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Institutional Capacity and Regional Development Gap in the Southern African Development Community: An Institutional Economics Approach

南部アフリカ開発共同体における制度能力と開発格差
――制度経済学的アプローチ――

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【Abstract】

This paper analyses the Southern African regionalism through the new institutional economics approach. Study of historical data and the institutional evolution of the Sub-Saharan African countries from the pre-colonial period shows that the African weak and patrimonial states persisted because of a path dependence that has been reinforced by various external and internal factors such as slave trade, colonialism, ethnic fragmentation among others. The institutionalist framework enables us to expose the link between poor economic performance and institutional weakness in Africa and in the Southern African Development Community (SADC) in particular. It also highlights the limits of the neoclassical static approach explaining the trade and economic performance in developing countries' context. Therefore, a close observation of the Southeast Asian regionalism experience suggests that a transformative regionalism focusing on dynamic comparative advantage and structural transformation is possible and relevant for Southern regional blocs such as the SADC. This paper explains why regional cooperation toward the creation of a regional market for manufactured goods and the inclusion of wide range of non-state stakeholders in the SADC's regional process are crucial in breaking the longstanding path of weak institutional capacity, economic shock vulnerability and poor economic performance.

【Key Words】 New institutional economics, path dependence, Southern Africa, transformative regionalism, industrial network

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INTRODUCTION

African regionalism has a relatively long history, but it began to drag large support, particularly from policymakers and scholars, since the end of the colonial period. Regionalism is seen as a relevant solution to address the political, cultural, security, ecological, and economic issues in the *marginalized and fragmented* continent. It was amidst such enthusiasm that the Southern African Development Community (SADC) was created in Windhoek, the capital of Namibia, in 1992. SADC members are committed to achieving regional security and economic development through regional cooperation. However, like other African regional arrangements, the regional process in the SADC is stagnating and is still failing to bring about the changes stated in the founding document. The dominant opinion argues that most of the sub-Saharan African (SSA) countries are suffering from weak institutional capacity and high economic imbalances, making the emergence of a strong regional organization like the European Union (EU) unlikely. Moreover, mainstream economics suggests that universal free trade or a North-South (N-S) regional arrangement is more likely to lead to economic development than a regionalization involving only developing countries.

Therefore, the SADC regional process has taken a more neoliberal approach since the end of the 1990s and focused on EU style of state-led market liberalization and heavy institutional structure. This choice appears to be influenced by the willingness to comply with international donors' conditions and to EU market's standards which is SADC's largest trade partner[1] (excluding APEC countries). However, this approach based on static neoclassical analysis of comparative advantage appeared to have reinforced and even worsened the longstanding institutional weakness and development gap problem within the region. Recent studies point out to institutional path dependence to explain the low-level economic equilibrium which most of the African countries are trapped in (Acemoglu et al. 2002; Mkandawire, 2009; Lange, 2009). Moreover, experts in the field of new regionalism argue that there is no unique model, and a Eurocentric analytical framework is far from being sufficient to understand the current process, particularly in the developing countries. However, disagreements still exist on the weight given to institutions in determining economic performance compared to other policy variables such as trade liberalization, investment in human capital, or country fixed effects such as climate and geography.

Therefore, in this paper, we assume that institutional capacity matters for long-term economic performance and that SADC's stagnation is the result of an institutional path dependence reinforced by different phases of the history. Thus, under the institutional economics approach, we will

[1] According to UNCTAD's statistical data in 2015.

answer the question: what form of regionalism is necessary to break the economic status quo and will put the SADC region on an institutional path leading to long-term development? To answer this question, we will first recall the theoretical principles linking institutional change and economic performance. Secondly, using the framework highlighted earlier, mixing study of history and institutional economics approach, we will identify the socio-economic conditions and institutional process underlying the poor performance of the SADC states. The third section will show evidence pleading for a *transformative and developmental regionalism* and to conceptualize a model for the SADC's case.

I. Theoretical Review of the Link Between Institution and Economic Performance

This chapter will address the importance of institutional economics in understanding the difference of economic performance between nations in general and the failure of development policy in Africa in particular. We will demonstrate that the institutional economics framework (particularly the new institutional economics) works better with development economics, since it deals with broader variables and more realistic assumptions, than the mainstream neoclassical theories. Therefore, we will show how institutions affect economic outcome by mitigating market failures and transaction costs. Then, we will explain the institutional mechanisms underpinning the process of industrialization. Lastly, we will review the theoretical arguments on the causes and origin of institutional changes and their long-term consequences on the performance of a group of agents, an organization, a country or a group of countries.

1.1. Transaction costs, Market failures and Property rights: The Genesis and Essence of the Institutionalist Approach

Although the consideration of institutions as a crucial variable in the study of economic growth is now rarely disputed, both in the orthodox and heterodox literature, major differences in interpretation and methodology still exist. This is not surprising since significant development in institutional economics theories were prompted by the weakness in the neoclassical models, which dominated development economics since the 1950s, in explaining performance gaps across nations. Therefore, before demonstrating the theoretical relevance of the institutionalist approach in development economics, let us first briefly review its fundamental concepts.

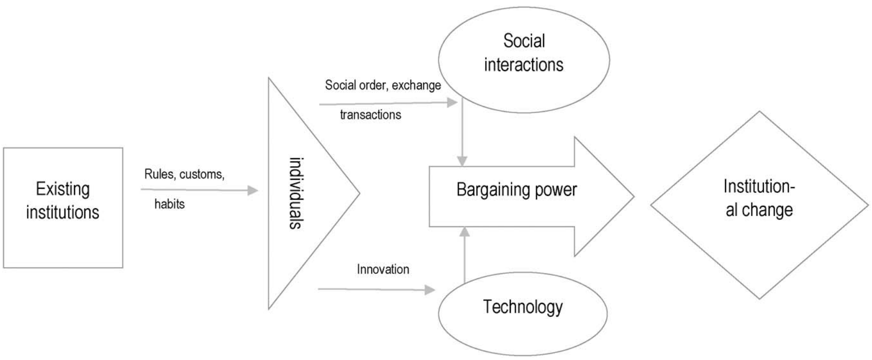
Institutions have traditionally held an important place in economic analysis since Adam Smith, but it is broadly considered that Marx's works and his reference on the so-called ''superstructure'' inspired the emergence of the institutional school and its subsequent ramifications (North, 1990; Lee, 2016). In general, the history of the institutionalist school can be divided in two major periods: **the old institutional economics (OIE) and the new institutional economics**.

1.1.1. Old Institutional Economics

This period marks the first attempts in systematic studies of institutions to explain economic performance. Despite minor differences in their definition of institutions, Thorstein Veblen and John Commons are considered the fathers of the OIE[2]. The main point of departure of the institutionalist approach is the general assumption that agents' behaviour are defining economic outcomes and that in turn these behaviours and choices are constrained by certain moral and legal rules[3]. Whereas mainstream economic thoughts consider these rules as given and having no significant influence, the institutional economists argue that they are crucial in enabling and sustaining transactions. Thus, the form of exchange and their outcomes will vary according to the set of rules (institutions) within which they are taking place.

From the Veblenian perspective, institutions emerge and are shaped following a social Darwinian evolutionary process. In other words, they result from a cumulative process of variation, inheritance and selection (Leite et al., 2014). This evolutionary theory of institution implies a reciprocal effect between institutions and human behaviours. Institutional structures determine the individuals' habits, but other forms of institutions emerge as social interactions and technology increase in complexity with the most suitable ones being selected to cope with these changes (Figure 1.1).

Figure 1.1 Summary of the process of institutional change according to OIE



Source: the author

[2] "The theory of the leisure class" (Veblen, 1899) and "Institutional economics" (Commons, 1931) are considered the seminal works which laid the basis of the institutionalist school.

[3] In the classical and neoclassical framework economic outcome is the result of the aggregate actions of rational and utility maximizing individuals.

On the other hand, Commons defines institution as ''as collective action in control, liberation and expansion of individual action'' (Commons, 1931; p.649). More precisely, Commons view institution as a set of informal and legal rules designed collectively to constrain the actions and the choices of individuals. He has a more legalistic perspective on institution. Therefore, his approach differs from Veblen in a sense that institution is the result of collective human agency rather than from evolutionary exogenous factors.

Most importantly, the OIE established two fundamental concepts of institutional economics: **path-dependence and transaction**. Path-dependence describes the fundamental cumulative process of institutional change, that is, an incremental evolution from pre-existing institutions which explains the cross country divergence of institutional trajectory and economic performance on the long-run. On the other hand, Commons first introduced the concept of transactions suggesting that they are ''not the exchange of commodities, but the alienation and acquisition, between individuals, of the rights of property and liberty created by society''.

In other words, they consist of man-to-man bargaining and contract agreements without which no real and physical activities, such as production or consumption, can take place. However, the OIE could not impose itself as a solid school of thought due to lack of further contributions and the emergence of more popular and relatively successful schools in the face of the Great depression such as Keynesian economics and the neoclassical school later on. The institutionalist school marked its return in the forefront of economic analysis with a renewed interest in the study of economic development and fresh contributions from *game theory*, *evolutionary economics and economic history* which resulted in the current new institutional economics (NIE).

1.1.2. New institutional economics

The NIE has broadened the institutional economics' analytical reach by introducing elements from other relevant researches in game theory, evolutionary economics or economic history. The leaders of this school of thoughts have been two Nobel Prize winners: Douglas North and Ronald Coase[4]. Their seminal works dealt with: **positive transaction costs, limited rationality, market imperfections**, particularly **information asymmetry, and governance**. According to Menard and Shirley (2012) three fundamental concepts, overlooked or missing in the mainstream neoclassical theories, constitute the core of the NIE: **transaction costs, property rights and contracts**. These ''new'' concepts, although implicitly stated in the OIE, have been the object of extensive researches

[4] From their respective seminal works: ''The nature of the firm'' (Coase, 1937), ''The problem of social cost'' (Coase, 1960) and ''Institutions, institutional change and economic performance'' (North, 1990).

in the field of NIE and contributed greatly to our understanding of economic development and the importance of institutions. Therefore, a quick overview on the definition of these concepts and their implications in understanding economic development and economic divergence appeared to be essential before moving further in our institutionalist analysis of industrialization and development in the Southern African region.

• *Positive transaction costs*

The concept of positive transaction cost is arguably one of the strongest point in favour of the institutionalist school. Originated from Coase's works on "the nature of the firm" (1937), the notion of positive transaction costs is used to explain the productivity, structure and the size of firms. Moreover, it is argued that positive transaction costs justify the existence of firms which are, from Coase's perspective, organizational and institutional means of reducing and eliminating these costs[5]. Thus, transaction-cost-reducing technologies (such as telecommunication or transportation) play an important role in determining firms' size and performance.

For North (1990) institutional frameworks (informal or formal rules) aim at facilitating transactions by eliminating costs resulting from *incomplete information*, *limited rationality*, *contract enforcements* and so on. From this point of view, the more efficient societies are in eliminating these transaction costs the higher their economic performance.

• *Property rights*

The concept of property rights have also originally been derived from Coase's study of social cost (Coase, 1937; Menard and Shirley, 2012). Formaini and Siems (2003) report that Coase definitively imposed NIE as a relevant branch of economics after winning his case before scholars considered as authorities in the mainstream field such as, Milton Friedman, Arnold Harberger, Gregg Lewis. In short, Coase demonstrated that in a zero transaction cost world (known as the Coase condition) the initial arrangement of property rights does not matter and will always lead to efficient economic outcome. This theorem implies that government intervention are likely to do harm than good when the cost of intervening exceeds that of the market price. Therefore, government's role should be mainly that of creating institutions to protect property rights and reduce transaction costs. The importance of defining and protecting property rights for an efficient and fair exchange between agents implies the necessity of establishing *legal system*, *etiquette*, *and social customs*, in other words

[5] "We may sum up this section of the argument by saying that the operation of a market costs something and by forming an organization and allowing some authority (an "entrepreneur") to direct the resources, certain marketing costs are saved." (Coase, 1937, pp.388–392)

informal and formal institutions. The concept of property rights leads us to the contracts and contract enforcement concept.

• *Contracts*

Shirley (2012) reports that from the institutionalist standpoint contracts are written or unwritten agreement between two parties that are never perfectly enforced and never perfectly complete. These two assumptions led institutional research to two different directions, one that is concerned with contract enforcement and the other with imperfect information and the problem of governance. For instance, North (1990) argues that the more developed an economy the more complex becomes the mechanism of exchange between its agents (long-distance and impersonal) and thereby a more sophisticated and efficient system of third party contract enforcement is necessary to support it. On the other hand, Williamson's theory of contracts tried to identify the trade-off between different alternative of governances (market or vertical integration) into solving what he called the ''*transactional attributes*'' problems of uncertainty, frequency, and transaction-specific investments. This third core concept highlights other assumptions in NIE that are in opposition with the neoclassical school, i.e. the notion of the agent's limited rationality (adaptive or procedural rationality), information asymmetry, and informal constraints.

From the next sub-section, following mainly Douglas North's historical institutionalist approach, we will highlight the important role played by political institutions and context specific policy design in bringing institutional changes. This analytical framework recognizes the existence of imperfect competition, irrationality and agent's preference heterogeneity. Thus, the right institutions are those that would support competition, belief system and agents who allow innovations and increasing productivity. Therefore, our main focus will turn to the issue of institutional arrangements and long-term economic structural transformation.

1.2. Industrialization, Innovation and the Role of Institutions: beyond a neoclassical view of institutional forms

Industrialization and innovations are essential parts of the process of economic development since they often translate into higher productivity and thereby, higher revenue which is often the prerequisite for any welfare improvement. Thus, the difference in level of industrialization and technological innovation explains, for a large part, the development gap between nations. Economists have broadly agreed on the endogenous character of industrialization and innovation as variables explaining economic growth. The mainstream method of analysis of the contribution of these two variables on economic growth is based on neoclassical assumptions of perfect competition and information. In these models, institutions to protect property rights, for contract enforcements and public investments are given and thereby, innovation and industrialization can be promoted through market mechanism i.e. investment in R&D, human capital or in acquiring patents. However, these conclusions have been challenged by institutional and development economists who studied the China-England or North and South Korean economic divergence among others (Acemoglu et al., 2005; Greif et al., 2014). These studies not only stressed the crucial role played by institutions in determining countries' long-term development path but also demonstrated that institutional arrangements cannot be overlooked, are context-specific and can achieve the same growth enhancing function independent of their forms (Rodrik, 2004).

The critical role of institutions in enhancing and supporting industrialization and innovations are well-documented in the theoretical as well as the empirical literature. For instance, North (1990) notes that differences in the prevailing set of informal and formal institutions explain the choice of technology and the different economic outcomes of organizations or countries. Moreover, he argued that the same formal policy reforms may yield contrasting results due to differences in agents' perception which is influenced by informal constraints such as customs, belief system or moral rules. In their empirical study, Rodrik et al. (2004) found that the institution was the most significant variable in explaining increase of income when compared to trade and geography. Moreover, their results showed that institutions affect economic growth particularly by promoting physical capital accumulation, a prerequisite for achieving industrialization. In this regard, Bhattacharyya (2009) also found the same result but went further by identifying that *Market-creating* and *Market-stabilizing institutions*[6] were the most significant in fostering long-term growth.

1.3. Institutional Changes and Economic Development

We have seen in the above section that institutions matter to economic growth by facilitating physical capital and knowledge accumulation. Therefore, if institutional arrangements are related to a country's economic performance, how do institutions change or evolve in the long-term. This question of institutional change, often overlooked in the mainstream framework, is very important in development economics. The institutionalist approach gives us a better understanding of the process of institution building and helps to explain the consequences (failure or success) of formal policies.

[6] Rodrik (2004) provides a taxonomy of ''market-sustaining'' institutions including: market-creating institutions (property rights, contract enforcement), market-regulating (regulatory bodies and other), market-stabilizing (monetary and fiscal institutions, institution of prudential regulation and supervision), market-legitimizing institutions (democracy, social protection and social insurance).

In general, the institutional school argues that institutional changes are rarely revolutionary but often incremental as a result of various alteration in agents' informal constraints, relative factor prices and formal institutions (North, 1990; Acemoglu et al., 2005). This relative stability of institutions is used by institutionalists to explain the economic divergence that occurred between the North and South which has taken different institutional path since the industrial revolution of the 19th century. In this regard, Acemoglu et al. (2005) note that the institutionalist literature offers four alternative explanations of institutional differences and their outcome between nations:

- *The efficient institutions view*: In this view institutions are chosen efficiently by utility maximizing agents to reduce social costs and to attain higher total surplus. Thus, Institutions vary along the structure of agents' needs and preferences in each country. Although it explains the variation in institutional forms, this explanation can hardly explain the difference in economic outcome engendered by these institutional arrangements.
- *The ideology view*: Very close to the previous view it argues that institutions vary across countries because of ideological differences. This view also holds that incentives tends to promote institutions that are good for the society overall. However, its limits is shown when we try to explain the differences in the institutions implemented in the British colonies. Ideology seems to have played little to no role in determining the type of institution that emerged in these colonies. Instead, these colonial institutions and their diversity resulted from the deliberate choices on the part of the colonizers (Acemoglu et al.).
- *The incidental institutions view*: It argues that institutions are often the result of unexpected historical events such as the emergence of common law in England which enabled the advent of industrial revolution. However, Acemoglu et al. (2005) note that this explanation is flawed since it does not justify the persistence of socially inefficient institutions. They argue that deliberate social choices, and not historical events, have often prompted major institutional changes such as in Japan during the Meiji era, Russia after the Crimean war or Turkey under Mustafa Kemal in the 1920s.
- *The social conflict view*: It argues that institutional arrangement emerge from the ''self-interested'' choice of the group that controls political power. These rulers are often those who managed to win the battle for power against other groups. Therefore, their self-interested behaviour will result in the creation of institutions that insure their own rents which because of transactions costs[7] may not always coincide with maximum social welfare. This explanation is considered in Acemoglu et al. (2005) as the most accurate because it can explain both the diversity, persistence and economic outcome differences of institutions.

[7] Acemoglu et al. (2005) assumes commitment problem as representing these transaction costs (p.427)

Therefore, institutional changes and thereby economic evolution are highly influenced by the changes in political institutions. This implies that economic development can be achieved by altering the structure of political institutions as a way to increase the bargaining power of agents whose preferences and choices are likely to bring about maximum social welfare. In this regard, we will show that this theoretical framework is relevant to analyse the long-term performance and the development gaps between Sub-Saharan African countries. We will discuss these issues more in detail in the next chapter using the analytical framework introduced earlier.

II. Institutional Heterogeneity and Development Gaps within the SADC: From a Historical and Institutional Economics Perspective

A large body of the literature in economic history and institutional economics argue that historical path-dependence and the persistence of ''wrong'' type of institutions contributed greatly to the instability, low productivity and income differences in SSA (Walle, 2009; Lange, 2009; Acemoglu & Robinson., 2012; Mkandawire, 2009). These problems are also closely related to the poor progress of regional economic and political cooperation within the SADC. Therefore, using a NIE approach, this chapter will investigate the origins of institutional divergence and development gaps between the SADC countries which prevented them to fully capture the economic gains of regional integration. We will first show how these economic and institutional differences have impeded on the development of the SADC. Then, we will identify the origin and causes of these differences using a historical and institutionalist analytical framework. To do so, we will first investigate the determinants of economic and political institutions in pre-colonial SSA and show evidences of an institutional path-dependence. In the last section, we will demonstrate how colonialism reinforced this institutional path-dependence through the promotion of extractive activities which left the continent with poor and weak nations still economically dependent on their former colonial rulers. A situation that undermined the possibility for trade and deeper cooperation in Southern African countries because of conflictual economic and political interests.

2.1. Coordination problem and development gap in the SADC: institutional and economic obstacles to integration

There are numerous factors thought to be hindering the SADC in achieving its development and economic cooperation goals. From the mainstream economics point of view, this would be unsurprising for a South-South regional integration scheme. Indeed, in the traditional theory, a regional economic integration between developing countries will be unsuccessful because of low economic diversification, small-market and high similarity in their comparative advantages. However, neither did non-discriminatory trade liberalization spur economic development in the region. Moreover, the success of South-South integration scheme elsewhere, such as in the Southeast Asian region, shows that regional integration can be an instrument of industrialization and development. Therefore, using a new institutionalist and historical approach, let us first examine the current obstacles to SADC's development. These obstacles are entrenched in domestic and regional level institutional and economic divergence which hamper deeper cooperation between the member countries.

2.1.1. National level obstacles

On the national level, the most serious impediment to regional integration is the incompatibility of the political system between the SADC members. Indeed, since the former SADCC era political conflicts have shaped and influenced the integration process in the region. Peter-berries (2010) notes that although animosity existed between the frontline states'[8] leaders, they came together to stand against apartheid South Africa's military and economic abuses[9]. However, scholars also argue that the high diversity in political background of the member countries constitutes a real problem for the advancement of regional cooperation. Indeed, the SADC regroups former colonial countries ruled by different countries namely: Britain, Belgium, France, Germany and Portugal, and thereby inherited very different political and economic system. Moreover, Heinonen (2006) argues that the relative weakness of these "*post-colonial states*" (p.190) led them to concentrate more on domestic power consolidation than on regional integration. Heinonen (2006) also reports that at the domestic level the SADC countries are divided into *democratic and authoritarian* regimes (see table 2.1) which lack the common values necessary to carry out successful cooperation at the regional level. This lack of political common values is exacerbated by the *patrimonial* nature of the African states which build their legitimacy and strength on the personal relationship between the rulers and small groups of influent and powerful elites. Accordingly, the patrimonial state has little interest in handing over a part of its sovereignty and resources to a supranational organization which may weaken its position on the domestic level.

Other obstacles at the national level include economic and geographic factors. From an economic standpoint, it is traditionally claimed that the economies of the SADC do not have the necessary complementarity that justifies integration in the first place (Chingono and Nakana, 2009). Indeed,

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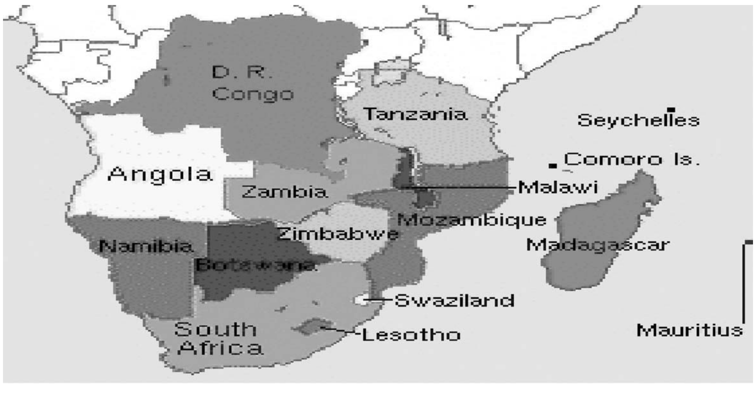
[8] Botswana, Tanzania, Mozambique, Zambia, Angola and in 1980 Zimbabwe

[9] In this regard, Peter-berries (2010) reports that "The apartheid government of South Africa under Pieter Willem Botha (South African Prime Minister from 1978–1989) pursued an aggressive policy against its neighbours in order to defend its minority regime and prevent the neighbouring states from providing assistance to the South African liberation movements ANC and PAC". (p.58)

Table 2.1 Democracy index 2016, SADC countries

	Rank	Overall score	Electoral process and pluralism	Functioning of government	Political participation	Political culture	Civil liberties
Full democracies							
Mauritius	18	8.28	9.17	8.21	5.56	8.75	9.71
Flawed democracies							
Botswana	27	7.87	9.17	7.14	6.11	7.50	9.41
South Africa	39	7.41	7.92	7.86	8.33	5.00	7.94
Lesotho	63	6.59	8.25	5.36	6.67	5.63	7.06
Namibia	71	6.31	5.62	5.36	6.62	5.63	8.24
Hybrid regime							
Zambia	77	5.99	7.08	5.36	3.89	6.88	6.76
Tanzania	83	5.76	7.00	5.00	5.56	6.25	5.00
Malawi	91	5.55	6.58	4.29	4.44	6.25	6.18
Madagascar	96	5.02	5.92	3.52	5.56	5.63	4.76
Mozambique	115	4.02	4.42	2.14	5.00	5.00	3.53
Authoritarian							
Angola	130	3.40	0.92	3.21	5.56	4.38	2.94
Zimbabwe	140	3.05	0.5	2.00	3.89	5.63	3.24
Swaziland	142	3.03	0.92	2.86	2.22	5.63	3.53
DR Congo	159	1.93	0.92	0.71	2.78	4.38	0.88

Source: The Economist Intelligence Unit (2016)
URL: https://www.eiu.com/public/topical_report.aspx?campaignid=DemocracyIndex2016



Source: http://fayzeh.com/SADC.htm (D.S: 2017/03/30)

several countries are competing in the same Western market with the same products such as cotton, diamond, crude oil, copper nickel, textiles, and tobacco. This sectoral and extra-regional market dependency has created a disincentive for regional trade integration because of its high economic costs particularly for the exporters. Geographically, the SADC countries consist of coastal, landlocked and island nations of different sizes (see below the map of SADC region). These differences are related with specific needs and priorities which in turn, spawned different set of institutions and economic systems in each country. Therefore, regional integration in the SADC has often been hindered by the difficulty to reconcile these country-specific differences.

2.1.2. *Regional level obstacles*

At the regional level, the most significant obstacle is the huge economic imbalances between the members. These imbalances make it difficult to undertake deeper regional integration initiatives because of the high risk of unequal distribution of the gains at the expense of the poorer and weaker states. Indeed, South Africa, which accounts for more than 60% of the region's GDP, is likely to benefit the most from integration, at the expense of the other smaller economies (Table 2.2). In this regard, several analyses note the high risk of polarization within the bloc. For instance, Chingono and Nakana (2009) argue that because of the difference in economic size and level of sophistication, more powerful countries may act selfishly and distort the integration process in their favour. Moreover, Heinonen (2006) suggests that the fear of smaller members that the free-flow of cheap-

Table 2.2 SADC countries' annual and per capita Gross domestic product in 2015 (2011 PPP US dollars)

	GDP ($billion)	GDP per capita
Angola	176.6	6,937
Botswana	33.7	14,876
DR Congo	56.9	737
Lesotho	5.3*	2,517
Madagascar	33.3	1,373
Malawi	19.2	1,113
Mauritius	23.1	18,333
Mozambique	31.2	1,116
Namibia	24.1	9,801
Seychelles	2.4	25,668
South Africa	680.9	12,390
Swaziland	10.2	7,930
Tanzania	130.3	2,510
Zambia	58.8	3,626
Zimbabwe	26.3	1,688

Source: UNDP 'Human development Index 2016' er and better quality South African goods would destroy their domestic economy reduces the incentives towards deeper integration. The second problem at the regional level is the multiple membership; i.e. each country of the SADC are participating in at least one other regional grouping. This shows a lack of trust between the members and a nationalist and self-interested behaviour in an attempt to maximize individual gains. As a result, each SADC member are entangled and trapped in several discordant agreements with other regional blocs. This situation explains why the SADC members seem to have difficulties in implementing and ratifying signed regional resolutions.

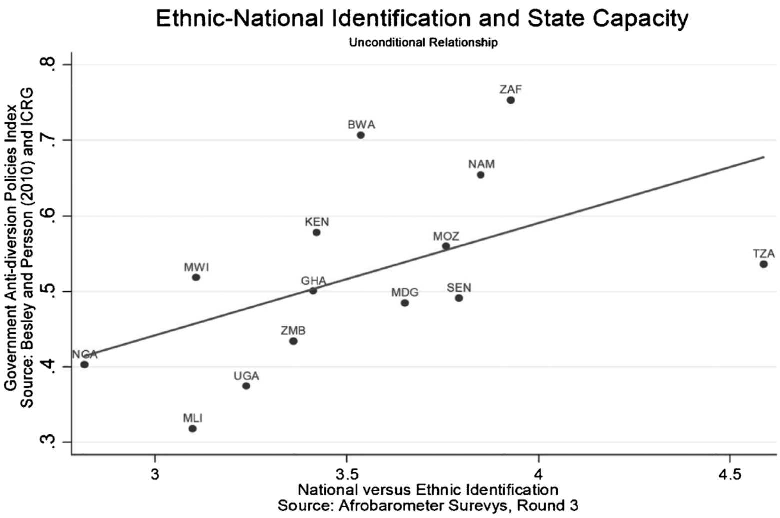
As mentioned in the previous sub-section, the lack of economic diversification and mono-culture are important hindrances to the SADC's progress. More precisely, the SADC's GDP is highly dominated by agriculture and the share of the manufacturing sector is insignificant. At the regional level, this means that a discriminating regional trade agreement is unlikely to gain large support since in the short-run there is potentially a small benefit to intra-regional trade and in restricting trade with non-members. Beside this dependency on extra-regional market, the SADC, as an organization, is also financially dependent on international donors. Peter-berries (2010) argues that including financial support from donors was necessary in the implementation of the regional project since the beginning. However, this has led to a certain aid dependency, and participating in the SADC may be, for some countries, motivated by the possibility of accessing to additional funding and not in regional cooperation. Lastly, the high indebtedness of the SADC members has led to pursuit of self-interest and individualism as the dominant strategy over collectivism and community interest.

2.2. Pre-colonial origin of economic and institutional fragmentation in Sub-Saharan Africa: slave trade, ethnicity and ecology

As we have seen in the previous section, most of the institutional and economic issues affecting the well-functioning of the SADC are deep-rooted in the region's historical evolution that can be traced back to the pre-colonial era. This is common to most of the regions and countries in SSA. Indeed, Hopkins (2009) notes that addressing the African development requires a careful study of history and institutions. Thus, in his opinion, the field of ''*new institutional history*'' initiated by institutionalist economists is highly promising in this regard (Hopkins, 2009). Unlike the mainstream view on African history, the new institutionalists go further back before the independence or the colonial period in their inquiries because current institutions (formal and informal) are believed to be the consequences of past evolution through history. Therefore, we will examine briefly the significance of the most studied pre-colonial factors and initial conditions in the African economic history, namely: ethnicity, slave trade and ecology.

The question of ethnicity is unavoidable when discussing African institutions. Indeed, *ethnic fractionalization* and the concomitant *institutional duality* (i.e. the cohabitation of modern centralized formal government with traditional customary institutions) are particularly pronounced in the region and impact greatly on the state's capacity to produce public goods and ensure economically important role such as the protection of property rights (Hopkins, 2009; Michalopoulos and Papaioannou; 2015). For instance, Michalopoulos and Papaioannou (2015) observed that not only is ethnic identification strong among the African population but it is also highly correlated to state capacity. Indeed, using the data from afrobarometer (2005 and 2008) featuring 20 countries[10] (10 of which are SADC countries), they found that roughly 40% of their sample considered their ethnicity as equally important as their national identity, and when cross-country comparison of state capacity[11] is performed their results show that countries with higher ethnic identification than national identity have weaker state capacity (Figure 2.1 and 2.2). In general, their study points out the limited capacity of formal states to govern in ethnically fractionalized African countries. Rather, in most of rural areas traditional chiefs and customary rules still determine the property rights and distribution of public goods. The lack of *political centralization* hindered any initiative of regional de-

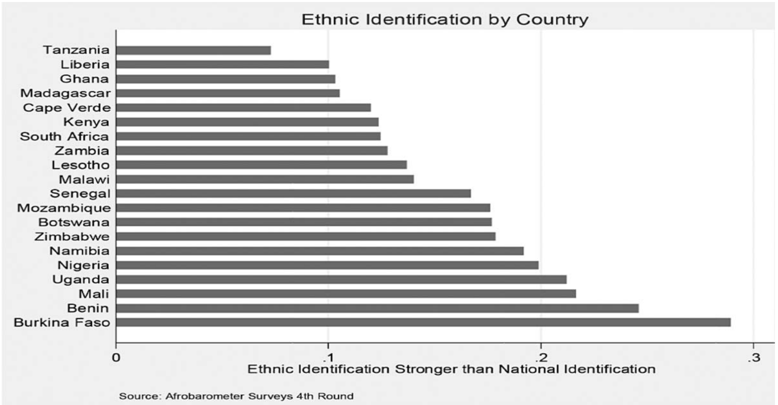
Figure 2.1. Relation between strong ethnic identification and State capacity



10 The survey included: Benin, Botswana, Burkina Faso, Cape Verde, Ghana, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mozambique, Namibia, Nigeria, Senegal, South Africa, Tanzania, Uganda, Zambia, Zimbabwe.

11 ''Index of government's anti-diversion policies, measured over the period 1986–95. It is an equally-weighted average of these five categories: i) law and order, ii) bureaucratic quality, iii) corruption, iv) risk of expropriation and v) government repudiation of contracts'' (Michalopoulos and Papaioannou, 2016; p.35)

Figure 2.2 Intensity of ethnic identification in selected African countries



Source: Michalopoulos and Papaioannou,, 2015, p.4 and p.10

velopment in Africa in general and the SADC in particular. This high fractionalization and duality of the African states has its origin in the pre-colonial era. Indeed, Michalopoulos and Papaioannou (2015) argue that compared to other regions such as Asia or Europe in the pre-industrial era, Africa had very few politically centralized societies (p.14). The main reason they suggest is that: i) the low population density ii) and the low prevalence of inter-state conflicts in pre-industrial era.

Another important pre-colonial factor of the contemporary African socio-economic development is the transatlantic slave trade that took place between the 15th to the 19th century. A dark page in the African history which has been the focus of several studies but the most notable, with their analysis of the contemporary impact of the slave trade is probably the work of Nathan Nunn and Leonard Wantchekon (2011). Nunn and Wantchekon (2011) investigated the relationship between the level of social mistrust and slave trade in SSA. Using the afrobarometer data on level of trust in relatives, neighbours, coethnics and local government today, they observed that countries that were most exposed to slave trade[12] exhibited the lowest level of *trust* and weaker political centralization. Controlling with other variables such as ecology, colonial rule or ethnicity, the significance of trans-atlantic slave trade in undermining social trust is still strong. The authors explain that because of its violent and ubiquitous nature, slave raid turned individuals against their neighbours, families and people in their ethnic groups. Thus, a climate of extreme uncertainty and imperfect information reigned making opportunistic behaviours such as kidnaping, trickery and small scale violence the most viable and profitable strategy. Accordingly, these behaviours installed an environment of

12 Nunn and Wantchekon (2011) used data from port shipments and data on slaves' ethnic identities, these data are relevant only for the transatlantic and Indian Ocean slave trade but which are also the largest and thereby the most impactful slave trade.

social mistrust and have weakened the capacity of formal and centralized institutions to rule within their own frontier, a situation which persisted until today. Explanation that is relevant to most of the SADC members which were exposed to the transatlantic slave trade.

Ecology has also been subject to numerous investigations from African development scholars. It is a useful variable in the study of pre-colonial Africa since it is time-invariant. According to a number of historical and empirical studies, ecology has been important factors of trade, state centralization, population growth or disease incidences (Acemoglu et al.,2002; Sachs, 2005; Fenske, 2014). For instance, Fenske (2014) demonstrated that ecologically diverse areas benefited from higher gains from trade which led to the emergence of more centralized states to secure these gains. Thus, this study implies that the contemporary level of development and capacity of African states are, for the most part explained by their ecological condition which determined their institutional path-dependence since the pre-colonial era. Other influential ideas on the role of ecology in African development have been developed by Acemoglu et al. (2002) and Sachs (2005). These authors argue that the tropical climate in most of the African countries facilitated the incidence of diseases such as Malaria which as a consequence: i) compressed population density and thereby made difficult the emergence of large centralized states ii) discouraged the settling of European colonizers and thereby hindered the transfer of modern industrial institutions to their African colonies.

2.3. Fragility and limited capacity of contemporary African states: Colonialism and institutional path-dependence

It was stated earlier that the current coordination and development gap problem within the SADC is rooted in the fragility and the weak capacity of its members. We demonstrated, by examining various factors in pre-colonial Africa, that these problems concern all Sub-Saharan African states and may have persisted through institutional path-dependence. Therefore, we will show in this section how the European colonialism contributed to worsen and reinforce these pre-colonial institutional inefficiencies. The consequences of which are still felt today through the instability and low level of sophistication of most African economies.

Regarding African colonialism, scholars distinguish between direct and indirect rules or settler and non-settler colonies. It is broadly accepted that post-colonial economic performance differences among present day African countries are related to the type of colonial administration they had and to a lesser extent the identity of their metropolitan rulers (Bertocchi and Canova, 2002; Acemoglu et al., 2005; Lange, 2009). One of the reinforcing effects of colonialism on the African pre-colonial conditions operated through the diverse identity of *metropolitan rulers* and the *degree of economic penetration*. In other words, colonialism has deepened the African ethnic and political fractionalization. Indeed, most of the European colonies in Africa were administered through a close tie with local chiefs and certain ethnic groups with strategic influence and access to resources. Thus, the authoritarian and predatory nature of today's African states originated from the system of power monopoly by a minority group (local rulers or colonial administration) during the colonial period[13]. Economically, African colonies were strongly oriented to extractive activities because of the high costs induced by labour scarcity and the difficult climate which deterred European settling. Therefore, in most of the African colonies, forced labour, high taxes, proliferation of small-scale cash crop agriculture, underdeveloped infrastructure, low level of physical and human capital accumulation, were the norms. Not only did this reinforce the pre-colonial situation of institutional weakness and low social capital, but economically it also worsened the situation by installing a long-term structure based on mono-culture, labour intensive, low productivity and rent-seeking activity. Overall, after their independence, the former European colonies were left with autocratic and illegitimate political system, low quality institutions, undiversified and extractive economic structure, uneven infrastructure development, high educational gap and low level of physical and social capital (Walle, 2009).

Although studies assessing the impacts of colonization in Africa enjoyed a large literature coverage, more dynamic historical analyses that examine evolution from the pre-colonial era until today are rather recent. As a result, ignoring the implication of historical path-dependence, post-colonial policymakers failed to address problems such as predatory states, corruption, rent-seeking activities in African countries. These issues were thought as simple distortions resulting from the exploitative nature of colonialism or post-independence protectionism which could be overcome by *economic liberalization and institutional capacity building* through adjustment policies and foreign aid. However, these models, often designed after Western standards, failed to yield the expected economic development and poverty reduction. Therefore, we argue in the next chapter that although institutional and socio-economic fragmentation constitute an obstacle to economic and development cooperation in Africa, context-specific and gradual institution building under a developmental regionalism framework is a promising policy alternative for the SADC countries.

III. Rethinking Regional Cooperation and Institutional Reforms in the SADC: Addressing the Development Gap and Institutional Fragmentation

We demonstrated that the institutional weakness and socio-economic fragmentation problems of the SADC countries are common to all SSA countries, and resulted from a long process of institu-

[13] In this regard Walle (2009) states that: "Combined with the subaltern status and lack of political power of African populations, this state of affairs further undermined the responsiveness of states and contributed to a state culture of imperiousness and self-regard. Colonial states were more corrupt (…)" (p.19)

tional path dependence. Therefore, the African countries saw themselves trapped in a vicious circle of institutional weakness, resource allocation inefficiency, low economic growth and regional instability. The international community, particularly the Bretton Woods' Institutions (BWIs) namely the World Bank and the International Monetary Fund, came up in the late 1990s with the concepts of ''*good governance*'' and ''*capacity building*'' as part of their adjustment programs for the developing countries including SSA. However, it is know broadly agreed that these top-down and ''one-size-fits-all'' policies have been disappointing in terms of their development outcomes. Accordingly, it is no surprise that the western style SADC regionalism failed to overcome the region's longstanding obstacles to trade and cooperation. Therefore, in this last chapter we argue that the SADC's developmental regionalism is still relevant but needs to reconsider its policy approach. In light of our previous analysis under a NIE perspective, we will explain how regional integration can be a transformative and developmental tool for the SADC members. Secondly, we will see the example of the ASEAN and particularly the role played by regionalization in fostering industrialization and investments. And lastly, we will identify the critical policy approaches for a more inclusive and broad-based regionalism which will lead the SADC countries on a new institutional and development path.

3.1. A transformative and developmental Regional integration

It is important to recall the rationale for regional integration and developmental regionalism in the southern countries and in the SADC in particular. First of all, the arguments for African regionalism are based on the limits and failures of decades of neoliberal policies in the region. Therefore, after recalling the limits of the mainstream approach to development in Africa, we will describe the concept of transformative regionalism and its relevance in addressing SADC's longstanding institutional and economic fragmentation.

3.1.1. *Limits of the mainstream static analysis approach*

The dominant thinking about regionalism in general, and in the southern regions in particular, is dominated by neoclassical economic principles. In this regard, the European and its western-style regionalization is frequently taken as a point of reference by scholars, regional leaders or policymakers (Söderbaum, 2009; Zajontz, 2013). These principles embedded in the policy recommendations of the ''Washington consensus'' were the basis of the structural adjustment programs (SAPs) destined to help the economic recovery of the developing countries in the 1990s. With some minor revision, such as the new concepts of *good governance* and *human development*, current development policies in Africa follow the same approach based on trade liberalization, market deregulation, and non-interventionism. Accordingly, while the SADC treaty (signed in 1992) emphasized equitable economic growth and poverty alleviation among its priorities, open regionalism giving primacy to progressive liberalization of trade and factor movement has been the strategy toward these goals (Zajontz, 2013). However, the result still appear to be disappointing regarding economic development and regional cooperation.

The focus on trade and market liberalization is based on the static comparative advantage analysis which upholds that countries are better off if they promote trade with countries with complementary and different structure of factor distribution. From this point of view, a South-South (S-S) regional trade agreements are irrelevant and economic growth will only occur in North-South (N-S) trade. This may explain the lack of dynamism of the SADC members in promoting regional cooperation. However, this static approach is misleading since it ignores the dynamic factors that justify S-S regionalism (Shafaeddin, 2008). Besides, N-S trade tends to reinforce the state of dependency and division of labour inherited from colonization. Shafaeddin (2008) suggests that trade liberalization is among the tools for achieving development but not a prerequisite. Indeed, the East South and Southeast Asian (ESSEA) region's rapid growth has been driven by regional trade induced by the implementation of *regional industrial cooperation and production sharing* (Shafaeddin, 2008). Moreover, the world trade statistical review (WTO, 2016; p.56) reports that S-S trade is growing rapidly and overtook N-S trade since 2010. These pieces of evidence dismiss the neoliberal idea that S-S trade is harmful especially when figures from WTO (2016) report that the growth in global trade volume is primarily driven by developing countries. Therefore, southern regionalism should be analysed through a dynamic and developmental perspective rather than the traditional efficiency maximization (Heinonen, 2006; Shafaeddin, 2008; Söderbaum, 2009). Indeed, Southern regionalism such as the Southeast Asian regionalism has rationale that goes beyond static trade gains maximization. Regionalism in the developing countries and SSA, in particular, should be regarded as an instrument of **structural transformation** and economic development. Scholars refer to it as "**transformative or developmental regionalism**" (Shafaeddin, 2008; Söderbaum, 2009; Zajontz, 2013). In principle, regionalism can be transformative because it gives the possibility to member states to cooperate in regional security, industrial production sharing, institutional and infrastructure building, bargaining better terms for foreign investments and trade of strategic raw materials.

3.1.2. *Ensuring regional security and stability*

Most of the existing regional organizations emerged primarily from security concerns. For instance, the European Union (EU), which is the most advanced regional bloc in the post-cold war era, was formed with the purpose of ending the long history of conflicts between nations of the region. It is broadly accepted that the EU was crucial in the pacification of Europe. Moreover, regionalism turns out to be relevant also in bringing peace and security in the developing regions such as Southeast Asia or Southern Africa (Söderbaum, 2009; Peter-berries, 2010). Thus, preserving regional security and stability justifies regional cooperation and the choice to form a regional bloc. In theory, Verdier (2010) argues that increasing economic and political interdependence between nations may reduce the occurrence of conflicts and wars by increasing the **cost of confrontation**. Regional integration will also intensify the interaction between people and therefore raise the level of **mutual trust** over time. Moreover, in the context of **fragile countries**[14], such as the African countries, regional integration can solve the resource allocation problem related to defence and control of the territory. However, ensuring regional peace and security required the mobilization of physical as well as financial resources which lead us to the economic implication of transformative regionalism.

3.1.3. *Building a productive and supply capacity: industrial production sharing*

The main objective in **developmental and transformative** regionalism is to address the lack of supply capacity and diversity which characterizes the developing economies. Indeed, as mentioned earlier universal free trade and globalization tend to reinforce the existing international division of labour maintaining the developing countries in the role of suppliers of low value added and labour intensive primary products. Therefore, transformative regionalism which focuses on regional production sharing and industrial cooperation is an alternative instrument for economic diversification and industrial structure upgrading. According to Shafaeddin (2008), developing economies typically have a significant reserve of **unemployed labour** that can be directed toward new industrial production for export without distorting the extant domestic production/consumption structure[15]. Furthermore, the **regional network of manufacturing production** will expand intra-regional trade and provide the participating countries with the necessary experience and **learning-by-doing** skills that will increase their competitiveness to ultimately enter the global market. However, building a regional network of production requires the provision of complementary

[14] According to Verdier, Fragile countries are "Characterised by the presence of weak institutions and governance structures, and a fundamental lack of state capacity and/or political willingness to fulfil core state functions. These include security and protection, taxes and the provision of public goods, and the building up of legitimacy and a resilient relationship with civil society". (Verdier, 2010; p.1)

[15] "In other words, a developing country possesses some potential surplus productive capacity, which can be mobilized for producing additional goods for export without shifting resources away from production for the domestic market." (Shafaeddin, 2008; p.9)

resources and back-up services to reduce transaction costs particularly on the supply side.

3.1.4. *Reducing transaction costs: Institution and infrastructure building*

Transaction costs are among the most binding obstacles to economic growth and development in SSA countries. Moreover, as we have seen in the first chapter, institutional settings (informal and formal) are the most effective way to deal with these costs in the long term. We also concluded from Acemoglu et al. (2005) that institutional change is obtained through political and social struggles and the political choices of the groups in power. The transaction costs that prevent structural transformation and industrialization in the developing countries, and in SSA in particular, require concerted actions of neighbouring countries. Indeed, access to seaport for land-locked countries, cross-border transportation cost, small-sized market, public resource scarcity or policy uncertainties all require **regional cooperation** to be addressed effectively, particularly in the developing countries' context. Therefore, regional integration must create **institutional incentives** that will empower stakeholders whose choice and interest will likely to meet **general welfare**. In that sense, transformative regionalism implies the involvement of **broad range of actors** from the public sector, civil society, academia and business. Since such wide-ranging regionalization process would increase the **cost of non-compliance and of isolation**, regional institutional and policy reforms will also accelerate institutional changes at the domestic level. According to Verdier (2010) among the main factors increasing the **value of belonging** to the bloc, and thereby strengthening commitment between members is the stronger **bargaining power with third parties**.

3.1.5. *Bargaining power with third parties: FDI and international Trade*

As highlighted in previous chapters, SSA countries suffer from a weak bargaining power in the international market. Indeed, the **lack of capacity and legitimacy** of the African states lead them to unequal foreign investments and trade agreements, often at the expense of the domestic economy, to consolidate their power. Moreover, weak bargaining power also contributes to **external dependency and reduced policy ownership** resulting from high reliance on tied Official Development Assistance (ODA). A strong bargaining power is a function of the size of the domestic market (both in population and economic size), military force, geopolitical significance, and level of expertise. In this regard, most of the developing countries, and particularly in SSA, taken individually, hardly possess any of these characteristics. Therefore, regional integration appears to be the most accessible strategy to increase bargaining power with more developed and powerful counterparts. Verdier (2010) suggests that ‘‘**pooling sovereignty**’’ is signalling stronger economic leverage, political forces or cultural identity toward the rest of the world. Moreover, regional cooperation will reduce **negotiation costs** by the pooling of financial resources and technical skills. A strong bargaining power is crucial for a successful transformative and developmental regionalism because it will enable the negotiation of better terms of trade and regulation of foreign investments to foster technology transfer and learning, linkages with domestic firms, industrial upgrading, and exposition to international best practice.

3.2. Comparative regionalism: Industrial and investment growth in the ASEAN

Traditional approach in analysing the effect of regional blocs are based on European and western-style integration theory and practices (Söderbaum, 2009). However, as we have demonstrated throughout this paper the current wave of regionalism cannot be explained only through international trade and state-centric perspectives. Indeed, the *new regionalism* is driven by multiple state and non-state actors and cooperations that include wide-ranging non-traditional areas such as development, production networks, environment, culture or research and development. Therefore, a comparison of the characteristic and process of regionalization in different regions is important for a more realistic and context-specific understanding of the issue. In this regard, studying the Southeast Asian integration model is useful to elucidate the dynamics of regionalism in developing countries' context.

The ASEAN experience provides practical and real world evidences of the transformative and developmental role of regionalism. The particularity of the ASEAN regionalization process is that it has been simultaneously driven by foreign investment flow and manufacturing exports. The European style institutional formalism and trade agreements had a negligible impact on the growth of the regional bloc (Shafaeddin, 2008; Söderbaum, 2010). Indeed, the intra-ASEAN trade and the expansion of **regional production networks** were led by non-state actors in the business sector, civil society and to some extent the Chinese trade networks. However, Shafaeddin (2008) stressed that the industrialization and the rapid growth or intra-regional trade in the Southeast Asian region were not solely market-driven; **government intervention** also played a significant part. Indeed, trade within the ASEAN bloc was dominated by **off-market intra-firm trade**. Moreover, these **regional production sharing** has been fostered by the joint effect of FDI policies and internationalization policy from the host ASEAN countries and the government of Japan[16].

Therefore, convinced by the important opportunity offered by internationalization of the Japanese and Western firms, the ASEAN countries decided to support what Shafaeddin (2008)

[16] The appreciation of the Yen after the Plaza accord in 1985 prompted the Japanese firms to move their labour-intensive production to the labour abundant East and Southeast Asian countries.

refers to as **fragmented vertical production chain** through **intra-regional specialization**, local **content requirements**, **joint ventures**, and government investment in education, training and technological infrastructure. The ASEAN also facilitated the entry and implementation of foreign firms within the **regional production networks** through complementary investment in cross-border infrastructure, trade liberalization policies, the creation of economic corridors, and the liberalization of factors of production in chosen sectors. The considerable growth of exports of manufactured products contributed significantly in the gradual upgrading of the industrial capabilities of the ASEAN countries. Moreover, as intra-regional trade intensifies and linkages between local suppliers and foreign affiliates are strengthened the ASEAN countries are gradually moving up higher in the Global value chains. Of course, there are some caveats regarding the relevance and the sustainability of the ASEAN, particularly because of the high dependence on foreign capital and market, as well as the strong interdependence of the members which accelerate the transmission of economic crisis. However, the ASEAN developmental regionalism experience is still recent to make any conclusion, and it is the only available example of such successful initiative in the developing world. The ASEAN experience is particularly relevant for the SADC countries since it informs on how regional cooperation could help to overcome some of the institutional bottlenecks that hamper structural transformation.

3.3. Conceptualizing a transformative SADC regionalism: a context-specific and bottom-up policy approach

As we have developed earlier, a transformative regionalism is one that is concerned with dynamic comparative advantage, industrial upgrading and improving terms of trade with partners. Moreover, as suggested by the ASEAN experience, regionalism is a relevant solution for small and fragile neighbouring economies like those in the SADC to address the institutional and structural impediments to economic development. Indeed, the ASEAN transformative regionalism model has the potential of tackling problems of high transactions costs, insecure propriety rights, and weak contract enforcement. However, our institutionalist approach also suggests that institutional changes are constrained by path dependence. Therefore, we should prioritize a context-specific approach to reform and policy implementation. In this last section, we will attempt to conceptualize the transformative regionalism in the context of the SADC.

a) Creating and supporting a regional market for high value added goods: tapping on the unemployed resources surplus

As demonstrated throughout this paper, SADC's most binding obstacle is the lack of economic diversification and the dependence on natural resources exports. Therefore, it is crucial for the SADC countries to cooperate for the creation of a regional market for higher-value added and manufactured goods. In the SADC's case, in the short-term **agri-business and food processing** sector is a potential driver of the regional industrial collaboration. Indeed, not only do the SADC countries have large comparative advantage in the agricultural sector, but also demand on regional as well as global is likely to grow faster as the population is expected to expand faster in the coming years in several emerging regions. On the supply-side, Brookings' ''Foresight for Africa'' (Amadou, 2017) reports that SSA's **working-age population** is expected to increase by 70 per cent i.e. from 466 millions in 2013 to 793 millions in 2030. The potential human capital for economic diversification and industrialization is non-negligible. Therefore, it is imperative for the SADC countries to identify each members' comparative advantage in manufacturing and establish an ASEAN-like integrated production network. However, to have sustainable and wide ranging impact, policymakers should adopt a **bottom-up approach** by expanding the participation of **civil society** (non-state actors) **and private sectors** in the regional process.

b) *Enhancing legitimacy for a sustainable structural transformation: Capacity building and broad participation of the civil society and private sectors*

The fragility and weakness of the SADC states stem form the lack of legitimacy and the patrimonial nature of their governments. Therefore, directing regional resources in investment on public goods such as in education, health, regional security, capacity building, access to credit and economic corridors, not only will be **market-legitimizing** but also will ensure the sustainability of regional industrial upgrading. Indeed, these measures are crucial in complementing the more top-down regional production sharing policy. Moreover, from an institutional economics perspective, such a wide ranging welfare policy is likely to break the **low-level equilibrium trap** and drive institutional change toward a path of lower transaction costs, lower uncertainty, higher level of trust and justice. Regional allocation of public goods should also help the **reinsertion of the informal activities** in the market and thereby increase the benefit from scale economies. Lastly, the inclusion of the private sector in the regional process means more **job creation** opportunity and **stronger linkage** between local, regional and international firms.

c) *Regional investment in hard infrastructure and energy*

The SADC countries should also improve and accelerate their cooperation in infrastructure and energy sharing. Although investment in infrastructure and energy is mentioned in the SADC development strategy, priority should be given to the productive sector. Indeed, one of the important strategies that contributed to the success of the ASEAN in attracting investment in the manufacture sector was the development of economic corridors which fostered the emergence of **industrial clusters**. Moreover, pooling the energy market at the regional level is relevant to SADC since some countries **have a surplus in energy production** while others suffer from a shortage. Not only will a well-developed infrastructure and energy supply facilitate the creation of regional production network but it will also enhance **regional connectivity** which in turn strengthen **socio-cultural ties**, hence regional identity.

d) Soft-Regionalism

This term is associated with the Southeast Asian model of regionalism. It describes a regional process which does not emphasize on European-like heavy institutionalization. Moreover, soft-regionalism is less state-centric and allows for more informal negotiation between members. For instance, Tuluy (2016) suggests that the African regionalism should be more flexible and adopt a geometry variable approach in which countries are allowed to operate at different speeds. Soft-regionalism is also gradual in the sense that it enables forerunners and like-minded countries to reach deeper agreements on important issue such as trade liberalization or infrastructure investment that others can join afterwards. This model is also characterized by the focus on selected sectors rather than a comprehensive agreement and thereby reduce the risk of disagreement and conflicts.

e) Adjustment mechanisms: compensating the losers

An important element of a developmental regionalism is the mechanism of compensation for lower-income economies. Indeed, some countries may lose a significant part of their tax revenues during the regionalization process and thereby need some compensation during their period of adjustment. This is particularly relevant for the SADC since higher performance countries like South-Africa and Mauritius may attract the bulk of investments and benefits from the larger market at the expense of other weaker economies.

CONCLUSION

Our analysis of the Southern African regionalism through the NIE approach revealed that institutions matter. Indeed, theory of institutional economics and empirical studies discussed in this paper provide convincing evidences that institutional efficiency in reducing transaction costs determine the performance of an economy in the long-run. Moreover, the institution is particularly important in the process of accumulation of physical capital and thereby industrialization. However, the

"*African states*" are notable for their incapacity to address the high transaction costs harming their economic performance. SSA states' weakness and fragility is reflected in insecurity, social fragmentation, low protection of property rights, low capacity of contract enforcement, lack of supply in public goods and patrimonialism that characterize their economic and political environment. Using a historical and institutionalist approach, we observed that the African states' institutional weakness is the result of a long process of path dependence throughout history. The persistence of weak and inefficient formal and informal institutions in Africa has been facilitated by mutually reinforcing historical and natural conditions such as slave trade, ethnic fragmentation, ecological diversity or colonialism.

Since the late 1990s, scholars and policymakers attempted to tackle the problem with neoclassical economics principles implying a small-sized state and *laissez-faire* economy. Therefore, institutional reforms in the SSA countries were implemented following the Anglo-Saxon standards regarded as the highest in the world. However, these reforms including market liberalization and privatization failed to break the path dependence and seem instead to be reinforcing the longstanding economic hierarchy, keeping the SSA countries in the role of natural resources exporters with a small to non-existent manufacturing sector. Therefore, studying the case of the SADC regional bloc, we found that institutional and economic fragmentation can be addressed through regional cooperation. Moreover, from a close observation of the ASEAN experience we argue that institutional change leading to structural transformation can be achieved through *transformative or developmental regionalism*. In other words, regional cooperation that aims at increasing member countries' supply-side and productive capacity. Thus, we suggest that the SADC should focus on regional production sharing of higher value-added goods such as in food-processing or other labour intensive manufactured goods. Building a regional market for manufactured products requires the inclusion of the civil society, informal sector, academia and above all the business sector in the regional process. Such a broad-based and bottom-up process will have a stronger and wider impact in breaking the existing institutional trap and provide the members a higher leverage on FDI and trade negotiations with third parties. Lastly, the SADC countries should opt for a *soft-regionalism* i.e. a flexible and multi-speed approach avoiding heavy institutional structure and measures should also be taken to compensate the losers during the process.

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