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Regional Economic Integration and Trade Liberalisation towards a Free Trade Area in Southern Africa: A Critical Assessment

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Regional Economic Integration and Trade Liberalisation

Towards a Free Trade Area in Southern Africa:

A Critical Assessment

by

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Acronyms

ACP	*African Caribbean Pacific*
ASEAN	*Association of South East Asian Nations*
ATA	*Alternative Trading Arrangements*
EU	*European Union*
FDI	*Foreign Direct Investment*
FTA	*Free Trade Area*
GATT	*General Agreement on Tariffs and Trade*
GSP	*Generalised System of Preferences*
MERCOSUR	*Southern Cone Common Market*
NAFTA	*North American Free Trade Area*
OECD	*Organisation for Economic Co-operation and Development*
REPA	*Reciprocal Free Trade Agreement OR*
	Regional Economic Partnership Agreements
RTA	*Regional Trade Agreement*
SADCC	*South African Development Co-ordination Conference*
SADC	*Southern African Development Community*
SAP's	*Structural Adjustment Programmes*

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Introduction

Regionalism has become a prominent feature of the current international landscape. During the last decade and a half there has been an increasing number of countries that opted to form regional blocs.[1] Developing countries fear of marginalisation and their need to be part of a larger economic entity has been an important motivation in signing regional trade agreements (RTA's). For Southern African countries, the growth of regionalism on a global scale and their declining share in world output has led to a plethora of RTA's within the region. In the words of the SADC executive secretary, Dr. Kaire Mbuende: "Southern Africa and indeed the entire African continent have no choice but to integrate." If we do not integrate we will not only be marginalised, but trivialised [Mbuende, 1994:16].

In re–organising regional co–operation in Southern Africa, all countries are vitally concerned to establish a stable regional order for the future. The founding of the Southern African Development Community (SADC), formerly known as the Southern African Development Co–ordination Conference (SADCC), at the SADC summit at Windhoek in 1992 was of decisive importance for the development of regional co–operation in Southern Africa, and at the same time a first step towards institutional re–organisation.

The SADCC was founded in 1980 in view of the continued existence of the apartheid regime in South Africa for the purpose of promoting co–operation between the independent African countries in the region. The organisation grew out of efforts by the so–called Frontline States to liberate Southern Africa and to protect against South African aggression. Although the founding document spoke of "forging…regional integration", the SADCC did not seek to initiate a process of trade liberalisation. The prime goals of SADCC were to:

- reduce economic dependence especially, but not exclusively, on South Africa;
- furnace links in creation of an equitable sub–regional group;
- mobilize resources to promote and implement sub–region integration policies; and
- secure international for economic liberation and called self–reliance.

1 This can be seen in the growing number of regional blocs (for example EU, NAFTA, ASEAN, MERCOSUR, SADC, ECOWAS, COMESA, etc).

To this end it initiated a mechanism of development co–ordination through which the functional areas of co–operation were identified and, in a separate step, support was sought from international donors for priority regional development projects.

By the late 1980's, it had become apparent to SADCC policy makers that the organization needed strengthening. A strong consensus evolved among SADCC member states toward a mission focussing on united efforts towards deeper regional co–operation beyond mere co–ordination of development projects to equitable integration of their economies. The need to work together, rather than individually, became increasingly apparent to the leaders of Southern Africa as a precondition for political survival, economic development and social advancement. This led to the birth of the SADC in August 1992 where a Declaration and Treaty was signed by the then SADCC member states. The purpose, as the declaration affirms, is to elaborate and establish a framework for co–operation, which provides for…deeper economic co–operation and integration, on the basis of balance, providing for cross–border investment and trade, and freer movement of factors of production, goods and services across national borders.

The SADC concluded a trade protocol in 1996 of which the ultimate intent is a free trade area by the year 2004. The success of this regional trade agreement depends on various factors. However the most important among these are: (i) the structure of SADC trade; and (ii) the distribution of costs and benefits resulting from the agreement. Hence, the new SADC's role is to integrate the economies of Southern Africa into a single role, whereas its predecessor, SADCC, sought to co–ordinate the economies of member states.

At present there are 14 member states of SADC which comprises of the following:

[illegible]	[illegible]
Angola	1997
Botswana	1997
Democratic Republic of Congo	1997
Lesotho	1995
Malawi	1995
Mauritius	1995
Mozambique	1997
Namibia	1997
Seychelles	1997
South Africa	1994
Swaziland	1994
Tanzania	1994
Zambia	1994
Zimbabwe	1994

Source: The SADC Handbook – published by the SADC Secretariat (1998)

Any new member states wanting to join, may be allowed by a unanimous decision of the SADC summit and upon acceding to the SADC treaty.

With the above in mind, the aim of this paper is to analyse the structure of SADC trade and the distribution of costs and benefits resulting from the agreement, in order to provide a critical assessment of the viability of the SADC FTA. This paper is made up of 4 sections.

In the first section an assessment of the consequences and implications of the SADC treaty is reviewed, as well as, to administer the objectives of SADC as manifested in the August 1992 treaty.

Section 2 then discusses the structure of SADC trade before turning to the sectorial responsibilities of each member state within the SADC region. The structure of SADC trade is then examined in order to determine, inter–alia, the magnitude and potential of future intra–regional trade in the SADC – FTA.

The third section provides a cost–benefit analysis of the SADC FTA. The distribution of these costs and benefits are a thorny issue in the SADC region. Therefore the question of compensation is also addressed in this section.

Section 4 of this paper assesses the implications of a SADC/EU trade agreement for the SADC. It takes into consideration the special needs and current position of the SADC in order to make a critical assessment. SADC faces a major challenge in the mapping of the region's future path of external trade liberalisation. This requires careful consideration of what it wants to achieve as a region i.e. must it be seeking greater access (or preservation of existing access) to current major partners or should it be trying to broaden its markets? The path it chooses to take would necessarily influence the SADC's approach in the negotiations of a trade agreement with the EU.

Finally a vision of the future is postulated before concluding.

Section 1

1.1 **THE SADC TREATY:** ***Some Consequences And Implications***

The SADC Treaty is a legally binding document whereby the member states of SADC shall co–ordinate, harmonize and rationalize their policies and strategies for sustainable development in all areas of human behaviour. The Treaty commits member states to the essential principles of:

- sovereign equality of member states;
- solidarity, peace and security;
- human rights, democracy and rule of law; and
- equity, balance and mutual benefit.

***Source*:** The SADC Handbook – published by the SADC Secretariat (1998)

Each member state is expected to confirm and make evident their commitment to act in agreement with these principles as set out in the Treaty. The Treaty also commits SADC and the governments of member states to fully involve the people of the region and non–governmental organizations in the process of regional integration. All decisions, policies and agreements entered within the power of SADC are legally binding thereby creating the necessary legal instruments to enforce such decisions, policies and/or agreements.

The treaty furthermore makes provision for protocols which will set out the principles and procedures under which member states will conduct their co–operation in the relevant specified areas. Lastly, the imposition of sanctions against member states may be adapted to those who persistently fail to fulfil its obligations assumed under the Treaty and implement policies that could undermine the principles and objectives of SADC.

1.2 **THE OBJECTIVES OF SADC**

The objectives of SADC as set out in the Treaty are to:

- fulfil both the responsibilities of development and economic growth, mitigate poverty, improve the overall welfare and quality of life of the people of Southern Africa as well as support the socially disadvantaged through regional integration.

- evolve common political values, systems and institutions.
- promote and defend peace and security.
- promotion of self–sustaining development on the footing of collective self–reliance, and the inter–dependence of member states.
- produce complement achievements between national and regional strategies and programs.
- provide maximum promotion to productive employment and the utilization of the resources of the region.
- achieve sustainable utilization of natural resources and effective protection of the environment.
- merge and strengthen the long–standing historical, social and cultural bonding relationships among the people of the region.

In order to achieve its aim, SADC shall:

- conform to the political and socio–economic policies and plans of member states.
- mobilize the people of the region and their institutions to take initiatives to develop economic, social and cultural ties across the region, and to participate fully in the implementation of the programs and projects of SADC.
- create appropriate institutions and mechanisms for the mobilization of requisite resources for the implementation of the programs and operations of SADC and its institutions.
- acquire policies with the aim of eliminating obstacles that will allow the free movement of capital and labour, goods and services amongst member states.
- give promotion to the development of human resources and the transfer and mastery of machinery.
- enhance the economic management and performance through regional co–operation.
- promote the reconciliation and balancing the international relations of member states.
- secure international understanding, co–operation and support, mobilize the inflow of public and private resources into the region.

- make provision for the development of other activities as the member states of SADC may decide to its objectives and responsibilities.

Agreements of SADC signatories confirmed that under–development exploitation, deprivation and backwardness in Southern Africa can only be conquered through the implementation of efficient economic co–operation and integration. In order to achieve regional economic integration in Southern Africa, together with the harmonization of objectives as set out, the member states of the region must bestow their full confidence in SADC and act on behalf of the people of Southern Africa for their common prosperity, peace and unity.

Source: The SADC Handbook – published by the SADC Secretariat (1998)

Section 2

2.1 STRUCTURE OF SADC TRADE

The viability of the SADC FTA depends to a large extent on the current structure of SADC trade. The latter includes factors such as: (i) direction and composition of SADC trade; (ii) magnitude of intra–regional trade; (iii) trade imbalances; (iv) export concentration and diversification; (v) trade complementarity; and (vi) tariff structure.

The SADC's share in world trade is marginal compared to that of the other regional groups. Hence the fear of marginalisation in world trade by SADC countries is understandable. The SADC's extra–regional trade is directed mainly at OECD countries, with the EU as the main trading partner.[2] The nature of this trade is neo–colonial to the extent that SADC countries export primarily agricultural and mineral commodities; and imports are concentrated in manufactures and capital goods [Mayer and Thomas, 1997]. This trade pattern is the result of an underdeveloped industrial sector in the region. Therefore the SADC countries do not have the production capacity to produce manufactures and capital goods for own consumption or exports.

The volume of SADC intra–regional trade as a proportion of total trade is relatively small compared to other major regional groupings such as the EU, NAFTA, MERCOSUR and ASEAN.[3] However in the 1992–1996 period, the SADC experienced rapid growth in intra–regional trade.[4] This can partially be attributed to the post–apartheid effect and increased trade liberalisation in the region. The intra–regional trade pattern bears close resemblance of the neo–colonial character of extra–regional trade.

In general, intra–regional trade in the SADC is characterised by unprocessed primary commodities being exported to South Africa and Zimbabwe. The latter two countries having a relatively more developed industrial base, exports predominantly manufactures and semi–processed intermediate goods to other SADC countries [Mayer and Thomas, 1997]. Also it is

2 See Annexure, Table 1 – Direction of SADC exports.
3 See Annexure, Table 2 – A comparison of SADC trade and other major regional groupings.
4 It was estimated that SADC achieved a 78.3% growth in intra–regional exports during this period [Tsikata, 1999].

interesting to note that Southern Africa is the only region to which South African exports are mainly manufactures rather than primary products.

Whereas the direction of intra–regional trade is concerned, South Africa dominates both the direction and volume of the trade flows. This dominance is also evident when considering the source of SADC intra–regional exports on a country specific basis. Table 3 shows that South Africa supplies 81.4% of total SADC exports, and in particular with commodities such as chemicals, basic manufactures, machinery and minerals this country is nearly the sole supplier.[5] In the light of these considerations it is not surprising that South Africa benefits from a major trade surplus with the SADC region. The terms of trade in 1995 stood at 7.4:1 in favour of South Africa, with a resulting trade surplus of R9.2 billion [Mayer and Thomas, 1997]. There exist therefore a major trade imbalance in the region. However, as suggested by McCarthy (1998), it is not the trade imbalance itself, which should be viewed with caution, but rather the political dissatisfaction with this imbalance, which could lead to conflict in the SADC.

Also it would be unrealistic to assume that this imbalance would be reversed in the near future. It would, however, not be unrealistic to expect that the SADC FTA with accompanying trade liberalisation could alleviate this imbalance. Nevertheless, since SADC countries (excluding South Africa and Zimbabwe) are mainly supply constrained, one cannot rely too much on increased market access as a remedy to trade imbalances in the region [McCarthy, 1996]. Here investment and a continued effort of infrastructure building will be crucial so as to enhance the capacity of SADC countries to compete more effectively in the region.

Although the SADC FTA is designed so as to facilitate intra–regional trade, it is not self–evident that such a regional trade agreement will bring about increased intra–regional trade. Factors such as export diversification and concentration, and trade complementarity will have an impact on the potential of intra–regional trade. Therefore it is imperative that the trade protocol should be evaluated in consideration of these factors. Thus, the following discussion will give a brief review of these factors and subsequently evaluate the attentiveness of the trade protocol to these matters.

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5 See Annexure, Table 3 – Source of Intra–SADC Exports (% of total product supplied by country).

It is commonly accepted that countries with a more diversified export base will have more success in regional trading arrangements since: (i) a greater variety will necessarily increase the trade potential in the region; and (ii) it will reduce their vulnerability to export instability that could adversely impact on their commitment to regional trading arrangements[6] [Tsikata, 1999]. Table 4 presents three indicators of export concentration and diversification: (i) the number of SITC three–digit products; (ii) an export diversification index; and (iii) the Hirschman concentration index.[7] As can be seen from the table, all three indicators used shows that SADC countries' export structure tend to be concentrated. The results are also significantly higher than the export concentration of other developing country regional groupings such as ASEAN and MERCOSUR. Thus one can conclude that the high level of export concentration in the SADC will seriously undermine the ability of the SADC FTA to bring about increased intra–regional trade. Fortunately, the trade protocol has stated as one of its objectives to enhance diversification and industrialisation in the region. Therefore the success of the SADC FTA will partially depend on the ability of member countries to remove this impediment to intra–regional trade.

The export diversification/concentration indicators, however, do not reveal the complementarity of trade in a region. A diverse export base is beneficial for intra–regional trade if there is also a significant degree of complementarity in the region's trade. Thus, it is necessary to assess also how well the region's export and imports complement each other. For this purpose a trade complementarity index is used.[8] Table 5 shows the complementarity indices for South Africa and selected SADC countries.[9] On average the trade complementarity is very high and compare favourably to successful RTA's such as NAFTA and the EU. However bilateral indices of trade complementarity in the SADC shows that only South Africa and Zimbabwe have significant levels of bilateral complementarity (relative to international standards).[10]

6 It is argued here that exposure to export instability would reduce a country's ability to consistently maintain financial requirements that is required by a RTA.

7 See Annexure, Table 4 – Export concentration and diversification in the SADC.

8 The complementarity index between two countries j and k (Cjk) can be defined as: $C_{jk} = 100 - S\ (\ |\ M_{ik} - X_{ij}\ |\ /\ 2\ )$. Where X_{ij} represents the share of good 'i' in the total exports of country j, and M_{ik} represents the share of good 'i' in the total imports of country k. The index ranges from zero (no complementarity) to 100 (a perfect match between exports and imports) [Tsikata, 1999].

9 See Annexure, Table 5 – Trade complementarity indices within SADC, 1996.

10 See Annexure, Table 6 – Bilateral complementarity indices.

For the rest of the region bilateral complementarity remains low especially amongst the poorer countries in the SADC region. This is mainly due to the fact that these countries produce competitive goods (i.e. primary commodities) and not complementary goods. Naturally, the trade protocol's objective of diversification and industrialisation could improve trade complementarity if it is intent on achieving not only diversity but also complementarity in production. In addition, authorities should also consider potential trade complementarity for commodities, which is not currently traded by member countries. This approach will certainly be more useful for promoting intra–regional trade in the SADC FTA.

Finally, we can now consider the last point of discussion in this section – the tariff structure of SADC countries. SADC countries have in the past embarked on both unilateral and multilateral tariff liberalisation. Consequently, the level and dispersion of tariffs has fallen significantly. However, there remains still significant disparity among SADC members on their progress of tariff liberalisation.[11] Therefore a move towards a free trade area in this regard will bring about different costs and benefits to SADC countries (i.e. countries with higher tariff levels will necessarily face higher fiscal costs due to tariff liberalisation; also as argued by Laird (1996)[12], the welfare gains for a particular country will be greater, the higher the trade barriers being reduced). Fortunately, the trade protocol gives preferential treatment to SADC countries, to the extent that they have a longer implementation period than South Africa.[13] Sensitive industries such as textiles and clothing, sugar and motor vehicles are exempted from this schedule and have their own trade protocols.

Studies done by O'Brien (1997) and Imani (1997) found that non–tariff barriers in the SADC region is not trade related, rather it is related to administrative and bureaucratic inefficiencies such as communication problems, customs procedures, transport problems, lack of market information and border procedures [Tsikata, 1999].

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11 See Annexure, Table 7 – Structure and Distribution of MFN Trade–weighted Tariffs in SADC, for differences in weighted average tariffs and the number of tariff bands.

12 In Page (1997): *Some Implications of the SADC Trade Protocol.* Overseas Development Institute.

13 It is expected that the South African Customs Union (SACU) would phase down tariffs in five years, whereas other SADC countries have eight years to phase down their tariffs. Furthermore the SACU countries would frontload not only in terms of time frame, but also with the pace of tariff reduction and the coverage of SADC free trade [Matlou, 2000].

An African Development Bank study (1993) found also that non–tariff barriers, and not tariffs, are the primary impediment to intra–regional trade in the SADC [ADB, 1993]. The trade protocol made provision for the tarrification of non–tariff barriers, however it does not provide any specification on the commitments of the removal of non–tariff barriers (i.e. a time–table for tarrification) [Mayer and Thomas, 1997]. This would certainly dilute the effectiveness of trade liberalisation in the SADC FTA to the extent that the main impediments (NTB's) to intra–regional trade are not effectively addressed in the trade protocol.

2.2 SECTORAL RESPONSIBILITIES AND ECONOMIC OUTLOOK OF MEMBER STATES

As with SADCC, the new SADC takes a sector co–ordination approach with each member state having the responsibility to co–ordinate a sector or sectors on behalf of the others. This involves proposing sector policies, strategies and priorities, and processing projects for inclusion in the sectoral programme.

Since the SADC was established, several new areas of co–operation have been created (i.e. finance and investment, labour and employment, water, health), not least of all to integrate the new members, South Africa and Mauritius, into the existing decentralised structure. The number of sectoral units has therefore increased to 16 with South Africa being assigned the financial sector as well as health, befitting its sophisticated financial and capital markets which are the most developed and robust of all member states.

Other sectors are co–ordinated as follows: energy (Angola); agricultural research and disease control (Botswana); environmental management and water (Lesotho); inland fishing and forestry (Malawi); tourism (Mauritius); culture and information (Mozambique); off–shore fishing (Namibia); manpower development (Swaziland); trade and industries (Tanzania); mining, employment and labour (Zambia); and food, agricultural and natural resources (Zimbabwe).

Sectors are still to be allocated to the Democratic Republic of Congo and the Seychelles. The SADC Sectorial Responsibilities Chart.[14]

[14] See Annexure, Figure 1 – SADC Sectorial Responsibilities Chart.

The policies and processes which SADC has identified as central to the realization of its goals centre around a cluster of economic initiatives. Economically, South Africa dominates. South Africa alone accounts for some 80% of the total economic output of the region and about 32.5% of its population. There is also a growing importance in trade and transport where South Africa manifests itself. Both Malawi and Zimbabwe rely heavily on South African transport with 90% and 60% of their trade passing through South African parts respectively.[15] The countries in sub–Saharan Africa also depend extensively on South African railways, highways, airports, etc.

The economic structures of the SADC countries also reflect great heterogeneity. Countries with relatively larger endowments of skilled and semi–skilled labour (i.e. South Africa, Mauritius, Zambia and Zimbabwe) which followed import – substituting industrialization tend to have the largest manufacturing sectors. They also have negligible agricultural sectors – the latter accounting for less than 10% in each country. Non–manufacturing industry accounts for a high proportion of GDP in Angola, Botswana and Namibia; reflecting the importance of their mining sectors. Malawi, Mozambique and Tanzania are the three countries most dependent on agriculture with 42%, 33% and 58% respectively of each country's GDP derived from the sector. The services sector is quite important for a number of SADC countries, accounting for approximately half of GDP in 6 out of 11 countries for which statistics is available [Tsikata, 1999].[16]

The improved economic performance of Southern Africa since the mid–nineties reflects Africa's general resurgence in economic growth. Compared to the early nineties, real GDP growth increased (from 1.8% to 4.7% per annum); export performance strengthened; and inflation declined in most countries. Combined with the absence of conflicts in the region, the resurgence in growth has led to renewed hope and optimism about the economic future of Southern Africa.

15 See Annexure, Table 8 – Basic Economic Indicators of SADC Countries.
16 See Annexure, Table 9 – Distribution of Gross Domestic Product (% share of GDP).

Section 3

3.1 A COST–BENEFIT ANALYSIS OF THE SADC FTA

Any assessment of the net–gains resulting from the SADC FTA is restricted by two major factors: (i) the poor quality of data in the SADC region makes it impossible to give a precise analysis of the long term impact of a free trade area on the region; and (ii) the large amount of assumptions on factors such as development within the region, countries reaction to a free trade area, and the potential of investment, will leave us with only a tentative conclusion as to the likely impact of the SADC FTA on countries in the region.

However, in the midst of the uncertainty with regards to expected gains and losses, one thing remains indisputable – the SADC FTA must be a positive sum outcome i.e. every member must gain from the move towards a free trade area. A net loss to a member would result in a lack of commitment and active participation, thereby retarding the process of integration. Research conducted on the SADC FTA shows in some instances contrasting results, but on average the main conclusion is a net gain to SADC countries. It was estimated that in terms of monetary gains SADC countries can expect to receive each between R25–R30 billion per year. South Africa being the dominant trading partner in the region is expected to receive R50 billion per year.[17]

Referring back to the previous section on trade structure, one can conclude that the countries in this region are in need of: (i) economic development accompanied by industrialisation (i.e. moving up the value chain), and thus also a transformation of the region's current neo–colonial trade pattern; (ii) expansion of production capacity along with increased market access in the region; (iii) increased growth in not only intra–regional trade but also extra–regional trade; and (iv) an alleviation of the strong trade imbalance. If the SADC FTA can effect such an outcome as described above then it would have come a long way towards ensuring economic prosperity in the region.

In the following discussion, this paper proceed by looking critically at the various costs and benefits associated with a free trade area in the SADC. They will be evaluated against the backdrop of the specified needs of the region.

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17 ***Source***: http://www.sabc.news.com (27 July, 2000).

3.1.1 Static Gains Resulting From The Free Trade Area

Traditional economic analysis on regional trade agreements focus on the static gains resulting from trade integration. This is commonly referred to as the gains resulting from the net effect of trade creation. The latter is the difference between trade creation and trade diversion. Trade creation occurs when countries in the free trade area replace expensive domestically produced or non–member commodities with cheaper imports from other member countries in the free trade area. This is assumed to be welfare enhancing. Alternatively, trade diversion arises where cheaper imports from non–member countries are replaced by more expensive member countries' imports. Thus, trade diversion is welfare reducing.

According to Tsikata (1999), the likelihood that a regional arrangement will be welfare enhancing (thus bring forth net trade creation) depends on factors such as:

- low protection with third countries (reduces trade diversion);
- minimal non–tariff barriers between partners (increases potential for trade creation);
- large existing trade levels (reduces potential for trade diversion);
- complementarity in demand (increases trade creation); and
- differences in economic structure based on factor endowments or in income levels (increases potential for trade creation).

In the light of these considerations the potential of net trade creation in the free trade area does not look very promising since: (i) non–tariff barriers are a major impediment to trade in the region; (ii) intra–regional trade, although higher than other African groupings, remains low[18] compared to regional blocs such as ASEAN, NAFTA and the EU; (iii) complementarity is only significant between South Africa and other SADC members; and (iv) differences in economic structure is also only significant for South Africa vs other SADC members, since the majority of the other SADC countries have basically the same income levels.[19] However in consideration of these factors, it looks as if South Africa's presence in the SADC FTA will encourage trade creation in the region.

18 However, one must be cautious in making this deduction since it is not possible to be confident that low pre–FTA trade will remain low in the post–formation, or for that matter that commodities which do not appear to be traded pre–FTA will remain untraded when tariffs are removed.

19 See Annexure, Figure 2 – GNP per capita – SADC countries (US$), 1995.

3.1.2 Dynamic Gains Resulting From The Free Trade Area

The traditional economic analysis assume that the gains resulting from the free trade area will have no secondary effects, hence the term static gains. However economic analysis has been extended to include also dynamic gains resulting from economic integration. For example, if there is an income gain in the region then this itself will have dynamic effects through investment, the accelerator, etc. [Page, 1997]. Dynamic gains include a broad spectrum of factors, which will be discussed below.

The SADC FTA constitutes a larger market due to tariff liberalisation and a resultant increased market access for SADC member countries. This gives small economies in the SADC the opportunity to appropriate economies of scale by producing for a larger market. The ability to achieve economies of scale in production would naturally lead to increased production efficiency, which in turn could be make producers in the small SADC countries more cost competitive. In addition, lower costs of imported intermediate inputs such as raw materials from other SADC countries (due to tariff liberalisation) would also improve the cost competitiveness of firms in the SADC region [Bhalla and Bhalla, 1997].

Technology spillovers, which were a prominent feature in the ASEAN regional bloc, will necessarily occur where SADC firms co–operate across borders in the SADC FTA. For example, multinational firms with subsidiaries in other SADC countries would aim to leverage their technology and expertise across borders. This could improve the total factor productivity (and thus also competitiveness) of firms located in the SADC FTA. However, the gains from technology spillovers will be dependent on the ability of SADC firms to effectively absorb new technology in their production.

The SADC FTA not only promotes inter–regional competitiveness, it can assist SADC countries in obtaining also international competitiveness.[20] The SADC FTA can serve as a training ground for firms to first gain competitiveness and experience in the larger regional market before shifting their horizons to world markets. This approach was followed by MERCOSUR in its quest for export–orientated development [McCarthy, 1999]. Thus, gains will not only accrue on a micro level (i.e. advantages to SADC firms), but also on a macro level for the SADC region as this strategy supports export–orientated development. The

[20] International competitiveness here refers not only to cost efficiency, rather it encompasses also competitiveness i.t.o. technology and skills.

achievement of the latter could also contribute to increased economic weighting of SADC in the international arena.[21] Naturally, it can be expected that South Africa would not benefit as much from the 'training' exercise as the smaller SADC countries.

The SADC free trade agreement is not only focused on creating the right trading environment, it is also concerned with creating the right investment climate. This dual approach is crucial to the long–term sustainability of the free trade area. Investment in the SADC will play a pivotal role as a supply side measure to remedy trade hindrances such as: (i) lack of production capacity; (ii) weak infrastructure; (iii) export concentration; and (iv) low levels of value added in production (i.e. trade of primarily primary commodities). The ASEAN experience bears testimony to the importance of foreign direct investment (FDI) for industrial growth and the export capabilities of the countries in this regional bloc [Bhalla and Bhalla, 1997].

There are several forces in the SADC, which will encourage cross border investment in the region. First of all, privatisation that is now underway (mainly due to SAP's[22]) in most of the SADC countries should encourage cross border FDI flows. Most of the previous government parastatals, which are now privatised, operated as monopolies. This would encourage investment due to the larger profit margins of monopolies.

Secondly, South Africa is responsible for the development of the financial sector in the free trade area. The aim is to strive for financial harmonisation[23], the rationalisation and co–ordination of investment, and ultimately mobilising investment. This approach will certainly build a more favourable investment climate in the region. In addition, South Africa has recently differentiated exchange control relaxation that favours investment in the SADC. This is a major stimulus for investment flows to the SADC since most of the FDI flows to the SADC originate in South Africa [Bleany, Holden and Jenkins, 1999].

21 Effective export orientated development could lead to increased shares in world markets, as was the case with the ASEAN regional bloc.

22 Structural Adjustment Programme's with the support of the International Monetary Fund.

23 Considerable progress with financial harmonisation have been made with a project in which South Africa's electronic national payment system (SAMOS) is planned to be extended to the other SADC countries. Also, SADC stock exchanges have already started co–operating in areas such as dual listings, and harmonisation of disclosure regulations [Bhalla and Bhalla, 1997].

Thirdly, the lack of South Africa's competitiveness due to relatively high costs of labour and low labour productivity should provide further encouragement for FDI flows to SADC countries were labour costs is lower. It is reported that hourly wages in South Africa have risen much faster than in the US, Japan or Germany while rates of labour productivity have been much lower. Also, labour costs in South Africa are noted to be about three times higher than those of the newly industrialising countries in East Asia [Bhalla and Bhalla, 1997]. A recent example of production shifting due to labour costs is Waverley Blankets in South Africa (Port Elizabeth) whom closed down its factories and moved production to Botswana where labour costs are significantly lower.[24] However, the decision to move production will be weighted against the increased transport costs of being away from the core (South Africa).

Finally, it is expected that the free trade agreement, which includes South Africa, will improve policy credibility and build regional solidarity, which in turn would be favourable for the investment climate in the SADC [Tsikata, 1999].

The free trade agreement could also bring forth an important non–economic gain of increased bargaining power and status. This is especially beneficial when it comes to multilateral trade negotiations such as the latest GATT Uruguay round where countries negotiate with large regional blocs such as NAFTA and the EU. Also, according to Bhalla and Bhalla (1997), the historical experience of the EU shows that it is much easier to make trade concessions along with other partners in a free trade area than unilaterally [Bhalla and Bhalla, 1997].

3.1.3 Relative Costs And Risks Associated With The SADC FTA

Naturally, the SADC FTA, like any other regional trade agreement will bring with it a certain amount of costs and risks. Therefore the challenge for SADC countries is to co–operate in reducing these costs, whilst facing constraints such as limited financial and human resources. This co–operation will necessarily require a sentiment of regional solidarity among SADC members to the extent that members must try to reduce costs for the region as a whole, thus show also co–operation in areas where they are the net–beneficiaries.

This section considers the relative costs and risks associated with the implementation of a free trade area in the SADC. It is important to note that the emphasis should not be primarily

[24] Watson, 2000.

on the short–term costs of the SADC FTA, since these would most probably dissipate in time. Rather one should look at long term costs to which there is no quick fix. A distinction is made between visible/explicit costs and tacit costs/risks associated with the SADC FTA. The latter includes the important issue of polarisation, which will be discussed in detail. As alluded to earlier, fear of marginalisation was a primary incentive for Southern African countries to form regional groupings. However in the event that they will become further marginalised due to polarised development in the free trade area; their *raison d' être* for entering the SADC FTA will be defeated.

i) Visible Costs

It is well known that a move towards a free trade area will result in tax losses due to the removal on tariffs between member countries. For SADC countries with a high level of dependency on import duties as a source of revenue, the tariff liberalisation process could place a serious burden on the national treasury. However, since the volume of SADC intra–regional trade compared to total trade is relatively small, one can expect that the fiscal loss for the region as a whole would be small. Still the incidence of this cost must be considered on a country specific basis due to differences in dependence on SADC imports.[25]

In most of the SADC countries (excluding South Africa and Angola), revenues from import duties account for a considerable share of all revenues collected. This is primarily due to factors such as a narrow tax base, and weak tax administrative capacity in domestic tax collection. Table 10 gives a summary of the revenue implications of the tariff reductions under a free trade area.[26] It presents two alternative scenarios – a free trade area where tariffs are completely eliminated (FTA); and a modified free trade area where a maximum tariff of 10% is levied on imports from member countries (FTA10). The estimated change in revenue is significant for all the countries in the table, especially for Malawi, Zambia, and Zimbabwe with their high dependency on SADC imports. Under the modified free trade area the revenue loss is considerably less. In particular South Africa's loss seems negligible compared to that of the other SADC countries.

25 For example, up to 50% of Malawi, Zimbabwe and Zambia's imports originate in the SADC. Whereas in countries such as Tanzania and South Africa less that 10% of their imports comes from the region [Tsikata, 1999].

26 See Annexure, Table 10 – Revenue implications of a free trade area for SADC members.

However, these fiscal losses could be alleviated by the broadening of the tax base (e.g. implement value added tax), an improvement in tax administration, and also improvement of the collection efficiency of import duties. With the latter there is considerable room for improvement. Table 11 presents the figures for collection efficiency of SADC countries.[27] As can be seen from the table, countries such as South Africa, Tanzania and Zimbabwe could gain considerably by improving their collection efficiency ratios.

The potential closure of firms and resultant job losses due to increased competition in the free trade area is also a short–term adjustment cost. Although it can be argued on pure economic grounds that this could result in a more optimum allocation of resources, since the latter are now redirected to more competitive firms in the region. However the political costs of this adjustment will be considerable, especially in countries with high levels of unemployment and poverty.

ii) Tacit Costs

The potential of trade deflection is greater in a free trade area than in the case of a customs union, which has a common external tariff.[28] This requires well–specified rules of origin in the SADC FTA, in order to prevent importers from taking advantage of lower external tariffs of other SADC members. The costs associated with not only the enforcement, but also the complexity of the rules of origin due to overlapping memberships can be considerable in the SADC region [Page, 1997]. Table 12 presents a summary of the overlapping membership in the four major regional trade agreements in Southern Africa.[29] The overlapping memberships in the SADC will definitely complicate rules of origin for exporters to the extent that they have to comply with possibly four different sets of rules of origin [Page, 1997]. Needless to say to the extent that this adds to confusion and uncertainty for the market participant, overlapping membership will not contribute to a favourable investment climate in the region.

Furthermore, the overlapping memberships could potentially create a conflict of interest where these regional groupings have different liberalisation goals, different timetables and also different trade coverage ratios [Sharer, 1998]. Thus ultimately it will be a question of priorities – i.e. what policy will a country follow on reducing tariffs, if it has conflicting

27 See Annexure, Table 11 – Efficiency of tariff collections.
28 Trade deflection occurs where commodities enter the free trade area at the lowest tariff wall.
29 See Annexure, Table 12 – Membership in regional trade agreements.

obligations under different regional trade agreements? Also then would it be unrealistic to assume that this would undermine the political commitment needed for economic integration in the SADC?

The SADC relies on existing state institutions for the promotion of development in the region. However, given the power of the ruling class and a number of less than democratic states in SADC, there is skepticism that regional development in the free trade area would benefit the majority of the population, in particular marginalised groups such as women, peasants, etc. [Tlou, 1997]. There is also concern about the lack of socio–economic dynamics in the trade protocol (e.g. food–self–sufficiency, gender equity, AIDS, etc.). Together these factors constitute an implicit social cost to the extent that the needs of the minorities/ non–ruling class are not effectively addressed by the free trade agreement.

It is evident from the preceding discussion on the potential costs and benefits that the latter will not be evenly distributed. South Africa as the largest economic entity in the region will stand to gain the most form the SADC FTA. This asymmetry itself is not a problem, since countries such as Mexico, which entered into a FTA with the US, gained far less than the latter. The crucial element here is that the benefits of trade integration must outweigh the welfare costs for these countries. However given the fact that a free trade area does not have a custom union's common pool of funds, which can be distributed in compensatory fashion, it will have to include measures of compensation for members that experience significant welfare losses. Unfortunately, the trade protocol does not provide adequate measures for redistribution [Mayer and Thomas, 1997]. This could discourage members, who experience significant losses, to show commitment and active participation in the SADC free trade area. The issue of asymmetry in distribution and compensation is also relevant to the potential risk of polarisation in the free trade area.

3.1.4 The Risk Of Polarisation In The SADC FTA

Polarised development can be explained in terms of the core–periphery framework, which indicate how small countries in regional economic integration can become marginalised. The risk of polarised development is high in regions where countries are relatively heterogeneous in terms of economic development, as is the case in the SADC. The core refers to a country/countries in the region whom experience a high degree of economic activity. The periphery is the antithesis of the core, to the extent that it is at the fringe of the mainstream economic activity. According to Maasdorp (1996) the divergence between the core and periphery can be exarcebated by:

(i) Myrdal's (1957) concept of cumalative causation where international factor flows and product movements are of such nature that the core gains in an almost exponential fashion whilst the periphery stagnate or have meticulously low growth momentum. This process is reinforced through economies of agglomeration, which in turn amplify the multiplier–accelerator effect. This process can be described in the words of McCarthy (1999:382) "as a 'snow–ball–rolling–down–the–mountain' growth hypothesis where size begats size". The risk of polarisation through cumulative causation is higher for developing countries compared to developed countries since they are less susceptible to spread effects (i.e. the outward expansion of gains resulting from integration) [McCarthy, 1999].

(ii) *Trade related growth* – The core trades secondary commodities to the periphery in return or primary commodities. This is especially relevant to intra–SADC trade. Secondary products have generally higher price and income elasticities of demand and supply compared to primary products. Therefore gains from trade will accrue disproportionately between the core and the periphery with the core getting the larger share[30].

(iii) *Unequal change* – The core is generally always in the dominant position *vis–à–vis* the periphery; and simultaneously, the core is dependent on the core. The outcome of the negotiations will inevitably be to the greatest advantage of the core because of its economic superiority (i.e. more bargaining power).

[Maasdorp, 1996]

Small developing countries in the SADC are periperal to two cores: (i) the relatively more industrialised countries within the region (South Africa, Botswana and Mauritius) (Core I); and (ii) the rest of the world (Core II). However, with the recent implementation of the South Africa – EU FTA, it is possible to envisage a third core (South Africa and EU). As the respective cores intensify their trade linkages with each other, then it could be expected that

30 McCarthy suggests that exchange rate devaluation/depreciation (i.e. change in the relative prices of tradables) could address the problem of trade imbalances in cases where there is no common pool of funds for compensation [McCarthy, 1999].

the periphery in the SADC would become even more marginalised. This could provide an added incentive for non–SACU SADC members to sign a new regional trade agreement with the EU.

The gist of the story is that polarised development and thus also marginalisation of the periphery would occur where the dynamic effects of economic integration are appropriated disproportionately by the core. The absence of effective compensatory measures in the SADC trade protocol would naturally increase the risk of marginalisation of the periphery in the SADC.

However all is not lost, since the Krugman–Venables model (1957) of U–shaped pattern of divergence followed by convergence, and the ASEAN 'flying geese' experience suggest that there exist potential for meaningful economic integration between the core and periphery. The 'flying geese' pattern has emerged in East Asia where there was a transfer of technology and industry to the newly industrialising economies (NIE's) and, later from them to some of the other ASEAN countries. The growth triangles concept which were introduced in ASEAN contributed to this phenomenon and could be a useful exercise in the SADC FTA to negate the forces of polarisation in the SADC. An example is the SIJORI growth triangle encompassing Singapore, the south Malaysian state of Johor and the west Indonesian province of Riau [Bhalla and Bhalla, 1997]. Singapore provides the investment capital, entrepreneurial and managerial skills, ready access to financial services, and efficient transport facilities to the rest of the world. The other members in the triangle provide Singapore with natural resources and relatively lower–wage labour supply. These complementary resources are then directed towards promoting industry and skill formation in the region.

For Singapore, the growth triangle has provided a stepping stone for the internationalisation of its industries, since it could exploit the comparative advantage of the other members. As for the latter, the SIJORI[31] growth triangle has accelerated their pace of industrialisation and development of skilled labour.

31 The success of the SIJORI experience has led to the development of other growth triangles in the ASEAN, these involve countries such as Indonesia, Malaysia, Thailand, Brunei and the Philippines [Bhalla and Bhalla, 1997].

Thus, the question asked here is could South Africa and other more developed SADC countries be relied upon to be the engines of growth in such triangles, so as to prevent polarised development in the free trade area? It is difficult to be not too sceptic about such expectations. First of all, there is a limited number of 'growth engines' other than South Africa in the region. Thus there is enormous pressure on this country to bring economic revival to the region. Secondly, the ability of South Africa to follow Singapore's example of providing investment capital is constrained by serious domestic socio–economic needs that will get first priority.[32] Thus it would be unrealistic to expect that South African cross border investment would contribute to substantial convergence of the core and periphery in the SADC FTA.

32 In the words of Nelson Mandela the new government: "entertain(s) no illusion of becoming the regional benefactor because such supply capacity we do not possess." 'President's set common goal' [Business Day, 10 June, 1994].

Section 4

4.1 IMPLICATIONS OF A SADC–EU TRADE AGREEMENT FOR THE SADC

The EU, as mentioned earlier, is one of the SADC's major export destinations (*refer to* Table 1). Also, it accounts for about one–third of SADC imports. Therefore it is not surprising that SADC countries have put a heavy weight on their trade relations with this EU. The Lomè convention, which governed trade relations between the EU and the SADC, has come to an end. Under this trade agreement SADC countries received non–reciprocal preferential access to the European market. The EU negotiations with the ACP countries[33] on a post–Lomè trade agreement have already begun. The EU is now demanding that countries in this region should adhere to the principle of reciprocity in trade liberalisation. In particular, it is proposing a reciprocal free trade agreement (REPA) with ACP countries. As will be seen from the following discussion this could bring forth significant costs to the SADC. The SADC is faced with an important question as to its future agenda of trade liberalisation – must it be seeking greater access (or preservation of existing access) to current major partners or should it be trying to broaden its markets?

SADC has basically three choices: (i) accept the EU proposal of a REPA; (ii) accept GSP status; or (iii) try to negotiate an alternative trading arrangement. However, the combination of EU and multilateral strategies offers another strategy for the SADC. It could agree to a REPA to secure its guaranteed access to the EU and then liberalise to the rest of the world [Page, 1999].

Needless to say, the negotiations with the EU require a clear definition of SADC objectives, good preparation and also a careful deployment of scarce negotiating resources. If the SADC is a coherent region with common interests then its members may want to consider their options together. However, members have a right under the SADC trade protocol to negotiate completely independently.[34] The analysis of the trade structure of the SADC countries emphasised the heterogeneity of these countries i.t.o. economic development. Thus there

[33] The ACP region comprises of six sub–regions four in Africa (including SADC), Caribbean and the Pacific [Keet, 1999].

[34] It is not standard practice of FTA's to act as a unit within the WTO or in negotiations with other countries [Keet, 1999].

exists differences between the interests of the LDC's and the developing countries in the SADC, which is exarcebated by the different trade liberalisation alternatives for the SADC. In the event that countries should opt for bilateral trade liberalisation they should be intent on informing each other about their decisions and co–ordinate them where possible. An FTA can tolerate different external relationships, but it cannot survive inadequate information about these since they will impact on the actions of all members.

However for the SADC the strength of a common approach may be important to the extent that they will have more negotiating power and harmonisation in trade liberalisation. If there is an intention by the SADC to move to a common external tariff, or common regional policies on other development considerations, then the implementation of formal institutions to deal with this should be a priority. Currently, the SADC's sectoral division of responsibilities makes finding a consistent position across all the topics particularly difficult. Thus the SADC is in need of a mechanism for co–ordinating SADC country positions. This should receive serious consideration since negotiations between the EU as a centralised organisation with legal competence, and the SADC without the proper institutions would indeed undermine the negotiating power of the SADC.

Currently, the SADC face negotiations that are: (i) complex in time[35] and space; and (ii) with too many possible alternatives in choice of trading partner, degree and pace of trade liberalisation [Page, 1999].

The outcome of WTO subsidy and agricultural reform negotiations is crucial to the nature of any agreement with the EU on a REPA. If there is a prospect for a short WTO round, then it is advisable that the SADC defer EU negotiations or make them conditional on the outcome. Furthermore since the SADC FTA is expected to be fully implemented by 2008, however there is speculation that it is more likely to be 2012/2010, it would make current predictions on the likely impact of external trade liberalisation in the evolving situation of the SADC extremely difficult. This is mainly due to the fact that the impact of the SADC free trade agreement will be clear only be at the stage where trade terms would be fully implemented and their separate national and intra–regional effects have become more pronounced. Thus it will also be difficult to predict with reasonable accuracy the capacity of these economies to

[35] The SADC FTA have just been concluded, the EU negotiations are under way and the next WTO millennium round is on our doorstep. This overlapping of negotiations is extremely taxing on the available resources of the SADC.

cope with reciprocal free trade with the EU. It is therefore imperative that the SADC should be allowed to have the policy 'space' and political right to pursue their own economic development and diversification needs.

It is important that the SADC should consider the costs of trade diversion, deflection and revenue implications of a trade deal with the EU. The SADC should have the freedom to extend to all partners any arrangement it sign with the EU. This will allow it to reduce the risks of trade diversion (from offering preferential access only to the EU) and maximise the benefits from trade liberalisation and creation. In addition, the SADC–EU agreement must be compatible with the SA–EU trade agreement where rules of origin are concerned so as to prevent trade deflection. The existence of the SA–EU agreement creates a strong probability that the EU would expect an EU–SADC agreement to bear close resemblance to the South Africa–EU model. Full liberalisation or even a REPA would result in significant losses in revenue from import duties. The previous section showed that trade liberalisation in the SADC FTA will result in significant fiscal losses. If the EU agreement should add to these costs then the process of trade liberalisation (inta– and extra–regional) could become economically (and possibly politically) unsustainable. Thus once again we confront the issue of compensation. It would appear that offers by the EU of financial and technical assistance to off–set what are called 'transitional adjustment costs' are to come from existing Lomè financial provisions/funds and are therefore far from adequate to offer compensation in a free trade area [Keet, 1999]. Nor are the mere quantitative compensations likely to be sufficient or commensurate with the qualitative costs entailed in a free trade area with the EU. A further complication to this situation is that it is difficult to assess in advance what the full scale and impact of such adjustment costs will be.

SADC countries require substantial levels of investment to expand and diversify the export base so as to improve their supply capacity. The latter would constrain the SADC to exploit new trade opportunities resulting from a trade agreement with the EU. It is therefore crucial that reciprocal or liberalised trading agreements with the EU should mobilise investment flows to this region. In this regard the EU authorities could play an influential role to the development aspirations of the SADC by encouraging (i.e. through incentives) European investors to agree to investment terms and conditions in the SADC that will promote development aims and not merely maximise profits.

Let's now consider the three major trade liberalisation alternatives in further detail.

4.1.1 Generalised System of Preferences (GSP)

The SADC members could accept separately the normal GSP arrangements. In SADC the industries that would suffer the most is those benefiting from the sugar protocol followed by beef, clothing, fish and tobacco [Page, 1999]. There are several potential costs associated with accepting the GSP alternative. They are summarised below:

(i) GSP access for developing countries may improve in absolute terms but could simultaneously decline in relative terms (i.e if MFN rates fall). Therefore the acceptance of GSP could only be a temporary recourse since it is faced with quite rapid erosion by wider trade liberalisation.

(ii) The advantages of preferences for greater access must be weighted against their uncertainty, because they are discretionary.

(iii) Acceptance of GSP by non–LDC's in the SADC would be second best option since such a step would lead to a significant reduction in market access.

In addition, if the EU's proposal to move from Lomè to REPA's is a desire to reduce preferences and increase access for EU exporters, then there is no reason that it would improve the GSP for ACP countries.

4.1.2 Reciprocal Free Trade Agreement (REPA)

The EU position on a REPA is that developing countries would loose their (WTO–agreed) rights to access without reciprocity. To compensate for this it offers financial and technical assistance to the SADC. An alternative strategy could be for SADC least developed countries to remain outside, while Mauritius, Zimbabwe and the Seychelles sign a REPA, and SACU either joined the REPA or keep to EU–SA agreement. However this would result in creating another sub–regional grouping in the already complicated panorama of overlapping membership. The EU proposal between GSP or REPA could exacerbate existing economic differences in SADC countries. By linking regional negotiations with reciprocal trade relations, it could be encouraging countries in the region to opt for separate national approaches in order to avoid reciprocity.

However, in the event that SADC decide on a REPA, there would be at least three free trade agreements operating in Southern Africa, (EU–SA, SADC, EU–SADC). The result would be concentric circles of trade integration, which could add to the already complex inter–regional trade relations. The same costs of overlapping membership, discussed in the previous section, would apply here.

REPA holds the risk of trade diversion i.e. switching to EU products from other more competitive ones. This is supported by other studies showing the risks of the REPA option [Page, 1999]. Furthermore if the SADC opt for REPA then this could seriously undermine one of the fundamental purposes of the trade protocol, which is to provide members with preferential access into each other's markets over third parties. Strong European competition could damage the development process by exposing smaller and weaker SADC producers to EU suppliers, which gets substantial support in terms of subsidies and incentives under the Common Agricultural Policy (CAP). One must bear in mind that European producers' competitiveness has developed over decades of direct and indirect government support and subsidies. Therefore as long as the scale, quality and price competitiveness of SADC producers does not compare with those of European producers the gains from reciprocal trade will remain to be marginal.

4.1.3 Alternative Trading Arrangements (ATA)

The ACP negotiating position is to concentrate on preserving the Lomè conditions as far as possible. The key phrase is Alternative Trading Arrangements (ATA's), which includes REPA's, but is not restricted to them. ACP position support differentiation among the ACP countries, but not just by region or by least developed but also introducing features such as 'small, landlocked and island' as a separate category. Given this ATA's 'soft' approach to external trade liberalisation it can be expected that the initial adjustment costs would be far less compared to the GSP and REPA. However, this must be weighted against the trade creation potential of the other two alternatives.

Section 5

5.1 A VISION OF THE FUTURE

The new millenium poses a range of opportunities and challenges for the economic integration agenda of the Southern African Development Community. The foremost challenge is to conclude negotiations to implement a Free Trade Agreement (FTA), as stated in the trade protocol, among member states by the year 2004. The FTA, which makes provision for the free movement of goods in the region, is the first step directed at transforming the objectives of SADC from a loose form of sectorial co–operation to a more ambitious schedule of economic integration. SADC's main emphasis in the new millenium is, therefore, to foster peace, stability and greater co–operation among the countries in the region and to steer member countries towards a stronger economic community. The challenges posed by globalisation and liberation warrant nothing less.

However, through regional co–operation and integration, SADC aims to provide balanced economic growth and development, political stability and security, for all its member states. The challenge now facing SADC is to build upon its successes to mobilize the region's own resources for sustainable development.

In addition, SADC aims to promote economic co–operation and integration among member states with a view of becoming a fully–fledged common market, strengthening regional solidarity, peace, security, political and social value systems. Other socio–economic goals include: establishing and maintaining the regional infrastructure; investing in human capital; creating a framework to ensure macro–economic stability; facilitating the emergence of financial and capital markets; and encouraging the development of strong private/public sector partnerships.

These goals are both desirable and, what is crucial, realizable in the medium to long–term future. Hence, the ultimate challenge now for all SADC member states rests on whether provision can be made for an economic environment conducive to investment and industrialisation in areas of comparative and competitive advantage by the year 2004.

Conclusion

On the threshold of the 21st century, the countries of Southern Africa face a critical phase in their development. At first glance, one cannot question that whatever SADC has achieved since its transformation from a co–ordinating conference to a Development Community, came as a result of tremendous sacrifice for member states. Countries have made considerable progress toward lowering inflation rates, fuelled by their commitment and attempts to reduce their budget deficits. Regional average growth rates have outpaced those of the rest of sub–Saharan Africa. Further, considerable steps have been taken to liberalize the trade regime and foreign exchange controls are on the way out or non–existent in some countries.

Thus, SADC–FTA signifies a first step towards economic integration. Further economic integration in this region will clearly be dependent on its relative success in delivering net gains to all the members. The latter whom has become increasingly marginalised in world markets, can at best hope to regain economic weighting in a successful SADC–FTA. The ASEAN experience sets an important president for the SADC to the extent that it must strive for a 'flying geese' pattern of industrialisation. However, this paper identified lack of supply capacity, concentrated export bases and the unequal distribution of gains as the main impediments to a successful FTA in the region. This will only be rectified through investment and adequate compensatory measures. The latter is extremely important for political commitment and active participation in the FTA. The gist of the story told is that the FTA must have a positive sum outcome i.e. everyone must gain from the FTA. The risk of polarisation in the FTA is very real for countries in this region, and in the event that this should happen, the FTA would become a futile exercise.

The SADC has also come to face the challenge of planning its future strategy with regards to external trade liberalisation. However as this paper showed this is not easy due to time and resource constraints. The EU's decision to require reciprocity in trade with countries in SADC holds severe complications for the region. The paper also identified other alternative strategies for external trade liberalisation. However, each of them also has their own major pitfalls. Thus, the SADC should tread carefully in planning its future external trade liberalisation. Most importantly it should use its own developmental needs and objectives as an indication of where to go from here.

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Annexure

Figure 1: SADC Sectoral Responsibilities Chart

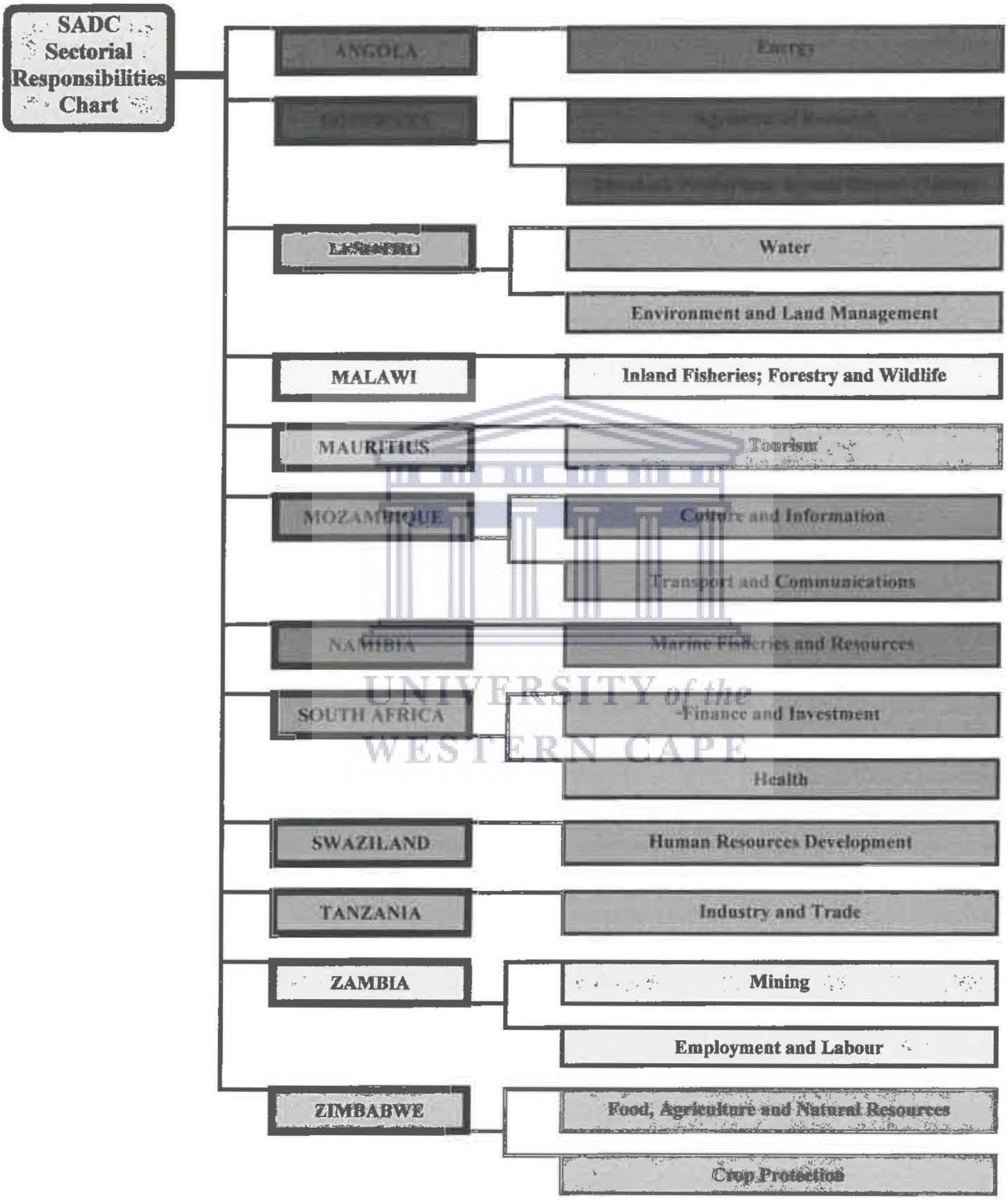
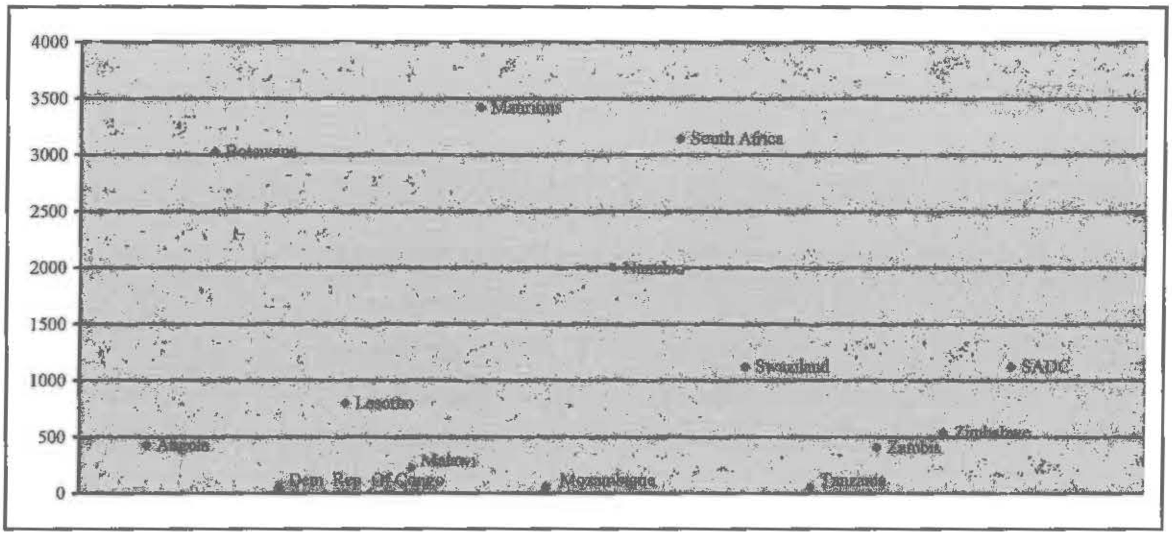


Figure 2: **GNP Per Capita – SADC Countries (US$) 1995**



Source: Tsikata (1999)

Table 1: **Direction of SADC Exports 1991 (*or most recent data*)**

Country	World $ (millions)	Europe	North America	Japan	Developing Countries	Africa
Angola	3105.4	25.1	52.6	0.1	20.8	1.5
Malawi	454.0	46.9	16.5	10.0	13.6	9.5
Mozambique	239.8	31.3	13.0	6.7	48.8	12.0
South Africa	17052.0	55.2	12.4	10.8	15.3	6.1
Tanzania	404.0	59.4	4.5	4.5	30.7	7.1
Zambia	1347.5	34.5	1.6	29.1	21.8	11.9
Zimbabwe	1467.6	44.1	7.3	5.5	23.9	17.2
All Sub–Saharan Africa	54657.2	51.2	22.1	5.6	15.4	7.5
All Developing Countries	708947.0	25.5	24.0	12.0	27.2	2.6

Source: Mayer and Thomas (1997)

Table 2: **A Comparison of SADC Trade and Other Major Regional Groupings**

Trade		EU	NAFTA	ASEAN[a]	MERCOSUR[b]	SADC	COMESA
Intra–Regional Trade/Total Trade							
Exports	1990	60.5	41.7	19.6 (4.6)	8.9 (11.6)	2.6	…
Exports	1994	56.5	48.4	22.3 (5.0)	18.3 (20.4)	8	6
Imports	1990	57.8	33.4	15.9 (4.3)	14.5 (17.7)	4.9	5
Imports	1994	54.5	37.4	19.3 (7.0)	16.8 (19.4)	8.3	5
Share of Region in World Trade							
Imports	1994	33.8	21.1	6.31 (3.92)	1.47 (1.78)	0.7	0.4
Exports	1994	34.6	16.8	6.00 (3.72)	1.46 (1.76)	0.77	0.3

Source: Page (1997)

Notes:
[a] Figures in brackets exclude Singapore.
[b] Figures in brackets exclude Bolivia and Chile.

Table 3: **Source of Intra–SADC Exports (*% of total product supplied by country*)**

Country	RSA	Zimbabwe	Mauritius	Mozambique	Malawi	Zambia
Total	81.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Food	56.2	38.6	1.2	4.1	3.9	4.4
Beverages and tobacco	60.3	38.6	0.1	1.1	12.3	8.7
Crude materials excluding fuel	60.3	33.2	0.2	6.2	4.8	2.4
Mineral fuels	[illegible]	8.4	…	0.1	0.1	32.1
Animal, vegetable oil, fat	94.4	3.6	…	2.0	0.0	6.4
Chemicals	90.7	8.6	0.6	0.1	0.4	0.2
Basic manufacturers	80.4	16.7	2.5	0.4	0.9	1.8
Machines, transport equipment	[illegible]	4.8	0.1	2.4	0.0	1.1
Miscellaneous manufacturers	76.6	20.5	1.2	1.7	5.7	0.4
Goods not classified	94.2	5.6	0.0	0.2	0.0	0.0

Source: Tsikata (1999)

Notes:

1. Zambia figures are for 1993, Malawi for 1995 (*the most recent available years*).
2. Reading down the columns RSA supplies 81.4% of total SADC exports, 56.2% of food exported within SADC comes from RSA, etc.

Table 4: **Export Concentration and Diversification in the SADC (*most recent year*)**

Country	Number of 3–digit SITC Products Exported [a/]	Diversification Index [b/]	Hirschman Concentration Index [c/]
Angola	28	0.906	…
Malawi	47	0.921	0.696
Mauritius	128	0.834	0.332
Mozambique	69	0.810	0.384
South Africa	225	0.577	0.266
Tanzania	73	0.841	0.264
Zambia	73	0.932	0.787
Zimbabwe	176	0.756	0.311
Memo Item			
Mexico	221	0.403	0.157
ASEAN	225	0.521	0.165
Malaysia	226	0.489	0.183
Singapore	211	0.555	0.090
Thailand	221	0.403	0.153
MERCOSUR			
Argentina	217	0.581	0.136
Brazil	217	0.509	0.087
Paraguay	78	0.879	0.321
Uruguay	151	0.696	0.303

Source: Tsikata (1999)

Notes:

a/ Excludes exports less than either $ 100,000 or 0.3% of total exports. Maximum value is 239 – the number of individual SITC three–digit products in SITC Revision 2 system.

b/ The diversification index uses deviations between the shares of three–digit SITC products in a country's exports and their corresponding share in world trade. The index ranges between 0 and 1. Higher values indicate more concentrated export structures.

c/ The Hirschman Index is calculated as the normalized share of all three–digit products in a country's exports. It ranges between 0 and 1. A higher value indicates a more concentrated export structure. According to UNCTAD, the Hirschman concentration index distinguishes more accurately between countries that are relatively more concentrated, as is the case in SADC. Whereas the export differentiation index distinguishes more accurately between countries which are relatively more concentrated.

Table 5: **Trade Complementarity Indices within the SADC 1996**

Country	Partner	Index	Comments
South Africa *and*	Malawi	65.0	
	Mauritius	79.3	
	Mozambique	60.5	
	Zimbabwe	65.4	
	Tanzania (1980)	60.5	
	Zambia (1980)	61.9	
	SADC (Six)	65.4	
Memo Item			
European Community (6)		53.4	*Successful arrangement*
Canada – US FTA		64.3	*Successful arrangement*
NAFTA		56.3	*So far so good*
LAFTA		22.2	*Unsuccessful*
MERCOSUR		28.6	*Faltered*
Andean Pact		7.4	*Unsuccessful*
All Sub–Saharan Africa		8.9	*Collapsed arrangements*

Source: Tsikata (1999)

Notes:
1. UN COMTRADE Database.
2. See Yeats (1998) for complementarity in country specific to arrangements in Sub–Saharan Africa.

Table 6: **Bilateral Complementarity Indices**

Exporting Country	Malawi	Mauritius	Mozambique	South Africa	Tanzania	Zambia	Zimbabwe	SADC
Malawi	…	25.2	29.1	15.4	20.5	13.3	18.1	20.3
Mauritius	25.8	…	33.1	24.5	24.6	17.7	23.3	24.8
Mozambique	30.8	37.8	…	26.8	32.3	24.7	29.6	30.3
South Africa	65.0	79.3	60.5	…	60.5	61.9	65.4	65.4
Zimbabwe	42.9	55.1	50.2	35.2	38.7	37.3	…	43.2

Source: Tsikata (1999)

Notes:
1. Table should read as follows: reading across the first row, Malawi has a complementarity index of 25.2 with Mauritius and 20.3 with SADC as a whole.
2. Malawi data is for 1995. Zambia and Tanzania should be interpreted with caution as their 1980 import structures were used. That is also the last year they reported to COMTRADE.

Table 7: **Structure and Distribution of MFN Trade–Weighted Tariffs in SADC 1996 (*percent of tariff lines in range*)**

Tariff Range	Malawi	Mauritius	SACU	Tanzania	Zambia	Zimbabwe
0–10	61.6	...	40.3	22.3	26.1	6.9
11–20	0.3	...	17.1	19.6	33.5	33.6
21–30	4.5	...	7.9	38.0	28.3	26.2
31–50	33.5	...	2.1	20.1	11.8	13.1
>50	0.0	...	0.8	0.0	0.0	0.5
Specific Duties	0.0	0.0	27.8	0.1	0.2	5.9
Number of Bands	10	7	50	9	8	28
Memo Item						
Mean Nominal Tariff						
Unweighted	22.0	31.1	9.1	24.2	7.2	26.9
Weighted	13.8	22.4	6.9	21.4	10.8	24.7
Collection Ratio	10.3	14.2	4.6	12.1	8.0	11.1

Source: Tsikata (1999)

Notes:
1. Calculations based on country customs data.
2. Angola: Mean nominal unweighted tariff 17.5%, trade weighted mean is 24.2% and collection rate is 6.3%.

Table 8: **Basic Economic Indicators of SADC Countries**

	Population 1997 (millions)	Area (000 km^2)	GDP (million US$) 1995	Average Annual Growth (%) 1980-1989	1990-1994
Angola	*10.8	1247	3,722	2.4	-2.8
Botswana	1.53	582	4,318	11.4	4.7
Dem. Rep. of Congo	46.8	2345		1.6	-8.6
Lesotho	2.1	30	1,029	4.1	5.0
Malawi	10.4	118	1,465	1.7	1.3
Mauritius	1.13	2	3,919	4.7	5.4
Mozambique	17.8	802	1,469	0.5	5.7
Namibia	1.58	824	3,033	0.1	4.4
South Africa	**42.3	1221	136,035	2.2	0.1
Swaziland	0.94	17.4		4.9	3.9
Tanzania	30.8	945	3,602	2.9	2.7
Zambia	8.28	753	4,073	1.4	-0.1
Zimbabwe	12.29	391	6,522	4.7	1.4
SADC	**130**	**9277**	**169187**	**3.3**	**1.8**
RSA as % of SADC	32.5	13.2	80.4		

Source: World Development Report (1997)

Notes:
* IFS Yearbook 1998.
** Based on old census.
*** Real GDP growth numbers from International Monetary Fund, World Economic Outlook, May 1998. Swaziland and Zaire figures from national sources.

Table 9: Distribution of Gross Domestic Product (Percentage Share of GDP)

	Agriculture		Industry		Manufacturing		Services	
	1980	1995	1980	1995	1980	1995	1980	1995
Angola		12		59		3		28
Botswana	13	5	44	46	4	4	43	48
Dem. Rep. of Congo								
Lesotho	24	10	29	56	7	18	47	34
Malawi	37	42	19	27	12	18	44	31
Mauritius	12	9	26	33	15	23	62	58
Mozambique	37	33	31	12			32	55
Namibia	12	14	53	29	5	9	49	54
South Africa	7	5	50	31	23	24	43	64
Swaziland								
Tanzania	46	58	18	17	11	8	37	24
Zambia	14	22	41	40	18	30	44	37
Zimbabwe	14	15	34	36	25	30	52	48

Source: World Development Report (1997)

Table 10: Revenue Implications of a Free Trade Area for SADC Members[a/]

	Total Customs and Tax Revenues from all sources in 1996 (Mn LCU)		Projected Customs Revenue under the FTA (Mn LCU's)		Estimated Change in Revenue (%)			
					Customs Revenue		All Tax Revenue	
Country	Duty Revenue	All Tax Revenues	FTA	FTA10	FTA	FTA10	FTA	FTA10
Malawi	702	4303	399	598	-43.1	-14.7	-7.0	-2.4
Mauritius	4032	14068	3269	3539	-18.9	-12.2	-5.4	-3.5
South Africa	4619	128856	4485	4549	-2.9	-1.5	-0.1	-0.1
Tanzania	100100	383752	91179	95358	-8.9	-4.7	-2.3	-1.2
Zambia	87772	751452	40819	69839	-53.5	-20.4	-6.2	-2.4
Zimbabwe	3046	17075	1163	2005	-61.8	-34.2	-11.0	-6.1

Source: Tsikata (1999)

Notes:

a/ There are discrepancies between the duty revenue reported by the customs departments and that reported in budget numbers. For example, Malawi reported FY96 duty revenues are 1505.2 and 2028.7 million kwacha respectively against the 615 million reported by customs. For consistency the figures used in the table are those reported by customs.

1. FTA: Free Trade on intra-SADC trade. The projections assume that each country's average tariff against SADC members are zero.
2. FTA10: A tariff of 10% is applied on all intra-SADC trade.
3. Total potential revenue loss: $RL_T = [M_{ij,k} + M'_{ij,k}] . t_k$

where: $M_{ij,k}$ = Initial value of country I's imports of good 'k' from country j; and
$M'_{ij,k}$ = Value of trade good 'k' that is displaced from third countries by countries in the free trade area because of the tariff preferences.

Table 11: <u>Efficiency of Tariff Collections</u>

COUNTRY	COLLECTION EFFICIENCY
Malawi	70.3
Mauritius	72.3
South Africa	65.2
Tanzania	43.5
Zambia	87.0
Zimbabwe	53.4

Source: Tsikata (1999)

Note: 1. Collection efficiency = Collection ratio/Trade weighted tariff.

Table 12: <u>Membership in Regional Trade Agreements</u>

Country	COMESA	CBI	SACU	SADC
Angola	X			X
*Botswana**			X	X
Democratic Republic of Congo	X			X
Lesotho			X	X
*Malawi**	X	X		X
*Mauritius***	X	X		X
*Mozambique**	X			X
*Namibia**	X	X	X	X
*South Africa**	X		X	X
Swaziland	X	X	X	X
*Tanzania****	X	X		X
Zambia	X	X		X
*Zimbabwe**	X	X		X

Source: Tsikata (1999)

Notes:
* Indicates signatory to bilateral agreement with another SADC member.
** Member of the Indian Ocean Rim with Madagascar and Comoros.
*** Reviewing options with Kenya and Uganda, as well as COMESA, with a view to reviving the East African Community.