Regional Economic Community Synergy in Trade through Special-Purpose Vehicles

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November 14, 2022

Introduction

The Southern African Development Community (SADC) can achieve economic development through regional trade and investment. The SADC region is endowed with an untapped natural resource potential in diversity. However, individual member states have not fully exploited these resources because of various factors. These factors include but are not limited to government interference, lack of investment capital, expertise, corruption, dwindling commodity prices on the international market, misappropriation of funds, and ineffective policies.

For the most part, the region seems to be encumbered from maximising this untapped potential due to a lack of investment capital, government interference, ineffective policies and limited natural resources in an individual state. The idea is to set up a Special Purpose Vehicle (SPV) at the RECs level to harness and scale up the production of these natural resources. The purpose of the SPV is to invest in these resources and manufacture and produce finished products for trade. There is no regional business corporation at the RECs level anywhere in Africa apart from bilateral partnerships whose existence is specific and has short longevity. In addition, any partnership is always premised on policies and not practical business ventures.

As already elucidated, countries are endowed with varying resources, expertise and human resource, which can be evaluated to ascertain what dividends accrue to a member state depending on the amount of shareholding. African countries must reduce their excessive dependency on raw material exports and imported consumer goods, the only viable way to reduce poverty and social inequality on the continent[1]. The idea is to minimise the export of raw natural resources out of the region but process them and conduct intra and external trade through the SPV by producing finished products. In addition, the SPV will be free of government interference as it will be a regional corporation managed and run by individuals drawn from various countries. It will be beneficial if the laws governing the SADC region can be amended to encourage trade corporations in the region.

Many African countries live in perpetual poverty, yet notwithstanding having access to abundant natural resources[2]. The nations are endowed with vast mineral resources, water, land, solar energy, and human resources. Most of these countries' economies do not seem to utilise them to grow their economies.

One of the challenges African States encounter is that their economies are not diversified. This has exacerbated their inability to create more revenue streams. Debt contraction has equally affected economic growth as most debts have high interest servicing rates. The biggest problem faced in the SADC region is the constrained capacity to scale up production and manufacturing due to limited individual capacities[3]. More robust open trade policies enable economic growth for all.

Most regional economic integration programmes and initiatives only focus on creating and fostering an environment through trade policies[4]. However, more needs to be done. There is a need for new complex ideas to actualise the objective of these regional economic communities. The RECs need to corporate and set up their business model to address the challenges that have hindered effective trade and innovative investments. Apart from that, member states should promulgate laws encouraging trade corporations. For example, member states must address Non-Tariff Barriers to advance trade involvement for all, particularly women in the informal sector.

According to Madhuri Thakur, “a Special Purpose Vehicle (SPV) is a separate legal entity which is mostly created by the company for a single, well-defined and specific lawful purpose and acts as the bankruptcy-remote for the main parent company. In case of company bankruptcy, the SPV can carry its obligations as the operations are restricted to buying and financing specific assets and projects”[5]. Africa has political and economic weaknesses. It is infested with tremendous poverty levels, an insignificant share of world trade, and the weakest human capital and infrastructure development. Because of this, regional integration is needed in Africa, as this will assist in enhancing economic development and growth.

Some of the benefits associated with an SPV, in this case, an economic regional synergy bloc, include lower transaction costs for business, lower risks associated with investments, expansion of markets, pooling of regional resources, better utilisation of economies of scale in production, and more efficient allocation of resources. It is, however, indisputable that strong national economic policies will need to be made to achieve some of these benefits. In addition, regional integration can help to provide a framework for coordinating policies and regulations. Regional economic integration might also help to prevent and resolve conflicts by strengthening economic ties between African countries. Regional initiatives can also foster various non-economic objectives, such as promoting regional security and political contact among members[6]. Regional economic integration can also enhance and solidify domestic reforms.

Concerted efforts are needed to exploit and maximise the abundant natural environment resources through establishing a REC SPV to formulate a regional business enterprise. The REC also needs to encourage external trade for finished products among REC members through scaled-up innovative manufacturing and production. Further, leveraging regional policies and initiatives such as the Africa-free Continental Trade Area (AfCFTA) will be beneficial. My findings are that African states, particularly those in the SADC region, continue living in abject poverty due to poor economic policies and initiatives to grow their economies. These poor economic policies and initiatives result in unutilised and under-maximised natural resource potential. The proposed blog post argues that all this results from the failure to establish the Regional Economic Community Special Purpose Vehicle for trade and investment in the SADC region.

The idea is to draw technocrats of different expertise to provide the requisite human resource for the business concept e exploiting various natural resources in the region. The technocrats will research and identify business concepts and resources that will make an excellent adventure to harness and operate. The SPV at the RECs level will be an international umbrella institute coordinating and holding the various business concepts. Furthermore, there has been too much debt contraction, whereupon it is not invested in entities that could offset the debt and remain with enough to fall back on [7].

In Africa, there are contradictions in the quest for regional economic integration. One of these is the existence of regulations and rules that are at variance with each other, particularly in the financial sector. Where there are no contradictions, it is likely that provisions will only exist in one or two countries but will not be found in other member states. For instance, a glance at the plethora of financial and banking laws and regulations in both SADC and COMESA member states presents an image of divergences that tend to obstruct transactions[8]. This has slowed down the integration process and proved to be tedious for the business stakeholders.

The European Union(EU) is an excellent example of a regional economic bloc or synergy. However, regional economic integration is a much more significant concept than proposed in this paper. The idea behind this paper is that the SADC region, as an already established regional economic bloc, needs to have a separate entity that will concentrate on trade and investment alone. The idea is to have a well-defined business concept that will harness the natural resources of the SADC region and grow the venture into a multi-conglomerate.

To this end, the problem can be solved by establishing a business entity under an SPV at the RECs level that will invest and harness the natural resources from member states and process them into finished products for regional and global trade. Once nations have achieved substantial growth to manageable or no external debt, increased gross domestic product and well-established economic policies, they will be disbanded. However, with strong regional ties, regional integration can continue at the national level.

References

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[1] Africa Development Bank Group, 2015.

[2] UN Environment Programme, 2020.

[3] AFRODAD, 2014, p. 10-17.

[4] World Bank Group 2018.

[5] Wall Street Mojo, 2011.

[6] The Times 2006.

[7] Supra.

[8] Carbaugh, 2004.