeted. After prices for mineral resources such as copper, platinum or nickel had reached an all-time high during the first two quarters of 2008, prices now became highly volatile, and between September and November 2008 they fell to only a third or quarter of their primary values.[30] Gold prices were less affected, but they also lost about a quarter of their value.[31]

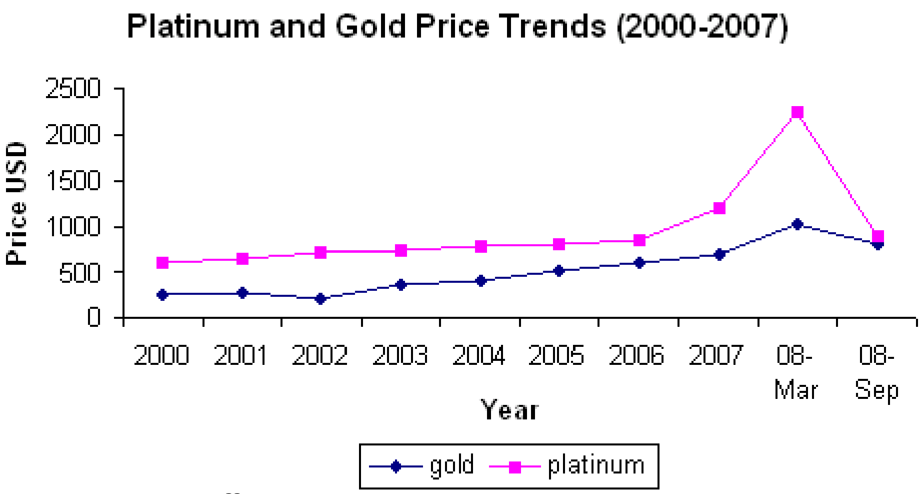
29 United Nations Conference on Trade and Development, *Global Investment Trends Monitor No. 2/2010* (2010), 3, available at http://www.unctad.org/en/docs/webdiaeia20101_en.pdf (last visited 13 March 2010).

30 Botswana Guardian, 'Commodity prices plunge' (21 November 2008); 'SA markets hit by US shocks, metal prices', *Mail & Guardian* , 16 September 2008, available at http://www.mg.co.za/article/2008-09-16-sa-markets-hit-by-us-shocks-metal-prices (last visited 25 March 2010).
Hamburger Weltwirtschafts-Institut, HWWI-Rohstoffindex (2009), available at http://www.hwwi-rohindex.org/ (last visited 13 March 2010).

31 M. Dheensay, 'Commodities – Wobbles in the Supercycle', *The Africa Report* (2009), 56-59.



Source: World Bank, Global Monitoring Report 2009,[32] Indices in US$



Source: Cairns, 2008[33]

32 World Bank Group, *Global Monitoring Report 2009 – A Development Emergency* (2009) 26, available at http://siteresources.worldbank.org/INTGLOMONREP 2009/Resources/5924349-1239742507025/GMR09_book.pdf (last visited 17 January 2010).

33 P. Cairns, 'The Impact of Global Financial Crisis on South Africa's Mining Industry', *Frost & Sullivan's Analysis of Metal and Mining*, 12 November 2008, available at

Two other monetary flows have been affected by the financial crisis, but are of lesser importance for SADC than for other African regions. According to the World Bank's Migration and Remittances Team, remittances of migrant workers are expected to fall by 5 - 8 % from 2008 to 2009.[34] Yet, the SADC area is not hit as much as some remittance-dependent regions, such as West African countries like Senegal or Guinea-Bissau, where remittances contribute to the gross domestic product at a rate of 15 to 25% of all export earnings.[35] Another financial resource, Official Development Aid (ODA) has contributed significantly to the gross domestic product of some aid-dependent SADC economies such as Angola and Malawi. At the moment it is still not possible to estimate to what extent the financial crisis will result in a reduction of ODA. Yet, as many countries calculate their ODA budgets as a percentage of their annual GDP a decline is plausible.

In South Africa the mining industry was especially affected, for instance gold and platinum extraction, steel production and automotive industries. According to estimations of the National Union of Mineworkers, between 20000 and 50000 jobs of a total 300000 were at risk.[36] In the automotive industry a decline in sales of about 25% was recorded. This decline also affected the demand for platinum used in catalytic converters, which meant that prospected exploitations of further platinum deposits in 2009 and 2010 had to be postponed or were cancelled completely. In the finance sector, ABSA, the country's largest bank was directly affected by the banking crisis, as the British Barclays Bank holds 58% of the shares. In February 2009, the rating agency Moodys downgraded ABSA's credibility due to the unsta-

http://www.frost.com/prod/servlet/market-insight-top.pag?docid=149029949 (last visited 25 March 2010).

34 D. Ratha & S. Mohapatra, *Migration and Development Brief No.9 – Revised Outlook for Remittance Flows 2009 – 2011* (2009), 2, available at http://www.cid.harvard.edu/migration/docs/ratha-mohapatra-remittance-flows-2009-2011.pdf (last visited 25 March 2010).

35 G. Holmqvist, 'How is Africa affected by the financial crisis – and by global recession?', *The Nordic Africa Institute*, 10 Oktober 2008, available at http://www.nai.uu.se/policy_activities/articles/financial_crisis/ (last visited 25 March 2010).

36 F. Beleni, 'South African Miners Hard Hit by Global Financial Crisis', *International Federation of Chemical, Energy, Mine and General Workers' Unions, INCEM in Brief*, 9 March 2009, available at http://www.icem.org/en/78-ICEM-InBrief/3060-South-African-Miners-Hard-Hit-by-Global-Financial-Crisis (last visited 25 March 2010).

ble situation of Barclays[37]. Most of the smaller South African banks have not been hit as hard, as capital controls hindered them from investing in complex assets[38]. Yet FDI flows have been a target of financial crisis. In 2008 capital outflows rose to 5.7 billion Rand, and FDI inflows fell from 22.4 billion Rand in the third quarter to only 3.3 billion Rand in the fourth quarter of 2008. Another crisis-related effect has received little attention outside of South Africa: Similar to countries such as the US, Britain or Spain, private investment and public building projects led to a rapidly increasing real estate appraisal, eventually resulting in a housing bubble. While real estate prices reached their maximum in 2004, the financial crisis led to a rapid decrease. From 2007 to 2008, houses lost about 15% of their earlier value, while at the same time mortgage dept rose.[39]

In Botswana, trade in diamonds, of which Botswana is the world's largest exporter, came under threat. Diamonds contribute about 70% of Botswana's total exports; the European Union is the largest importer, representing about 65% of all sales[40]. After exports declined by 20% in autumn 2008, mining company Debswana, a joint venture between the state of Botswana and DeBeers, decided to close all mines for the first two quarters of 2009. Hence, DeBeers depended on loans from its shareholders in the amount of US$500 million[41]. The subsequent slump in economic activity (from 5% growth in 2007 to 3.3% growth in 2008) can be traced back to this decline in resource extraction.[42] Beside these immediate effects, some mid-term

37 'Moody's downgrades Absa', *Moneyweb*, 2 February 2009, available at http://www.moneyweb.co.za/mw/view/mw/en/page38?oid=264749&sn=Detail (last visited 19 January 2010).

38 'Absa says facing tough trading conditions', *The Times South Africa*, 21 April 2009, available at http://uk.reuters.com/article/idUKLL8877620090421?pageNumber=2&virtualBrandChannel=0&sp=true (last visited 28 February 2010).

39 South African Reserve Bank, *Financial Stability Review March 2009* (2009), 25, 26, available at http://www.reservebank.co.za/internet/publication.nsf/WCEV/F961B4B2667ADAAC422575AC002BA93E/?opendocument (last visited 1 March 2010).

40 'September trade surplus falls' *Botswana Guardian*, 5 December 2008.

41 'Africa and the global crisis. Who suffers most?', *Reuters*, 11 March 2009, available at http://www.reuters.com/article/latestCrisis/idUSLA260328 (last visited 25 March 2010); 'De Beers diamond sales rise; mining will resume in Botswana', *Mining Journal*, 9 April 2009, available at http://www.mining-journal.com/production-and-markets/de-beers-diamond-sales-rise-mining-will-resume-in-botswana (last visited 25 March 2010).

42 'Botswana economy hit by lower mine production', *Mining Journal*, 20 November 2008, available at http://www.mining-journal.com/finance/botswana-economy-hit-by-lower-mine-production (last visited 25 March 2010).

consequences will become more visible in 2009 and 2010. Decline in productivity of state-owned companies will affect public revenues. Thus, the GDP has decreased by 7% from 2008 to 2009.[43] However, due to extreme volatility, a higher demand in diamonds led to the resumption of production.[44] In the financial sector, one of the most serious consequences is that pensions of employees are now at risk. Pension funds were allowed to invest up to 70% of their assets in foreign bonds. Those pension funds now have to face a loss of about US$300 million due to risky investments in European and US private equity funds.[45]

Angola's resource markets are much more severely affected than those in Botswana and South Africa. The OECD's Africa Economic Outlook predicts a negative economic growth of 7%.[46] The extreme concentration on oil and diamonds had already resulted in high external trade surpluses, high volatility of currency and neglect of investment in domestic trade sectors. In autumn 2008 the price for Angolan crude oil fell from US$98 to US$55 per barrel. Nevertheless, oil production was increased even more in order to keep public revenues stable. Even so, the rapid fall of prices led to deficits in public budgets. Direct consequences in the financial sector did not occur, due to its peripheral status and a still 'post-colonial' finance architecture. At present there exists no stock exchange, and foreign relations have only been maintained with Portuguese banks. This might have the dramatic consequence of leading to the cancellation of oil field development, which would directly affect public budgets.

43 African Development Bank, *Africa in the Wake of the Global Financial Crisis: Challenges Ahead and the Role of the Bank, Policy Briefs on the Financial Crisis 1/2010* (2010), 5 available at http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Policy%20Briefs%20on%20the%20Financial%20Crisis%20%20Africa%20in%20the%20Wake%20of%20the%20Global%20Financial%20Crisis%20Challenges%20Ahead%20and%20the%20Role%20of%20the%20Bank.pdf (last visited 1 March 2010)

44 Mining Journal, *supra* note 39.

45 'Mupane Mine safe as gold becomes investors' bulwark, *Mmegi Online*, 9 February 2009, avaialble at http://www.mmegi.bw/index.php?sid=4&aid=29&dir=2009/January/Friday9; 'Credit crunch creams off P2 billion from pension funds', *Mmegi Online*, 14 September 2008, available at http://www.mmegi.bw/index.php?sid=4&aid=21&dir=2008/November/Friday14 (last visited 25 March 2010).

46 OECD, *African Economic Outlook 2009* (2009), 49.

E. Norming and Performing? Trade Policies in Times of Crises

The financial crisis has impacted the SADC in a period characterised by weakened regional integration and still-fragile world market integration. Middle-income developing countries have been hit especially hard, due to their more intense relationship with global markets. In many cases, crisis management on a national level poses difficulties, due to a lack of financial and political room for manoeuvre. Thus, each state faces difficult choices in order to conceptualize trade and developmental policies for overcoming the crisis. Adding to this difficulty, changes in trade policies over the past fifteen years fail to offer political solutions for the current situation. Most SADC states have committed themselves to a fast reciprocal market opening, and are now in the middle of implementing tight liberalisation schedules, which will result in revenue losses especially between 2009 and 2012 due to the abolition of import duties.[47] This will further limit governmental capacities regarding counter-cyclical measures such as fiscal stimuli and deficit spending. Crisis-related decreases of FDI and export earnings will add to these revenue losses. Meanwhile, bilateral trade negotiations are still deadlocked, and the negotiation capacity available here is missing in other political arenas, especially regarding strategic alternatives such as regional integration and South-South cooperation. Thus, SADC states find themselves in a 'normative vacuum'. Neither liberal nor earlier protectionist policies seem to offer a coherent set of norms, values or ideas that can help to overcome the financial crisis. Normative transfers have only partly been successful, as only some liberal norms have been incorporated into political agendas, but have not yet found their way into concrete and coherent policies. At the same time regional integration has been thwarted, and the old set of pan-African norms that worked as a belief system shared by the SADC members is also difficult to reinstate. Thus, the current situation opens up debates and discourses on trade and developmental paradigms. Modernised concepts of South-South cooperation might offer an alternative set of trade and development policy norms. Yet whether financial crisis will

[47] Overseas Development Institute (C. Stevens *et al.*) / European Centre for Development Policy Management (S. Bilal *et al.*), 'The new EPAs: comparative analysis of their content and the challenges for 2008', (31 March 2008), 56 available at http://www.odi.org.uk/resources/download/1139-full-report.pdf (last visited 24 March 2010).

be used as a policy window for change depends on the presence of potential policy entrepreneurs who promote such concepts.

Until now, ways out of the crisis have been sought by states on an individual basis. At least partly path-dependant, our three cases have been following piece-meal approaches situated between economic stimulus packages, Keynesianism, market radicalism and South-South cooperation. South Africa, being the state with the most diversified external trade relations, seeks to foster South-South cooperation with India and Brazil and with Mercosur states. Domestically, an economic stimulus package (the "Framework for South Africa's Response to the international financial crisis" issued by the Department of Trade and Industry in February 2009) worth 800 billion Rand aims to tackle unemployment in the construction and transport sector. This plan is mainly focused on job creation, but puts little emphasis on social policies and fails to address external trade relations and international financial governance.

Botswana keeps to Keynesianist strategies. Public deficit spending and the use of public financial reserves should fund the operating costs of the mining industry and prevent redundancies. Yet in contrast to earlier governmental statements, Botswana was not able to support the resource sector on its own. The state had to apply for a loan at the African Development Bank in order to balance its budgetary deficits. The loan, in the amount of US$1.5 billion, is the highest the bank had ever approved, and will result in accrued liabilities running for 15 years.

In Angola, instead of counter-cyclical measures, the radical market liberal course was fostered to an even greater extent in order to enable the state to stay solvent in spite of price deterioration. However, South-South cooperation is gaining relevance in Angola as well, as revealed in an OECD report on the Brazilian oil company Petrobras who plans to invest US$800 million in Angola from 2009 to 2013.

Speaking of 'performing', it is still too early to interpret these political reactions as signs of successful regulation or further destabilization. However, a striking aspect is that all of them remain limited to the level of individual policy-making, whereas regional answers to the financial crisis from official sides are almost completely absent. SADC officials' statements have failed to address the effects of the financial crisis on the SADC region as a whole. A regional answer will be necessary to deal with effects that impact the whole region, such as falling commodity prices, unemployment and related migration flows. But the political will to foster regional integration has been thwarted in the last years, as the EPA negotiations resulted in individualised trade policy-making. States that share a common border now belong to three different external trade regimes (the Interim Economic Partnership Agreement between EU and SADC, Everything but Arms, and the Trade and Development Cooperation Agreement between South Africa and the EU (TDCA) while some of them are also members of a local customs union, the Southern African Customs Union (SACU). Therefore they are all subject to different conditions when it comes to export and import regulations, relations with trade partners or the collection of common external tariffs. These points need to be solved juridically in the years to come, but they already bear a strong political dimension, as they lead to differing trade strategies and thus pose severe difficulties for the development of common policies at the SADC level. In times of crisis this makes regional responses and supranational policies difficult.

Nevertheless, since spring 2009 an alternative discourse with a more optimistic interpretation of the crisis has gained some relevance, as revealed by media analysis of South African and Botswanean newspapers between autumn 2008 and summer 2009. While at first, media coverage adopted a distant stance and portrayed the crisis as something happening in the remote global North, in winter and spring greater emphasis was placed on the social consequences of the crisis for the SADC region. Following this period, some change in the media discourse has now become visible. Increasingly the crisis is presented as a chance to change external relations, for instance to advance the consolidation of cooperation between SADC states and China.[48] Here, attention is directed to institutions such as the African Development Bank. Unlike the SADC, this bank might play the role of an actor in favour of a policy change free from ideological quarrels. A closer look at the African Development Bank supports this possibility. Founded in 1964, the bank was for most of the time a financial actor of minor relevance, but of high moral credibility, being an African actor and thus significantly differing from both the World Bank / International Monetary Fund and Southern, ideologically-driven donors such as the OPEC Fund for International Development. Since 2005 the bank's budget has expanded considerably, to

48 'China to spur Africa's growth', *Mmegi Online*, 31 July 2009, available at http://www.mmegi.bw/index.php?sid=4&aid=50&dir=2009/July/Friday31 (last visited 24 March 2010); 'Rise of the South: The financial crisis and South-South trade (Part One)', *Trade Invest South Africa*, 28 April 2009, available at http://www.tradeinvestsa.co.za/feature_articles/145435.htm (last visited 24 March 2010); 'India to triple trade with Africa over next 5 years', *Trade Invest South Africa*, 21 January 2009, available at http://www.tradeinvestsa.co.za/news/210109_India_to_triple_trade_with_Africa.htm (last visited 24 March 2010).

about a quarter of the World Bank's budget. Recently the bank developed a set of instruments that exceed its normal loan scheme, encompassing for instance the 'Emergency Liquidity Facility', an emergency program worth US$1.5 billion targeted at the needs of middle income countries, the Trade Finance Initiative, worth US$500 million, used for the support of banks and a 'fast track' that allows easier access to credit. As one of the very few Southern actors of its kind, the bank interprets the financial crisis as a "social development crisis",[49]and has openly criticised SADC states for the short-sightedness of their crisis management and its lack of mid- and long-term policies and counter-cyclical action. Increasingly, the African Development Bank plays the role of an emerging donor that is politically active in institutions in the global financial and developmental sphere, such as the New Partnership for African Development and the G-20 initiatives. Thus it might have the ability to shape discourses and exert the role of a "policy entrepreneur"[50] that actively campaigns for changes in global financial governance, including reforms of the IMF's decision-making structures.

F. Conclusion

One year after the financial crisis, the SADC region resembles a policy patchwork. States belong to different trade regimes and thus have little interest in a search for common solutions that go beyond lobbying institutions such as the G-20. Speaking of 'performing', there is quite some reason to hope that countries such as South Africa and Botswana will be able to deal with the economic and social consequences in an adequate and sustainable manner. Still, the prospects for a regional answer to the crisis are low, as the limited governmental capacities and scarce crisis reactions of SADC show. The financial crisis adds to the already partially thwarted commitment for regional integration. However, there are some signs for alternative ways of crisis management. The crisis can be regarded as a policy window that might allow for fast policy shifts, whereas in the years before, trade policy-making in SADC was subject to incremental and often stalled policy processes. However, this only happens if policy entrepreneurs or normative entrepreneurs make productive use of this policy window in order to ask for alternative regimes of global and regional financial governance. Until now, SADC states seemed to miss this opportunity, as no intensified activities in

49 African Development Bank, *supra* note 42, 6.

50 J. W. Kingdon, *supra* note 4.

the field of South-South cooperation, regional integration, or institutions of global financial governance have been visible. Yet the emergence of new supra-national institutions, such as the African Development Bank, that actively exert their political role in international financial institutions might act as a signal for change in regional trade governance. But policy windows stay open only for a short period of time. 2010 will show whether the 'normative vacuum' will eventually be filled with ideas, norms and discourses on trade and financial governance from an African perspective.