THE NATURE OF ECONOMIC INTEGRATION AND CO-OPERATION WITHIN THE SOUTHERN AFRICAN REGION AND A SURVEY OF ECONOMIC BENEFITS TO MEMBER STATES

THESIS

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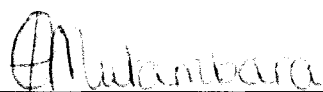
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by

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DECLARATION

Except for the references specifically indicated in the text, and such help as I have acknowledged, this thesis is wholly my own work and has not been submitted for degree purposes at any other university.

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ABSTRACT

The transformation of SADCC into the Southern African Development Community (SADC) has paved the way towards closer regional economic integration in southern Africa. The regional grouping no longer only focuses on sectoral cooperation, but is steadily moving towards increased cooperation in trade development and promotion, industrial development and the diversification of national economies, with the aim of increasing regional economic integration.

A free trade area ranks second lowest in the steps towards the highest levels of economic integration. Thus, the signing of the SADC Trade Protocol, which serves to pave way for a SADC Free Trade Area, has initiated steps to facilitate and promote the formal economic integration of all countries in the southern African region.

It has been noted that, at various periods, the region has adopted a variety of approaches to integration. As such, the present study reviews the different approaches to integration, namely the market integration model, the neo-functional integration model, the development integration model and the theory of common markets. Since the essential question with which this thesis is concerned is whether, and to what extent, the benefits expected from SADC and SACU in terms of their aims and objectives have accrued to member states, an insight into the expected benefits arising from the application of each theoretical framework can help to facilitate an evaluation of the benefits which the countries have enjoyed from these two regional groupings.

The thesis highlights that throughout the ten years during which the original SADCC was in place, it based its approach to regional integration on the neo-functional and development integration models, although the former tended to be more dominant. With the regional grouping transforming into SADC, the market integration model was adopted, even though the grouping still had features of the aforementioned approaches. The relevance of the three approaches can be seen in:

> (i) the continued importance of SADC's sectoral projects, particularly in the field of transport and communication:
>
> (ii) continued attempts to put in place a suitable regional industrial development strategy and implement policies to attract foreign investment; and

(iii) the signing of the SADCC Trade Protocol to facilitate the implementation of a free trade area.

The thesis argues that member states have enjoyed considerable economic benefits from the SADC sectoral projects. However, in some cases, members have lost out on potential benefits as a result of projects failing to be implemented or completed, mainly due to inadequate funding. Further, delays and inefficiencies at some border posts constitute significant non-tariff barriers which could be a hindrance to intra-regional trade. Progress towards diversification of exports has been limited as the region still relies mostly on the export of the traditional agricultural and mineral raw materials. While all countries have made efforts to diversify their industrial bases, attempts at implementing a meaningful regional industrial development strategy have met with limited success.

Intra-regional trade has been increasing over the years. Since the SADC Trade Protocol only came into effect in September 2000, the increased levels of trade integration in the region appear to have been a result of the bilateral trade agreements between countries, and the customs union between South Africa and Botswana, Lesotho, Namibia and Swaziland (BLNS), as well as the structural adjustment programmes and the significant growth experienced in some countries. Outstanding intra-regional trade volumes have been experienced within SACU. In trade terms, benefits have varied between member states, with the more powerful countries like South Africa, Zimbabwe and Mauritius experiencing substantial trade surpluses vis-à-vis their trade partners. Countries with bilateral preferential trade agreements have also benefited more due to increased access into each other's markets compared to those without or with bilateral trade agreements of an MFN nature. However, it is important to note that, despite the increase in trade integration in the region, southern Africa is still heavily dependent on the rest of the world for its export markets and as its source of imports.

The study finds that intra-industry trade (IIT) exists within the region and, in a number of sectors, high IIT indices are recorded, although some such sectors do not display significant trade volumes. The opening of the region through the implementation of the SADC FTA could promote the expansion of IIT as the free trade area will create an enlarged regional market. As

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such, SADC could benefit from dynamic effects such as scale economies in production and marketing, with member states working on having complementary production structures so as to facilitate specialisation. The thesis argues that the potential for intra-regional trade expansion in the SADC FTA also exists bearing in mind trade complementarity between countries as well as revealed comparative advantages in different sectors.

One of the benefits which have accrued to the region as a result of facilitating and promoting greater cooperation and deepening the integration process has been an expansion in cross border investment. The study finds that the 1990s witnessed a gradual increase in cross border investment to take advantage of investment opportunities in member states. South Africa has become the primary source of foreign direct investment flows to a number of SADC countries, with mergers and acquisitions being the dominant mode of its foreign direct investment. Cross border investment helps in supplementing low domestic savings, thus providing substantial parts of the shortfall in capital needed to finance economic growth and development. It can thus promote development in the industrial sector, transfer of capital, skills and technology, and development of infrastructure. Many SADC countries are unable to compete effectively due to lack of export supply capacity. The thesis suggests that capitalising on investment by South African firms could enhance local supply capabilities and raise export competitiveness.

The study concludes that for market integration to succeed in the SADC region, the neo-functional and development integration approaches need to be actively pursued simultaneously, particularly with respect to infrastructural and industrial development.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Cooperation among developing countries is expected to facilitate efforts towards collective self-reliance, economic development and social progress (Castro, 1984:159). Apart from that, newly industrialising and developing countries do have priorities that are different from the developed countries and it is only appropriate for them to form their own alliances so as to table these priorities (Sager, 1997:241).

The small nature of the domestic markets of African countries has been cited as the major impediment to the development of the majority of these African economies. Thus, the rationale for integrating several national economies into a substantial market is the expected benefits to be yielded by promoting a more efficient allocation of resources. These benefits are expected to be brought about by, among other things: (i) the creation of an environment conducive to industrialisation and modernisation through higher levels of productive investment; (ii) the generation of economies of scale in production; (iii) the rationalisation of infrastructural investment; (iv) the exploitation of natural comparative advantage in production and trade; and (v) regional integration in products that are crucial for the satisfaction of basic needs (Leistner, 1995:265; Davies, 1994a:12).

1.1.1 The problem

Economic integration among developing countries was a major policy issue in the 1960s and 1970s. In southern Africa, despite adverse economic and political conditions, integration schemes have not dissolved and, in the last few years, new initiatives have even appeared. These initiatives are expected to increase a region's international competitiveness by exploiting the advantages of specialisation, economies of scale, and enhanced regional competition, and also to act as a regional training ground for the once nationally protected industries before being released to face international competition. These regional economic integration initiatives are

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also expected to become an engine for growth so as to reverse economic decline and promote development, much to the benefit of the individual member states.

Given all this, the important question which this study is concerned with is whether the member states in the southern African region have benefited from the regional integration arrangements (RIAs) of which they are members[1], and whether the benefits experienced have been mutual given the differences in the levels of development between the member states.

1.1.2 Plan of the thesis

Chapter Two of this thesis introduces the current regional economic integration arrangements in southern Africa. This background is essential in bringing out the aims and objectives of each of the RIAs, as it is on the basis of these that an assessment of the extent of benefits to member states is going to be attempted. Highlights on the existing bilateral trade agreements in the region are also given.

Chapter Three gives an overview of the SADC and SACU economies, highlighting their basic characteristics in terms of (i) economic size, growth performance, and per capita income levels; (ii) factor endowments and comparative advantages; and (iii) general trade relations. All this is important as it reveals the extent of the disparities between countries which are in fact in the same regional grouping. Knowledge of these disparities is important as they have a bearing on the regional economic integration process, and the benefits which have been accruing and continue to accrue to the individual member states.

Chapter Four examines the theoretical frameworks relevant for economic integration, viz., the market integration model, the development integration model, the neo-functional integration approach, and the theory of common markets. The discussion considers the characteristics and

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[1]This assessment is done in line with the aims and objectives of the RIAs and the duration for which they have been in existence as well as in the light of the theoretical framework against which the RIAs are designed.

conditions for a successful integration process in the light of each theoretical framework. This is relevant in bringing out key issues which can be used as a yardstick to permit an assessment of the extent of success of the RIAs. It is appreciated that, in practice, these models are not found in their pure form, as they are often mixed and inter-mingled with each other. However, one model will tend to dominate in any given period and that general approach can then be considered the paradigm upon which an assessment of the RIA and its benefits to member states could be based for that period.

Chapter Five considers the benefits which have accrued to member states as a result of SADC's pursuance of sectoral projects as well as its efforts to open up the region. The limitations which the regional grouping has faced are also discussed with the aim of charting the way forward so as to enhance benefits accruing to member states.

The next two chapters attempt to assess SADC and SACU empirically in the light of intra-regional trade and cross border investment. In Chapter Six, an evaluation is made of intra-regional trade, especially bearing in mind that the focus of SADC since 1990 has been trade development and trade promotion, with the aim of increasing intra-regional trade for the benefit of member states.

In the light of the analysis and discussion done in Chapter Six, Chapter Seven evaluates the extent of trade benefits to individual member states in general, and in particular to Zimbabwe, South Africa and SACU. The extent to which member states have benefited in trade terms is analysed bringing out the extent of inequalities in trade benefits. The potential for improved intra-regional trade is examined by highlighting export diversification, trade complementarity, and revealed comparative advantages within the region. Current and potential intra-industry trade (IIT) within the region is examined with the aim of highlighting additional benefits which the region can experience through engaging in IIT in the appropriate sectors, instead of solely relaying on trade based on comparative advantages. Finally, the SADC Treaty provides for cross border investment in an effort to facilitate the achievement of its objectives. It is in this light that an evaluation of the extent of cross border investment in the region is made. Potential areas for increased cross border investment in member states are then highlighted.

ZimTrade data will be used to analyse Zimbabwe's participation in regional trade and trade balances enjoyed vis-a-vis its trade partners. Trade statistics for SACU and South Africa available from the Commissioner for customs and excise of the Republic of South Africa and the Commissioner for South African revenue services, are going to be used to analyse South Africa's and SACU's trade relations with the non-SACU SADC region. Information obtained from interviews conducted with the trade officers at the various SADC countries' embassies in Zimbabwe, representatives of industry and commerce in Zimbabwe (i.e. the Confederation of Zimbabwe Industries and the Zimbabwe Investment Centre), questionnaires sent to trade officers, and the Zimbabwe National Chamber of Commerce (ZNCC) seminar on trade agreements attended in December 1999, will be used to analyse and explain trade relations within the region, expected benefits from the implementation of the SADC Trade Protocol, and the current and potential cross border investment opportunities within the region.

Chapter Eight concludes the thesis with an overview of the evaluation of the achievements of SADC and SACU in relation to their aims and objectives, how they have been of benefit to their member countries, and the extent to which regional integration has been promoted through the formation of these RIAs.

1.1.3 Definition of terms

1.1.3.1 Economic integration

Economic integration refers to a process in which economies or markets of individual states are merged (in whole or in part) into a single regional entity, i.e. into a regional economy or market (Davies, 1994a:12; Davies et al, 1993:34). Bromqvist (1993) notes that economic integration was primarily intended to promote industrialisation by extending import substitution industrialisation (ISI) on a regional scale, as opportunities for successful ISI at a national level were small due to the small size of the market. Therefore, from a theoretical perspective, Proff (1997:484) notes that the theory of regional integration is part of the theory of second best, as free trade is still being restricted to member states only as opposed to unilateral liberalisation of trade.

The integration process progresses up the "ladder of integration", which is conventionally seen as involving the creation of a linear succession of institutional arrangements, with preferential

trade agreements at the bottom of the ladder and political union at the top. During the linear progression from a free trade area to a political union, market forces unleashed at one level will have a spill-over effect onto the next level, thus propelling the integration process forward until the highest level of integration has been reached. However, even though stages in economic integration process are proposed, it does not mean that all regional organisations follow this continuum. Others have added elements that do not form part of the market integration model, but are derived from, for example, the developmental integration approach (Haarlov, 1997:25).

1.1.3.2   <u>Economic cooperation</u>

Economic cooperation, as opposed to formal economic integration refers to a range of situations in which individual states act together for mutual benefit. Cooperation must, therefore, focus on areas and tasks which the involved countries see as important in order to sustain their existence and, at the same time, in which they have an obvious interstate interest. Davies (1994a:12) and Davies et al (1993:34) note that cooperation can be seen in individual states sharing or making available to each other resources, technology or expertise, collaborating in joint projects or acting together in external economic relations. Other grounds upon which regional cooperation can be pursued, as noted by Haarlov (1997:16-19), include: policy harmonisation; joint seeking of funds for regional projects; joint marketing of regional products and services, like tourism, transport and key export products; joint positions towards a common enemy and in international organisations, like the UN, OAU, and WTO. It should be noted, however, that this cooperation may or may not be undertaken with the aim of promoting economic integration, and also that with the cooperation approach, regional interaction is a supplement to national development efforts and cannot substitute such efforts.

1.1.3.3 <u>Coordination</u>

Coordination refers to cases where policies, strategies and regulations are harmonised to bring them into line with those of partners, in situations where it is seen to be of mutual benefit. Economic coordination may or may not be undertaken with the aim of promoting economic integration (Davies, 1994a:12; Davies et al, 1993:34).

1.1.3.4 Trade integration

This is a narrower concept than economic integration. It is a process (or condition) wherein separate national economies maintain (or progressively) lower barriers to mutual trade, while sustaining relatively higher barriers to third parties (Carim, 1997:336). Trade integration therefore constitutes intra-regional trade liberalisation among members and is achieved through either preferential free trade areas, free trade areas or customs unions.

1.2 REGIONAL INTEGRATION ARRANGEMENTS: PROTECTIONISM versus GLOBAL FREE TRADE

The basic World Trade Organisation (WTO) rules on regional integration arrangements are contained in Article XXIV Part IV of the GATT and the 1979 'Enabling Clause'. Preferential trading agreements among developing countries are governed by the Enabling Clause, which includes provisions permitting (i) developed countries to grant differential and more favoured treatment to developing countries; and (ii) developing countries to enter into regional or global arrangements for the mutual reduction or elimination of tariffs and non-tariff measures. However, whilst this promotes regional trade agreements designed to facilitate and promote developing country trade, the Clause requires that: (i) the said trade agreements should not be used to raise barriers or create undue difficulties for the trade of third countries; and (ii) the trade agreements should not constitute an impediment to the eradication or elimination of tariffs and other restrictions to trade on a MFN basis (Tekere, 1997:48; Cattaneo, 1998:25-26).

There is a debate on whether or not regional integration can be regarded as a step towards global free trade. Belief in either school of thought can be a basis for the formation of RIAs. GATT rules indicate that, among other things, barriers to trade with the rest of the world must not be raised following the signing of a RIA (Article XXIV). However, since measuring the height of trade barriers so as to see whether this rule has been broken may be difficult, the extent of an RIA's conformity with the GATT rules may help to determine whether it will enhance or hinder the move towards global free trade.

1.2.1 Regional integration arrangements promote global free trade

This argument is based on the notion that if external trade (trade with the rest of the world) remains at pre-integration levels (or increase) after the formation of the RIA, then the WTO rules will not have been violated and the formation of an RIA will foster open trade. Therefore, provided any enlargement of an existing RIA through admitting new members, can occur in such a way as to keep external trade volumes at least at their previous levels, the RIA can be considered as a step towards open trade on a global scale (McMillan,1993:292).

The Kemp-Vanek model indicates that to ensure that an RIA does not lower trade from pre-integration levels, the common external tariff to be set by the RIA must be equal to the difference between the new internal market-clearing price and the world price. With such tariff levels, in the new trading equilibrium there will be the same amount of trade with the rest of the world as before integration, and so it will always be possible to add new countries to the existing RIA in such a way as to improve the welfare of members without causing harm to non-members (McMillan, 1993:294).

It should be noted that increased efficiencies within member states can result following integration, through economies of scale or increased inter-firm competition. This can increase the demand for imports from non-member countries, thus to some extent offsetting any trade diversion effects which may have occurred. Dynamic gains from trade liberalisation due to increased physical and human capital formation can be large such that they can be shared by all businesses operating within the RIA including those that are foreign owned[2]. Therefore as Blackhurst and Henderson (1993:410) observe, closer regional integration in itself does not cause the region to become less integrated with the rest of the world since the benefits that are generated within the region by internal liberalisation may give rise to new opportunities for countries located outside it.

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[2]These issues are considered further in Chapters Four and Seven.

However, it is important to note that using the theorem or Kemp-Vanek admissibility to ensure that RIAs are a step towards global free trade would not be an easy task. With regards to the theorem, computing the internal equilibrium prices that would be used to calculate the common external tariff is difficult because of the complex interaction of supplies and demands that are possible among the different goods. Therefore as McMillan (1993:296) points out, coming up with the appropriate common external tariff to ensure that the pre-integration levels of imports remain unchanged may not be practical. Besides this, tariffs can be lowered but trade volumes may not respond due to non-tariff barriers. With regards to Kemp-Vanek admissibility, the requirement that there be no reduction in any of the RIA's imports and exports to the rest of the world could be difficult to verify in the light of the number of commodities traded and insufficient administrative capabilities.

1.2.2 <u>Regional integration arrangements promote protectionism</u>

A motive for integration could be the creation of a larger and more protected internal market so as to create self sufficiency and reduce dependency on the rest of the world. In this way the RIA could be a force for disintegration within the world economy and could attract retaliation from non-member countries.

Bhagwati (1993)[3] notes that, in some cases, an RIA which would have begun with no intention of fostering protectionism can turn inward over time depending on the relative power and influence of different interest groups within the RIA. Some interest groups may begin to resist extra-bloc liberalisation through heightening external trade restrictions. If it is able to produce a large fraction of the world's supply of some goods, the RIA might restrict external trade in order to exploit its new found monopoly power in world trade. This normally happens with RIAs between more developed countries because they are powerful enough to cause external trade restrictions to be heightened (McMillan, 1993:294).

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[3]Cited in de Melo and Panagariya (1993:9).

It is in fear of this possibility that developing countries have resorted to forming their own regional groupings so as to create markets for their own products[4]. Integration and cooperation among developing countries have also been seriously considered as a way of raising a group's bargaining power in its external economic relations with the rest of the world in an attempt to avoid marginalisation.

Africa as a whole is therefore already characterised by relatively high levels of integration as it seeks to transform its weak production structures and fragmented markets by embracing regional economic integration. A number of integration groups exist in southern Africa. These are: (i) the Southern African Customs Union (SACU) between South Africa and Botswana, Lesotho, Namibia and Swaziland (the BLNS countries), dating back to 1910, allowing for free movement of goods and services between member states but imposing a common external tariff against third countries; (ii) the Preferential Trade Area (PTA) for Eastern and Southern African states which was founded in 1981 and then succeeded by the Common Market for Eastern and Southern Africa (COMESA), geared at facilitating freer movement of goods and services, through a gradual reduction of tariffs and non-tariff barriers; (iii) the Southern African Development Community (SADC), which came into being in 1992 to succeed the Southern African Development Coordination Conference (SADCC), (in existence since 1980), and which seeks to form a Free Trade Area through the SADC Trade Protocol of 1996, signed by all member states with the exception of Angola; (iv) the Cross Border Initiative (CBI), which embraces fourteen countries in Eastern and Southern Africa, so as to hasten the pace of the implementation of programmes being undertaken by all regional groupings; (v) bilateral most-favoured nation (MFN) trade agreements; and (vi) bilateral preferential trade agreements which are separate but run parallel to bilateral MFN trade agreements and establish free trade in qualifying goods between contracting parties[5].

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[4]In this respect, Castro (1984:158) therefore argues that cooperation and regional integration are not the result of an isolationist attitude on the part of the third world countries, but a logical reaction to the protectionist isolationism being practiced with growing vigor by the market-based economies of developed countries (Castro, 1984:158).

[5]The origins and aims of some of these arrangements are considered in Chapter Two.

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1.2.3 Implications of the debate

As Blackhurst and Henderson (1993:412, 429) observe, whether or not a particular RIA contributes to global liberalisation, and hence to closer integration in the world economy, will depend to a large extent on the specific provisions of the agreement, its influence on trade policies with third countries, and the way in which official policies in the participating countries and in the rest of the world evolve as a result of it. This therefore suggests that RIAs *per se* do not pose an inherent threat to efforts to promote continued integration on a world-wide basis. So integration as such may be seen as a liberalisation process that only becomes a source of disintegration at the same time on the wider international scene in so far as it is accompanied by a shift towards protectionism.

To improve the likelihood that RIAs promote global free trade, Blackhurst and Henderson (1993:423) suggest that there may be a need for reforms in the WTO rules governing RIAs. Bhagwati (1993)[6] suggests that the formation of a customs union or a free trade area include a reduction in barriers to goods from third countries. This can be achieved in the case of a customs union by specifying that the lowest pre-union tariff among the participants on a particular item becomes the common external tariff. McMillan (1993:300) proposes a change to the rules that define an RIA as WTO conforming. He suggests that rules be altered to define an RIA as WTO conforming as long as it does not reduce the volume of trade between member countries and outside countries. Efforts should, however, continue to be made by the WTO to monitor compliance and to place limits on what the participating countries can agree to among themselves so that RIAs can be more global trade promoting.

1.3 CONCLUSION

With regional cooperation, there is a loss of some degree of freedom in policy making and policy instruments in exchange for some future benefits that are unknown. Therefore, the question of

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[6]Cited in Blackhurst and Henderson (1993:423).

regional cooperation as an instrument for promoting economic development needs to be considered together with the question of the type of national strategies to be pursued in the context of such anticipated cooperation and integration. Mhone (1993:37) notes that two considerations have to be deliberated by any developing country intent on promoting economic development through a process of dynamic economic transformation, in the context of free trade.

Firstly, developing countries must consider whether the role of trade as an engine for economic growth and development transformation is going to be best advanced by either: (i) a much more thorough integration into the global economic system, facilitated by bilateral or multilateral North-South concessions such as the Lome Convention; or (ii) through regional cooperation, which explicitly places some limits on openness by offering some degree of protectionism vis-a-vis the rest of the world. Secondly, there is need for a developing country's government to decide whether its strategy for promoting economic transformation and attaining economic development would be better served by either: (i) a laissez-faire strategy; or (ii) a dirigiste (managed) strategy/approach where there is interference with market mechanisms in the national economy; and (iii) what the economic implications of either choice are in the context of regional cooperation and integration.

It is in the light of this that this research is going to look at regional economic integration arrangements in the southern African region, and to make a survey of economic benefits that have accrued to member states, with particular reference to SADC and SACU. Economic benefits arising from the SADC sectoral programme, intra-regional trade, and cross-border investment are going to be discussed.

CHAPTER TWO

REGIONAL ECONOMIC INTEGRATION ARRANGEMENTS IN SOUTHERN AFRICA

2.1 INTRODUCTION

This chapter introduces the more prominent regional economic arrangements in southern Africa, viz. the Southern African Development Community (SADC), the Southern African Customs Union (SACU), the Common Market for Eastern and Southern Africa (COMESA), the Cross Border Initiative (CBI), and some bilateral trade agreements. The chapter examines the aims and objectives of the regional groups as laid out in their respective treaties, in an attempt to provide the basis for an evaluation of the success of the groupings in providing economic benefits to member states.

Section 2.2 focuses on SADC, highlighting its historical background and membership, the aims and objectives of the SADC Treaty and the protocols signed so far. Section 2.3 provides an overview of the historical background, membership, aims, and objectives of SACU, as well as the efforts being made to renegotiate the SACU Agreement. Section 2.4 considers the evolution of COMESA, its aims and objectives. Section 2.5 looks at the Cross Border Initiative, while Section 2.6 provides an overview of some of the bilateral trade agreements in southern Africa. Section 2.7 concludes.

2.2 THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

2.2.1 Historical background

The Southern African Development Coordination Conference, SADCC, (which preceded the Southern African Development Community) was established in April 1980 in Lusaka, Zambia. Its original members were Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe (Finhold Bank, 1993; Foroutan, 1998). The historical linkages which these countries shared were the armed struggles for independence from colonial rule and

the support they rendered each other during the wars of independence. These formed a good basis for trust and confidence building amongst members.

The objectives of SADCC were: (i) collective self-reliance while reducing the economic dependence of member states particularly but not only on South Africa; (ii) forging links to create genuine and equitable integration; (iii) mobilisation of resources to promote the implementation of national, inter-state and regional policies; and (iv) concerted action to secure international cooperation within the framework of the strategy for economic liberalisation (Ching'ambo, 1992:22; Ostergaard, 1990:58; Leistner, 1997:116).

SADCC aimed to promote the economic development of its member states through cooperation and coordination in respect of areas such as transport, telecommunications, agriculture and food security, industrialisation, energy and others. As a result, Sectoral Coordinating Units (SCUs) were allocated to each of the member states (Table 2.1). SADCC opted for this approach as it was conscious of the failures which other regional bodies, such as the East African Community, had experienced as a result of adopting formal integration arrangements. These problems emanated from the unequal distribution of gains and losses that resulted from economic integration between the member states.

However, SADCC had to put in place measures to seek foreign financial support for its infrastructural development projects as they could not be economically undertaken by any one of its member states individually. So while a country would coordinate the project(s) promoted by SADCC within a given sector, the final agreement on specific projects was made between the donor/investor and the country in question (Ostergaard, 1990:58). Where donor interests coincided with SADCC's, then funding could be made available for such projects. This was particularly the case with transport projects; funding in other sectors has been more problematic (Ntonga, 1999).

In its theme document for the 1990 SADCC Consultative Conference, SADCC acknowledged the limitations of the project-based approach it was pursuing. Trade and market integration, the new focus of the regional grouping, called for the adoption of a new integration model different

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from the project-based approach to integration. The regional grouping therefore called for "new institutions with appropriate expertise and a minimum authority to initiate, direct and implement" the challenges of coordinating regional productive activities and intra-regional as well as extra-regional trade (Ostergaard, 1990:62).

Table 2.1: SADCC's programme of action

Country coordinating the project	SADCC programme sector
Angola	Energy
Botswana	Agricultural research Livestock production and animal disease control
Lesotho	Soil and water conservation and land utilisation Tourism
Malawi	Fisheries, forestry and wildlife
Mozambique	Transport and communications
Swaziland	Manpower development
Tanzania	Industry and trade
Zambia	Mining
Zimbabwe	Food security

Source: Own table derived from Ostergaard (1990:58).

2.2.2 **The Southern African Development Community (SADC)**

As trade integration began to top the agenda of SADCC's Consultative Conferences, the group was renamed SADC on 17 August 1992 in Windhoek, Namibia, under a new Treaty signed by the ten Heads of State of the member countries (SADC, 1992). The thrust of the new grouping shifted to measures aimed at promoting production, trade, investment and the progressive integration of member states. The transformation in both aim and modus operandi of the regional grouping was to occur through the development, adoption and implementation of protocols covering various sectors of importance for the final goal of regional economic integration.

There was also some debate about a possible merger between SADCC and the Preferential Trade Area for Eastern and Southern African States (PTA), due to overlapping activities and

membership. At the same time South Africa was experiencing its political transition, eliminating part of the rationale for SADCC's existence. This was seen in some quarters as further argument for a merger.

However, none of the regional groupings was prepared to be taken over by the other, and SADCC maintained that it was still relevant as the reduction of dependence on South Africa was not its only focus. Mobilising resources and implementing national, inter-state and regional policies within the framework of the strategy for economic liberalisation were still important objectives, although the feeling was that its sectoral coordination approach needed to be supplemented by some market integration approach for the move to economic liberalisation to take place. Therefore, at the 1997 SADC Summit, a report on SADC-COMESA relations expressed that "the sister organisations had amicably reached a common understanding on the need to co-exist while ensuring maximum coordination and harmonisation of their respective programmes of action"(Mbendi, 2000:7).

Whilst there was this shift in emphasis in SADC, infrastructural development was still of fundamental importance as it provided a basis for the development of the region. To date SADC has restructured the allocation of some sectoral responsibilities so that new members can share in the implementation of the sectoral programmes (Table 2.2). For example, tourism, which used to be coordinated by Lesotho, is now coordinated by Mauritius, while a new sectoral programme, water, was created for Lesotho. The food, agriculture and natural resources (FANR) sector, which was coordinated by Zimbabwe was transformed from a Sector Coordinating Unit to a Sector Development Unit (SDU), so that it can attend to issues such as policy harmonisation, food security and information flows[7] (SARDC, 1997a:16).

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[7]The Sector Development Unit became the overall coordinating structure of the FANR sector, so as to effectively coordinate the individual sector coordinating units within the FANR sector, e.g. livestock production and animal disease control, forestry, inland fisheries, marine fisheries, crop production and agricultural research. This transformation of the FANR into a SDU ties in well with the provisions of Chapter Three Article 5(2j) of the SADC Treaty which allows member states to develop other activities to further the objectives of the SADC Treaty.

Table 2.2: SADC's sectoral coordinating units

Country coordinating the project	SADC programme sector
Angola	Energy
Botswana	Agricultural research and training Livestock production Animal disease control
Lesotho	Water Environment and land management
Malawi	Inland fisheries Forestry and wildlife
Mauritius	Tourism
Mozambique	Transport and communications Culture and information
Namibia	Marine fisheries and resources
South Africa	Finance and investment
Swaziland	Human resources development
Tanzania	Industry and trade
Zambia	Mining Labour and employment
Zimbabwe	Food, agriculture and natural resources Security

Source: SARDC (1997a:16); Leistner (1997:118).

2.2.3 The SADC Treaty

The framework of the new dispensation is embodied in the Treaty establishing the SADC which came into effect on October 5, 1993 (Leistner, 1997:118). Article 5 of the Windhoek Treaty sets out the organisation's specific principles and objectives. These allow for higher levels of integration based on the fundamental principle of "balance, equity and mutual benefit" (Article 4 item d of SADC, 1992). The objectives are to:

> (i) achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the peoples of southern Africa and to support the socially disadvantaged through regional integration;

> (ii) evolve common political values, systems and institutions;

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(iii) protect and promote peace and security;

(iv) promote self-sustaining development on the basis of collective self-reliance, and the interdependence of member states;

(v) achieve complementarity between national and regional strategies and programmes;

(vi) promote and maximise productive employment and utilisation of resources of the region;

(vii) achieve sustainable utilisation of natural resources and effective protection of the environment; and

(viii) strengthen and consolidate the long standing historical, social and cultural affinities and links among peoples of the region (SADC, 1992).

In order to achieve these objectives, the Treaty provides among other things, for the promotion of: (i) cross border investment and trade; (ii) freer movement of the factors of production, goods and services across national borders; and (iii) common economic, social and political values and systems, enhancing enterprise, competitiveness, democracy and good governance, respect for the rule of law and human rights, popular participation and the alleviation of poverty (Chapter Three, Article 5(2) and Article 6 of SADC, 1992).

The ultimate intention of the Treaty is to place binding obligations on member states with the aim of promoting economic integration. Non-compliance would be enforced by the relevant sanctions being put in place[8]. The Treaty therefore ensures that SADC is "a legal organisation with provisions for binding rules and regulations in which member states shall, through the appropriate institutions of SADC, coordinate, rationalise and harmonise their overall macro-economic and sectoral policies and strategies, programmes and projects in the areas of cooperation" (Ching'ambo, 1992:22).

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[8]Ostergaard (1990:63) observes that there had to be an instrument to provide for commitment and binding arrangements that do not depend on the personal relations among existing Heads of State. This is what SADCC lacked, hence its description as an "informal club".

2.2.4 The SADC protocols

Since SADC has regional economic integration as its ultimate goal, protocols are an important first step towards achieving this goal as they create a legal framework for cooperation. The drafting and eventual adoption of such protocols by members demonstrates some commitment to the vision of integration and the need to deepen cooperation. However, the extent of the seriousness of such a commitment is revealed by the speed with which the protocols are ratified by the respective member states.

In an effort to fulfill Chapter Three Article 5, Article 6(1) and Chapter Seven Article 21(1) of its Treaty, SADC had, by January 1998, signed eight protocols covering transport, communications and meteorology, energy, sharing of watercourse system/river basins, mining immunities and privileges, combatting of illicit drug trafficking, education and training, defence and security, and trade, the latter being the most recent, concluded in 1996 (Regional Centre for Southern Africa, 1997; Holden, 1998:461; Ahwireng-Obeng and McGowan, 1998a:184). Each sectoral protocol has as one of its objectives the coordination and harmonisation of policies and regulations in the region in the sector which it is supposed to serve. This reduction and removal of disparities between member states helps integrate the economies as they pursue similar policies in each sector, thus enabling the region to present a more unified and attractive investment destination. The member states will also be able to coordinate and cooperate in the development and exploitation of existing resources for mutual benefit more easily, as the disparities in policies and regulations between them will have been removed.

However, ratification of these protocols has been so slow and this has delayed their implementation because of lack of legal force. Protocols need to be ratified by a two-thirds majority before implementation can begin. Only the protocol on immunities has been ratified by all SADC countries, except Mauritius and South Africa. Botswana is the only country which has to date signed and ratified all the SADC protocols. Five of the eight protocols have to date been ratified by the required two-thirds majority. These are the shared watercourse systems protocol, the transport, communications and meteorology protocol, the protocol on immunities and privileges, the energy protocol and the SADC trade protocol (Table A-1, Appendix 1). This can be seen as a significant step towards the goal of having a legal framework for cooperation in

SADC as the implementation of such protocols will lay the necessary foundation.

2.2.5   The SADC Trade Protocol

Discussions around the Trade protocol began in 1994 and gained momentum in 1995. In 1996, the Protocol was signed by the SADC Heads of State and, in 1998, negotiations became more comprehensive so as to resolve pertinent issues like product categories for tariff reduction and tariff levels, so that those member states who had not yet ratified the Protocol could do so (Mutanhaurwa, 1999). This Protocol is seen as the engine that will drive economic integration in the SADC region through trade integration. It is assumed that trade integration will foster industrial development and diversification as well as significant productivity improvements, instead of merely enhancing trade flows between constituent members (SARDC, 1997b:4).

The objectives of the Protocol are to: (i) further liberalise intra-regional trade in goods and services on the basis of fair, mutually equitable and beneficial trade arrangements, complemented by protocols in other areas; (ii) ensure efficient production within SADC utilising the current and dynamic comparative advantages of its members; (iii) contribute towards the improvement of the climate for domestic, cross-border and foreign investment; (iv) enhance economic development, diversification and industrialisation of the region; and (v) establish a free trade area among SADC members (Matsebula, 1998:72).

Negotiations to conclude the protocol stalled due, *inter alia*, to: (i) lack of understanding of the implications of a SADC FTA by member states, which affected the input and presentations of member states during their participation in the SADC Trade Negotiation Forum meetings; (ii) slow submission of offers by member states[9]; (iii) mistrust by some member states about Tanzania's ability to drive the protocol and (iv) delays in ironing out pertinent issues like the rules of origin, raised by SACU, as well as other finer details[10]. Apart from this, awaiting the

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[9]The first submission was by Mauritius, followed by SACU, while Mozambique submitted offers which were not in the correct format. Tanzania made late submissions, with Angola not participating at all.

[10]A lot of progress was made on attending to and finalising most of the pertinent outstanding issues like the rules of origin and tariff reduction schedules, at the SADC Trade Negotiation Forum meeting held in South Africa on 18-19 December 1999, and the implementation of the protocol began in September 2000 (Mutanhaurwa, 1999; Sunday Times, 3 September 2000).

results of studies which were being done under the SADC Industry and Trade Sector, which impact on the Protocol, also led to delays in its finalisation[11].

Ratification of the protocol was also slow[12]. Even though by the end of 1999 the Protocol had been ratified by the required two-thirds majority, thus making it legally binding, it could not practically be put in force. Much depended on South Africa, because without its commitment, spelt out by ratification, the Protocol would have been difficult to implement. This is so because South Africa is a major player in the southern African region and its presence in any regional arrangements and activities cannot be ignored. All countries in the region are set on accessing the South African market more freely, and the implementation of the SADC Trade Protocol could only be meaningful and beneficial to member states if it was ratified by South Africa. South Africa only ratified the Protocol at the SADC Summit held in Windhoek, Namibia, on 6-7 August 2000, with the expectation that the protocol would come into effect on 1st September 2000[13].

Once implementation begins, member states are expected to reduce tariffs and non-tariff barriers at different stages over a period of twelve years[14]. However, tariff reduction is not across the board and SADC, through its Trade Negotiating Forum meetings, has divided products into three categories, each with different tariff reduction deadlines (Table 2.3).

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[11]Some such studies include: (i) Project AAA14.9.2(a): Study to determine tariff schedules, which was only reported complete at the beginning of 1999; (ii) Project AAA14.9.3: Study for complementary policies to underpin a SADC Free Trade Area, which by 1999 was still in progress while additional funding was being sought; and (iii) Project AAA14.9.4: Study to formulate a strategic action programme for implementation of the Trade Protocol which by 1999 was still in progress (SADC Industry and Trade Sector, 1999:76).

[12]Botswana, Mauritius, Namibia, Tanzania and Zimbabwe had ratified the protocol by early 1999. Lesotho and Malawi ratified the protocol towards the end of 1999. Mozambique, South Africa and Swaziland indicated that they were going to ratify the protocol before the end of 1999 (which they did not). A declaration was made at the SADC Summit held in Maputo on 17-18 August 1999, that the SADC Trade Protocol would take effect in January 2000 (SARDC, 1999:1). As noted above, implementation began in September 2000.

[13]SAfm 2300h news bulletin, 26 July 2000. The SADC Trade Protocol came into effect on 8 September, 2000 (Sunday Times, 3 September 2000).

[14]Initially the SADC FTA was to be attained within a period of eight years. At the SADC Summit held on 6-7 August 2000, this period was extended to twelve years. 85 percent of SADC's trade is expected to be free by the end of eight years from the date of implementation. The remaining 15 percent is expected to be free in the subsequent four years (AM live 8:00am news, 7 August 2000; Infobeat, 2000).

Table 2.3: The proposed tariff reduction schedule.

CATEGORY	TYPE OF GOODS	TREATMENT
A Immediate liberalisation	Capital goods, raw materials.	This is the immediate liberalisation list, under which tariffs have to be reduced to zero immediately upon entry into force of the Trade Protocol.
B Gradual liberalisation	Majority of other goods apart from the sensitive products, e.g. the intermediate goods.	This is the gradual liberalisation list, and the goods will have their tariffs reduced gradually, starting immediately upon entry into force of the Trade Protocol.
C Sensitive products	Nationally sensitive goods to be defined by each country, e.g. finished products.	This is the sensitive products list, deemed to be sensitive to immediate tariff liberalisation for a range of reasons. Liberalisation may start within the agreed phase out period, i.e. five years after entry into force of the Trade Protocol, but can continue beyond the eight years.

<u>Source:</u>   Hess (1999:39); ZNCC (1999a:3); Adams (1999).

Since the SADC member states are at different levels of development, there will be different tariff phase down programmes[15]. An asymmetrical implementation process will therefore occur as follows: (i) SACU is to implement a five-year tariff phase down programme starting as soon as the trade agreement comes into force; (ii) the developing countries, viz: Mauritius, Seychelles and Zimbabwe, will implement a programme that will start in the middle of the eight year process; and (iii) the least developed countries, viz: the remainder of SADC will begin their phase down schedule towards the end of the process (Hess, 1999:39; Adams, 1999)[16].

2.2.6 Current SADC membership

SADC membership has grown from nine to fourteen in the last two decades. Current members are Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Namibia joined after its independence in 1990, South Africa in 1994 after the elections, and Mauritius became the twelfth member in August 1995 (Hartzenberg and Maasdorp, 1998:435). The Democratic Republic of Congo and Seychelles joined SADC in September 1997.

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[15]Member states are permitted to speed up their own process if they so wish.

[16]This consideration for the different levels of development is commensurate with the provisions outlined in Part Two Article 3 1(b) and 1(c) of the SADC Trade Protocol.

2.3 THE SOUTHERN AFRICAN CUSTOMS UNION

2.3.1 Historical background

The Southern African Customs Union (SACU) represents the only formal integration arrangement in southern Africa and has been in existence for over a century, although it has evolved over the years. The organisation dates back to 1889, when a customs union was established between the territories that presently make up the Republic of South Africa. It was later extended to Botswana, Lesotho and Swaziland (then Bechuanaland, Basutoland and Swaziland) in 1910. In 1915, it was extended to Namibia (then South West Africa and under the rule of South Africa), after it had been seized from the Germans (Mushauri, 1997; Holden, 1998:458; Davies, 1994b:1; McCarthy, 1994:167-8).The SACU Agreement (SACUA) was renegotiated in 1969 after Botswana, Lesotho and Swaziland attained their independence. In 1990, Namibia's membership was formalised after its independence (it had been a *de facto* member till then). Therefore, the existing SACU is between South Africa and the four smaller countries, Botswana, Lesotho, Namibia and Swaziland (commonly known as the BLNS countries).

2.3.2 The SACU Agreement

The basis of the present SACUA came into force in 1969, thus replacing the Customs Agreement that was operative from 1910 (Davies, 1994b:1). Through its aims and objectives as they appear in its preamble, the SACUA makes provisions for the following:

(i) the creation of a Common Customs Area which sets and adopts a common external tariff on imports into the Customs Union, administered by South Africa, and the harmonisation of excise duties between members as per Article 4(1);

(ii) the duty-free movement of goods and services among member states in the Common Customs Area, reflected in Article 2, Article 11(3) and Article 15;

(iii) ensuring the continued economic development of the Common Customs Area as a whole, and *to ensure in particular, the encouragement of the development of the less advanced members of the customs union and the diversification of their economies* [17],

(iv) affording all parties of the Customs Union "*equitable benefits*" arising from trade

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[17]Emphasis added.

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among themselves and other countries;

(v) forming a common revenue pool to be administered by the South African Reserve Bank as reflected in Article13; and

(vi) establishing a revenue sharing formula that enhances the revenue shares going to smaller partner countries by 42 percent as per Article 14[18] (Holden, 1998:459; Finhold Bank, 1993; Davies, 1994b:1,2-3; Kumar, 1992:1,4,53; Mayer and Zarenda, 1994:13-14; McCarthy, 1994:168-170).

The SACU Agreement was amended in 1976 so as to introduce a stabilisation factor into the revenue sharing formula, in an attempt to target an average rate of duty of about 20 percent. The lower bound of the rate of duty became17 percent and the upper bound 23 percent (Cattaneo, 1998:9). This was done so as to reduce the revenue fluctuations experienced by the smaller partner countries as a result of the fluctuation in the value of the rand (Holden, 1998:459; Maasdorp, 1982:97; Nkuhlu, 1993:6). The ultimate effect of this was a further enhancement of the compensation to the smaller partner countries. Further a secret memorandum of understanding was negotiated and attached to the 1969 SACUA[19] (Riddell, 1992:50[20]).

The most important provisions of the SACUA which have tended to cause problems between the BLNS countries and South Africa are Articles 5(1), 6, 7, 9, 11(1) and the Memorandum of Understanding (Table A-2, Appendix 1). The problems surrounding these provisions, which mainly relate to revenue-sharing, loss of fiscal discretion and industrial development, have led to the need to renegotiate the SACUA.

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[18]The revenue which goes to the BLNS countries serves as a financial transfer to compensate them for the adverse effects of the trade diversion which the customs union brought with it, viz. the price rising effects of South Africa's import control measures and protective tariff, polarisation of development and loss of fiscal discretion (Hoohlo, 1990:97-103; Stoneman, 1994:8).

[19]South Africa is exempted from observing this memorandum. This means that South Africa can increase tariff protection for its own industries without meeting the quantity, quality or availability requirements which the BLNS countries are subjected to. Some authors have argued that this has helped to fuel polarisation of industry towards South Africa as this memorandum has blocked some BLNS industries wishing to supply the broader SACU market (Davies, 1994b:3; Kumar, 1992:8; Mayer and Zarenda, 1994:29,37).

[20]Cited in Davies (1994b:3).

2.3.3 Renegotiating the SACUA

The current arrangements to renegotiate the SACUA effectively began in 1981 (Walters, 1989:31). The initiatives which the Customs Union took to find possible ways to counteract threats to the continued existence of SACU included: (i) a Study Group set up by the Customs Union Commission leading to the 1982 Commission Report; (ii) the 1984 Review Commission chaired by Professor McCarthy leading to the 1985 McCarthy Report; (iii) the 1987 Margo Commission; and (iv) the 1988 resurrected SACUA Renegotiation Study Group which made its presentation in 1991 (Stoneman, 1994:10; Mayer and Zarenda, 1994:37,48-50; Walters, 1989:31-32; Davies, 1994b:8-9).

Late 1994 saw the resumption of negotiations for the new SACUA through the appointment of the Customs Union Task Team (Hartzenberg and Maasdorp, 1998:434). These were expected to be concluded by March 1995 (Leistner, 1997:115), but the position of each party proved to be difficult to reconcile and so no agreement was reached by that deadline. Even by early 1998, negotiations on the new SACU Treaty were still at an impasse and no party to the negotiations had fully revealed to the public their country's position (Ahwireng-Obeng and McGowan, 1998a:181; Holden, 1998:459).

Initiatives to map the way forward for SACU were not at the regional level alone. At the national level, for example, Botswana set up an inter-ministerial "Regional Options Task Force", which is expected to assist with the identification of the country's policy alternatives and the formulation of strategies and negotiating positions related to the various options. Other SACU member states have done the same (Stoneman, 1994:10)[21].

However, in 1998-1999, negotiations for the new SACUA were put on hold because the team which was tasked with renegotiating the SACUA was the same team conducting negotiations

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[21]Member states have also taken opportunities to participate and present papers on their countries' views in workshops held to discuss issues pertinent to the SACU. Some workshops have been held with various themes centred on reconstituting and democratising the customs union. At a workshop held in Gaborone in March 1994, Botswana, Namibia and South Africa made presentations of their respective countries' views and the options for the way forward on the issues that are currently besetting the customs union. Through such workshops, ideas can be shared and resolutions taken which can be followed up at other forums.

surrounding the SADC Trade Protocol, and priority was on finalising the latter. Since the SADC Trade Protocol has now been finalised and implementation has begun, it is expected that the renegotiation of the SACUA can resume (Adams, 1999).

The focus of the renegotiation is on the loopholes in the SACUA. Some of these are found in the governance of the existing agreement, the absence of the provision for recourse, and inhibitive conditions and articles in the SACUA (Stoneman, 1994:3, 11-17). A brief discussion of some of the issues of concern follows below.

2.3.3.1   Democratising SACU

The BLNS countries have pointed out that the retention by South Africa of the right to set customs and excise duty rates unilaterally, and having to maintain customs and excise legislation identical to that of South Africa, leads to loss of discretionary authority to pursue independent national fiscal policy. They have also objected to the inadequacy of procedures for consultation (thus violating Article 5(1) of the SACUA), which has often led South Africa to disregard their interests and subordinate them to those of its own manufactures and agricultural producers. Inadequacy of dispute resolution procedures has also been highlighted, as well as the need for institutional support through a governing body that is representative of all five member states instead of relying on the South African Board of Trade and Tariffs, whose terms of reference reflect South Africa's interests.

2.3.3.2   Industrial development

Some authors[22] observe that South Africa has deliberately made it difficult for the smaller peripheral countries to develop by creating an uneven playing field for regional producers through various mechanisms. It has been argued that South Africa's decentralisation policy after 1982 was responsible for companies pulling out of the BLNS countries into Transkei, Bophuthatswana, Venda and Ciskei (the TBVC states). South Africa's high levels of incentives for the decentralisation of its industry into the former Bantustans could not be matched by the

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[22]Tsie (1995:42); Tjitendero (1994:25); Kumar (1992:9-10,14); Mayer and Zarenda (1994:37).

BLNS countries. Hamilton and Linge (1981:109)[23] note that, in some instances, some firms in South Africa, were obliged, sometimes explicitly to confine any expansion to within South Africa only, further inhibiting industrialisation in the other member states. In some cases, South Africa employed a variety of strategies to subvert firms seeking to relocate in partner countries with the intention of exporting to the SACU market[24].

It has also been argued that, in some instances, South Africa has encouraged dumping by non-SACU suppliers in the SACU market so as to drive companies in the BLNS countries out of business[25]. There has also allegedly been dumping by South African companies into the markets of its partners, such as in the case of Swaziland's attempts to establish a fertiliser factory and proposed breweries in Botswana and Lesotho. South Africa dropped prices until local competitors were forced out of business and then raised prices later and put pressure on outlets.

South Africa has also been accused of revoking and changing rules and legal requirements under which operational projects would have been established, so as to render them inoperable. The motor vehicle assembly industry in Botswana[26] is one example, where the changes which South Africa was proposing would have prevented the viable operation of any existing or new motor vehicle assembly plants in Botswana[27].

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[23]Cited in Tsie (1995:41).

[24]Hanlon (1989:68) cites the example of a South African firm that opened a plant in Botswana to recycle imported jute bags for the South African market. In 1984, the company was forced to close because South Africa claimed that the bags did not have the required 25 percent local content. Within days after closure, the company re-opened in the Bophuthatswana, just over Botswana's border, aided by a South African grant of R600 000 (Tsie, 1995:42).

[25]This was the case with the Soda Ash Project in Botswana. South Africa decided to accommodate its large international trading partner, America Soda Ash producers, a company which had always been against the establishment of the Soda Ash Botswana plant, by reducing external SACU tariffs on its products even though this was going to impact negatively on Botswana's Soda Ash Project (Stoneman, 1994:12).

[26]After moves had been made to stop auto-companies from assembling vehicles in the BLNS countries, an agreement was eventually reached to permit Hyundai to assemble vehicles in Botswana and export to South Africa (Ndlela, 1996:7; Hartzenberg and Maasdorp, 1998:449).

[27] Another case is that of crude vegetable oil, where a Botswana refining company, Refined Oil Products, established a plant to refine vegetable oil for the local market in the late 1980s. In 1990, the tariff rebate scheme, permissible under SACUA regulations, was revoked at the recommendations of the Board of Tariffs and Trade, thus forcing the company to obtain expensive inputs from South Africa. Requests in May

Some provisions in the SACUA are supposed to enable BLNS to protect their infant industries for up to eight years. However, there are some conditions attached to the use of these provisions: (i) such industries must have a proven potential of supplying 100 percent of the national market of the applicant if protection is granted against South African imports; and (ii) the Memorandum of Understanding. Mayer and Zarenda (1994:37) argue that these conditions have skewed the playing field within the common customs area in favour of South Africa's producers. It has also been observed that new and infant industries in the BLNS are forced to comply with a variety of non-tariff barriers deriving from regulations in force in South Africa[28]. This has often meant a quick death for such industries, especially in cases where their products aim at penetrating the South African market (Kumar, 1992:9-10).

Attempts by the BLNS countries to circumvent the non-tariff barriers imposed by South Africa have often been seen as unfair competition by South African industrialists, who would lobby vigorously against such attempts using Article 11(5) of the SACUA. As a result, the BLNS countries had difficulty encouraging the establishment of competitive industries in their own countries which were able to source cheaper inputs from outside. If they did, products from such industries could only be sold within the BLNS countries themselves, otherwise South Africa would have invoked Articles 11 and 17 (Kumar, 1992:10)[29]. South Africa's use of the Board on Tariffs and Trade for advice to run SACU affairs, has also allegedly made it difficult for the BLNS countries to set up competitive industries capable of competing on an equal footing with South Africa's industries[30].

1991 to have the rebate reinstated for it to resume obtaining the required low cost raw materials from Argentina were refused by South Africa (Stoneman, 1994:13,15).

[28]South Africa has restricted the entry of enterprises into certain industrial fields within the SACU. For example, Mayer and Zarenda (1994) note that standardisation of circuit designs and components was made a requirement to permit the establishment of some components industries.

[29]South Africa's intolerance has been seen in cases where such new infant and successful firms are viewed to be or prove to be a "substantial disruption of the South African market in question". As a result, industries like the fertiliser factory in Swaziland, motor vehicle assembly in Lesotho, and the Citroen's proposed car assembly plant in Namibia, faced difficulties as South African industrialists saw them as a threat to their own operations (Hartzenberg and Maasdorp, 1998:448).

[30]The Board on Tariffs and Trade is independent of SACU, and as such has no responsibility or reason to concern itself with industrial development beyond the borders of South Africa. It is established under South African law to review and make recommendations either at its own initiative or at the request of the private

However, despite the problems which the BLNS have had in using Articles 6 and 7 to facilitate industrial development within their economies, some successes have been registered, especially by Botswana in using these articles to develop some of its industries (Kumar, 1992:8)[31]. Other SACUA provisions have also been used successfully by the BLNS countries, particularly Article 11(1)[32].

2.3.3.3 Common revenue sharing

It is generally agreed that the common revenue pool has been of benefit to member states as the revenue obtained has been an important source of central government revenue for the BLNS countries (Table 2.4). It can be seen that the smaller countries, viz. Lesotho and Swaziland are the ones that have tended to depend mostly on the revenue from the common revenue pool.

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sector or the South African government. It is there for the benefit of the private sector in South Africa as the tariffs it sets are structured to meet South Africa's development needs (Mayer and Zarenda, 1994).

[31]Botswana set up a brewery under the protection of the SACUA provisions and levied additional duties of 50 percent and 100 percent respectively on imports of beer and soft drinks. It also set up its motor vehicle assembly industry under the protection of the SACUA provisions (Hartzenberg and Maasdorp, 1998:448). Further, Botswana invoked Article 11(1) to prevent the dumping of South African poultry into its economy, thus averting damage its own industry (Maasdorp,1982:91-92).

[32]For example, in 1979, the price of South African flour rose and the government decided to subsidise bakeries so as to prevent the price of bread from sky rocketing. Bakeries in BLS did not receive this subsidy from their own governments and their price of bread rose. To keep out cheap bread from South Africa, Botswana invoked Article 11(1) of the SACUA. However, Swaziland did not, and its industries had to contend with cheap bread from the Transvaal. Swaziland also failed to invoke the SACUA provisions in the case of its textile mill. Hong Kong investors erected a textile mill in Swaziland which planned to employ 300 persons. This mill would have provided a major boost to the economy of southern Swaziland. The mill was to use imported cloth. However, South Africa imposed a duty on imported fabric after some vigorous lobbying by its own textile industry. As a result the mill closed down. Swaziland could have used the "pioneer" industries' procedure to object to the raising of duties, but did not. In 1980, Swaziland invoked Article 11(1) to keep out fruit and vegetables from South Africa after an outbreak of cholera in Eastern Transvaal low-veld. This restriction is still in place and has helped to boost vegetable output by the Swazi farmers. Prior to this, these farmers had not been able to compete with imports from South Africa (Maasdorp, 1982:91-92).

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Table 2.4: Contribution customs revenue to government revenue

Country	Share of customs revenue as a percentage of central government recurrent revenue			
	1980	**1991**	**1992/3**	**1995/6**
Botswana	39.3	13.4	24.3	16.0
Lesotho	61.3	51.8	51.0	50.0
Namibia	Na	37.5	27.2	30.0
Swaziland	Na	Na	39.4	50.0
South Africa	3.3	8.8	na	13.0

Source: Compiled from Michelsen Institute (1986); Mayer and Zarenda (1994:11); Leistner (1997:116); Ahwireng-Obeng and McGowan (1998a:180); Holden (1998:460).
Note: na = statistics not available.

Revenue sharing is the major issue surrounding the dissatisfaction by member states with the current SACUA. All the countries agree, firstly on the removal of excise duties and sales tax from the pool as their inclusion is burdensome since they are levied on finished products. Apart from this, their inclusion takes SACU beyond a pure customs union into the realm of fiscal harmonisation which is characteristic of an economic union. South Africa evidently feels that having excise duties in the formula restricts the use of this revenue to help finance its increasing government expenditure. Secondly, it is agreed that the two-year lag in the distribution of shares in the revenue pool needs to be removed (McCarthy, 1985:109[33]; Mayer and Zarenda, 1994:59). However, there is disagreement on other outstanding issues.

The BLNS countries reportedly feel that the revenue sharing formula provides inadequate compensation for the trade diversion effects of being in a customs union with South Africa. It has been suggested in the past, for example, that the stabilisation factor be raised to 19-25 percent with the assumed mean being 22 percent (Maasdorp, 1982:104). However, South Africa reportedly wishes to see the removal of the compensation and stabilisation adjustment factors as these are seen to be unjustifiable, and the current revenue sharing formula is thought to have

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[33]Cited in Davies (1994b:7).

become increasingly unaffordable. A clean formula which relates revenue shares directly to each partner state's demonstrable contribution to the revenue pool is seen as fair (Stoneman, 1994:4; Holden, 1998:459)[34].

South Africa's other complaint is that there has been an overall downward trend in its share of the common revenue pool over the years[35]. Maasdorp (1994:8) notes that South Africa attributes this to the disproportionately large shares going to the BLNS countries. However, it has been noted that the BLNS economies are extremely open with a high propensity to import and with average rates of economic growth exceeding that of South Africa. With this growth, imports from South Africa have also expanded. As such, the BLNS countries' share of the common revenue grew substantially in absolute terms in addition to as a portion of the revenue pool (Hartzenberg and Maasdorp, 1998:446). Stoneman (1994:7) also points out that the increase of fiscal payments to the BLNS countries does not represent a new net burden to the economy of South Africa because the BLNS countries have been growing considerably faster than South Africa since 1970, and since 1980, they have grown more than five times as fast[36]. McCarthy (1994) notes that the growth in the BLNS economies over the years generated exports and thus income opportunities for South Africa. He therefore indicates that the benefits which South Africa derives in this way can be regarded as some justification for its falling share of customs union revenue.

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[34]South Africa argues that the BLNS countries are getting a disproportionately higher share of the revenue as compensation for leaving trade, industry and fiscal decisions in its hands (Kumar, 1992:11-13; Ndlela, 1996:5; Leistner, 1995:270). As a result it considers the union as an increasingly unfair drain on its fiscus (Leistner, 1997:115). South Africa notes that as the largest of the member states, it produces, imports and consumes the largest proportion of goods and services. As such it generates most of the revenue and should be entitled to have a larger share of it (Kumar, 1992:2; Adams, 1999).

[35]The BLS revenue share for the period 1910 to 1965, was 1.31 percent of the actual collection of customs and excise duties while South Africa retained 98.69 percent. This arrangement remained unchanged until 1969 when the enhancement factor was introduced. BLS countries' revenue share stabilised around 12 percent during the period 1984/85 to 1987/88. In the 1990s their share continued to rise, from 18 percent in 1990/91(with Namibia included, BLNS received 25.4 percent) to 38 percent in 1993/4. In the 1995/96 financial year, their share fell slightly to 31.7 percent leaving South Africa with 68.3 percent (Table A-3, Appendix 1).

[36]Leistner (1997:116) notes that the BLNS countries' GDP increased by 6.5 percent per annum in real terms in the early 1990s, while that of South Africa has been growing by less than 1 percent. In the later part of the 1990s, i.e. 1995-1998, the BLNS countries' economies grew by an average of 5.15 percent while South Africa grew by only 2.58 percent. See also Table 3.8 in Chapter Three.

It has also been pointed out that a large portion of South Africa's share of the common revenue pool in the 1980s became a paid internal transfer to the "independent states" which South Africa created in the late 1970s. Revenue transfers were paid to these states, despite protests from the BLNS countries[37]. The residual share allocated to South Africa was thus reduced by an additional loading allocation to the TBVC states. This has thus given the false impression that SACU was particularly costly for South Africa (Stoneman, 1994:9; Davies, 1994b:4).

Other factors which have led to the reduction of South Africa's residual share are changes in South Africa's tax structure[38], and the reductions in tariffs and their replacement with quantitative restrictions[39]. In terms of WTO requirements for the liberalisation of trade[40], (and also eventually the implementation of the South Africa-European Union Free Trade Agreement), further changes in tariffs and quantitative restrictions are obviously going to have an impact on South Africa's residual. The current SACU Treaty prevents the corresponding reduction in the common revenue

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[37]The TBVC share of the pool rose from 2.8 percent (1977/78) to 19.8 percent (1990/91). High transfers were experienced during the period 1982/83 to 1989/90. Namibia, then South-West Africa, also received revenue transfers from South Africa's share. Transfers to Namibia rose from 2.3 percent (1973/74) to 12.1 percent (1981/82), after which they declined (Table A-3, Appendix 1). However, Maasdorp and Whiteside (1993:42) note that, even though there was a decline in Namibia's transfers, they were still unrealistically high for the period 1981/82 to 1987/88. With Namibia gaining independence and joining SACU as an independent state, it of course became entitled to a separate revenue share.

[38]Sales tax is an important component of the formula, and yet South Africa restructured its tax base by shifting its revenue sources from sales duties to GST(later VAT) which are not included in the formula. South Africa also decreased tax rates on excisable goods which were included in the formula. All these changes served to erode the denominator of the revenue sharing formula, which is the common revenue pool (Mayer and Zarenda, 1994:24).

[39]In 1972, South Africa began substituting tariffs with quantitative restrictions, although there was some reversal in 1983. However, this time the tariff levels were lower than the tariffs implicit in the quantitative restrictions. For example, it was estimated that the overall duty rate declined from 14.7 percent in 1969/70 to 9.8 percent in 1988/89. This change in trade policy, makes the stabilisation factor of 17 percent too high, given the lower tariff regime in the SACU (Mayer and Zarenda, 1994:26).

[40]The Uruguay Round negotiations require member countries to implement cuts in industrial tariffs averaging 33 percent and in agricultural tariffs of 36 percent between January 1995 and the end of 1999. The Agreement will also impose maximum tariffs of 20-30 percent on consumer goods; 10-15 percent on intermediary goods and 0-5 percent on raw materials. While submissions have been made by South Africa for certain exceptions and longer periods for implementation have been accepted, South Africa and SACU are definitely in the process of a significant liberalisation episode that will have an impact on the revenue pool (Davies, 1994b: 11).

pool's tariff income from being passed on to the BLNS states. Therefore, South Africa will have to pay for the cost of trade liberalisation (Gibb, 1996:19)[41]. In this regard then, South Africa's concerns on its dwindling residual as a result of the WTO obligations are understandable.

2.4 THE COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA

2.4.1 Historical background

The organisation which preceded COMESA was founded at a meeting of Heads of State convened in Lusaka, Zambia on 21 December 1981, when the Treaty establishing the Preferential Trade Area for Eastern and Southern African States (PTA) was signed by a group of eastern and southern African countries. The Treaty, however, only came into force on September 30, 1982, after it had been ratified by more than seven signatory states as provided in Article 50 (Comesa, 2000a). By 1985, fifteen member states had ratified the Treaty, viz.: Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Rwanda, Somali Democratic Republic, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe (Roussous, 1988:154; Utete, 1985:73). The founding of the PTA was considered a first step towards the establishment of a common market and eventually an economic community for eastern and southern Africa as provided in Article 29 of the Treaty (Comesa, 1999a).

The long term aim of the PTA, as reflected in the Treaty, was "to promote cooperation and development in all fields of economic activity particularly in the fields of trade, customs, industry, transport, communications, agriculture, natural resources and monetary affairs, with the aim of raising the standard of living of its people and of fostering closer relations among its member states" (Goncalves, 1993; Carrim, 1994:3).

To facilitate collaborative and coordinated economic development so as to reduce dependence on industrialised countries, the PTA adopted an approach that promoted intra-regional trade through initially granting partial tariff concessions to partners on a limited number of goods. This

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[41]Cited in Ahwireng-Obeng and McGowan,1998a:180).

would be followed by a gradual reduction and eventual elimination of tariffs and non-tariff barriers, therefore creating free trade among member states. There were also plans to cooperate in the development of industry, agriculture and transport (Roussos, 1988:154; Utete, 1985:73).

2.4.2   The Common Market for Eastern and Southern Africa (COMESA)

In 1993, the PTA member states started preparing for the transformation of the PTA into a common market. This was in compliance with: (i) the provisions of Article 29 of the PTA Treaty[42]; (ii) the decision of the PTA Authority taken in January 1992[43]; and (iii) the objectives of the Treaty for the establishment of the African Economic Community and the provisions of Article 28(1) of this Treaty[44].

Thus the Treaty establishing the COMESA was signed on 5 November 1993 in Kampala, Uganda. A year later, on 8 December 1994, in Lilongwe, Malawi, the COMESA Treaty was ratified (Comesa, 1999a; 2000a). The new regional grouping became effective as it had been ratified by at least eleven member states.

2.4.3 The COMESA Treaty

COMESA is an all embracing development organisation involving cooperation and integration in all economic and social sectors. To this end, the focus of the organisation's programme is guided by its aims and objectives, fundamental principles and set priorities.

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[42]The provisions of Article 29 of the said Treaty indicate that, after ten years, steps should be taken to develop the PTA into a common market and eventually into an economic community (Comesa, 1999a; 2000a; 2000b).

[43]At its tenth meeting held in Lusaka, Zambia, from 30-31 January 1992, the Authority took a decision to transform the PTA into a Common Market for Eastern and Southern Africa (COMESA) (Comesa, 1999a; 2000a; 2000b).

[44]This Treaty, signed in Abuja, Nigeria, on June 3 1991, focuses on the establishment of a common market and eventually a gradual establishment of an economic community in six stages of variable duration" (Treaty Establishing the African Economic Community, 1992). This is a project of the UN Economic Commission for Africa and part of the OAU initiative towards a continental common market.

2.4.3.1 Aims and objectives

The Treaty sets out the aims and objectives of the organisation in Chapter 3, Article 3. These are:

(i) to attain sustainable growth and development of the member states by promoting a more balanced and harmonious development of its production and marketing structures;

(ii) to promote joint development in all fields of economic activity and the joint adoption of macro-economic policies and programmes to raise the standard of living of its peoples and to foster closer relations among its states;

(iii) to cooperate in the creation of an enabling environment for foreign, cross-border and domestic investment including the joint promotion of research and adoption of science and technology for development;

(iv) to cooperate in the promotion of peace, security and stability among the member states in order to enhance economic development in the region;

(v) to cooperate in strengthening the relations between the common market and the rest of the world and the adoption of common positions in international fora; and

(vi) to contribute towards the establishment, progress and the realisation of the objectives of the African Economic Community (COMESA, 1993).

The Treaty also outlines the fields in which member states are to cooperate in order to promote these aims and objectives (Article 4 of COMESA, 1993). These include trade liberalisation and customs, transport and communications, industrial development, energy, monetary affairs and finance, agriculture, and economic and social development.

2.4.3.2 Fundamental principles

From the objectives of the organisation, the Treaty spells out several principles which member states are expected to observe. These are reflected in Article 6 and are centred around: (i) equality and interdependence; (ii) solidarity and collective self reliance; (iii) inter-state cooperation, harmonisation of policies and integration of programmes; and (iv) maintenance of regional peace and stability (Comesa, 1999a). The checks and balances which these principles bring attempt to facilitate unity, confidence and a sense of belonging among the member states which is important in an economic integration process.

2.4.4 COMESA priorities

Due to resources constraints, five priority areas were chosen for the COMESA to focus on for the next ten years[45]. The basis for the choice of priority areas was that the greatest impact could be made in these areas, with members experiencing immediate tangible benefits. The five areas are: (i) to achieve significant and sustained increases in productivity in industry, manufacturing, processing and agro-industries to provide competitive goods as the basis for cross-border trade and to create more wealth, jobs and incomes for the people of the region; (ii) to increase agricultural production, with special emphasis on the joint development of lake river basins so as to reduce dependence on rain-fed agriculture, and to develop new programmes on food security; (iii) to develop transport and communications infrastructures and services with special emphasis on linking the rural areas with the rest of the economy in each country as well as linking the member states; (iv) new programmes for trade promotion, trade expansion and trade facilitation especially geared to the private sector, so as to enable the business community to take maximum advantage of the common market; and (v) developing a comprehensive, reliable and up to date information data base covering all sectors of the economy so as to form the basis for sound investment decisions and macro-economic policy formulation and programming (Comesa, 1999a; 2000b).

2.4.5 Current COMESA membership

To date COMESA is the largest regional grouping in Africa. Currently it has twenty-one member states viz.: Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Sudan, Swaziland, Seychelles, Tanzania, Uganda, Zambia, and Zimbabwe (Mbendi, 2000:5; Comesa, 2000b). Mozambique and Lesotho recently left the organisation (The Eastern Cape Herald, 1999:4). Neither Botswana nor South Africa are COMESA members.

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[45]The five areas were adopted at a COMESA meeting of Heads of States held in Lilongwe, Malawi from 8-9December 1994, with the realisation that the organisation was too broad and the resources with which to implement all the activities and programmes were limited (Comesa, 1999a).

2.4.6 Overlapping membership

Despite the conflicts of interest which can arise from multiple membership, countries in the region belong to more than one regional grouping (Table 2.5). There is conflict between SACU and COMESA membership as the SACU member states are prevented from reciprocating COMESA tariff concessions. This, coupled with the fact that Lesotho largely trades with other SACU member states as compared with other countries in the region, could have led to its withdrawal from COMESA. Lesotho is also a member of SADC whose focus has been modified to facilitate a free trade area thus overlapping with COMESA. Overlapping membership can be costly in terms of annual membership fees and divided loyalty, and as such member states may fail to effectively execute or implement decisions agreed on. Due to the tensions which arose as a result of the overlap between SADC and COMESA, in 1994, countries with dual membership allegedly resolved to withdraw from COMESA, and in 1996, this resolve was supposedly finalised (Holden, 1996:7). The withdrawal of Mozambique and Lesotho from COMESA is thus in keeping with this resolve.

Table 2.5: Membership of regional groupings in southern Africa

Country	SACU	SADC	CBI	COMESA	Country	SACU	SADC	CBI	COMESA
Angola		#		#	Mozambique		#		
Botswana	#	#			Namibia	#	#	#	#
Burundi			#	#	Rwanda			#	#
Comoros			#	#	Seychelles		#	#	#
Djibouti				#	Egypt				#
D. R. C.		#		#	S. Africa	#	#		
Ethiopia				#	Sudan				#
Eritrea				#	Swaziland	#	#	#	#
Kenya			#	#	Tanzania		#	#	#
Lesotho	#	#			Uganda			#	#
Madagascar			#	#	Zambia		#	#	#
Malawi		#	#	#	Zimbabwe		#	#	#
Mauritius		#	#	#	**Total**	**5**	**14**	**14**	**21**

Source: Adapted from Holden (1998:458); Mbendi (2000:5); Gemini Consulting (1999:23); Comesa (2000a).

2.5 CROSS BORDER INITIATIVE

The Cross Border Initiative (CBI) currently comprises fourteen countries, viz.: Burundi, Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. The CBI was proposed at the Maastricht Conference on Africa in 1990, sponsored by the World Bank and IMF, the European Union and the African Development Bank. The primary aim of the initiative is to fast-track the pace of implementing programmes being undertaken by COMESA and other regional groupings aimed at achieving regional integration (Cattaneo, 1998:18; Gemini Consulting, 1999:23; ZimTrade, 2000:7).

It was expected that, by 1998, the elimination of tariffs on intra-regional trade would have been achieved. It was also envisaged that, by the same year, convergence of members' external tariffs would have been achieved, i.e., a trade weighted average of 15 percent, with a maximum of 25 percent (Holden, 1996:9; 1998:463). It was further envisaged that by the year 2000, a customs union would have been formed in the region, with a common external tariff ranging from 0-25 percent depending on the types of goods imported (Gemini Consulting, 1999:24). However, to date, none of these expectations have yet been achieved.

On 18-19 October 1999, at the fourth Ministerial meeting held in Mauritius, ministers reaffirmed their commitment to the initiative despite the slow progress in the realisation of its objectives. A road map for investment facilitation was also adopted which includes actions to raise domestic and foreign investment. Such actions relate to: (i) ensuring the achievement of the essential conditions for investment, viz. peace, political and economic stability, macro-economic reform and stability, trade liberalisation, market integration, exchange rate liberalisation, and investment deregulation; (ii) attracting increased investment through tax, legal and judicial and institutional reforms, capital market and human capital development, and credible privatisation; (iii) immediate actions in the completion of the trade reform agenda, participation in a cross border awards scheme which will raise awareness of African businesses and spur the private sector to improve performance and information sharing; (iv) institutional arrangements for implementation based on a growing partnership between government and the private sector; and (v) use of the new CBI web-site: (http://www.afdb.org./cbi) for dissemination of information, views and experiences (ZimTrade, 2000:7).

2.6 BILATERAL TRADE AGREEMENTS AMONG SADC STATES

Apart from groupings considered above, there are other initiatives which have contributed to the opening up of the economies of the region. Such initiatives include: (i) the implementation of the structural adjustment programmes; trade liberalisation programmes which accompanied SAPs have seen the SADC region experiencing a significant reduction in some of the non-tariff barriers to trade like foreign exchange constraints, import licensing, import and export quantitative restrictions and legal restrictions to trade; (ii) member states' membership of the World Trade Organisation; while the countries in the region are categorised as developing and least developed countries (with the exception of South Africa), and thus are not forced to make any major market opening commitments under the Uruguay Round, their earlier SAP policies resulted in many of the changes intended by the Uruguay Round being implemented anyway; (iii) the existence of other multilateral and bilateral trade agreements in the region[46]. Bilateral trade agreements are non-SADC initiatives which have had a significant impact on the region. Some of the prominent trade agreements which exist are briefly discussed below[47].

2.6.1 Zimbabwe's bilateral trade agreements

Within the SADC region Zimbabwe has bilateral MFN agreements with Angola, Lesotho, Mauritius (1988), Mozambique (1981), Tanzania (1981), and Zambia (1981). It has bilateral preferential trade agreements with South Africa (1964), Botswana (1965), Namibia (1993) and Malawi (1995) (Government of Zimbabwe,1981a-1981c; 1988a; 1988b; 1993a; 1993b; 1995). Since 1994, Zimbabwe has been working with Zambia, Mozambique and the D.R.C. to change the MFN agreements it has with them into bilateral preferential trade agreements so as to enhance trade with these countries[48]. Kuzvinzwa (1999) notes that, under the Zimbabwe-Malawi trade

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[46]The provision in Chapter Eight, Article 24 (1), of the SADC Treaty states that "subject to the provisions of Article 6 (1), Member States and SADC shall maintain good working relations and other forms of cooperation, and may enter into agreements with other states, regional and international organisations, whose objectives are compatible with the objectives of SADC and the Provisions of this Treaty" (SADC, 1992). This thus enables the SADC members to have bilateral and other agreements with other countries.

[47]Angola and Tanzania have not developed much in terms of bilateral trade agreements with countries in the region. Neither country trades much with the rest of SADC, while the war in Angola and poor transportation infrastructure in Tanzania are other important factors.

[48]Discussions on the preferential trade agreement with Zambia are expected to be concluded by mid-2000, whilst discussions with Mozambique are still a long way from finalisation (Magade 1999). These

agreement, there are 367 companies based in Zimbabwe which are taking advantage of this agreement. Under the Zimbabwe-Botswana agreement, there are 893 such companies while under the Zimbabwe-Namibia agreement there are 270 companies in Zimbabwe taking advantage of the agreement

2.6.2 South Africa's bilateral trade agreements

South Africa has bilateral trade agreements with Zimbabwe and Malawi and a preferential tariff arrangement with Mozambique. The most recent of the various preferential trade agreements with Zimbabwe was signed in 1964 and reportedly extended by an exchange of letters in 1982 and amended in the same manner in 1986 (Kabemba, 1996:44; Blumberg, 1994:11)[49]. In 1992, when South Africa increased the level of import tariffs on textiles and clothing to 90 percent, this caused consternation in Zimbabwean industrial circles. Extensive discussions ensued until an agreement which was more in conformity with the provisions of the 1964 agreement was reached in 1996. The decisions thereof came into force during the early part of 1997 (Gemini Consulting, 1999:18). The trade agreement with Malawi was concluded in 1990, with rights and obligations under the agreement not reciprocal, but favouring Malawi. The preferential tariff arrangement concluded with Mozambique (1989) is a non-reciprocal tariff concession granted by South Africa on a short list of specified goods of Mozambican origin (Cattaneo, 1998:23).

2.6.3 Botswana's bilateral trade agreements

Botswana has preferential trade agreements with Zimbabwe and Malawi, originating as far back as 1956[50]. The agreements provide for duty-free imports of products produced in the partner's country. Therefore Botswana imports freely from Malawi and Zimbabwe, while Malawi and Zimbabwe are given tariff preferences over the rest of the world, but not over its SACU partners. The terms of the agreement with Zimbabwe have slightly changed over the years with Zimbabwe instituting import restrictions on some goods, but preferential trading still takes place.

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agreements will all eventually be superseded by the SADC free trade area.

[49]Cited in Cattaneo (1998:20).

[50]This was with the 1956 agreement between former British Protectorate of Bechuanaland and the Federation of Rhodesia and Nyasaland. Zambia withdrew from this agreement during the UDI period in Southern Rhodesia (Michelsen Institute, 1986:20).

2.6.4 Other bilateral trade agreements[51]

SADC countries have also had trade agreements based on comprehensive trade plans[52]. The countries which have had such agreements are Mozambique and Tanzania, and Angola and Mozambique[53]. The agreement between Mozambique and Tanzania was first made in 1978 in an attempt to establish and increase trade between the two countries from almost nothing[54]. Other SADC countries entered into more limited bilateral agreements, involving the establishment of joint commissions and, in most cases, indicative trade lists. Countries which have had such agreements are: Angola-Tanzania, Botswana-Zambia, Malawi-Mozambique, Malawi-Zambia, Mozambique-Zambia, Mozambique-Zimbabwe, Tanzania-Zambia, and Zambia-Zimbabwe (Michelsen Institute, 1986:23).

2.7 CONCLUSION

African leaders have long accorded high priority to regional cooperation and integration. As such, "it was the central theme of the Lagos Plan of Action, the Special UN Session on Africa in 1986 and numerous other high level statements and reports on African policy and development strategy" (World Bank, 1989:148).

According such high priority to regional cooperation and integration was a result of the realisation that each member state has something to offer to the region. Individual national assets are being harnessed to work together to achieve a viable regional economy which offers more as an economic whole than the sum of its parts.

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[51]Most of these were effective in the 1980s as evidenced by the Michelsen Institute study on intra regional trade (see Chapter Three). However with the coming into effect of COMESA, most of these agreements were overtaken or absorbed.

[52]An annual trade plan is put in place, with the two countries agreeing on types, quantities and values to be traded between them during the coming year. The plans are made for a balanced trade with the aim of creating stronger trade links (Michelsen Institute, 1986:22).

[53]A similar 1984 agreement between Tanzania and Zimbabwe was not implemented.

[54]From Chapter Three, it can be noted that trade with Mozambique is the only significant trade which Tanzania and Angola have in the region. This could be because of the relative success of these comprehensive trade plans.

However, the question can be posed as to whether all southern African countries have much to gain from the various forms of regional cooperation within the region and from launching a determined effort to integrate the regional market. The remainder of this study sets out to investigate this in the light of the theoretical framework which follows, the unequal levels of development in the region, and the perceptions of the actors involved.

CHAPTER THREE

SADC AND SACU ECONOMIES: AN OVERVIEW AND TRADE RELATIONS

3.1 INTRODUCTION

This chapter gives an overview of fundamental issues pertaining to the SADC and SACU economies. These issues have important implications for economic integration between the member states. Some discussion of comparative advantages, levels of development, current trade relations and the economic performance of different countries, give a pointer as to how different countries are likely to benefit from economic integration.

Section 3.2 gives a general overview of the nature of the African economy as background to a discussion of SADC and SACU economies. Section 3.3 reflects on the basic characteristics of the southern African countries and the implications of such characteristics for the regional economic integration process. Section 3.4 looks at the growth performance of member states since 1980 and how the diversity that is found therein is likely to impact on benefits from economic integration.

Section 3.5 examines factor endowments and comparative advantages in the region. Consideration is given on how best to utilise the region's resources for mutual benefit and how the existence of differences in factor endowments and comparative advantages can impact on economic integration. Section 3.6 introduces southern African trade relations, focusing on the nature of products exported and imported, the structure of merchandise exports and imports, intra-regional trade and the nature of trade with the rest of the world. Section 3.7 concludes the chapter with some emphasis on the possible effects of the disparities which exist between the member states on economic integration.

3.2 AN OVERVIEW OF THE NATURE OF THE AFRICAN ECONOMY

Up to 1995, Africa's economy did not grow as fast as its population since the annual population growths were much higher than the annual real GDP growth rates. This had negative implications on the general welfare of its people as the GNP per capita continued to fall (Table 3.1).

Table 3.1:   Africa's macro-economic indicators

	1980	1985	1990	1995	1996	1997	1998
Mid-year population estimates (million) Annual pop. growth rate (%)*	475.02 2.8	548.06 2.9	631.83 2.9	727.13 2.9	747.49 2.8	758.40 1.5	777.53 2.5
GDP, real (billion US$, constant 1990 prices) Real GDP growth (%)	376.86 3.9	384.44 0.4	467.31 2.5	496.39 2.9	514.58 5.5	536.54 3.4	553.95 3.2
GNP per capita (US$)	784	701	682	639	662	677	782

Source: ADB (1996: A-4, A-5; 1998:204,205; 1999:2,199, 200); World Bank (1997a:35).
Note: * Own calculations.

Failure of the continent's economy to grow is partly due to the fact that, in general, the continent depends heavily on primary commodities (largely agricultural raw materials, mineral ores and metals) and less on manufactures (Table 3.2). Agricultural output is heavily dependent on the weather and, over the years, the continent has experienced severe droughts, negatively affecting output and economic growth.

Apart from this, there has been a continuous deterioration in the terms of trade of the primary commodities and a downward trend in real commodity prices. It is argued that the reasons for this are, firstly, that the price elasticity of demand for primary commodities is usually lower than the price elasticity of demand for manufactured goods. An increase in the supply of commodity exports will cause the price of primary commodities to fall. This is particularly strong when developing countries simultaneously expand their exports of the same commodity in a bid to raise enough foreign currency to service their debts. So instead of earning the foreign currency as anticipated, the exporting countries as a group will suffer foreign exchange losses. Secondly, there is greater competition in the market for primary commodities than in the market for

manufactured goods. This is especially so in the case of minerals, ores and metals. Finally, the income elasticity of demand for primary commodities is usually smaller than the income elasticity of demand for manufactured goods. Therefore, as world income grows, the rate of growth of demand for primary commodities will be lower relative to the rate of growth of demand for manufactured goods (ADB,1996:141).

Table 3.2: Africa's sectoral origin of gross domestic product

Value added at constant prices (1985 US$ billion)	1980	1985	1990	1992	1993	1994	1995
Value added in agriculture % of GDP*	74.35 21.0	80.03 20.8	97.00 21.8	100.90 22.1	102.06 22.3	104.09 22.4	106.60 22.3
Value added in industry* % of GDP*	95.58 30.1	88.24 26.4	93.71 24.5	97.53 24.5	95.07 24.1	94.83 24.2	97.19 23.9
Value added in manufacturing % of GDP*	39.99 11.3	44.73 11.6	52.81 11.8	52.08 11.4	51.32 11.2	50.96 11.0	52.58 11.0
Value added in services % of GDP*	132.86 37.6	158.51 41.2	186.82 41.9	192.19 42.0	193.87 42.4	198.63 42.4	204.65 42.8

Source: ADB (1996: A-11 - A-14).
Notes: The value added in industry includes mining, construction and utilities. The value of manufacturing was subtracted and presented separately.
* Own calculations based on ADB (1996: A-11 - A-14).

It is often argued, therefore, that there is a need for the African countries to adjust their production structures so that they can move away from heavy reliance on the export of primary commodities and benefit more from trade.

In general, Africa's direction of trade is towards the industrialised countries. As such, very little trade takes place between African states themselves or with other developing countries. As Table 3.3 shows, two thirds of Africa's exports are destined for the industrialised countries, whilst about one fifth goes to other developing countries the world over and less than one tenth to other African countries. Two thirds of imports into Africa come from the industrialised countries, about one quarter from other developing countries and less than one tenth from other African states.

Table 3.3: Africa's direction of trade

Main direction of exports (% share)

	1980	1988	1989	1990	1991	1992	1993	1994
Industrial countries	69.76	67.65	69.02	69.46	66.75	65.09	65.06	66.03
Developing countries	15.63	16.22	15.62	16.46	17.60	19.44	22.37	22.29
Other countries	14.61	16.13	15.36	14.08	15.65	15.47	12.57	11.68
Africa	**4.38**	**6.22**	**6.19**	**7.20**	**7.40**	**7.65**	**8.94**	**9.69**

Main source of imports (% share)

	1980	1988	1989	1990	1991	1992	1993	1994
Industrial countries	71.85	73.73	72.39	69.86	67.50	66.95	67.54	67.09
Developing countries	18.64	19.94	21.36	23.40	25.64	26.76	27.37	28.05
Other countries	9.51	6.33	6.25	6.74	6.86	6.29	5.09	4.86
Africa	**4.70**	**5.57**	**6.98**	**7.88**	**7.51**	**7.53**	**8.61**	**9.49**

Source: ADB (1996:140).
Notes: Industrial countries include US, EU, Japan and others.
Developing countries include Africa, Asia, Eastern Europe, Middle East, South America.

It should be noted, however, that the share to come from Africa has more than doubled since 1980. For example, in 1980, 4.38 percent of exports went to Africa, rising to 9.69 percent by 1994. Imports from Africa rose from 4.7 percent in 1980 to 9.49 percent in 1994.

The characteristics highlighted above are also found in many of the individual economies in the regional economic groupings which form the focus of this study. However, it is important to note that the southern African countries are by no means homogeneous. They differ greatly in physical and economic size, population size, resource endowment, level of development and infrastructural development. Six of the countries are landlocked, which has important implications for their infrastructure. For foreign exchange, the states depend on the export of a range of primary commodities. Minerals and agricultural products account for the majority of exports, and imports consist mainly of intermediate and capital goods, most of which are manufactured. A very small percentage of exports are manufactures from South Africa, Seychelles, Mauritius and Zimbabwe which have relatively sizeable manufacturing sectors and more diversified economies (Table A-5, Appendix 2).

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As noted earlier, Africa's basic trade pattern is North-South in nature, with primary exports from Africa and manufactured and industrial imports from the North. The southern African region is no exception to this. Therefore, if regional economic integration is to result in trade expansion, then some fundamental transformation of production structures has to take place in the integrating partners in order to create mutual markets for one another and thus increase intra-regional trade. In order to consider whether such a transformation is feasible and desirable in the southern African context, the basic characteristics of the SADC countries need careful consideration.

3.3 BASIC CHARACTERISTICS OF THE SADC COUNTRIES

3.3.1 Characteristics of the member states

As reflected in Table 3.4, the SADC region covers an area of 1 229 060 683 square kilometres and has a population of about 194.89 million. The most populous country is the Democratic Republic of Congo with 24.39 percent of the population followed by South Africa with 22.85 percent. Tanzania and Mozambique follow with 16.68 percent and 9.49 percent respectively. The smallest country is Seychelles with only 77 575 inhabitants, and the second smallest is Swaziland with 900 000 people.

The table also reflects the human development indicator (HDI) and the human poverty indicator (HPI) for each country[55] . The countries have different HDIs and so they fall under different

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[55]The HDI is a composite index of achievements in basic human capabilities in three fundamental dimensions viz: (i) a long healthy life, (ii) knowledge, and (iii) a decent standard of living. It therefore focuses on the progress in a community as a whole in terms of human development. This measurement is between 0 and 1. The difference between 1 and the HDI of a country shows the country's shortfall in HDI. For any component of the HDI i.e. (i)-(iii) mentioned above, individual indices can be computed according to the general formula:

$$\text{Index} = \frac{\text{Actual } x_i \text{ value - minimum } x_i \text{ value}}{\text{Maximum } x_i \text{ value - minimum } x_i \text{ value}}$$

So the HDI is a simple average of the life expectancy index, educational attainment index and adjusted real GDP per capita (PPP$) index, and so is derived by dividing the sum of these three indices by three (UNDP 1997:44, 122). The HPI reveals the extent of widespread human poverty that exists in a country. It concentrates on deprivation in three essential elements of human life already reflected in the HDI, i.e. (i)-(iii) above. In constructing the HPI, vulnerability to death at a relatively early age is represented by the percentage of people

human development categories as shown in Table 3.5.

Some countries, such as Namibia, score highly in terms of the HDI but poorly in terms of the HPI. This indicates that, although there is a lot of progress in human development, this progress is unequally distributed. Thus there is a need to give greater attention to the human development of its most deprived people, as 45 percent of its population suffers poverty. Zimbabwe ranks higher in the HPI than the HDI. This is an indicator that overall progress in human development was pro-poor, thus effectively helping the most deprived to lift themselves out of poverty. Other countries rank lowly in both HDI and HPI including the Democratic Republic of Congo, Malawi, Mozambique and Zambia. These countries are in a serious situation as there is very little progress in terms of human development and a large percentage of their populations suffer poverty.

3.3.2 Implications for regional economic integration

Half of the countries in the region are in the low human development category. Between 28 percent and 50 percent of their population suffers poverty. These countries comprise 66.98 percent of the SADC population. Therefore, although the SADC population implies a larger regional market which is supposed to bring advantages from economies of scale, the regional market is only a potential one as the majority of its people suffer poverty. Its potential may not be realised if this human poverty is not addressed.

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not expected to survive to age 40 (P_1), deprivation in knowledge by the percentage of adults who are illiterate (P_2), and deprivation in a decent living standard in terms of overall economic provision is represented by a composite (P_3) of three variables viz: the percentage of people without access to safe water (P_{31}), the percentage of people without access to health services (P_{32}), and the percentage of moderately and severely underweight children under five (P_{33}). Therefore, P_3 is a simple average of the three variables P_{31}, P_{32} and P_{33}. The formula for HPI is given by:

$$HPI = [1/3 (P_1^3 + P_2^3 + P_3^3)]^{1/3} \quad (UNDP, 1997:20,117,125).$$

Table 3.4: Summary characteristics of SADC countries

Countries	Land Area (square km)	Population size (million people) 1998 and average annual % growth rates.	Human Development Indicator (1994) and the world rank out of 175 countries.	Human Poverty Indicator value % (1994) and the rank among 78 developing countries.
Angola	1 246 700	11.97 (2,4)	0.335 (157)	..
Botswana	585 000	1.55 (3.1)	0.673 (97)	22.9 (29)
Dem. Rep. of Congo	2 345 410	49.21 (3.0)	0.381 (142)	41.2 (52).
Lesotho	30 355	2.18 (2.3)	0.457 (137)	27.5 (35)
Malawi	118 484	10.38 (2.9)	0.320 (161)	45.8 (60)
Mauritius	2 045	1.15 (1.3)	0.831 (61)	12.1 (12)
Mozambique	801 590	18.69 (2.4)	0.281 (166)	50.1 (72)
Namibia	825 000	1.65 (2.5)	0.570 (118)	45.1 (59)
Seychelles	455	0.08 (..)	0.845 (52)	..
South Africa	1 221 000 000	44.30 (2.1)	0.716 (90)	..
Swaziland	17 363	0.93 (..)	0.582 (114)	..
Tanzania	945 087	32.19 (3.0)	0.357 (149)	39.7 (50)
Zambia	752 614	8.69 (2.9)	0.369 (143)	35.1 (45)
Zimbabwe	390 580	11.92 (3.0)	0.513 (129)	17.3 (17)
Total	1 229 060 683	194.89		

Source: Comesa (1999b); World Bank (1998:24); ADB (1999:199); UNDP (1997: 21, 45).
Notes: The HPI values for Angola, Seychelles, South Africa and Swaziland were not available.

Table 3.5: Human development categories

Categories	Countries
Low human development category (HDI below 0.500)	Angola, Dem. Rep. of Congo, Lesotho, Malawi, Mozambique, Tanzania, Zambia
Medium human development category (0.500 < HDI ≤ 0.799)	Botswana, Namibia, South Africa, Swaziland, Zimbabwe
High human development category (HDI ≥ 0.800)	Mauritius, Seychelles

Source: UNDP (1997:241).

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The low HDI reflects on the calibre of the labour force in terms of skills, which has a bearing on levels of production and the quality of products produced. With trade liberalisation under the SADC Trade Protocol, business is likely to be lost by those whose products are of a lower quality. Also with minimum skills in human capital, participation in the regional grouping's activities is likely to be limited, thus giving rise to unequal benefits from regional integration.

With economic integration, specialisation in an area of comparative advantage not only benefits the producing country, but the other countries in the region as well. Whilst a country may be richly endowed with specific resources (Table A-4(a), Appendix 2), effective and efficient exploitation of resources to the fullest advantage will always be a problem with less developed human capital.

It seems likely, therefore, that the benefits which the countries in the region are going to derive from integration are bound to differ, and this may further foster the existing disparities between members. These issues will be examined further in subsequent chapters of this study.

3.4 ECONOMIC PERFORMANCE OF MEMBER STATES SINCE 1980

3.4.1 Economic size and growth performance

As Table 3.6 shows, the countries of the region differ greatly in terms of economic size (measured by GDP). South Africa is the largest, whilst Seychelles is the smallest. The Democratic Republic of Congo and Angola are the second and third largest countries respectively. However, as reflected in Table A-9 (Appendix 2), the region still largely depends on agriculture, mining and the service sectors for its survival as shown by these sector's significant contributions to GDP. The contribution of the manufacturing sector to GDP is still small in most countries except for South Africa where it accounts for 24 percent of GDP, Mauritius (23 percent), Zambia (35 percent), Zimbabwe (20 percent) and Swaziland (37 percent). Modest contributions by the manufacturing sector are observed in Malawi where it contributes 13 percent, Seychelles (11 percent), Tanzania (11 percent), Lesotho (17 percent), and Namibia (11 percent).

Table 3.6: Annual average GDPs (at current market prices) US $ million and nominal growth rates (%)

Country	1980 - 1984 GDP	Growth	1985 - 1989 GDP	Growth	1990 - 1994 GDP	Growth	1995 - 1998 GDP	Growth
Angola	5 827.33	-2.38	7 390.60	3.61	8 925.40	-9.63	6 723.25	10.79
Botswana	1 069.60	5.79	1 788.60	24.70	3 668.80	6.01	4 778.50	5.53
D. R. C.	..	..	8 508.67	8.56	8 288.40	-11.14	7 744.84	3.19
Lesotho	349.00	-4.27	368.00	19.04	678.80	5.64	888.25	0.87
Malawi	1 217.40	-0.61	1 265.80	7.71	1 838.30	-8.15	1 953.50	3.62
Mauritius	1 096.40	-2.10	1 708.60	18.31	3 076.37	7.39	4 268.50	3.65
Mozambique	1 987.40	-1.12	1 892.80	-15.13	1 311.60	-1.72	2 306.50	16.88
Namibia	1 917.00	-6.75	1 818.80	12.30	2 579.64	6.56	3 189.25	-2.26
Seychelles	149.40	0.67	243.60	16.19	434.40	6.95	528.00	2.68
South Africa	77 734.60	-1.98	63 986.20	13.52	115 527.00	3.33	126 729.25	4.26
Swaziland	548.40	-3.97	563.40	19.04	945.50	5.03	1 227.75	-0.13
Tanzania	5 897.00	3.14	4 682.40	-7.86	3 858.40	-3.34	5 845.00	16.00
Zambia	3 560.80	-8.52	2 781.00	15.41	3 409.09	-5.12	3 772.50	0.58
Zimbabwe	5 988.40	-1.25	5 552.20	9.73	6 030.10	-1.00	7 517.25	-2.96

Source: Own calculations from Comesa (1999b); World Bank (1997a:21); World Bank (1998:180-182); ADB (1998:206; 1999:201).

Notes: D.R.C. = Democratic Republic of Congo.

Table 3.7: Ratios of South Africa's GDP to other countries in the region

Countries	1980-84	1985-89	1990-94	1995-98	Countries	1980-84	1985-89	1990-94	1995-98
Angola	13:1	9:1	13:1	19:1	Seychelles	520:1	263:1	266:1	240:1
Botswana	73:1	36:1	31:1	27:1	Tanzania	13:1	14:1	30:1	22:1
D. R. C.	..	8:1	14:1	16:1	Zambia	22:1	23:1	34:1	34:1
Malawi	64:1	51:1	63:1	65:1	Zimbabwe	13:1	12:1	19:1	17:1
Mauritius	71:1	37:1	38:1	30:1	**SADC**	**2.2:1**	**1.9:1**	**3:1**	**2.5:1**
Mozambique	39:1	34:1	80:1	55:1	**BLNS**	**20:1**	**14:1**	**15:1**	**12.6:1**

Source: Own computations from the data in Table 3.6.

Notes: SADC = All SADC countries excluding South Africa.

A comparison of the economic sizes of the countries is given in Table 3.7. The ratios indicate that South Africa dwarfs all the other countries in the region. Unlike the non-SACU SADC countries, individual SACU countries, except Namibia, have consistently reduced the disparity between their GDPs and South Africa's[56]. As a group, the total GDP of the BLNS countries has been growing, steadily reducing the ratio of South Africa's GDP to theirs. Among the non-SACU SADC countries, a significant reduction in the ratios is apparent in Mauritius and Seychelles.

The economies in the region are also diverse in terms of their growth performance. Over the years, the economies have been growing at varying rates as reflected in Table 3.6. In the period 1980-1984, all countries except for Botswana and Tanzania performed poorly. However, most economies showed improved nominal growth in the period 1985-1989, with Botswana still performing far better than the rest. Mozambique continued to show negative growth, while Tanzania's growth dropped to -7.86 percent. In 1990-1994, whilst some countries had positive nominal growth rates, these were not as high as those for the previous period, Botswana included. In 1995-1998, most countries registered positive nominal growth rates, with Mozambique registering the highest economic growth rate of 16.88 percent.

Generally, performance by Tanzania, Zambia and Zimbabwe has been poor except for the period 1985-1989 for Zambia and Zimbabwe and 1995-1998 for Tanzania. South Africa's growth performance has not been impressive either, bearing in mind the fact that it is the biggest economy and most developed country in the region. Its highest nominal growth rate was in the period 1985-1989.

3.4.2 Per capita income levels

Over the years, especially since 1984, Seychelles has shown the highest per capita income among SADC countries, followed by South Africa until 1994. Thereafter, Mauritius has become the second richest country with South Africa becoming third richest. Botswana and Namibia rank fourth and fifth respectively. Mozambique is the poorest country in the region. It is followed by the D. R. C. and Tanzania, in that order (Table 3.8).

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[56]Own calculations from Table 3.6.

Table 3.8: Average annual per capita GNP (US$) and nominal growth rates (%)

Country	1980 - 1984 pcGNP	Growth	1985 - 1989 pcGNP	Growth	1990 - 1994 pcGNP	Growth	1995-1998 pcGNP	Growth	1998 pcGNP	Growth
Angola	470	..	770	-2.88**	630	-5.58	340	-6.05	340	4.8
Botswana	940	1.35	1 068	17.48	2 442	-0.25	3 140	6.03	3 600	3.5
D.R.C	186	-10.68	182	11.21	159	1.12	120	-2.86	110	0.7
Lesotho	492	2.30	420	0.00	550	7.20	700	-9.54	570	-5.4
Malawi	206	-5.94	168	1.44	216	0.00	190	5.57	200	-0.7
Mauritius	1 164	0.70	1 514	16.24	2 538	0.00	3 630	8.25	4 288	3.5
Mozambique	230	..	144	-15.91	78	0.00	83	37.95	210	9.2
Namibia	..	..	1 290	-14.23**	1 554	-12.66	2 157	-1.01	1 940	-1.2
Seychelles	1 990	10.68*	3 717	16.44**	5 192	-2.79	6 783	-0.86	6 450	-1.2
South Africa	2 514	0.43	2 102	5.29	2 654	5.04	3 360	-3.05	2 880	-1.3
Swaziland	808	3.82	754	7.66	854	0.31	1 273	6.16	1 400	0.6
Tanzania	258	-6.94	202	-18.17	116	2.20	167	20.51	210	-4.0
Zambia	570	-4.29	324	0.00	384	0.00	380	-6.21	330	-2.2
Zimbabwe	770	4.80	637	-1.12	608	0.00	633	4.15	610	-2.5

Source: Own calculations from World Bank (1982-92; 1997a:35; 1998:12-14; 2000:230-1, 272); ADB (1999:199); Arnold (1994: 179-184).

Notes: * = Average annual growth rate for 1980-1983.   ** = Average annual growth rate for 1987-1989.

Table 3.9: Classification of SADC countries

Category by income group (US$)	Countries
Low-income group GNP per capita $765.00 or less	Angola, Lesotho, D.R.C. Malawi, Mozambique, / Tanzania, Zambia, Zimbabwe
Lower-middle income group GNP per capita $766.00 - $3 035.00	Namibia*, Swaziland*
Upper-middle income group GNP per capita $3 036.00 - $9 385.00	Botswana*, Mauritius, Seychelles, South Africa*
High-income group GNP per capita $9 386 and above	None

Source: World Bank (1997b: 264-265).
Notes: The economies were classified according to their 1997 GNP per capita.
    * These countries are also members of SACU.

The growth rates of per capita income have varied with countries registering diverse performances. Seychelles had its highest growth rates in the 1980s, while Mauritius experienced its highest growth rates in the periods 1985-1989 and 1995-1998. Botswana, the D. R. C., South Africa and Swaziland had their highest growth rates in the period 1985-1989, while Malawi, Mozambique and Tanzania had theirs in the period 1995-1998. In 1990-1994, significant growth was experienced by Namibia and South Africa, with the rest of the region experiencing either stagnation, deterioration, or very slight growth in their per capita income.

According to the World Bank classification of countries (World Bank, 1997b:264-265), the countries fall into the categories shown in Table 3.9. From Tables 3.8 and 3.9, a pattern emerges. Over the years, most countries classified in the low income group have tended to experience a consistent decline in per capita GNP, while those in the middle income group (lower and upper) have tended to experience a rise in per capita GNP.

This scenario suggests that the gap between poorer and richer countries in the region has been widening over the years. This has important implications for a group of countries that are members of the same regional grouping. Further 57 percent of the countries in the region have a per capita income of less than US$700.00. This clearly implies limited purchasing power on the part of the people in the region. This implies that unless per capita income levels rise then, despite the fact that the region has a large population, it will not have the market it needs to absorb goods.

3.4.3 Implications for regional economic integration

From the differences in GDP, average annual nominal growth rates and GNP per capita figures considered above, it is clear that the countries of the southern African region are presently at widely different levels of industrial development. This in turn is an indicator of the differences that exist between the economies in terms of their production and demand structures as well as their developmental strategies.

According to the Linder Theory, the principal determinant of the structure of demand (the qualities of differentiated products demanded in a country) is the level of per capita income

(Williamson and Milner, 1991:75-80). As such, countries that have higher average real incomes would tend to consume better quality products rather than just having higher consumption. Therefore, with the existing disparities between countries, differences will clearly exist in the individual countries' demand structures and eventually the range of manufactured products and the quality of the products produced.

The existence of these economic disparities between member states is a pointer to a few possible problems that are likely to arise on integration. These include: (i) differences in anticipated national benefits and losses from regional integration by member states (Mhone, 1993); (ii) problems with the distribution of costs and benefits that result from economic integration and the liberalisation of trade (Holden, 1998); and (iii) further inequalities through polarisation of industries (Kasinga, 1984). These issues will be discussed further in subsequent chapters.

3.5 FACTOR ENDOWMENTS AND COMPARATIVE ADVANTAGES

The SADC countries are richly endowed with diverse natural resources. It has sometimes been claimed that the region has practically all the resources required to build a strong and modern economy (Wagao, 1987:147). The region is said to have known reserves of solid fossil fuels estimated at 4 671 million tonnes, hydro-electricity potential of nearly 266 768 gigawatt hours and, in the field of non fuel minerals, there are significant deposits of iron ore, diamonds, chromium and zinc. In agriculture, it is estimated that over 223.3 million hectares are suitable for arable farming and animal husbandry (Wagao, 1987:147).

This richness in natural resources is reflected in Tables A-4a and 4b (Appendix 2), where the individual country's factor endowments and revealed comparative advantages are reflected. From Table A-4a, it can be seen that the region has predominantly natural as opposed to "created" factor endowments[57]. It is also seen that, in general, the countries in the region share more or less the same kinds of factor endowments. Despite this, the basis for comparative advantage trade

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[57]Natural factor endowments are natural resources whereas "created" factor endowments are human skills, knowledge, technology and infrastructure (Das, 1998:136-137).

among the countries still exists. As noted earlier, the countries are at different levels of development and as such are capable of producing similar goods at different levels of efficiency. Therefore, those who are less capable of producing cheaply (have less comparative advantage), will have to import from those who can produce more cheaply (have more comparative advantage). Apart from this, there are some significant differences in resource endowment between some individual countries such as South Africa and Mozambique, Zimbabwe and Tanzania, which makes for a basis for trade between them.

It can be noted in Table A-4b (Appendix 2) that the D.R.C. and Malawi show a comparative advantage in cork and wood while Malawi and Mauritius have revealed comparative advantage in pulp and waste paper. Tanzania, Zambia and Zimbabwe show a high net trade to total trade ratio in tobacco and non-ferrous metal. It can also be noted that Zimbabwe has revealed comparative advantage in leather and South Africa in pulp and waste paper. From this table it can be noted that the SADC economies reveal relatively more revealed comparative advantage in less processed commodities, while revealing higher revealed comparative disadvantages in manufactured goods category.

3.5.1 Energy

There is a large energy resource base in the region[58]. However, these resources sometimes occur at some distance from high energy users or demand areas. This makes energy interchange in the region an ideal opportunity to use resources efficiently and to the financial benefit of the exporting countries.

3.5.1.1 Hydro power

Dutkiewcz and Gielink (1992) observe that a lot of hydro power potential exists in the region, but that this potential is in most cases not utilised. The Democratic Republic of Congo alone has a potential of 100 000 MW, of which 25 000 MW is possible along a short stretch of the Zaire

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[58]A thorough study on the energy resource base in the region was undertaken by Dutkiewcz and Gielink (1992).

river at Inga. This country has the potential to satisfy the electricity demand of the whole region if its total potential was realised. The potential for large economies of scale in hydro electricity production thus exists for the Democratic Republic of Congo.

In addition to the hydro power potential on the Zaire River, there is also unexploited potential on the Zambezi River along the Zimbabwe/Zambia border, the Cunene River in Namibia, the Kwanza River in Angola and the Cabora Bassa in Mozambique. If all this potential is exploited, then the electricity generated would be surplus to the needs of the individual countries, which could then export to the rest.

Increased exploitation of the comparative advantage which the region has in hydro power will divert other resources into other areas that will benefit the region as a whole. For example: (i) less steam coal will be used, thus extending the life of coal reserves in the region and allowing for greater volumes of coal exports within and outside the region[59]; (ii) the deterioration of fuel wood which quite a number of the countries are already experiencing will be halted; and (iii) environmental pollution and acid rain associated with coal fired stations will be reduced.

3.5.1.2 Oil resources

In their study, Dutkiewcz and Gielink (1992) found that there were a number of oil refineries in the region which were not working or working at greatly reduced capacity, due to maintenance problems. Efficient and full exploitation of the oil reserves in the region could rationalise the potential for trade in oil and oil products and allow the existing refineries to be put to better use. Angola and the Democratic Republic of Congo are the oil producing countries in the region, and a basis for large economies of scale in oil production exists for these two countries.

3.5.1.3 Gas reserves

The potential for trade in gas does exist in the region as there are some countries which are richly

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[59]The main regional importers would be Angola and Namibia, which would rely on South Africa, Botswana and Zimbabwe for these imports.

endowed with this resource. In Angola, large quantities of natural gas are produced with oil. Other natural gas deposits also exist, but need to be fully utilised. Such resources are in South Africa, Mozambique, Namibia, the D.R.C. and Tanzania. If projects with a significant gas demand are started, then the region could become a viable potential market for trade in natural gas.

In order to effect the realisation of the full potential which the region has in energy trade, the individual countries which are richly endowed with specific energy resources need to specialise and then fully and efficiently exploit the resources they have. Through trade, benefits will accrue to both the exporting and importing countries. This may offset imbalances in goods trade and thus lessen the problem of unequal benefits. In addition, adequate and efficient infrastructure must be provided. For example, a strong transmission system has to be in place for adequate trade in electricity so that the links will be able to take the loads that might be required; gas pipelines need to be installed to facilitate trade in gas, while adequate rolling stocks, skilled technical staff and management should be provided for so as to facilitate trade in coal.

3.5.2 Agricultural resources

Some researchers have commented that SADC is so richly endowed with diverse natural resources that it is capable of producing a variety of agricultural products and enough grain to be self sufficient in non drought years (RCSA, 1997).

In total, there were 42 816 thousand hectares under major crops in 1994 (World Bank, 1997a:235). This reflects arable land and land under permanent crops as defined and reported by the Food and Agriculture Organisation. It therefore means that the area of arable land fit for agricultural purposes in the region is far greater, as the land which is in use for "non major crops" is not reflected and neither is the area for animal husbandry.

Whilst the majority of the countries in the region have a comparative advantage in agricultural production (Table A-4b, Appendix 2), a basis for agricultural trade among the countries still exists. This is so for a number of reasons. For example, the range of both major agricultural crops and major food crops is quite diverse. When combined, these two categories have twenty-five

different crops in which different countries have different comparative advantages[60]. Further, with countries at different levels of development, although agricultural products may be similar in some instances, they are likely to be at different levels of processing, thus forming a basis for trade.

Table 3.10: Average annual percentage growth in agriculture

Country	1980 - 1990	1990 - 1996	Country	1980 - 1990	1990 - 1996
Angola	0.5	-9.5	Seychelles	..	..
Botswana	2.2	-1.2	South Africa	2.9	1.4
D.R.C.	2.5	3.0	Swaziland	..	..
Lesotho	2.0	-0.8	Tanzania	..	..
Malawi	2.0	5.1	Zambia	3.6	0.5
Mauritius	2.9	0.2	Zimbabwe	2.4	4.5
Mozambique	5.5	4.2	**Average SADC***	**2.52**	**1.09**
Namibia	1.2	4.6	**Average SACU***	**2.08**	**1.00**

Source: World Bank (1998:176-178).
Notes: * Own calculations from World Bank (1998:176-178)
          SADC includes all SADC countries.

The size of the arable land in the individual countries differs widely. For example, South Africa ranks highest with 30.78 percent of the land[61], whilst Seychelles and Mauritius with 0.016 percent and 0.248 percent respectively rank lowest. The Democratic Republic of Congo and Angola have 26.62 percent of the arable land (18.45 and 8.17 percent respectively), although they are war-torn countries[62]. Countries with less arable land like Seychelles and Mauritius as well as

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[60]See World Bank (1997a: 226-229; 236-240) for the major agricultural and food crops for each of the SADC countries.

[61]Despite ranking highest, the country has water problems which are even more severe than those of some of its neighbours (thus the importance of the Lesotho Highlands Water Project to South Africa), as well as acute climatic vulnerability. Many of its farms are no longer economically viable as a result of a reduction of the longstanding and pervasive system of government subsidies, price support and other assistance to white commercial agriculture. South Africa is thus one country which could benefit from being part of an effective regional food security system (Davies et al, 1993:11-12).

[62]Own calculations from World Bank (1997a:235).

the war-torn member states, stand to benefit from food trade with the more stable arable land abundant countries. From Table 3.10, the average annual percentage growth in agricultural output has been falling drastically in some countries, including Angola, Lesotho, Zambia and Botswana, whilst it has increased sharply in others, like Malawi, Namibia and Zimbabwe. This suggests a basis for increased trade relations among the "haves" and "have nots" in the region, as well as with the rest of the world.

As observed by Mumbengegwi (1987:71), food production is normally seen as a national responsibility. Countries therefore generally prefer a nationalistic approach to food security and self sufficiency irrespective of the efficiency costs involved. However, benefits from specialisation and intra-regional food trade do exist, and the countries of the region would be wise to take full advantage of this. Through cooperation and mutual support, countries could actually reinforce each others' capacity to produce the food in which they have greater comparative advantage for the benefit of both themselves and other member states in the region.

3.5.3 Mineral resources

The SADC mining sector continues to be the backbone of most of the member states' economies. The sector continues to contribute about 60 percent of the foreign exchange earnings of the region's economy, 10 percent of gross domestic product and 5 percent of formal employment. Asbestos, chromite, coal, cobalt, copper, diamonds, gold, nickel, the platinum group of metals and zinc are currently the major minerals by value which SADC is contributing to the world supply (SADC Mining Sector, 1994:4).

South Africa, Zimbabwe, Zambia, Botswana and Namibia are the countries in the region which are significantly richly endowed with major mineral resources (Table A-8, Appendix 2). In the individual countries, the minerals undergo different levels of processing before they are exported. For example, Zimbabwe processes its iron ores into steel and iron bars, asbestos into asbestos sheets and refines gold before exporting it. South Africa and Mauritius cut diamonds and turn some of their precious stones into jewellery. The fact that these mineral resources are unequally distributed in the region forms a basis for trade among the countries. A brief description of the production performance in these major minerals for the period 1993-1997 is given in Table 3.11.

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Table 3.11: SADC major mineral production: nominal growth rate of output (%), 1993-1997

Mineral	1993-94	1994-95	1995-96	1996-97	Mineral	1993-94	1994-95	1995-96	1996-97
Asbestos	-8.73	-5.01	-3.01	-5.19	Diamonds	4.9	3.66	2.34	13.88
Coal	4.96	7.94	-0.47	5.53	Gold	-5.82	-8.99	-4.81	-1.02
Cobalt	-32.54	8.89	58.55	-4.48	Nickel	0.17	-6.28	13.11	1.06
Copper	-7.42	-10.32	-3.06	2.37	Zinc	22.08	-7.59	9.83	0.52
Chromite	33.4	41.06	-2.33	13.98	Lead	-8.72	-25.05	5.23	-12.84

Source: Own calculations from SADC Mining Sector (1999:85-89).

3.5.4 Implications for regional economic integration

With the resources available in the region, member states stand to benefit if they cooperate in the full exploitation of such resources. The unequal distribution of resources in the region contributes to the levels of unequal economic development between member states. However, the more developed states could greatly assist the less developed member states through the development of appropriate technology and capital equipment for the full exploitation of resources in the region instead of importing such equipment from the rest of the world.

3.5.4.1 Agricultural production

There appears to be considerable scope for regional cooperation in the field of agriculture and food security. The largely unrealised food production potential of some member states could contribute more to the region's food security needs, especially with technical skills, scientific resources, research and other forms of cooperation from the more developed member states like South Africa, Seychelles and Mauritius. Higher demand for the supply of equipment and other technical, scientific and management services will benefit the supplying countries.

Cooperation in agriculture and food security could contribute towards a more rational division of labour in terms of food production in the region. This in turn could increase earnings from grain and other food sales to the less agriculturally endowed member countries helping to

promote intra-regional trade[63]. The importance of coordinated regional food security cannot be underestimated and the success which the SADC FANR Sector has had supports this (see Section 5.2.2.4).

3.5.4.2 Mineral production

Regional economic integration implies more coordination in the production and marketing of minerals from the region. The acceptance into the regional grouping of a more developed country like South Africa, which tends to dominate the region in terms of mineral production, creates new opportunities for coordinated marketing strategies.

The SADC countries, just like any other developing countries, face a situation in which the terms of trade on world markets are turning against unprocessed raw materials. Therefore, there is an increasing need for minerals to be sold in a more beneficiated form with greater value added within the region. There is also a need to produce more locally-processed mineral products and develop technology in areas in which the region has a potential competitive advantage. With integration of the economies, this could be more economically facilitated through large-scale processing plants.

Jourdan (1992)[64] notes that one of the major potential benefits which a programme of closer cooperation or integration in southern Africa could yield is the creation of an appropriate framework for resource-based industrialisation. Projects which are uneconomic in individual countries could become viable at the regional level, processing the raw materials of more than one country and producing products for a regional market. For example, the production of steel, ferro-chrome and stainless steel, titanium products and fertilisers, among others, could all yield significant economies of scale if carried out on a regional basis[65]. The development of industries

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[63]Increased earnings from sales of grain and other food items and the provision of water resources to South Africa, for example, could help to reduce the current unbalanced trade relations in the region (see Section 7.2.4).

[64]Cited in Davies et al (1993:11).

[65]The draft proposal for the framework for implementing Regional Industrial Projects (RIPs) was reported complete in the 1994 SADC Industry and Trade report. The study on the development of the fertiliser industry in the SADC region was one of the programme activities. The fertiliser sub-sector was seen as one of

producing capital goods for the mining sector would also be more viable on a regional basis given that mining sector is considered the most successful of the SADC's sectoral projects (see Section 5.2.2.3).

3.6 TRADE RELATIONS

This section will examine the share of individual states' trade in the two regional groupings in order to assess the relative importance of intra-regional trade to the regional grouping in general and to the individual member states in particular. The share of the countries' trade with the rest of the world is also discussed, as well as the types of products traded. Some consideration of possible reasons for the levels of intra-regional trade is also made, as well as the implications for regional economic integration. The discussion provides important background to the further analysis of trade relations in the region in Chapters Six and Seven.

3.6.1 Nature of products exported and imported

According to neoclassical trade theory, a country will export those goods that incorporate its most abundant factor most intensively and import the goods that are intensive in the country's relative scarce factor (Williamson and Milner, 1991). In the case of SADC, as noted earlier, member countries are richly endowed with natural resources and, as a result, tend to have a comparative advantage in agricultural products and minerals. As shown in Table A-5 (Appendix 2), these primary products therefore constitute the region's principal exports. Since the region has less comparative advantage in manufactures, machinery and capital equipment, these items predominantly constitute their imports. Some countries import a significant portion of their consumer goods as well because, apart from producing consumer goods for the domestic market, a number of economies can hardly go beyond the first stages in the processing of local raw materials as a result of their level of development.

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the industrial branches suitable for regional coordination to reduce the region's current dependency on fertiliser imports. There are abundant raw materials (gas, phosphate and potash), and all that is needed is coordination so as to exploit economies of large scale-production (SADC Industry and Trade Sector, 1994:8-9).

3.6.2 Structure of merchandise exports and imports

Tables 3.12(a) and 3.12(b) show in detail the structure of merchandise exports and imports for the region. The extent of reliance on specific categories of export commodity by the region as a whole is reflected in Table 3.12(a). If this table is read in conjunction with Table A-5 (Appendix 2), then the specific product(s) on which an individual country is heavily dependent can be discerned.

Table 3.12(a): Type of merchandise exports as a percentage of total merchandise exports

	Food		Agric and raw Materials		Fuels		Ores and metals		Manufactures	
Region	1980	1996	1980	1996	1980	1996	1980	1996	1980	1996
SACU	9	14	2	5	4	9	7	10	18	49
SADC	39.89	51	3.89	5	11.11	2.5	18.11	6.17	17.11	34.2

Table 3.12(b): Type of merchandise imports as a percentage of total merchandise imports

	Food		Agric and raw Materials		Fuels		Ores and metals		Manufactures	
Region	1980	1996	1980	1996	1980	1996	1980	1996	1980	1996
SACU	3	6	3	2	0	1	2	1	62	72
SADC	11.33	13.6	2	5	10.39	8.2	1.4	1	68.44	70.2

Source: Own calculations from World Bank (1998:188-190, 192-194).

Notes: Data for Seychelles was not available, and so is not included.
SADC = all SADC countries (non-SACU SADC and SACU).

For example, both Malawi and Zimbabwe are highly dependent on the export of goods in the food, agricultural and raw materials categories, contributing over 70 percent and 35 percent of total exports respectively. However, the major exports for Malawi are tobacco, tea and sugar, while for Zimbabwe's main exports include beverages and tobacco, food and live animals, flowers and fruits. Angola is the only country which relies heavily on the fuels category of products, from its abundant oil deposits, which contributed over 95 percent to total exports in 1996. While Botswana and Zambia rely heavily on ores and metals category exports, the -minerals involved differ, with diamonds contributing over 73 percent to Botswana's total exports

in 1997 and copper contributing over 82 percent to Zambia's total exports in 1995 (Table A-5, Appendix 2). However, the competitive position of these principal merchandise exports on the world market is weak compared to that of manufactures. This is primarily so because, as noted earlier, primary commodity exports suffer from low income elasticities of demand and declining commodity prices (ADB, 1996:141).

From Table A-5 (Appendix 2), South Africa, Lesotho, Mauritius, Namibia and Zimbabwe have established fairly extensive manufacturing industries, reflected by the relatively high proportions of manufactures in total exports. However, there is still a high dependency by the region on imported manufactures as Table 3.12(b) shows. If this table is read together with Table A-5 (Appendix 2), the main manufactured imports for each individual country can be obtained. In general, countries in the region are heavily dependent on imported machinery, transport and vehicle equipment and other types of capital goods.

3.6.3 Nature of intra-regional trade

Table A-7 (Appendix 2) reflects the specific export products which the countries in the region trade with each other. These range from the manufactured products of the last ISIC sectors 35-39, namely chemicals, manufactured goods by materials, machinery and transport equipment, and miscellaneous manufactured articles, to the food products category, ISIC 31 which covers food and live animals, beverages, tobacco, animal and vegetable fats. The range of commodities is therefore reasonably broad with food, textiles and leather products tending to dominate.

3.6.3.1 Importance of the region as a market to member countries (1980-1989)

From Table 3.13, the importance of the region as a market has differed from one country to another as shown by individual countries' shares in import and export trade with the region, as a percentage of the country's total imports and exports. It can be observed that intra-SADCC trade was insignificant in this period to Angola, Lesotho, Swaziland and Tanzania. For Lesotho and Swaziland, the low levels of their intra-SADCC trade can be explained by their heavy reliance on South Africa, since during this period South Africa was not yet a member of the grouping. Intra-SADCC trade was most significant for Botswana, Malawi, Zimbabwe, Zambia and Mozambique, representing about 10 percent of their total foreign trade. Further on average,

intra-SADCC trade represented only 3.90 percent of the total exports of member countries and 3.78 percent of their total imports.

Table 3.13: Percentage breakdown of intra-SADCC trade (%), 1980 -1987

Country	1980 Exports	1980 Imports	1982 Exports	1982 Imports	1984 Exports	1984 Imports	1987 Exports	1987 Imports
Angola	0.1	2.1	0.1	0.8	..	0.2	..	2.2
Botswana	2.2	6.6	11.9	6.3	4.8	8.8	20.2	20.9
Lesotho	..	..	0.1	0.1	..	0.2	0.1	1.1
Malawi	7.8	6.4	9.7	9.6	8.6	11.1	3.6	8.5
Mozambique	2.5	3.0	11.6	3.0	11.7	5.1	1.4	23.1
Swaziland	1.1	0.3	2.7	0.7	1.5	0.3	7.8	0.8
Tanzania	3.9	0.6	0.8	4.2	1.9	1.1	2.1	4.6
Zambia	2.3	1.5	3.5	6.3	4.1	7.4	10.8	12.0
Zimbabwe	4.8	3.4	11.5	7.6	11.3	7.0	54.0	26.8
Intra-SADCC	2.9	2.4	4.6	4.4	3.8	3.7	4.3	4.6
Intra-SADCC	2.7		4.5		3.8		4.4	
Extra-SADCC	97.3		95.5		96.2		95.6	

Source: Maasdorp and Whiteside (1993:14); Michelsen Institute (1986:7); Hanlon (1989:60-61).

A classification was made of intra-SADCC trade flows for the period 1979-1984 by the Michelsen Institute (1986). Table 3.14 shows the results of this classification, which demonstrates the significance of intra-regional trade flows. Trade flows between countries were such that out of the 72 possible bilateral trade flows, 40 were characterised as insignificant and 11 flows were never more than low. This means that 70.83 percent of bilateral trade flows in the region were categorised as low to insignificant.

Only five trade flows were characterised as stable and extra high (X), high (H), or fluctuating between extra high and high (X-H). These were: (i) Botswana-Zimbabwe, (ii) Zambia-Zimbabwe, (iii) Zimbabwe-Zambia, (iv) Zimbabwe-Botswana, and (v) Zimbabwe-Malawi.

Four flows were characterised as medium (M) or fluctuating between medium and high (M-H): (i) Malawi-Zimbabwe, (ii) Zambia-Malawi, (iii) Zimbabwe-Mozambique, and (iv) Zambia-Tanzania. Severe instability was experienced in six trade flows, with at least one year being high (H) or extra high (X). These were:(i) Botswana-Angola, (ii) Mozambique-Zimbabwe, (iii) Tanzania-Mozambique, (iv) Zimbabwe-Tanzania, (v) Zimbabwe-Angola, and (vi) Mozambique-Tanzania. Trade flows in this latter category did not have a large positive impact on intra-regional trade. There were therefore only nine significant trade flows (12.5 percent of total bilateral flows), resulting in comparatively low levels of intra-regional trade.

Table 3.14: Classification of intra-SADCC trade flows (1979-1984)

From - To	Angola	Botsw	Lesot	Malaw	Moza	Swaz	Tanza	Zamb	Zimb
Angola		I	I	I	I-M	I	I	I	I
Botswana	I-H		I	I	I-M	I	I	L	X
Lesotho	I	I		I	I	I	I	I	I
Malawi	I	I/L	I		I/L	I	I-M	L/M	M-H
Mozambique	I/L	I	I	L		L	L-M	I	I-X
Swaziland	I	I	I	I	L		I	L/M	L/M
Tanzania	I	I	I	I	L-M	I		L	I
Zambia	I	I/L	I	M	I	I	M		H-X
Zimbabwe	I-H	X	I/L	H	M-H	L	I-H	H-X	

As Table 3.13 shows, for the period 1980-1987, intra-SADCC trade was around 4.0 percent of total SADCC trade. In the first three years of the 1990s, average intra-SADC trade was 4.92 percent of total SADC trade (Holden, 1998:466). As such, it would make sense to conclude that there was no significant change in the nature of trade flows throughout the 1980s and into the first four years of the 1990s. The predominance of insignificant and low trade flows in the region

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is predominantly a result of very limited complementarity between the economies of the SADC member states. The region still mostly exports agricultural products and mineral raw materials (Table 3.12a), for which there is little demand in the region while mostly importing fuels, capital goods and other manufactured products (Table 3.12b) that are only to a limited extent produced within the region.

3.6.3.2 Importance of the region as a market to member countries (1990-1997)

The region remained a significant market for Zimbabwe, Zambia, Malawi and Mozambique in the period 1993-1997 (Table 3.15). This is shown by the high levels of their import and export trade with the region. For Angola and Tanzania, the region is still an insignificant market. However there is a slight change in the case of Tanzania as levels of intra-SADC trade are showing some slight improvements. This could be due to its trade expansion with Zimbabwe as well as the inclusion and expansion of its trade with South Africa (Table A-13(a), Appendix 4).

The BLNS's share in intra-SADC import trade rose significantly in 1994/5. For example in 1995, Botswana obtained 80.8 percent of her imports from SADC, Lesotho 84.0 percent, Namibia 91.9 percent and Swaziland 100 percent (Holden, 1998:465). This was because South Africa was now a member of SADC and so the BLNS trade figures with South Africa now became reflected in intra-SADC trade figures. These figures therefore do not reflect the significance of the SADC region to the BLNS, but rather the importance of South Africa as a source of imports for these countries.

As shown in Table 3.15, in the 1990s, the level of intra-SADC trade has been growing as evidenced by growth from 4.92 percent in 1992 to 19.11 percent in 1996. This partly reflects new membership of SADC. The regional trade of South Africa, Mauritius and Seychelles is now counted as intra-SADC trade. Further, the manufacturing sectors in these countries are well developed enabling other SADC countries to access some of the manufactures and capital goods which they would otherwise obtain from outside the region. The strengthening of old and the development of new bilateral trade agreements between countries has also led to more intra-SADC trade. The implementation of the SADC Trade Protocol is expected to increase intra-

regional trade further.

Table 3.15: Percentage breakdown of intra-SADC trade (%), 1993-1997

Country	1993 X	M	1994 X	M	1995 X	M	1996 X	M	1997 X	M
Angola	0.08	5.06	16.75	..	0.001	0.84	0.03	0.11	..	..
Malawi	22.56	57.50	20.54	50.22	18.31	56.45	17.20	62.30	..	..
Mauritius	1.16	13.51	0.84	12.37	0.87	12.03	0.002	12.29	2.13	15.40
Mozambique	11.72	47.38	23.74	16.28	64.96	33.72	26.24	38.90	..	..
SACU	8.14	2.14	10.21	13.62	13.13	15.60	11.62	2.16	14.04	1.10
South Africa	27.9	6.30	7.47	1.83	13.90	2.00	2.11	4.09	11.46	1.79
Tanzania	2.10	3.92	7.83	10.33	6.63	9.08	5.33	6.00	..	..
Zambia	3.82	55.84	6.93	24.79	5.95	45.15	14.56	43.76	..	..
Zimbabwe	34.01	31.89	35.43	42.86	30.50	42.07	26.53	43.02	31.79	42.33

Intra-SADC	**7.10**	**9.24**	**10.23**	**15.84**	**16.86**	**11.99**	**10.40**	**19.30**	**..**	**..**
Intra-SADC	**8.48**		**14.39**		**15.73**		**19.11**		**..**	**..**
Extra-SADC	**91.52**		**85.61**		**84.73**		**80.11**		**..**	**..**

Source: Cattaneo (1998:48); Imani Development (1999:53-4); SADC Industry and Trade Sector (1999:78-79); Imani Development (1997:x-xi).

Notes: X = Exports.　　M = Imports.

3.6.4 Extent of integration of the SADC economies with the global economy

3.6.4.1 Openness of the region

Openness of a country is defined by merchandise trade and non-factor services as a percentage of GDP. This reflects how open a country is to trade flows and thus its susceptibility to fluctuations in world prices. In the case of intra-regional trade, this has implications for the extent to which a country is open to trade with the other member states and its own share in intra-regional trade.

Table 3.16 shows that the economies of the region are highly open to trade flows. Thus most economies are well integrated into the world economy, with a very high value of trade to GDP averaging 80 percent for the period 1980 to 1993. The BLNS countries in particular have a very

high degree of openness (merchandise trade and non-factor services as a percentage of GDP generally in excess of 100 percent). Lesotho and Swaziland are small economies and trade is correspondingly very high as a percentage of GDP. The South African economy has been significantly less open, but has been gradually opening up. In the case of the non-SACU SADC countries, on average, Malawi and Tanzania appear to be the least open, while Mauritius and the Seychelles appear to be the most outward oriented.

Table 3.16: Openness of SADC countries (%), 1980-1997

Country	1980	1988	1990	1993	1995	1997
Angola	159.15	71.00	53.00	99.87	110.14	107.43
Botswana	118.20	132.00	105.80	126.70	83.69	73.23
D.R.C.	47.55	..	65.94	43.70	50.01	66.83
Lesotho	131.00	141.00	121.20	127.72	119.60	121.09
Malawi	47.60	56.00	38.50	30.50	40.75	48.03
Mauritius	83.20	..	104.70	87.30	147.48	58.27
Mozambique	49.40	80.00	63.50	68.50	28.65	80.91
Namibia	128.30	112.00	104.20	110.78	106.78	88.34
Seychelles	92.36	..	143.05	160.31	142.41	75.18
South Africa	56.80	52.00	39.60	37.49	76.82	50.81
Swaziland	155.50	142.00	130.70	156.00	129.15	163.99
Tanzania	32.50	58.00	61.50	21.70	22.17	63.12
Zambia	66.20	64.00	84.10	52.60	88.21	44.13
Zimbabwe	52.00	57.00	47.70	52.60	74.58	69.62

Source: Maasdorp and Whiteside (1993:16); Cassim and Zarenda (1995:40); Own calculations from ADB (1996:A-5, A-9, A-10); SAPEM (1999b:45; 1999c:43; 1999d:43; 1999e:51; 1999f:28; 1999g:40; 1999h:42); Comesa (1999b).

While SADC countries are reasonably open, intra-regional trade is still low. However, there is a large amount of informal trade across borders (see Section 6.6) which some studies suggest is between 15 and 20 percent of official trade (Ndlela, 1998:86). With the implementation of the SADC Trade Protocol, informal trade is likely to be reduced, thus enabling the official intra-regional trade flows to increase.

3.6.4.2 Nature of trade with the rest of the world

Inter-industry trade is determined by the underlying differences between countries' factor endowments and comparative advantages (Krugman and Obstfeld, 1994). Similar factor endowments and comparative advantages, as is the case in the SADC region, lead to the production of competitive and not complementary goods. So the countries in the region have to identify markets elsewhere to export their products. The bulk of the countries' trade therefore tends to be oriented towards non-African markets which have more markedly different factor endowments and comparative advantages.

Table 3.17 reflects the nature of SADC countries' trade with the rest of the world, outside Africa. The bulk of the exports from Malawi, Mauritius, Seychelles and Zimbabwe are destined for the EEC, while those from Angola go to North America and those from Mozambique, SACU and Zambia go to other non African countries, although Europe is important for all three. If Table 3.17 is read in conjunction with Table A-6 (Appendix 2), then one can observe the individual countries to which most of the exports from SADC countries go.

For example, exports destined for "other non-African countries" go primarily to countries like Japan, Brazil, Hong Kong, India, Yemen and Taiwan. In terms of imports, Mozambique and Tanzania get the bulk of their imports from the European Union and "other non-African countries". Seychelles and Mauritius get the bulk of their imports from "other non African countries", although Europe is very important. The remaining countries get theirs predominantly from the European Community.

Tables 3.17 and A-6 show that, in general, the individual countries to which a SADC country exports the bulk of its commodities are the same countries from which it gets most of its imports. So for the countries in the SADC region there is a direct relationship between dependency on primary commodity exports to the developed countries outside Africa and the dependency on imports from the developed countries. This dependency is stronger, the less developed a country is.

Table 3.17: Direction of trade matrix, imports and exports

	Years	European Community		North America		Other non African countires	
		Imports %	Exports %	Imports %	Exports %	Imports %	Exports %
Angola	1984	63.95	33.59	11.45	53.73	22.06	12.68
	1988	56.21	28.46	7.81	61.43	35.89	8.17
	1993	66.01	..	13.62	..	43.25	..
	1996	50.00	18.00	12.89	68.57	49.45	31.38
D.R.C.	1984	58.78	28.78	9.20	32.01	28.25	38.92
	1988	67.58	68.79	11.90	22.59	19.15	8.59
	1993	52.21	..	6.81	..	20.12	..
	1996	51.00	67.00	6.00	16.00	23.00	48.00
Malawi	1984	58.07	58.93	3.70	8.84	25.49	12.01
	1988	60.79	49.84	8.17	11.73	29.39	20.78
	1993	22.16	..	4.20	..	15.28	..
	1996	23.00	44.00	20.14	14.37	17.84	46.15
Mauritius	1984	26.73	73.04	2.01	13.11	68.86	13.21
	1988	38.92	76.62	15.90	15.08	44.77	5.30
	1993	38.22	71.30	1.31	18.42	47.32	3.85
	1996	34.00	83.00	0.00	12.65	45.80	25.76
Mozambique	1984	37.26	37.85	11.27	15.86	47.81	45.02
	1988	46.05	21.02	11.90	8.32	39.74	68.89
	1993	27.32	..	7.80	..	21.96	..
	1996	23.00	62.00	4.23	11.40	38.30	28.00
SACU	1984	48.25	20.64	20.17	9.43	29.41	45.02
	1988	56.57	48.52	13.83	14.32	29.31	68.89
	1993	47.16	18.11	16.16	6.54	34.69	..
	1996	30.02	31.02	16.21	8.36	..	..
Seychelles	1984	31.61	4.69	6.15	7.03	59.30	76.56
	1988	36.62	80.14	1.91	0.71	47.42	7.80
	1993	28.22	80.39	28.65	0.65	29.87	8.50
	1996	28.00	81.00	..	..	..	..
Tanzania	1984	46.78	60.69	8.39	4.01	42.63	33.90
	1988	53.01	61.29	5.85	5.80	38.07	32.50
	1993	39.12	..	3.69	..	46.41	..
	1996	29.00	43.00	3.59	2.99	67.82	79.71
Zambia	1984	43.55	34.85	24.62	16.89	21.19	47.92
	1988	60.99	36.08	7.80	2.43	29.86	58.41
	1993	23.05	..	7.74	..	20.10	..
	1996	24.00	18.00	4.58	5.78	33.67	82.55
Zimbabwe	1984	46.42	36.15	13.32	6.72	38.09	24.50
	1988	37.05	46.45	5.84	11.96	20.40	40.61
	1993	24.80	31.66	6.44	7.39	14.52	25.14
	1996	19.00	45.00	5.50	6.90	23.59	35.70

Source: World Bank (1997a: 119-136); Hess (1999:42). Own calculations from Hess (1999:42); ZimTrade Database; SADC (1999:118-364); Commissioner for Customs and Excise of the Republic of South Africa (1996:202-221).

3.6.5 Implications for regional economic integration

As Ndlela (1987:41-2) points out, the low levels of development in the SADC are in sharp contrast to the fairly well endowed and diverse resources in the region. Given this wide diversity in natural resources and the 'created' factor endowment in some of the more developed countries in the region, like South Africa, Mauritius, Seychelles, Botswana and Zimbabwe, southern Africa has to consider cooperating seriously in exploiting the available potential to the full. The re-organisation of such resources for effective and efficient utilisation in the region, and regional specialisation and trade in certain lines of production should be pursued.

Factor endowments shape the export structure of a country. A change in factor endowments therefore also changes the export structure. The fact that the economies in the SADC region are richly endowed with natural resources and thus have comparative advantages in the production of primary commodities, does not mean that the countries are doomed to remain that way. Comparative advantage should be seen as a dynamic concept, and a country's comparative advantage can shift over time as it absorbs new technology and GDP grows. A good example of this is the Asian economies, where rapid growth has brought about shifts in their comparative advantages (Das, 1998:130). Today some successful exporters among the Asian economies are no longer mere exporters of low cost labour intensive products.

The economic diversification and export deepening that comes with changing comparative advantage is needed in the SADC countries so as to move away from the primary commodity export oriented pattern (Ahwireng-Obeng and McGowan, 1998). The question that therefore arises is whether this economic structural transformation away from primary commodity exports can be facilitated by regional integration. If this is possible, then current inequalities may be reduced.

Currently, the countries in the region are very dissimilar in terms of economic size, level of development and the ability to exploit the resources available fully and efficiently. As such, as Mhone (1993:41) observes, the less developed members are most likely to prefer a looser form of regional integration so as to minimise the negative consequences of trade diversion, and also in order to allow for more time to readjust their export and import patterns. On the other hand,

the more advanced countries would advocate more advanced forms of integration since they would be in a better position to exploit both trade creation and trade diversion consequences of integration. These issues will be explored further in the theoretical analysis in Chapter Four.

3.7 CONCLUSION

As individual countries, the countries in the region have small domestic markets which limit opportunities for valuable investment. This is often compounded by poor infrastructure linking either the rural and urban and/or the landlocked countries to the ports (RCSA, 1997). The structures of the economies make them vulnerable in terms of trade losses. This is so as sharp declines in world commodity prices adversely affect them because of their reliance on primary products. Severe droughts take a toll on food production and the export base in general, and the southern African region has experienced a number of these of late.

Growth potential in the region remains to a large extent unexploited, bearing in mind the vast resources available. There is need therefore to addressing the question of "enhancing and exploiting the regions' economic potential" (Geingob, 1997:13). A lot has to be done to achieve complementarity and to develop a shared vision by building on each country's comparative advantages (Geingob, 1997:15).

In support of other authors' observations (Mhone, 1993 and Arnold 1994), the tables presented in this chapter highlight the following characteristics of the region: (i) the countries are unequal in economic size and are at greatly different levels of development; (ii) Mauritius, Seychelles, South Africa and Zimbabwe are the most industrialised and diversified economies in the region; (iii) Malawi, Lesotho, Mozambique, Swaziland and Tanzania are predominantly agricultural economies; and (iv) Zambia, Angola, Botswana and Namibia are the most dependent on a single primary source commanding fluctuating prices on the international markets.

The implications of the above are that different categories of countries are likely to have different expectations from regional economic integration (Mhone, 1993:38-39). The group of countries with more industrialised and diverse economies may wish to exercise industrial leadership. The

strongest economy, South Africa, will play a dominant role, superceding Zimbabwe which used to be the dominant economy in the 1980s. Countries whose economies are predominantly agricultural will have as their focus the ability of regional economic integration to enhance their capacity to industrialise. The last group of countries, those largely dependent on a single primary source, are likely to focus on using regional economic integration to diversify their economies by strengthening their manufacturing sectors and developing their lagging agricultural sectors.

A laissez faire form of regional economic integration could potentially favour the most developed countries while reinforcing agricultural dependency on the predominantly agricultural economies. Therefore, as the region proceeds with regional economic integration and cooperation, measures may have to be taken to ensure benefits to all participating member states. These issues will be explored further in subsequent chapters.

The most direct way that greater regional economic integration could benefit SADC members is through enlarging the market. Enlargement of the market has to go beyond increased population. It has to include opening up economies so as to ensure the easy movement of products from one country to another, the ability of the region to absorb products produced therein through improved economic growth rates and per capita incomes, and the removal of any structural barriers that hinder freer movement of goods.

Currently, economic integration is already extensively practised. The growth of informal trade and other unofficial exchanges across borders partly re-establishes the extensive trade in goods and the migration of peoples that were a feature of economic and social life before colonisation (World Bank, 1989). For many people in the region, the benefits of economic integration are already visible in their daily life through informal exchanges that keep prices down by increasing competition for the formal business units, enabling them to access products across borders that would otherwise be unavailable, and providing them with opportunities for employment in neighbouring countries.

There is greater potential for benefits of economic integration through formal trade. The benefits can be significant bearing in mind the surplus various countries produce in meat, fish, cereals,

cotton, tea, cocoa, sugar, hydro power, oil and energy to name but a few products, coupled with the fact that some member countries have already developed modern industrial capacities in consumer and intermediate goods, particularly South Africa, Mauritius and Zimbabwe. Specific trade potentials and possible benefits from increased trade in the region will be explored further in Chapter Seven.

CHAPTER FOUR

THEORETICAL FRAMEWORKS RELEVANT FOR ECONOMIC INTEGRATION

4.1 INTRODUCTION

It is important to identify the theoretical foundation upon which an organisation builds its integration programmes so as to have the appropriate basis for analysing the grouping. In practice, of course, an organisation can draw on aspects of different theories in building its programmes; this seems to be particularly applicable in the southern African context.

Section 4.2 discusses the market integration model. This model is based on customs union theory, which focuses on gains from creating a regional market and trading on the basis of comparative advantage. It considers both the static effects of integration, viz: trade creation and trade diversion, as well as the dynamic effects of integration.

The model is worth analysing in the southern Africa context because, irrespective of the existence of literature to the effect that this approach is not suitable in an African setting, SACU and SADC have both used it as a basis for their respective economic programmes.

Section 4.3 considers the development integration model. The model was developed as a way of addressing the shortcomings of the market integration approach. It therefore explores avenues through which economic integration can be implemented bearing in mind the peculiarities that exist in third world countries. It focuses on distributive measures of a compensatory or corrective nature.

It is appropriate to make an assessment on the basis of this model because SACU uses compensatory measures while both SADC and its predecessor, through their sectoral programmes, adopted corrective measures in their programme for regional economic cooperation.

Section 4.4 examines the neo-functional integration model. In this model, as Nyle (1971) notes, the important actors are the various interest groups and integration technocrats, rather than

governments and politicians. Cooperation should be initiated in technical or basic functional areas like transport and communication, health, research, education and training. The sector-by-sector approach to integration is thus recommended. As noted earlier, sectoral cooperation is a prominent feature of the SADC(C) framework, hence the importance of considering neo-functional integration.

Section 4.5 discusses the theory of common markets. A common market goes further than a customs union by liberalising the movement of factors of production. As such, this theory addresses additional gains and losses that may result from foreign profit diversion and foreign profit creation that result from capital flows. Consideration of this theory is warranted, since SADC intends to create a common market and some researchers have proposed that SACU could act as a basis for the creation for a common market in southern Africa. Section 4.6 concludes the chapter.

4.2 THE MARKET INTEGRATION MODEL

4.2.1 Introduction

The market integration model emphasises a trade or market-driven approach to integration. The thrust is in a progressive reduction of tariffs and non tariff barriers to trade among cooperating members, harmonisation of their external trade and eventually their fiscal and monetary policy (Nkulu,1993; Davies,1993). The integration process progresses up the "ladder of integration", which is conventionally seen as involving the creation of a linear succession of institutional arrangements, with preferential trade agreements at the bottom of the ladder and political union at the top (Table 4.1).

Balassa (1961)[66] observes that during the progression from a free trade area to a political union, market forces at one level will have a spill-over effect into the next level, thus propelling the integration process forward until the highest level of integration has been reached within a regional grouping. However, even though stages in the market integration process are proposed,

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[66]Cited in Ostergaard (1993:30).

it does not mean that all regional organisations follow this continuum. Others have added elements that do not form part of the market integration model, but are derived from, for example, the development integration approach (Haarlov, 1997:25). The characteristics of each of the stages in the market integration process are briefly illustrated in Table 4.1.

Table 4.1:   Characteristics of the levels of the integration process

Characteristic/ Integration form	Lower tariffs between member states	No internal tariffs between member states	Common external tariffs	Free flow of labour and capital	Harmonisation of economic policies	Unification of political institutions
Preferential Trade Area	*					
Free trade area		*				
Customs union		*	*			
Common market		*	*	*		
Economic union		*	*	*	*	
Political union		*	*	*	*	*

Source: Adapted from Haarlov (1997:25; 1988:19).

It should be noted that only a common market and an economic union move beyond intra-regional trade liberalisation among members (Carim, 1997:336). Further, as one moves from the preferential trade area level to the political union level, the loss of national sovereignty increases and so does the need to consider the distribution and incidences of static and dynamic gains and losses (Mhone, 1993:42).

4.2.2 The model

This paradigm is based on the integration experience of industrialised states. It involves the reduction and removal of trade barriers between states in a region in order to stimulate trade between them. The increased trade is seen as an engine for growth and development. The potential for successful market integration is said to improve between members which are at the same level of industrial development, have similar economic and political systems, have a

diversity of products/services to trade, and perceive integration to be beneficial (van Rooyen, 1998:128)[67].

The assumptions of the paradigm are: (i) perfect competition in transparent markets; (ii) free flow of labour and capital inside but not between countries, and no transport costs; (iii) tariffs as the only trade restrictions and balanced trade between countries; (iv) prices reflect the opportunity cost of production; (v) factors of production, the state of technical knowledge, and tastes are treated as constant or autonomous variables; and (vi) full employment of resources (Haarlov, 1997:26; Ostergaard, 1993:31).

The effects of economic integration arise from its impact on the allocation of resources and international specialisation, the exploitation of scale economies, the terms of trade, the productivity of factors, the rate of economic growth, economic stability, and the distribution of income (Robson, 1987:13)[68].

The foundations of neo-classical customs union theory are generally associated with the writings of Viner (1950) and Meade (1955). The impact of the model is assessed on the basis of the economic balance between the "trade creation effects" and "trade diversion effects" of integration. These are the static effects of integration and refer to the gains or losses from a marginal reallocation of production and consumption patterns under the given assumptions of the model. They include the production effect, consumption effect and terms of trade effect (Jaber, 1970:254).

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[67]The existence of a supranational body in the region to monitor compliance may be necessary, but decreases the sovereignty of individual member states.

[68]Orthodox theory is mainly concerned with the first three of the aspects mentioned and trade in final products.

4.2.2.1 Static effects and welfare

Trade creation refers to a situation in which, on union, the production of particular goods in the home Country H, which does not have a comparative advantage in that area, is replaced by the purchase of cheaper goods from the partner Country P, which does have a comparative advantage (Davies et al, 1993). There is thus a movement to a cheaper source of supply through the opening of trade between Countries H and P such that Country H's expensive domestic production is replaced by cheaper imports from Country P (Corden, 1972:467).

This union-induced shift from the consumption of higher cost domestic products in favour of lower-cost products of the partner country has the following two effects which constitute Country H's trade creation gains resulting from the customs union:

(i) the **production effect** (gain from specialisation), whereby there is a saving in the real cost of goods previously produced domestically, as these are now being imported from the partner country more cheaply; and

(ii) the **consumption effect** (gain from exchange), which is a gain in consumer surplus from the substitution of lower-cost for higher-cost means of satisfying wants. Domestic consumers now experience increased consumption of cheaper partner country substitutes since, at a lower price, an extra amount is purchased on which consumer surplus is obtained (Robson, 1987:15; Corden, 1972:467-471; Jaber, 1970:254).

In Figure 4.1, **Case 1**, the pre-union tariff is $P_W T_H$, while the common external tariff on the union is $P_W CET$ (see Box 1). Price on union becomes OCET'. The **production effect** is shown by the triangle **ABD**, while the gain in consumer surplus (**consumption effect**) is given by triangle **ADC**. Therefore, for Country H, the total gain from the trade created between the two countries is given by triangle **ABC**. In Figure 1 **Case 2**, because the pre-union price in Country H is now lower ($T'_H < T_H$), and yet the post-union price is still the same as in **Case 1**, i.e. CET', the magnitude of trade creation is less. In this case, the production effect is given by small triangle **a** and the consumption effect by small triangle **c**. Therefore, trade creation is given by (**a** + **c**).

The second static effect of integration, trade diversion, occurs because the creation of the customs union causes Country H to turn from lower-cost suppliers in the ROW to what are in reality

higher-cost suppliers in Country P, now enjoying "artificial" advantage because of a preferential tariff arrangement. There is thus a shift in product origin from a non-member producer whose resource costs are lower to a member country producer whose resource costs are higher (Corden, 1972:468; Davies, 1994a:12; Appleyard and Field, 1998:256-258; Davies et al, 1993:35).

This union-induced shift in the source of imports from lower-cost external sources to higher-cost partner sources causes an increase in the cost of the goods previously imported from abroad owing to the shift from foreign to partner sources so that the importing country, Country H, now faces a higher import bill than before (Robson, 1987:15). From Figure 1 **Case 2**, the higher import bill which country H faces as a result of the trade diversion is reflected by the increase in outlay in respect of initial imports amounting to **MP x P$_W$CET'**[69].

Economic theory notes that trade diversion also brings a loss of government revenue which used to be raised through tariffs on external trade. In Figure 1 **Case 2**, loss of government revenue which Country H used to get from its tariffs is given by **MP x P$_W$CET**[70]. In Figure 1 **Case 3**, the pre-union and post-union tariffs are both CET'. Here, the customs union results in pure trade diversion. The loss from trade diversion equals the loss of government revenue, and is given by **LQ x P$_W$CET'**. Leisner (1963:196) notes that this can lead to a fall in government services or the introduction of higher taxes elsewhere so as to raise government revenue. This in turn can make the citizens and producers worse off.

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[69]Note that, in **Case 1**, the initial tariff was prohibitive, which means that there could be no trade diversion on union, only trade creation.

[70]Part of this loss of government revenue is a transfer to consumer surplus, so that the net loss from trade diversion MP x P$_W$CET' is <u>less</u> than the revenue loss MP x P$_W$CET in **Case 2**.

Figure 4.1: Effects of a customs union

Home Country

Partner Country

Source: Robson (1987:17)

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BOX 1

Definitions

H = home country. P = partner country. D_H = Country H's demand curve for the product. S_H = Country H's supply curve.

$(S_H + M_P)$ = the supply curve in country H of the product originating in the customs union. It combines the supply curve of country H with the supply of imports from country P, assuming that the latter are admitted free of duty.

P_W = is the supply price of the rest of the world's products to countries H and P and is assumed to be constant.

D_P = is Country P's demand curve for the product. S_P = is Country P's supply curve.

CASE 1

Assumption 1

Before the customs union: $P_W T_H$ = tariff in force in Country H. $P_W T_P$ = tariff in force in Country P.

Outcome

Domestic demand of each country is entirely supplied by domestic production.

Assumption 2

Customs union is formed on the basis of tariff averaging such that CET = $1/2(T_H + T_P)$, the new common external tariff will be P_WCET.

However, at price OCET, supply > union demand, thus making the common external tariff ineffective or redundant. So price would settle at OCET`, where supply = demand.

Outcome

(a) Country H   (i) domestic consumption increases from ON to OQ

                          (ii) domestic production would decline from ON to OL

(b) Country P   (i) production increases from OS to OT

                          (ii) domestic consumption falls from OS to OR.   (iii) exports LQ (RT = LQ) to Country H

CASE 2

Assumption 1

Before the customs union: $P_W T`_H$ = (P_WCET) = tariff in force in Country H. $P_W T_P$ = tariff in force in Country P.

Outcome

For Country P, the pre customs union situation is still as in **Case 1** above, i.e. it is self sufficient. However, for Country H, its pre union price is now lower (O $T`_H$ ) and domestic demand at this price (OP) is met partly by domestic production (OM) and partly by imports (MP) from the rest of the world. Therefore, total tariff revenue would amount to MP x $P_W T`_H$.

Assumption 2

Customs union is formed on the basis of tariff averaging such that CET` = $\frac{1}{2}(T`_H + T_P)$, the new common external tariff will be P_WCET`.

Outcome

(a) Country H   (i) domestic consumption increases from OP to OQ

                          (ii) domestic production would decline from OM to OL

</div>

(b) <u>Country P</u>[71]   (i) production increases from OS to OT
                (ii) domestic consumption falls from OS to OR.   (iii) exports LQ (RT = LQ) to Country H.

CASE 3
<u>Assumption 1</u>
Before the customs union: P_WCET' = tariff in force in Country H (tariff inclusive price= OCET')
                P_WT_P = tariff in force in Country P (tariff inclusive price = OT_P)
<u>Outcome</u>
For Country P, the pre customs union situation is still as in **Cases 1** and **2** above, i.e. it is self sufficient. However, for Country H, its pre union price is now lower even lower (OCET') and domestic demand at this price (OQ) is met partly by domestic production (OL) and partly by imports (LP) from the rest of the world. Therefore, total tariff revenue would amount to LQ x P_WCET'.

<u>Assumption 2</u>
Customs union is formed but the common external tariff is established by alignment of Country P's tariff to that of Country H.

<u>Outcome</u>
Since Country H's pre union tariff is higher than that of Country P's, it means therefore that the formation of this union involves an increase in the average level of protection.

(a) <u>Country H</u>   (i) domestic consumption is at OQ.   (ii) domestic production is at OL.
Therefore, the formation of the customs union leaves production and consumption of the product in Country H wholly unaffected (at the same levels as was the case in **Case 2**).

(b) <u>Country P</u>[72]   (i) production increases from OS to OT.   (ii) domestic consumption falls from OS to OR.
                (iii) exports LQ (RT = LQ) to Country H.

According to orthodox theory, the merits of the customs union are evaluated using the sole criterion of the relative magnitudes[73] of trade creation and trade diversion. So a union which is on balance trade creating is regarded as economically desirable and beneficial to welfare, whereas one which is trade diverting is regarded as detrimental (Davies et al, 1993:35). Even though customs unions are second best to unilateral trade liberalisation, countries still seek reciprocal tariff concessions instead of liberalising unilaterally for, *inter alia,* terms of trade reasons, infant industry and domestic political reasons, as well as for balance of payments reasons (see Winters, 1991:180-183). Some of these other factors are considered later in this chapter.

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[71]The effects on Country P of the formation of the customs union are clearly identical to those it would experience as in **Case 1** previously discussed. As such it will be in a superior position compared to the pre union situation as in **Case 1.**

[72]The effect of the customs union on quantities of exports to country H and the favourable effect on its income would be identical to both **Cases 1** and **2.**

[73]These magnitudes depend not merely on the union induced changes in the volumes of trade from different sources, but also on the associated price and cost changes (Robson, 1987).

4.2.2.2 Conditions for a trade-creating customs union

According to conventional theory, the conditions for a trade creating customs union are:

(i) a large economic area because the more numerous are the countries of which it is composed, the greater will be the scope for trade creation as opposed to trade diversion; this is because there is more chance of including the least-cost producer if the union is larger;

(ii) higher pre-union tariffs, because the pre-union position then involves greater production and consumption distortions;

(iii) a lower tariff level after the union has been formed. This is more likely to be trade creating as opposed to a higher tariff level which makes trade diversion effects more likely;

(iv) competitive economies of member states in the sense that the range of products produced by higher-cost industries in the different parts of the customs union is similar; if this is the case, then the possibilities are greater for substituting the products of one member for those of another, thus rationalising production with the most efficient producer capturing the market; if there is a smaller overlap then the possibility for reallocation, the source of trade creation, will be smaller too, with even a very high cost producer dominating the whole customs union market;

(v) for a specified overlap, trade creation is more likely to predominate the greater are the differences in unit costs for protected industries of the same kinds between the different parts of the customs union, since these will determine the allocation gains to be derived from free trade among the members;

(vi) more price elastic supply and demand curves; the more elastic these curves are, the more likely the positive effects because there will be greater quantity responses by both consumers and producers; and

(vii) trade among cooperating partners is currently or potentially a large portion of their overall trade as opposed to external trade with non-members[74].

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[74]These conditions have been considered in different ways by Robson (1987); Maasdorp (1982); Winters (1991); Carim (1997); Appleyard and Field (1998); Davies et al (1993); Haarlov (1997); Blomqvist (1993); Andic et al (1971); Liesner (1963); Davies (1994a); van Rooyen (1998); Jaber (1970).

4.2.2.3 Corden's economies of scale analysis

The static framework considered above does not allow for the possibility of decreasing costs. However, economies of scale can arise as a result of the formation of a customs union. In the presence of economies of scale, while the orthodox concepts of trade creation and trade diversion are still relevant for the evaluation of a customs union, they need to be supplemented to take account of two other effects, viz. the cost reduction effect and trade suppression effect (Corden, 1972).

Box 2 outlines the case where there is production in both countries before the formation of a customs union. The pre-union tariffs in the home (H) and partner (P) country are P_WP_H and P_WP_P ($<P_WP_H$) respectively. On union, the more efficient Country P captures the entire union market and price falls to P_{CU}. Country H experiences a trade creation gain equal to area **a** (the production effect) plus area **c** (the consumption effect) (Figure 4.2). Country P now obtains its domestic supplies at a lower cost of production and, as such, enjoys a **cost-reduction gain** (**e** + **d**) as a result of the trade created with H. While the cost-reduction effect is a consequence of the creation of trade with Country H, it is not an orthodox trade creation effect. This is so because it is the result not of a movement to a cheaper source of supply in another country, but rather the cheapening of an existing source of supply. The cost reduction gain accrues to the consumers of Country P, and has a production effect, **e**, and consumption effect, **d**. In addition, Country P derives a gain from its sales to Country H at prices in excess of world market prices. This income gain to Country P is represented by the rectangle **f** (Corden, 1972:467-8; Robson, 1987:38). Both countries gain from the customs union, although Country H loses its domestic industry.

Figure 4.2: Economies of scale resulting from a customs union
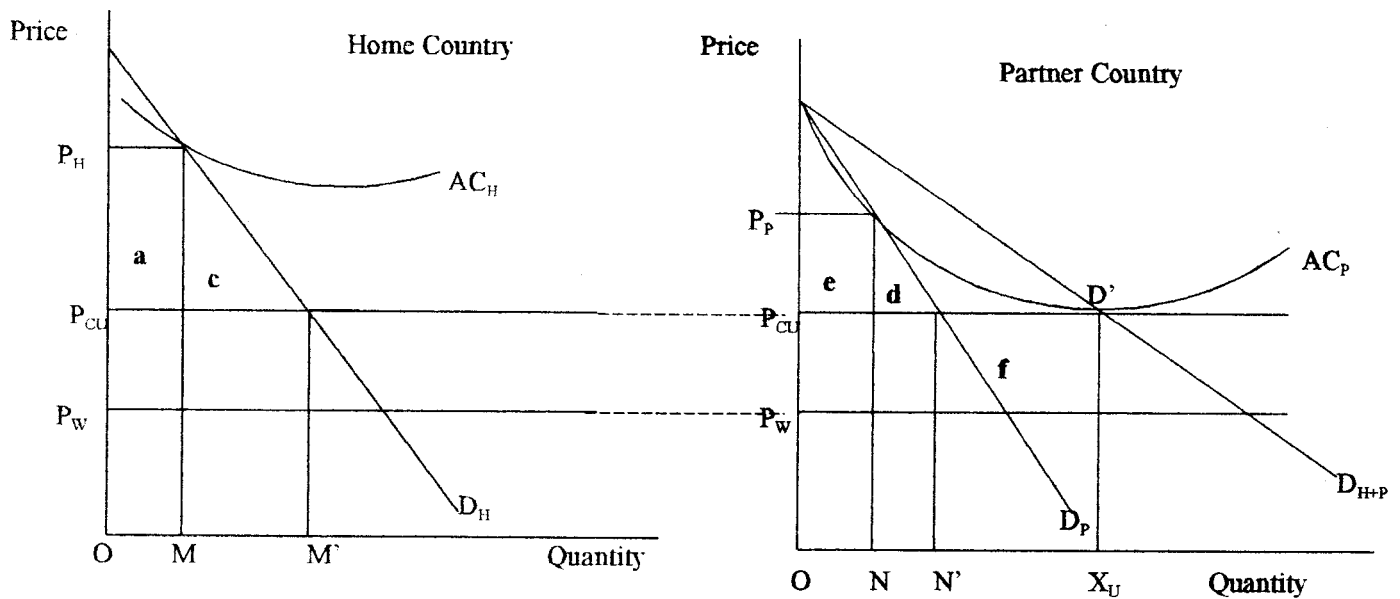
Source: Robson (1987:37).

BOX 2

Notes

H = Home country D_H = Home country demand curve AC_H = Country H average cost curve

P = Partner country D_P = Partner country demand curve AC_P = Country P average cost curve

D_{H+P} = Combined customs union demand curve for the product

P_W = Constant price at which the product can be imported from ROW

P_{CU} = Price prevailing in the customs union P_H = Home country's price P_P = Partner country's price

CASE 1

There is production in both countries before the formation of a customs union

(a) Home Country

OM = Amount produced and consumed, and sold domestically at price OP_H

$P_W P_H$ = The tariff required to make the industry viable.

(b) Partner Country

ON = Amount produced and consumed by the more efficient country P, sold at OP_P.

$P_W P_P$ = Tariff in country P ($< P_W P_H$).

> **Post-union situation**
> (a) If production is wholly undertaken by the producer whose cost conditions are more favourable, Country P will capture the whole market.
> (b) The average cost of Country P's producer when it supplies the whole union market will be less than the cost it incurred when supplying its home market. The costs will also be less than those incurred by the former producer in country H when it was supplying its own market.
> (c) Therefore, the union domestic price will be less than the domestic price ruling initially in either country.
> (d) P_WP_{CU} = the common external tariff and is less than initial tariffs in both countries. Thus, consumers in both countries will gain from the establishment of the union.
> (e) OX_U = the combined requirement of the market and will be produced by Country P, at a price OP_{CU}.
>
> **Country H**
> (a) OM' = increased consumption in Country H.
> (b) The country's relatively expensive domestic production is replaced by imports from country P, which are cheaper to produce = **trade creation**.
>
> **Country P**
> (a) ON' = increased consumption in country P.
> (b) Country obtains its domestic supplies at a lower cost of production = **cost reduction effect**.
> (c) Country gains from sales to Country H = **income gains**.

Consider, however, the case where initial production only takes place in one country, say H, with Country P importing its requirements from the ROW. The formation of a customs union may result in a "production reversal" where the higher cost Country H ceases production and the partner Country P begins to produce for the whole union market. Country H experiences a trade creation gain as before, but Country P experiences a **trade suppression effect**. This refers to the situation where imports from the ROW are replaced by domestic production. It is similar to trade diversion in that a dearer source is replacing a cheaper source, but the dearer source is the newly-established domestic producer in Country P, not another union member (Corden, 1972:468-9; Robson, 1987:39). Trade suppression is a cost to Country P's consumers, but is more than offset by the gain to P's producers from producing for the domestic and union market. Both the home and partner country therefore benefit from the customs union in this particular case[75]. Corden's (1972) analysis, while still in a static framework, therefore allows for additional benefits from customs union formation in the context of (internal) economies of scale.

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[75] If initial production had occurred in Country P rather than H, the customs union would have resulted in trade diversion for Country H. Country P would have experienced a cost-reduction effect and an income gain from exports.

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4.2.2.4 Dynamic effects and welfare

While trade creation and trade diversion are the primary static effects of orthodox theory, there are some dynamic considerations relevant in developing countries which can arise as a result of economic integration. Appleyard and Field (1998:361) note that it is likely that the economic structure and performance of participating countries will evolve differently to what they would have if they had not integrated economically. The factors which cause this to happen are the dynamic effects of economic integration. Dynamic effects refer to the various possible ways in which economic integration affects the rate of growth of GNP as a result of increased market size (Jaber, 1970:254). These effects include the following:

(i) the reduction of trade barriers brings about a more competitive environment and possibly reduces the degree of monopoly that existed before integration; production may thus become more efficient, with increased pressure for higher productivity;

(ii) access to larger union markets may allow economies of scale to be realised in certain export goods; these economies of scale may result internally to the exporting firm in a participating country as it becomes larger[76] or may result from lowering input costs due to economic changes external to the firm; countries which used to produce below capacity prior to integration will be able to utilise their resources more fully;

(iii) the existence of a larger market and access to partner countries can serve as a training ground for infant industries for exporting outside the region;

(iv) specialisation resulting from economies of scale can occur in particular varieties of a product, and thus trade may increasingly become intra-industry rather than inter-industry, with the associated benefits (see Section 7.4);

(v) reduced uncertainity about trade policies, which facilitates economic planning;

(vi) changes in the pattern of investment in the member states from both internal and foreign sources; considerations here include lower risk and uncertainty because of the large economic and geographic market now open to producers, and the desire to invest

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[76]As in Corden's (1972) framework above, production becomes more efficient if there are economies of scale internal to the firm which could be exploited only in a regional market and not in the domestic market because the latter is too small.

in productive capacity in a member country in order to avoid being frozen out of the union by trade restrictions and high common external tariffs; and

(vii) the polarisation effect, i.e. the cumulative worsening of the relative, or absolute economic position of a member state or some regions in the integrated area due to concentrated trade creation or attractiveness of labour or capital[77].

Carim (1997:338) notes that the reduction in income and welfare as a result of trade diversion may be outweighed if the long-term dynamic influences on regional production, consumption and investment are taken into account. Overall increases in intra-regional trade may flow out of these dynamic (as opposed to static) gains, thereby encouraging regional production and placing members of the regional arrangement on a higher growth path. Robson (1987:33, 41, 248, 254, 258; 1978:771) notes that while these dynamic effects supposedly far outweigh the static effects, they are difficult to quantify.

4.2.3 Criticisms of the model and implications for developing countries

The criticisms which are often levelled against the market integration model are generally based on its assumptions and the mode of assessing the welfare gains or losses of integration.

4.2.3.1 The model's assumptions

The assumptions of the model have been a focus of criticism by many authors on the basis that they are not applicable in reality. As Davies et al (1993:36) and Davies (1994a:12) note, the paradigm is based on Ricardian comparative advantage theory which does not present a realistic vision of the mechanisms and power relations in contemporary international trade. The trade creation versus trade diversion framework is static as it refers to existing comparative advantages without considering the potential for regional cooperation to overcome obstacles and create new comparative advantages.

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[77]These effects have been considered in different ways by Appleyard and Field (1998); Jaber (1970); Schweickert (1996); Aboyade (1983); Blomqvist (1993); Carim (1997); Maasdorp (1982); Balassa and Stoutjesdyk (1975); Holden (1996); McCarthy (1999).

Ostergaard (1993:31) observes that the assumptions of the model do not even apply in the advanced market economies on the basis of which the theory was developed. With respect to developing countries, the conventional market integration model has restrictive assumptions which limit its applicability. It assumes the existence of modern industrial structures, and that the only task of integration is to enhance the efficiency and dynamism of these structures. It also assumes that tariffs between the countries before the union is the issue which inhibited trade between them.

In this respect, the needs and realities of developing countries are at odds with the assumptions and requirements of conventional integration models. In developing countries there is still a need for industrial transformation of the regional economy, and a primary goal of integration is the alteration and transformation of existing economic structures in the pursuit of enhanced industrial capacity and maximum economic growth. There are prohibitive transport costs, high unemployment, and distorted markets, high dependency on industrialised countries, lack of complementary products, and the existence of numerous other non-tariff barriers (Balassa, 1966:30-1; Stewart and McCarthy, 1995:401-411).

4.2.3.2 Traditional theory requirements for welfare gains

Traditional Vinerian customs union theory is criticised for being almost entirely confined to the consideration of trade creation versus trade diversion as a basis for the measurement of welfare gains or losses that accrue to member states. This does not take into account the dynamic comparative advantages that are likely to arise in member states as they grow and develop during the economic integration process.

For example, Bhambri (1962:245)[78] notes that trade diversion can be seen as doubly beneficial in that: (i) enlarging the size of the market for manufactures in partner countries and so increasing trade will help to reduce costs in industries where scale economies are important; and (ii) import substitution industrialisation over a wider area will enable the region as a whole to spend a higher proportion of its foreign currency on imports of capital goods and raw materials and thus help

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[78]Cited in Jaber (1970:260).

increase the rate of investment and economic growth. Foreign exchange savings and import substitution industrialisation behind tariff walls have been considered to be the main "benefits" of trade diversion in the developing country context (Andic et al, 1971:14; Carim, 1997:337; Balassa and Stoutjesdyk, 1975:40-41).

Further, in measuring welfare, the benefits of trade creation to the partner Country P via increased exports which create income and stimulate investment and new employment should be taken into account, yet are often ignored. Similarly, the detrimental aspect of trade creation from the point of view of the home country is also not considered, namely that domestic industry becomes redundant and employment is lost in contracting sectors. Nevertheless, investment in Country H can be diverted to expanding output of those commodities it has a comparative cost advantage in, thus create additional investment and new employment (Mikesell, 1963:221).

Economic theory suggests that the higher the initial tariff rates and the lower the external common tariff, the larger the welfare gains of economic integration. In developing countries, the tariffs are usually high either for revenue or protection purposes, and according to traditional theory this should increase the welfare gains. However, this has to be viewed in line with the fact that economic integration in developing countries may not result in a low external common tariff because: (i) partners tend to reach an agreement faster if protection is increased and not reduced; and (ii) it is often argued that customs protection is the only effective means of securing the conditions essential to permit the coordination of national policies prior to their amalgamation (Jaber, 1970:263).

Traditional economic theory also suggests that a customs union is more likely to raise welfare, the lower is the total volume of foreign trade as a percentage of GNP of member states (Jaber, 1970:264). However, in developing countries foreign trade constitutes a relatively large part of GDP because: (i) there is heavy reliance on the exportation of primary products which are freely traded on world markets; and (ii) imports consists chiefly of intermediate products and final manufactures, which many of the countries either do not produce at all or produce only to a very limited extent and so import from the developed world (Robson, 1987:195; Haarlov,1997:24).

While developing countries specialise in primary products and are hence "competitive" in this regard, they export these primary products to the developed countries and not among themselves. In this respect, economic integration among these countries would not bring a sizeable expansion of their intra-area trade as anticipated by economic theory. This therefore implies that welfare gains from static effects will be smaller.

Economic theory also observes that the more price elastic the demand and supply curves are, the greater the static welfare gains from integration as there will be an increased response from both consumers and producers to a price change resulting from the fall in tariff levels. Appleyard and Field (1998:364) note that, in developing countries, the demand and supply curves appear to be less price elastic than those in similar markets in industrialised countries. As a result, the static gains do not appear great. The success of the economic integration scheme may thus rely on the realisation of the possible dynamic gains considered earlier.

4.2.3.3 Creation of intra-regional trade and external trade

The market integration model does not recognise the fact that economic integration may fail to create intra-area trade because the tariffs between the countries before union may not have been the factor that inhibited trade between them. As Ravenhill (1980:46)[79] observes, "benefits from the creation of free trade areas arise only when tariffs have been the major impediment to inter territorial trade". In developing countries this is rarely the case as it is not so much tariff barriers but other factors which inhibit intra-regional trade, such as the inability of countries to produce the goods which satisfy the import needs of their neighbours, transport costs and problems, dependence on industrialised countries, lack of industrial capacity, and the existence of other non-tariff barriers.

Robson (1987:243) notes that conventional customs union theory often neglects the fact that the process of tariff alignment involved in the establishment of a common external tariff may result in the net expansion of trade with non-members, as a result of the reduction in tariffs of member

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[79]Cited in Ostergaard (1993:33).

countries with initially very high tariffs. This can be termed "external trade creation" as contrasted with "internal trade creation" which arises within the group. This kind of trade is welfare improving to the union member states, as members will now be having easier access to cheaper products from the ROW.

Possibilities for external trade creation increase if the ROW's goods are complementary to goods whose internal consumption is increased by the union. External trade creation is a possibility in developing countries because the ROW's goods tend to be complementary to theirs, and a vast proportion of their production inputs and final goods come from the developed countries whatever the level of protection.

It is not likely that the primary exports of developing countries to the rest of the world will be significantly affected by the creation of a regional trading arrangement. Their total purchases will continue to depend largely on the growth of their primary commodity exports. The improved competition for their manufactures and semi-manufactures as a result of the creation of a regional market may enable them to increase their total exports to the rest of the world. If the regional market creates trade in other primary products not previously sold abroad, members may be able to broaden their primary commodity export base with respect to both regional and extra-regional trade. Therefore, as Mikesell (1963:209) observes, the end result of a regional arrangement may not be to reduce trade with the rest of the world but rather to change its pattern and possibly enlarge it.

4.2.3.4 Welfare and industrial distributional effects

Market integration theory does not highlight the way in which potential benefits from integration may be distributed among member states. The implication is that every member will gain on the basis of comparative advantage and that all will be better off with the union than without it (Robson, 1968:40)[80]. This is difficult to substantiate because, as Maasdorp (1982:85) observes, monopolies, ineffective price mechanisms, high transport costs and other problems can frustrate the achievements of economies of scale.

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[80]Cited in Ostergaard (1993:32).

Vaitsos (1978:148) notes that significant difficulties can be experienced in attempting to measure the actual distributional impact, due to limited analytical techniques, the problem of data availability and the fact that events can overtake any current analysis, as well as other complexities in evaluation and value judgements. Other theoretical contributions suggest that gains may be unevenly distributed as the integration measures that promote the attainment of allocational and structural efficiency will not necessarily lead to distributionally acceptable results across the market (Maasdorp, 1982:85; Robson, 1987:60). As a result, there could be a great need for the region to attempt to equalise the benefits of integration, especially for the poorer states.

Such attempts are fraught with difficulty, however. For example, Freer (1996) observes that one problem is how to equate the intangible benefits like investment potential, since a conducive investment environment is something which each country has to develop. Vaitsos (1978:748) notes that some of the benefits from integration consist not in the direct and measured outcomes of cooperation, but rather emanate from the potentialities that integration creates for the realisation of other activities. In this respect, it becomes difficult to redistribute such benefits as they accrue to a country as a result of its own initiatives in following up by putting in place appropriate government policies. The most obvious problem, of course, is how to go about the process of the equalisation of benefits[81].

Winters (1991:179) notes that, in developing countries, distributional issues are very important and failure to solve them often leads to the demise of the integration process. Wonnacott and Lutz (1989:32), Balassa and Stoutjesdyk (1975:24-43), Blomqvist (1993), and Vaitsos (1978:747) note that friction over the distribution of gains is likely to be a central problem for any customs union among developing countries if the members have dissimilar economies. As the discussion in Chapter 3 illustrates, this is particularly relevant in the southern African context.

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[81]Possible compensatory and corrective measures are considered later in this chapter under the discussion of the development integration model.

As Vaitsos (1978:748) notes, a central concern with countries at different levels of development within the same regional grouping is that polarisation of industries may occur. This was noted as a possible dynamic effect of integration in Section 4.2.2.4, but is not taken into account in the orthodox trade creation-trade diversion framework. Essentially, polarisation means that one or a few members of the grouping with relatively more developed industrial structures tend to dominate the others as a result of having a comparative advantage in the majority of industries. So the "backwash effect" concentrates benefits in the most industrialised member countries whilst simultaneously creating "poles of stagnation" in the less developed partner countries[82]. As Robson (1987:60) observes, this will lead to the widening of economic disparities among member states such that integration could even make some member states worse off than if they were outside the regional grouping, even though the regional grouping as a whole might benefit.

Krugman and Venables (1990)[83] acknowledge the possibility of polarisation occurring as regions become more integrated. They point out that the more central nation where wages and production costs are higher but with access to a lärger market may, when transport costs are reduced, attract production away from a lower wage country. This happens because while a reduction of transport costs will firstly promote the location of production where it is cheapest, a concentration of industry will end up occurring in the central nation as access to markets and the benefits of economies of scale outweigh the reduction in transport costs. Krugman and Venables (1990) argue that when transport costs are high, production takes place in both countries, and when transport costs are low, production takes place in the low wage country, but when transport costs are at an intermediate level, production shifts to the high wage center (Holden, 1996:55). Krugman (1991) therefore argues that polarisation is not inevitable depending on the size of the larger core country, the level of transport costs, economies of scale and the share of 'footloose' industries. Therefore, the level of integration is important if polarisation effects are to be avoided. If, for example, barriers to trade (tariffs, quantitative restrictions and transport costs) are reduced substantially, peripheral countries where wages are lower need not

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[82]Cooper and Massell (1965:475) note that "the potential gain from a customs union would be larger if neither country dominated the other in industrial production" (Ostergaard, 1993:32-33).

[83]Cited in Holden (1996:55).

lose their industries to the core country. A *partial* lowering of trade barriers may therefore cause polarisation, while their complete removal may prevent it.

McCarthy (1999:393) acknowledges the possibility of polarised development in favour of the more developed country, but also notes that, when there is a sufficiently large wage gap between the developed centre and the underdeveloped periphery, a point can be reached when the location of industries will be steered to the low wage country. In such a situation, transport costs and other advantages become a lesser consideration. He also notes that, in the case of a free trade area, each member state maintains its own customs regime vis-a-vis non-members. Some members may maintain very low tariffs with non-members such that it becomes advantageous for certain industries to relocate to such member states in order to import inputs at the lowest cost for the production of products that will be exported to the rest of the free trade area (McCarthy, 1999:394)[84]. Given these scenarios, polarised development may not occur.

4.2.3.5 National sovereignty issues

Regional integration implies a cost in terms of national sovereignty as there is need for inter-country policy harmonisation and joint action. Most developing countries are not yet ready for this as they value national sovereignty (Appleyard and Field, 1998:362; Balassa and Stoutjesdyk, 1975:41). In some cases economic integration is viewed as a zero-sum game by potential partners. Each member state wants access to the other country's markets, but is unwilling to give access to its own. Factors like nationalism, the nature of leadership, and the role of interest groups directly affect the cooperation of governments at a regional level, yet these considerations are overlooked by the traditional analysis. As Östergaard (1993:32) notes, while objectives may be agreed upon at a regional level, the most crucial variables in any integration scheme are the commitment and capability to implement such decisions at the national level.

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[84]The extent to which this can occur in practice, of course, will depend upon the specific rules of origin in the free trade area.

Therefore, whilst economic integration offers the advantages of larger markets and possible economies of scale to developing countries, the ability to take advantage of these dynamic development effects depends on their willingness to give up some national economic control, and on solving the basic problem of how to distribute the benefits among member states (Appleyard and Field, 1998:364).

4.2.4 The way forward for developing countries

For developing countries, the theoretical analysis of customs unions or of regional preference arrangements should be directed more towards the direction of investment for future output, rather than being limited to an analysis of the welfare implications of shifting existing trade patterns. This consideration of effects on investment is important as this has a bearing on trade and production patterns (Mikesell, 1963:206). The evaluation of economic integration among developing countries should be based much more upon the possible dynamic effects of integration, as these are likely to be of more significance (Jaber, 1970:256).

At this point in time, not all prerequisites for market integration exist in developing countries; they have to be created first before market integration can become a reality. Regional activity in terms of improving infrastructure, production capacity and technology, should be pursued as some of the smaller economies are still lagging behind in this respect. This could help to avoid possible problems from polarisation. The pursuance of market integration in the context where initial disparities are great between countries may exacerbate inequalities and cause instability with the effect of hindering development (van Rooyen, 1998:128), despite the argument that polarisation need not be inevitable.

4.3 THE DEVELOPMENT INTEGRATION MODEL

4.3.1 Introduction

Robson (1987:198-200) argues that because of the structural features of developing countries, the principal policy issues of integration among developing countries centre on three factors which orthodox analysis disregards, viz.: (i) the determination of the appropriate scope and direction of regional trade, development and specialisation; (ii) the issue of equity in the

distribution of benefits; and (iii) policy towards foreign investment and multinational enterprises. These factors therefore produce a situation that dictates a different approach to integration among developing countries from what may be appropriate in advanced market economies (Davies, 1994a:13). This therefore renders trade liberalisation on its own as an inadequate and sometimes an inappropriate strategy even when the potential for fruitful cooperation exists. This thus calls for a model which links the theory of integration with the theory of development.

The development integration model was therefore developed in response to the shortcomings of traditional customs union theory (van Rooyen, 1998:129). It encompasses various ways in which economic integration may be implemented more in tune with the peculiarities in developing countries, such as different levels of development and different political systems among member states. The preoccupation with trade liberalisation is thus seen as insufficient to support economic integration. There must be corresponding emphasis on stimulating productivity and investing in production in all sectors.

As noted by van Rooyen (1998:129), the model is based on the assumptions that: (i) industrialisation must advance before market integration can be considered, thus goods must be produced first before they can be traded; (ii) the economic structural transformation that must take place should be with diversification away from primary commodity exports; (iii) intervention with market forces in the distribution of gains and losses that result from the integration process will lead to a more equitable outcome on integration.

4.3.2 The model

The main characteristic of the model is the conscious intervention by regional partners to promote cooperation and interdependence (Ostergaard, 1993:34; van Rooyen, 1998:129; Michelsen Institute, 1986). This is so because the model sees a conventional laissez-faire trade-driven approach as either not leading to effective integration or else creating unacceptable polarisation in underdeveloped regions.

While the model acknowledges and focuses on the dynamic elements of market integration, i.e. the creation of a larger market within which firms can benefit from economies of scale and

competition, it goes further than merely focusing on efficiency maximisation of existing capacity, by also focusing on how to stimulate the creation of that productive capacity in the first place (Ostergaard, 1993:34). It emphasises the broadening of the production base by planning and implementing joint projects in infrastructure and manufacturing industries. Of particular importance are the large-scale heavy industries such as iron and steel, fertilizer and other chemicals, transport equipment and others which can benefit from the economies of large scale production (Lipumba and Kasekende, 1991:235).

The model can thus be said to stress the following aspects: (i) the need for micro-coordination in a multi-sectoral programme that embraces production, infrastructure and trade; (ii) close political cooperation at a high level from the early stages of the integration process, as a higher degree of state intervention than that found in the market integration model is needed; (iii) measures to ensure that all member states enjoy benefits from the integration process as asymmetrical trade relationships are most likely to exist with underdeveloped areas. This therefore calls for distributive measures of a compensatory or corrective nature so as to guarantee benefits even for the least developed contracting partners[85]. The development integration model is therefore a model that complements trade integration.

4.3.3   Compensatory and corrective measures

For economic integration to endure, it must not only result in a situation that improves allocational efficiency and growth, but must be seen to be equitable. If the market cannot be relied upon to do so on its own, then corrective and compensatory policies will have to be employed to promote balanced development, and appropriate instruments will have to be devised to implement them. The tools that can be used involve a trade-off between considerations of efficiency and those of equity (Robson, 1987:202).

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[85]Useful analyses of the model and its areas of focus can be found in Doyle (1997), Ostergaard (1993), Nkuhlu (1993), Davies et al (1993), Robson (1987), Lipumba and Kasekende (1991).

Costs and benefits of regional integration differ from one country to another, and so it becomes difficult to achieve an equitable distribution of net gains. Be that as it may, the identification of the benefits to the union as a whole and to each of the participating countries is important. While a non-distortionary compensatory or corrective mechanism can be difficult to find, a criterion for distribution to maximise the gain to the union subject to the distributional constraint should be implemented.

The measures potentially available for influencing industrial development and location, and regional specialisation, operate either directly through the market system through the provision of incentives, or directly through the adoption of planned industrial specialisation agreements backed by administrative or legislative sanctions (Robson, 1987:202). There is, nonetheless, the need for fostering closer and sustained interaction between the private sector and government representatives to ensure that government policy reflects a full appreciation of the business community and its views. This is especially so in the distribution of benefits to the private sector and other individual investors (RCSA, 1997).

Haarlov (1997:32) notes that intervention through compensatory or corrective measures can take on a number of different forms, considered below.

4.3.3.1 Compensatory measures

Ostergaard (1993:35) notes that, at the lowest level, distributional problems are addressed through compensatory measures. While balanced regional development programmes incorporating compensatory mechanisms are recommended so that the pattern of accrual of gains from regional integration is not left to market forces alone, such measures should be employed bearing in mind that the purpose of integration should be to improve resource allocation to raise absolute incomes. Further, the primary objective of compensation should be to equalise benefits to private economic agents rather than to national governments. A workable means of transferring compensation between countries and implementing any such scheme will be essential to avoid negating benefits that should accrue to the private sector. It has also been argued that compensation schemes where funds are set aside for regional projects should be avoided, as these funds may be spent, for political reasons, on schemes with a low or even

negative rate of return, or may be used to fund inappropriate plant and equipment (Mansoor and Inotai, 1991:228).

The main compensatory mechanism which can be used is fiscal compensation which is a transfer of money from the countries that gain from a larger market to the member states that bear the costs of this process. The question to be raised is how one estimates benefits and costs between countries. Suggestions include estimating lost customs revenue, putting a price on trade diversion, putting a price on the cost of an industry closing down due to trade creation, as well as estimating the cost of other negative effects which countries suffer. Such calculations are complex and in some cases impossible to conduct with accuracy, so that the trade offs have to be estimated and negotiated. Such compensation can involve intergovernmental financial transfers through their budgets so as to promote equity, as is the case in SACU. Vaitsos (1978:749) argues, however, that fiscal compensation is probably one of the least suitable methods of trying to influence the distributional consequences of integration (see Section 4.3.4.2). It has certainly been conflictual in the SACU context (see Chapter Two).

4.3.3.2 Corrective measures

Ostergaard (1993:35) notes that corrective measures are steps taken at a higher level to deal with distributional problems. These measures can be divided into two broad categories, viz.: (i) initiatives that seek to achieve their aims through incentives and other manipulations of the market mechanism; and (ii) interventions that through administrative measures and planning strive to change the pattern of development (Haarlov, 1997:32).

Specific corrective measures include improving conditions for development via infrastructural development and improving education and technical training. Further, incentives may be offered to change the existing pattern of production by influencing economic agents to locate economic activities in lesser developed areas and countries within an integration group. This can be with or without the support of inter-country fiscal transfers. Such inducement can take place in a number of ways.

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Firstly, regional development banks could provide funds as an alternative to the provision of loan finance on a subsidised basis for investment in industry or in infrastructure. Secondly, favourable supplementary fiscal investment incentives may be offered, and an agreed harmonisation of national incentives can be attempted so as to influence the distribution of industrial activity. The less developed partner members may be authorised to provide more generous investment incentives (from their budgetary resources), while harmonisation would exclude a counter-productive bidding-up of incentives by the more advanced partner members.

A third way of influencing the pattern of production would be to allow the less developed member states to adopt a slower pace towards full trade liberalisation than their more advanced partners. This is considered to be less costly than some of the alternatives in producing the desired balance. Similarly, a "partial" customs union or free trade area may be formed along the lines suggested by Cooper and Massell (1965) allowing for the maintenance of certain internal tariffs. When agreement has been reached regarding a common external tariff, a transfer tax system may be introduced to allow less developed member states to impose limited tariffs on imports from a partner state. In theory, this transfer tax mechanism is suppose to lead to expansion in the less developed member countries of those industries for which the maximum permitted degree of protection would be sufficient to offset the cost advantages in the more developed member states (Ostergaard, 1993:35; Haarlov, 1997:34-36).

Other corrective measures that may be implemented include the planning of new industries and agreements on the distribution of production. Ostergaard (1993:35) notes that this involves establishing new industries that can deliver to the whole region and the distribution of markets for existing industries so that they can benefit from scale economies. The allocation of basic industries to each country is done on the basis of comparative advantage and such industries are designed to supply the needs of the regional market under various conditions of protection.

As a corrective measure, regional industrial policy and agreed industrial specialisation[86] (an alternative instrument to fiscal harmonisation), in conjunction with market forces, are used to influence the emergent pattern of industrial development. Rather than assign all integration industries to member countries at once, the allocation would take place as projects become available. The projects located in different countries would have to be evaluated, and projects allocated to those countries which have maximised the cumulated value of all projects assigned.

In the planning of the location of industries, governments are expected to address both the problem of the equitable distribution of benefits and costs and the efficiency criterion. However, as Robson (1987:199) notes, there is a need to understand the comparative advantages of the group as a whole and of the individual countries, so as to be able to allocate appropriate industries for specialisation. If the price system cannot provide the guide, then the desirable patterns of trade and development will have to be directly evaluated.

4.3.4 Criticisms of the model

While the model appears more relevant than the market integration model in the developing country context, it is more difficult to implement. The solutions it proposes require high levels of political commitment and levels of technical and administrative expertise which are not readily available in developing countries. Some of the main problem areas are highlighted below.

4.3.4.1 Level of political commitment

The high levels of political cooperation which are a prerequisite for the implementation of the

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[86]The planned industrial specialisation approach and its implications for specific groups or sectors of less developed countries has been explored several times since the 1970s. Notable examples are provided by the study of LAFTA (Carnoy, 1972), the UN study of ASEAN (UN, 1974), a study by the UN Economic Commission for Asia and the Far East (1973) of selected countries in South East Asia and the Pacific, and the sectoral study by Menes and Stoutjesdijk (1985) with reference to the Andean Group. Each of these studies suggest that substantial economic gains can be derived from implementing the development integration model in developing countries (Robson, 1987:206).

model are in practice difficult to attain, largely because: (i) heads of state cannot guarantee that their governments, private sector entities and populace can act in a manner that fulfils the regional objectives that they may agree on; (ii) African states are often too weak to be able to deal with the problems inherent in a regional scheme among developing countries at uneven levels of economic development; and (iii) countries still cherish their autonomy and sovereignty and are still focussed on nation-building and strengthening political power. Most nations would want, for example, to own their own car manufacturing plants instead of importing from their neighbours (Ostergaard, 1993:36-37; van Rooyen, 1998:129).

4.3.4.2 Problems with compensatory measures

The argument raised by Vaitsos (1978:749), that while fiscal compensation is claimed by traditional economic theory to be the most efficient redistributional mechanism, it has proved to be the least appropriate and politically most unacceptable instrument was noted in Section 4.3.3.1. This means that regional economic groupings are reluctant to rely solely on this measure to deal with the problem of the distribution of benefits.

Important considerations are as follows: (i) from a free trade point of view, a country that is merely compensated for its customs revenue losses, would not necessarily be better off within a second best model than it would be if it instead pursued a non-discriminatory policy of tariff reductions; (ii) from the stand point of the objectives of a protectionist trade policy, this measure is unsatisfactory in its disregard of benefits of development that a country forgoes when it imports from its partners instead of producing locally through import substitution where that option exists; (iii) a country that loses established industries as a result of trade liberalisation may suffer a loss of real income which no compensation could ever adequately cover; and (iv) even the part of trade expansion that involves trade creation (actual in the case of existing industries, potential in the case of new ones) may involve a cost (Robson, 1987:201-208).

Hazlewood (1985)[87] notes that fiscal compensation may actually encourage uneconomic duplication of previous uneconomic investments and activities as countries may use the money

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[87]Cited in Ostergaard (1993:35).

they get to build national industries so as to be self sufficient, instead of relying on the regional ones. The budgetary transfers too do not offset unequal distribution of benefits[88]. The positive effects which foreign investment may have on the balance of payments, establishment of new industries and the generation of new employment and the multiplier effects which this has, could attract further investment in the already developed partner countries. As such compensatory measures may not rectify the problem of uneven economic development. A satisfactory long term solution to the distributional problem may to some extent be achieved through corrective measures, although these have their own problems (Ostergaard, 1993:36).

4.3.4.3 Problems with corrective measures

These measures have been beset with problems resulting from failures by the partner countries to negotiate and agree on measures and to implement them. These failures have been due to: (i) uncertainty as to the outcome of the agreed specialisation activities; (ii) differing evaluations on the part of the participants on the cost and benefits involved; (iii) differences between countries on what constitutes equal distribution of benefits; and (iv) with respect to the time factor, short-term corrective measures differing from the medium and long-term measures (Robson, 1987:205-206; Vaitsos, 1978:748).

With respect to specific corrective measures, Ostergaard (1993:36) argues that while planned regional industrial development is considered the most effective corrective tool in theory, it presents the most significant and divisive issue in the integration process, as industrial location is often viewed by participants as a zero-sum game. Ostergaard (1993:36-37) notes that particular problems include the following:

> (i) the attitudes of member states in the negotiation of a regional industrial plan depend to a great extent on the relative strengths of their economies; the needs of the industrialists vary from country to country and they will influence their governments to

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[88]The situation in SACU indicates that while the compensatory formula is strongly in favour of the BLNS countries, industrial investment both from the customs union and from overseas has invariably favoured South Africa which is by far the most developed member of the union.

pursue regional policies which suit their particular interests (Ndlela, 1987);

(ii) differences in what form of strategy to follow often arises; for example, Axline (1977:12-13) notes that the more developed countries may want an "expensive" strategy aiming at absolute increases in gains among member states whilst their less developed counterparts may favour a "distributive" strategy which determines in advance the distribution of any gains from integration;

(iii) Vale (1982:33) notes that politicians responsible for regional negotiations are always conscious of the need to balance commitment to the integrative endeavours and the interests of their nations; therefore, as Ravenhill (1979:229) points out, they are generally reluctant to give up immediate national interest in favour of regional agenda;

(iv) even if agreements are reached to allocate industries within the region, these may not be carried out in practice; Johnson (1991:10) points out that this is so in cases where politicians fail to get the industries they want during the industrial planning negotiations; it then becomes easy for them to ignore the integration agreement they have signed;

(v) national bureaucrats often lack understanding of the content and scope of decisions on regional industrial programs, while red tape and inefficient administrative structures further mitigate against the implementation of regional agreements (Vargas-Hidalgo, 1979); and

(vi) funding of the regional industrial development plan is normally not attended to while allocations are being made at the politicians' negotiating table.

The establishment of a regional development bank is a less controversial tool, but is seen as lacking in effectiveness as there is a limited scale of activities if member states fail to agree on a pattern of industrial specialisation. The bank alone will not be able to act as a catalyst for complementary industrial development, although it has the potential to be a corrective measure (Hazlewood, 1985)[89].

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[89]Cited in Ostergaard (1993:35-36).

Finally, the provision to allow a certain group of countries within the regional arrangement more time to abolish tariff restrictions and allowing exemptions to a possible regional investment code may not be effective. This is so because factors apart from protection, like the investment environment, government attitudes, the size of the market, political safety and others, determine investors' decisions to locate in a particular area (Ostergaard, 1993:38-39).

In conclusion, it appears that the development integration model complements trade integration by (i) promoting efforts to further coordinated regional industrial development; (ii) establishing regional funds or banks giving special priority to the least developed members; (iii) promoting measures to give less developed members greater preferences in access to regional markets and facilities and longer periods to reduce tariffs; and (iv) having some coordination of macro policies at a relatively early stage, particularly in relation to fiscal incentives for investment (Davies, 1994a:13).

However, as Ostergaard (1993:35, 39) observes, while the model is more relevant in the developing country context, it requires a much higher level of commitment within and among the member states as it is beset with practical problems of implementation. As a result, he notes that it has proved equally if not more difficult to implement than market integration. It has consequently been argued that some of the problems associated with development integration might be avoided if the neo-functional integration approach is pursued.

4.4   THE NEO-FUNCTIONAL INTEGRATION APPROACH

4.4.1 Introduction

This approach has its origin in the functionalism of Mitrany (1943) and Haas (1958, 1972). Mitrany believed that the integration process can begin from functional cooperation. The idea is that cooperation in one sector, for example tourism, will spur and necessitate further cooperation and later integration through spill-over effects (van Rooyen, 1998:129).This approach is also known as integration through project cooperation as it involves cooperation in the planning and implementation of joint sectoral projects or schemes between countries in areas such as transport, communications, water, electricity, mining, health and welfare, as well as

thematic cooperation, such as environmental protection and food security (Stewart and McCarthy, 1995; Balassa and Stoutjesdyk, 1975:47).

The World Bank (1989b) and Ostergaard (1993) regard this approach as the one that offers the best prospects for integration as it involves integration from below, having as its important actors the various interest groups at both national and regional level as well as governments. The approach is thus seen as forming the only truly viable basis on which to foster regional integration. As the World Bank (1989) notes, it is a step-by-step approach based on common economic interests. All partners are to be convinced of the benefits and be genuinely committed to a programme of implementation in order for the programme not to fail. Initial steps in the integration process are bound to be difficult as countries have fragmented economies, and mistrust each other. However, as Stewart and McCarthy (1995) note, not all countries in the regional arrangement are required to take part in all the projects all the time. The countries which voluntarily take part in any particular project are the ones that stand to benefit from that project.

4.4.2 The model

This sector-by-sector approach is founded on the central insight of functionalist theory that the best way to move towards increased regional unity is by small incremental steps which individually pose no serious threat to the national sovereignty of participating nations and to the existing power structures within each country (Stewart and McCarthy, 1995). The hope is that by consistently delivering concrete gains to all participating countries, confidence is generated in regional cooperation and a strong sense of community and common destiny will eventually reduce resistance to the transfer of real power and sovereignty to regional bodies, thus leading to closer and higher levels of integration.

Davies (1994a:13) notes that the model gives priority to cooperation in the formulation and execution of joint projects aimed at overcoming underdevelopment-related deficiencies in the spheres of production and infrastructure. The selection of projects is closely adjusted to functional requirements and to those areas where there are possible benefits for all parties. Decisions are taken by consensus and legally binding agreements made for the different common projects and programmes. In terms of the individual agreements, the aim is to derive the benefits

of economies of scale or comparative advantages that one country has in relation to another. According to Haarlov (1988:24), agreements can range from the matching of under utilised-capacity in one country with needs in another, and specialisation or complementarity agreements between existing or planned industries to the establishment of plants that can supply the needs of the whole region.

Characteristics of the model's focus noted by Haarlov (1997:47-50) are: **functional linkages**, that is, inherited or deliberately created connections between tasks or functional areas within a regional arrangement; **spill-overs**, which are a deliberate tendency to expand the area of cooperation from one task or function to another; **agreement to increase the scope or level of integration** through an incremental process as opposed to sweeping constitutional changes, with the style of negotiation determining the end result of the negotiation[90]; **inclusion of all actors** in all the negotiations taking place; integrationist technocrats and interest groups at both national and regional level have to be involved in identifying and proposing solutions that satisfy all members.

4.4.3 Factors which determine the model's success

Some of the factors which are said to determine the success of the model can be summarised as follows: starting cooperation in areas that are not politically controversial like infrastructure, so as to avoid political frustrations that arise as a result of lack of immediate benefits from a free trade area; having spill-over effects from one area makes it necessary to intensify cooperation and gradually spread it to cover other sectors as well; avoiding challenges to existing nationally-based power structures and special interest groups as these usually act to derail any regional cooperative schemes that tend to threaten their dominant position; adopting mutually reinforcing,

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[90]The styles of negotiation are: (i) minimum common denominator style, where a group only moves as far and as fast as the most reluctant member is prepared to go; (ii) splitting the difference style, where the outcome of negotiations will depend on whether compromises between the parties succeed in satisfying them; and (iii) upgrading of common interests style which includes package deals (variable-sum game) where everyone may gain without anyone losing out (Haarlov, 1997:48).

complementary measures and policies that increase demand for goods and services so that the improved regional infrastructure can be of value in the regional integration process; phasing in programmes that address critical barriers to regional integration; encouraging subgroups of two or more countries to integrate more rapidly than others (without necessarily forming a separate regional grouping) whenever they perceive mutual benefits (variable geometry), thus countries which are eager to proceed more quickly would not be held back by the more cautious or reluctant ones; and, geographical proximity of participating countries as well as cultural and historical links (Haarlov, 1988:24; Stewart and McCarthy, 1995; World Bank, 1989b).

4.4.4 Economic benefits of neo-functional integration

Possible benefits range from forming the basis for a comprehensive market integration approach to regional integration, cost savings, exploiting economies of scale and advancing regional trade. Each of these is discussed below.

4.4.4.1 Preparation for market integration

The loose, function-based model is complementary to the more comprehensive market integration approach in serving to develop regional political cohesiveness. The project orientated nature of the approach may also serve to provide the necessary physical requirements for balanced and desirable higher-order market integration in the long-term. By improving or upgrading transport, communications or electricity-generating infrastructure or improving the availability of water in all participating countries, the locational decisions of firms may be influenced and industrial development depolarised (Stewart and McCarthy, 1995).

4.4.4.2 Cost savings

Balassa and Stoutjesdyk (1975:47-50) note that the ripple effects of the projects can be seen to bring economic benefits if production on a regional scale leads to cost savings compared to production on a national scale, taking into account production and distributional costs. Cost savings can be achieved directly through large scale operations, fuller utilisation of existing capacity, greater specialisation in production, joint management and the coordinated use of jointly owned resources. Cost savings can also be reaped indirectly by investing in infrastructure that is principally designed to promote trade within the region.

Cost savings may be achieved through coordinated planning, construction and the operation of transportation facilities, for example joint airlines, regionally-integrated railway networks with identical railway gauges, water courses, regional shipping companies and an integrated highway and communications system. Such coordinated investments in transport and communications may have beneficial effects of an indirect nature in promoting trade among the partner countries. The improvement of intra-regional trade will help to facilitate deeper integration.

Joint projects in the field of education and research can also lead to cost savings due to better utilisation of indivisible factors such as teaching and research staff and equipment. This may lead to qualitative improvements in education and research as well.

4.4.4.3 Sharing scarce resources

The development and management of water resources offers scope for integrated projects. Water supply projects with respect to the development of international river basins leads to major potential gains from improved flood control, more intensive use of the water resource for irrigation purposes, and control of problems of environmental pollution by countries upstream.

4.4.5 Criticisms of the model

One of the criticisms levelled against the model is its implicit assumption of a direct link between project cooperation and integration. While project cooperation has the potential to reduce real barriers to regional trade and may also contribute towards the generation of a common regional identity, this may not, in itself, lead to any deeper integration. So, as Stewart and McCarthy (1995) note, higher levels of market integration should be retained as a long term objective, as the growth of intra-regional trade to promote regional development cannot be achieved by the looser approach on its own. What the looser approach does in the short to medium-term is to set out the political and physical requirements for closer and more demanding integration.

Interest groups, which are a major force in neo-functional integration, have to be properly organised and active. Such groups are often found in modern, pluralistically organised, industrial societies but are usually absent in developing countries. With the absence of interest groups, the heads of state and government become the sole and supreme decision making authority. As

Ostergaard (1993:41) notes, this results in the danger that the integration process initiated will then stand or fall on the maintenance of cordial relations between the personalities concerned.

In terms of projects for joint cooperation, criticisms have been made of the complex and time-consuming negotiations at state, industry and firm level, all of which are considered necessary before an agreement can be concluded. In cases where countries regard project cooperation as a zero-sum game, problems are bound to arise and negotiations may be stalled and outcomes will depend on compromises which the parties succeed in making. Also, the fact that the common denominator style can be used in negotiations (see footnote 90) delays the pace at which the integration process moves. Further, some projects can be unduly ambitious: too large, or attempting to involve all regional members; and it is only in theory that an equitable distribution of costs and benefits will limit the temptation of the individual countries to break established agreements (Haarlov, 1988:24; Haarlov, 1997:47-50; Balassa and Stoutjesdyk, 1975:50-55).

Haarlov (1988:23)[91] notes that, neo-functional integration has an advantage over market integration and development integration because its sector-by-sector approach minimises the problem of cost and benefit distribution among member states. It also circumvents the problems inherent in the ceding of powers from national to supranational institutions. It has further been noted that the neo-functional model holds more promise than other models as it represents "integration from below". However, the challenge is whether the national and regional interest groups which form the basis on which to foster regional integration can be engineered into existence as these are not yet pervasive in most of Africa (Ostergaard, 1993:42).

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[91]Cited in Ostergaard (1993:40-41).

## 4.5　THE THEORY OF COMMON MARKETS

4.5.1　The model

The common market is the third level of economic integration in the conventional ladder of the integration process. It involves not only the integration of product markets through the trade liberalisation that results from a customs union, but also the integration of factor markets through the elimination of obstacles to the free movement of factors within the bloc (Robson, 1987:63). Robson (1987:63) notes that the concern of the theory of common markets is with the additional benefits that can be derived by going beyond a simple customs union.

4.5.1.1　Free intra-regional capital flows

After the formation of a common market, obstacles to intra-regional factor mobility no longer exist. Therefore factors of production (say, capital, in this case) will flow into a country in which they get higher rewards. As shown in Figure 4.3, before the formation of the common market, capital in Country P gets a higher reward than in Country H, i.e. $(x + z) > (q + t)$ (see Box 3). Therefore, with the formation of a common market in which capital is mobile regionally but not with respect to the ROW, capital will move from Country H into Country P in search of higher rewards. As a result, the domestically produced product in Country H will decline to $(p + q + s)$. However, national product, including inward remittances of profits on capital now employed in Country P $(u + v)$, will increase by $(v - r)$. Due to the additional capital coming from Country H, Country P's domestic product increases by $(u + v + w)$. However, since it has to allow for outward profit remittance of $(u + v)$, its national product will only increase by w.

As Robson (1987:69) notes, this analysis is fairly limited. The assumption that capital remains completely immobile vis-a-vis the ROW is restrictive, and intra-area capital flows are likely to be accompanied by the transfer of new knowledge and techniques, rather than simply the application of known and existing technologies. These factors will serve to complicate the static analysis presented above.

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Figure 4.3:   The impact of free intra regional capital flows
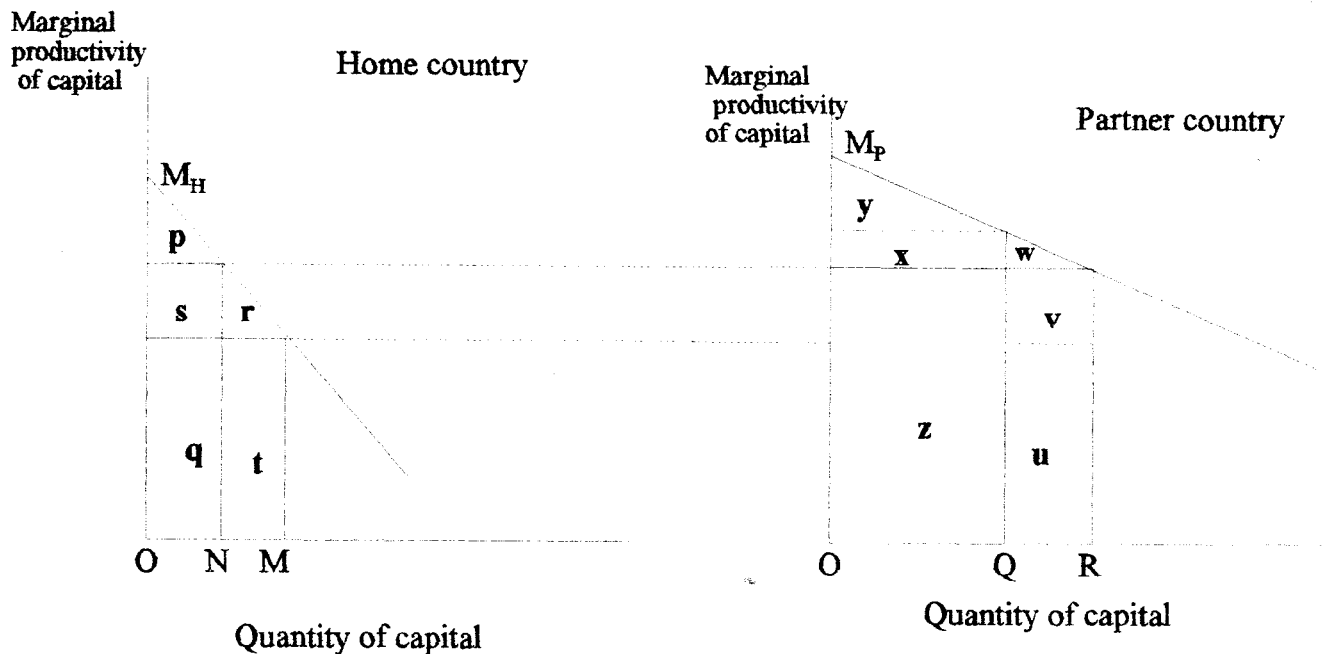
Source: Robson (1987:68).

BOX 3

Definitions

M_H = relates capital stock in Country H to the marginal product of capital, given L. OM = capital stock in Country H in the pre common market phase (= customs union).

M_P = relates capital stock in Country P to the marginal product of capital, given L. OQ = capital stock in Country P in the pre common market phase (= customs union).

In a competitive model, profits per unit of capital = marginal product, and therefore

Pre-Common market Phase

(a) Country H: (i) total profits (of capital) = q + t.   (ii) total output = p + q + r + s + t.   (iii) labour's share = p + r + s

(b) Country P: (i) total profits (of capital) = x + z   (ii) total output = y + x + z   (iii) labour's share = y

The rewards are higher in Country P than in Country H. This thus reflects Country P's more favourable environment.

Common Market

(i) ON = capital stock of Country H.   (ii) OR = capital stock of Country P.

4.5.1.2 Effects of integration with foreign capital

The effects of integration once foreign direct investment is present in the form of foreign enterprises are determined partly by the impact of the net economic rents earned by those enterprises from the use of their exclusive assets, such as superior technology, and special administrative and entrepreneurial skills. Enterprises will produce at lower costs and thus earn pure or quasi rents, even in competitive industries. These rents are measured by producers' surplus (Robson, 1987:70).

Therefore, in common markets, the criteria for evaluation are no longer restricted to the orthodox trade creation and trade diversion effects. This is so because additional gains and losses for the host country will arise from changes in the rents earned by foreign companies, and these imply a redistribution of income between the country of origin of the foreign capital and the host country. Following Tironi (1982), the additional effects are known as *foreign profit diversion* and *foreign profit creation* (Robson, 1987:70-71).

Trade creation as a result of the common market leads to the foreign profit diversion effect. An importable commodity produced by a foreign enterprise now has a lesser price after integration as a result of trade creation and the host country will gain from the fall in foreign company rents. In Figure 4.4, if producers are wholly domestic, the gain to Country H will be denoted by (**a** + **c**) (the traditional gains from trade creation). However, if the commodity is wholly produced by foreign enterprise and capital, there will be an additional national gain given by **g**, reflecting the reduction in remittable profits, and thus denoting the foreign profit diversion effect.

Any trade diversion that results from the formation of the common market gives rise to the foreign profit creation effect. This is represented by the additional rents or profits that would, as a consequence of the common market, be obtained by foreign enterprises from their sales in the host country and their exports to the preferential markets of the partner countries, in the case of foreign enterprises enjoying a regional comparative advantage.

Figure 4.4: The costs and benefits of integration with foreign capital

Price

DH ... SH

PH

g

a ... c

PCU

O ... M ... N ... Quantity
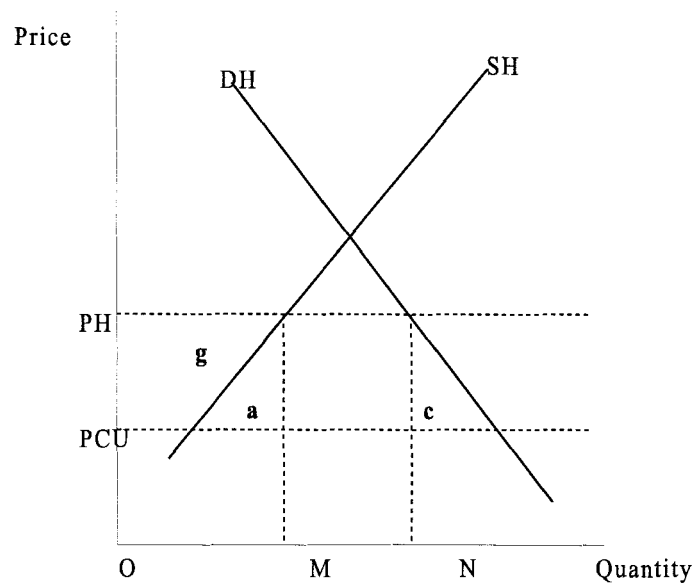
BOX 4

Notes:

S_H and S_D represent the demand and supply curves of for an importable produced by Country H.

OM = Amount produced at price P_H prior to customs union.

P_{CU} = Price if a customs union is formed.

a = production effect.   c = consumption effect.   g = foreign profit diversion effect.

For the host country, these additional rents from home sales reflect a fall in consumer surplus which represents a national income loss from its point of view. Further, additional rents on sales to the partner country do not represent a national gain from the host country's stand point because it is not their companies which are producing and selling, but foreigners. From the point of view of the importing partner country, the additional rents earned on its imports by the foreign enterprises in the host country are reflected in the traditional trade diversion effect that it experiences (Robson, 1987:70-71).

Host countries may benefit through taxes on rents or profits earned by both foreign and domestic enterprises. These benefits may be more readily forthcoming than those from more advanced technologies and imported skills, since the latter only accrue to the home country to the extent that it can use them without fully paying for them in the form of rents and profits remittances. If the host country participates in profits through taxation, then the benefit from the foreign profit diversion effect is lowered to $(1-t)d$, where t is the rate of profit tax and d is the profit diversion effect[92]. If taxes are paid by a foreign firm that exports to a partner country, then losses to the host country will be lower (Robson, 1987:71).

Integration at the level of a common market may also lead to dynamic benefits from increased factor mobility. If both capital and labour have the increased ability to move from areas of surplus to areas of scarcity, increased economic efficiency and correspondingly higher factor incomes in the integration area could result. The reallocation of factors that equalises their marginal productivity also leads to a reduction in the disparities in factor earnings among the different member countries (Robson, 1987:65).

4.5.2 Criticisms of the model

The intra-regional movement of capital and other factors is viewed in orthodox analysis as a vehicle for distributing the fruits of technical progress and productivity growth more evenly throughout the common market. However, if there is a tendency for those countries whose growth is most vigorous to attract direct investment and other factors from the rest of the economically integrated area, this may produce polarisation, and hence have adverse consequences for geographical balance (Robson, 1987:74)[93]. Therefore, although important efficiency gains may be secured by a move from a customs union to a common market, the need for an effective regional policy, as proposed in the development integration model, will almost certainly become more acute if structural forces contributing to economic divergence and

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[92]So if the rate of tax is 100 percent, then the welfare effects of forming a common market when foreign enterprises are present would be identical to those arising when there are only national enterprises.

[93]Empirical support has been found for the existence of such effects, although the difficulty is in trying to assess the extent to which widening disparities can be attributed to the integration process, rather than to structural factors that would have produced such an outcome in any event (Robson, 1987:74).

possible losses for certain member states are to be contained.

Monopolies may arise as a result of the increased opportunities to exploit scale economies in the common market. If this happens, there may be adverse allocational consequences to take into account in addition to adverse distributional effects (Robson, 1987:88).

4.6 CONCLUSION

This chapter has attempted to outline the major mainstream models of regional integration that appear to be relevant in the southern African context. As many theoretical models are inspired by the European experience, it should be borne in mind that they cannot in their totality be transferred to the developing country setting. The main issues of relevance that emerge from the models may be summarised as follows.

The market integration model regards trade promotion and trade integration as fundamental, and as such focuses on the elimination of intra-regional barriers against the market mechanism. The effects of economic integration arise from its impact on the allocation of resources and international specialisation, exploitation of scale economies, and the terms of trade. The impact of a customs union is assessed on the basis of the balance between the trade creation and the trade diversion effects of integration. A customs union which is more trade creating is regarded as more welfare promoting than one which is more trade diverting. However, the trade diversion and trade creation framework is static, as it refers to existing comparative advantages without considering the potential for the creation for new comparative advantages. Further, the model says little on the dynamic effects of integration, the distribution problems related to gains and losses, the possibility of external trade creation resulting from the integration process, and the national sovereignty issue.

The development integration model, developed as a way to contain the shortcomings of market integration, focuses on distributive measures of a compensatory or corrective nature. The model also focuses on stimulating the creation of production capacity, putting emphasis on broadening the production base through planning and implementing joint projects in infrastructure and

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manufacturing industries. However, high levels of commitment and political cooperation are prerequisites for governments, private sector entities, and other stakeholders to act in ways that fulfil the regional objectives agreed upon. Therefore, while the model is regarded as more relevant in the developing country context than the market integration model, it has proved equally if not more difficult to implement.

Neo-functional integration, a sector-by-sector approach, proposes that cooperation should be initiated in technical or basic functional areas like transport and communications, health, research, education and training, and others. Cooperation in one sector is expected to spur and necessitate further cooperation through spill-over effects. By consistently delivering concrete gains to all participating countries through accomplished joint sectoral projects, cost savings resulting from economies of scale, sharing scarce resources, and other benefits, confidence is generated in regional cooperation, thus making it easier for the individual countries to agree to move on to higher levels of integration. While this model seems to hold more promise as a framework than the market integration and development integration models, interest groups, which are an important variable in this model, have to be properly organised and active. However, in most developing countries, this important variable is absent and, as such, the heads of state and government become the sole and supreme decision making authorities.

The theory of common markets addresses the additional gains and losses that may result from foreign profit diversion and foreign profit creation due to the free flow of factors of production. In this framework, the criteria for evaluation are no longer restricted to the orthodox trade creation and trade diversion effects. Dynamic economic benefits may be experienced from increased factor mobility, and the reallocation of factors can reduce disparities in factor incomes. While orthodox analysis regards intra-regional movement of capital as a vehicle for distributing the fruits of technical progress more evenly in the common market, there is a tendency for the more developed countries in the region to attract more direct investment and other factors from the rest of the region. In this case, polarisation may take place, thus accentuating imbalances in the region.

Whatever model a regional grouping adopts, there are basic requirements which may be seen as necessary if the integration programme is to succeed and be beneficial. For example, Robson (1987) and Matsebula (1998) argue that every country should be a net gainer from the economic integration or cooperation scheme. This therefore calls for a detailed country-specific cost benefit analysis of the integration scheme so that countries can be compensated accordingly for any loss incurred as a result of the integration arrangement. Secondly, governments ought to be convinced that integration will assist them with domestic problems. If this is not the case, they are likely to focus more on national preoccupations to the detriment of the potential advantages of regional cooperation. Thirdly, political will and commitment to the economic integration arrangement should be generated, as the pursuit of economic integration will inevitably involve concessions with respect to national sovereignty for the common interest of the region. Strong political will and commitment would give credibility to the arrangement in the eyes of foreign investors and international financial institutions. Fourthly, there should be sufficient economic capacity in member states to discharge all regional commitments fully, for example, adequate physical, financial, human and other resources to devote to projects of a regional nature, as well as institutional capacity. Finally, political stability within the regional grouping is critical. Lack of stability promotes capital flight and inhibits the inflow of foreign investment which is desperately needed to supplement meagre domestic savings.

In the southern African context, it has been observed by Leistner (1995) that regional groupings can adopt a two-track approach where they can pursue sectoral coordination and cooperation on one hand, and market integration on the other, at different speeds. Sectoral coordination and cooperation can proceed as fast as circumstances within a particular sector allow, without the need to wait for progress to be made on regional market integration. Such an approach can yield more or less immediate benefits for all participants, and is flexible as countries can join when circumstances permit them to do so.

This two-track approach thus recognises that development-orientated market integration models and looser function-based models should be seen as equally important components of a long term strategy for development. Making market integration a long term aim should not be seen as a call to delay efforts at trade promotion within the region, but rather that production and trade

capacities should be built up first, through function-based cooperation, so that intra regional trade can expand once market integration is introduced (ADB, 1989)[94].

The remainder of this study will attempt to assess the current and potential benefits to member states of SADC and SACU in the light of some of the theoretical insights considered in this chapter.

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[94]Cited in Leistner (1995:268-270).

CHAPTER FIVE

SADC: SUCCESSES, FAILURES AND ECONOMIC BENEFITS TO MEMBER STATES

5.1 INTRODUCTION

This chapter reviews the extent to which SADC has been successful in its operations since its inception. This review hopes to facilitate a comparison between the group's achievements and expectations on inception, an assessment of the extent of compliance with the group's own treaty and protocols, an assessment of the problems which the grouping has had and their possible impact, and an examination of ways of improving on the provision of benefits to the member states.

Section 5.2 considers SADC in the light of the neo-functional integration model with respect to the grouping's sectoral programmes. As noted in Chapter Two, its predecessor SADCC aimed to reduce regional dependence particularly on South Africa. This section therefore begins by examining the extent to which the grouping succeeded in reduced its reliance on South Africa in terms of trade and use of infrastructure during the ten years in which it was in existence. It then reviews the operations of SADC, and attempts to highlight the benefits, or lack thereof, which have accrued to members from the SADC sectoral programme in more recent years.

Section 5.3 attempts to analyse the grouping in the light of the development integration model, particularly with respect to moves to facilitate industrialisation, economic structural transformation and the diversification of commodity exports. Section 5.4 comments on the region's desire to create a common market in the future, in the light of the theory considered in Chapter Four. Section 5.5 concludes the chapter.

5.2 SADC AND THE NEO-FUNCTIONAL INTEGRATION MODEL
5.2.1 SADCC and the reduction of dependence on South Africa, 1980-1994

It appears that SADCC's aim of reducing the economic dependence of its member states

especially on South Africa met with minimum success as far as dependence on trade and infrastructure (i.e. roads, rails and ports) were concerned.

As Table 5.1 shows, the member states' reliance on trade with South Africa remained relatively constant in the period 1979 to 1992, with the exception of 1990. Increased reliance on fellow member states was not achieved, as intra-SADCC trade remained significantly lower than the SADCC-South Africa trade and did not exceed 5 percent of total SADCC trade in the period 1979-1992. Therefore, ten years after the formation of the regional grouping, dependence on trade with South Africa continued while trade among member states failed to pick up (Table 5.1).

Table 5.1: Intra-SADCC trade (as a proportion of total SADCC trade)
SADCC-South Africa trade(as a proportion of total SADCC trade), and
South Africa-SADCC trade (as a proportion of total South Africa trade) (1979-1994)

	1979 SADCC SA	1982 SADCC SA	1984 SADCC SA	1990 SADC SA	1992 SADC SA	1994 SADC SA
SADCC	2.00 19.80	4.66 20.20	3.84 23.10	4.80 14.51	4.92 20.38	14.45 40.74
South Africa	9.70 -	.. -	6.50 -	12.65 -	16.31 -	16.90 -

Source: Own calculations from Maasdorp and Whiteside (1993:14-15); Michelsen Institute (1986:6-7); Adams (1999); Holden (1998:446); Cassim and Zarenda (1995:39); Comesa (1999b).

Notes: SA = South Africa.

With respect to infrastructure, Table 5.2 indicates that 71.4 percent of SADCC trade traffic took place through the use of SADCC regional ports[95], while 28.6 percent took place through South Africa's ports in 1981. Apart from Botswana and Swaziland who, as part of SACU, are highly dependent on South Africa's infrastructure, Zimbabwe and Zambia were the most dependent on South Africa's rails and ports at this time.

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[95]The regional ports in question are Maputo, Matola, Beira, Nacala, Dar es Salaam and Luanda. For the years in question, Angola relied only on its port, Luanda, while Malawi relied on Beira, Nacala and Dar es Salaam. Mozambique relied on its ports, Maputo and Beira, as well as Matola and Nacala. Swaziland made use of Maputo, Matola and South Africa's ports, while Tanzania only made use of its port, Dar es Salaam. Zambia made use of Maputo, Beira, Dar es Salaam and some of South Africa's ports. Zimbabwe made use of Maputo, Matola, Beira and some of South Africa's ports, while Botswana only made use of South Africa's ports.

Table 5.2: Total traffic for overseas trade passing through regional and South African ports (million metric tonnes) (1981, 1987 and 1991)

Country of origin	Total SADCC ports			Total South Africa ports		
	1981	1987	1991	1981	1987	1991
Angola	0.40	11.30	..	0.00	0.00	0.00
Botswana	0.00	0.00	..	0.32	0.10	..
Malawi	0.83	0.10	0.55	0.00	0.30	..
Mozambique	2.46	1.70	1.65	0.00	0.00	0.00
Swaziland	0.73	0.40	0.20	0.36	0.40	0.33
Tanzania	1.10	1.40	2.19	0.00	0.00	0.00
Zambia	0.94	1.70	1.20	0.54	0.00	0.76
Zimbabwe	0.87	1.50	1.45	1.72	2.40	2.17
SADCC	**7.33**	**18.10**	**7.24**	**2.94**	**3.20**	**3.26**

Source: Amin et al (1987:245); Davies et al (1993:28); own calculations from SATCC (1994:62); Saasa (1993:137).

Notes: Lobito is one of the regional ports, but for the years presented, there was no traffic recorded that passed through this port.
For 1991, the statistics for Botswana and Malawi were not given.

By 1991, ten years after the formation of SADCC, there was still an increase in the use of South Africa's ports by the region's prominent member states, viz. Zambia and Zimbabwe. The total increase in the volume of trade traffic passing through South Africa's ports was from 2.94 million metric tonnes in 1981 to 3.26 million metric tonnes in 1991, a 10.88 percent increase. On the other hand, the volume of trade traffic passing through SADCC ports was 7.33 million metric tonnes in 1981 and 7.24 million metric tonnes in 1991. If one ignores the 1987 figure for Angola's trade (not available for 1991), it appears that the volume of traffic through SADCC ports remained comparatively steady in the period 1981-1991 (Table 5.2).

Despite SADCC's inability to reduce the region's economic dependence on South Africa, the grouping's achievements in its first decade laid the foundation for what its successor SADC has been able to achieve since then. It is generally argued that the main positive contributions made by SADCC include: (i) surviving and consolidating itself, and achieving international

recognition; (ii) creating a strong foundation for future cooperative arrangements of a supra-national nature thus leading to its successful transformation into SADC; (iii) attracting significant inflows of aid through the SADCC Programme of Action which, for example, contained 490 projects in 1990 costed at US$6.3 billion[96]; (iv) creating a regional identity among the member states irrespective of their major political differences (Ching'ambo, 1993; Leistner, 1997:119); (v) laying down indigenous networks to enable collaboration within the region to achieve shared goals[97]; (vi) successfully rehabilitating several of the region's strategic corridors, harbours, railway lines and ports, thus laying the groundwork for further improvement and for equipping with modern technology (Chipeta, 1992; Ostergaard, 1990; Nkuhlu,1993); and (vii) initiating telecommunication networks, flight connections, electricity grids and agricultural research with the aim of bringing the region closer together (Ostergaard, 1990; Leistner, 1997:119).

5.2.2 The SADC sectoral projects

The main criticism which has been levelled against SADC has been its failure to implement its projects timeously for the benefit of its members. This has been a result of several constraints like inadequate funding, inadequate skilled personnel, instability in some member states and, in some

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[96]For example, DANIDA supported 32 regional projects under implementation by 1990. Finland, Denmark and Sweden made large provisions to support the transport and communication sector, while Norway made large commitments to projects under the energy programme (Ostergaard, 1990).

[97]By the time SADCC was transformed into SADC, some of the networks that had been established were: the Southern African Botanical Diversity Network which facilitates cooperation among national botanical institutes and herbaria in identifying, cataloguing and preserving of the region's rich plant bio-diversity; networks in the environmental field to encourage the sharing of information among environmental economists, environmental documentation centres, and advocates of the sustainable use of natural resources; the Media Institute for Southern Africa (MISA),which is a network for the organisations that act as a regional "media watchdog"; the Federation of Regional Road Freight Association (FRRFA) and the Federation of Clearing and Forwarding Associations of Southern Africa (RCSA, 1997).

cases, lack of participation in regional projects and activities by member states. However, despite these major constraints, SADC has registered some success in the implementation of particular projects, especially in the transport, communications and meteorology sector, the energy sector, mining, and the food, agriculture and natural resources (FANR) sector.

5.2.2.1 Transport, communications and meteorology sector

To achieve the economic and trade objectives of SADC, the community requires transport and communications systems which are adequate in terms of capacity, condition, service standards and efficiency (SATCC,1999:1). This sector received the highest priority throughout the 1980s as it was important to have the regional infrastructure in place in order to facilitate production and trade in the region. As noted in the neo-functional integration model, infrastructure development is critical in supporting the endeavours to influence industrial location and eliminate non-tariff barriers to trade (see Section 4.4). The sector's most important achievement is that it has successfully rehabilitated, in the face of continuing war and economic hardships, several of the region's most important ports, railways and roads. This has enabled the more efficient movement of goods and services in the region. Today most of SADC's strategic corridors are now equipped with modern technology (Davies et al, 1993:28).

By July 1996, the sector had 174 main projects, with a total cost of US$6.5 billion. Implementation of the projects has facilitated the establishment of a basic network to support both economic and general operations within the region (SARDC, 1997a:15). Table 5.3 shows some of the specific projects which count towards the successes which SADC has had in this sector.

With increased construction and rehabilitation, cross border trade and investment is set to rise, thus improving the performance of the region. The rehabilitation and building of the region's economic and physical infrastructure has the effect of making the benefits of cooperation immediate and tangible to members as well as building confidence among member states (Maphanyane, 1993). The development and spatial location of industry within SADC can be critically influenced by the provision of good and efficient roads as this will encourage industries to locate along the corridors as well as providing the necessary infrastructure to facilitate extra-

regional trade.

Table 5.3:   Some of the SATCC projects completed/or under implementation and expected benefits

Project: Building and rehabilitation of road and rail links along corridor leading to ports of Dar es Salaam, Beira and Maputo. **Benefits:** Has boosted regional traffic and revived business at these ports as they are now a hive of commercial activity.
Project: Completion and opening of the Trans-Kalahari international highway. **Benefits:** Links and improves communication and transport between Botswana, Namibia, South Africa and Mozambique. This connection has the potential to transport goods worth US$3 billion annually. Also has the potential to boost tourism as road tours can be offered as a package to travellers. Economic advantages will also be experienced by towns situated along the route.
Project: Upgrading of the Trans-Caprivi international highway. **Benefits:** Will be able to road network Zambia, Namibia and the D.R.C. more efficiently and reliably, thus boosting trade between these three countries. Will also extend the hinterland of the port of Walvis Bay to the land-locked states and the parts of South Africa for at least the "Atlantic trade" of these countries.
Project: Re-opening of the Sena Railway line. **Benefits:** Will increase and improve Mozambique's ties with Malawi, as well as being used as an alternative route For trade with Zambia either through Tete or via Malawi.
Project: Upgrading the Tanzania-Zambia Railway Authority (TAZARA). **Benefits:** Improving services makes the line more efficient, and thus able to handle exports and imports for a number of countries in the region.
Project: Completion of the Maputo Development Corridor (the most advanced international development corridor in Africa, composed of a highway and a railway line that links Mozambique and South Africa). **Benefits:** The highway is already handling large volumes of traffic from South Africa's Gauteng Province, thus promoting more trade between the two countries, but most importantly, enabling South Africa help revitalise Mozambique's economy. Also enables Mozambique to increase its international credit ratings and attract investment. As a result of the corridor, the port of Maputo is now a hive of commercial activity, moving cargo in and out at a rate of three million tonnes a year. It is expected that, in three years time, it could be handling fifteen million tonnes a year.

Source: Own table derived from SATCC (1999:3, 422, 432), Mbuende (1997:3), Madava (1998:5), SARDC (1998b:14).

With respect to road facilities, by 1996, the region had forty border posts, each handling more than ten heavy goods vehicles (HGV) per day (SATCC, 1999:34). As Tables 5.4(a) and (b) show, the bulk of this traffic went through South Africa's border posts, whereby 73.20 percent of the regional heavy goods vehicles passed through its border posts every week [Table 5.4(a)] and 76.84 percent of total regional traffic passed through its border posts everyday [Table 5.4(b)]. 79.39 percent of the total regional light traffic and 72.98 percent of the total regional heavy goods vehicles passed through South African border posts every day [Table 5.4(b)].

Table 5.4(a): Weekly traffic at SADC border posts (1996)

	Heavy Goods Vehicles (HGV)				
Border post	≤ 3.5 tonnes	2 - 3 axle	4 - 5 axle	> 6 axle	% HGV
South Africa	8 434	2 366	1 420	4 129	73.20
Zimbabwe	2 362	287	53	322	13.54
Mozambique	1 080	108	112	686	8.89
Namibia	317	70	16	107	2.28
Zambia	239	104	46	672	4.75
Malawi	108	50	211	425	3.56
Tanzania	5	16	11	133	0.74
Grand Total	**11 562**	**2 887**	**1 768**	**6 117**	**100.00**

Table 5.4(b): Daily traffic at SADC border posts (1996)

Border post	Total	Light	% Light	HGV	% HGV
South Africa	6 183	3 844	62.17	2 339	37.83
Zimbabwe	961	484	50.36	432	44.95
Mozambique	744	446	59.95	298	40.05
Namibia	160	62	38.75	98	61.25
Zambia	214	79	36.92	135	63.08
Malawi	266	152	57.14	114	42.86
Tanzania	42	18	48.86	24	57.14
Grand Total	**8 047**	**4 842**	**60.17**	**3 205**	**39.83**

Source: Own calculations from SATCC (1999:34).
Notes: Grand total = number of vehicles that passed through the border posts without double counting. As such the grand total is not equal to the sum of individual totals at individual border posts. For example, while a vehicle may be recorded three times as it passes through three different border posts, in the grand total it is recorded only once.

While the increase in traffic through border posts indicates an improvement in the volume of business within the region, there are some significant bottlenecks which effectively create rather serious non-tariff barriers to regional trade. For example, protracted delays at some border posts have been experienced. Reasons for these delays include old and under capacity handling equipment, including weighing bridges at some border posts, different freight regulations and

documents required as goods are transported from one country to another, the constant changes in the regulations within a country and absence of up to date information so as to expedite processing of freight, as well as inexperienced and de-motivated manpower (Mushauri, 1997; Meyer, 1998; and Nkuhlu, 1993).

The combination of heavy traffic passing through the border posts and the long delays experienced adds about US$48 million to the cost of transporting the region's international freight shipments each year (SATCC, 1999:33). These costs have to be reduced to enable regional products to be more competitive. The border posts with most problems, where delays above the normal allowance of ten hours are encountered, are shown in Table 5.5.

Table 5.5: Border posts experiencing delays (1995, 1998)

Border posts	Average hours delay (1995)	Average hours delay (1998)
Beitbridge: South Africa/Zimbabwe	60	21.3
Mutare/Machipanda: Zimbabwe/Mozambique	4	26.0
Chirundu: Zimbabwe/Zambia	24	24.8
Songwe: Malawi/Tanzania	..	37.0
Nakonde: Zambia/Tanzania	24	13.3
Estimated costs of delays	**US$91.7 million**	**US$48 million**

Source: Mushauri (1997:8-9); SATCC (1999:33).

Further, while most road networks are sufficiently extensive, large portions of these networks are in an unsatisfactory condition, with the cost of construction and maintenance high and service standards low. Long periods of civil strive in Angola and Mozambique have resulted in each having about only 11 000-13 000 km of road in fair-to-good condition. The road networks of Tanzania and Zambia are in generally poor condition (SATCC, 1999:2). These effective non-tariff barriers to trade need to be addressed, presumably through SATCC, and highlight the importance of the neo-functional integration approach in the SADC context.

With respect to rail facilities, the region has an extensive railway network. Ten of the railways

are interconnected and in operation, and form the SADC Interconnected Regional Rail Network (IRRN), which has a total of 33 593 route-kilometres of standard gauge (SATCC, 1999:5).

Table 5.6 shows that freight traffic increased most markedly for Botswana and Malawi Railways in 1996/97, while a significant growth in passenger traffic was experienced by TransNamib Rail, CFM(S) and CFM(N) over the 1995-1997 period as a whole[98].

Table 5.6: SADC railway freight and passenger traffic (1995-1997)

	Freight tonnage (000MT) % growth		Ton-Kms (000)/Route-Km % growth		Passenger-Kilometres % growth	
Railways	1995/96	1996/97	1995/96	1996/97	1995/96	1996/97
Botswana	-0.80	12.70	7.40	18.10	10.70	0.40
CFM (C)	10.40	-17.30	15.10	-22.60	65.30	-7.00
CFM (S)	46.00	-2.20	4.40	-5.70	213.60	7.80
NRZ	0.50	0.60	5.40	-2.60	-6.40	8.30
Spoornet	2.10	0.40	1.00	0.00	--	--
Swaziland	-3.60	-3.50	-7.90	-2.10	--	--
TAZARA	4.10	-16.20	4.10	-7.90	-27.50	-6.20
TransNamib	1.50	-5.60	0.40	-7.90	39.80	6.00
Zambia	-7.10	-3.70	16.00	3.50	32.40	-1.00
CFM (N)*	10.20	3.40	22.10	-6.60	483.30	17.60
Malawi*	-31.50	25.80	-26.90	11.70	7.00	43.50

Source: SATCC (1999:46,48).
Notes: * these are non-IRRN Railways.
          Freight and passenger traffic information is not available for Tanzania Railways Corporation and Nacala Line. Swaziland Railways is a pure freight railway.
          The literature used gives no explanation as to what the abbreviations CFM (C), CFM (S) and CFM (N) stand for. NRZ = National Railways of Zimbabwe.

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[98]Even though some of these railways had significant passenger traffic increases, they had significant 1997 declines in freight traffic in terms of both tons and ton-kilometer. Such railways are CFM(C), CFM(S), TransNamib as well TAZARA. However, such traffic decline followed good growth in 1996 and so the 1997 freight tons remained considerably above what the railway accommodated in 1995 (SATCC,1999:10).

Although one year is not a good indicator of general trends, it can be noted that some lines have suffered a marked reduction in traffic, either freight, passenger or both. This is an indicator of the unsatisfactory conditions of such lines, which need either rehabilitation, constant proper maintenance or privatisation to improve efficiency. This situation provides another example of how infrastructural problems create non-tariff barriers to trade, and would hinder the region's moves towards market integration.

With respect to port facilities, cargo throughput at Eastern Seaboard (Indian Ocean) and Western Seaboard (Atlantic Ocean) ports each rose by nearly three million tonnes (Table 5.7). The bulk of the cargo which each port handles originates in the host country, except for Beira where the bulk of the cargo comes from Zimbabwe.

Table 5.7: SADC ports' cargo traffic: 1996-1997 (000 tonnes)

	SADC		Other		Total	
Ports	1996	1997	1996	1997	1996	1997
E. S. Ports	130 100	132 803	345	425	130 445	133 228
W. S. Ports	30 255	32 972	0	0	30 255	32 972
Total	160 355	165 775	345	425	160 699	166 200

Source: SATCC (1999:84-85).
Notes: E. S. Ports = Eastern Seaboard Ports, located along the Indian Ocean.
W. S. Ports = Western Seaboard Ports, located along the Atlantic Ocean.

The volume of transit traffic which the regions' major ports have accommodated since 1995 has been increasing, for example: (i) Durban[99] accommodated 800 000 tonnes of transit traffic in 1995, growing to around one million tons in 1996, a level which was maintained in 1997; (ii) Beira[100] accommodated 2.2 million tons in 1995, 2.5 million tons in 1996 and more than 3.2 million tons in 1997; (iii) Maputo accommodated 1.6 million tons in 1995, 2.5 million tons in

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[99]This is the region's dominant port for containerised cargo and is also important for the accommodation of breakbulk cargo. It accommodated well over half of the containerised cargo traffic in the region for the period 1995-1997 (SATCC, 1999:9-10).

[100]Beira is principally a transit traffic port and, together with Maputo, accommodates much higher volumes of transit traffic (SATCC,1999:10).

1996 and 2.0 million tons in 1997; and (iv) Dar es Salaam accommodated around one million tons in both 1996 and 1997 (SATCC, 1999:10, 84-85). The increase in traffic at the ports indicates increased usage of ports by both member and non-member states making them viable facilities.

Table 5.8: Capacity utilisation of SADC ports for dry cargo and container handling, 1996 and1997 (000 tonnes)

		Actual dry cargo traffic handled (000 tonnes)			
Ports	R. H. C. (000 tonnes)	1996	Utilisation (%)	1997	Utilisation (%)
E. S. Ports	149 566	118 402	79.16	121 764	81.41
W. S. Ports	48 199	29 495	61.19	31 730	65.83
Total	197 765	147 897	74.78	153 494	77.61

		Actual number of containers handled (000 TEUs)			
Ports	R. H. C. (000 TEUs)	1996	Utilisation (%)	1997	Utilisation (%)
E. S. Ports	2 163.00	1 468.20	67.87	1 488.40	68.81
W. S. Ports	1 045.00	409.00	39.14	423.20	40.52
Total	3 208.00	1 877.20	58.52	1 911.60	59.59

Source: Own calculations from SATCC (1999:93-4).
Notes: R. H. C = rated handling capacity.
The rated handling capacity statistics for dry cargo for the ports Namibe and Luanda were not available. Also the rated handling capacity statistics for container handling for the ports Namibe, Lobito and Luanda were not available. All these ports are along the western seaboard (Atlantic Ocean ports), which therefore negatively affects the measurement for the extent of utilisation of the ports along the Atlantic Ocean.
The literature used gives no explanation as to what the abbreviation TEU stands for.

As shown in Table 5.8, capacity utilisation of regional ports showed some slight improvement in 1997. The ports located along the Eastern Seaboard (the Indian Ocean coastline) have been utilising their handling capacities in both dry cargo and container handling much more than the ports located along the Western Seaboard (the Atlantic Ocean coastline)[101]. Capacity utilisation

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[101] In terms of handling dry cargo, Richards Bay, Beira, Port Louis (all in the Eastern Seaboard) and Saldanha Bay (in the Western Seaboard), in that order have been utilising their handling capacities at relatively high levels. In 1997, capacity utilisation was 103.70 percent, 82.20 percent, 77.90 percent and 70.80 percent respectively (SATCC, 1999:88).

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in container handling has been low compared to capacity utilisation in dry cargo handling. Port Louis, Durban and Dar es Salaam (all along the Eastern Seaboard) have been utilising their container handling capacity at high levels. In 1997, capacity utilisation rose to 117 percent, 90.40 percent and 82.10 percent respectively (SATCC, 1999:94).

It appears that the Western Seaboard ports are utilised little by regional countries other than the host countries themselves[102]. This is mainly due to the fact that these ports are far from other member states, leading to higher transport costs, which can explain the general under utilisation of these ports reflected in Table 5.8. Of the Western Seaboard ports, Cape Town and Saldanha Bay are the most highly utilised due to the level of economic activity in South Africa. The customs union between South Africa and the BLNS countries also contributes to the higher levels of utilisation of these ports since the latter utilises them to export to and import from the United Kingdom, Europe, North America and South America, which are its significant markets in the western world.

Three of the ports along the Western Seaboard, i.e. Namibe, Lobito and Luanda, are in Angola. The on-going war in this country explains the very low levels of capacity utilisation by these ports in both dry cargo and container handling[103]. However, the potential for increased utilisation of the Angolan ports exists by, for example, Zambia and the D.R.C., once stability returns to the region. Mafu (2000) notes that infrastructure is still a problem in Namibia, contributing to the underutilisation of the port of Walvis Bay in both dry cargo and container handling. While Namibia itself was the only country using the port in 1996-1997[104], there is potential to improve on its utilisation with infrastructural development. Angola, the D. R. C. and Botswana could all benefit from its use.

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[102]Deductions made from SATCC (1999:85).

[103]Own deductions from SATCC (1999:85, 88, 94). Angola is the only country which is utilising these ports (SATCC, 1999:85).

[104]Deductions made from SATCC (1999:85).

Improved links between countries through infrastructural development will mean increased interdependence and cooperation between countries as envisaged in the neo-functional integration model. In the SADC region, Salama (1999) notes, for example, the importance of infrastructural development in bringing closer cooperation between Malawi and Botswana, Malawi and Tanzania, as well as between Malawi and Namibia. He also notes Malawi's dependency on infrastructural developments within the region in terms of making the country more accessible to tourists visiting the region.

The existing transport and communications networks in SADC have helped to facilitate intra-regional trade, as signified by the current volume of traffic utilising regional roads, border posts and ports, illustrated in the tables in this section. With the implementation of the SADC Trade Protocol, even larger volumes of trade are expected and, as such, infrastructural development by SADC will be critical in the near future to facilitate the implementation of the protocol. Inefficiencies and bottlenecks highlighted in the discussion above amount to significant non-tariff barriers to trade and need to be addressed for the process of trade integration to succeed and for cross border investment to grow.

South Africa's role in this process is likely to be prominent, due to its well-developed infrastructure, notably in transport and communications. As Wagao (1987:61) notes, and as indicated in Tables 5.6 to 5.8, South Africa's networks continue to be important for most of the SADC member states' trade contacts outside the African continent. Better access for the region to these networks will facilitate their trade with the rest of the world. South Africa will also benefit through charges for use of its facilities.

5.2.2.2 Energy sector

In the electricity sub sector, the Southern African Power Pool, which allows for trade in electricity across the borders, stands as a classical example of the benefits of integration (Mbuende, 1997:3). As noted in Section 3.5.1, the region is richly endowed with energy resources and a coordinated approach in harnessing these resources will be of benefit to member states. The initiative to do so has already been taken by the SADC energy sector as evidenced

by the fact that 60.87 percent[105] of its projects presented at the 1999 Summit having been implemented, with some already completed. Tables 5.9(a) and (b) show some of the benefits which the region has experienced from completed projects, and expects to experience from the projects which are still under implementation. Table 5.10 highlights the problems which the sector is experiencing in implementing some of the projects and the benefits which member states are losing out on as a result.

Other inhibiting factors which the sector experiences, not reflected in Table 5.10 include: (i) concentration of population in limited areas while large areas are left uninhabited; (ii) lack of technological experience; (iii) prevailing drought which has, for instance, negatively affected hydro-power generation in Angola, Zambia and Zimbabwe; (iv) shortages of foreign currency which limit access to energy consuming equipment and prevent electricity supply utilities expanding networks sufficiently to reach all potential consumers; and (vii) inefficient refineries and the need to upgrade or build new refineries in South Africa, Angola and Mozambique, so as to enable the region to be served more efficiently with some of the gas and oil/fuel products requirements (SADC Energy Sector, 1999: 2-9).

Delays of between five and ten years have been experienced in the implementation of some projects, particularly in Angola. However, these projects have been kept on the Energy Sector project portfolio because they are extremely important and aim to correct some of the existing imbalances between countries in the region. Angola is richly endowed with energy resources, i.e. electricity, oil and gas[106], but the war situation prevents these resources from being tapped for the region's benefit[107].

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[105]Own calculations based on the Energy Sectoral Report presented at the Lusaka Summit on 10-12 February 1999.

[106] Angola has the second largest hydro-power resource after the D. R. C and produces 37 percent of the total hydroelectric power in Africa. It is the only country in the region with significant oil resources accounting for 4 percent of Africa's proven resources. Large quantities of natural gas are produced within Angola and considerable potential exists for its production and sale (SADC Energy Sector, 1999:3, 4).

[107]For example, the suspension of project ANG 1.1 for the supply of oil from Lobito to the SADC region is particulalry dissapointing bearing in mind the existing fuel shortages in the SADC region.

Table 5.9(a): Energy projects under implementation and expected benefits

Project: Moz 3.5: Mozambique-Malawi interconnection of electricity Phase II **Expected benefits:** Electrifying new areas e.g. interconnecting Songo in Mozambique to Blantyre West or Kapichira in Malawi, thus supplying electricity to the northwestern part of Mozambique
Project: Moz 3.13: Control centre for the supply of the Beira corridor and Mozambique-Zimbabwe tie line. **Expected benefits:** Upgrade the power control centre in the EDM Central Region, thus improve the national and regional power system in the provinces of Manica, Sofala and adjacent areas in Zimbabwe.

Table 5.9(b): Completed energy projects and benefits being experienced

Project: Cabora-Bassa-Zimbabwe interconnector **Benefits:** There is now more reliance and increased security of supply in Mozambique and Zimbabwe as well as other neighbouring countries that import electricity from these two.
Project: TAN 1.1: Rehabilitation of TAZAMA pipeline **Benefits:** Facilitating the distribution of petroleum within the region, especially Tanzania, Zambia and Malawi.
Project: ANG 3.4: Provision of a communication and information system for the Angolan National Power Grid **Benefits:** Installed equipment in the Angolan power system in Luanda, Cambade, N'dalatando, Cacuso and Malanje improves communication in the northern system.
Project: LES 3.2: Transmission network development in Lesotho **Benefits:** Helping to improve quality and reduce the cost of electricity to consumers.
Project: LES 3.6: Muela hydropower project **Benefits:** Reducing dependence on South Africa and helping to promote the general development of the remote underdeveloped Highlands region by providing electricity, portable water and water irrigation.
Project: MAL 3.2: Small hydropower plants in Malawi **Benefits:** Has helped to reduce diesel imports and provide cheap energy to rural centres and increase local self-sufficiency.
Project: MOZ 3.7: Reconstruction of Mavuzi hydropower station **Benefits:** Refurbishment programme improves power supply in areas in Mozambique.
Project: MOZ 3.12: Cabora Bassa power to SADC (Phase III) **Benefits:** Transmitting at least 500 MW firm power to the SADC interconnected grid (Zimbabwe-Zambia-Botswana-Mozambique).
Project: NAM 3.11: Power supply co-operation in the border region between Angola and Namibia **Benefits:** Supplying electricity to the border areas of Namibia since the Namibian side is completed.
Project: SWA 3.1: Dredging of Mkinkomo reservoir **Benefits:** Storage capacity of Mkinkomo weir has been revived, and as such there is improvement in energy generation in Edwaleni and Maguduza hydropower stations.
Project: ZAM 3.2: Upgrading of Kafue Gorge power plant (Phase IV) **Benefits:** Contributes towards efficient electric power supply in Zambia and other neighbouring countries importing power from Zambia.
Project: ZAM 3.3: Refurbishment of the national control centre **Benefits:** Enables more efficient and economic operations of the electric system, maintaining stable conditions on the 330kV system in Zambia and consequently assisting in maintaining stable conditions in Zambia and the DRC.

Source: Own table derived from the current status of projects in SADC Energy Sector (1999:5-34).

Table 5.10: Energy projects with problems getting implemented, corresponding inhibiting factors and benefits foregone

Project: AAA 2.3: Manpower development and training for the coal sub-sector **Benefits:** Have some expertise in developing and implementing the coal programmes and utilisation strategy. **Inhibition:** Lack of expert manpower in the region. No funds to recruit a regional coal expert.
Project: ANG 3.2: Interconnection of the northern, central and southern grids in Angola **Benefits:** To afford the people of Angola with more reliable electric power. **Inhibition:** Civil war in Angola prevents interconnecting the three main systems.
Project: ANG 3.3: Completion of the Gove hydroelectric development in Angola **Benefits:** To effect hydroelectric development on Gove Dam, so as to benefit the region. **Inhibition:** Sabotage on Gove dam in 1990 and, since 1997, the site has been occupied by the military.
Project: ANG 3.6: Repair of Gove dam **Benefits:** Restore the dam to pre sabotage level, thereby regulating the flow of the Cunene river so that down stream hydraulic facilities e.g. at Ruacana can operate properly. **Inhibition:** War situation prevents any work being done on the site.
Project: NAM 3.1: Power supply co-operation in the border region between Angola and Namibia **Benefits:** Supply electricity to the border areas of Namibia and Angola, so as to correct the imbalance between the two sides of the border. **Inhibition:** War situation in Angola has prevented progress on the Angolan side of the project.
Project: MAL 3.6: Malawi-Zambia power co-operation in the border region **Benefits:** Providing electricity supply as an alternative source of energy to rural areas on both sides of Malawi-Zambia border. **Inhibition:** Agreement on tariffs still pending. Lack of adequate funds.
Project: TAN 3.6: Supply of Sumbawanga in Tanzania (Phase II) **Benefits:** Supply Sumbawanga in Tanzania with power from Mbala in Zambia through the construction of a 66kV transmission line from Zambia to Tanzania. **Inhibition:** Inadequate funds.
Project: ZAM 3.6: Refurbishment of Victoria Falls Power station **Benefits:** Improve the reliability of power supply to western province of Zambia, northern Botswana and northern Namibia. **Inhibition:** Delays in awarding the contract to commence work. Delays in funding.
Projects: ZAM 3.7: 132Kv Tie-line Zambia-Malawi **Benefits:** Zambia to supply 30MW to Malawi so as to cover reserve capacity needs in Malawi. **Inhibition:** Need by Malawi to re-look at their Master Development Plans.
Projects: ZAM 3.9: Power co-operation between Zambia and Namibia **Benefits:** Hydroelectric power to enhance development of the great agricultural potential in northern Namibia. Improves reliability and increases the capacity of power supply to Namibia, Zambia and Botswana. **Inhibition:** Feasibility study still pending. Funding arrangements not yet finalised.
Projects: AAA. 5.18 Strengthening the coverage of wood-fuel and environmental protection in relevant SADC training institutions **Benefits:** A slow down in the now rampant problem of environmental degradation. **Inhibition:** Lack of adequate funding.

Source: Own table derived from SADC Energy Sector (1999:17-40).

5.2.2.3 Mining sector

This is the most successful SADC sector in terms of being able to implement its projects. In its 1994 report, the sector indicated that 43.33 percent of its projects were either complete or under implementation[108]. In 1996, the SADC Mining Sector Programme comprised twenty-seven projects, estimated at US$27.25 million, whose implementation was in the hands of various sub-committees. Five of these projects were completed that year (SARDC, 1997a:14). In 1998, the sector comprised thirty-one projects estimated at US$19.2 million. SADC successfully secured 67 percent of the total funding requirements through commitments from member states (SARDC, 1998a:14), and in its 1999 report, the sector reported 67 percent of its projects as under implementation or completed[109]. The reason behind this success has been the sector's ability to source adequate funds for most of its projects. As a result, the region has experienced a lot of the benefits it expected from the projects undertaken by the sector.

The major thrust of the 1992-1996 Mining Sector Strategy and Programme was to attract investment into the region. Member states thus took bold measures and created conducive environments for private sector investment. The result has been increased exploration activities[110] and mining development in the region by both local and foreign companies. As such, the potential for discovering new mineral deposits has increased substantially (SADC Mining Sector, 1999:13, 39). It has also been noted that the implementation of the SADC Mining Sector Programme is progressing at a far better rate, and according to priority, compared to the past when project priority and progress depended on donor funds. The Mining Sector now relies on the work of its sub-committees[111], and their working groups as opposed to external consultants, thus achieving a much better rate of progress (SARDC, 1998a:14).

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[108] Own calculations from the SADC Mining Sector (1994:58-60).

[109] Own calculations from the SADC Mining Sector (1999:40).

[110] Exploration expenditure expanded from US$31 926 399 in 1993 to US$86 592 746 in 1997, thus improving the region's ability to facilitate mineral production (SATCC Sector, 1999:82).

[111] The SADC Mining Sector comprises of six sub-committees viz.; Geology, Mining and Marketing, Mineral Processing, Environment, Human Resources Development and Information.

However, just like in other sectors, problems have been experienced. For example, the Mining protocol has not been ratified by the required two-thirds majority, thus making it difficult for SADC to have a regional approach to mining that could create an appropriate framework for resource-based industrialisation by providing the needed mass of raw material and a bigger market for the finished product. Human and financial resource problems have affected some of the sub-committees as well as the implementation of some project. There have also been delays and non-submissions of important contributions to sectoral activities by some member states[112] (SADC Mining Sector, 1999:49-50). Despite these problems, project implementation in the mining sector appears to be progressing well.

5.2.2.4 Food, Agriculture and Natural Resources (FANR) sector

This sector has been of extreme benefit to member states as a number of its projects which focus on facilitating self sufficiency in food production have been implemented or are under implementation (Table 5.11). Lack of adequate funding is the major factor which has prevented the sector from implementing some projects. For example, full implementation of the regional vegetable research project has been hampered and so has the aquaculture research and development network project. The ANG 4.2 project geared at promoting marine fisheries and increasing the export revenue of the member states has been at a standstill since its formulation in 1989. There are numerous other projects whose implementation has been hampered[113].

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[112]For example, copies of the SADC geological map were sent to all countries for editing, but contributions were not received from Tanzania and the D. R. C. In the case of the Pre-Kalahari geological map, Angola did not submitted its data and to avoid further delays, an interpolation of data from Namibia and Zambia's inputs had to be used to cover the western side of Angola (SADC Mining Sector, 1999:49-50).

[113]These include a project to build the capacity of national veterinary services in SADC countries, especially with respect to animal disease control, one to improve the soil fertility analysis services in the region, and the establishment of a regional seed technology centre ((SADC FANR Sector, 1999: 6, 9, 126, 131-2, 189-190, 321).

Table 5.11: FANR projects under implementation and accompanying benefits

Food security

Project: AAA.1.2. (i) Remote sensing for early warning **Benefits:** Through the established operational information system, it strengthens national and regional capabilities in the area of remote sensing for early warning and food security
Project: AAA.1.3 (ii) Implementing of database systems for SADC food security information **Benefits:** Improves access to essential food security information by decision makers and analysts in SADC and so allows well informed decisions in terms of adequate provision of food
Project: AAA.1.13: Strengthening and co-ordinating of migrant pest control **Benefits:** Reduction in crop losses as regional capacity to mount counter measures against such pests is improved

Livestock production and animal disease control

Project: AAA 2.3: UF/USAID/SADC Heartwater Research Project **Benefits:** Inactive vaccine now available to protect sheep against homologous and heterologous diseases. It is an inexpensive, long lasting, and not water dependent tick decoy to control bont tick vector for heartwater
Project: ZIM 2.2: Regional tsetse and trypanosomiasis control project **Benefits:** Able to reduce loss of cattle through tsetse control training
Project: BOT 2.2: Regional foot and mouth disease control project **Benefits:** Improvement on cattle production in the region
Project: BOT 2.3: SADC regional training centre for meat inspectors and meat technologists **Benefits:** Helps butchery owners/operators in the region to enhance the quality of their products
Project: ANG 2.1: Veterinary assistance in South West Angola **Benefits:** Improves and extends zoo sanitary coverage of livestock in the provinces of Huila, Cunene, Nambe and Benguela so as to increase the earnings of small-holder livestock farmers. Helps minimise the spread of some diseases to other countries in the region

Forestry

Project: MOZ .5.14: Reforestation and erosion control at Nacala, Mozambique **Benefits:** Re-establish forest plantations of fast growing tree species in order to guarantee supplies of ligneous beomas to the plateau around Nacala
Project: TAN. 5.16 Centre for advanced practical forestry training, Tanzania **Benefits:** Enables foresters and scientists in related fields in the region to meet regularly and exchange experiences, thus promoting the practice of forestry and halting de-forestation
Project: AAA.5.3 Blantyre city fuelwood project **Benefits:** Supply fuel wood to urban centres of Blantyre and Zomba. Generate lessons and experiences in the planning, management and implementation of urban fuel wood projects for possible application and adoption by other SADC member countries
Project: AAA. 5.5 Tree seed centres network **Benefits:** Strengthens national tree seed centres in all member states in seed collection, processing, storage and distribution

Source: Own table derived from SADC FANR Sector (1999: 103, 105, 162, 165-6, 188, 288, 291, 297-8).

5.2.3 Funding of SADC sectoral projects

Both SADC and its predecessor have always been criticised for being heavily dependent on foreign funds. This is problematic in the sense that foreign donors choose which projects to fund, even if such projects are not a priority to the region (Ostergaard, 1990:58). For example, in 1996, 90 percent of the cost of projects was footed by foreign bilateral and multilateral donors, especially the European Community and the Scandinavian countries (Leistner, 1997:118), while a review of projects in 1998 shows an equally large number of projects receiving funding from foreign sources[114].

Apart from this, there seems to be a failure by the regional grouping to mobilise its members' own resources adequately. Members have proved to be reluctant to make sacrifices in the interest of providing funds to support regional projects and activities. Many are in arrears with their contributions to the Secretariat. In early 1995, for example, arrears were US$2 million out of an annual budget of US$6 million (Leistner, 1997:119). The extent to which inadequate funding has impacted on SADC's activities can be seen in Table 5.12, where 27.51 percent of the projects could not be implemented due to a lack of adequate funding. The most hard hit sectors were wildlife (72.72 percent of the projects not implemented), livestock production and animal disease control (57.14 percent), environment and land management (57.14 percent) and forestry (53.85 percent).The mining sector had all its projects implemented, while for the finance and investment sector, failure to implement 30 percent of its projects was not due to financial constraints.

However, it should be noted that, over the years, SADC has had some success in being able either to single handedly sponsor sectoral projects, or to sponsor projects jointly with foreign donors (Table A-10, Appendix 3). An exceptional case is the Finance and investment sector where, in 1997, SADC was able to fund and implement all its projects. Of the twenty-three pledges which SADC made towards raising funds for projects in selected sectors, it was able to

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[114]Own calculations done using the funding status tables in the SADC sectoral reports submitted at the SADC Summit held in Lusaka on 10-12 February 1999. External sources also contributed 80-90 percent of the funds for SADCC projects in the 1980s (Leistner, 1997:118; 1995:273).

meet seventeen such pledges fully. This success should be acknowledged, despite the fact that the amounts pledged and raised have always been smaller than those pledged by foreign donors towards the same projects.

Table 5.12: SADC sectoral projects (1998)

Sector	Total number of projects	Implemented (%)	Not implemented due to no funding (%)	Not implemented due to other reasons (%)
Energy	46	58.70	23.91	17.39*
Livestock production and animal disease control	14	28.57	57.14	14.29
Environment and land management	7	14.29	57.14	28.57
Inland fisheries	13	38.46	38.46	23.08
Forestry	13	38.46	53.85	7.69
Marine fisheries	9	33.33	22.22	44.45
Wildlife	11	18.18	72.72	9.10
Tourism	11	63.64	18.18	18.18
Finance and investment**	10	70.00	0.00	30.00
Human resources development	18	77.78	11.11	11.11
Industry and trade	13	69.23	23.08	7.69
Mining	24	100.00	0	0
Total	**189**	**57.15**	**27.51**	**15.34**

Source: Own calculations based on data from the funding status tables in the various SADC sectoral reports presented in Lusaka, Zambia on 10-12 February 1999.

Notes   * failure to implement these energy projects is due to the war in Angola.
       ** Statistics are for 1997.

5.2.4 Conclusion

This section has attempted to assess the SADC sectoral programme in the light of the neo-functional integration model. While particular successes are apparent in a number of sectors such as mining, FANR, and transport and communications, it is apparent that there are some serious problems and bottlenecks which serve as significant non-tariff barriers to trade, especially in critical sectors like transport and communications and energy. These factors suggest that there

is merit in pursuing the neo-functional approach to integration further in the SADC region, in order to pave way for future market integration.

5.3 SADC AND THE DEVELOPMENT INTEGRATION MODEL

5.3.1 Industrial development initiatives

As noted in Section 4.3, the development integration model propounds that industrialisation must be advanced before market integration can take place, as goods must be produced first before they can be traded. At the regional level, SADC has focused on industrial development in an attempt to raise production levels within the region. In as far back as the early 1990s, SADC sought the implementation of the Industrial Policies and Strategy programme. This programme then encompassed the following activities: (i) a programme directed towards facilitating the harmonisation and improvement of investment policies and mechanisms; (ii) a framework for the implementation of Regional Industrial Projects (RIPs); and (iii) a study on the development of the fertiliser industry in the SADC region, to improve on local fertiliser manufacturing facilities (SADC Industry and Trade Sector, 1994:7-10).

The programme still remains as one of SADC's regional projects on the SADC Industry and Trade Sector's project portfolio. Individual member countries have set up associations and institutions representing the private sector with regards to providing support and services to the industry and trade sectors in their countries (Table A-11, Appendix 3).

The overall industrial development framework since 1990 has been geared towards: (i) the modernisation of industrial production through the acquisition of new technology and development of human resources; (ii) development and promotion of small to medium scale industries, so as to enhance the role of such industries in industrial development; (iii) promotion of hi-tech and capital intensive industries; (iv) promoting industrial investment which capitalises on the countries' access to consumer markets within the regional and international markets; (v) encouraging foreign investment; (vi) consolidating and diversifying existing industries; and (vii) accelerating the growth of the industrial sector (SADC Industry and Trade Sector, 1999:6, 12, 14, 16-17, 23, 28).

5.3.2 Economic structural transformation and diversification away from primary commodity exports

The development integration model also suggests that economic structural transformation must take place with countries diversifying away from reliance on primary commodity exports. In this regard, measures to attract both local and foreign direct foreign investment have been put in place, including the restructuring or privatisation of state enterprises, developing a variety of attractive investment and export incentives, the removal of unnecessary regulations and impediments to business, and encouraging active participation of the private sector (SADC Industry and Trade Sector, 1999: 6, 9, 14, 20, 29, 33).

As noted in Chapter Three, and reflected in Table A-9 (Appendix 2), the region still largely depends on agriculture, mining and the service sectors for its survival. The contribution of the manufacturing sector to GDP is still small in most countries except for South Africa, Mauritius, Zambia, Zimbabwe and Swaziland. Modest contributions by the manufacturing sector are observed in Malawi, Seychelles, Tanzania, Lesotho and Namibia.

Table 5.13 shows that positive annual nominal growth rates in this sector have been registered throughout the 1990s in Mauritius, Lesotho and Botswana. However, South Africa and Zimbabwe, which have comparatively strong manufacturing sectors have been experiencing either erratic, slow or negative growth rates in their manufacturing sectors. The main contributory factors to the poor growth and performance of the manufacturing sector in most countries include: (i) old machinery, inadequate capital and economic infrastructure; (ii) problems relating to management and tight liquidity; (iii) transitional effects of economic reforms; (iv) increased industrial competition from other similar industries within the region; (v) limited size of the domestic market; and (vi) dependence on the agricultural sector, which is very vulnerable to weather changes (SADC Industry and Trade Sector, 1994:3; 1999:11, 25, 29-30).

Given this scenario, diversification away from primary exports has been limited. As Table 5.14 shows, Angola is the most affected with less than 3 percent of its total exports coming from the manufacturing sector, followed by Botswana and Tanzania with less than 20 percent coming from the manufacturing sector.

Table 5.13: Percentage (%) annual nominal growth rates of manufacturing value added (MVA)

Country	1990	1991	1992	1993	1994	1995	1996
Angola	-	-	-	-	7.6	-	-
Botswana	11.7	6.6	6.4	1.0	1.3	4.3	-
Lesotho	2.0	4.8	1.2	8.6	8.6	20.4	14.1
Malawi	11.3	3.0	3.5	-1.0	-4.0	-0.7	-1.8
Mauritius	7.7	4.6	6.6	4.8	4.6	5.9	6.3
Mozambique	-	-	-	-6.7	-6.0	13.3	13.6
Namibia	5.0	5.4	4.9	6.0	6.9	7.5	-3.7
S. Africa	-	-4.6	-3.3	0.2	2.5	7.6	0.7
Swaziland	-1.2	1.9	2.4	-0.4	-	-	-
Tanzania	4.1	4.3	1.9	2.1	-3.8	1.6	4.8
Zambia	7.8	-7.6	-4.2	5.6	-9.0	-4.5	2.5
Zimbabwe	4.4	2.3	-9.5	-8.3	10.0	-14.0	-9.6

Source: SADC Industry and Trade Sector (1999:77).

Table 5.14:   Percentage contribution of the manufacturing sector to total exports

Country	1992	1993	1994	1995	1996
Angola	1.72	2.17	2.03	2.01	1.93
Botswana	..	8.11	13.29	18.57	19.04
Lesotho	73.88	82.39	73.87	74.97	72.21
Mauritius	67.26	66.99	66.85	64.93	69.00
Namibia	..	36.53	39.28	36.69	31.59
Seychelles	29.82	22.00	38.14	32.92	37.26
South Africa	47.33	47.39	50.54	53.72	56.11
Swaziland	24.18	29.02	28.74	33.50	22.13
Tanzania	15.05	15.82	17.74	15.94	16.30
Zimbabwe	38.23	37.42	36.00	38.65	31.30
Average	**29.75**	**15.97**	**36.65**	**37.19**	**35.69**

Source: Own calculations from SADC (1999: 124,147,168,202,264,240,282,304,321,356).

Notes: Statistics for the D.R.C., Malawi, Mozambique and Zambia were not available.

Significant contributions from the manufacturing sector to total exports are found in Lesotho, Mauritius, and South Africa, in that order[115].

However, particular measures have been put in place by countries in an attempt to diversify production and increase manufacturing output. For example, Angola, which currently relies primarily on the production of petroleum products, intends to promote a shift from the export of unprocessed raw materials to products incorporating national added value. In the oil sector, this will entail a move into the processing of crude output, e.g. refinement, petrochemicals and fertilisers, while in the coffee industry, orientation should be towards the establishment of units for conditioning and processing (SADC Industry and Trade Sector, 1999:7). However, the effectiveness of this strategy will clearly depend on a resolution of the political turmoil in the country.

In July 1997, Botswana's Parliament approved the eighth National Development Plan whose significant aspect was growth in non-mining GDP. The sectors which were identified as additional engines for growth in need of support included, among others, manufacturing, tourism and trade (SADC, 1999:137-8). Lesotho is also putting emphasis on the development of industries for processing domestic raw materials so as to export products with more value added, as well as assembly operations using imported materials. Since embarking on a sectoral reform programme including financial sector reform and privatisation of state-owned companies in 1988, the country's engine for economic growth has been the industrial sector, which in 1996 accounted for 44.6 percent of GDP, up from 33.6 percent in 1990 (SADC, 1999:170).

Malawi, whose manufacturing sector is largely resource based, is working towards diversifying and broadening its production base despite strong competition from cheap imported commodities which threaten to reduce the share of the domestic market for local manufactured goods further.

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[115]Note, however, that this statistic does not capture the diversity of the manufacturing sector itself or of manufactured exports. Further discussion of export diversity and its implications for intra-regional trade expansion follows in Section 7.3.

Mauritius is putting emphasis on industrial consolidation, diversification and export-led manufacturing in the Export Processing Zone. The country seeks to attain international competitiveness in its manufactured products, focusing on quality assurance and high value added. In Namibia, the Five Year Plan, 1995/96 to 1999/2000, has, among other things, broadening manufacturing activities and increasing value addition in raw materials for export as key priorities (SADC, 1999:234). While Swaziland already has a relatively diversified industrial sector, many of its industrial concerns are involved in processing agricultural products and, as such, there is need for further diversification (SADC, 1999:310).

5.3.3 Multi-sectoral programmes and joint projects

The development integration model points out the need to plan and implement trade development and promotion programmes. In line with this, during its inception phase, SADC put in place the SADC Trade Development Programme, whose activities focused on trade facilitation[116] and trade development and promotion[117] (SADC Industry and Trade Sector, 1999:11-13). SADC also put in place the Investment and Trade Finance Programme[118].

In terms of implementing joint regional projects in manufacturing, SADCC initiated regional coordinated programmes in the 1980s aimed at upgrading existing capacities, expanding already installed plants and establishing completely new industrial establishments[119]. SADCC's Industry Programme was based on import substitution and attempted to maximise the use of local resources. It involved both light and heavy industry, incorporating basic consumer goods, productive inputs to other sectors and the production of capital goods (Haarlov, 1988:63). The

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[116] This included market development, trade financing mechanisms, transport and communication.

[117] Since the SADC Trade Protocol was signed in 1996, the SADC Trade Development programme has been most focused on finalising the Protocol to facilitate the move towards a free trade area.

[118] This initiated activities like: (i) study on the cross border investment facility; (ii) export financing schemes; (iii) counter trade agreements based on reciprocal treatment; and iv) the NORSAD Fund intended to provide a foreign exchange revolving facility to promote joint venture investments (SADC Industry and Trade Sector, 1994:14-15).

[119] Some of the industrial areas of focus were were salt, textiles, wool and mohair, textile chemicals, insecticides and pesticides, tractors and farm implements, fertilisers, pulp and paper, cement, electrical transmission and distribution equipment (Mudenda, 1987:138-9).

programme had a long term perspective in creating and expanding the identified core industries, viz., iron and steel, engineering industries and basic chemicals. However, the funding status of the SADCC Industry and Trade Sector in 1987 suggests that concentration was put on the pulp and paper industry in Tanzania, pesticide and insecticide plant in Tanzania, and the fertiliser industry located in Malawi.

However, as Haarlov (1988:63-64) notes, by the end of the 1980s, it seemed unlikely that the core industries' programme would achieve any early results, and in the other priority areas, not much was forthcoming in terms of practical results. Munanga (1999) notes that, in general, the establishment and effectiveness in running such regional projects did not turn out as expected. For example, she notes that the paper milling industry established in Tanzania to cater for the region, financed by the Scandinavian countries, collapsed as it could not sustain itself when the donors pulled out. Currently, it produces under capacity although plans are under way to privatise it so that it can operate more efficiently[120].

In 1986, SADCC noted that some projects did not fulfill the criteria of being regional projects, while others were not sufficiently prepared (Haarlov, 1988:62). Apart from this, individual member states were reluctant to rely on regional industries located in other countries, with each trying to develop its own industrial sector instead. These factors highlight the difficulties, noted by Robson (1987:205-206) in the context of the development integration model, inherent in attempting to develop a regional industrial development programme.

5.3.4 Implications for regional economic integration within SADC

The co-ordinated effort which SADC has subsequently put in place on industry through its

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[120]Zambia had a fair number of projects included in SADCC's Industry Programme, but due to the country's difficult economic situation, most of them could not take off. Mozambique had a pulp and paper as well as a fertiliser industry, but did not report much progress, presumably due to the war situation, which reduced absorption capacity (Haarlov, 1988:61).

Industry and Trade Sector has to some extent facilitated progress in economic cooperation in the region, as individual countries have, through workshops, country visits and meetings at the regional level, been able to discuss issues relating to: (i) reviewing and updating the existing investment policies and regulations of member states as countries consult each other and exchange experiences in the area of investment mechanisms and practices; (ii) harmonisation of economic policies and business practices that facilitate improvement of the investment climate and regional cross-border investment; and (iii) development of specific intra-SADC trade incentives, e.g. rebates, retention schemes, business travel, open general licenses and others (SADC Industry and Trade Sector, 1994: 2).

While regional trade liberalisation can certainly create more favourable conditions for the production and exchange of goods and services by the participating countries, industries must be in place before the question of increased efficiency in production can be achieved. As Ndlela (1987:58) observes, SADC has the potential for resource-based industrialisation in several sub-sectors of manufacturing. For example, Tanzania, Zambia, Zimbabwe and Swaziland possess pulp and paper industrial raw materials. Mozambique, Angola, Zambia and Zimbabwe have cement and other raw materials for the building industry, and there is a relatively well developed iron and steel industry in Zimbabwe. South Africa is well endowed with resources for a considerable range of industrial projects, while other countries in the region have medium-term and long-term potential for foundry industries, spares, and machine and hand tools. As noted earlier, the region is also well endowed with a wide range of resources from the mining, agriculture and energy sectors. Therefore, planning, coordination and cooperation in production could help to rationalise productive capacity and support services. A deliberate move to avoid unprofitable competition and duplication could enable SADC members to take advantage of economies of scale in the regional market, as the development integration model suggests.

Table A-12 (Appendix 3) indicates some of the regional projects which can be implemented with the various regional member countries serving as sources of the needed raw materials. Member states can benefit from joint production of goods using materials and labour from more than one country. Branch plants for discrete processes established in other SADC countries or the supply of particular component inputs can be sub-contracted to certain producers in the SADC countries.

Joint production can thus lead to greater efficiency. However, as noted in Section 4.3.4.3, distribution of industrial projects has to be handled carefully as it can create friction between countries. Some of the issues which SADC has to consider include: (i) whether each country should have the same share of industries; (ii) whether countries with the least developed industrial sectors should be favoured; (iii) whether distribution should be according to size of the country; and (iv) whether those who had more industrial projects before should be now given less.

However, Munanga (1999) argues that, given the region's past experience with attempting to set up regional industrial projects, projects should be allocated to countries according to their ability to handle and run such projects effectively. In cases where equitable spatial location of industry across the region fails to be implemented or effective, measures will need to be put in place to compensate countries that incur costs by virtue of their less developed industrial base. With the implementation of the SADC Trade Protocol, unequal industrial costs and benefits may occur, and conflicts are bound to arise among members. Such problems could be addressed, in part, through mechanisms such as the asymmetrical tariff reductions and longer phasing-in periods envisaged during implementation. Other possible compensatory mechanisms, such as fiscal transfers, are likely to be more conflictual (see Sections 4.3.3.1 and 4.3.4.2).

In conclusion, it thus appears that SADC can draw important lessons from the development integration model, particularly with respect to problems that are likely to arise in regard to its industrial strategy and any compensatory or corrective mechanisms that are likely to be called for as integration proceeds.

5.4 SADC AND THE THEORY OF COMMON MARKETS

The region aspires to the creation of a southern African economic community by 2025, with free trade by the year 2000, free movement of people and a single currency. Cooperation in selected sectors through the SADC Sectoral Programme is in place, while ratification of some of the sectoral protocols is still outstanding. The SADC free trade area, which is supposed to pave the way to higher levels of integration, was only implemented in September 2000, four years after

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the signing of the SADC Trade Protocol. This shows the very slow pace at which the realisation of such goals takes place in southern Africa. So, while the desire to achieve these goals is there, the commitment to facilitate their achievement always seems to be lacking.

Therefore, questioning whether the idea of a common market is appropriate at this stage in southern Africa is not out of place. SADC is currently constrained by a number of factors which are institutional, economic and political. Until these problems are overcome, it will be difficult for the region to even think about negotiating a common market.

5.4.1 Institutional constraints

SADC has not yet reached a high level of integration, and the institutional structure it currently has is not conducive to enter into negotiations for a common market. This is highlighted by the difficulties in making progress not only with the SADC Trade Protocol, but indeed with all its other protocols. The time taken to negotiate protocols and have them ratified indicates the region's unreadiness to embark on a common market. The negotiations on the SADC Trade Protocol were protracted, while the SACUA renegotiation is still outstanding.

Apart from this, the attention of regional members is currently divided, as they are involved in different discussions which are underway to enter into various trade liberalisation schemes with other regions. For example, as Imani Development International Ltd (1999:51) notes, discussions are underway between SADC, ASEAN and Mercosur to explore trade liberalisation between the groupings[121]. Discussions are also underway between the USA and African countries, including SADC members, on establishing preferential trading relationships. There are also the

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[121]Consultations between SADC and the two regional groupings started in Singapore with the need to establish formal contacts, exchange views, forge close links in areas like information exchange, investment and trade promotion, as well as other possible areas of cooperation (SARDC (1997a:5).

negotiations by the EU for a trade agreement with SADC[122].

5.4.2 __Economic constraints__

At this stage, one major drawback in the region is the weak level of market and economic integration. A lot of effort is still needed to ensure that the macro-economic policies within the region are conducive simply to a free trade area between member states. Under the trade protocol, a free trade area should be established for practically all goods within twelve years. Whether the time frame given is realistic or not is another issue which can be raised, bearing in mind the slow progress in implementing the protocol.

Madakufamba (1999:41) notes that SADC does not have plans at this stage to establish a customs union between members. This suggests that the issue of a common market is a long way off for the region, since the traditional progression would be from a free trade area to a customs union, then a common market. The region could, of course, consider measures to facilitate the free flow of capital, however, without establishing a common external tariff or allowing the free movement of labour. If this was done, then consideration would have to be taken of possible foreign profit creation and foreign profit diversion as well as the traditional static effects of trade creation and trade diversion (see Section 4.5).

The creation of a common market will not in itself lead to anything if the underlying obstacles to integration are not tackled and removed first. Therefore, the region has to continue to improve and diversify its production in the ways suggested by the neo-functional and development integration models, it must have the free trade area in place and improve intra-regional trade. The potential for all this to happen seems to exist, given the rich resource endowment of the region and the efforts underway to make the region a more attractive environment for both local and foreign investment.

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[122]This was born out of the Berlin Conference in 1994 which marked a turning point in SADC/EU relations. A follow-up meeting between the EU and SADC took place in Windhoek, Namibia, in 1996 with both parties reconfirming their commitment to close cooperation (SARDC, 1997a:11).

5.5 <u>CONCLUSION</u>

SADC's significant achievements in implementing sectoral programmes have been in the transport, communications and meteorology sector, energy, mining and FANR sectors. SADC's major limitation in implementing its projects has been inadequate funding, and political instability in Angola has hampered implementation of all SADC projects in this country. The importance of transport and communications systems cannot be ignored, as these are strong integrating forces. The availability of high quality communications and smooth transport operations has a bearing on all the other SADC sectors.

Coordination and networking sectors towards the objective of regional economic integration as laid out in the SADC Treaty can be made possible if SADC countries commit themselves to ratifying the sectoral protocols with speed as these lay the needed foundation and groundwork for the coordination of approaches and harmonisation of policies between countries. There is also need for the sectors to be dynamic and to have a finite life. One sector should be allocated per member state so as to improve efficiency, and new sectors should only be created if a new member joins or if a sector meets its objectives and new priorities emerge (SARDC, 1997c:3).

The premise of SADC is to establish competitive export oriented industries in the region, through a regional trade treaty which aims ultimately at allowing free movement of goods, services and capital across all member states. SADC has made positive steps towards this goal through measures to implement the SADC Trade Protocol which will pave the way for the SADC free trade area, which is a stepping stone to higher levels of economic integration. However, industries must be in place before increased efficiency can be achieved. Therefore, production should be given equal priority as trade in the regional integration strategy. Meaningful focus thus has to be put on investment in infrastructure and production. Possible opportunities exist in the region for economies of scale in particular industrial projects with member states serving as short-term, medium term or long-term suppliers of the needed industrial raw materials. This will enable the region to tap important potential gains in industry and trade as it develops and integrates its industrial base.

As member states continue to create a conducive environment for trade and development

cooperation, they need to revive domestic investment, as appropriate domestic firms are needed as partners to foreign investors and a strong local private sector is a prerequisite for foreign direct investment. SAFER (1993:3) notes that domestic investors must lead the way in investing in their own economies, and unless they are prepared to do so, no foreign investors will be willing to do so. There is a need to pay particular attention to the development of small and medium scale enterprises, the informal sector and the small-holder agricultural sector, as these sectors offer greater prospects for gains in productivity (SARDC, 1997b:9).

In line with the neo-functional integration model, there is a need to strengthen networks, institutions and groups that promote regional integration as well as create capacity for more informed regional decision making, so that regional actors can properly weigh regional goals in policy making and assess progress towards mutually agreed targets and benchmarks (RCSA, 1997). A sustained partnership between the private sector and public sector is important. The SADC Secretariat could be given supra-national powers to take independent initiatives, make policies and decisions that bind all members and thus direct integration as per the objectives of the Treaty. There is also the need for a permanent well-trained and technically competent personnel who think regionally, thus determining the content and direction of integration (Chiny'ambo, 1992a, 1992b; Mills, 1995). However, to date, these suggestions have not been well received by member states, as they have not shown the political will to sanction such a secretariat. The grouping does not have the necessary resources to develop and establish such a secretariat in any event[123]. It is likely that member states, however small or poor, will be very reluctant to cede some of their sovereignty to a supra-national body in current circumstances.

Given that the level of integration in the SADC region is unlikely to move beyond trade integration at the level of a free trade area with perhaps the free movement of capital between member states in the foreseeable future, the remainder of this study will focus on existing and possible benefits from increased trade and cross border investment in the region.

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[123]Report on South Africa's AM live 8:00am news on 7 August, in line with the deliberations that were taking place at the SADC Summit held in Windhoek, Namibia, on 6-7 August 2000.

CHAPTER SIX

EMPIRICAL ANALYSIS OF INTRA-REGIONAL TRADE WITHIN SADC AND SACU

6.1 INTRODUCTION

This chapter gives an overview of intra-regional trade within the southern African region. The changes which the region experienced since 1980, in terms of trade relations between countries, can give an indication of the potential which exists within the region for countries to improve trade with other member states with which they may not have been trading significantly.

As noted in Chapter Two, in addition to SACU, SADC, and COMESA, numerous bilateral trade agreements exist between SADC member states[124]. The existence of these agreements shapes the trade patterns between countries and within the region as a whole.

Section 6.2 will highlight some of the factors that have led to increased trade between countries within SADC in the past two decades. Most information in this section is based on interviews conducted with trade officers at the various SADC countries' embassies in Zimbabwe as well as representatives of industry and commerce in Zimbabwe. Section 6.3 examines changes in intra-regional trade patterns experienced by individual countries since 1980. Section 6.4 discusses intra-regional trade specifically within the SADC region, while Section 6.5 discusses intra-regional trade within SACU. Section 6.6 looks at informal cross-border trade in the region. Section 6.7 compares intra-SADC and SADC-South Africa trade. A discussion of why intra-regional trade has not improved much despite the existence of several bilateral trade agreements in the region is given, drawing on papers presented and discussions which took place during the Zimbabwe National Chamber of Commerce (ZNCC) seminar on trade agreements attended at

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[124]Fourteen such agreements were identified in 1996. Not all bilateral agreements signed by SADC member states could be identified as some of the necessary information was not forthcoming from member states (Cattaneo; 1998:19).

the Sheraton Hotel in Zimbabwe on 20 December 1999. Section 6.8 considers the implications of economic integration for trade relations in the region, with inputs obtained from the ZNCC conference as well as interviews with trade officers. Section 6.9 concludes.

6.2. <u>FACTORS AFFECTING TRADE FLOWS WITHIN THE REGION</u>

During the course of this research, it has been noted from interviews held with some trade officers and representatives of industry, that membership of SADC *per se* has not yet had any particular effect on intra-regional trade. Instead, other factors have been said to have contributed significantly to increased intra-regional trade among member states. For example, Makobole (1999) notes that Botswana has not benefited in trade terms from being a member of SADC. Instead, the bilateral trade agreements which it has with some regional countries have led to the country's increase in trade within the region[125]. He also notes that the growth of Botswana's trade has been due to the country's economic growth and its desire to trade more with other countries in the region with which it does not have any trade agreements. Another contributory factor has been the complete removal of foreign exchange controls completed by April 1999. He also points out that Botswana, unlike some countries in the region, has never experienced foreign exchange shortages and that this has had a positive impact on its volume of trade in the region.

While Munanga (1999) acknowledges the significant part played by bilateral trade agreements between member states and the liberalisation of foreign currency regimes in promoting intra-regional trade, she also points out that the proximity of member states to each other and the availability of goods in specific countries has also promoted regional trade. She also acknowledges the importance of export incentives, in Tanzania, in assisting those manufacturing for export. While taking note of the factors raised by Makobole and Munanga, Mufute (1999) notes the important part played by Zimbabwe in the review of its tariff structures with a view to

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[125]These views are not surprising, since the SADC Trade Protocol, which aims to dismantle tariff and non-tariff barriers to trade over an eight-year period, was only implemented at the beginning of September 2000 (Sunday Times, 3 September 2000).

promoting its trade with the region. This was implemented in March 1997. Further, Phiri (1999) argues that, for Zambia, complete liberalisation of its economy including its foreign currency market has encouraged free export and import of goods by Zambians, thus promoting the country's trade with the rest of the region. He notes however that foreign currency shortages have resulted in the fluctuations in the performance of the export sector. In the case of Malawi, Salama (1999) reports that, apart from liberalisation of the foreign exchange regime, the increase in the number of banks in the country from two to seven has gone a long way in making the foreign currency needed to promote trade available. He also notes that the government has, through COMESA, accessed loans from international organisations so that exporters and importers can get the financial support they need, thus helping to promote trade between Malawi and the rest of the region. On the whole, Ntonga (1999) and Maringa (1999) observe that the countries in the region have been liberalising the environment in which industries operate so that they can import and export with greater ease. The removal of trade barriers and other restrictions, like import licenses, has provided a wider market for producers in the region, thus promoting intra-regional trade. As noted earlier, this has all essentially occurred prior to the implementation of the SADC Trade Protocol.

6.3 INTRA-REGIONAL TRADE PATTERNS

For the twenty years in which SADC has been in place, there have been particular changes in trade patterns for some countries, while others have maintained their trade links with specific countries. Table 6.1 indicates some of the shifts in intra-regional trade patterns which the region has experienced in the past two decades.

Throughout the twenty-year period, Malawi has consistently had significant trade relations with Zimbabwe and SACU, with Zambia emerging as an important trade partner in the last half of the 1990s. The smaller SACU member states have also been consistent in their trade patterns. In the case of Namibia, its significant trade partners within the SACU have been South Africa, Botswana and Swaziland. In the later half of the 1990s, Zimbabwe became an additional significant trade partner as a result of a bilateral preferential trade agreement signed in 1992 which became enforceable in 1993.

Country	Exports to			Imports from		
	1980 - 1983	1990 - 1993	1995 - 1998	1980 - 1983	1990 - 1993	1995 - 1998
Angola	Mozambique -	Tanzania SACU	- -	- -	SACU Zimbabwe	South Africa
Malawi	Zimbabwe SACU	SACU Zimbabwe	South Africa Zimbabwe	SACU Zimbabwe	SACU Zimbabwe	South Africa Zimbabwe
Mozambique	Malawi Tanzania	SACU Zimbabwe	South Africa Zimbabwe	Tanzania Malawi	SACU Zimbabwe	South Africa Zimbabwe
Tanzania	Mozambique Zambia	Zimbabwe SACU	- -	Mozambique Zambia	SACU Angola	- -
Zambia	Malawi Tanzania	Zimbabwe SACU	South Africa Zimbabwe	Tanzania Malawi	SACU Zimbabwe	South Africa Zimbabwe
Zimbabwe	Malawi Tanzania	SACU Zambia	SACU Zambia	Malawi Tanzania	SACU Zambia	SACU Zambia
SACU	Malawi Tanzania	Zimbabwe Mozambique	Zimbabwe Mozambique	Malawi Tanzania	Zimbabwe Malawi	Zimbabwe Malawi
Botswana	Zimbabwe Malawi	South Africa Zimbabwe	South Africa Zimbabwe	South Africa Zimbabwe	South Africa Zimbabwe	South Africa Zimbabwe
Lesotho	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa
Namibia	SACU	SACU	SACU	SACU	SACU	SACU
South Africa	BLNS Malawi	BLNS Zambia	BLNS Zimbabwe	BLNS Zimbabwe	BLNS Zimbabwe	BLNS Zimbabwe
Swaziland	South Africa Mozambique	South Africa Mozambique	South Africa Mozambique	SACU -	South Africa Mozambique	SACU Mozambique

Source: Derived from IDC NOK (1994:3); Mayer (1997:342-3), SAPEM (1999g:40), SAPEM (1999f:28), SADC (1999:118-347); Makoni (1999:1-6); Hoohlo (1990:101).

Swaziland has consistently had SACU (particularly South Africa and Botswana) and Mozambique as its significant trade partners. The importance of Mozambique as a trade partner can be explained by the bilateral trade agreement that exists between the two countries as from the 1980s (Wagao 1987:151), as well as geographical proximity. Both South Africa and

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[126]Only the top two countries with which a country has significant trade relations are presented in the table, in order of significance.

Botswana have had consistent significant trade partners. Malawi was important in the early 1980s, re-emerging once again as third significant towards the end of the 1990s.

For the rest of the non-SACU SADC countries, there have been significant shifts in trade patterns particularly between 1980 and 1990. In some cases countries which used to be significant trade partners in the 1980s ceased to be so in the 1990s, whilst for some they re-emerged as important trade partners towards the end of the 1990s. A case in point here is Mozambique, which in the 1980s used to have Malawi and Tanzania as significant trade partners. In the 1990s, Tanzania ceased to be an important trade partner and Malawi only re-emerged as its third significant partner in the latter half of the 1990s.

In the case of Tanzania and Angola, SADC intra-regional trade has been of little importance. There have nonetheless been shifts in their trade patterns with the few SADC countries they have traded with. For example, in the case of Angola, its trade shifted away from Mozambique to Tanzania and SACU in the early 1990s and late 1990s respectively. For Tanzania, trade shifted from Mozambique and Zambia to Zimbabwe and SACU in the early 1990s. The relatively significant trade relations which Angola and Tanzania have had with Mozambique, have been as a result of Mozambique's bilateral trade agreements with them, which in the early 1980s saw trade volumes increasing in relative terms. Angola's trade with SACU has mostly been with Botswana and also as a result of its informal trade with South Africa (Wagao, 1987:151).

However, a point to note about the non-SACU SADC countries is that during the 1990s, they have tended to be consistent in terms of their significant trade partners. It is unsurprisingly to note that South Africa and Zimbabwe, the two most developed countries in the region, appear as significant trade partners to most of the countries in the region. Further, in the few years that Mauritius has been a member of SADC, it is already having an impact in the sense that, for some countries, it is becoming a significant trading partner (for example Malawi, Zambia and Tanzania).

With the SADC Trade Protocol coming into effect, one may be persuaded to think that the current country-specific significant trade patterns will be consolidated as the countries access

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each others' markets more freely than before. It is also hoped that other trade partners are going to develop as countries open up more. As such it is possible that there may be another intra-regional trade pattern shift similar to the one experienced between the 1980s and the 1990s (when SADCC transformed itself from a regional body mainly concerned with development of infrastructure into one focussing more on trade development). The only expected difference this time is likely to be that instead of a complete change in significant trade partners, countries will develop new important regional partners as they explore the potential trade benefits in other markets.

6.4 INTRA-REGIONAL TRADE WITHIN SADC

As already noted in Chapter Three, during the 1980s, intra-regional trade averaged 4 percent. Significant expansion in intra-SADC trade was experienced in the 1990s, where it rose from 4.80 percent in 1990 to 8.48 percent in 1993 and then 19.11 percent in 1996. The expansion in intra-regional trade after 1994 is most likely due to the admittance of South Africa and then Mauritius into SADC as their trade with SADC was now included in intra-SADC trade.

In this chapter, focus is going to be made on Zimbabwe's and South Africa's trade with the SADC region. This is so because these two are the most developed countries in the region and have the most complete trade data.

6.4.1 Zimbabwe's trade relations with the region and the rest of the world

As Table 6.2 shows, between 1990 and September 1998, Zimbabwe traded mostly with the rest of the world (ROW) with over 80 percent of its total exports going to ROW in the period 1990-1993. This fell to an average of 70.84 percent in the period 1996-1997 and then 66.18 percent in 1998. Over 95 percent of its total imports came from ROW in the period 1990-1993. This fell to an average of 57 percent in the period 1995-1998.

With respect to its trade with SADC as a proportion of its total trade, Zimbabwe has had between 17.27 and 33.82 percent of its total exports going to the SADC countries, while 14.88 to 20.40 percent went to SACU. In terms of imports, between 4.38 and 43.15 percent of its total imports

Table 6.2: Breakdown of Zimbabwe's import and export trade with SADC and the rest of the world (Z$thousand in current prices)

	SADC[127]	SACU[128]	BLNS	South Africa	ROW[129]	TOTAL
1990 (Exports) (Imports) (X/TX) (M/TM)	721 081 232 917 (19.95) (5.14)	552 256 1 090 118 (15.30) (24.07)	230 589 188 044 (6.40) (4.15)	321 667 902 074 (8.90) (19.92)	2 893 187 4 295 396 (80.05) (94.87)	3 614 268 4 528 313
1991 (Exports) (Imports) (X/TX) (M/TM)	805 062 341 177 (17.27) (4.61)	794 641 2 132 484 (17.05) (28.83)	316 939 260 511 (6.80) (3.52)	477 703 1 871 974 (10.25) (25.31)	3 857 471 7 055 997 (82.73) (95.39)	4 662 533 7 397 174
1993 (Exports) (Imports) (X/TX) (M/TM)	1 636 248 515 541 (19.09) (4.38)	1 742 053 3 583 282 (20.34) (30.44)	520 340 396 877 (6.08) (3.37)	1 221 713 3 186 405 (14.26) (27.07)	6 932 852 11 257 545 (80.91) (95.62)	8 569 100 11 773 086
1994 (Exports) (Imports) (X/TX) (M/TM)	4 351 199 6 514 975 (32.43) (35.07)	2 738 748 6 378 225 (20.40) (34.91)	958 777 424 522 (7.14) (2.33)	1 779 971 5 953 703 (13.26) (32.58)	9 067 799 11 755 724 (67.57) (64.34)	13 418 989 18 270 699
1995 (Exports) (Imports) (X/TX) (M/TM)	4 883 187 9 807 302 (30.48) (42.55)	2 958 449 9 459 514 (18.46) (41.08)	946 866 669 628 (5.91) (3.04)	2 011 583 8 789 886 (12.55) (38.14)	11 140 241 13 240 837 (69.52) (57.45)	16 023 428 23 048 139
1996 (Exports) (Imports) (X/TX) (M/TM)	5 575 850 12 085 225 (26.53) (43.02)	3 126 485 11 394 117 (14.88) (40.55)	1 101 513 626 770 (5.24) (2.23)	2 024 972 10 767 347 (9.64) (38.32)	15 440 348 16 009 890 (73.47) (56.98)	21 016 198 28 095 115
1997 (Exports) (Imports) (X/TX) (M/TM)	8 149 318 15 472 596 (31.79) (42.33)	4 506 646 14 326 503 (17.58) (39.19)	1 393 914 959 203 (5.44) (2.62)	3 112 732 13 367 300 (12.14) (36.57)	17 481 550 21 082 540 (68.21) (57.67)	25 630 868 36 555 136
1998* (Exports) (Imports) (X/TX) (M/TM)	8 145 926 16 543 794 (33.82) (43.15)	4 575 910 15 592 266 (19.00)(40.67)	1 341 570 1 043 981 (5.57) (2.72)	3 234 340 14 548 285 (13.43) (37.95)	15 939 000 21 793 068 (66.18) (56.85)	24 084 926 38 336 862

Source: Own calculations from the trade data obtained from ZimTrade Trade Database.

Notes: * trade statistics only up to September.

X= exports, M= imports, TX = total exports, TM = total imports.

X/TX = exports as a percentage of total exports.

M/TM = imports as a percentage of total imports.

1992 trade figures were not available in the ZimTrade Database.

[127]Refers to all SADC member states. Trade statistics for the D.R.C., Seychelles, Mauritius, and South Africa were only included for the years during which they were members of SADC, and not before.

[128]Zimbabwe's exports and imports to SACU as a percentage of its total exports and imports, are higher than for SADC for the period 1990-1993, because trade with South Africa was not included in trade with SADC, since South Africa was not a member then, but included in trade with SACU.

[129]Refers to column 7 (Total Trade) minus column 2 (Total SADC).

came from the SADC countries, and 24.07 percent to 40.67 percent came from SACU. During the period 1990-1994, over 60 percent of its exports to the SADC region went to SACU and over 97 percent of its SADC imports were from SACU. For the period 1995-1998, its exports to the SACU region had fallen slightly to average 55 percent of its SADC exports and 94 percent of its SADC imports.

Within the SACU, Zimbabwe trades more with South Africa than with the BLNS countries. For example, of the 61 percent of its SADC exports that went to SACU, about 40 percent went to the BLNS countries during the period 1990-1994 and the rest to South Africa. This fell to 30 percent in the period 1995-1998, while the share that went to South Africa rose. In terms of import trade, 97 percent of its SADC imports came from SACU and only 14 percent came from the BLNS countries in the period 1990-1994. The latter fell to 7 percent in the period 1995-1998. Therefore, even before South Africa became a member of SADC, Zimbabwe enjoyed significant trade with South Africa, thereafter trading less with the BLNS countries and more with South Africa once the latter became a member in 1994, due possibly to improved relations between the two countries since both of them were now part of SADC.

Among the BLNS countries, Zimbabwe has traded mostly with Botswana. Of its exports to the BLNS countries, Botswana received 94.86 percent during 1990-1991, 85.71 percent in 1993-1994, 79.54 percent in 1995-1996, and 80.40 percent in 1997-September 1998. In terms of imports from the BLNS countries, Botswana has supplied Zimbabwe with the bulk of the imports viz., 85.83 percent in 1990-1991, 77.12 percent in 1993-1994, 67.11 percent in 1995-1996, and 71.41percent in 1997-September 1998[130]. This is explained by the long standing and strong bilateral preferential trade agreement which exists between the two countries. During the 1990s, significant growth has been seen in Zimbabwe's trade with Swaziland. The average annual nominal growth rate rose from 18.71 percent in 1990/1 to 46,89 percent in 1993/5 and 37.45 percent in 1996/8[131]. This suggests a potential for further increased trade between the two countries with the implementation of SADC Trade Protocol.

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[130]Own calculations from the trade data obtained from the ZimTrade Database, Harare, June 1999.

[131]Own calculations from the trade data obtained from the ZimTrade Database, Harare, June 1999.

Therefore, as Mafu (2000) notes, Zimbabwe has managed to penetrate SACU just as it has the non-SACU SADC countries, through its bilateral trade relations with Botswana, Namibia and South Africa. The other reason which Mafu gives for the penetration of Zimbabwe into the SACU market is the fact that SACU has been striving to diversify its markets and Zimbabwe has taken advantage of this, thus building stronger trade relations with the customs union. She also points out that SACU has had a positive attitude towards Zimbabwe so that even Swaziland and Lesotho, who have not had significant trade relations with Zimbabwe, have been increasing their exports to that country, though not to the same degree as Botswana, Namibia and South Africa.

Table 6.3 illustrates that the long-standing trade agreements with Botswana and South Africa have resulted in relatively large volumes of trade. Zimbabwe's exports to South Africa have ranged between 30.85 and 42.75 percent of total exports to SADC, whilst its imports from South Africa have ranged from 79.84 and 91.38 percent of SADC imports during the period 1990-1998. Growth in trade with South Africa fell in nominal terms, however, from 71.75 percent in 1990-1992 to 17.81 percent in 1996-1998 (Table A-13(b), Appendix 4). The long-standing Zimbabwe-Botswana preferential trade agreement on selected products has been running for years, with amendments made to keep abreast of changing circumstances. The proportion of Zimbabwe's exports to Botswana was highest in the early 1990s where they averaged 32 percent of total exports to SADC. Between 1994 and September 1998, they fell from 17.49 percent to 13.05 percent of exports to SADC. Zimbabwe got two-thirds of its SADC imports from Botswana until 1994.

The implementation of the Zimbabwe-Malawi preferential agreement in 1995 saw Zimbabwe's exports to Malawi increasing by 40 percent from Z$432.9 million in 1995 to Z$608.9 million in 1996. Its imports from Malawi increased five-fold from Z$47.4 million to Z$237.2 million in the same period. The growth rate of trade with Malawi rose from 9.42 percent in 1990-1992 to 26.08 percent in 1996-1998 (Table A-13(b), Appendix 4). Salama (1999) notes that Zimbabwe is still Malawi's second largest market in the region after South Africa[132], but first in terms of being a source for non-manufactured goods. He also notes that the similar consumption patterns between

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[132]Salama (1999) notes that, in the SADC region, South Africa is Malawi's main source of supply for very sophisticated equipment and consumables.

Malawians and Zimbabweans, the existence of large populations of each country's nationals in the other country, as well as the fact that the currencies were almost at par, are factors which promote trade between the two countries.

Table 6.3: Zimbabwe's bilateral preferential trade, 1990-1998* (Z$million: current prices)

Country Year	Botswana Export	Imports	Malawi Exports	Imports	Namibia Exports	Imports	South Africa Exports	Imports
1990	213.5	159.2	174.0	12.0	2.9	0.0	321.7	902.1
1991	299.6	226.6	154.3	10.5	10.8	0.4	478.5	1 870.7
1992	332.6	154.2	206.6	13.7	10.7	1.0	872.8	2 737.0
1993	479.0	329.2	277.5	13.9	22.3	4.2	1 221.7	3 166.4
1994	761.1	302.6	375.3	32.2	175.8	23.6	1 780.0	5 953.5
1995	788.3	487.8	432.9	47.4	141.2	62.7	2 011.6	8 789.2
1996	835.1	384.6	608.9	37.2	242.7	84.7	2 025.0	10 787.3
1997	1 136.7	722.2	955.2	189.3	237.0	110.5	3 113.5	13 367.0
1998*	1 063.2	705.0	9.32.5	94.5	243.5	79.8	3 234.3	14 548.3

Source: ZimTrade Database.
Notes: * statistics are up to September 1998.
1992 statistics were obtained from Gemini Consulting (1999:16).

In the case of Namibia, from 1993 when the bilateral trade agreement came into effect, Zimbabwe's exports increased eight-fold from Z$22.3 million to Z$175.8 million in 1994. On the other hand, Namibia's exports to Zimbabwe grew two-and-a-half times from Z$23.6 million to Z$62.7 million. These positive trends in trade continued to 1998, and it thus appears evident that the existence of a preferential trade area facilitates mutual expansion of trade and broadens the scope of the market. Among the four countries which Zimbabwe has bilateral preferential trade agreements with, it registered its highest growth rates with Namibia in the first half of the 1990s (Table A-13(b), Appendix 4).

Zimbabwe has MFN agreements with Angola, Lesotho, Mauritius, Mozambique, Tanzania and Zambia. Zimbabwe's exports to Zambia have fluctuated between 20.63 percent and 11.85 percent of its total SADC exports for the period 1990-1998. Import levels from Zambia have been much

lower and have fallen between 1994 and September1998 from 13.74 percent to an average of 1.50 percent of its total SADC imports. Zimbabwe's exports to Mozambique have fluctuated with the highest proportion attained in 1993 (21.45 percent of its total SADC exports). The proportion of SADC imports from Mozambique has been lower than that of exports, but has also fluctuated with the highest level attained in 1991 (5.44 percent of SADC imports). Over the past nine years, an average of 0.80 percent of Zimbabwe's total domestic exports to the SADC region went to Mauritius, while an average of 3.08 percent of its total SADC imports came from Mauritius. With Mauritius becoming a member of SADC in 1995, thus leading to improved communication between the two countries, significant increases in import trade were recorded during its first year of membership. A 103.55 percent increase in import trade with Mauritius was recorded in 1994/5 and import trade continued to grow in subsequent years, albeit at a lesser rate. On the contrary, export trade only grew by 10.16 percent during 1994/5 and fell until September 1998, when it rose by 172.53 percent from 1997.

It is interesting to note here that even though Zimbabwe only has MFN agreements with Zambia, Mozambique and Mauritius, it trades with these countries to such an extent that Zambia ranks third, Mozambique fifth and Mauritius sixth in terms of being Zimbabwe's most important SADC trading partners.

Angola, Lesotho, Swaziland and Tanzania are long-standing members of SADC with which Zimbabwe does not trade significantly. Lesotho and Swaziland's dependence on South Africa and the SACU region could be a contributing factor. Angola's trading relations have been disrupted by war, which can help to explain the lack of significant trade between the two countries. While Zimbabwe's trade with Tanzania is not very significant and fluctuates rapidly, on average the volume of trade between the two countries has been growing slowly over the years (Table A-13(a), Appendix 4).

From Table 6.4, Zimbabwe's biggest trade partners in the region tend to be those countries with which the country has preferential trade agreements. Between 17.65 percent and 23.36 percent of its total exports went to the countries with which it has preferential trade agreements, while it sourced between 23.67 percent and 41.01 percent of its total imports from the same countries.

There seems little doubt that this share in trade would increase with the implementation of preferential agreements with additional partners. It appears that bilateral preferential trade agreements go a long way in facilitating the growth and expansion of direct trade between mutually contracting parties.

Table 6.4: Comparison of Zimbabwe's bilateral preferential trade and MFN trade (Z$bn)

	BNMSA				ALMMTZ			
Year	Exports	% total	Imports	% total	Exports	% total	Imports	% total
1990	0.71	19.67	1.07	23.62	0.33	8.99	0.05	1.04
1991	0.94	20.17	2.11	28.51	0.34	7.30	0.10	1.31
1992	1.42	22.18	2.91	25.98	..	..	..	..
1993	2.00	23.34	3.53	29.99	0.88	10.26	0.14	1.18
1994	3.09	23.03	6.35	34.76	1.30	9.66	0.16	0.88
1995	3.37	21.04	9.41	40.82	1.50	9.33	0.30	1.30
1996	3.71	17.65	11.52	41.00	1.84	8.77	0.45	1.62
1997	5.44	21.23	14.37	39.31	2.45	9.57	0.96	2.62
1998*	5.47	22.72	15.43	40.25	2.45	10.19	0.86	2.23

Source: Own calculations from ZimTrade Database; Tables 6.2 and 6.3.
Notes: BNMSA = Botswana, Namibia, Malawi and South Africa.
ALMMTZ = Angola, Lesotho, Mauritius, Mozambique, Tanzania and Zambia. These are the countries with which Zimbabwe has MFN agreements.
* = Trade statistics only up to September 1998.
% total = percentage of total exports or total imports.

Mafu (2000) notes that the major specific markets which Zimbabwe has managed to penetrate in the region are (i) manufacturing goods, in particular: processed foodstuff, footwear and leather products, and clothing and textiles; (ii) building and construction materials; (iii) hardware; (iv) furniture; and (v) agricultural equipment and implements. The other market which Zimbabwe has penetrated is horticulture, but exports are mainly to Europe. An emerging market in the region, which Zimbabwe is set on penetrating, is that for pharmaceuticals[133].

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[133]Cattaneo (1998:246) found an intra-industry trade index of 46.54 between SACU and Zimbabwe in medicinal and pharmaceutical preparations.

6.4.2 SACU's trade relations with the SADC region and the rest of the world

As Table 6.5 shows, SACU's world trade increased substantially in nominal terms from 1993 to 1998. Its export trade[134] rose by 99.69 percent from R79.48 billion in 1993 to R158.71 billion in 1998. Import trade rose by 148.94 percent from R58.99 billion in 1993 to R146.84 billion in 1998. Over 85 percent of its total exports go to ROW and over 95 percent of its total imports come from ROW.

Of its total exports, exports to the non-SACU SADC countries grew from 7.3 percent in 1993 to 14.04 percent in 1997, and fell slightly to 10.09 percent in 1998. Imports from the non-SACU SADC region have averaged 2 percent of its total imports, rising slightly to 3.24 percent in 1998. However, despite this minimal trade with non-SACU SADC member states, there was a 176.19 percent increase in export trade from R5.80 billion in 1993 to R16.01 billion in 1998. An increase of 275.59 percent was experienced in import trade from R1.26 billion in 1993 to R4.74 billion in 1998.

Among the non-SACU SADC countries, SACU has enjoyed increased trade relations with Zimbabwe, Zambia, Malawi and Mozambique in that order. An average of one-third of its exports to the non-SACU SADC region, go to Zimbabwe, whilst almost half of its imports from that region come from Zimbabwe. Zambia has received an average of 10 percent of SACU's exports to the non-SACU SADC countries, whilst SACU has received an average of 6 percent of its non-SACU SADC imports from Zambia. Exports to Malawi have averaged 7 percent of non-SACU SADC exports and imports about 9 percent. Exports to Mozambique have averaged 16 percent of non-SACU SADC exports, whilst imports have been around 4 percent. The improved trade relations which SACU enjoys with these countries can partly be explained by the bilateral trade agreements that exist between some of the SACU member states and these four countries.

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[134]Exports include re-exports (Commissioner for South African Revenue Services, 1998a:iii; 1998b:iii).

Table 6.5(a): SACU's trade relations with non-SACU SADC countries, 1993-1998 (Rand million: current prices)

	1993	1994	1995	1996	1997	1998
Zim (X) (M) %X %M	1 747.26 662.04 (30.15)(52.43)	2 459.44 1 021.60 (34.55)(56.47)	4 542.94 964.10 (39.58)(53.22)	5 388.28 1 176.93 (36.77)(47.05)	5 706.96 1 353.10 (28.25)(48.76)	5 564.60 1 595.23 (34.75)(33.56)
Zam (X) (M) %X %M	1 307.16 76.09 (22.55)(6.03)	1 158.68 103.89 (16.28)(5.74)	1 366.70 95.19 (11.91)(5.28)	1 800.89 173.10 (12.29)(6.92)	1 175.10 184.26 (7.42)(6.64)	2 184.92 2 401.64 (13.65)(50.53)
Mal (X) (M) %X %M	593.12 159.57 (10.23)(12.64)	622.04 185.22 (8.74)(10.24)	696.07 203.41 (6.06)(11.29)	961.98 295.27 (6.57)(11.80)	1 133.30 399.46 (7.15)(14.39)	1 239.18 462.24 (7.74)(9.73)
Moza (X) (M) %X %M	964.58 60.32 (16.64)(4.78)	1 406.77 91.93 (19.76)(5.08)	2 376.69 117.01 (19.49)(6.50)	2 376.69 74.89 (16.22)(2.99)	2 715.45 168.19 (17.14)(6.06)	2 676.25 177.82 (16.71)(3.75)
Others* (X) (M) %X %M	1 184.18 304.77 (20.44)(24.13)	1 471.38 406.31 (20.67)(22.46)	2 634.01 421.75 (22.95)(23.41)	4 124.20 781.14 (28.15)(31.23)	9 469.98 670.09 (46.88)(24.15)	4 347.13 105.95 (27.15)(2.23)
SADC (X) (M)	5 797.26 1 262.79	7 118.31 1 808.95	11 476.89 1 801.46	14 652.04 2 501.33	20 200.19 2 775.10	16 012.08 4 742.88

Table 6.5(b) SACU's trade relations with non-SACU SADC and ROW, 1993-1998 (Rand million: current prices)

	1993	1994	1995	1996	1997	1998
SADC (X) (M) %X %M	5 797.26 1 262.79 (7.29)(2.14)	7 118.31 1 808.95 (7.94)(2.40)	11 476.89 1 801.46 (11.22)(1.85)	14 652.04 2 501.33 (11.62)(1.85)	20 200.79 2 775.10 (14.04)(2.14)	16 012.08 4 742.88 (10.09)(3.24)
ROW (X) (M) %X %M	73 683.53 57 724.68 (92.71)(97.86)	82.503.30 73 712.16 (93.06)(97.60)	90 846.10 95 483.55 (88.78)(98.15)	111 442.64 113 036.12 (88.38)(97.15)	123 640.48 128 330.60 (85.96)(97.86)	142 709.04 142 099.99 (89.91)(96.76)
TOTAL (X (M)	79 481.09 58 987.47	89 621.61 75 521.11	102 322.99 97 285.01	126 094.68 115 537.45	143 841.27 131 105.70	158 721.12 146 842.87

Source: Own calculations from Adams (1999); Commissioner for South African Revenue Services (1998a:166-185; 1998b:166-172); Commissioner for Customs and Excise of the Republic of South Africa (1996:202-221; 1994a:277-300; 1994b:596).

Notes: * = Other non-SACU SADC countries.
SADC = non-SACU SADC.

For Table 6.5(a): %X = exports as a percentage of SACU's total exports to non SACU SADC countries; and
%M = imports as a percentage of SACU's total imports to non SACU SADC countries.
For Table 6.5(b): %X= exports as a percentage of SACU's total exports; and
%M = imports as a percentage of SACU's total imports.

6.4.3 South Africa's trade relations with the SADC region and the rest of the world

As shown in Table 6.6, South Africa has experienced a trade expansion of 173.04 percent in its total value of trade[135] from R105 054 million in 1990 to R286 842 million in 1998 in nominal terms. Its total trade with SADC (non-SACU SADC and BLNS) rose from 15.91 percent in 1990 to 17.24 percent in 1994 and then fell slightly to 15.09 percent by 1996. As such, less than 20 percent of its trade is with the region and more than 80 percent with the ROW. During the period 1990-1998, South Africa registered its highest proportion of exports and imports to the SADC region in 1992, where they accounted for 29.89 percent and 7.29 percent of its total exports and imports respectively. By 1996, South Africa's exports and imports to the SADC region as a proportion of its total exports and imports were at 23.53 percent and 6.51 percent respectively.

Among the SADC member states, South Africa trades mostly with the BLNS countries who are its partners in the SACU. Its exports to these countries ranged between 9.77 and 20.35 percent of its total exports during the period 1990-1996, while only 3.99 percent to 9.55 percent of South Africa's total exports were to the non-SACU SADC member states. In the same period, South Africa also imported more of its SADC imports from the BLNS countries: an average of 4.26 percent of its total imports came from the BLNS and less than 2 percent from the non-SACU SADC countries. In terms of its total SADC exports, between 67.36 and 82.39 percent of its exports went to the BLNS countries during 1990-1996, while between 66.24 and 83.94 percent of its total SADC imports came from the BLNS countries[136].

Among the non-SACU SADC member states, South Africa's largest trading partners since 1990 (even before it became a member of SADC) have been Zimbabwe, Zambia, Mozambique and Malawi in that order. It should be noted that South Africa has bilateral preferential trade agreements with Zimbabwe, Malawi and Mozambique, which partly explains the significant

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[135]Exports include re-exports (Commissioner for South African Revenue Service, 1998a:iii).

[136]Own calculations from Table 6.6.

Table 6.6: South Africa's trade relations, 1990-1998 (Rand million: current prices)

	1990	1992	1993	1994	1995	1996	1997	1998
Ang (X)	49.55	356.20	262.40	311.84	409.75	..	876.12	1 083.03
(M)	0.06	..	1.10	16.89	3.59	..	209.9	14.84
Mau (X)	311.60	1 984.89	652.40	541.32	670.15	1 066.37	1 155.17	1 028.53
(M)	14.50	12.30	..	15.15	38.02	52.03	24.77	28.02
Mal (X)	378.31	698.00	591.70	622.04	663.98	638.80	1 091.66	1 209.07
(M)	81.13	134.00	159.50	185.22	206.65	15.94	389.72	456.91
Moz (X)	432.15	678.30	961.60	1 406.78	1 839.92	1 115.88	2 616.37	2 646.95
(M)	30.39	60.30	60.30	91.93	122.80	188.18	167.83	173.37
Tanz (X)	10.32	27.70	57.70	183.23	566.67	15.73	893.24	998.57
(M)	2.58	10.30	21.80	15.86	16.6	36.82	18.23	25.47
Zam (X)	494.35	1 112.20	1 305.90	1 158.68	1 301.61	1 337.86	2 134.47	2 111.54
(M)	6.58	44.60	75.50	103.89	95.43	18.3	166.40	216.70
Zim (X)	1 061.80	1 553.40	1 745.20	2 459.40	4 240.84	4 626.08	5 249.88	5 192.05
(M)	441.55	762.60	659.00	1 021.60	992.54	870.01	883.66	1 099.59
NSS (X)	**2 429.60**	**6 419.69**	**5 576.89**	**7 224.60**	**9 692.92**	**8 800.72**	**14 007.92**	**14 269.73**
(M)	**576.80**	**1 016.80**	**977.20**	**1 465.68**	**1 475.65**	**1 181.28**	**1 860.51**	**2 014.90**
(%X)	**(3.99)**	**(9.54)**	**(6.52)**	**(8.13)**	**(9.55)**	**(7.68)**	**(10.63)**	**(9.64)**
(%M)	**(1.31)**	**(1.94)**	**(1.54)**	**(1.92)**	**(1.50)**	**(1.05)**	**(1.47)**	**(1.41)**
BLNS(X)	12 268.30	13 695.92	15 406.33	16 533.00	9 914.20*	18 165.85**	..	..
(M)	1 440.28	2 814.00	2 717.83	3 226.60	2 895.78*	6 174.96	..	..
(%X)	(20.14)	(20.35)	(18.04)	(18.62)	(9.77)	(15.85)	..	..
(%M)	(3.26)	(5.36)	(4.29)	(4.23)	(2.94)	(5.47)	..	..
SADC X	**14 697.90**	**20 115.61**	**20 983.59**	**23 757.60**	**19 607.12**	**26 966.57**	**..**	**..**
M	**2 017.08**	**3 830.80**	**3 695.03**	**4 692.28**	**4 371.43**	**7 356.24**	**..**	**..**
(%X)	**(24.12)**	**(29.89)**	**(24.57)**	**(26.75)**	**(19.32)**	**(23.53)**	**..**	**..**
(%M)	**(4.57)**	**(7.29)**	**(5.84)**	**(6.15)**	**(4.44)**	**(6.51)**	**..**	**..**
ROW X	46 231.10	47 192.46	64 428.88	65 054.10	81 896.28	87 623.23	..	..
(M)	42 107.92	48 683.29	59 626.87	71 565.22	94 141.67	105 575.46	..	..
(%X)	(75.88)	(70.11)	(75.43)	(73.25)	(80.68)	(76.47)	..	..
(%M)	(95.43)	(92.71)	(95.16)	(93.85)	(95.56)	(93.49)	..	..
TOT (X)	**60 929.00**	**67 308.07**	**85 412.10**	**88 811.70**	**101 503.40**	**114 589.80**	**131 740.55**	**147 994.04**
(M)	**44 125.00**	**52 514.09**	**63 321.90**	**76 257.50**	**98 513.10**	**112 931.70**	**126 912.05**	**143 356.13**

Source: Own calculations from Commissioner for South African Revenue Service (1998a:166-185); Ahwireng-Obeng and McGowan (1999b:9-10); Maasdorp and Whiteside (1993:15); Van Nieuwkerk (1995:233); Cassim and Zarenda (1995:38); SADC Industry and Industry Sector (1999:78-79); Adams (1999).

Notes: *=Namibia's statistics were not available and thus not included.
** = Lesotho's statistics were not available and thus not included.
NSS = non-SACU SADC trade.
SADC = Total SADC (i.e. non-SACU SADC countries plus BLNS countries).
TOT = Total Trade.
%X = exports as a percentage of total exports.
%M = imports as a percentage of total imports.
South Africa's trade statistics with the BLNS countries were not available for 1997 and 1998.

trade relations it has with these three countries. Since 1995, Mauritius has also become one of South Africa's important regional trading partners, with trade volumes between the two growing rapidly. South Africa's exports to Zimbabwe as a percentage of its non-SACU SADC exports ranged between 33 and 53 percent during the period 1990-1998, while its imports from Zimbabwe ranged from 38 to 78 percent in the same period[137]. Throughout the decade, South Africa had its highest trade growth rates with Tanzania. Trade growth rates with Mozambique and Tanzania have consistently been on the increase, while those with Zimbabwe fell in 1996-1998 (Table A-13(a), Appendix 4).

It should be noted that while the growth of South Africa's trade with the non-SACU SADC countries has been falling throughout the decade (Table A-13(a), Appendix 4), the levels of South Africa's trade with them have been on a gradual increase over the years. For example its trade with the countries was only 2.86 percent of its total trade in 1990 and this rose to 5.58 percent of its total trade in 1995. Even though there was a fall in 1996 to 4.39 percent, this rose in the subsequent years to 6.14 percent in 1997 and 5.59 percent in 1998[138].

6.5   TRADE FLOWS WITHIN SACU

The SACUA provisions, which ensure free movement of goods among member states, have enabled members to trade with each other with ease and thus enhanced intra-area trade. The four smaller partners, the BLNS countries, have over the years mainly relied on South Africa for their imports, while South Africa has benefited by having a ready market for its products. For example, during the apartheid era, South Africa valued SACU because, although it was isolated from the world through the sanctions that were imposed, it still had access to the outside world through its SACU partners (Leistner, 1995:270). Today, SACU is still of significance as it provides South Africa with a captive market in the BLNS countries. For example, South Africa

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[137]South Africa's exports to Zambia ranged from 13 to 26 percent of its total non-SACU SADC exports, whilst the imports from Zambia ranged from 1 percent to 10 percent. South Africa's exports to Mozambique ranged from 12 to 21 percent of its non-SACU SADC exports, while its imports from Mozambique ranged from 5 to 15 percent. With Malawi, exports ranged from 2 to 16 percent of non-SACU SADC exports, whilst imports ranged between 2 and 22 percent.

[138]Own calculations from Table 6.6.

supplies BLNS with around 80-90 percent of their total imports, with these countries absorbing approximately 10 percent of South Africa's total exports and, importantly, 40 percent of its manufactured exports (Leistner, 1997:116; Michelsen Institute, 1986:20).

6.5.1 Intra-SACU trade in the 1980s

In the period 1980-1987, trade dependence on South Africa by the BLS countries was extremely high (Table 6.7).

Table 6.7: Percentage composition of BLS total trade with South Africa (1980-1987)

Year	Botswana		Lesotho		Swaziland	
	Imports	Exports	Imports	Exports	Imports	Exports
1980	87.20	6.60	99.40	63.80	76.90	23.80
1981	91.70	17.40	98.70	61.70	83.30	31.80
1982	91.40	11.90	99.20	64.20	82.90	34.80
1983	84.40	8.40	99.30	99.10	84.10	31.00
1984	88.40	9.90	99.40	99.80	91.40	30.80
1985	86.80	6.50	99.40	91.30	80.00	28.20
1986	93.20	6.80	98.80	91.70	90.10	36.20
1987	95.60	4.60	98.40	91.30	90.10	36.20
Average	89.80	9.00	99.10	82.90	84.90	31.60

Source: Hoohlo (1990:101).

Notes: Namibia was still part of South Africa and so its statistics were not given separately.
Exports include re-exports.

Lesotho emerges as the most dependent economy, with 99 percent of its imports originating from South Africa and over 80 percent of its exports destined for South Africa. Botswana was the least dependent in so far as its exports are concerned. Only 9 percent of its exports went to South Africa. However, in terms of import trade, it was highly dependent on South Africa with nearly 90 percent of its imports coming from South Africa. Swaziland was the least dependent on South Africa in terms of its import trade, with an average of 84.9 percent of its imports coming from South Africa and 31.6 percent of its exports going to South Africa in this period.

6.5.2 Intra-SACU trade in the 1990s[139]

For the period 1990-1996, of its SACU partners, South Africa recorded the highest export trade with Botswana followed by Namibia (Table 6.8). It experienced very high import trade with Swaziland and Namibia in that order, with over half a billion rand worth of its imports coming from each of these countries in the early 1990s, rising up to over a billion rand worth of imports from each by 1994.

South Africa experienced higher levels of export trade expansion with Swaziland. For example, for the period 1990-1994, South Africa's exports to Swaziland rose by 110.60 percent in nominal terms, while export trade with Botswana and Namibia rose by 18.6 percent and 40.20 percent respectively. In terms of import trade, South Africa experienced its largest import trade expansion with Swaziland followed by Namibia in 1990-1992, where percentage increases in nominal terms of 142.20 percent and 81.72 percent were recorded respectively. After 1992, South Africa recorded its highest levels of import trade expansion with Botswana[140].

During the 1990-1996 period, South Africa's highest export trade expansion was with Swaziland followed by Botswana where percentage increases in nominal terms were 184.45 percent and 82.56 percent respectively. Some significant import trade increases were recorded with other BLNS countries in this period[141]. These can partly be attributed to the growth and diversification of the BLNS countries' manufacturing sectors over the years, considered in the next section.

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[139]The intra-SACU trade discussions for Sections 6.5.1 and 6.5.2 are not from the same perspective because the same trade data was not available each time.

[140]Own calculations from Table 6.8.

[141]For example, from 1992 to 1993 South Africa's imports from Namibia increased by 51.57 percent in nominal terms, while its imports from Lesotho increased by 36.36 percent in 1993-1994, 69.18 percent in 1994-1995, and imports from Swaziland increased by 65.95 percent in 1995-1996.

Table 6.8: South Africa's trade within SACU, 1990-1996 (Rand million: current prices)

	Botswana	Lesotho	Namibia	Swaziland	Total
1990 (Exports) (Imports) (%X) (%M)	4 066.84 181.92 (33.15)(12.63)	2 946.97 81.85 (24.02)(5.68)	3 655.96 495.26 (29.80)(34.39)	1 598.53 681.25 (13.03)(47.30)	12 268.30 1 440.28 (20.14)(3.26)
1991 (Exports) (Imports) (%X) (%M)	4 480.19 .. (35.09)(..)	2 558.72 .. (20.04)(..)	3 762.19 .. (29.46)(..)	1 967.96 .. (15.41)(..)	12 769.06 .. (..)(..)
1992 (Exports) (Imports) (%X) (%M)	4 444.96 164.00 (32.45)(5.83)	3 016.73 100.00 (22.03)(3.55)	3 841.68 900.00 (28.05)(31.98)	2 392.55 1 650.00 (17.47)(58.64)	13 695.92 2 814.00 (20.35)(5.36)
1993 (Exports) (Imports) (%X) (%M)	4 686.95 264.09 (30.42)(9.72)	3 473.27 102.18 (22.54)(3.76)	4 618.69 1 364.16 (29.98)(50.19)	2 627.42 987.40 (17.06)(36.33)	15 406.33 2 717.83 (18.04)(4.29)
1994 (Exports) (Imports) (%X) (%M)	4 822.39 402.42 (29.17)(12.47)	3 219.23 139.33 (19.47)(4.32)	5 125.40 1 525.10 (31.00)(47.27)	3 365.98 1 159.75 (20.36)(35.94)	16 533.00 3 226.60 (18.62)(4.23)
1995 (Exports) (Imports) (%X) (%M)	3 900.22 1 268.90 (39.34)(43.82)	2 632.29 235.72 (26.55)(8.14)	.. .. (..)(..)	3 381.69 1 391.16 (34.11)(48.04)	9 914.20 2 895.78 (9.77)(2.94)
1996 (Exports) (Imports) (%X) (%M)	7 424.61 2 515.97 (40.87)(40.74)	.. 247.60 (..)(4.01)	6 194.15 1 102.80 (34.10)(17.86)	4 547.09 2 308.60 (25.03)(37.39)	18 165.85 6 174.97 (15.85)(5.47)

Source: Ahwireng-Obeng and McGowan (1999b:9-10); Maasdorp and Whiteside (1993:15); Cassim and Zarenda (1995:38); SADC Industry and Trade Sector (1999:78-9); SADC (1999:118-364); Table 6.6.

Notes: For the individual countries: %X and %M = Percentage of South Africa's total SACU exports and imports respectively.

For column 6 (Total): %X and %M = Percentage of South Africa's total exports and imports respectively.

In 1996, the BLNS countries as a group obtained 87.26 percent of their total imports from South Africa and 40.66 percent of their total exports went to South Africa[142]. On the other hand, South Africa had 15.85 percent of its total exports to the BLNS countries and 5.47 percent of its total imports from these countries (Tables 6.6 and 6.8). Therefore, while the BLNS countries heavily rely on the customs union for their trade, South Africa only does so for an average of 12 percent of its total trade[143], and about 40 percent of its manufactured exports (Leistner, 1997:116).

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[142]Own calculations from Table 6.8 and Commissioner for South African Revenue Services (1998b:166-172).

[143]Own calculations based on Table 6.6.

6.5.3 Extent of BLNS countries' exports in manufactures

It has been argued that some industries have located in the BLNS countries primarily because of their duty-free access to the South African market[144]. Over the years, instead of simply relying on the rather ineffective provisions of the SACUA, and the advantages of duty-free access into the South African market which the SACU guarantees, the BLNS countries have revised their incentives for foreign investment, to attract both local and foreign investment into their manufacturing sectors, as well as other sectors[145]. As such substantial industrial development has been taking place, so that during the 1990s, in terms of real GDP growth rates and real per capita GDP, the BLNS countries have improved their position relative to South Africa (Table 6.9).

Apart from diversifying production, developing the manufacturing sector and enabling economic growth, efforts to develop industries in the BLNS countries have also had an impact on the countries' trade, as industrial diversification has led to substantial volumes of exports originating from the countries' manufacturing sectors (see Table 5.14). Among the BLNS countries, Lesotho registers the highest contribution of exports coming from the manufacturing sector, accounting

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[144]Some examples of such industries are: (i) Hyundai auto assembly plant in Botswana; (ii) sugar, sugar based products and consumer oriented assembly plants in Swaziland, and Conco, which in 1986 re-located its Coca Cola concentrate plant to Swaziland; (iii) fishing industry in Namibia; and (iv) thirty-one textiles companies in Lesotho, the US$18 million factory aimed at producing high quality ceramic tiles which opened in 1996, and the major maize and wheat milling factories which were established in the 1980s (Ahwireng-Obeng and McGowan, 1998a:180; SADC, 1999:170; Hartzenberg and Maasdorp, 1998:448).

[145]It is interesting to note the success which Botswana, Lesotho and Swaziland have had in attracting firms from the newly industrialised Asian economies. For Lesotho, foreign investment from Asian economies has had a tremendous impact on its annual GDP growth rate. This is particularly as a result of foreign direct investment in textiles and clothing from the Far East. For Swaziland, in 1986, it attracted four textiles related manufacturing plans from Taiwan (Hartzenberg and Maasdorp, 1998:448-449).

Table 6.9: A comparison of the BLNS countries' real growth rates with South Africa's

Country	1993 GDP	pcGDP	1994 GDP	pcGDP	1995 GDP	pcGDP	1996 GDP	pcGDP	1997 GDP	pcGDP
Botswana	-0.1	-2.5	4.1	4.1	3.1	0.6	7.0	4.3	6.9	4.3
Lesotho	5.6	2.3	11.9	9.1	9.8	4.5	12.7	..	3.5	..
Namibia	-2.0	-5.0	6.7	3.5	3.4	0.3	2.9	-0.1	1.8	-1.3
Swaziland	1.0	-2.1	3.1	0.4	3.5	0.4	2.7	-0.4	3.9	-1.4
S. Africa	**1.3**	**-0.9**	**2.7**	**0.6**	**3.4**	**1.2**	**3.2**	**1.1**	**1.7**	**-0.4**

Source: SADC (1999: 138, 166, 236, 276, 301).
Notes: GDP = real GDP growth rate.   pcGDP = real per capita GDP growth rate.

for between 72 and 82 percent of the total value of exports[146]. Industrial exports have become increasingly more valuable in recent years and are outpacing the traditional exports of wool and mohair. For example, in 1996, manufactured exports, mainly in the cotton trousers (jeans) and cotton knitted tops sub-sectors, exceeded US$70 million (SADC, 1999:170).

Botswana has the least contribution of exports coming from the manufacturing sector. As such, the government is encouraging the exploitation and development of an export-led manufacturing base. In the case of Namibia, the country's pragmatic strategy in broadening its manufacturing activities and increasing value addition to its products before exporting, has paid off in enabling the manufacturing sector to make a contribution of between 32 and 39 percent of the total value of exports. For Swaziland, through its export oriented industries, the manufacturing sector has contributed between 22 and 35 percent of the total value of exports, with exports mainly composed of drink concentrates, refrigerators and textiles.

As Hartzenberg and Maasdorp (1998:451) note, this evidence of growth in the BLNS countries' industries, as well as industrial diversification, is reflected in the increasing value of South Africa's imports of products with higher value added from the BLNS countries. In the case of

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[146]As noted in Section 5.3.2, this statistic does not, however, reflect manufacturing or export diversity.

Swaziland, the range of manufactured exports to South Africa has grown rapidly since the mid 1970s and continued into the 1980s. The second half of the 1980s saw large increases of exports to South Africa which were accounted for largely by textiles, footwear, motor vehicle parts, candles, office products, other miscellaneous manufactured goods and edible products, including a new range of products such as soft drinks and paper. By 1997, South Africa's imports from Swaziland had risen from only 16 percent (1970) to 50 percent of Swaziland's total exports (Hartzenberg and Maasdorp (1998:451), which was a slight fall from 56.20 percent in 1995 (Table A-6, Appendix 2). For Lesotho, the growth of its industry (particularly clothing and textiles) has also seen an increase (in absolute terms) in the value of imports which South Africa is prepared to buy. The proportion of its exports to South Africa rose to 61.59 percent of its total exports by 1996. In the case of Namibia and Botswana, their manufacturing sectors have also been growing with South Africa taking 23 percent of Namibia's exports in 1996 (Table A-6, Appendix 2) and the major share of Botswana's manufactured exports[147].

6.6 INFORMAL CROSS-BORDER TRADE

Apart from formal intra-regional trade, informal cross-border trade constitutes a relatively large part of intra-SADC trade, with some studies suggesting that such trade is between 15 and 20 percent of official trade (Ndlela, 1998:86). Informal cross-border trade has been in existence for years and plays an important role in moving commodities from surplus to deficit areas, as well as providing income to the traders. What makes this kind of trade thrive is the fact that it is conducted in local currency, thus saving the people involved the problem of accessing foreign currency.

This trade is not only confined to the traditional exchange of goods and services between residents sharing a common border, but has grown to cover an increasing range of sophisticated goods intended largely for re-sale in both urban and rural areas quite far away. Some of the

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[147]One of Botswana's major exports to South Africa is soda ash from its Sua Pan Soda Ash Project. The Sua Pan Soda Ash Project is the largest source of imports by South Africa from the SACU region.

products involved are intended for re-export. It has also been noted that the stronger is the convertibility of a country's currency into the US dollar, British pound sterling, or South African rand, relative to the currencies of other countries in the region, the more appealing, other things being equal, is that country to informal border traders. It should be noted that not all informal cross border trade is done illegally, because advance legal transactions are often done before the goods cross the borders.

Table 6.10: Informal cross-border trade in food and non-food commodities in the SADC region

Commodities	Origin	Destination
maize and mealie meal	Tanzania, Zambia, Zimbabwe	Mozambique, Zambia, D.R.C.
rice, dry beans, peas, sugar	Malawi, Zimbabwe	Mozambique, Zambia, Tanzania
wheat flour	Zimbabwe	Mozambique, Zambia
fresh and dry fish, kapenta, cooking oil	Malawi, Zambia	Mozambique, Tanzania
Vegetables, dairy products, meat, apples, pears	Zimbabwe	Malawi, Mozambique, Zambia
orange squash, spirits, beer	Malawi, Zimbabwe	Mozambique, Zambia, D.R.C.
Agricultural equipment and spare parts	Zimbabwe	Malawi, Mozambique, Zambia
Fertiliser	Zambia, Zimbabwe	Malawi, Tanzania, D.R.C.
textiles, second hand clothes	Zambia, Tanzania	Malawi, Mozambique, D.R.C.

Source: Ndlela (1998:87).

Table 6.10 gives an insight into the informal trade which goes on across different countries in the SADC region involving major food and non-food commodities. For example, Zimbabwe is a major source of agricultural equipment and spares for Malawi, Mozambique and Zambia, while Zambia and Tanzania are major sources of textile and second hand clothes exports to Malawi, Mozambique and the D.R.C. While the table does not show informal trade between SACU member countries and the non-SACU SADC countries, unrecorded trade exists between the two. For example, a lot of electrical equipment, cosmetics, clothing, footwear and handbags are obtained from South Africa and Botswana and find their way into Zimbabwe, Mozambique and Zambia through informal cross-border trade. Large quantities of doilies and knitwear from Zimbabwe find their way into South Africa and Botswana each year. Jewellery and ornaments

from Mauritius and some sculpture from Zimbabwe also find their way into South Africa (Exhibitors and informal traders, 2000).

6.7 A COMPARISON OF INTRA-SADC AND SADC-SOUTH AFRICA TRADE

From Table 6.11, it can be noted that SADC countries do business amongst themselves on a lesser scale than with South Africa. Intra-SADC trade as a percentage of total SADC trade[148] is always lower than SADC-South Africa trade (SADC's trade with South Africa) as a percentage of total SADC trade. It can also be noted that, South Africa's trade with SADC (South Africa-SADC) as a percentage of South Africa's total trade, is less than SADC's trade with South Africa as a proportion of SADC's total trade (SADC-South Africa). It therefore shows that South Africa is less dependent on the region for its trade than vice versa. The rest of SADC is important to South Africa in terms of its manufactured exports.

Table 6.11: A comparison of Intra-SADC trade (as a proportion of total SADC trade)
               SADC-South Africa trade (as a proportion of total SADC trade)
               and South Africa-SADC trade (as a proportion of South Africa trade)

	1990	1991	1992	1993	1994	1995	1996	1997
Intra-SADC	4.80	6.25	4.92	8.48	14.45	14.45	19.11	..
SADC-S. Africa	14.51	23.35	20.38	38.26	40.74	21.55	24.12	21.80
S. Africa-SADC	12.65	13.30	16.31	16.59	16.90	11.99	13.03	14.11

Source: Own calculations from Cattaneo (1998:48); Imani Development (1997:x-xi); Industry and Trade Sector (1999:78-9); SAFER (1993:2); Comesa (1999b); Table 6.6.

It should also be noted with respect to Table 6.11 that, with South Africa's accession to SADC, there was a marked rise in intra-regional trade since South Africa-SADC trade was now recorded as intra-SADC trade whereas before it was not. Intra-SADC trade rose from 8.48 percent (1993) to 14.39 percent (1994). SADC-South Africa trade also rose to 40.74 percent of total SADC trade while South Africa-SADC trade rose to 16.90 percent of total South Africa trade. Intra-regional trade is set to increase with the implementation of the SADC Free Trade Area as the SADC countries will gain greater access to the South African market, and vice versa. The accession to

[148]All SADC countries, i.e. SACU and non-SACU SADC countries.

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SADC of Mauritius, a relatively more developed country, also gave a boost to recorded SADC intra regional trade, with the level of intra-SADC trade rising to 19.11 percent in 1996[149].

It has been argued that intra-regional trade is lower than could have been expected, given the numerous bilateral trade agreements in the region. Masuku (1999) observes that bilateral trade agreements are agreed upon at government level without much input from the private sector and other stakeholders. As such, the stakeholders may not be aware of the products involved, opportunities in the markets and the various provisions of the trade agreements. The agreements may thus be less beneficial than they could be, as stakeholders are not in a position to identify the available opportunities fully. In this way the anticipated increase in trade between countries may not be as high as would have been expected after effecting the bilateral trade agreements.

Kuzvinzwa (1999) observes that the success of trade agreements depends critically on the rules of origin[150] specified therein. Failure to comply with rules of origin will frustrate the agreement and trade between countries may not be as significant as would have been expected as a result. Chisembwere (1999) notes that quite a number of exporters have had their licenses taken away due to falsifying rules of origin under, for example, the Zimbabwe-Botswana bilateral trade agreement, including some significant exporters. He also notes that quoting local content in local currency leads to the fact that at one point a product or products may qualify, yet at another they may not qualify due to frequent fluctuations in the values of the local currencies of the region. This affects the volume of trade between countries despite the existence of bilateral trade agreements between them.

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[149]Mauritius became a member of SADC in August 1995 and the full impact of its membership in terms of trade within the region could only have been felt in its second year as a member.

[150]Rules of origin specify and reflect the requirement that goods should originate from a member country, requirements in terms of local content, e.g. at least 25 percent local content, and requirements in terms of material content, i.e. the maximum import content, the value of which should not exceed, e.g. 60 percent.

6.8 IMPLICATIONS OF ECONOMIC INTEGRATION FOR INTRA-REGIONAL TRADE

6.8.1 Implications of economic integration within SADC

The large size of informal cross-border trade implies that there is a great potential within the SADC region for increased intra-regional trade. It is likely that this potential can be better exploited with the implementation of the SADC Trade Protocol. Traders will have easier access into the various markets in the region and will therefore be encouraged to conduct trade more openly following the official channels. This will thus reduce the current distortions in intra-regional trade levels as the volume of trade going through unofficial channels will be reduced.

While the implementation of the SADC Free Trade Area is likely to improve intra-SADC trade, of interest will be the degree to which intra-regional trade will increase. Countries will be able to explore new trade relations with SADC countries with which they do not currently trade significantly. In particular, those countries currently outside of existing bilateral preferential trade agreements between specific member states, such as Angola and Tanzania, will also be able to access these markets. Non-SACU SADC countries will be able to access the SACU market with greater ease and enjoy the products in this market which are relatively of a higher quality than those found in the rest of the SADC. Besides this, it may be found that trade expansion in the region could become more intra-industry in nature, with the possible associated benefits[151].

While the SADC Free Trade Area is conducive to an expansion in trade, there is also a possibility of the flooding of the local market of the weaker countries with products from the relatively stronger countries in the region like South Africa and Zimbabwe. As Tsikata (1999:16, 18) notes, these two countries tend to have high bilateral complementarities with other SADC countries (see Section 7.3.2). The more industrialised profile of South Africa, and to a lesser extent Zimbabwe and Mauritius, offers more opportunities for trading with the less developed and more primary producing members of SADC. This may also be accompanied by the migration of the few industries they possess to the same relatively more advanced countries. Salama (1999) notes that, for Malawi, this has already begun to be a problem, as a lot of products which Malawi used to

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[151]Intra-industry trade opportunities are analysed in Chapter Seven.

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produce locally are now being displaced by cheaper imports, viz., surf, chicken, canned tomatoes, canned and fresh fruits from within and outside the region. This implies that the asymmetric tariff phase down programme incorporated in the SADC Trade Protocol should be taken seriously and implemented carefully once the SADC Trade Protocol takes effect.

Munanga (1999) and Mbilima (1998:10) reiterate that trade between Tanzania and its SADC neighbours has largely been insignificant[152]. With the implementation of the SADC Trade Protocol, Tanzania could increase the level of its trade with other SADC member countries by adopting policies aimed at promoting open cross-border trade and investment. Tsikata (1999:16, 18) notes that Mauritius is a country with which other SADC countries are most likely to have high complementarity, and as such, the implementation of the SADC Protocol is likely to increase trade between Mauritius and the region. Tsikata (1999:17,18) also notes that, while complementarity tends to be lower among the poorer countries, the diverse trade structures which the countries have may lead to enhanced complementarity opportunities provided barriers to trade are minimised.

With the SADC Free Trade Area in place, SADC member states will have easier access to the South African market. South Africa's average high complementarity index with non-SACU SADC countries (Angola, the D.R.C. and Seychelles not included) (see Section 7.3.2), indicates that its export and import structures would potentially match well with SADC. This suggests that South Africa potentially has much to gain as there is likely to be an upsurge of demand for South African goods from the SADC states. However, since South Africa is not as dependent on the SADC countries for its import requirements as the SADC countries themselves are on South Africa (Tables 6.6 and 6.11), South Africa will tend to improve its trade balance with the region

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[152]Munanga (1999) notes that Tanzania tends to trade more with its colonial masters and not with the region as it produces raw materials and primary goods, which cater for industries in the North and not the region. Mbilima (1998:10) notes that the current low levels of recorded intra-regional trade in Tanzania can be attributed to the country's restrictive trade policies, especially in terms of high trade taxes, foreign exchange controls and import controls. Such policies have not only reduced cross-border trade with other SADC countries as they reduce incentives to trade, but have also distorted the level of recorded trade by encouraging some trade to go through unofficial channels.

further. This can perpetuate the current trade imbalances between South Africa and the rest of the SADC region[153].

Countries can only benefit from a trade agreement if they know the provisions thereof. As such, as Masuku (1999) notes, there is need for communication between business organisations within the region so that stakeholders will be able to access information on opportunities in member countries. He notes that the formation of the Association of SADC Chambers of Commerce and Industry[154] will go a long towards improving communication between countries in the region. Munanga (1999) reports that, at present, there are questions by Tanzania, and the region in general, as to whether implementing the SADC Trade Protocol will be of any benefit to the majority of SADC countries except for South Africa and the relatively more developed countries, like Zimbabwe, Mauritius and Seychelles. Chizema (1999) therefore argues that there is a need for individual country business groupings together with the respective trade promotion bodies therein, to sensitise their stakeholders and the private sector on trade opportunities in the SADC region as well as the provisions of the SADC Trade Protocol.

6.8.2   Implications of penetration into SACU by non-SACU SADC countries

From Tables A-14(a)-(c), Appendix 4, from the performance of two of the relatively more developed countries in the SADC region, South Africa and Zimbabwe, the former has a competitive advantage in the manufacturing sector. In terms of scale-intensive, differentiated, and science-based exports, South Africa has a higher growth rate than Zimbabwe. South Africa showed higher and significant changes in the distribution of its exports in these categories from

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[153]Current trade balances which South Africa and Zimbabwe experience with the rest of the region are analysed in Chapter Seven.

[154]This association of regional chambers of commerce was set up towards the end of 1999, with the aim of improving dialogue between the business community and governments of the SADC member states, engaging key players in the development process and seeking to improve cross border investment and trade (SARDC, 1999a:14).

1990 to 1995 than Zimbabwe, as well as higher proportions of its exports categorised as technologically complex and high technology. However, the tables also show that Zimbabwe is a powerful competitor to South Africa in resource-based, labour-intensive and science-based technological categories.

Other countries in the region are also competitors to South Africa in terms of production of commodities in specific product categories (Table A-4(b), Appendix 2). For example, the D.R.C. and Malawi have comparative advantage in cork and wood, while Malawi and Mauritius have comparative advantage in pulp and waste paper. Apart from Zimbabwe, Malawi and Mauritius are strong competitors to South Africa in the sugar, sugar preparations and honey sector, while Mauritius and Zambia are strong competitors to South Africa in the miscellaneous manufactured articles sector.

However, despite some competition, South Africa seems still has a lot of advantages which can make penetration into the SACU market by the non-SACU SADC countries difficult. The strong trade dependencies between South Africa and the BLNS countries suggest that the SACU market may not be easily penetrated by the non-SACU SADC countries. South Africa's geographical proximity to the BLNS countries, good communications system and tariff preferences in the customs union will continue to give it an advantage over the non-SACU SADC countries, thus making their penetration into the SACU market difficult. Besides this, significant complementarities between South Africa and other SACU member countries exist and this has profoundly influenced South Africa's trade in southern Africa in favour of the SACU region.

The existence of the Common Monetary Area enables Lesotho, Namibia and Swaziland to use the South African rand freely for all their imports. Although Botswana is not a member, its currency is relatively at par with the South African rand and is easily convertible. So there are no problems in accessing foreign currency unlike if the BLNS import from the non-SACU SADC countries. This adds to the advantage of trade with South Africa.

The BLNS countries are dependent on South Africa's transport and storage facilities, and South Africa controls almost all the BLNS countries' trade routes. For example, the BLNS countries'

railway tracks all pass through South Africa. In 1996 and 1997, the BLS countries were dependent on South Africa's port of Durban for the entry and exit of all their imports and exports, while Namibia was dependent on Walvis Bay for the entry and exit of all imports and exports[155]. This dominance by South Africa of the transport system within SACU could make it difficult for the non-SACU SADC countries to compete with South Africa in terms of the provision of adequate and efficient transport, thus making their goods less competitive in the SACU market.

Apart from South Africa's dominance in the SACU market, penetration into the SACU market by the non-SACU SADC member countries has been made difficult by SACU's relatively high common external tariffs which make products coming from outside the customs union more expensive, and thus less competitive compared to those coming from South Africa, except for the products coming from Malawi and Zimbabwe due to bilateral preferential trade agreements. Other factors are geographic distance and inadequate transport facilities, except for routes from Mozambique to Swaziland and Zimbabwe to Botswana. Another obvious factor is that, unlike South Africa, the non-SACU SADC countries do not have such extensive ownership and established business contacts within SACU.

6.9 CONCLUSION

For the ten years in which SADC has been in place, most of the trade relations that have taken place appear to have been promoted by the different bilateral trade agreements between member states. These have been instruments for trade development and enhancing market penetration, despite the existence of multinational agreements like COMESA, CBI and SADC. The bilateral trade agreements have either been of an MFN nature or have been preferential trade agreements focusing on markets where maximum economic benefits can be derived as a result of the trade agreement. With such a vast network of trade agreements between SADC member states, the absence of an enforceable SADC Trade Protocol, geared at creating a SADC Free Trade Area, is unlikely *per se* to have hindered trade from taking place within the region. All these

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[155]Own deductions from SATCC (1999:44, 84-85).

agreements could have helped to create a secure environment conducive to investment and trade expansion in the region. However, with the implementation of the SADC Trade Protocol, trade relations and trade volumes in the region are expected to improve.

There may, however, be problems such as the flooding of local markets with foreign goods, with some countries benefiting more than others. The current skewness of trade benefits as shown by the countries' trade balances is analysed in the following chapter. Nevertheless, by continuing to create environments conducive to investment into the various potential areas identified in individual member countries, polarisation of industries as a result of the SADC Free Trade Area may be minimised. Current and potential areas of cross-border investment in the region are also analysed in the following chapter.

Although high levels of trade have been noted within the SACU, and the BLNS countries have been able to access the South African market, it has not been to the same degree as South Africa has accessed theirs. Significant increases in the volume of the BLNS countries' exports into South Africa were only noted during the 1990s. The potential for a more balanced trade between South Africa and the BLNS countries may, however, exist. Trade opportunities and potentials between South Africa and the BLNS countries, as well as the differences in revealed comparative advantages that can promote trade in various product categories between South Africa and BLNS, are analysed in the following chapter.

CHAPTER SEVEN

POTENTIAL BENEFITS OF REGIONAL INTEGRATION: TRADE AND CROSS BORDER INVESTMENT

7.1 INTRODUCTION

This chapter will attempt to make an empirical assessment of benefits and potential benefits resulting from trade and cross border investment within the region, and the implications for future regional integration.

Section 7.2 classifies current significant trade links in the region, by the value of annual trade. It then examines current trade balances between countries in order to assess whether countries have benefited equally from recent trade expansion. It should be stressed, however, that while a country may not necessarily experience a surplus from its trade, it can still benefit from regional trade expansion as a result of gaining access to a wide variety of products from other countries, although this may mean increased competition for local industries.

Section 7.3 examines the prospects for future intra-regional trade expansion. The discussion considers export diversification, trade complementarity, and revealed comparative advantages within the region and how these could have an impact on the potential for improved intra-regional trade.

Trade relations or trade expansion can be either inter-industry or intra-industry in nature, each with its own advantages to the participating countries. However, most intra-regional trade in southern Africa is inter-industry and, as such, Section 7.4 will look at the potential for intra-industry trade within the region. This will attempt to highlight areas upon which trade can be promoted not solely on the basis of comparative advantage but also on the basis of economies of scale.

Closer regional economic integration enables greater ease in cross border investment between

countries. Section 7.5 will examine current cross border investment in the region and the potential that exists for future cross border investment. An attempt will be made to highlight factors which currently inhibit cross border investment opportunities. Most information in this section is based on interviews conducted with trade officers at the various SADC countries' embassies in Zimbabwe as well as representatives of industry and commerce in Zimbabwe. Section 7.6 concludes.

7.2 CLASSIFICATION OF TRADE LINKS AND TRADE BALANCES IN THE REGION

As has already been noted, the significance of SADC as a market to member states has been varied. In this regard, it is important to note the countries whose trade links have tended to contribute more significantly to trade in the region. The trade balances experienced within these links will help to indicate the dominant trade partner. As noted above, however, while a country may experience a deficit in a trade link, it can still benefit by having access to better and cheaper products from its partner. Nonetheless, such an exercise is useful because countries which have persistent trade surpluses vis-a-vis their regional partners are perceived to benefit more from integration and may thus face demands for compensation of some kind.

7.2.1 Classification of trade links in the region (1990-1998)

Table 7.1 classifies trade links in the region into seven categories by value of annual trade. As noted in Section 6.4.3, the South Africa-BLNS trade link is the outstanding one in the region, with an annual trade of R12.5 billion, due, inter alia, to the customs union between them. South Africa and SACU in general are involved in all the trade links in Categories A and B (Table 7.1), thus showing their significant involvement in trade with the non-SACU SADC countries. Zimbabwe is involved in most of the trade links in Categories C - G (Table 7.1). However, while Zimbabwe may be involved in more trade links within the SADC region than South Africa, the trade links of the latter are more significant than the former's. This has a bearing on the magnitude of trade balances which these two countries have with their trading partners, discussed in Section 7.2.2. Both the South Africa/SACU - Tanzania and SACU - Angola trade links have improved during the 1990s. The former moved from Category E before 1995 to Category B, the

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latter moved from Category C to Category B despite the Angolan war.

Table 7.1: Significant trade relations in the region (average 1990-1998)

Category	Rank of the trade relations in a specific category			
	1st	2nd	3rd	4th
A	S. Africa-BLNS	SACU-Zimbabwe S. Africa-Zimbabwe	SACU-Zambia S. Africa-Zambia	SACU-Mozambique S. Africa-Mozambique
B	SACU-Malawi S. Africa-Malawi	SACU-D. R. C. S. Africa-Mauritius	SACU-Mauritius SACU-Angola	SACU-Tanzania S. Africa-Tanzania
C	Zimbabwe-BLNS	SACU-Seychelles	Zimbabwe-Botswana	S. Africa-Angola
D	Zimbabwe-Zambia	Zimbabwe-Malawi		
E	Zimbabwe-Mozambique	Mauritius-Zimbabwe	Zimbabwe-Namibia	
F	Swaziland-Zimbabwe	Zimbabwe-Tanzania	Zimbabwe-D. R. C.	Zimbabwe-Angola
G	Zimbabwe-Lesotho	Zimbabwe-Seychelles		

Source: Own calculations from ZIMTRADE statistics; Adams (1999); Commissioner for South African Revenue
              Services (1998a:166-185; 1998b:166-172).

Key:
Category A: Very high   (Annual value of trade is more than R1 billion)
Category B: High   (R500 million ≤ annual value of trade < R1 billion)
Category C: Upper Medium   (R100 million ≤ annual value of trade < R500 million)
Category D: Medium   (R50 million ≤ annual value of trade < R100 million)
Category E: Lower Medium   (R10 million ≤ annual value of trade < R50 million)
Category F: Low   (R5 million ≤ annual value of trade < R10 million)
Category G: Very Low   (Annual value of trade is less than R5 million)

7.2.2 Trade balances of individual member states

One way of ascertaining the benefits accruing to a country from its trade relations is to examine its trade balances (exports minus imports) vis-a-vis its regional trading partners. Such an analysis is relevant to the potential effects of further integration, particularly in the southern Africa context.

During the 1980s, Swaziland, Zimbabwe and South Africa had positive balances in their intra-regional trade (Table 7.2). Even though South Africa was not a member of SADCC, it enjoyed the strongest positive trade balance with the SADCC region. Among the SADCC members, Zimbabwe benefited most followed by Swaziland. As noted in Chapter Three, most of intra-regional trade at this time involved Zimbabwe. This dominance is reflected in its positive trade

balance with the rest of the region in the 1980s.

Table 7.2: Regional trade balances of individual member states (US$ million)

Country	1979	1982	1984	1987	1993	1994	1995	1996
Angola	-26	-7	-2	-7	..	..	-22	141
Botswana	8	16	-36	-4	-1 299	-1 070	-990	-1 167
Lesotho	..	-1	-1	-3	19	-107	-33	-0.103
Malawi	-7	-1	-3	-16	-180	-180	-150	-145
Mauritius	na	Na	na	na	-208	-227	-221	-227
Mozambique	-14	-19	-7	-69	-147	-147	-132	-253
Namibia	na	Na	na	na	-840	-934	-1 203	-1 195
South Africa	1 757	1 808	1 308	..	720	1 031	2 097	5 106
Swaziland	1	5	3	22	-255	-313	-535	-462
Tanzania	26	-6	-2	-8	-115	-115	-94	21
Zambia	3	-13	-17	-5	-232	-232	-261	-288
Zimbabwe	7	27	64	82	-128	-262	-558	-677

Source: Hanlon (1989:60,133). Own calculations from Imani Development International Ltd (1997:x-xi); Imani Development International Ltd (1999:53-54); SADC Industry and Trade Sector (1999:78-79).

While other member states recorded negative trade balances during the 1980s, the magnitudes of such trade balances were less compared to those recorded in the 1990s. This can be explained by South Africa's accession to SADC and hence its inclusion in intra-regional trade calculations from 1994. With South Africa's inclusion, Zimbabwe and Swaziland's regional trade surpluses turned into significant deficits which have worsened over time, particularly in the case of Zimbabwe. The accession to membership of Mauritius in 1995 could also have been a contributory factor.

Despite the negative trade balances which most of regional members have been experiencing over the years, they have benefited in that they have had increased access into markets of other member states through bilateral trade agreements and closer and more harmonious relations.

7.2.3 Zimbabwe and the SADC region

Table 7.3 reflects how Zimbabwe's trade deficit with the region continued to worsen in nominal terms after 1996, due mainly to its increasing deficit vis-a-vis South Africa [Table 7.4(a)]. In terms of its bilateral *preferential* trade agreements, Zimbabwe has trade surpluses with all its trade partners except South Africa, the greatest being with Malawi in 1997. Zimbabwe's trade deficit vis-a-vis South Africa has worsened considerably in nominal terms from Z$ 580.4 million in 1990 to Z$10 248.5 million in 1997 [Table 7.4(a)].

Table 7.3: Zimbabwe's trade balance with the SADC region: 1994-1998 (Z$ million, current prices)

Year	Exports	Imports	Trade Balance
1994	4 351.20	6 514.98	-2 163.78
1995	4 831.33	9 695.63	-4 864.30
1996	5 575.85	12 085.23	-6 509.38
1997	8 149.32	15 472.60	-7 323.28
1998*	8 145.93	16 543.79	-8 397.87

Source: Own calculations from ZIMTRADE statistics.
Notes: * trade statistics are up to September 1998.

Table 7.4(a): Trade balances with countries with which Zimbabwe has bilateral preferential trade agreements (Z$million, current prices)

Year	Botswana	Malawi	Namibia	South Africa
1990	54.3	162.0	2.9	-580.4
1991	73.0	143.8	10.4	-1 392.2
1992	178.4	192.9	9.7	-1 864.2
1993	149.8	263.6	18.1	-1 944.7
1994	458.5	343.1	152.2	-4 173.5
1995	300.5	385.5	78.5	-6 777.6
1996	450.5	371.7	158.0	-8 762.3
1997	414.5	765.9	126.5	-10 248.5
1998*	358.2	838.0	163.7	-11 314.0

Table 7.4(b): Trade balances with regional partners with which Zimbabwe has MFN status agreements
(Z$ million, current prices)

Year	Angola	Lesotho	Mauritius	Mozambique	Tanzania	Zambia
1990	28.17	4.59	-10.26	131.01	24.83	99.61
1991	26.38	2.87	-23.18	109.34	3.25	124.70
1993	20.94	8.68	-2.10	346.24	23.14	343.32
1994	82.14	11.27	-7.79	405.50	183.01	461.96
1995	102.22	3.64	-59.81	407.92	69.90	673.21
1996	70.34	1.75	-132.01	656.73	28.26	763.23
1997	88.67	1.50	-154.26	585.71	-21.52	1 088.70
1998*	68.31	5.55	-64.06	328.98	-17.23	1 275.71

Source: Own calculations from Table 6.3; ZIMTRADE statistics.
Notes: * trade statistics are up to September 1998.

As their levels of bilateral trade indicate, Zambia and Mozambique are long-standing trade partners of Zimbabwe. For the period covered in Table 7.4(b), Zimbabwe has experienced steadily improving trade surpluses with these countries. In this category of bilateral trade agreements, Zimbabwe has only experienced trade deficits with Mauritius, and with Tanzania in 1997 and 1998. The worsening deficit with Mauritius follows the latter's accession to SADC, which may have given it further access into the Zimbabwean market as a result of improved relations between the two countries.

7.2.4 South Africa and the non-SACU SADC region

As noted earlier, South Africa has experienced significant trade surpluses in its trade with the non-SACU SADC region [Table 7.5(a)]. As trade with the region grew (Table A-13(a), Appendix 4), so did these surpluses. Even with countries with which it has bilateral trade agreements, South Africa has enjoyed huge trade surpluses, despite the fact that the trade agreements are asymmetrical, with South Africa receiving a small margin of preference, if any, in return for more favourable access to its markets. Larger trade surpluses are experienced with Zimbabwe which is its largest non-SACU SADC trade partner, followed by Mozambique.

Table 7.5(a): Trade balances with the region (R million, current prices)

Year	Exports	Imports	Trade Balance
1990	2 429.60	576.80	1 852.80
1992	6 419.69	1 016.80	5 402.89
1993	5 576.89	977.20	4 599.69
1994	7 224.60	1 465.68	5 758.92
1995	9 692.92	1 475.65	8 217.27
1996	8 800.72	1 181.28	7 619.44
1997	14 007.92	1 860.51	12 147.41
1998	14 269.73	2 014.90	12 254.83

Table 7.5(b): Trade balances with countries with which South Africa has bilateral trade agreements (R million, current prices)

Year	Zimbabwe	Malawi	Mozambique
1990	620.25	297.18	392.76
1992	790.80	564.00	627.30
1993	1 086.20	432.20	901.30
1994	1 437.80	436.82	1 314.85
1995	3 248.30	457.33	1 717.12
1996	3 756.07	622.87	927.70
1997	4 366.22	701.94	2 448.55
1998	4 092.46	752.16	2 473.58

Source: Own calculations from Table 6.6.

7.2.5 South Africa and the SACU region

Since 1990, South Africa has generally enjoyed an over 10 000 million rands a year trade surplus in its trade with the BLNS countries (Table 7.6). The significance of its surplus is such that, in 1994, it accounted for 60.5 percent of South Africa's trade surplus with Africa (Ahwireng-Obeng and McGowan, 1998b:10). This reflects the unequal trade relationship between South Africa and its customs union partners, skewed very much in South Africa's favour.

Table 7.6: South Africa's trade surpluses with BLNS countries (Rand million, current prices)

Year	Botswana	Lesotho	Namibia	Swaziland	Total
1990	3 884.92	2 865.12	3 160.70	917.28	9 928.03
1992	4 280.96	2 916.73	2 941.68	742.55	10 881.93
1993	4 422.86	3 371.09	3 254.53	1 640.02	12 688.51
1994	4 419.97	3 079.90	3 600.30	2 206.23	13 306.39
1995	2 631.32	2 396.57	..	1 990.53	7 018.41
1996	4 908.64	..	5 091.35	2 238.49	11 990.89

Source: Own calculations from Table 6.8.

However, there is a potential for increased trade between the BLNS countries and South Africa which would lessen the deficit experienced by the smaller countries. Currently South Africa imports certain products from the rest of the world (ROW), which are readily available from BLNS. For example, in 1996/7, South Africa imported specific commodities from the UK, USA, Italy, Belgium, Switzerland, and France which could have been adequately supplied by BLNS (Table 7.7).

7.2.6   SACU and the SADC region

As one would expect from South Africa's dominance of SACU trade, the customs union as a whole has enjoyed substantial trade surpluses with all non-SACU SADC countries (see Section 7.2.4). The largest of these are with Zimbabwe, Mozambique, Zambia and Tanzania in that order, in 1998. This may be due to the stronger trade links which the regional grouping has with these countries due to bilateral preferential trade agreements, although many of the agreements involving South Africa are asymmetrical as noted earlier. Increased penetration into the non-SACU regional market can be seen through the ever increasing trade surpluses which SACU has generally experienced (Table 7.8).

There is also evidence of increased penetration into countries which have not traditionally traded much with southern Africa, viz. Angola and Tanzania. The growing trade surpluses which SACU has experienced vis-a-vis the D. R. C. and Seychelles also indicate increased penetration into these most recent SADC member countries.

Table 7.7: Trade opportunities and potentials between South Africa and the BLNS countries (1996-1997)

Products imported by South Africa: Product code and description according the Harmonised System (HS)	Year	Value of imports by South Africa (rand)	Country from which South Africa imported and to which BLNS exported such products	Value of BLNS exports (rands)
02.01.30: Boneless meat of bovine animals, fresh or chilled	1996	208 163	United Kingdom	67 027 852
34.06: Candles, tappers and the like	1996 1997	620 107 563 245	United States of America United States of America	1 931 470 3 032 595
41.04.22: Bovine leather, otherwise pre-tanned	1997	900 728	Italy	4 152 892
61.09.10: T-shirts, singlets and other vests (knitted or crocheted) of cotton	1996 1997 1997	765 149 446 073 1 893 419	United Kingdom United Kingdom United States of America	36 833 151 61 597 835 26 965 966
61.09.90: T-shirts, singlets and other vests (knitted or crocheted) of other textile materials	1996 1997	201 063 428 646	United States of America United States of America	9 139 816 21 890 093
62.03.42: Men and boys cotton bib and brace overalls	1996	277 986	United States of America	1 168 742
62.04.62: Women and girls cotton dresses, skirts, trousers	1997	640 662	United States of America	3 238 911
62.04.69: Women and girls dresses, skirts and trousers of other textiles	1996	261 652	United States of America	1 062 744
62.05.20: Men and boys shirts of cotton	1996 1997 1997	475 324 682 277 231 785	United Kingdom United Kingdom United States of America	1 548 687 3 008 623 14 444 276
62.06.30: Women and girls blouses, shirts and shirt blouses of cotton	1996 1997	338 733 619 487	United States of America United States of America	1 534 837 621 443
71.02.10: Diamonds, whether or not worked, but not mounted or set: unsorted	1996 1996	12 633 492 20 582 590	United Kingdom Belgium	1 081 569 028 22 396 558
71.02.31: Diamonds, non-industrial, unworked/simply sawn cleaved or bruted	1996 1997 1997	756 464 510 885 107 817 61 215 147	United Kingdom United Kingdom Switzerland	4 224 628 123 7 539 068 421 1 758 891 170
71.02.39: Other diamonds	1996 1997 1997	908 633 1 308 770 6 085 690	Belgium United Kingdom United States of America	16 386 335 6 338 700 55 400 942
71.13.19: Jewellery and parts thereof of other precious metals, plated or not	1996 1996 1997	796 626 909 215 1 051 368	United Kingdom United States of America United States of America	2 099 737 7 969 994 22 214 314
71.13.20: Parts for articles of personal use of base metal clad with precious metal	1996 1996	567 125 339 849	United States of America United Kingdom	1 527 770 655 527
94.03.60.90: Other wooden furniture	1996 1996 1997 1997	430 862 295 634 765 147 310 944	Germany France Germany France	2 240 185 977 347 2 923 925 2 240 185

Source: Own table derived from Commissioner for Customs and Excise of the Republic of South Africa (1997a:1, 52, 73, 141, 144-6, 165-6, 278, 317, 396, 437, 495-6, 498, 500, 522, 524, 731; 1997b:1, 7, 8, 12-15, 23).

Table 7.8: SACU's trade balances with the non-SACU SADC countries (Rand million, current prices)

Country	1993	1994	1995	1996	1997	1998
Angola	262.27	294.94	486.75	1 263.49	670.06	1 070.42
D. R. C.	51.44	-3.07	340.41	481.15	517.99	1 066.49
Malawi	433.55	436.82	492.66	666.71	734.46	781.74
Mauritius	451.71	526.17	650.79	907.69	1 164.20	1 040.15
Mozambique	904.25	1 314.84	2 120.16	2 301.80	2 547.25	2 498.43
Seychelles	77.49	79.66	122.07	159.65	185.42	176.88
Tanzania	37.32	167.38	612.18	531.08	946.28	1 086.24
Zambia	1 231.07	1 054.79	1 271.58	1 627.79	1 990.84	1 947.35
Zimbabwe	1 085.69	1 437.84	3 578.84	4 211.35	4 353.87	3 969.37
SADC*	4 534.78	5 309.37	9 675.44	12 150.71	13 110.38	13 637.07

Source: Own calculations from Adams (1999); Commissioner for South Africa Revenue Services (1998a:166, 176, 175-177; 1998b:166, 170); Commissioner for Customs and Excise of the Republic of South Africa (1996:200,210; 1994a:279,291).

Notes: * = non-SACU SADC region.

7.2.7 Zimbabwe and South Africa trade balances compared

It was noted earlier that Zimbabwe's trade surplus with the rest of SADC became an ever-worsening deficit once its trade with South Africa became counted as SADC trade. However, both Zimbabwe and South Africa enjoy trade surpluses in their bilateral trade with other SADC countries (the exception being Mauritius in the case of Zimbabwe). Nevertheless, the magnitude of the trade surpluses which South Africa enjoys in its bilateral trade generally outweigh those which Zimbabwe has with the same countries.

While Zimbabwe's trade with the SADC region as a proportion of its total trade is higher than South Africa's, South Africa's share in total intra-SADC trade is higher than Zimbabwe's, (Table A-15, Appendix 5). This thus explains why even though South Africa trades less with the region it still enjoys considerably high trade balances.

7.2.8 Implications for future integration

Stern (1979:39) observes that, with trade liberalisation, high tariff countries are most likely to experience greater stimulation to their imports than to their exports when all countries cut their tariffs by half. Therefore, such countries will likely experience a worsening of their trade balances. Within SADC, Zambia, Mozambique, Malawi and SACU have significantly reformed to a point where tariffs are relatively low, whilst Mauritius, Tanzania and Zimbabwe still have relatively high protection, with tariff levels of between two to three times those of the former (Tsikata, 2000:14,15). In this regard, there will be concern among member states once the SADC Free Trade Area is in place that some countries' trade balances will worsen while others improve.

The sign of the trade balance before liberalisation is also important. In his empirical work, Stern (1979:42) found a significant positive correlation between the sign of the initial trade balance and the change in the trade balance after liberalisation. In other words, countries with an initial surplus, like South Africa, will tend to experience a greater surplus on liberalisation, while those with initial deficits may find these worsening with free trade. This is likely to be a source of concern to the non-SACU SADC countries.

7.3   PROSPECTS FOR INTRA-REGIONAL TRADE EXPANSION

The formation of a free trade area does not in itself lead to an expansion in intra-regional trade. The member countries' export diversification, trade complementarity and revealed comparative advantages have a bearing on whether or not intra-regional trade will improve with the formation of a free trade area and the extent to which this may occur (Tsikata, 1999:13).

7.3.1 Trade diversification

When countries have a more diversified export base, there are higher chances for intra-regional trade to improve once a free trade area is formed. This is so because: (i) there will be a wider range of products to stimulate trade within the grouping; and (ii) members will be less vulnerable to export instability and thus will be more likely to remain committed to the regional grouping (Tsikata, 1999:13). Therefore a more diversified export base helps create conditions necessary for trade creation within the free trade area.

As noted in Section 5.3.1, economies within SADC tend to have a narrow export base as evidenced by their exports being highly concentrated in a few products (Table 7.9). South Africa has the most diversified export base in terms of the number of products produced. South Africa, Mauritius and Zimbabwe are SADC's relatively sophisticated and dynamic countries, but are still very concentrated as shown by both the diversification and Hirschman concentration indices.

Table 7.9: Export concentration and diversification in SADC (most recent year)

	Angola	Malawi	Mauritius	Mozamb	S Africa	Tanzan	Zambia	Zimbabwe
No of 3- digit SITC products exported[a]	28	47	128	69	225	73	73	276
Diversification index[b]	0.906	0.921	0.834	0.81	0.577	0.841	0.932	0.756
Hirschman concentration index[c]	..	0.696	0.332	0.384	0.266	0.264	0.787	0.311

Source: Tsikata (1999:14).
Notes: [a] = Excludes exports less than either US$100 000 or 0.3 percent of total exports.
          [b] = The index uses deviations between shares of 3-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] = Calculated as a normalised share of all 3 digit products in a country's exports. Ranges between 0 and 1. A higher value indicates a more concentrated export structure.

7.3.2 Trade complementarity

The differences in export structure between countries can determine trade complementarity within a region. The wider the differences the more trade complementary the countries within the regional group will be. High trade complementarity promotes trade creation despite export concentration, thus leading to higher levels of intra-regional trade.

Opportunities for complementarity exist within the SADC region. Differences exist between the export structures of some of the countries in the region. For example, South Africa and Zimbabwe have more diversified export structures. Malawi and Mozambique tend to have a primary commodity export profiles, while Mauritius' leading export commodity group is miscellaneous manufactured goods (Tsikata, 1999:15). South Africa, Mauritius and Zimbabwe are relatively industrialised, thus offering additional opportunities for trade complementarity.

Exporting country	Malawi	Mauritius	Mozambi que	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
Mozambi	30.8	37.8	-	26.8	32.3	24.7	29.6	30.3
S. Africa	65	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 (1999:18).
Notes: The table should be 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.

The high degree of complementarity between South Africa and other SADC countries (Table 7.10) indicates that its export and import structures would potentially match well with SADC. Mauritius and Zimbabwe are also countries with which other SADC countries are more likely to have high complementarity. Therefore, despite export concentration, the opportunities for trade complementarity between the SADC countries could still promote trade creation within the region, resulting in improved intra-SADC trade.

7.3.3 Revealed comparative advantage

Apart from giving a reflection of current intra-regional trade flows, revealed comparative

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[156]Trade complementarity indices are used in assessing how well exports and imports of countries in a potential grouping may match up. The complementarity index between two countries j and k (C_{jk}) is defined as
$C_{jk} = 100 - \Sigma_i \ (\ | \ M_{ik} - X_{ij} \ | \ \div \ 2)$, 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 good exported by one country is imported by the other) to 100 (perfect match on exports and imports). Higher values of the index indicate a more promising chance for a proposed regional trade arrangement (Tsikata, 1999:15).

advantage (RCA)[157] indices help to reflect the potential complementarity of member states (Tsikata, 1999:18). Therefore RCA indices can be used as a tool to indicate the potential for trade creation as well as increased intra-regional trade. Tsikata (1999:18) notes that the presumption is that country groupings that have a narrow range of RCA indices (and in similar products) are less likely to find grounds for sustained exporting as a result of a free trade area.

From Table A-4(b) (Appendix 2), among the SADC countries, Angola, Mauritius, Mozambique, and Zambia have a small range of products with high RCAs, while Zimbabwe, Malawi and Tanzania have a broad range of products with high RCAs. In general, high RCAs are recorded in similar products that other SADC countries produce. Tsikata (1999:19) notes that South Africa and Zimbabwe have comparative advantage in the machinery and transport equipment categories which are important imports for SADC countries. Therefore, given the different product ranges in which countries have comparative advantage, and South Africa and Zimbabwe's comparative advantage in crucial imports for the region, the potential for improved intra-regional trade appears to exist.

Table 7.11 shows that the differences in comparative advantages between South Africa and the BLNS countries in selected products[158] indicate the potential to increase intra-SACU trade. While both South Africa and the BLNS countries may have revealed comparative advantages in the same products vis-a-vis the ROW [Table 7.11(a)], the higher RCA indices which the BLNS countries have in some product categories, particularly female suits, bed, table, toilet and kitchen linen, and vehicle chassis, show that it would be more beneficial for South Africa to purchase such products from the BLNS countries, thus improving South Africa-BLNS trade. The BLNS countries have revealed comparative advantage in the production of some goods in which

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[157]The RCA statistic may not be a consistent measure of true comparative advantage. This is so because tariffs, non-tariff barriers and subsidies affect the volume of trade between countries. Distortions can also result from using highly aggregated trade data (Greenaway and Milner, 1993:184).

[158]Calculations were made for only those products in which there is comparative advantage (in other words, where the RCA statistic is positive). Only products whose export value exceeds R 1 000 000 were selected. The net trade to total trade ratio was used to calculate the revealed comparative advantages. This ratio is given by the formula: $RCA = \frac{Xij - Mij}{Xij + Mij}$ where; Xij are the exports by country i of commodity j and Mij are the imports by country i of commodity j. The ratio ranges from -1 (Xij = 0 and revealed comparative disadvantage) to +1 (Mij = 0 and revealed comparative advantage) (TIPS, 2000:3; Greenaway and Milner, 1993:186).

Table 7.11: South Africa and BLNS countries' revealed comparative advantage in selected products

(a) RCA in same products compared

Product according to the HS	S.Africa	BLNS	Product according to the HS	S.Africa	BLNS
Live animals	0.967	0.998	Mixtures of adoriferous substances	0.892	0.875
Frozen fish	0.997	0.997	Soap	0.851	0.914
Dried salted fish	0.988	0.979	Blankets and travelling rugs	0.852	0.771
Other vegetable, fresh or chilled	0.929	1.000	Woven fabrics of cotton	0.957	0.809
Citrus fruits, fresh or chilled	0.999	0.994	Synthetic filament yarn	0.967	0.970
Prepared meat, meat offals or blood	0.499	0.433	Textile floor coverings eg carpets	0.677	0.784
Molasses from extraction of sugar	0.987	0.957	T-Shirts, singlets knitted/crocheted	0.921	0.899
Food preparations containing cocoa	0.982	0.979	Females clothing: suits, ensembles	0.346	0.650
Fruits, nuts, edible parts of plants	0.999	0.999	Men's and boy's shirts	0.828	0.906
Beer made from malt	0.952	0.997	Bed, table, toilet, kitchen linen	0.492	0.896
Undenatured ethyl alcohol: alcoholic strength of above 80%	0.984	0.981	Chemical wood pulp: dissolving grade	1.000	1.000
Undenatured ethyl alcohol: alcoholic strength of less than 80%	0.693	0.774	Articles of jewellery of precious metals or clad in precious metals	0.999	0.999
Salt and pure sodium chloride	1.000	1.000	Armoured safes, strongboxes, locker	0.995	0.996
Carbonates, peroxocarbonates	0.983	0.998	Vehicle chassis fitted with engines	0.598	0.836

(b) BLNS countries' other RCA

Product according to the Harmonised system (HS)	RCA Index	Product according to the Harmonised system (HS)	RCA Index	Product according to the Harmonised system (HS)	RCA Index
Meat of bovine animals, frozen	0.979	Flours, meals, pellets unfit for human consumption	0.976	Pile fabrics knitted or crocheted, inc ferry fabric	0.994
Fresh, chilled or frozen fish fillets and other fish meat	0.973	Tobacco cigars, cheroots, cigarettes, cigarillos	0.949	Male overcoats, car-coats, capes cloaks, anoraks	0.552
Fresh or chilled cabbages, kale, cauliflower and other similar vegetables	0.980	Human, animal blood prepared for therapeutic or diagnostic uses	0.507	Male suits, jackets, shorts, trousers, blazers, ensembles, overalls	0.998
Cooked, uncooked, frozen vegetables	1.000	Leather bovine or equine of animals without hair on	0.966	Tracksuits, ski suits, swimwear	0.690
Soups, broths and preparations thereof	0.800	Uncoated paper, paperboard in rolls/ sheets	0.868	Taps, cocks valves for pipes, boilers, tanks, shells	0.844

Source: Own calculations from Commissioner for the South African Revenue Service of the Republic of South Africa (1998: 304-390; 1997a: 304-370; 1997b:1-23).

Notes: 4 - digit statistics were used.
South Africa's trade statistics are for 1998, while for the BLNS countries they are for 1997.

South Africa does not [Table 7.11(b)]. This therefore creates additional trade opportunities between South Africa and the BLNS countries.

7.4 POTENTIAL FOR INTRA-INDUSTRY TRADE WITHIN THE REGION

7.4.1 Measurement of Intra-Industry Trade

Intra-industry trade (IIT) is the simultaneous export and import of basically the same good. It is usually measured as the proportion of total trade accounted for by overlapping exports and imports. The most common measure of IIT for any good i is given by the unadjusted Grubel-Lloyd index:

$$B_i = \frac{(X_i + M_i) - |X_i - M_i|}{(X_i + M_i)} \cdot 100$$

where:

X = exports   M = imports $|x|$ = the absolute value of x

(X + M) = total trade B_i = IIT index

$|X_i - M_i|$ = the degree of non-overlap, i.e. the extent to which trade is unbalanced

Note that the measure does not depend on the sign of the trade imbalance, but just its size. For perfect *inter-industry trade,* where trade flows just one way, B = 0 percent. For perfect *intra-industry trade*, where trade is balanced, B = 100 percent. Between these extremes, high Bs indicate a greater degree of IIT (Winters, 1991:60-61)[159].

Unlike inter-industry trade which is based on and reflects comparative advantages between countries, IIT is based on economies of scale, the production of differentiated goods, preference

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[159]It is important to note that this index is unadjusted, and there are problems associated with using an unadjusted index to measure intra-industry trade. There is always the possibility that the level of data aggregation can be so great as to obscure the true level of intra-industry trade between countries. Apart from this, trade statistics are not always available for each and every traded item (Greenaway, 1988:9).

diversity and overlapping demand (Behar, 1991:532). Even if countries have the same overall capital-labour ratio, their firms would continue to produce differentiated goods, and the demand by consumers for products made abroad would continue to generate IIT. It is the existence of economies of scale which keeps each country from producing the full range of products for itself. Therefore, economies of scale can be an independent source of international trade.

There are potentially additional sources of gain from international trade when trade expansion is intra-industry in nature, stemming primarily from increased variety and economies of scale. These possible benefits are considered further in Section 7.4.3 in the southern African context.

7.4.2   Intra-industry trade in the southern African region

Since most intra-regional trade in southern Africa occurs in manufactured products, and since intra-industry trade is most common in manufactured goods, it should be expected that some part of the trade within the southern African region is intra-industry in nature. The tables which follow reflect the existence of and potential for this kind of trade which the region should encourage in order to benefit more from intra-regional trade.

7.4.2.1   South Africa and the non-SACU SADC region

The main countries in the region with which South Africa has intra-industry trade (IIT) are Zimbabwe and Zambia. High intra-industry trade indices between South Africa and Zimbabwe occur in sectors producing floor coverings, sacks and bags, ballet shoes, and motor vehicles, while IIT with Zambia is predominant in motor vehicles (Table 7.12). The high IIT indices indicate that the bulk of South Africa's trade in such product categories with the two countries is intra-industry. However, the sectors in which South Africa has such high IIT do not necessarily have significant trade shares in South Africa's total trade with the specific countries. For example, while South Africa has an IIT index of 99.19 percent with Zimbabwe in floor coverings, this sector contributed only R0.558 million to South Africa's total trade with Zimbabwe in 1998. South Africa has an IIT index of 98.68 percent with Zambia in cars, but this sector constituted only R0.440 million of South Africa's total trade with Zambia in 1997.

Table 7.12: Intra-industry trade between South Africa and the non-SACU SADC countries (1998)

Countries	Product description according to the Harmonised System	IIT Index (%)	Trade R mn	Countries	Product description according to the Harmonised System	IIT Index (%)	Trade R mn
Zimbabwe	Floor coverings, whether or not self-adhesive, of other plastics	99.19	0.558	Zimbabwe	Other ballet shoes with blocked toes	73.42*	1.982
Zimbabwe	Sacks, bags and cones of polymers of ethylene	85.3	4.708	Zimbabwe	Lead-acid, of a kind used for starting piston engines	42.53*	1.161
Zimbabwe	Other sacks and bags of a kind used for the packing of goods	78.59*	0.554	Zimbabwe	Other motor cars (87.03.23.90)	64.24	1.373
Zimbabwe	Chewing gum, whether or not sugar coated	6.9	15.05	Zambia	Other motor cars (87.03.23.90)	98.68*	0.44
Zimbabwe	Other sugar confectionery: category 17.04.90	8.27*	7.187	Zambia	Other sacks, bags and cones (48.19.40)	11.42	6.324
Zimbabwe	Non-electric blankets, travelling rugs of synthetic fibres	7.8	39.88	Zimbabwe	Single yarn measuring 714.29 DTEX	6.28	6.528

Source: Own calculations from Commissioner for the South African Revenue Service of the Republic of South Africa (1998: 304-390).

Notes: * = IIT Index for 1997.   Trade = value of bilateral trade
From the 1998 trade statistics available for South Africa, IIT could only be calculated for Zimbabwe and Zambia and the sectors presented above.

While South Africa has intra-industry trade opportunities with Zimbabwe in other sectors like, blankets, sugar confectionaries and other products, and with Zambia in sacks and bags, the IIT indices are low, thus indicating that the bulk of the trade in these products categories is inter-industry. However, bilateral trade is significant in some of these sectors, e.g. non-electric blankets, chewing gum, sugar confectionery, and yarn, where bilateral trade was R39.878 million, R15.048 million, R7.187 million, and R6.528 million respectively. While South Africa has comparatively low IIT with Zambia in sacks and bags, this sector contributed a more significant trade share than the motor cars sector in which there was higher IIT.

From the data available, it appears that current levels of IIT between South Africa and the SADC region are comparatively low. Even though Zimbabwe is South Africa's largest non-SACU SADC trading partner, the bulk of this trade is inter-industry. Malawi and Mozambique are also South Africa's significant regional trade partners, but this trade is even more significantly inter-industry.

7.4.2.2   The BLNS countries and the non-SACU SADC Region

Like South Africa, the main countries in the region with which the BLNS countries currently have IIT are Zimbabwe and Zambia. However, unlike South Africa, it was possible to calculate IIT for a wider range of products for the BLNS countries.

High IIT indices with Zimbabwe are in grain sorghum, sacks and bags, rubber tyres, woven fabrics, toilet linen, ballet shoes and some motor vehicles, while with Zambia high IIT occurs in ginned cotton and some motor cars (Table 7.13). Intra-industry trade opportunities with Zimbabwe also exist in fabrics, blankets, freezers, motor vehicles, and trailers. However, the IIT indices in these product categories are comparatively low, and so trade in these products is currently predominantly inter-industry.

In some sectors there are both high IIT and significant trade shares, e.g. ginned cotton, motor vehicles, ballet shoes, and sacks and bags. While in some sectors IIT is comparatively low, trade shares are quite high, e.g. non-electric blankets, freezers, chewing gum, and fabrics.

7.4.2.3   SACU and the SADC region

In 1995[160], SACU as a whole had a very wide variety of products in which it had intra-industry trade with the SADC region. Most of the intra-industry trade was with Zimbabwe, Mozambique and Zambia, which are also SACU's significant regional trading partners (Table 7.14). High IIT indices were recorded in a number of sectors, for example, fish, beans, seeds for various crops, chemicals, medicines, soap, vehicle tyres, clothing, linen, bags and sacks, iron and steel and products thereof, machinery, equipment, and wooden furniture.

Some sectors in which high IIT exists do not have significantly high trade shares. However, in some sectors, there are both high levels of IIT and bilateral trade, such as other seeds, rubber tyres of a mass less than 20 kg, sugar confectioneries, and medicines. In some of the sectors, whilst there is comparatively low IIT, significantly high bilateral trade exists. This is so in sectors

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[160] 1995 trade statistics for SACU were the latest available at the time this research was completed.

like books, bovine pretanned leather, chewing gum, prepared explosives, vehicles, ferrous scrap and waste, and electric conductors.

Table 7.13: Intra-industry trade between the BLNS countries and the non-SACU SADC countries (1996)

Countries	Product description according to Harmonised System	IIT Index (%)	Trade R mn	Countries	Product description according to Harmonised System	IIT Index (%)	Trade R m
Zimbabwe	Grain sorghum	78.95	1.597	Zimbabwe	Other toilet linen, code: 63.02.91.60	73.64	0.911
Zimbabwe	Sacks, bags and cones of polymers of ethylene	73.45*	2.82	Zimbabwe	Other sacks and bags used for the packing of goods	78.59*	0.544
Zimbabwe	Other bags of sheeting, with handles, printed or not	94.88	0.989	Zimbabwe	Other ballet shoes, code: 64.04.19.90	73.42*	3.307
Zimbabwe	Pneumatic rubber tyres, of a mass less than 20 kg	59.81	2.114	Zimbabwe	Lead-acid, of a kind used for starting piston engines	41.66*	1.161
Zimbabwe	Pneumatic rubber tyres, of 75 kg ≥ mass < 140 kg	87.94	0.852	Zimbabwe	Other motor vehicles, code: 87.02.10.90	77.76	4.604
Zambia	Cotton ginned but not further processed	99.26*	8.718	Zambia	Other motor cars, code: 87.03.23.90	98.68*	0.44
Zimbabwe	Other woven fabrics of cotton	59.64	0.865	Zimbabwe	Assembled chassis of other motor cars, code: 87.07.90	55.99	1.32
Zimbabwe	Chewing gum, whether or not sugar coated	7.60*	8.015	Zimbabwe	Other freezers of chest type	13.03	14.00
Zimbabwe	Other knitted or crocheted fabrics of cotton	20.79	3.749	Zimbabwe	Other motor vehicles to transport 10 or more people	9.99*	4.604
Zimbabwe	Other fabrics of man-made fibres	16.34	7.686	Zimbabwe	Other motor vehicles, 5 T < G. V. M.≤ 20 T	21.09	2.607
Zimbabwe	Synthetic fibre non-electric blankets and travelling rugs	3.09	31.037	Zimbabwe	Other motor vehicles, G. V. M. ≤ 5 T	10.94	4.035
Zimbabwe	Other sugar confectionery: 17.04.90	13.29	7.441	Zimbabwe	Other trailers and semi-trailers	37.51	2.085

Source: Own calculations from Commissioner for Customs and Excise of the Republic of South Africa (1997a: 304-370; 1997b:1-23).

Notes: * = Intra-Industry Index for 1997. Trade = value of bilateral trade.

Country	Product descriptions according to the Harmonised System	IIT Index (%)	Trade Rmn	Country	Product descriptions as per the Harmonised System	IIT Index (%)	Trade Rmn
Zimbab	Other live animals	20.29	2.124	Mozamb	Mackerel fish	79.9	2.089
Mozamb	Other fish, code: 03.03.79.90	85.17	0.525	Zimbab	Butter, fats, oils from milk	36.39	2.135
Zimbab	Other forms of beans: 07.13.39	74.73	1.052	Zimbab	Other spices, code 09.10.99	41.58	1.252
Tanzania	Maize seed	60.06	1.066	Zimbab	Other seeds, code 10.05.90	85.64	18.082
Tanzania	Other seeds, code: 10.05.90	29.19	1.993	Zimbab	Sunflower seeds	57.05	1.212
Mozamb	Cotton seeds	71.35	0.969	Zimbab	Other seeds, code: 12.09.29	87.44	1.203
Zimbab	Seeds, code: 12.09.99.10	96.78	1.602	Zimbab	Other seeds, code: 12.09.99.90	73.64	1.813
Zimbab	cane sugar	46.78	13.803	Zimbab	Chewing gum	29.92	4.285
Zimbab	Other sugar confectionery	81.23	6.383	Zimbab	Active yeast	59.13	0.867
Zimbab	Soups in powder, solid form	97.17	1.579	Malawi	Sweet biscuits, waffles, wafers	67.91	1.064
Zimbab	Coke, semi-coke of coal: 27.04	71.49	11.316	Zimbab	Sodium triphosphate	83.74	1.231
Zambab	Carbides of calcium	84.41	0.530	Zimbab	Medicants, code: 30.04.10	71.69	3.994
Zimbab	Medicants, other antibiotics	66.64	5.172	Zimbab	Absorbent gauze or muslin	63.26	3.684
Zimbab	Other dressings: 30.05.90.90	84.36	2.225*	Zimbab	Paints/ varnishes, acrylic, vinyl	86.58	0.930
Zimbab	Other soap, code: 34.01.11.90	90.31	0.559	Zimbab	Soap, other forms: 34.01.20	94.79	0.933
Zimbab	Organic surface active agent	53.80	0.886	Zambia	Prepared explosives: 36.02	35.00	10.688
Zimbab	Alkyd resins	95.37	0.885	Zimbab	Other bags, code: 39.23.21.90	61.47	1.469
Zimbab	Carboys bottles, flasks	56.48	0.950	Zimbab	Transmissions belts, belting	66.63	0.777
Zimbab	Conveyor belts, or belting	41.68	2.006	Mozamb	Tyres, mass < 20kg	80.4	13.062
Zimbab	Lorry tyres, mass < 20kg	36.50	1.312	Mozamb	Lorry tyres, mass < 20kg	96.88	2.466
Zimbab	Tyres, 20kg < mass < 30kg	93.06	0.971	Mozamb	Tyres, 30kg < mass < 75kg	95.73	4.810
Zimbab	Tyres, 140kg < mass < 1200kg	83.57	0.517	Mozamb	Vehicles Inner rubber tubes	88.60	1.140
Zimbab	Bovine leather, pre-tanned	26.19	9.817	Mozamb	Other wood, code: 44.03.99	52.15	2.859
Zimbab	Boards of wood, code: 44.10.10	52.16	37.451	Zimbab	Other paper & paper board	67.09	0.708
Zimbab	Cartons, boxes, cases of paper	52.66	12.612	Zimbab	All stationery of paper	34.62	2.284
Zimbab	Other books, code 49.01.99.90	14.56	13.544	Zimbab	Architectural plans, drawings	94.42	0.478
Malawi	Suits of other textile materials	55.29	1.174	Malawi	Cotton trousers, bibs, overalls	65.54	1.398
Zimbab	Men, boys cotton shirts knitted	35.73	2.216	Malawi	Male shirts, man-made fibres	88.37	0.569
Zimbab	T-shirts, vests, of other textiles	55.56	0.968	Zimbab	Bibs, overalls: 62.03.42.90	36.85	2.221

Mozamb	Men and boys shirts of cotton	67.95	1.699	Zimbab	Male shirts of man-made fibres	77.52	1.569
Mozamb	Male shirts of man-made fibres	75.60	1.036	Mozamb	Male shirts: other textile fibres	75.62	1.310
Zimbab	Other bedding linen of cotton	94.05	0.445	Mozamb	Other bibs and brace overalls	72.25	0.925
Malawi	Other sacks and bags for packing	84.71	1.286	Zimbab	Other sports footwear:64.03.19	71.43	2.127
Zimbab	Other ballet shoes: blocked toes	99.69	0.710	Zimbab	Refractory bricks, blocks	82.49	0.852
D. R. C.	Diamonds, unsorted	75.39	0.574	Angola	Diamonds, unsorted	37.4	2.561
Mozamb	Other ferrous waste and scrap	39.43	10.365	Zimbab	Other iron bars, rods: 72.15.20	54.6	2.398
Zimbab	Other bars and rods: 72.15.90	68.67	1.942	Zimbab	Other angles, shapes: 72.16.50	38.25	3.596
Zimbab	Angles, shapes and sections	64.80	0.667	Zimbab	Other angles, shapes, sections	51.75	2.529
Zimbab	Other pipes, code: 73.04.39.90	75.42	0.682	Zimbab	Other pipes, code: 73.07.19. 90	46.32	1.259
Zimbab	Other doors, windows and frames	35.66	6.622	Zimbab	Other scaffolding equipment	66.49	1.278
Zimbab	Other cans, code: 73.10.21.90	62.37	0.819	Zimbab	Barbed wire of iron and steel	95.11	0.795
Zimbab	Other fencing wire, code: 73.14.49	53.35	0.487	Zimbab	Welded links, code: 73.15.82	99.23	0.684
Zimbab	Other wood screws, code: 73.18.12	92.37	0.823	Zimbab	Copper tubes & pipes:115mm	76.79	0.890
Zimbab	Other tubes and pipes: 74.12.20.90	59.56	1.357	Zimbab	Bits and parts used for boring	69.90	0.636
Zimbab	Air craft engines	46.14	7.412	Zimbab	Other bulldozers & grades	42.07	4.484
Zimbab	Other machinery of heading	57.33	7.691	Zimbab	Other rollers: 84.32.90.90	93.01	2.169
Zimbab	Other knitting machines: 84.47.90	85.03	0.833	Zimbab	Other ironing machines,presses	77.18	1.323
Zimbab	Machine centres, code: 84.57.10	69.29	1.206	Zimbab	Other lead-acid accumulators	70.84	0.907
Zimbab	Other domestic electro appliances	43.41	1.562	Zimbab	Other parts, code: 85.16.90.90	91.84	0.717
Tanzania	Recordings for use with computers	55.73	1.582	Zimbab	Television cameras	94.34	0.838
Malawi	Other radio-broadcast recievers	21.49	2.083	Zimbab	Other insulated wire cables	53.76	2.427
Zimbab	Other co-axtal cable, & conductors	56.01	6.608	Zimbab	Other electric conductors	56.77	6.001
Zambab	Other electric conductors: 85.44.49	49.93	9.471	Zimbab	Other vehicles (persons ≥ 10)	26.92	8.455
Maurit	Other hearses, code: 87.03.24.90	70.91	1.205	Zimbab	Other motor vehicles: 87.07.90	48.26	2.574
Zimbab	Other trailers, code: 87.16.39	61.64	1.535	Zimbab	Other trailers and semi-trailers	75.55	8.147
Zimbab	Other seats, code: 94.01.69	74.36	0.928	Zimbab	Metal furniture: 94.03.20.90	42.48	6.359
Zimbab	Office wooden furniture	73.04	4.623	Zimbab	Wooden furniture: 94.03.60.90	68.98	10.359
Maurit	Buttons, fastners: 96.06.29.90	76.30	0.592	Maurit	Ball point pens	90.62	1.228

Source: Own calculations from Commissioner for Customs and Excise of the Republic of South Africa (1995a:317-737; 1995b:1-317).

Notes: Trade = value of bilateral trade.

7.4.2.4 Zimbabwe and the SADC Region

The trade statistics (SITC 2) available for Zimbabwe which have been used to calculate its IIT with the non-SACU SADC region, are very aggregated and therefore the IIT indices obtained should be treated with extreme caution. Therefore, Zimbabwe's IIT with the region cannot be compared to South Africa's and the BLNS countries' IIT with the region. Nevertheless, IIT opportunities do exist between Zimbabwe and the rest of SADC region. These appear to be greatest with the countries with which Zimbabwe has bilateral preferential trade agreements, Botswana, Malawi, Namibia and South Africa, as well as its long standing, significant trading partners, Mozambique and Zambia (Table 7.15).

Among the non-SACU SADC countries, Zimbabwe has intra-industry trade in a wider product variety with Zambia followed by Mozambique, although it tends to have higher IIT indices with Mozambique than with Zambia. Throughout the decade, trade between Zimbabwe and Angola and the D. R. C. has been predominantly inter-industry. Intra-industry trade between Zimbabwe and Angola emerged in 1998 in power generating machinery and equipment, while with the D. R. C., this emerged in 1997 in electrical machinery, apparatus and appliances. As noted in Chapter Six, trade between Zimbabwe and Tanzania has been growing steadily over the years, and part of this trade has been intra-industry as shown by the high IIT indices in road vehicles and textiles, and the lower IIT indices in general industrial machinery and equipment and electrical machinery, apparatus and appliances.

While Zimbabwe has high IIT indices in a number of specified sectors, significant trade shares are only found in textile yarn, fabrics, and made articles with Botswana, where intra-industry trade in this sector constituted 12.00 percent of Zimbabwe's total trade with Botswana in 1997. While Zimbabwe has an IIT index of 39.92 percent with Botswana in road vehicles, this sector constituted 14.93 percent of Zimbabwe's total trade with Botswana in 1997. Overall, it appears that the current contribution of IIT to Zimbabwe's regional trade is fairly minimal.

Table 7.15: Intra-industry trade between Zimbabwe and the SADC region (1997)

Countries	Product category and description (SITC 2)	IIT Index (%)	Trade Z$ mn
Malawi Mozambique Namibia Zambia	08: Feeding stuff of animals	43.46 89.35 47.11 20.30	13.47 9.50 15.37 22.24
Botswana	54: Medicinal and pharmaceutical products	89.21	24.40
Mozambique	57: Plastics in primary forms	87.75	2.50
Zambia	59: Chemical materials and products, n. e. s	54.96	18.93
Mozambique	62: Rubber manufactures	95.01	7.00
Zambia	63: Cork and wood manufactures (excluding furniture)	77.44	9.59
Botswana Malawi Tanzania	65: Textiles yarn, fabrics, made up articles	80.86 25.49 96.46	223.00 31.58 3.34
Zambia	66: Non-metallic mineral manufactures, n. e. s	60.56	29.31
Zambia	68: Non-ferrous metals	68.18	78.36
Angola Malawi Zambia	71: Power generating machinery and equipment	46.35* 22.47 90.00	6.57 1.16 4.18
Botswana Mozambique Swaziland Zambia	72: Machinery specialised for particular industries	52.84 95.80 99.30 56.57	18.80 6.10 6.58 26.32
Tanzania Botswana	74: General industrial machinery and equipment, n. e. s	25.21 26.30	2.45 16.90
D. R. C. Tanzania Zambia	77: Electrical machinery, apparatus and appliances, n. e. s	73.23 46.71 64.72	0.86 5.27 47.42
Botswana Malawi Namibia Tanzania Zambia	78: Road vehicles (including air-cushion vehicles)	39.92 85.44 55.92 90.41 86.77	277.60 25.80 1.99 2.10 25.46
Botswana Malawi Zambia	85: Footwear	33.47 32.11 98.52	8.90 9.10 1.82

Source: Own calculations from ZIMTRADE statistics.

Notes: The 1998 statistics were only up to September, and so the 1997 statistics were used instead.
* = January - September 1998 trade statistics were used.
Trade = value of bilateral trade.

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7.4.2.5 Concentration points for IIT opportunities

From the discussion above, it appears that intra-industry trade potentials do exist between countries which experience high trade volumes and have significant trade relations with each other[161], viz., South Africa/Zimbabwe, Botswana/Zimbabwe, Zimbabwe/Zambia, South Africa/Zambia, BLNS/Zimbabwe, Zimbabwe/Malawi, Zimbabwe/Mozambique.

It is apparent that the product categories in which high IIT indices are registered are primarily those which are technologically complex, e.g. medicinal and pharmaceutical products, rubber manufactures, power generating machinery and equipment, machinery specialised for particular industries, and road vehicles. Intra-industry trade in such products can facilitate industrial development as countries begin to specialise and enjoy economies of scale. The implementation of the SADC Trade Protocol could help to facilitate this as countries will have a wider market in which to sell their products.

It could be argued that, while significant opportunities for intra-industry trade may be limited to only a few sectors in a few countries, the opening up of the region with the implementation of the SADC Trade Protocol, could extend the benefits to other countries as market access improves.

7.4.3 Implications for the southern African region

While the bulk of intra-regional trade is inter-industry, intra-industry trade opportunities do exist in the region. Therefore, the region need not only focus on the different comparative advantages between countries as a basis for intra-regional trade, but also on the two-way exchanges within industries driven in large part by economies of scale. The region should attempt to take advantage of economies of scale as an independent source of intra-regional trade and promote intra-industry trade in identified industries in specific countries.

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[161] While South African-BLNS trade is a significant portion of intra-regional trade, statistics were not available to calculate intra-industry trade between South Africa and the BLNS countries.

As noted earlier, promoting intra-industry trade could benefit the region as IIT produces extra gains from trade over and above those from comparative advantage. As Krugman and Obstfeld (1994:132) observe, intra-industry trade allows countries to benefit from large markets. A country can simultaneously lower the number of products it produces and increase the variety of goods available to domestic consumers. The production of fewer varieties leads to a country to produce each variety at a larger scale with increased productivity and lower costs. Consumers benefit from a greater range of choice at a lower cost. This results in a welfare improvement for trading countries.

In addition, promotion of intra-industry specialisation in the appropriate industries and sectors can also benefit the region by making the adjustment to trade expansion less disruptive. It is widely argued that it will be easier for firms and plants to cease producing a given line of goods and start producing a closely defined variety than to move to another industry, as would be the case with inter-industry trade based on comparative advantage (Behar, 1991:533). Further, changes in income distribution arising from trade liberalisation may not be so dramatic under conditions of intra-industry specialisation as both productive factors could gain from trade (Krugman, 1982). Therefore, the distributional problems arising from trade in differentiated products are not as serious as those associated with inter-industry trade. It thus appears that taking full advantage of the existing potential for IIT, and promoting IIT in appropriate industries and sectors, could benefit the region as the question of possible worsening income disparities is an issue of particular concern between members of any integration scheme, especially between countries at unequal levels of development.

Behar (1991:532) notes that intra-industry trade may be stimulated by economic integration. This is so because if the members in the integration scheme have similar factor endowments, per capita incomes, demand structures and produce similar but differentiated products, this will provide a sound basis for an expansion in IIT. Although there are wide disparities in per capita incomes in the region, demand structures, for example, may not be too dissimilar among countries. Further, disparities within the region are probably less than those with major trading partners in the ROW, suggesting greater scope for IIT expansion at the regional level than in the region's external trade. Therefore, the implementation of the SADC Trade Protocol, could enable

the region to take advantage of the opportunities for intra-industry trade which exist more fully. Preference diversity and overlapping demand could become more pronounced as economies open up more in the regional context.

Behar (1991:532) also notes that the objective of increasing and promoting intra-industry trade can push integration forward. This is possible since there will be mutual interdependence on differentiated products by countries and mutual interdependence on markets for the differentiated products. As each country specialises and produces more at lower costs, it would need a larger market to sell its products. On the other hand, consumers in each country would want easier access to the differentiated products only available from other countries. Therefore these mutual needs can lead to a deliberate creation of a larger protected market through economic integration.

7.5 CROSS BORDER INVESTMENT

One of the benefits which has accrued to the region as a result of facilitating and promoting greater cooperation and deepening the integration process has been an expansion in cross border investment. Mufute (1999) notes, however, that the mere fact that a country is a member of SADC has not in itself been effective in facilitating the creation of an environment that is conducive to cross border investment or industrial development within the region. Of importance has been what individual countries have done in terms of creating this environment and motivating both regional and overseas investment to come in. Phiri (1999) argues that the region is well endowed with untapped resources which attracts cross border investment and the transfer of technology that accompanies it. He also notes that one of the ways to ensure equitable industrialisation in the region is to encourage cross border investment and the transfer of technology. In his view, South Africa's membership of SADC improves the environment in the region in this regard, both with respect to business confidence and the transfer of technology which will result from South Africa's cross border investment. The importance of cross border investment is also seen in that it supplements low domestic savings, thus providing substantial parts of the shortfall in capital needed to finance economic growth and development (DPRU, 2000b:1).

7.5.1　Current cross border investment

7.5.1.1　South Africa's cross border investment into the region

Adams (1999) observes that the infrastructural developments which have resulted from SADC initiatives have facilitated the flow of investment into the various countries in the region. He also notes that South Africa has been able to and continues to take advantage of the infrastructural developments that have been taking place to access different countries for trade purposes as well as to locate its investments in various countries. He cites, for example, the importance of the Lobito Corridor in accessing Angola, the TAZARA Corridor to reach Tanzania and the Beira Corridor in accessing Mozambique.

McCarthy (1999:389) notes that South Africa is the leading source of foreign direct investment in the SADC economies[162]. Capital is more mobile from South Africa as companies are readily permitted by the South African Reserve Bank to invest in these economies through a differentiated relaxation of foreign exchange controls that favours investment in the region. He also notes that the South African government is committed to encouraging business to play a role in the development of the region. As a result, since 1995, South African firms have invested nearly R2.5 billion in the SADC countries. South African firms are allowed to invest up to over US$40 million per investment in any SADC country (DPRU, 2000a:2)

Maringa (1999) also notes the importance of South Africa in cross border investment in the region, arguing that few other SADC countries are viable sources of investment. He specifically notes that cross border investment into Zimbabwe, Zambia and Mozambique is mainly from South Africa.

Penetration by a relatively more developed country like South Africa promotes the development of industrial capacities within the region, thereby creating surpluses for export within and outside the region. South Africa's cross border investment into the region augments the individual

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[162]South Africa accounts for about 25 percent of foreign direct investment activity in the SADC region (DPRU, 2000b:4).

countries' investment efforts. For example, augmenting individual countries' investments in tourism helps the region to improve its image in this sector, while investment in mineral exploration impacts on the region's industrialisation process based on the mining sector. Investment in banking and the financial sector helps to modernise the banking sector in the region, enhancing the ability to attract more foreign investors. By capitalising on South Africa's investment in the recipient economies, this can serve as a mechanism for redressing existing imbalances.

As has already been noted in Section 4.5, once foreign direct investment is present in the form of foreign enterprises, net economic rents are earned by these enterprises from the use of their exclusive assets, e.g. superior technology, and special administrative and entrepreneurial skills. Enterprises will produce at a lower cost and earn pure or quasi rents (measured by producers' surplus). In this respect, South African enterprises involved in cross border investment within SADC are most likely to experience these economic rents as they have relatively more superior and developed technology.

For the host country, additional gains or losses will arise from changes in the rents earned by the foreign companies as these imply a redistribution of income between the country of origin of the foreign capital and the host country (see Section 4.5). For example, in the case of an importable commodity produced wholly by foreign enterprises whose price falls after integration as a result of trade creation, the host country will gain from the reduction in foreign company rents (foreign profit diversion effect). This is because there will be a reduction in remittable profits on the part of the foreign companies. In this respect, the individual SADC countries can benefit from cross border investment in the context of a free trade area[163].

The host country also benefits from foreign investment, of course, to the extent that it gains from more advanced technologies and skills imported without fully paying for them in the form of

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[163] As noted in Section 4.5, however, if the foreign enterprises enjoy a regional comparative advantage, they will enjoy additional rents or profits that arise from their sales in the host country and their exports to the preferential markets of the partner countries (foreign profit creation effect). For the host country the additional rents earned from home sales represent a national income loss.

rents and profit remittances (Mac Dougall, 1960)[164]. Cross border investment into the SADC countries by enterprises from South Africa, a relatively more developed country, can therefore be beneficial to both the host countries and South Africa.

Evidence of South Africa's aggressive approach and success in penetrating the region with respect to investment is reflected in Table 7.16[165]. South Africa's cross border investment has penetrated all the countries in the region, although its investment in Mauritius and Malawi has been restricted to fewer sectors in comparison to its investment in other regional countries. South African cross border investment is concentrated in Mozambique, Zimbabwe and Zambia respectively, and is worth over US$3 311 million (Ahwireng-Obeng and McGowan 1998b:27-28). South Africa's foreign direct investment in the SADC region has been focussed primarily in mining ventures, banking, retail and wholesale operations, the hotel and leisure sector and in the manufacturing sector, in that order.

However, McCarthy (1999:289) notes that while South Africa is the most important source of foreign direct investment in SADC, it is also the recipient of most foreign direct investment in SADC. As he argues, this is presumably because of the more developed nature and larger size of the South African economy, with foreign investors targeting the SADC region preferring to invest where there is the largest market and best infrastructure.

7.5.1.2   Cross border investment into Zimbabwe by SADC member states

Mufute (1999) notes that, in the 1990s, Zimbabwe put a lot of effort into creating an environment conducive to investment of any nature. For example, he notes that the country has: (i) signed a number of multilateral agreements guaranteeing that investment will not be subject to

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[164]Cited in Robson (1987:71).

[165]The table is not exhaustive of the areas in which South Africa has directed its investment. Some other sectors in the region in which South Africa has invested include: national parks (Angola); reinsurance brokering (Mauritius); aluminium smelting, cashew nut factory, coking coal, iron briquettes, natural gas, railways and ports, shipping (Mozambique); liquid oxygen/nitrogen, oil exploration (Namibia); airlines (Tanzania); diamond sales, railways, water treatment/sewage (D. R. C.); manufacturing/retailing, milling (Zambia); industrial alcohol, manufacturing, water treatment/sewage (Zimbabwe). Therefore, as DPRU (2000a:2; 2000b:5) observes, South Africa's investments have been spread over a range of sectors.

expropriation by the State, with the aim of giving confidence to both regional and overseas investors; (ii) signed bilateral investment agreements with a number of countries with the aim of protecting investment that comes into Zimbabwe from such countries; and (iii) put in place investment incentives to attract investors into both the urban and rural areas.

Table 7.16: South Africa's cross border investment into the region

Some of the areas of interest

Country	Banking	Hotels or resorts	Mineral exploration	Brewing	Electric power	Mining
Angola	#		#		#	
Botswana	#	#		#		#
D.R.C.	#		#		#	#
Lesotho	#	#	#	#	#	
Malawi		#				#
Mauritius		#				
Mozambique	#		#	#	#	#
Namibia	#	#	#			#
Swaziland	#	#	#	#	#	
Tanzania	#	#	#	#		
Zambia	#	#	#	#	#	#
Zimbabwe	#	#	#		#	#

Source: Derived from Ahwireng-Obeng and McGowan (1998b:26-28).

Maringa (1999) attributes the substantial cross border investment in the 1990s into Zimbabwe to a number of factors. Firstly the country's geographically central location in the SADC region and its usable and relatively modern infrastructure, a highly educated workforce and wide market, as well as a dynamic and modern banking sector. He thus notes that some countries have decided to locate their investments in Zimbabwe and then market their products elsewhere in the region using Zimbabwe as their base. Secondly, Zimbabwe has taken steps to reduce restrictions on foreign investment to specific areas, with positive results for the inflow of investment from member states into sectors like manufacturing, which has traditionally enjoyed high levels of protection. Finally, exchange control regulations are now more flexible, and foreign investors

are able to repatriate their profits automatically. For example, 100 percent of after tax profits can be repatriated, as can disinvestment proceeds as long as the investment has lasted for two years.

Table 7.17: Zimbabwe Investment Centre approved investment including joint ventures according to country and sector: 1996-1998 (Z$million)

Areas of investment

Country		Manufact	Mining	Agricult	Tourism	Com Serv	Construct	Transport	TOTAL
Botswana	1996	0	0	0	9.00	0	0	0	9.00
	1998	2.90	0	0	0	0	0	25.0	27.90
Malawi	1996	1.30	0	0	0	0	0	0	1.30
	1997	1.80	0	0	0	6.10	0	0	7.90
Mauritius	1996	5.10	0	0	0	3.80	0	0	8.90
	1997	76.40	0	0	0	9.70	840.00	0	926.10
	1998	16.70	0	0	1 804.30	34.10	0	0	1 855.10
Mozambique	1996	1.70	0	0	0	0	0	0	1.70
	1997	5.00	0	0	0	0	0	0	5.00
South Africa	1996	215.10	35.80	15.20	311.50	46.20	1.80	1.00	626.60
	1997	54.40	40.70	2.30	15.00	62.30	15.10	0	189.80
	1998	1 017.90	275.10	14.50	121.00	1 219.70	32.20	0.90	2 681.30
Zambia	1996	15.40	0	0	1.90	1.50	0	6.80	25.60
	1997	6.00	0	0	2.10	7.30	0	20.70	36.10
	1998	9.80	0	0	0	2.20	0	22.90	34.90
Tanzania	1997	1.90	0	0	0	2.30	0	0	4.20
	1998	0				6.40	0	0	6.40

Source: Maringa (1999).

Notes: In 1996, Swaziland invested Z$9 million in Zimbabwe's manufacturing sector. Angola's investment in Zimbabwe was in commercial services to the tune of Z$0.8 million in 1996 and Z$1.9 million in 1997.

Maringa (1999) also notes, however, that while Zimbabwe has the potential to be a viable investment destination for both regional and international investors, it is not always their first choice as an investment location due to the macroeconomic context of high inflation and interest rates, a high budget deficit, and the devaluation of the local currency. On the whole therefore, business optimism in the country has failed to be lifted sustainably to a level where investment is attracted enough not to leave the country. The current land issue is further damaging the potential for regional and overseas investment.

Table 7.17 reflects cross border investment into Zimbabwe from the SADC region. The

dominance of South Africa's cross border investment into Zimbabwe can be seen in all sectors of the economy. South Africa's investment rose from Z$626.6 million in 1996 to Z$2.681 billion in1998. Significant cross border investment into Zimbabwe can also be seen from Mauritius, with total investment rising from Z$8.9 million in 1996 to Z$1.855 billion in 1998. Investment from Mauritius is concentrated in the manufacturing and commercial services sectors. Significant cross border investment has also come from Zambia, rising from a total of Z$25.6 million to Z$43.9 million from 1996 to 1998. Main areas of investment in this case are the manufacturing, commercial services and transport sectors.

7.5.1.3   Zimbabwe's cross border investment in the region

Maringa (1999) observes that not many Zimbabwean companies have invested in the SADC region except banks. He attributes this to a general lack of initiative on the part of business. He points to the opportunities which have arisen since 1990 in the construction and manufacturing sectors in Mozambique which companies in Zimbabwe did not exploit, despite Zimbabwe's efforts in ensuring that the Beira Corridor is operational. These and other opportunities were taken up by South Africa, and Zimbabwe now complains of stiff competition for its exports into Mozambique from South African companies located in Mozambique. ZimTrade (2000b:23) also argues that the recovery of Mozambique's economy is an interesting prospect for Zimbabwean investors, but that Zimbabwean companies have been slow to act, and that South African companies have taken the most advantage of this recovery. However, ZimTrade (2000b:23) further notes that a nucleus of Zimbabwean exporters, including Bata Zimbabwe, has already set up offices in the Mozambique International Trade Centre, with the aim of developing a sound reputation and promoting goodwill towards Zimbabwe, thereby preparing the groundwork for more investment by Zimbabwean companies in Mozambique.

Mafu (2000) argues that Zimbabwean companies mainly serve regional markets by export and not by establishing/locating their companies in such countries. She maintains, however, that companies are being encouraged to invest in these countries so as to enjoy the benefits and advantages of direct investment, as South Africa is doing. She further notes that the concept of joint ventures is being promoted by ZimTrade, and that some companies have taken this up in Namibia, for example, although infrastructure in this country is still a problem.

However, inroads have been made by Zimbabwe with respect to investment in other SADC countries. For example, Salama (1999) reports that UDC Zimbabwe has bought shares in Malawi and Dairy Marketing Board (DMB) Zimbabwe has invested in Malawi. Mufute (1999) points out that Chibuku Breweries has invested in Mozambique and that a poultry company has invested in Zambia. Other flows of cross border investment are from Zimbabwe into the financial sectors of Malawi and Tanzania, and into the dairy industry of Malawi (Chipeta, 1999:36)[166].

7.5.2 Potential cross border investment in the region

Structural adjustment programmes and initiatives by the governments in the region have done a lot to make investment policies investor friendly. Some of the structural issues and other inhibitions have been removed and each country has set up institutions and facilities to promote investment (Appendix 4). Continued pursuance of such policies by the member states creates the potential for more cross border investment and technology transfer within the region. Pursuance of sound macro-economic policies through the guidance of the SADC Finance and Investment sector, coordinated by South Africa, will also facilitate investment.

Some countries in the region have natural resources and sectors which remain largely unexploited or under-exploited, such that investment opportunities exist in almost every sector of such economies. Table A-16 (Appendix 5) reflects the various investment potentials which exist in the region which can be exploited by the member countries through cross border investment. The cases of Angola, Malawi, Mozambique and Tanzania may be highlighted. Angola has very low operating costs and an abundance of natural resources, such that there is investment potential in almost every sector of its economy. Table 7.16 shows the inroads which South Africa has made in locating its companies in Angola despite the political instability in the country. SADC (1999:124) notes that fifteen foreign companies, regional and international, have invested more than US$8 billion in the oil and gas sector in Angola, while Maringa (2000) indicates that significant investment from Zimbabwe will be going into the country's mining and agricultural sectors. The potential for more cross border investment exists once the political environment has

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[166]Other flows of cross border investment are from Zambia into the financial sector of Malawi, and from Malawi into the retail trade and insurance industry of Zambia (Chipeta, 1999:36).

stabilised. In Malawi, the agriculture, mining and tourism sectors remain largely unexploited while, for Mozambique, the nerve centre of investment attraction lies in the development of infrastructural projects in the country's corridors, where there is vast potential for investment projects in rail, road and ports. Mozambique's prawn industry shows a lot of potential as the sector accounts for about 40 percent of the total value of the country's exports (ZimTrade, 2000b:23). In Tanzania, the government has a long list of priority areas for private investment, covering every sector of the economy (SADC, 1999:319-320). The potential for cross border investment also exists in the D.R.C. once peace and stability returns to the country.

It may be argued that the implementation of the SADC FTA could encourage member countries to take advantage of existing opportunities for cross border investment in the region. While there are significant constraints on the mobility of labour between SADC countries, capital is more mobile especially from South Africa. Therefore, McCarthy (1999:393) notes that, while a free trade area does not provide for an easing of factor flows, the South African government's commitment to contribute to the development of the region (which has so far ensured that capital exports to other SADC countries are approved and actively encouraged) is likely to receive stronger emphasis once the SADC FTA is in place. It should be stressed, as well, that South Africa's formal sector wage levels are relatively high compared to the rest of SADC. This has already motivated some industries to relocate[167], and is most likely to continue to motivate moves to other SADC countries where there are lower unit costs and higher productivity levels compared to South Africa.

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[167]A South African clothing manufacturer in the Pepkor Group closed its factory in Butterworth in the Eastern Cape and opened a manufacturing plant in Malawi so as to take advantage of the lower unit costs as well as the opportunities to import cotton materials duty free from Asia, and manufacture for export to the South African market duty free due to the bilateral trade agreement between South Africa and Malawi. Some South African firms in clothing production have also relocated their production to Mozambique in response to increased global competition and the search for low cost labour (McCarthy, 1999:394; DPRU, 2000a:2).

In a free trade area, each member state maintains its own customs regime with non-member states. Some member states may have very low external tariffs which may provide an incentive for regional industries to locate in such member states, as they will obtain imported inputs at a lower cost to produce goods that will be exported duty free to the main markets of the free trade area and also abroad. Cross border investment within the region could thus be promoted as certain companies will either relocate or allocate part of their new investment to other SADC countries[168].

However, while the potential for cross border investment exists in the region and exploiting this potential can be beneficial to both the host and investing country, Salama (1999) argues that some disadvantages may be experienced by the less developed countries in the region which do not have much to offer in terms of areas for lucrative investment. He notes that cross border investment is likely to be concentrated in those countries where investment opportunities are plenty and less risky. He therefore suggests that industrial polarisation may still emerge and perpetuate the imbalances which currently exist within the region. As noted in Section 4.2.3.4, the advantages of access to markets and the benefits of economies of scale may result in a concentration of industry in the central nation (Krugman and Venables 1990)[169]. However, as McCarthy (1999:393) notes, when there is a sufficiently large wage gap between the developed centre and the underdeveloped periphery, a point can be reached when this will steer the location of industries into the low wage country. In this way, polarised development may be minimised.

Liberalisation of national economies including capital flows, privatisation of public enterprises and the establishment of stock exchanges in the recipient countries has and will continue to facilitate cross border investment in the region. However, if cross border investment is to rise substantially in the future, some barriers which currently inhibit the exploitation of the existing

[168]Strictly speaking, the extent to which this can occur will clearly depend on the SADC FTA's rules of origin.

[169]Cited in Holden (1996:55).

cross border investment potential and opportunities in the various countries, as shown in Table A-16 (Appendix 5), will have to be addressed. Some of these factors include: (i) restrictions on investment abroad by some residents in some countries; (ii) restrictions on obtaining loans from abroad by residents of certain countries; (iii) inconvertibility of regional currencies outside the CMA; and (iv) exchange rate instability, shortages of foreign currency and shortage of capital (Chipeta, 1999:36). Hostile policy frameworks, civil strife and political instability, and fear of policy reversals also contribute to deterring cross border investment (DPRU, 2000b:1).

7.6   CONCLUSION

South Africa appears to have benefited more from trade with both SADC and SACU than its regional partners. The region has been extensively dependent on South Africa for its imports, particularly of manufactures, as South Africa has by far the most developed industrial structure in the region. South African companies have also been more aggressive in penetrating the southern African market both through exporting goods and through locating their companies in lucrative markets. This ability to seize opportunities as and when they arise has helped the country to benefit more from its regional relations. It should also be noted that while other member countries have largely opened up their economies, the South African market is still relatively closed by comparison, and as such, there is an imbalance in market access to the detriment of the smaller countries (ZNCC, 1999a:3; DPRU, 2000b:2).

While Zimbabwe has benefited from its trade relations with the region, the extent of its benefits appears to have consistently lagged behind South Africa's. As Mafu (2000) notes, South Africa has always been Zimbabwe's major competitor and, as such, its performance has generally been second to South Africa's in most sectors or markets Zimbabwe has penetrated. Apart from South Africa, the only other country with which Zimbabwe has not experienced a positive trade balance is Mauritius. However, Kuzvinzwa (1999) notes that Zimbabwe could be more aggressive than it has been if it improves particularly on packaging, which is currently very poor. He argues that both competitiveness and market access regionally and internationally could benefit in this way.

Intra-industry trade exists within the region and in some sectors high IIT indices are recorded.

However, as has already been noted, some sectors in which high IIT indices are recorded do not have significant bilateral trade, while significant bilateral trade is recorded in some sectors in which low IIT indices are recorded. The opening of the region through the implementation of the SADC FTA could promote the expansion of IIT with its associated benefits, as the free trade area will create an enlarged regional market.

One of the structural factors which is often pointed out for gains from economic integration to be experienced is that member countries must be geographically close together as this lowers transactions costs. SADC has effected and continues to effect infrastructural improvements and rehabilitation and, as such, those countries which are not geographically close can still benefit from economic integration as the improved efficiency in transport and communications helps lower transaction costs. This has helped to promote cross border investment, for example, firms in South Africa have taken advantage of the Lobito corridor, TAZARA corridor, and the Beira corridor to reach Angola, Tanzania and Mozambique respectively so as to locate their investment.

The extent to which economic integration succeeds also depends on the absence of intra-regional barriers that inhibit the free flow of factors of production. Therefore, in theory, free intra-regional movement of factors of production should help to promote the efficient allocation of resources and to reduce inequalities in the distribution of factor earnings. To the factor receiving countries, the receipt of factors of production from other countries enables them to raise production and income, as long as this does not displace local factors of production. To the factor sending countries, they can benefit from foreign currency receipts and a net increase in income if they have a surplus of factors of production (Chipeta, 1999:34). In the case of SADC, there has been a marked increase in capital movement in the region, through cross border investment ventures, and both the factor receiving and factor giving countries have had some benefits. With the further opening up of the region, harmonisation and coordination of macro-economic policies, and the promotion of complementary developments in infrastructure and the industrial sector, SADC is likely to benefit more from the free flow of regional capital. It is unlikely that the free flow of labour will be pursued in the SADC context in the near future.

CHAPTER EIGHT

CONCLUSION

8.1 INTRODUCTION

This chapter attempts to evaluate the extent of success by SADC and SACU in achieving the objectives for which they were set up and the benefits which the member states have enjoyed from their membership, in the light of the discussion in preceding chapters. It then suggests ways in which the regional groupings can improve on benefits accruing to the member states. These evaluative comments will be made with reference to the RIAs' aims and objectives, theoretical frameworks which the RIAs have adopted, and the nature of the regional economies. The benefits which are expected from the SADC Free Trade Area will also be highlighted.

Sections 8.2 to 8.4 will attempt an evaluation with reference to the aims and objectives of the RIAs as reflected in their treaties, while Section 8.5 will evaluate the extent of benefits on the basis of the theoretical frameworks which the RIAs adopted. Section 8.6 will highlight the benefits which the region expects with the implementation of the SADC Free Trade Area through opportunities for increased intra-regional trade and cross-border investment. Section 8.7 concludes.

8.2 EVALUATION IN RELATION TO SADCC's OBJECTIVES

The main focus of the original SADCC was to ensure collective self-reliance while reducing economic dependence of its members particularly but not only on South Africa. This was to be attained through inter-state linkages and joint mobilisation of resources to implement policies, programmes and projects to benefit members equally, while at the same time promoting self-reliance.

Intra-regional trade rose from 2.7 percent in 1980 to 4.8 percent in 1990. The low levels of intra-regional trade imply that throughout the ten years during which SADCC was in place, the region

continued to heavily depend on the rest of the world for its trade, in contrast to its objectives. SADCC's pursuance of self-reliance among its members was also seen through the SADCC sectoral programme. Priority was put on the transport and communications sector and this facilitated the improvement and opening up of the region's ports, roads and corridors, much to the benefit of member states. This thus facilitated self-reliance among the members in terms of accessing the sea to transport their goods, as well as to access each others markets.

In terms of reducing economic dependence on South Africa, SADCC did not attain this objective as evidenced by continued dependence by the region on trade with South Africa (Section 5.2). Even during the period 1990-1993, before South Africa became a member, trade dependence by the region on South Africa continued. This dependence was most evident in Zimbabwe, Zambia, Mozambique and Malawi, mostly countries with which it has bilateral trade agreements. The region also continued to be dependent on South Africa's infrastructure. Ten years after SADCC was formed, the total traffic for SADCC's overseas trade passing through South Africa's roads, rail and ports, remained comparatively steady.

8.2.1 Implications for regional economic integration

The regional grouping was successful in laying down the needed trust and political cohesion among its members. Through its sectoral projects, particularly through the SATCC sector, the grouping managed to create among the members the spirit of interdependence, cooperation and coordination. As suggested by the neo-functional integration model, this solid background to regional economic integration which was created could be essential in propelling the regional grouping onto higher levels of integration, as it instilled some confidence among members that they could depend on each other and work together to achieve common goals which are of mutual economic benefit.

8.3 EVALUATION IN TERMS OF SADC's OBJECTIVES

The objectives of the SADC Treaty as enshrined in Chapter Three, Article 5, are intended to bring economic benefits to the member states. An evaluation of the extent to which some of these have been achieved will give an insight into the degree to which member states have

benefited from SADC membership.

8.3.1 Article 5, 1(a)

In terms of achieving development and economic growth, as spelt out in this Article, the regional grouping has experienced varied economic growth rates in the individual countries, with most countries experiencing their highest economic growth rate in the period 1985-1989 (Section 3.4). Per capita incomes have continued to be low in most countries, such that eight of the countries in the region continue to be classified in the low-income group category and none in the high-income group category.

Alleviating poverty and enhancing the standard of living and quality of life of the people of southern Africa is another objective spelt out in this Article. However, from the individual countries' HDIs, half the countries have HDIs below 0.500, and as such are categorised in the low human development category, while five are categorised in the medium human development category and two in the high human development category (Section 3.3). In terms of poverty alleviation, the HPIs of the countries are still high, with the exception of Mauritius, Zimbabwe and Botswana, thus suggesting that the bulk of the people in the region still suffer poverty.

Therefore, in general, progress in most of the countries in terms of facilitating human development has been poor and a large percentage of the population still suffers poverty. In those countries which have managed to progress relatively well in human development, this progress has in most cases been unequally distributed as evidenced by their poor records in terms of HPI. Given this scenario, together with the low per capita income levels in most countries, it can be concluded that the regional grouping has not been successful in achieving poverty alleviation and enhancing the standard of living and quality of life of the people of southern Africa as spelt out in this Article.

8.3.2 Article 5, 1(d)

A considerable number of sectoral projects, particularly in the FANR, SATCC, Mining and Energy sectors, have been reported as either completed or under implementation. The efficiency and effectiveness with which the particular countries concerned, viz. Zimbabwe, Mozambique,

Zambia and Angola respectively, have handled and continue to handle these particular projects has helped, to some extent, to foster self-sustaining development, collective self-reliance and interdependence in the region as laid out in this Article.

Phiri (1999) argues that the mere fact that different projects are located in different countries, but are there to serve the region as a whole, has led to interdependence between countries. He notes that while direct benefits first come to the member state hosting the project(s), benefits have eventually spread to all other countries in the region. For example, while the development of roads, railways and highways has improved the infrastructure in the host country or countries, they have helped link different countries, thus enabling the region to transit exports and imports more efficiently. While the development of ports has improved the port facilities of host countries and made the landlocked countries dependent on those with such ports for access to the sea, the improved capacity at the ports has benefited the region as a whole. Therefore projects have and will continue to bridge the gap between the poor and rich nations in the region eventually, thus deepening cooperation and integration efforts.

8.3.3 Article 5, 2(c)

The ratification of SADC protocols has been very slow and delays have always been experienced in implementing the protocols which will have come into force after being ratified by the two-thirds majority. As Ntonga (1999) notes, five protocols have not yet been implemented despite the fact that they came into force having been ratified by two-thirds majority. These delays can prevent the region from enjoying the intended economic benefits to the full.

Mufute (1999) notes that the implementation of SADC projects has been slow and in some cases the implementation has not been very effective in terms of facilitating industrial development within the region. Further, some countries view projects as national projects rather than regional, which compromises the effectiveness of establishing regional projects. This points to the need for rationalisation of projects so that only those with a regional impact are implemented (Ntonga, 1999).

The above therefore tends to indicate that the regional grouping has to some extent failed to create appropriate institutions and mechanisms for the mobilisation of requisite resources for the implementation of programmes and operations of SADC and its institutions as per this Article. It can thus be recommended that the regional body puts in place measures to facilitate and expedite the implementation of protocols which have come into force. There is also a need by the member states to take seriously the ratification of protocols which have been signed so as to afford the region the intended economic benefits.

8.3.4 Article 5, 1(e)-(g)

Faced with the flaws highlighted above, the achievement of objectives as laid in Article 5, 1(e)-(g), viz.:(i) maximising productive employment and utilisation of resources of the region; (ii) effectively achieving sustainable utilisation of natural resources; and (iii) expediting the achievement of complementarity between national and regional strategies and programmes, has been compromised. The negative implications of this for the region as a whole and individual member states should not be underestimated.

While the region experiences financial problems in implementing its programmes, Ntonga (1999) notes that there has been a diversion of SADC funds towards conflict resolution and military expenditure. Further, while the region has to raise resources for its projects continuously, it should place greater emphasis on involving the private sector meaningfully in decision making on project implementation strategies and funding of some of the projects, especially in infrastructural development. The re-deployment of funds being diverted towards conflict resolution and military expenditure, as well as the possible funds which could be obtained from the private sector, could be channelled towards facilitating the implementation of important projects, some of which have been outstanding for a long time due to inadequate funding.

8.3.5 Article 5, 2(d)

Through the SADC Trade Protocol, the regional grouping has made a significant move towards achieving the progressive elimination of obstacles to free trade area as per this Article. With the coming into effect of the SADC Free Trade Area, tangible benefits will include: (i) more market access which will impact on trade flows; (ii) savings through mass production for a larger

market; (iii) job creation, for example, 5 million jobs are expected to be created within the first 3 years of implementing the protocol; and (iv) approximately US$3 billion in terms of GDP growth (Mutanhaurwa, 1999; Mbuende, 2000[170]). Bilateral trade agreements between member states, structural adjustment programmes being pursued by the countries, SACU, COMESA and CBI, have to date helped to progressively reduce obstacles to the free movement of capital, labour, goods and services.

Nonetheless, the discussion in Section 5.2.2.1 suggests that there are still significant non-tariff barriers to trade in the region which, unless addressed, will inhibit the possible benefits from the implementation of the Trade Protocol. Further research is needed to attempt to quantify the degree to which bottlenecks such as excessive delays and inefficiency at border posts inhibit intra-regional trade.

8.3.6 Implications for regional economic integration

Although the SADC population implies a larger regional market which is supposed to bring advantages from economies of scale, the regional market is only a potential one as the majority of the people suffer poverty. The low HDIs impact on the calibre of the labour force in terms of skills. This would impact on some countries' ability to produce high quality products and the capacity to meet the demand from a wider market, which may lead to unequal benefits from integration.

Consolidating sectoral projects and ensuring the implementation of additional projects within the SADC sectoral programme, has helped to reduce some of the structural disparities between members and to consolidate the foundation laid by SADCC. Member states have derived immediate mutual economic benefits from the various projects which have been implemented. The infrastructure already established will facilitate the more effective implementation of the SADC Trade Protocol.

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[170]Cited in Mbendi (2000:3).

The step which the region has taken in creating the SADC Free Trade Area is essential in building the groundwork needed for the region to move on to higher levels of economic integration. The extent to which the grouping is going to be successful in facilitating mutual economic benefits to members, will determine whether the region will move further up the ladder of economic integration as a group, or follow a multi-speed approach that allows one group of countries to move faster in implementing the integration agenda.

DPRU (2000a:7) note that the failure of integration efforts in Africa has mainly been due to lack of implementation of the designed integration scheme and delays in implementing agreed tariff reduction schedules. For SADC, the present institutional framework seems inadequate, and there is a need to put in place a strong and capable institution and personnel to monitor the implementation of the SADC FTA effectively, especially in terms of (i) compliance with rules of origin so as to prevent trade deflection[171] and to promote local value addition; and (ii) compliance with the tariff reduction schedule.

8.4   EVALUATION IN TERMS OF SACU's OBJECTIVES

Despite the problems which currently beset the customs union, member states have clearly experienced benefits through the free interchange of goods within the customs union. Intra-regional trade is high although trade benefits have been skewed in favour of South Africa as evidenced by the huge trade surpluses it enjoys vis-a-vis the BLNS countries, as well as having a ready market for its products. The BLNS countries have benefited in having a ready source for their import requirements as well as a ready market for their exports as evidenced by the increase of their exports to South Africa over the years.

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[171]DPRU (2000a:5) stresses that, in a free trade area where significant differences in the level of external tariffs exist, trade diversion and deflection may still result regardless of the existence of rules of origin. In this case there will be need to set external tariffs at roughly the average of the rates of the partner countries. However, since the SADC Trade Protocol does not address the issue of external tariff policies, trade deflection could still pose a problem to the regional grouping.

The customs revenue from the common revenue pool has been of benefit to member states, with the smaller countries, Lesotho and Swaziland, most dependent on the customs revenue for government expenditure. While South Africa is the largest and more developed member, its revenue share has been falling over the years. This is partly due to internal transfers to the TBVC states and the growth of the BLNS countries which has meant that their revenue shares have had to increase. In some cases, the BLNS countries have managed to set up some industries using the SACUA provisions that facilitate the establishment of infant industries. Botswana has been the most aggressive in utilising these provisions to facilitate its industrial development. However, on the whole, industrial development has been skewed in favour of South Africa.

Despite the benefits which members have enjoyed, the move towards renegotiating the SACUA is an indication of unfulfilled objectives. This centres on: (i) failure by the grouping to encourage the development of the BLNS countries and the diversification of their economies adequately; and (ii) affording all parties of the customs union "equitable benefits" arising from trade, viz. customs revenue. Renegotiating the SACUA stalled as the task force set up to do so was involved in negotiations on the SADC Trade Protocol which only came into effect in September 2000.

8.4.1 Implications for regional economic integration

Unlike SADC, SACU has been operating at a much higher level of economic integration. With a renegotiated SACUA in place, the current strong ties between the states, and the high levels of intra-regional trade, the region should theoretically be capable of moving onto the next level of economic integration with much ease. The CMA, which complements the operations of SACU by allowing the free flow of capital between Lesotho, Namibia, South Africa and Swaziland, should make it even easier for the regional grouping to move onto the next level of economic integration.

However, taking into account the different levels of dependence on South Africa by the individual BLNS countries, progression onto the higher levels of economic integration could take a multi-variant approach. For example, Lesotho, which tends to be the most dependent on South Africa in terms of trade, infrastructure and employment, could form an economic union

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with South Africa, while a common market could be formed with Swaziland, Botswana and Namibia on the other hand. However, given the slow progress on the SACU renegotiations, unresolved issues in this regard, and the problems inherent in allowing a free flow of labour in the region, progression beyond a customs union is unlikely in the near future.

Nevertheless, increased trade potentials exist between South Africa and the BLNS countries. The BLNS countries have been competitive exporters of certain products to the rest of the world, including UK, USA, Italy, Belgium Switzerland and France, while South Africa imports such products from the same countries as well. By importing such products from the BLNS countries instead of from the rest of the world, the trade imbalances between South Africa and the BLNS countries could be reduced. Further research into these trade potentials and why they are not currently exploited would be useful.

8.5 EVALUATION WITH REFERENCE TO THE THEORETICAL FRAMEWORK

The adoption of the development integration model can be seen in SADCC's move to broaden its production base by planning and implementing joint projects in infrastructure and manufacturing industries to facilitate production through attracting investment. Steps were taken to formulate and implement a regional industrial programme which included the establishment of new industrial plants, the rehabilitation of existing industries and the development of regional industrial services (Section 5.3.3). However, the overall SADCC industry programme could not be fulfilled due to extreme dependence on foreign funding, the small size and lack of diversity of the industrial sector, and the absence of linkages between countries. This was aggravated by the lack of foreign currency and resulting low capacity utilisation in most of the countries.

However, the potential exists for establishing regional industrial projects, with member states serving as short term, medium term or long term suppliers of the needed raw materials as per their capacities and comparative advantages. However, practical measures have to be taken to match the import needs and export capabilities in the different countries in order to facilitate intra and inter-industry specialisation, complementary agreements, or joint venture investment projects that can establish firms to supply part of, or the whole region. With such projects in place the

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region would benefit from economies of large scale production, and interdependence between countries would also be promoted, thus making it easier for the region to move on to higher levels of economic integration.

The neo-functional integration model is expected to lead to benefits like: having a basis for a comprehensive market integration approach to regional integration, cost savings, exploitation of economies of scale, and advancing regional trade. Adopting this approach to economic integration, helped the region to promote political cohesiveness, while improving infrastructure helped in reducing structural barriers to regional trade.

The potential exists for the region to enjoy economies of scale through joint harnessing of resources and efficient utilisation of such resources (Section 5.3.4). For example, efficient and joint harnessing of hydro-power has the potential to benefit the region though scale economies as electricity could be provided to the population more cheaply. With the implementation of the SADC Trade Protocol, the benefits of improved infrastructures could be more pronounced, as countries would find it easier to penetrate each others' markets.

Even though SADC took onboard the market integration model to influence its economic integration process, the SADC Trade Protocol only became effective in September 2000. This was due to the lengthy process and stalled progress in the development and ratification of the Protocol. Therefore, the current progressive reduction of tariffs and non-tariff barriers to trade among cooperating members has been a result of COMESA, bilateral trade agreements, SAPs, and the Cross Border Initiative. Market integration within SACU is obviously more advanced than SADC, suggesting that there is more scope for SACU to progress more quickly to a common market. Given the probable resistance to the free flow of labour in the region, however, this is not likely in the near future.

8.6 IMPACT OF THE NATURE OF THE REGIONAL ECONOMIES ON ECONOMIC BENEFITS

While the SADC region currently represents a vast market with a total population of 200 million and a combined GDP of US $180 billion (Daily Mail and Guardian correspondent and Nevill, 2000), economic conditions vary markedly within the region and there exists a huge dichotomy between member states (Chapter Three). Significant differences exist between countries in levels of industrial development and production capacities, economic growth, per capita income levels, economic policies, and infrastructural development. These differences have had an impact on trade benefits which have accrued to member states. The current political turmoil centred in Angola and the D.R.C, and the land reform problems in Zimbabwe, have impacted negatively on SADC's image, raising questions about the organisation's ability to maintain peace and order as laid out in Article 5 (1c) of the Treaty. This has dampened investor confidence, thus compromising the efforts which members had put into creating an investor friendly environment for both local and foreign investors. However, despite the inherent problems, the region does offer good trade and investment opportunities, which if utilised could be of great economic benefit to member states.

8.6.1 Intra-regional trade opportunities

The 1990s witnessed a general improvement in cross-border trade flows within the region. To date overall total intra-SADC trade is estimated at 25 percent of total SADC trade, which is expected to increase to 35 percent by 2004 once the SADC Free Trade Area is in place (Mbendi, 2000:2; Ramsamy, 2000[172]). However, intra-regional trade is dominated by the more industrialised countries, particularly South Africa and Zimbabwe, as evidenced by their trade balances vis-a-vis their trade partners (Section 7.2). Intra-regional trade is also concentrated among those countries party to bilateral preferential trade agreements.

DPRU (2000a:1) notes that some SADC countries, especially, Mauritius, Zambia and Zimbabwe regard the existence of trade barriers as a critical block to penetrating the SACU market

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[172]Cited in Daily Mail and Guardian correspondent and Nevill (2000:2).

effectively. Further, some non-SACU SADC countries are competitive exporters of certain products to the rest of the world, which South Africa also imports from the rest of the world. Although SACU has started importing some of these products (in small quantities) from SADC countries, the removal of trade barriers under the SADC FTA could stimulate more of such trade.

While the region tends to have a narrow export base, there are trade complementarities between countries as they have some differences in export structures (Section 7.3.2). South Africa, Zimbabwe, and Mauritius, have relatively wider export bases, and their exports and imports would potentially match well with SADC as shown by their high complementarity indices with SADC countries. This suggests opportunities for trade creation within the region. Improved intra-regional trade could also be facilitated by the differences in revealed comparative advantage between countries. Whilst SADC countries tend to have a small and similar range of products in which they have high revealed comparative advantage, South Africa and Zimbabwe tend to have a wider range of products in which they have high revealed comparative advantage, some of which are important imports for other SADC countries. This creates opportunities for increased intra-regional trade within the SADC FTA.

Intra-industry trade opportunities also exist within SADC (Section 7.4). Gains from trade when trade expansion is intra-industry in nature arise primarily from increased variety and economies of scale. This could result in improved industrial development and production capacities as countries begin to specialise and supply a wider market created by the SADC FTA.

8.6.2 Investment opportunities

The development of spatial development corridors within SADC provides great opportunities for companies involved in infrastructural development, as either contractors or suppliers of materials. A down-stream opportunity lies in the development of industry and support infrastructure along these corridors. The larger market resulting from the SADC FTA, natural resource endowments in the region, virtual duty-free access of SADC (excluding South Africa) exports into the European Union under the current Lome agreement, and the recently signed EU-South Africa trade accord, could persuade investors to locate within the region, *ceteris paribus,* and engage in large scale production so as to enjoy economies of scale.

A number of SADC countries have promoted the utilisation of existing investment opportunities through privatisation initiatives and providing easy access for foreign investors to established markets. The 1990s witnessed a gradual increase in cross-border investment to take advantage of investment opportunities in member states. South Africa has become the primary source of foreign direct investment flows to a number of SADC countries, with mergers and acquisitions being the dominant mode of its foreign direct investment. DPRU (2000a:3) notes that, while some SADC countries are capitalising on investment by South African firms, others have been sceptical about it, fearing domination by South Africa. However, South Africa's investment in the region could be a mechanism for redressing existing imbalances in the region in terms of promoting development in the industrial sector, transfer of capital, skills and technology, and development of infrastructure (Section 7.5.1). Many SADC countries are unable to compete effectively due to a lack of export supply capacity, and therefore capitalising on investment by South African firms could enhance local supply capabilities and raise export competitiveness.

8.7 CONCLUSION

Despite the problems and limitations which both SADC and SACU have experienced, these regional groupings have been of benefit to member states in different ways. Efforts have been made by members to make the groupings more beneficial. For example, steps taken to renegotiate the SACUA indicate the willingness by member states to improve the regional grouping to make it more beneficial. The transformation of SADCC into SADC indicates an attempt by member states to derive more benefits from the regional grouping through changing its focus, taking into account the changes which were taking place in the region. The SADC Trade Protocol is a specific measure which has been taken in this regard.

Delays in implementing decisions agreed upon at the SADC level has cost the region some economic benefits. This is because some projects or programmes could only be implemented when either costs had risen, or when other states had lost interest, or when programmes had been overtaken by new events. However, some of the delays could not be avoided, bearing in mind the differences in the level of development in the countries, differences in expertise, interests, expectations, and absence of research or definite knowledge of the likely effects of projects. The

absence of strong autonomous institutions to handle regional affairs has also contributed to the slow pace in realising some of the set objectives, thus compromising the realisation of economic benefits by member states.

Member states have their eyes set on accessing the South African markets. This will be of benefit to member states as they will be able to access and consume more easily relatively cheaper and high quality capital goods from South Africa. On the other hand, South Africa expects to gain R15 billion per annum from increased trade with the SADC region[173]. With a free trade area in place, the region could benefit from the expansion of both inter-industry and intra-industry trade. Trade complementarity between countries as well as the existence of revealed comparative advantages in different product categories could also promote intra-regional trade.

With the SADC FTA, there is likely to be a shift in the origin of imports from outside to within the region. Elkan (1975:68) notes that the weaker member countries could experience net disadvantages in the field of trade, as imports from their integration partners rise, and they are unable to increase their exports within the group fast enough to offset this effect. However, the inclusion of the tariff reduction schedule in the SADC Trade Protocol (Section 2.2.5) will help to reduce these adverse effects on the weaker countries.

Investment potentials exist in the region and there has been an increase in cross-border investment. However, the implementation of the free trade area could speed up the realisation of existing investment potentials within the region as countries open up more, thus stimulating cross-border investment. Capitalising on investment from South African firms can facilitate the transfer of skills, capital and technology necessary to improve the production capacities of less developed countries so that they can improving on their export base.

The integration strategy in the SADC region appears to have been informed by neo-functional, development and market integration models. It is increasingly recognised that, in accordance

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[173] AM live 8:00am news, 7 August 2000.

with neo-functional integration, benefits to member states will only be maximised once projects in the important field of infrastructure are successfully implemented, reducing current non-tariff barriers to trade. In line with the development integration model, an industrial development strategy needs to be carefully formulated for the SADC region which avoids the pitfalls of the attempts at establishing such a framework in the 1980s.

Despite current problems, SADC has committed itself to formal market integration with the implementation of the SADC Trade Protocol. Both infrastructural and industrial development must be actively pursued simultaneously if the maximum benefits are to be derived from market integration and, in particular, to avoid conflict over the distribution of these benefits among member states.

APPENDIX 1: ADDITIONAL INFORMATION FOR CHAPTER TWO

Table A-1:   SADC Protocols

The SADC Protocols	Countries that have signed /or ratified the protocols											
	Angola	Botsw	Lesotho	Maur	Malawi	Mozam	Nambia	Swazil	Tanzan	S Africa	Zambia	Zimb
Immunities and privileges	signed ratified	signed ratified	signed ratified	signed	signed ratified	signed ratified	signed ratified	signed ratified	signed ratified	signed ratified	signed ratified	signed ratified
Shared watercourse systems	signed	signed ratified	signed ratified	signed ratified	signed ratified	signed	signed	signed ratified	signed	signed ratified	signed ratified	signed ratified
Energy	signed	signed ratified	signed ratified	signed ratified	signed	signed	signed	signed ratified	signed	signed	signed ratified	signed ratified
Combating illicit drugs trafficking	signed	signed ratified	signed ratified	signed ratified	signed	signed	signed	signed	signed	signed	signed ratified	signed ratified
Transport communication and meteorology	n/a	signed ratified	signed	signed ratified	signed ratified	signed ratified	signed ratified	signed ratified	signed ratified	signed ratified	signed ratified	signed ratified
Trade	n/a	signed ratified	signed ratified	signed ratified	signed ratified	signed	signed ratified	signed	signed ratified	signed ratified	signed	signed ratified
Education and training	n/a	signed ratified	n/a	n/a	n/a	n/a	n/a	signed	n/a	n/a	signed	signed ratified
Mining	n/a	signed ratified	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	signed ratified	signed ratified

Source: SARDC (1997a:4); Madakufamba (1998a:9); SARDC (1998b:3); Chivasa (1997:5); Phiri (1999); Ntonga (1999); SARDC (1999a:1).

Notes: Information about the protocols signed and/ or ratified by Seychelles and the Democratic Republic of Congo is not available. n/a = information not available.
New protocols are; the Protocol on Tourism and the Protocol on Finance and Investment which were only signed in August 1999.

THE REVENUE SHARING FORMULA OF THE SOUTHERN AFRICAN CUSTOMS UNION

All customs, excise and sales duties (but not general sales tax) as well as import surcharges collected in the five member states, are pooled at the South African Reserve Bank. A formula provides the basis for calculating the amount due to each of the BLNS countries. There are three stages in this calculation.

The basic amount due to each country say Botswana, in any financial year is given by the equation:

$$R = \frac{A+B+C}{D+E+F+G} \text{(H)} \tag{1}$$

where:

R = the amount payable to Botswana;
A = C.I.F. value (including all duties) at border of imports into Botswana from all source;
B = value of excisable and sales duty goods produced and consumed in Botswana;
C = excise and sales duties paid in B;
D = C.I.F. value at border of imports into the common customs area from the rest of the world;
E = customs and sales duties paid on D;
F = value of excisable and sales duty goods produced and consumed in the customs union;
G = excise and sales duties paid on F; and
H = total revenue pool of customs, excise and sales duties.

The formula thus seeks to divide the common revenue pool among the partners in proportion to their annual imports and their production and consumption of dutiable goods. But, a compensation factor was added, so that the formula may be written as:

$$Rc = \frac{A+B+C}{D+E+F+G} \text{(H)(1.42)} \tag{2}$$

where:
1.42 = compensation factor.

So, the compensated rate of revenue received by Botswana becomes:

$$\frac{Rc}{A+B+C}$$

In 1976, the formula was amended in order to provide the BLS with a stabilized rate of revenue of about 20 percent. This may be written as:

$$Rs = \frac{Rc}{A+B+C} \tag{3}$$

subject to the constraints

$$0.23 \geq \frac{Rc}{A+B+C} \geq 0.17$$

The amount due to Botswana is calculated as per equation (2). If the compensated rate of revenue

$$\frac{Rc}{A+B+C} \text{ is not equal to } 0.20$$

one-half of the difference between the compensated rate and 20 per cent is either added to or subtracted from 20 per cent, subject to the constraints that the stabilized rate may not be less than 17 per cent or greater than 23 per cent.

Source: Cattaneo (1998:236).

Table A-2: Some of the provisions of the SACUA

Articles	Details of the article
Article 5(1)	This Article requires South Africa to give the other member states adequate time for consultations before amending customs duties (Davies, 1994b:3; Kumar, 1992:2).
Article 6	This Article serves as a way to protect infant industries in the smaller partner countries. The smaller countries are allowed to levy additional import duties on goods imported into their economies from union partners which would compete with the new industries' products. This protection is up to eight years of existence of the industry (Mayer and Zarenda, 1994:52).
Article 7	This Article also serves to protect the infant industries in the BLNS countries. It allows the countries to specify industries which are likely to be of major importance to their economies with a view to elicit a sympathetic consideration from South Africa to change tariffs and duties applicable to inputs and outputs of these industries. The country also has to specify the period for which it requires the tariff protection. During this period, applicable customs duties on goods imported from outside the customs area and competing with specified industry shall not be reduced by South Africa without the consent of the country in question. Any material that is imported and is used directly in production by such specified industry in order to assist the establishment of such an industry, have to be allowed in at reduced customs duty or even at zero customs duty (Kumar, 1992:8; Mayer and Zarenda, 1994:29; Davies, 1994b:3).
Article 9	This Article provides that, the goods from the infant industry under protection if subjected to excise duties, then the margin of the protection afforded by the customs duties cannot be altered during the specified time / or period without the consent of the concerned country. On event that the concerned country considers the excise duties to be injurious to the specified industry, the country can ask South Africa to lower or abrogate the applicable excise duties and South Africa has to give a sympathetic ear to such a consideration (Kumar, 1992:8).
Article 11(1)	A country is allowed to prohibit or restrict the import into its territory of any goods for inter alia, economic reasons. So the Article makes provision to restrict imports from any source for any reason other than to protect local production from competition from goods produced elsewhere in the SACU area (Mayer and Zarenda, 1994:29; Kumar, 1992:4).
Memorandum of understanding	This is an attachment made to the 1969 SACUA and it indicates that for the BLNS countries to implement the Articles 6,7 and 11, the infant industries concerned must be able satisfy at least 60% of the quantitative requirement of the SACU market and the quality of the goods produced must be high. The tariffs relief for inputs will not be granted unless there are no suitable substitutes for the good in the customs union. All this is an additional requirement after having overcome a range of other regulatory barriers.

Source: Own table derived from Kumar (1992); Mayer and Zarenda (1994), Davies (1994b).

Table A-3: Payments from the common revenue pool

Percentage of SACU revenue accruing to member states

Financial Year	South Africa	Botswana, Lesotho and Swaziland	Namibia	TBVC	South Africa less Namibia and TBVC
1969/70	97.4	2.6	na	na	na
1973/74	94.3	na	2.3	na	92.0
1974/75	92.3	na	2.6	na	89.7
1975/76	94.3	na	3	na	91.3
1976/77	95.4	na	3.2	na	92.2
1977/78	92.8	na	3.2	2.8	86.8
1978/79	90.6	na	2.8	0.7	80.1
1979/80	90.0	10.8	1.9	7.6	80.5
1980/81	88.4	10.8	1.8	10.9	75.7
1981/82	88.5	7.7	12.1	10.9	65.5
1982/83	87.0	8.7	10.3	14.1	62.6
1983/84	87.7	11	7.9	16.3	63.5
1984/85	86.0	12.2	7.6	21.2	57.2
1985/86	86.9	13.0	8.3	20.7	57.9
1986/87	87.9	12.1	8.5	18.2	61.2
1987/88	87.7	12.4	7.4	20.9	59.4
1988/89	89.5	10.5	5.7	18.1	65.7
1989/90	88.0	12.0	7.1	19.3	62.9
1990/91	74.6	25.4*	9.2	19.8	54.8
1991/92	68.2	31.8*	8.4	na	na
1992/93	66.4	33.6*	8.4	na	na
1993/94	69.7	22.8	7.6	na	na
1994/95	71.1	20.9	8	na	na
1995/96	68.3	22.3	9.4	na	na

Source: Adapted from Zarenda and Mayer (1994:22, 25); Hartzenberg and Maasdorp (1998:447)
Notes: *Namibia's receipts are included. na = data not available

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APPENDIX 2: ADDITIONAL DATA FOR CHAPTER THREE

Table A-4(a):   Factor endowment of individual countries

Country	Factor Endowment
Angola	Mineral deposits, Oil deposits, Gas resources, Hydro-power, Arable land, Forests & rivers.
Botswana	Mineral deposits, Cattle, Soda ash, Wildlife, Grasslands.
D. R. C.	Hydro-power, Oil deposits, Mineral deposits, Rivers, Gas resources, Rivers, Forests.
Lesotho	Labour, Animals, Water, Diamonds
Malawi	Arable land, Forests, Water, Coal deposits, Hydro-power.
Mauritius	Mineral deposits, Arable land, Light manufacturing equipment, Sea beaches.
Mozambique	Sea beaches, Arable land, Hydro-power, Gas resources, Transportation resources, Forests
Namibia	Mineral deposits, Wildlife, Gas resources, Cattle, Arable land, Industrial equipment, Fisheries and marine resources, Sea beaches.
South Africa	Arable land, Cattle, Mineral deposits, Manufacturing and Industrial equipment, Hydro-power, Gas resources , Sea beaches.
Seychelles	Arable land, Sea beaches.
Swaziland	Labour, Forests, Arable land, Coal deposits, Soda ash, Asbestos.
Tanzania	Forest land, Arable land, Gas resources, Cattle, Rivers, Mineral deposits, Coal deposits, Hydro-power.
Zambia	Mineral deposits, Arable land, Hydro-power, Forestry, Mining equipment.
Zimbabwe	Mineral deposits Arable land, Forests, Cattle, Wildlife, Rivers, Hydro-power, Manufacturing and mining equipment.

Source: Ostergaard (1989:129-131); Finhold Bank (1993); Arnold (1994:179-181); Dutkiewcz and Gielink (1992); Doyle (1997:103-108); Mongula and Ng'andwe (1987:90-97).

Measure of revealed comparative advantage (RCA)

$$RCA = \frac{X_{ij} - M_{ij}}{X_{ij} + M_{ij}}$$

where M_{ij} are the imports by country i of commodity j, and X_{ij} are the exports by country i of commodity j.

The net trade to total trade ratio evaluates a country's trade performance and considers the possibility of simultaneous exporting and importing within a particular product category. The ration ranges from -1 when there are no exports ($X_{ij} = 0$) which reveals comparative disadvantage, to +1 when there are no imports ($M_{ij} = 0$) which reveals comparative advantage.

Source: Trade and Industry Policy Secretariat (2000:3).

Table A-4(b): Revealed comparative advantages in SADC (1996)

Items	BLNS	Ang	D.R.C	Mal	Mau	Moz	Seyc	S.A.	Tanz	Zam	Zimb
Meat, meat preparations	0.89	-1.00	-1.00	-1.00	-0.52	-0.66	-0.99	-0.4	-1.00	-0.87	0.96
Sugar, sugar preparations and honey	-0.44	-1.00	-1.00	0.95	0.94	-0.60	-1.00	0.75	-0.56	0.30	0.82
Tobacco, tobacco manufactures	-0.35	-1.00	-0.23	0.95	-0.77	-0.85	-0.47	-0.13	0.88	0.77	0.96
Other food	na	-0.67	0.34	0.52	-0.49	0.50	0.11	0.34	0.84	-0.39	0.48
Cork and wood	-0.88	-0.07	1.00	1.00	-0.99	0.75	-1.00	0.25	0.60	0.75	0.9
Pulp and waste paper	0.08	-1.00	-1.00	1.00	1.00	-1.00	0.00	0.75	0.28	-1.00	-0.99
Textiles fibres	na	-0.94	-0.89	0.21	-0.94	0.23	-1.00	0.10	0.53	-0.35	0.61
Crude materials, inedible, except fuel	na	-0.56	0.84	0.51	0.20	0.15	-0.94	0.61	0.60	-0.10	0.31
Mineral fuels, lubricants	-1.00	0.99	0.73	-0.94	-1.00	-0.82	0.29	0.63	-0.82	-0.10	0.33
Leather and leather manufacturing	0.93	-0.84	-1.00	-1.00	-0.84	-0.90	0.00	0.13	0.36	0.43	0.75
Cork and wood manufactures	-0.88	-0.92	0.80	0.72	-0.64	-0.67	-1.00	-0.18	-0.59	-0.86	0.63
Non-metallic mineral manufactures	na	0.86	0.95	-0.01	-0.46	-1.00	-0.99	-0.59	-0.14	-0.10	-0.19
Iron and steel	-1.00	-0.99	-0.98	-0.90	-1.00	-0.95	-1.00	0.56	-1.00	-0.94	0.36
Non-ferrous metals	na	-1.00	0.98	-0.98	-0.99	-0.63	-1.00	0.27	0.86	0.99	0.74
Textile yarn, fabrics and wearing apparel	0.27	-0.99	-1.00	-0.34	-0.70	-0.90	-1.00	-0.39	-0.67	0.06	-0.44
Misc manufactured articles not classified	-0.37	0.13	-0.72	-0.01	0.64	-0.88	-0.85	0.06	0.12	0.53	-0.1

Source: Trade and Industry Policy Secretariat (2000:3) and own calculations.

Notes: BLNS revealed comparative advantages were calculated from Commissioner for South African Revenue Services (1998b:173-181).

Table A-5: Structure of principal exports and imports of the countries in the region (%)

Angola

Exports	1992	1993	1994	1995	1996
Crude oil	91.05	94.83	93.97	95.54	95.81
Diamonds	6.52	2.17	3.20	1.95	1.91
Others*	2.43	3.00	2.83	2.51	2.28

Imports	1990	1991	1992	1993
Consumer goods	34.92	50.19	55.28	41.35
Intermediate goods	22.62	18.86	9.66	6.08
Capital equipment	14.77	19.97	16.50	22.01
Transport equipment	9.57	6.76	9.10	4.92
Others **	18.12	4.22	9.46	25.64

Source: Own calculations from SADC (1999:124).
Notes: * includes refined petroleum products, gas, coffee, tea, sisal, fish and fish products, etc.
** includes food, textiles and clothing, fruits, edible oils, cocoa beans and products

Botswana

Exports	1993	1994	1995	1996	1997
Meat and meat products	3.76	3.66	3.02	2.54	2.52
Diamonds	78.19	74.88	67.05	70.28	73.57
Copper-nickel matte	5.15	5.21	5.53	5.48	4.49
Other goods*	12.90	16.25	24.40	21.70	19.42

Imports	1993	1994	1995	1996	1997
Food, beverages and tobacco	17.83	17.58	15.94	16.92	12.69
Machinery and electrical equipment	17.34	17.56	15.67	16.08	17.12
Vehicles and transport equipment	13.26	11.99	18.63	14.09	20.60
Metal and metal products	10.14	9.34	8.69	8.82	10.52
Chemicals and rubber products	9.21	9.66	9.24	10.22	9.20
Others**	32.22	33.87	31.83	33.87	29.87

Source: Own calculations from SADC (1999:147).
Notes: * includes live animals, hides and skins, textiles, soda ash, vehicle parts, vehicles, etc.
** includes fuels, wood and paper products, textiles and footwear, petroleum products, tobacco, beverages, foodstuffs.

Lesotho

Exports	1992	1993	1994	1995	1996
Manufactured goods	73.88	82.39	73.87	74.97	72.21
Food and live animals	7.37	5.90	5.11	6.05	4.97
Crude materials*	6.27	5.08	6.32	5.96	3.80
Others	12.48	6.63	14.70	13.02	19.02

Source: Own calculations from SADC (1999:168).
Notes: * is largely wool and mohair.
Others include wheat, peas, beans, skins and hides, corn, wood.
Statistics for imports were not available. However principal imports include corn, building materials, vehicles, machinery, medicines, petroleum, food and beverages, clothing, capital goods, fuel, energy.

Malawi

Exports	1993	1994	1995	1996	1997
Tobacco	67.16	59.49	63.30	62.15	58.41
Tea	11.22	9.20	6.70	5.32	12.23
Sugar	4.93	7.89	6.55	7.07	5.03
Others*	16.69	23.42	23.45	25.46	24.33

Source: Own calculations from SADC (1999:182).
Notes: * include cotton, coffee, pulses, fish, peanuts, wood products, ceramics, crafts, cotton, cut flowers, dairy products, enamel-ware, farm equipment and spare parts, rubber, textiles and knitwear, vegetables, bus bodies, furniture, apparel. Statistics for imports were not available. However, principal imports include industrial plant equipment, vehicles, automobiles, machinery, petroleum products, pharmaceuticals, fuels, miscellaneous manufactured goods, transportation equipment, food, dairy products, footwear and footwear components.

Zambia

Exports	1992	1993	1994	1995
Copper	64.71	84.47	94.02	82.91
Cobalt	1.92	2.72	5.34	1.93
Tobacco	0.61	0.81	0.57	..
Others	32.76	12.00	0.07	15.16

Source: Own calculations from SADC (1999:339).
Notes: Others include zinc, lead, cotton, cement, ceramics, cut flowers, electric appliances and parts, electricity, engineering equipment, explosives, leather goods, compressor lubricants, re-exports.
Statistics for imports were not available. However principal imports include machinery, transportation equipment, manufactures, crude oil, chemical products and parts, fertilizer, electrical appliances, intermediate goods, mining equipment, miscellaneous manufactured goods, raw materials, fuels, petroleum products, synthetic lubricants, foodstuffs.

Mauritius

Exports	1993	1994	1995	1996	1997
EPZ manufactures (clothing and textiles materials)	56.51	54.98	54.22	54.52	59.00
EPZ manufactures (others)	10.75	12.01	12.63	10.41	10.00
Sugar	24.53	23.25	23.15	25.80	21.84
Others*	8.21	9.76	10.00	9.27	9.16

Imports	1993	1994	1995	1996	1997
Manufactured (EPZ imports)	36.41	34.24	36.63	33.31	32.03
Machinery/transport equipment	22.39	25.94	19.38	22.33	25.99
Food and beverages	12.35	12.86	14.17	14.90	13.77
Mineral fuels	6.96	6.17	6.99	7.81	5.31
Others**	21.89	20.79	22.83	21.65	22.90

Source: Own calculations from SADC (1999:202).
Notes: * includes tea, molasses, diamonds, copra, precious metals, tea, coffee..
** includes cement, automobiles, iron and steel, petroleum products, gemstones, time pieces and parts.

Mozambique

Exports	1991	1992	1993	1994	1995
Shrimps	37.44	46.37	52.16	40.41	43.15
Cashew nuts	9.85	12.64	6.22	2.12	5.61
Cotton	5.42	7.75	8.42	12.16	11.69
Sugar	6.03	4.81	0.00	7.08	4.13
Others*	41.26	28.43	33.20	38.23	35.42

Imports	Transport equipment	Electrical equipment	Vegetable products	Mineral products	Chemicals	Food, beverages	Others**
1995	18.02	16.85	14.03	11.62	9.68	4.70	25.10
1996	12.24	15.18	13.02	14.30	7.55	5.72	31.99

Source: Own calculations from SADC (1999:220).
Notes: * includes copra, citrus, coal, tea, coffee, timber.
** includes clothing, oil, petroleum, mining equipment, synthetic lubricants, textiles and knitwear, farm equipment and spare parts, pharmaceuticals.

Namibia

Exports	1993	1994	1995	1996	1997
Ores and minerals	55.65	49.37	52.20	56.61	58.28
Manufactured goods	36.53	39.28	36.69	31.59	34.98
Animals (live and by products)	6.66	10.03	10.14	11.04	5.99
Others*	1.16	1.32	0.97	0.76	0.75

Imports	1993	1994	1995	1996
Food and beverages	25.62	21.81	21.00	22.30
Vehicles and transport equipment	18.54	14.72	17.39	17.54
Machinery and electrical goods	10.48	14.85	19.29	17.05
Chemicals, plastics and rubber	8.99	10.30	10.75	11.93
Mineral fuels and lubricants	13.54	8.40	5.54	6.16
Textiles, clothing and footwear	6.36	6.57	7.42	8.03
Metal and metal products	5.92	7.20	8.06	7.83
Wood, paper and by products	5.83	6.39	6.39	5.71
Others**	4.72	9.76	4.16	3.45

Source: Own calculations from SADC (1999:240).
Notes: * includes fish and other aquatic products, gemstones, marble, karakul skins & hides, handicraft.
          ** includes industrial equipment, pharmaceuticals, plastic products, animals, petroleum products and fuel.

Seychelles

Exports	1992	1993	1994	1995	1996
Re-exports (petroleum products)	63.56	55.13	45.73	44.29	33.10
Canned tuna	29.82	22.00	38.14	32.92	37.26
Fresh and frozen fish	5.37	·3.47	3.51	3.78	2.36
Others*	1.25	19.40	12.62	19.01	27.28

Imports	1992	1993	1994	1995	1996
Machinery and transport	20.80	25.08	23.16	28.78	29.80
Manufactured goods	17.94	18.37	19.68	25.81	26.12
Food and live animals	18.55	15.72	18.29	17.96	14.35
Fuel, and mineral fuels	17.18	14.22	15.57	12.95	15.50
Others**	-25.53	26.61	23.30	14.50	14.23

Source: Own calculations from SADC (1999:264).
Notes: * includes copra, cinnamon bark, other re-exports, buttons, cereals, frozen foods, fruit, vegetables.
          ** includes building materials, chemical products, pharmaceuticals, beverages, tobaccos.

Swaziland

Exports	1992	1993	1994	1995	1996
Miscellaneous edibles	27.26	29.25	28.71	30.15	30.11
Sugar	23.29	18.30	13.63	15.86	16.26
Wood pulp	12.94	11.81	11.76	17.33	9.58
Consumable finished goods	8.50	15.01	14.77	13.81	10.53
Others*	28.01	25.63	31.13	22.85	33.52

Imports	1992	1993	1994	1995	1996
Machinery and transport equipment	22.69	26.49	25.07	22.51	26.76
Manufactured goods classified by material	17.12	17.85	17.51	17.87	14.37
Food and live animals	12.72	15.40	14.66	18.32	14.73
Miscellaneous manufactured articles	10.77	10.69	11.71	11.27	9.20
Mineral fuel, lubricants, etc	12.48	10.38	4.57	1.53	11.56
Chemicals and related products	7.69	9.91	11.82	13.73	14.72
Crude inedible materials except fuel	5.28	4.69	8.36	10.77	4.27
Others**	11.25	4.59	6.30	4.00	4.39

Source: Own calculations from SADC (1999:304).
Notes: * includes re-exports, asbestos, coal and diamonds, citrus fruit, canned fruit, cotton seed and linters, meat and meat products, copra, textiles and knitwear, electrical appliances and parts.
** includes beverages and tobacco, animal and vegetable oils, fat and waxes, timber, synthetic lubricants, plastic products, vegetables, cocoa beans and products, food ingredients.

South Africa

Exports	1992	1993	1994	1995	1996
Gold (bullion and coins)	27.00	28.06	25.18	19.82	19.85
Manufactured goods	26.14	26.92	26.55	26.25	27.87
Inedible raw materials	16.77	15.98	13.48	16.33	14.74
Food, beverages and tobacco	7.05	6.23	8.28	7.65	8.41
Machinery and transport equipment	6.66	6.93	6.70	9.02	8.74
Chemicals	5.53	4.84	6.22	7.04	7.41
Others*	10.85	11.04	13.59	13.89	12.98

South Africa

Imports	1992	1993	1994	1995	1996
Machinery and transport equipment	41.34	44.45	45.75	35.07	37.75
Manufactured goods	13.16	14.28	12.61	15.58	11.62
Chemicals	12.66	12.94	12.07	17.90	11.80
Miscellaneous manufactured articles	9.45	9.39	8.23	20.46	8.39
Food, beverages and tobacco	7.31	4.94	4.60	4.29	5.34
Inedible raw materials	4.06	4.02	3.33	1.85	4.23
Others**	12.02	9.98	13.41	4.85	20.87

Source: Own calculations from SADC (1999:282).
Notes: * includes animal and vegetable oils and fat, miscellaneous manufactured articles, asbestos, copper, ferror, diamonds, metal and metal products, coal, timber, jewellery, wool, atomic fusion, vehicles, meat, textiles and knitwear, cereals.
** includes animal and vegetable oils and fats, professional and scientific instruments, electrical appliances and parts, metal and metal products, mineral products, textiles, timber, plastic products, vegetables, cocoa beans and products, food ingredients..

Tanzania

Exports	1993	1994	1995	1996	1997
Coffee	21.77	22.16	20.79	18.80	16.36
Cotton	17.50	20.15	17.74	17.47	16.23
Manufactured products	11.94	14.77	16.15	14.25	14.57
Cashew nuts	5.04	10.00	9.24	10.42	10.20
Tea	8.38	7.60	1.49	3.29	4.20
Others*	35.37	25.32	34.59	35.77	38.44

Imports	1993	1994	1995	1996	1997
Industrial raw materials	8.02	8.54	26.20	25.04	21.24
Machinery	18.52	20.29	18.99	18.36	20.74
Other consumer goods	14.34	15.42	21.65	21.65	21.88
Transport equipment	16.58	16.01	13.61	14.52	14.02
Oil	11.23	9.90	12.64	11.45	13.97
Building and construction materials and equipment	7.35	7.13	3.17	3.03	2.38
Food and foodstuffs	6.24	8.46	2.94	3.75	4.32
Others**	17.72	14.25	0.80	2.20	1.45

Source: Own calculations from SADC (1999:321).
Notes: * includes sisal, tobacco, petroleum products, minerals, herbs and spices, meat, diamonds, vegetables.
** includes fertiliser, metal and metal products, industrial equipment, intermediate goods, textile and knitwear, vegetables.

Namibia			Democratic Republic of Congo		
Namibia's partners	Value of exports (%)	Value of imports (%)	D.R.C.'s partners	Value of exports (%)	Value of imports (%)
Country	1996	1996	Country	1996	1996
UK	40	2	Belgium	43	17
South Africa	23	84	USA	16	6
Spain	12	0	South Africa	5	19
Japan	5	3	Italy	5	0
France	4	0	Hong Kong	0	6
Others*	16	11	Others**	31	52

Source: Own calculations from SADC (1999:162, 240).
Notes: * include Belgium, Germany, Italy, Switzerland. Cote d' Ivore, Botswana, Swaziland, USA.
          ** include UK, France, Italy, Germany, Japan.

Malawi

	Value of exports (%)					Value of imports (%)				
Partners	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
USA	12.03	15.79	13.35	9.37	14.37	2.06	3.33	3.65	3.26	20.14
Germany	19.09	9.47	11.71	13.35	10.32	5.09	4.71	3.13	4.56	2.45
S. Africa	9.75	12.89	12.18	13.11	13.36	37.00	39.22	33.51	34.36	35.68
Japan	13.07	12.63	10.54	10.30	4.86	--	--	--	--	--
UK	7.26	7.89	8.43	5.39	4.66	6.33	5.88	5.73	3.91	5.04
Zimbabwe	0.19	0.12	0.18	0.21	0.12	6.19	9.22	14.93	17.26	17.84
Netherlands	6.02	5.26	5.15	5.62	6.28	--	--	--	--	--
Others	32.59	35.95	38.46	42.65	46.03	43.33	37.64	¹39.05	36.65	18.85

Source: Own calculations from SADC (1999:182); ZimTrade Trade Database.
Notes: Others include Zambia, Mauritius, Austria.

Swaziland

	Value of exports (%)				Value of imports (%)			
Partners	1992	1993	1994	1995	1992	1993	1994	1995
South Africa	72.84	57.36	53.05	56.20	97.39	92.47	93.97	85.69
European Union	4.60	15.66	19.42	16.21	2.01	7.02	5.18	1.37
United Kingdom	2.03	12.88	10.36	5.97	0.58	0.37	0.55	0.62
Mozambique	3.41	2.66	6.28	3.00	0.02	0.14	0.30	0.22
NAFTA	2.95	¬5.01	4.56	2.56	--	--	--	--
Others	14.17	6.43	6.33	16.06	0.00	0.00	0.00	12.10

Source: Own calculations from SADC (1999:306). Notes:Others include Botswana, Namibia, France, Portugal, North Korea, Thailand, U.S.A., non-SACU SADC countries, Singapore, Japan, Italy.

Mauritius

Partners	Value of exports (%)				Value of imports (%)			
	1993	1994	1995	1996	1993	1994	1995	1996
United Kingdom	31.63	31.16	33.57	33.38	7.07	6.68	6.66	6.43
France	20.02	19.61	20.72	18.88	12.63	18.46	12.88	11.07
U. S. A.	17.50	17.65	14.51	12.65	--	--	--	--
Germany	6.94	5.76	5.71	5.40	4.81	4.60	4.52	4.62
Italy	3.90	4.06	4.02	3.92	3.38	2.86	3.23	3.38
South Africa	--	0.02	0.04	0.05	14.22	11.88	11.13	11.89
India	--	--	--	--	5.85	6.64	8.44	8.82
Hong Kong	--	--	--	--	4.59	5.13	4.78	3.58
Others	20.01	21.76	21.43	25.72	47.45	44.35	48.36	50.21

Source: Own calculations from SADC (1999:202); Table 6.6 in Chapter 6.
Notes: Others include SACU, Malawi, Zimbabwe, Mozambique, Tanzania, EEC, Japan.

Mozambique

Partners	Value of exports (%)		Value of imports (%)	
	1996	1997	1996	1997
Spain	21.10	18.30	--	--
South Africa	19.40	17.20	33.20	32.70
United States of America	11.40	11.80	4.20	4.80
Japan	7.60	8.80	4.00	4.60
Portugal	7.70	8.70	6.30	6.20
SACU	2.99	6.06	16.22	17.14
Zimbabwe	4.30	8.00	3.90	2.20
Others	25.51	21.14	32.18	32.36

Source: SADC (1999:220); Table 6.5 in Chapter 6.
Notes: Others include Germany, Spain, UK, Italy, France, Russia.

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Tanzania

Partners	Value of exports (%)					Value of imports (%)				
	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997
Germany	11.86	10.57	10.62	9.48	9.48	5.14	4.92	3.44	3.23	3.32
India	8.95	10.18	8.54	9.30	9.29	4.15	4.59	4.61	7.68	7.67
Japan	9.17	9.42	9.57	8.39	8.38	7.39	5.46	7.01	5.53	5.53
Netherlands	5.15	4.80	6.04	5.60	5.60	2.37	2.06	2.14	2.37	2.37
U.K.	7.83	6.03	5.87	5.22	5.22	0.99	8.38	9.41	9.20	9.19
China	0.22	1.73	1.47	2.42	2.42	5.61	4.39	4.80	4.60	4.59
Kenya	--	--	--	--	--	6.13	7.39	8.89	11.57	11.55
Others	56.82	57.27	57.89	59.59	59.61	68.22	62.81	59.70	55.82	55.78

Source: Own calculations from SADC (1999:321).
Notes: Others include Mauritius, Zimbabwe, SACU, Angola, U.S.A., Taiwan, Indonesia, Hong Kong, Italy, Belgium.

South Africa

Partners	Value of exports (%)					Value of imports (%)				
	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
BLNS	20.35	18.04	18.62	9.77	15.85	5.36	4.29	4.23	2.94	5.47
Japan	11.83	7.26	7.80	8.33	12.52	14.27	17.41	14.24	16.59	10.75
USA	11.13	8.17	8.30	7.93	10.77	20.03	18.27	22.65	19.37	16.12
Italy	15.68	3.32	3.31	15.75	10.71	5.05	4.88	5.39	6.73	6.23
Germany	12.40	6.47	6.96	7.42	8.94	23.02	21.70	23.43	26.91	18.97
SADC*	9.54	6.53	8.13	9.55	7.68	1.31	1.94	1.54	1.92	1.50
UK	11.56	9.28	11.15	13.51	8.41	14.47	15.32	16.17	18.06	15.22
Others	7.51	40.93	35.73	27.74	25.12	16.49	16.19	12.35	7.48	25.74

Source: Own calculations from SADC (1999:282); Table 6:6 in Chapter 6.
Notes: Others include EEC, Hong Kong, France, Taiwan, South Korea, Belgium-Luxembourg, China .

Seychelles

Destination of exports		Source of imports	
Within the region	Rest of the world	Within the region	Rest of the world
Mauritius.	Singapore, UK, Germany, Reunion, France, Pakistan.	South Africa.	Singapore, UK, Yemen, France, Japan.

Source: SADC (1999:264).

Zambia

Partners	Value of exports (%)					Value of imports (%)				
	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
Japan	20.21	11.78	13.85	16.02	17.16	4.54	4.19	6.15	5.75	1.89
Saudi Arabia	11.04	7.74	10.95	8.42	10.78	5.62	7.4	0.22	12.4	10.66
Thailand	5.19	6.06	9.5	10.14	11.96	--	--	--	--.	--
Belgium	5.98	7.41	6.2	6.8	4.31	--	--	--	--	--
Zimbabwe	3.06	2.36	2.9	2.94	3.43	6.57	6.56	11.43	7.29	6.67
SACU	--	6.03	5.74	5.28	6.92	--	22.55	16.28	11.91	12.29
S. Africa	0.66	1.46	2.11	1.93	3.92	26.76	43.99	34.51	33.12	41.24
Others	53.86	57.16	48.75	48.47	41.52	56.51	15.31	31.41	29.53	27.25

Source: Own calculations from SADC (1999:339); Table 6.6 in Chapter 6.
Notes: Others include UK, other SADC countries, France, USA, EEC, Germany.

Zimbabwe

Partners	Value of exports (%)					Value of imports (%)				
	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
EU	32.5	30.35	36.32	38.88	33.25	27.94	27.26	26.42	24.37	24.87
S. Africa	13.62	14.26	13.26	12.55	9.64	24.37	27.01	32.59	38.14	38.32
NAFTA	6.69	7.39	7.56	4.95	6.9	9.69	9.59	5.77	5.47	5.5
Japan	6.13	6.58	5.74	6.8	5.08	5.34	6.05	5.72	6.36	5.14
SADC	15.99	18.24	16.28	16.08	15.25	2.84	4.12	2.61	3.48	2.76
Others	25.07	23.18	20.84	20.74	29.88	29.82	25.97	26.89	22.18	23.41

Source: Own calculations from SADC (1999:354-5).
Notes: Others include Australia, Switzerland, Brazil, Taiwan, China, U.S.A., Netherlands, SACU.
For the imports, (i) EU includes UK (which contributes 33-41 percent of the imports from the EU), Germany (second largest source), France, Italy, Netherlands, Sweden, Belgium, Finland, Denmark, Austria. (ii) NAFTA includes USA and Canada, with the USA contributing over 90 percent of the imports. (iii) SADC includes Botswana, Zambia, Swaziland and Namibia, with over half of the imports coming from Botswana and the least from Namibia.
For the exports, (i) EU includes UK (which receives 30-36 percent of the exports), Germany, Italy, Netherlands, Portugal, Belgium, Spain, France, Sweden, and Denmark. (ii) NAFTA includes USA and Canada, with the USA receiving 86-96 percent of the exports. (iii) SADC includes Zambia, Botswana, Mozambique, Malawi and Angola, with Zambia receiving 24-31 percent of the exports and Angola the least.

Table A-7:   Nature of products traded within the region

Exporter	Products	Destination
Angola	Processed fish, palm oil dried beans and peas, coffee, tobacco and tobacco products Sisal products Hides and skins Wood and pulp PVC Paint and vanish Tyres and tubes Ceramic ware Cement Reinforcing iron	Mozambique, Swaziland, Zambia, Zimbabwe. Tanzania, Zambia. Swaziland. Botswana, Mozambique, Swaziland, Zambia. Botswana, Mozambique. Zimbabwe. Lesotho, Tanzania, Zambia. Zambia, Zimbabwe. Botswana, Lesotho, Malawi, Swaziland, Tanzania, Zambia, Zimbabwe Botswana, Mozambique, Tanzania, Zimbabwe. Swaziland. Swaziland, Zimbabwe. Botswana, Lesotho, Swaziland, Tanzania, Zambia. Zambia.
Botswana	Meat and by-products Edible oils Hides and skins Soda ash Tallow and candles	Angola, Mozambique. Angola, Tanzania, Zambia. Lesotho, Tanzania, Zambia. Zambia, Zimbabwe. Malawi, Swaziland, Zambia, Zimbabwe.
Lesotho	Processed fruit and vegetables Garments Footwear Furniture, Upholstery Medicines Tallow and candles Ceramic ware Building materials Umbrellas	Mozambique, Swaziland, Zambia, Zimbabwe. Angola, Botswana, Mozambique, Mozambique. Angola, Botswana, Malawi, Tanzania. Angola, Botswana, Mozambique, Zimbabwe. Angola, Botswana, Malawi, Swaziland, Tanzania, Zimbabwe. Malawi, Swaziland, Zambia, Zimbabwe. Swaziland, Zimbabwe. Botswana, Tanzania, Zimbabwe. Angola, Mozambique, Swaziland.
Malawi	Processed fruit and vegetables Groundnuts Dried beans and peas Sugar Tea Tobacco and products Textiles Cotton Leather goods Paper products Structural fabrication Industry machinery	Mozambique, Swaziland, Zambia, Zimbabwe. Botswana, Swaziland. Angola. Angola, Botswana, Lesotho, Tanzania. Angola, Botswana, Zambia. Botswana, Mozambique. Angola, Botswana, Mozambique. Zimbabwe. Angola, Botswana. Angola, Botswana, Mozambique, Tanzania, Zambia. Angola, Botswana, Zimbabwe. Swaziland.
Mozambique	Milk Processed fish Tea Garments Footwear Wood and by-products Furniture Glass products Cement Iron sheets Building materials GLS lamps, Refrigerators Agricultural pumps Trailers	Angola, Tanzania. Swaziland, Zambia, Zimbabwe. Angola, Botswana, Swaziland. Angola, Botswana, Malawi. Angola, Botswana, Malawi, Tanzania. Tanzania, Zambia, Zimbabwe. Botswana, Zambia. Angola, Zimbabwe. Swaziland, Tanzania, Zambia. Botswana, Zimbabwe. Botswana, Tanzania, Zimbabwe. Tanzania. Angola, Malawi, Tanzania. Malawi, Tanzania.

Swaziland	Meat and by-products Edible oils Sugar Beverages, Garments Furniture Wood and pulp Paper products Soda ash Paint and varnish Tallow and candles, Explosives Ceramic ware Glass products Tractors	Angola, Mozambique. Angola, Tanzania, Zambia. Angola, Botswana, Lesotho, Tanzania. Angola. Botswana. Tanzania, Zambia, Zimbabwe. Angola, Botswana, Malawi, Mozambique, Tanzania, Zambia. Angola, Tanzania. Botswana, Mozambique, Tanzania, Zimbabwe. Zimbabwe, Tanzania. Tanzania, Zimbabwe. Zimbabwe, Angola. Angola.
Tanzania	Meat and by-products Edible oils Coffee Sugar Spices Tea Honey Beverages, Tobacco and products Blankets Sisal products Garments Leather goods Wood and by-products Paper products Fertilizer, Insecticides Soap and detergents Tyre and tubes Ceramic ware Glass products Steel tubes and pipes Fabricated metal items Agricultural implements Building materials School materials	Angola. Angola, Zambia. Angola, Botswana, Mozambique, Swaziland, Zambia. Angola, Botswana, Lesotho. Swaziland. Angola, Botswana, Swaziland, Zambia. Lesotho. Angola. Botswana. Zimbabwe. Angola, Botswana, Malawi, Mozambique. Angola, Botswana, Malawi. Zambia, Zimbabwe. Angola, Zimbabwe. Angola. Mozambique, Zambia. Angola, Botswana. Angola. Swaziland, Zimbabwe. Angola, Zimbabwe. Angola, Botswana. Angola, Botswana, Zimbabwe. Angola, Malawi. Botswana, Mozambique, Zimbabwe. Angola, Malawi.
Zambia	Groundnuts Sugar Tobacco and products Textiles Wood and by-products Lime Glass products Cement Copper and products, lead, zinc Aluminium utensils	Angola. Botswana, Lesotho. Botswana, Mozambique. Angola, Botswana, Malawi, Mozambique. Angola, Zimbabwe. Swaziland, Zimbabwe. Zimbabwe. Botswana, Lesotho, Swaziland, Tanzania. Angola, Mozambique, Tanzania, Zimbabwe. Angola, Zimbabwe.
Zimbabwe	Edible oils Coffee Sugar Garments Hides and skins Footwear Chemicals Cement Steel ingots and bars, copper and products, lead, zinc Industrial machinery Earthmoving equipment Car and parts	Angola, Tanzania, Zambia. Botswana, Mozambique, Swaziland, Zambia. Angola, Botswana, Lesotho, Tanzania. Angola, Botswana, Malawi, Mozambique. Lesotho, Tanzania, Zambia. Angola, Botswana, Malawi, Tanzania. Swaziland, Tanzania. Botswana, Lesotho, Swaziland, Tanzania, Zambia. Angola, Tanzania. Swaziland. Angola, Botswana, Malawi, Mozambique, Swaziland, Tanzania. Angola, Botswana, Malawi, Swaziland.

Source: Amin et al (1987:240-242).

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Table A-8: SADC major mineral production and trend, 1993-1997 (Tonnes)

(a) Asbestos

Country	1993	1994	1995	1996	1997
South Africa	103 994	92 130	88 642	579 420	50 104
Swaziland	33 565	28 591	28 591	26 014	25 888
Zimbabwe	158 810	151 905	169 487	165 494	160 500
Total	296 369	272 626	286 720	770 928	236 492

Notes: There has been a continuous decline in production of asbestos in the region due to the world wide ban on several asbestos products due to the negative environmental and health effects of the mineral.

(b) Coal

Country	1993	1994	1995	1996	1997
Botswana	890 000	900 298	898 383	763 240	776 917
Malawi	52 752	34 630	14 635	50 000	36 560
Mozambique	663	0	0	0	0
South Africa	182 225 652	190 671 949	206 210 700	206 363 033	217 206 099
Swaziland	35 644	227 730	171 666	128 973	203 115
Tanzania	40 248	45 027	43 200	52 000	28 448
Zambia	260 067	162 899	151 874	128 063	164 443
Zimbabwe	4 616 540	5 515 336	4 743 480	4 757 707	4 749 790
Total	188 121 566	197 557 869	212 233 938	212 243 016	223 165 372

Notes: Generally production has been growing, except for in 1996 when there was a slight fall in production. A significant growth in output in Zambia is directly linked to the steady recovery of the building, mining and construction industries. For Zimbabwe, a decline in production has been due to the operational problems which the country has been experiencing, e.g. increases in electricity rates, labour costs, interest rates and the cost of most consumables. The low mineral commodity prices have also affected coal production in Zimbabwe (SADC Mining Sector, 1999:6).

(c) Cobalt

Country	1993	1994	1995	1996	1997
Botswana	205	225	271	406	334
South Africa	243	258	189	243	312
Zambia	4 212	2 638	2 934	4 830	4 539
Zimbabwe	113	126	109	106	120
Total	4 773	3 247	3 503	5 585	5 305

Notes: Zambia is a significant producer of cobalt with outstanding production levels. On the whole, the region experienced a significant increase in production in 1996 after a sharp fall of -32.54 percent in 1994. Of the world's top seven producers of cobalt, the region's two companies, namely, ZCCM in Zambia and Gecamines in the D.R.C., ranked fourth and fifth respectively, thus contributing to the 31 percent increase in output of refined cobalt by all Cobalt Development Institute producing countries

Zimbabwe

Exports	1992	1993	1994	1995	1996
Beverages and tobacco	30.84	25.13	22.53	22.94	30.60
Manufactured goods	26.47	23.60	21.78	25.07	19.18
crude inedible materials, except fuel	10.35	11.83	11.58	11.55	10.91
Food and live animals	6.05	9.74	20.91	14.65	14.02
Gold	11.36	15.15	12.02	11.73	12.29
Miscellaneous manufactured goods	5.96	8.09	8.64	7.72	5.92
Others*	8.97	6.46	2.54	6.34	7.08

Imports	1992	1993	1994	1995	1996
Machinery and transport equipment	36.00	35.08	41.82	42.33	38.68
manufactured goods classified by materials	14.37	14.61	16.33	17.13	16.13
Chemicals and related products	11.77	13.90	16.35	13.78	13.37
Mineral fuel, lubricants, e.t.c.	11.85	14.82	9.85	8.99	10.38
Food and live animals	14.44	8.36	2.41	3.68	7.09
Others**	11.57	13.23	13.24	14.09	14.35

Source: Own calculations from SADC (1999:356).
Notes: * includes re-exports, mineral fuel, lubricants, animal and vegetable oils, fats and waxes, chemicals and related products, machinery and transport equipment, asbestos, nickel, coal, copper, ferro-chrome, timber cut flowers, gemstones, cereals, meat, fruits, vegetables.
** includes beverages and tobacco, crude and inedible materials except fuel, animal and vegetable oils, fats and waxes, miscellaneous manufactured articles, fuels, iron steel, edible oils, raw materials, rubber, food ingredients, textiles and knitwear, petroleum products.

Democratic Republic of Congo

Exports	Imports
Diamonds, gold, copper, cobalt petroleum products, synthetic lubricants, tea, coffee.	Machinery, chemical products, fruits, mineral oils, raw materials, food, miscellaneous manufactured goods, textiles and knitwear, energy products.

Source: SADC (1999:162).

Table A-6: The countries' principal trading partners

Angola

Partners	Value of exports (%)					Value of imports (%)	
	1992	1993	1994	1995	1996	1992	1993
USA	63.55	77.17	73.62	66.67	68.01	7.95	11.55
Belgium	7.72	0.31	4.50	4.44	5.22	4.48	2.46
France	6.73	4.66	4.06	2.48	3.43	8.05	6.56
Portugal	3.03	0.21	0.20	0.36	0.31	41.50	23.65
Spain	2.79	2.90	4.83	3.32	4.91	17.81	8.89
Others	16.18	14.75	12.79	22.73	18.12	20.21	46.89

Source: Own calculations from SADC (1999:125).
Notes: Others include Canada, Japan, Germany, Italy, Netherlands, UK, Brazil, China, SACU, Tanzania, Zimbabwe, South Africa.

Botswana

Partners	Value of exports (%)					Value of imports (%)				
	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997
SACU	8.88	13.93	21.49	18.30	14.20	82.64	77.99	73.96	78.02	71.57
UK	14.00	25.08	37.41	54.34	59.64	2.62	2.49	2.54	2.58	2.17
Other Europe	72.19	56.41	36.14	22.44	20.27	4.49	5.90	6.02	4.19	6.23
Zimbabwe	3.16	2.70	3.06	3.08	3.68	4.58	5.87	5.52	5.73	4.64
Others	1.77	1.88	1.90	1.84	2.21	5.67	7.75	11.96	9.48	15.39

Source: Own calculations from SADC (1999:147).
Notes: Others include USA, South Korea, other African countries.

Lesotho

Partners	Value of exports (%)					Value of imports (%)			
	1992	1993	1994	1995	1996	1992	1993	1994	1995
SACU	49.12	45.86	50.83	51.60	61.59	84.88	82.65	82.52	91.22
N America	26.79	33.49	37.83	37.60	29.75	0.65	1.96	1.57	0.79
EU	22.68	18.26	10.07	9.25	6.56	4.82	2.93	2.74	2.33
Asia	0.26	0.46	0.31	0.24	0.06	9.47	12.10	13.16	5.66
Others	1.15	1.93	0.96	1.31	2.04	0.18	0.36	0.01	0.00

Source: Own calculations from SADC (1999:168).
Notes: Others include other African countries.

in 1996. The price of cobalt fell in 1997 due to increased supply on the world market. This could probably explain the decline in production by Botswana and Zambia and the overall decline in the region as evidenced by the -4.48 percent production growth rate in 1997 (SADC Mining sector 1999:7).

(d) Chromite

Country	1993	1994	1995	1996	1997
South Africa	2 826 652	3 590 305	5 086 053	5 000 000	5 779 424
Zimbabwe	252 033	516 801	707 433	658 416	669 767
Total	3 078 685	4 107 106	5 793 486	5 658 416	6 449 191

Notes: High production rates have been experienced although there was a fall in 1996 from the 1995 production level. The stainless steel industry is the driving force behind chromium demand as it accounts for more than 75 percent of mined chromite (SADC Mining Sector, 1999:5). The increase in chromite production in South Africa can be attributed to international and local demand, favourable prices and the introduction of new mines Chrome Resources opened the Wonderkop mine and treatment plant which is designed to handle 750 000 t/a of mined chromite. The Thorncliffe mine was opened with a capacity of 1 million t/a (SADC Mining Sector Report, 1999:6).

(e) Copper

Country	1993	1994	1995	1996	1997
Botswana	20 132	22 780	20 460	23 299	19 820
Namibia	37 531	30 055	28 784	20 705	24 997
South Africa	176 348	160 136	161 573	152 902	153 058
Zambia	403 451	360 384	307 181	313 984	318 312
Zimbabwe	8 187	9 350	8 045	9 028	6 832
Total	645 649	582 705	526 043	519 918	523 019

Notes: Zambia and South Africa, respectively are the largest producers in the region. Copper prices have been declining due to the global demand fears and prospects of increased supply. The fluctuating copper prices on the world market have negatively affected production in the region. The fall in production has also been as a result of continued technical and operational problems which the region has been experiencing, e.g. Botswana and Zambia. Cash flow and technical problems as wellas very low grades of ore reserves and depleting reserves have affected production in Zimbabwe (SADC Mining Sector, 1999:8).

(f) Diamonds (Carats)

Country	1993	1994	1995	1996	1997
Angola	146 797	306 867	671 394	917 419.10	1 314 181.79
Botswana	14 730 000	15 538 000	16 802 000	17 707 700	2 111 000
Lesotho (X)	1 555	1 200	13 190	3 128	4 203
Namibia	1 141 352	1 312 348	1 381 756	1 400 000	1 416 334
South Africa	10 324 025	10 812 386	9 682 744	9 886 748	10 093 456
Swaziland	61 687	..	..	64	..
Tanzania	40 847	17 177	49 129	126 670	122 522
Zimbabwe	43 850	173 588	204 416	437 266	421 307

Notes: Positive growth rates have been experienced, with the highest in 1997, where production rose by 13.88 percent from the

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1996 production level. The rise in production has been a result of confidence and stability in the diamond market internationally (SADC Mining Sector, 1999:9). The Angolan government has deployed troops to free up former UNITA-controlled areas in order to increase diamond production, and the country has also attracted several foreign diamond exploration companies. Botswana introduced the continuous operation system at all mines, expanded capacity at Orapa, and the Tswapong mining company opened small new diamond mines. Namibia's production increased as a result of offshore operations of Namdeb (Debmarine) and Ocean Diamond Mining; and in the first quarter of 1998, Namibian Mineral Corporation (NAMCO) started production from its offshore areas, thus further increasing its production levels (SADC Mining Sector, 1999:9).

(g) Gold (kilograms)

Country	1993	1994	1995	1996	1997
Botswana	192	234	86	5	28
Mozambique	149	336	236	67	
South Africa	619 201	579 678	523 815	496 846	492 643
Namibia	2 025	2 430	2 099	2 145	2 416
Tanzania	3 370	2 861	1 413	1 300	232
Zambia	266	165	79	113	227
Zimbabwe	18 565	20 512	23 959	24 677	24 226
Total	643 768	606 216	551 687	525 153	519 772

Note: Of late there has been very low confidence in the gold market, primarily driven by expectations of gold sales by central banks. As a result, gold prices fell by 18.0 percent in 1998 reaching the lowest level of US$311.00 per ounce in twelve years. This has resulted in a continuous fall in gold production in the region. Some mine closures have been experienced in South Africa and Zimbabwe. For South Africa, workplace disruptions caused by underground fires, strikes, seismic activity and problems associated with mining at ever increasing depths, have also contributed to the decline in production. For Zimbabwe, the major contributory factor to the decline in production is the fall in the gold prices (SADC Mining Sector,1999:10). Some companies have thus been forced to either shelve some of their projects, scale down projects or close down. Rio Tinto (Zimbabwe), one of the country's biggest gold mining companies as well as Falcon Gold Zimbabwe Ltd, were severely affected. In Tanzania, gold purchases by authorised dealers dropped by 82.15 percent from 1 300kg in 1996 to 233kg in 1997. However there are some success stories in gold prospecting that led to the discoveries of six new prospects. It is also reported that resources at one deposit are in excess of 5 million ounces and is still growing (SADC Mining Sector, 1999:4, 10).

(h) Nickel

Country	1993	1994	1995	1996	1997
Botswana	21 621	19 041	18 090	22 905	20 157
South Africa	29 868	30 135	29 803	33 861	34 830
Zimbabwe	11 097	13 516	10 864	9 694	10 134
Total	62 586	62 692	58 757	66 460	65 121

Notes: A large production growth of 13.11 percent was experienced in 1996. Nickel production is expected to increase as a result of the following: (i) in South Africa, a major feasibility study on a large mine was completed at the end of 1997, while the Nkomati MSB joint venture reached full production capacity; and (ii) in Zimbabwe, the development of green field resources such as the Hunters Road deposit is expected to raise production; further, with nickel production as a by product of platinum production in the Hartley Platinum mine (BHP) an additional boost could be given to the sector (SADC Mining Sector, 1999:11).

(i) Lead

Country	1993	1994	1995	1996	1997
Namibia	31 236	23 813	29 752	85 880	505
South Africa	100 171	95 824	88 501	87 354	83 114
Zambia	1 856	2 002	..	..	..
Total	133 263	121 639	118 253	173 234	83 619

(j) Zinc

Country	1993	1994	1995	1996	1997
Namibia	34 557	64 568	59 207	35 873	72 816
South Africa	77 096	76 361	71 118	77 029	71 062
Zambia	3 869	102	0	0	0
Total	115 522	141 031	130 325	112 902	143 878

Notes: The high production growth experienced in 1994 was followed by negative growth rate of 7.59 percent in 1995. However, production has since been recovering as a result of some measures put in place by the respective member countries. For example, to counter South Africa's declining zinc production, the South African company Zincor intends to increase its capacity by 20 to 30 percent through, among other things, cutting its processing costs by introducing new technology and modifying the plant. Gencor announced an expansion to its proposed zinc refinery on the Eastern Cape coast so as to effect an increase in zinc metal production. As for Zambia, some operations at the former ZCCM Kabwe, have been resuscitated, and Kabwe Power and Metal Ltd has been engaged in extracting lead and zinc from the ore dumps. Lead and zinc to the tune of approximately 30 metric tonnes have been produced every month (SADC Mining Sector, 1999:12). For Namibia, in order to improve on production of zinc, a Memorandum of Understanding on shareholding and royalties was signed between ISCOR and Namibia Mining Ventures. With this memorandum of understanding signed between the two principal parties, uncertainty at Rosh Pinah, Namibia's significant producer, was removed (SADC Mining Sector, 1999:11).

Source: SADC Mining Sector (1999:85-89).

Table A-9   Share of GDP by sector for regional countries

Botswana

Sector	1992/93	1993/94	1994/95	1995/96	1996/97
Agriculture	4.44	4.22	3.91	3.64	3.39
Mining	33.30	33.59	32.09	32.97	32.62
Manufacturing	6.31	5.98	6.05	6.02	5.93
Construction	5.57	5.41	5.33	5.12	5.05
Trade, hotels and restaurants	15.47	15.60	16.31	16.36	16.92
Business services*	9.28	9.76	10.19	10.05	10.06
Others	25.63	25.44	26.12	25.84	26.03

Source: Own calculations from SADC (1999:138).
Notes: * includes banks, insurance and business services.
Others include transport, general government, social and personal services, electricity and water.

Lesotho

Sector	1992	1993	1994	1995
Agriculture	9.04	12.35	14.01	9.57
Mining and quarrying	0.42	0.57	0.65	0.44
Manufacturing	17.28	17.23	15.43	16.30
Building and construction	17.38	16.79	19.34	24.09
Wholesale and retail trade	10.14	10.08	10.09	9.89
Others	45.74	42.98	40.48	39.71

Source: Own calculations from SADC (1999:166).
Notes: Others includes government and services, and electricity and water.

Namibia

Sector	1993	1994	1995	1996	1997
Agriculture	15.73	17.38	17.11	17.59	15.81
Mining and quarrying	16.97	17.65	17.95	18.42	19.00
Manufacturing	11.86	11.69	11.63	10.56	11.21
Construction	2.71	2.77	2.76	2.87	2.51
Wholesale and retail trade	6.16	5.89	5.96	5.90	6.13
Hotel and restaurants	1.25	1.46	1.60	1.45	1.57
Financial and professional services	7.50	7.09	7.01	7.26	7.42
Others	37.82	36.07	35.98	35.95	36.35

Source: Own calculations from SADC (1999:236).
Notes: Agriculture includes forestry, subsistence and commercial farming and fisheries.
Others includes transport and communications, private, social and community services, government services, electricity and water.

Swaziland

Sector	1992/93	1993/94	1994/95	1995/96	1996/97
Agriculture and forestry	11.83	11.07	11.12	10.25	11.60
Mining and quarrying	1.94	1.96	2.02	1.90	1.84
Manufacturing	37.93	37.14	37.46	37.91	36.60
Construction	2.79	3.36	3.77	4.56	4.64
Trade, hotels and restaurants	8.34	8.84	9.14	9.83	10.40
Financial services, real estate*	7.16	7.09	6.96	7.27	7.39
Others	30.01	30.54	29.53	28.28	27.53

Source: Own calculations from SADC (1999:301).
Notes: Others include owner-occupied dwellings, government and other services, electricity and water.
         * also includes wholesale and retail.

Angola

Sector	1991	1992	1993	1994
Agriculture, forestry and fishing	24.13	19.49	19.53	12.23
Oil and gas	17.75	33.01	37.58	54.46
Manufacturing	5.75	4.04	4.65	2.17
Trade and commerce	13.50	10.90	12.49	7.61
Transport and communications	3.38	2.62	3.06	1.87
Other tradeable services	4.50	8.33	7.98	12.61
Non-tradeable services	23.63	13.62	10.71	5.71
Others	7.36	7.99	4.00	3.34

Source: Own calculations from SADC (1999:122).
Notes: Others include electricity and water, construction, banking and insurance, import duties, and diamonds and other mining.

Malawi

Sector	1994	1995	1996	1997	1998
Agriculture (large and small scale)	25.08	30.43	36.78	36.34	36.20
Manufacturing	17.39	16.11	14.22	13.61	13.88
Distribution	26.71	25.04	22.64	24.19	24.31
Financial and professional services	8.29	7.97	7.31	7.49	7.43
Transport and communications	5.07	4.71	4.22	4.31	4.28
Others	17.46	15.74	14.83	14.06	13.90

Source: Own calculations from SADC (1999:176).
Notes: Others include electricity and water, construction, ownership and dwellings, mining and quarrying.

Mozambique

Sectors	1993	1994	1995
Agriculture	26.39	24.23	25.49
Industry and fishing	15.53	14.75	17.25
Construction	10.54	11.50	12.22
Transport and communications	14.37	12.56	12.47
Commerce and services	33.17	36.96	32.57

Source: Own calculations from SADC (1999:214).

Mauritius

Sector	1994	1995	1996	1997
Agriculture, hunting, forestry, fishing	8.46	8.6	8.48	8.34
Manufacturing	23.30	23.33	23.45	23.66
Construction	7.36	6.83	6.71	6.39
Wholesale and retail trade	12.98	13.41	13.37	13.31
Restaurants and hotels	3.81	3.94	4.32	4.69
Transport and communications	12.29	12.39	12.49	12.55
Financial and professional services	10.21	10.80	10.98	11.25
Others	21.59	20.70	20.20	19.81

Source: Own calculations from SADC (1999:196).
Notes: Others include electricity, gas and water, ownership of dwellings, private social and community services and government services, mining and quarrying.

Seychelles

Sectors	1992	1993	1994	1995	1996
Agriculture, forestry and fishing	3.83	3.70	4.16	4.17	4.09
Manufacturing and handicraft	11.90	10.73	11.42	11.46	13.38
Building and construction	5.76	7.78	7.40	7.65	8.18
Transport, distribution, communications	30.61	27.83	28.29	28.56	28.58
Hotels and restaurants	8.62	8.59	8.81	9.19	9.44
Finance and business services	9.62	8.85	10.15	10.12	10.03
Others	29.66	32.52	29.77	28.85	26.30

Source: Own calculations from SADC (1999:262).
Notes: Others include electricity and water, government and other services.

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South Africa

Sectors	1993	1994	1995	1996	1997
Agriculture, forestry and fishing	5.07	5.54	4.58	5.74	5.58
Mining and quarrying	10.09	9.59	9.03	8.64	8.60
Manufacturing	24.05	24.05	25.16	24.49	24.87
Electricity, gas and water	4.75	4.80	4.82	4.91	5.03
Wholesale, retail, catering and accommodation	14.80	15.00	15.52	15.61	15.43
Transport, storage and communication	7.73	7.82	8.00	8.01	8.07
Finance, insurance, real estate and business	15.14	15.19	15.29	15.32	15.44
Others	18.37	18.01	17.60	17.28	16.98

Source: Own calculations from SADC (1999:276).
Notes: Others include community, social and personal services, general government and other producers, construction.

Tanzania

Sectors	1993	1994	1995	1996	1997
Agriculture, livestock, forestry, hunting	37.58	38.03	39.27	39.20	38.54
Manufacturing	11.32	11.17	11.00	11.02	11.21
Construction	5.07	5.08	3.99	4.17	4.44
Wholesale, retail, hotels and restaurants	21.66	21.66	21.72	21.48	21.85
Transport and communications	7.13	7.11	7.30	7.05	7.16
Finance, insurance, real estate and business services	8.24	8.34	7.97	7.48	8.08
Others	9.00	8.61	8.75	9.60	8.72

Source: Own calculations from SADC (1999:318).
Notes: Others include mining and quarrying, electricity and water, public administration and other services.

Zambia

Sectors	1991	1992	1993	1994	1995
Agriculture, forestry, fishing	16.9	22.6	28.5	26.7	17.1
Mining and quarrying	8.9	5.9	8.2	8.0	9.4
Manufacturing	35.6	35.3	30.1	30.6	37.8
Trade and commerce	14.7	11.5	12.1	9.3	12.9
Transport	5.5	4.6	4.1	4.3	5.1
Others	18.4	20.1	17.0	21.1	17.7

Source: SADC (1999:336).

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Zimbabwe

Sectors	1992	1993	1994	1995	1996
Agriculture and forestry	13.10	16.32	16.64	15.46	17.51
Mining and quarrying	4.34	4.46	4.38	4.62	4.31
Manufacturing	21.96	19.85	20.75	18.41	17.86
Construction	3.42	3.29	3.13	2.94	2.94
Finance, insurance and real estate	10.04	11.04	11.05	11.45	11.49
Distribution and hotels	17.31	17.01	17.27	18.26	18.37
Transport and communications	7.07	6.61	6.78	8.31	8.31
Others	22.76	21.42	20.00	20.55	19.21

Source: Own calculations from SADC (1999:350).
Notes: Others include electricity and water, public administration, education and health and other services.

APPENDIX 3: ADDITIONAL DATA FOR CHAPTER FOUR

Table A-10:   Funding of sectoral projects by SADC in 1998

Sector	Project number	Estimated cost (US$ mn) Total	Foreign	Local	Secured funding and source	Status of project
Livestock production and animal disease control	AAA.2.3 (1)	3.93	3.46	0.47	3.46 Denmark & Netherlands 0.468 Belgium, UNDP & SADC	Under implementation
Forestry	AAA.5.1	4.00	3.60	0.40	3.60 Canada 0.40 SADC	Phased out on 31/05/98
	AAA.5.3	14.32	12.92	1.40	7.50 Norway 0.40 SADC	Under implementation
	AAA.5.23	29.19	27.34	1.85	0.07 SADC	Funding being sought
	MOZ.5.14	1.63	1.42	0.21	1.42 Finland 0.21 SADC	Under implementation
Finance and investment	AAA.3.1	0.04		0.04	0.04 SADC	Under implementation
	AAA.5.1	0.05		0.05	0.05 SADC	Under implementation
	AAA.10.1	0.48	0.38	0.10	0.10 SADC 0.38 EU	Under implementation
	AAA.11.1	0.48	0.38	0.10	0.10 SADC 0.38 EU	Under implementation
	AAA.12.1	0.48	0.38	0.10	0.10 SADC 0.38 EU	Under implementation
Environment and land management	AAA.7.6	1.78	1.62	0.16	0.16 SADC	Funding being sought
	AAA.7.11	0.64	0.45	0.19	0.19 SADC	Funding being sought
	AAA.7.12	1.08	0.78	0.30	0.78 SIDA	Under implementation
	AAA.7.14	2.30	2.00	0.30	0.30 SADC 0.30 SADC	Advanced negotiations with SIDA for funding
	AAA.7.15	2.00	1.70	0.30	0.30 SADC	Advanced negotiations with GTZ for phase I
Marine fisheries	AAA.4.11	20.00	20.00		1.33 GTZ, NORAD 0.18 SADC	Funding sought for 18.49
Tourism	AAA.1.1	0.20		0.20	0.20 SADC	Under implementation
	AAA.1.2	0.48	0.389	0.091	0.14 ComSec 0.04 SADC	Funding being sought for 0.30
	AAA.1.4	0.60	0.50	0.10	0.10 SADC	Funding being sought
	AAA.1.6	0.55	0.40	0.15	0.052 RETOSA 0.001 SADC	Under implementation and funding being sought
	AAA.2.1	0.06	0.05	0.01	0.05 Tourism 0.01 SCU	Under implementation
	AAA.3.2	0.10	0.08	0.02	0.03 TC & RETOSA 0.02 SADC	Under implementation
	AAA.3.3	0.163	0.153	0.010	0.153 Tourism sector 0.010 SADC	Implemented & making RETOSA operational is in progress.
	AAA.4.1	0.605	0.542	0.063	0.05 Tourism, SADC	On hold pending RETOSA becoming operational
Mining	31 projects	19.2			12.8 SADC	Under implementation

Source: Own table derived from project funding status tables in selected 1999 SADC Sectoral Reports.

Table A-11: Institutions which promote trade and industrial development in the SADC region

Country	Institutions in place
Angola	Ministry of Commerce and Industry; The Institute of Small and Medium Enterprises (INAPEM), Cabinet of Information and Industrial Promotion, The Angolan Institute for Normalisation and Quality, Foreign Investment Institute, Industrial Development Institute of Angola (IDIA), Cabinet of Privatisation (CARE) and Angolan Institute of Industrial Property.
Botswana	Botswana Development Corporation (BDC), Botswana Technology Centre (BTC), Rural Industries Promotions Botswana (RIPCO), The Development of Trade and Investment Promotion (TIPA), Botswana Confederation of Commerce Industry and Manpower (BOCCM).
Lesotho	Lesotho National Development Corporation (LNDC), Basotho Enterprise Development Corporation (BEDCO).
Malawi	The Malawi Development Corporation (MDC), The Export Processing Zones (EPZs), The Malawi Investment Promotion Agency (MIPA), Malawi Entrepreneurship Development Institute (MEDI), Malawi Export Promotion Council (MEPC), Development of Malawian Entrepreneurs Transfer (DEMAT), Small Enterprise Development Organisation (SEDOM), Malawi Bureau of Standards (MBS), Malawi Chamber of Commerce, Malawi Industrial and Technology Development Centre, Investment and Development Bank, the Reserve Bank of Malawi.
Mauritius	The Mauritius Standards Bureau (MBS), The Mauritius Export Development and Investment Authority (MEDIA) The Development Bank f Mauritius, The Export Processing Zone Development Authority (EPZDA), The Small and Medium Industries Development Organisation (SMIDO), Industrial and Vocational Training Board (IVTB), Ministry of Industry and Commerce.
Mozambique	Industrial Free Zones, The Investment Promotion Centre (CPI), The Technical Unit for Enterprise Restructuring (UTRE), Business Associations Working Commission (CTA), National Institute of Standardisation and Quality (INNOQ), Local Industry Development Institute (IDIL), The Mozambique Institute of Export Promotion (IPEX).
Namibia	The Namibia Investment Centre (NIC), The Namibian Development Corporation (NDC), The Namibian Export Processing Zone (EPZ), The Bank of Namibia, The Namibian Chamber of Commerce and Industry (NNCCI), Namibian Development Fund, Development of Research and The Polytechnic of Namibia.
South Africa	Industrial Development and Investment Centre (IDIC), Council for Scientific and Industrial Research (CSIR), Industrial Development Corporation (IDC), Small Business Development Corporation (SBDC).
Swaziland	Swaziland Industrial Development Company (SIDC), Tibiyo Taka Ngwane, The Swaziland Investment Promotion Authority (SIPA), Swaziland Chamber of Commerce, and the Trade Promotion Unit (TPU).
Tanzania	Tanzania Bureau of Standards (TBS), Board of External Trade, Tanzania Engineering and Manufacturing Design Organisation (TEMDO), Tanzania Industrial Studies and Consultancy Organisation (TISCO), Tanzania Industrial Research and Development Organisation (TIRDO), Centre for Agricultural Mechanisation and Rural Technology (CAMARTEC), The Tanzania Chamber of Commerce, Industries and Agriculture, The Tanzania Confederation of Industries, Tanzania Exporters Association, Tanzania Textile Association, Dar es Salaaam Chamber of Commerce, the Investment Promotion Centre (IPC).
Zimbabwe	Confederation of Zimbabwe Industries (CZI), Zimbabwe National Chamber of Commerce (ZNCC), Indigenous Business Development Centre (IBDC), Zimbabwe Investment Centre (ZIC), Indigenous Business Women Organisation (IBWO), the Zimbabwe Export Processing Zone (EPZ).
Seychelles	The Investment Development Advisory Services (IDEAS), The Development Bank of Seychelles (DBS), The Islands Development Company (IDC), The Seychelles International Business Authority (SIBA),
Zambia	The Zambia Privatisation Agency (ZPA) and the Zambia Investment Centre (ZIC).

Source: SADC Industry and Trade Sector (1999:7-8, 10-11, 13, 15, 18, 21, 24, 26-29, 31, 36); SADC (1999:124, 168, 180, 201, 218-9, 263, 302, 320, 338, 354-5).

Table A-12: Industrial projects and corresponding possible industrial raw material sources in the SADC region

Industrial project	Industrial raw materials	Possible sources for industrial raw materials		
		Short-term supplier	Medium-term supplier	Long-term supplier
Pulp and paper	pulp and paper. plywood, veneer and fibrewood. sawn timber.	Swaziland, Angola Zimbabwe, Tanzania and Malawi Moz, Swaz, Bot, Zimbabwe	Tanzania, Zambia Zimbabwe, Botswana Swaziland, Mozambique	Swaziland Swaziland
Fertilisers	fertiliser compounds. amonium and urea	Swaziland, Zimbabwe Tanzania, Mozambique	Mozambique Mozambique	Mozambique Tanzania, Mozamb.
Cement	cement	Tanz, Moz, Ang, Zam, Zim.	Mozambique	Namibia, Mozamb.
Textiles	fibres textiles garments	Mal, Tanz, Les, Moz. Mal, Tanz, Zimb, Zamb, Les	Les, Moz, Tanz, Mal. Moz, Les, Zimb, Mal.	Zambia, Swaziland Tanzania, Lesotho Tanzania, Lesotho
Tractors and farm implements	farming equipment light tractors	Tanzania, Zimbabwe Swaziland	S. Africa, Mozambique South Africa	Tanzania South Africa
Chemicals, insecticides and pesticides	coal base chemicals mining chemicals insecticides vaccines pharmaceuticals	South Africa Zimb, Zambia and S. Africa Zimbabwe, South Africa Botswana, Mozambique Lesotho, Zimbabwe, Zambia	South Africa Zamb, Namb, S. Africa Zimbabwe, S. Africa Botswana Tanzania	Tanz, Moz, Zim. South Africa South Africa Tanz, S A. Botsw. Mozambique
Electrical transmission and distribution equipment	copper copper wire cables	Zambia, Zimbabwe, Mozamb Moz, Zamb, Zimb, Tanzania	Namibia, Zambia Tanzania	Namibia
Transport equipment	bicycles bus and lorry bodies railway wagons trailers automotive batteries dry cell batteries tyres and tubes	Tanz, Zimb, Mozambique Tanzania, Moz, Zimbabwe S. Africa, Moz, Zimbabwe Mozambique, Zimbabwe Moz, Zimbabwe, Zambia Tanzania, Zimbabwe Moz, Tanzania, Zimbabwe	Tanzania, Zimb, Moz. S. Africa, Botswana Mozambique, Angola Mozambique, Botswana Tanzania, South Africa South Africa, Zimbabwe S. Africa, Moz, Tanz	Tanzania, S. Africa South Africa South Africa South Africa South Africa South Africa South Africa
Oil refinery	crude oil refinery petroleum bitumen	Angola Tanzania and Mozambique	Angola Tanzania, Mozambique Zimbabwe.	Angola Tanzania, Moz. Angola, Moz, Tanz.
Food processing	wheat vegetable oil sugar cocoa, tea, coffee fish meat	Zimbabwe Zimbabwe, Mozambique Moz, Swaz, Ang, Zimbabwe Tanz, Malawi, Zimb, Moz. Angola, Namibia, Moz, Mal. Botswana, Zimbabwe	Zimbabwe Botswana Zimbabwe Tanzania, Mal, Zimb, Mozambique Moz, S. Africa, Namibia, Tanzania, Botswana	Zimbabwe, Lesotho Lesotho Zimbabwe Tanz, Mal, Zimb, Moz, S. Africa Namibia, Lesotho

Source: Own table derived from Ndlela (1987:58-9); Mudenda (1987:139); Table A-7 (Appendix 2).

APPENDIX 4: ADDITIONAL INFORMATION FOR CHAPTER SIX

Table A-13(a): Average annual percentage nominal growth rates of trade (%): Zimbabwe and South Africa compared

Region		Zimbabwe			South Africa		
		1990-1993	1994-1996	1997-1998*	1990-1993	1994-1996	1997-1998**
Total SADC	(Imports)	30.32	36.20	6.92	22.36	25.21	..
	(Exports)	31.41	13.20	-0.04	12.60	6.54	..
SACU	(Imports)	48.69	33.66	8.84	23.57	33.34	..
	(Exports)	46.66	6.84	1.54	7.89	4.82	..
BLNS	(Imports)	28.27	21.51	8.84	23.57	33.34	..
	(Exports)	31.16	7.19	-3.76	7.89	4.82	..
Non-SACU SADC	(Imports)	38.29	-28.92	-16.98	19.21	-10.22	70.57
	(Exports)	31.52	23.25	-1.99	31.91	10.37	1.87
ROW	(Imports)	37.87	16.70	3.37	12.29	21.46	..
	(Exports)	33.82	30.49	-8.82	11.70	16.06	..
Total Trade	**(Imports)**	**37.50**	**24.00**	**4.87**	**12.79**	**21.69**	**12.96**
	(Exports)	**33.34**	**25.15**	**-6.03**	**11.92**	**13.59**	**12.34**

Country	Zimbabwe			South Africa		
	1990-1992	1993-1995	1996-1998*	1990-1992	1993-1995	1996-1998
Angola	-7.19	119.82	10.83	167.96	25.24	..
Malawi	9.42***	28.38	26.08	34.57	7.66	59.51
Mauritius	85.33	60.96	6.57	147.48	4.19	-2.81
Mozambique	8.90	17.12	-16.02	26.37	38.59	47.06
Tanzania	-29.58	55.53	142.61	71.63	170.86	341.44
Zambia	35.67	33.75	34.97	51.96	0.56	31.03
Zimbabwe	-	-	-	24.12	47.54	6.99
Non-SACU SADC	69.60	30.71	19.96	57.28	30.54	27.73

Table A-13(b): Zimbabwe's average annual percentage nominal growth rate (%) of its trade with the countries with which it has bilateral preferential trade agreements

Country	1990-1992	1993-1995	1996-1998*
Botswana	14.29	25.66	20.40
Malawi	9.42	28.38	26.08
Namibia	100.86	177.39	-0.63
South Africa	71.75	56.87	17.81

Source: Own calculations from ZIMTRADE statistics; Tables 6.2, 6.3 and 6.6.
Notes: * the 1998 trade statistics are up to September. ** South Africa's trade statistics with BLNS were not available.
*** except for Malawi, the growth rates are for the period 1990-1991 as the 1992 trade statistics were not available.

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Average annual percentage growth rate formula

Examples

1990-1993 GDP growth rate	1994-1996 growth rate

$[(GDP_{1993} / GDP_{1990})^{1/3} - 1] \times 100\ \%$ 　　　　$[(GDP_{1996} / GDP_{1994})^{1/2} - 1] \times 100\ \%$

Table A-14(a) Growth of manufactured exports by technological categories (% per annum) 1990-1995

	Resource-based	Labour-intensive	Scale-intensive	Differentiated	Science-based	Total
Zimbabwe	23.1	16.6	2.4	8.6	14.1	10.1
South Africa	8.5	12.5	17.1	22.7	18.6	13.6

Table A-14(b): Distribution of manufactured exports by technological categories (%)

	Year	Resource-based	Labour-intensive	Scale-intensive	Differentiated	Science-based
Zimbabwe	1990	11.30	26.40	56.00	5.90	0.40
	1995	19.70	35.20	39.00	5.60	0.50
South Africa	1990	44.30	11.20	34.90	6.90	2.60
	1995	35.30	10.70	40.60	10.20	3.20
World	1995	15.10	17.90	23.70	23.40	19.90

Table A-14(c): Technological complexity of manufactured exports (% of manufactured exports)

	Zimbabwe		South Africa	
Category	1990	1995	1990	1995
Technologically complex	62.3	45.1	44.4	54.1
High technology	6.3	6.0	9.6	13.4
Less / not technical	31.4	49.9	46.0	32.5

Source: Adapted from Gemini Consulting (1999:10, 11).

APPENDIX 5: ADDITIONAL INFORMATION FOR CHAPTER SEVEN

Table A-15: Participation in intra-SADC trade: Zimbabwe and South Africa compared

	Percentage of trade with SADC to total trade (%)					Percentage of intra-SADC trade to total intra-SADC trade (%)			
	1994	1995	1996	1997	1998	1993	1994	1995	1996
South Africa	17.24	11.99	15.09	6.14*	5.59*	29.37	24.18	28.49	44.26
Zimbabwe	34.29	37.18	35.96	38	39.55**	20.43	14.17	14.65	10.93

Source: Own calculations from Tables 6.2 and 6.6; Cattaneo (1998:48); Imani Development (1997:x-xi; 1999:53-54); SADC Industry and Trade Sector (1999:78-79).

Notes: * South Africa's trade statistics with the BLNS countries were not available.
        ** Trade statistics were up to September.

Table A-16: Investment opportunities within the region

Country	Investment opportunities
Botswana	**Technology:** electronics components and product manufacturing; engineering plastics and packaging; food processing; water conservation, rehabilitation and re-use. **Manufacturing:** garments and textiles; assembly/automotive; consumer products; pharmaceuticals; leather and leather related products; ostrich farming. **Financial services:** unit trusts; dual listing on the Botswana Stock Exchange. **Tourism:** hotels and lodges; camps, tour operations and travel agencies; airlines, mobile safari and restaurant services.
Lesotho	**Agro-business:** livestock and fish production; forestry development; diversification in high-value, high-yield crops. **Manufacturing:** garments and textiles; footwear; consumer products. **Furniture:** furniture production. **Tourism:** hotels/lodges; adventure tours; pony trekking; water-based recreational facilities.

Namibia	**Mineral processing:** cutting and polishing diamonds and dimension stone; production of granite and marble; cutting and processing sodalite. **Agro-industry:** cotton ginning; weaving; milling/pressing cotton seeds for oil; tomato paste for the fishing industry; cakes for animal feeds; leather tanning and processing. **Small-scale industry:** plastic injection moulding; cement and fertiliser production; light industries; processing of fish and fish products; fish canning packaging; production of cans and packages.
Swaziland	**Manufacturing:** processing of sugar cane; manufacturing of sweets and confectionaries; canning and further processing of tobacco, pineapples and vegetables; production of ceramic ware, paper, pharmaceuticals and glass; processing of coal; production of chemicals, cement and fertiliser. **Tourism:** further development of tourist attraction sites; hotels/lodges, tours.

Angola	**Oil and Gas Mining:** diamonds and iron ore. **Agriculture:** coffee, cotton, palm oil, tropical fruits and vegetables. **Fisheries:** redevelopment of the fishing industry, modernisation of freezer plants, canneries and factories. **Forestry:** commercialisation of plantations and the pulp mill. **Tourism:** construction of new hotels and revamping of the old ones.
Malawi	**Agro-industry:** processing of agricultural produce, production of aual and perennial cash crops, animal husbandry, cultivation and milling of sugar. **Textiles, clothing and footwear:** production of yarn, garment manufacturing, production of variety of shoes. **Wood, wood products, pulp, paper:** saw milling, plywood, veener, pulp and paper; downstream wood products. **Fertilisers and pesticides:** pesticide formulation and production of chemical fertilisers. **Mining and mineral products:** exploitation of known reserves; manufacture of ceramics and glassware; production of cement, iron and steel, sponge iron, steel billets, ignots, slabs, blooms, steel sheets, e.t.c. **Machinery, transport equipment and electrical engineering:** production of a variety of machine tools. **Diesel engines and generators:** production of diesel powered generating equipment. **Agricultural machinery and equipment:** production of agricultural equipment, construction equipment, transport equipment, automotive components, motorcycles and bicycles, electrical and electronic products. **Tourism and hotel industry:** ground and water transport facilities, building/renovation of hotels.
Mauritius	**Manufacturing sector:** information technology, printing and publishing, electronics, precision engineering, jewellery, pharmaceuticals and health care, agro-based industry, textiles and apparel.
Mozambiq ue	**Mining:** development of tantalite and pegmatitie mining, bauxite mining and other minerals. **Agriculture and forestry:** production and processing agricultural products e.g. cashew nuts, coconuts, sugar, cotton and sisal; development of forest plantations and the industrial processing of wood products. **Fishing:** prawn, lobster, crayfish and fish farming; development of boat yards and processing factories; fishing of more exotic species; development of the acquaculture

	industry. **Manufacturing:** production of sugar and cement manufacturing. **Tourism:** new construction projects and refurbishment and modernisation of existing tourist facilities.
Seychelles	**Agriculture:** livestock and animal feed production, fishing and fish processing. **Tourism:** small hotels nd tourist facilities. **Light industry:** boat building for export to states around the Indian Ocean. **Oil exploration**
S. Africa	**Export-oriented industries:** food and related products, textiles and clothing, wood-related products, chemicals, non-metallic mineral products, basic metals.
Tanzania	**Petroleum and mining:** exploration and production of oil, gas, all minerals (metallic and non-metallic). **Agriculture:** production of cash crops. **Livestock development:** animal breeding, dairy farming, poultry, beef ranching. **Natural resources:** forestry, fishing and fish farming, commercial game cropping and wildlife ranching. **Construction:** hotels and other tourist accommodation, residential houses, commercial buildings. **Manufacturing:** animal feed processing, agro-based industries, pharmaceuticals, textiles and leather goods, cement, paints and ceramics, packaging, electrical and electronic engineering, steel, metal and automotive engineering, printing and publishing. **Computers and high technology:** assembly, marketing, service. **Tourism:** operation of tourist hotels and other accommodation, tourist transportation.
Zambia	**Agro-industry:** tobacco processing, cotton ginning, crop production. **Industry:** production of consumer goods, fertilisers and soil conditioners. **Tourism:** quality holiday accommodation of all types, managed safaris, licensed hunting safaris, organised holidays.
Zimbabwe	**Manufacturing:** retooling and expansion projects. **EPZs:** export oriented manufacturing activities and services (variety of areas).

Source: Own table derived from SADC (1999:124, 141, 168, 179-180, 198, 218, 234, 263, 281, 302, 319-320, 338, 354).

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Zimbabwe

Exports	1992	1993	1994	1995	1996
Beverages and tobacco	30.84	25.13	22.53	22.94	30.60
Manufactured goods	26.47	23.60	21.78	25.07	19.18
crude inedible materials, except fuel	10.35	11.83	11.58	11.55	10.91
Food and live animals	6.05	9.74	20.91	14.65	14.02
Gold	11.36	15.15	12.02	11.73	12.29
Miscellaneous manufactured goods	5.96	8.09	8.64	7.72	5.92
Others*	8.97	6.46	2.54	6.34	7.08

Imports	1992	1993	1994	1995	1996
Machinery and transport equipment	36.00	35.08	41.82	42.33	38.68
manufactured goods classified by materials	14.37	14.61	16.33	17.13	16.13
Chemicals and related products	11.77	13.90	16.35	13.78	13.37
Mineral fuel, lubricants, e.t.c.	11.85	14.82	9.85	8.99	10.38
Food and live animals	14.44	8.36	2.41	3.68	7.09
Others**	11.57	13.23	13.24	14.09	14.35

Source: Own calculations from SADC (1999:356).
Notes: * includes re-exports, mineral fuel, lubricants, animal and vegetable oils, fats and waxes, chemicals and related products, machinery and transport equipment, asbestos, nickel, coal, copper, ferro-chrome, timber cut flowers, gemstones, cereals, meat, fruits, vegetables.
** includes beverages and tobacco, crude and inedible materials except fuel, animal and vegetable oils, fats and waxes, miscellaneous manufactured articles, fuels, iron steel, edible oils, raw materials, rubber, food ingredients, textiles and knitwear, petroleum products.

Democratic Republic of Congo

Exports	Imports
Diamonds, gold, copper, cobalt petroleum products, synthetic lubricants, tea, coffee.	Machinery, chemical products, fruits, mineral oils, raw materials, food, miscellaneous manufactured goods, textiles and knitwear, energy products.

Source: SADC (1999:162).

Table A-6: The countries' principal trading partners

Angola

Partners	Value of exports (%)					Value of imports (%)	
	1992	1993	1994	1995	1996	1992	1993
USA	63.55	77.17	73.62	66.67	68.01	7.95	11.55
Belgium	7.72	0.31	4.50	4.44	5.22	4.48	2.46
France	6.73	4.66	4.06	2.48	3.43	8.05	6.56
Portugal	3.03	0.21	0.20	0.36	0.31	41.50	23.65
Spain	2.79	2.90	4.83	3.32	4.91	17.81	8.89
Others	16.18	14.75	12.79	22.73	18.12	20.21	46.89

Source: Own calculations from SADC (1999:125).
Notes: Others include Canada, Japan, Germany, Italy, Netherlands, UK, Brazil, China, SACU, Tanzania, Zimbabwe, South Africa.

Botswana

Partners	Value of exports (%)					Value of imports (%)				
	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997
SACU	8.88	13.93	21.49	18.30	14.20	82.64	77.99	73.96	78.02	71.57
UK	14.00	25.08	37.41	54.34	59.64	2.62	2.49	2.54	2.58	2.17
Other Europe	72.19	56.41	36.14	22.44	20.27	4.49	5.90	6.02	4.19	6.23
Zimbabwe	3.16	2.70	3.06	3.08	3.68	4.58	5.87	5.52	5.73	4.64
Others	1.77	1.88	1.90	1.84	2.21	5.67	7.75	11.96	9.48	15.39

Source: Own calculations from SADC (1999:147).
Notes: Others include USA, South Korea, other African countries.

Lesotho

Partners	Value of exports (%)					Value of imports (%)			
	1992	1993	1994	1995	1996	1992	1993	1994	1995
SACU	49.12	45.86	50.83	51.60	61.59	84.88	82.65	82.52	91.22
N America	26.79	33.49	37.83	37.60	29.75	0.65	1.96	1.57	0.79
EU	22.68	18.26	10.07	9.25	6.56	4.82	2.93	2.74	2.33
Asia	0.26	0.46	-0.31	0.24	0.06	9.47	12.10	13.16	5.66
Others	1.15	1.93	0.96	1.31	2.04	0.18	0.36	0.01	0.00

Source: Own calculations from SADC (1999:168).
Notes: Others include other African countries.

Namibia			Democratic Republic of Congo		
Namibia's partners	Value of exports (%)	Value of imports (%)	D.R.C.'s partners	Value of exports (%)	Value of imports (%)
Country	1996	1996	Country	1996	1996
UK	40	2	Belgium	43	17
South Africa	23	84	USA	16	6
Spain	12	0	South Africa	5	19
Japan	5	3	Italy	5	0
France	4	0	Hong Kong	0	6
Others*	16	11	Others**	31	52

Source: Own calculations from SADC (1999:162, 240).
Notes: * include Belgium, Germany, Italy, Switzerland. Cote d' Ivore, Botswana, Swaziland, USA.
** include UK, France, Italy, Germany, Japan.

Malawi

	Value of exports (%)					Value of imports (%)				
Partners	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
USA	12.03	15.79	13.35	9.37	14.37	2.06	3.33	3.65	3.26	20.14
Germany	19.09	9.47	11.71	13.35	10.32	5.09	4.71	3.13	4.56	2.45
S. Africa	9.75	12.89	12.18	13.11	13.36	37.00	39.22	33.51	34.36	35.68
Japan	13.07	12.63	10.54	10.30	4.86	--	--	--	--	--
UK	7.26	7.89	8.43	5.39	4.66	6.33	5.88	5.73	3.91	5.04
Zimbabwe	0.19	0.12	0.18	0.21	0.12	6.19	9.22	14.93	17.26	17.84
Netherlands	6.02	5.26	5.15	5.62	6.28	--	--	--	--	--
Others	32.59	35.95	38.46	42.65	46.03	43.33	37.64	$9.05	36.65	18.85

Source: Own calculations from SADC (1999:182); ZimTrade Trade Database.
Notes: Others include Zambia, Mauritius, Austria.

Swaziland

	Value of exports (%)				Value of imports (%)			
Partners	1992	1993	1994	1995	1992	1993	1994	1995
South Africa	72.84	57.36	53.05	56.20	97.39	92.47	93.97	85.69
European Union	4.60	15.66	19.42	16.21	2.01	7.02	5.18	1.37
United Kingdom	2.03	12.88	10.36	5.97	0.58	0.37	0.55	0.62
Mozambique	3.41	2.66	6.28	3.00	0.02	0.14	0.30	0.22
NAFTA	2.95	5.01	4.56	2.56	--	--	--	--
Others	14.17	6.43	6.33	16.06	0.00	0.00	0.00	12.10

Source: Own calculations from SADC (1999:306). Notes:Others include Botswana, Namibia, France, Portugal, North Korea, Thailand, U.S.A., non-SACU SADC countries, Singapore, Japan, Italy.

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Mauritius

Partners	Value of exports (%)				Value of imports (%)			
	1993	1994	1995	1996	1993	1994	1995	1996
United Kingdom	31.63	31.16	33.57	33.38	7.07	6.68	6.66	6.43
France	20.02	19.61	20.72	18.88	12.63	18.46	12.88	11.07
U. S. A.	17.50	17.65	14.51	12.65	--	--	--	--
Germany	6.94	5.76	5.71	5.40	4.81	4.60	4.52	4.62
Italy	3.90	4.06	4.02	3.92	3.38	2.86	3.23	3.38
South Africa	--	0.02	0.04	0.05	14.22	11.88	11.13	11.89
India	--	--	--	--	5.85	6.64	8.44	8.82
Hong Kong	--	--	--	--	4.59	5.13	4.78	3.58
Others	20.01	21.76	21.43	25.72	47.45	44.35	48.36	50.21

Source: Own calculations from SADC (1999:202); Table 6.6 in Chapter 6.
Notes: Others include SACU, Malawi, Zimbabwe, Mozambique, Tanzania, EEC, Japan.

Mozambique

Partners	Value of exports (%)		Value of imports (%)	
	1996	1997	1996	1997
Spain	21.10	18.30	--	--
South Africa	19.40	17.20	33.20	32.70
United States of America	11.40	11.80	4.20	4.80
Japan	7.60	8.80	4.00	4.60
Portugal	7.70	8.70 ·	6.30	6.20
SACU	2.99	6.06	16.22	17.14
Zimbabwe	4.30	8.00	3.90	2.20
Others	25.51	21.14	32.18	32.36

Source: SADC (1999:220); Table 6.5 in Chapter 6.
Notes: Others include Germany, Spain, UK, Italy, France, Russia.

Tanzania

Partners	Value of exports (%)					Value of imports (%)				
	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997
Germany	11.86	10.57	10.62	9.48	9.48	5.14	4.92	3.44	3.23	3.32
India	8.95	10.18	8.54	9.30	9.29	4.15	4.59	4.61	7.68	7.67
Japan	9.17	9.42	9.57	8.39	8.38	7.39	5.46	7.01	5.53	5.53
Netherlands	5.15	4.80	6.04	5.60	5.60	2.37	2.06	2.14	2.37	2.37
U.K.	7.83	6.03	5.87	5.22	5.22	0.99	8.38	9.41	9.20	9.19
China	0.22	1.73	1.47	2.42	2.42	5.61	4.39	4.80	4.60	4.59
Kenya	--	--	--	--	--	6.13	7.39	8.89	11.57	11.55
Others	56.82	57.27	57.89	59.59	59.61	68.22	62.81	59.70	55.82	55.78

Source: Own calculations from SADC (1999:321).
Notes: Others include Mauritius, Zimbabwe, SACU, Angola, U.S.A., Taiwan, Indonesia, Hong Kong, Italy, Belgium.

South Africa

Partners	Value of exports (%)					Value of imports (%)				
	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
BLNS	20.35	18.04	18.62	9.77	15.85	5.36	4.29	4.23	2.94	5.47
Japan	11.83	7.26	7.80	8.33	12.52	14.27	17.41	14.24	16.59	10.75
USA	11.13	8.17	8.30	7.93	10.77	20.03	18.27	22.65	19.37	16.12
Italy	15.68	3.32	3.31	15.75	10.71	5.05	4.88	5.39	6.73	6.23
Germany	12.40	6.47	6.96	7.42	8.94	23.02	21.70	23.43	26.91	18.97
SADC*	9.54	6.53	8.13	9.55	7.68	1.31	1.94	1.54	1.92	1.50
UK	11.56	9.28	11.15	13.51	8.41	14.47	15.32	16.17	18.06	15.22
Others	7.51	40.93	35.73	27.74	25.12	16.49	16.19	12.35	7.48	25.74

Source: Own calculations from SADC (1999:282); Table 6:6 in Chapter 6.
Notes: Others include EEC, Hong Kong, France, Taiwan, South Korea, Belgium-Luxembourg, China .

Seychelles

Destination of exports		Source of imports	
Within the region	Rest of the world	Within the region	Rest of the world
Mauritius.	Singapore, UK, Germany, Reunion, France, Pakistan.	South Africa.	Singapore, UK, Yemen, France, Japan.

Source: SADC (1999:264).

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Zambia

	Value of exports (%)					Value of imports (%)				
Partners	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
Japan	20.21	11.78	13.85	16.02	17.16	4.54	4.19	6.15	5.75	1.89
Saudi Arabia	11.04	7.74	10.95	8.42	10.78	5.62	7.4	0.22	12.4	10.66
Thailand	5.19	6.06	9.5	10.14	11.96	--	--	--	--	--
Belgium	5.98	7.41	6.2	6.8	4.31	--	--	--	--	--
Zimbabwe	3.06	2.36	2.9	2.94	3.43	6.57	6.56	11.43	7.29	6.67
SACU	--	6.03	5.74	5.28	6.92	--	22.55	16.28	11.91	12.29
S. Africa	0.66	1.46	2.11	1.93	3.92	26.76	43.99	34.51	33.12	41.24
Others	53.86	57.16	48.75	48.47	41.52	56.51	15.31	31.41	29.53	27.25

Source: Own calculations from SADC (1999:339); Table 6.6 in Chapter 6.
Notes: Others include UK, other SADC countries, France, USA, EEC, Germany.

Zimbabwe

	Value of exports (%)					Value of imports (%)				
Partners	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
EU	32.5	30.35	36.32	38.88	33.25	27.94	27.26	26.42	24.37	24.87
S. Africa	13.62	14.26	13.26	12.55	9.64	24.37	27.01	32.59	38.14	38.32
NAFTA	6.69	7.39	7.56	4.95	6.9	9.69	9.59	5.77	5.47	5.5
Japan	6.13	6.58	5.74	6.8	5.08	5.34	6.05	5.72	6.36	5.14
SADC	15.99	18.24	16.28	16.08	15.25	2.84	4.12	2.61	3.48	2.76
Others	25.07	23.18	20.84	20.74	29.88	29.82	25.97	26.89	22.18	23.41

Source: Own calculations from SADC (1999:354-5).
Notes: Others include Australia, Switzerland, Brazil, Taiwan, China, U.S.A., Netherlands, SACU.
For the imports, (i) EU includes UK (which contributes 33-41 percent of the imports from the EU), Germany (second largest source), France, Italy, Netherlands, Sweden, Belgium, Finland, Denmark, Austria. (ii) NAFTA includes USA and Canada, with the USA contributing over 90 percent of the imports. (iii) SADC includes Botswana, Zambia, Swaziland and Namibia, with over half of the imports coming from Botswana and the least from Namibia.
For the exports, (i) EU includes UK (which receives 30-36 percent of the exports), Germany, Italy, Netherlands, Portugal, Belgium, Spain, France, Sweden, and Denmark. (ii) NAFTA includes USA and Canada, with the USA receiving 86-96 percent of the exports. (iii) SADC includes Zambia, Botswana, Mozambique, Malawi and Angola, with Zambia receiving 24-31 percent of the exports and Angola the least.

Table A-7: Nature of products traded within the region

Exporter	Products	Destination
Angola	Processed fish, palm oil dried beans and peas, coffee, tobacco and tobacco products Sisal products Hides and skins Wood and pulp PVC Paint and vanish Tyres and tubes Ceramic ware Cement Reinforcing iron	Mozambique, Swaziland, Zambia, Zimbabwe. Tanzania, Zambia. Swaziland. Botswana, Mozambique, Swaziland, Zambia. Botswana, Mozambique. Zimbabwe. Lesotho, Tanzania, Zambia. Zambia, Zimbabwe. Botswana, Lesotho, Malawi, Swaziland, Tanzania, Zambia, Zimbabwe Botswana, Mozambique, Tanzania, Zimbabwe. Swaziland. Swaziland, Zimbabwe. Botswana, Lesotho, Swaziland, Tanzania, Zambia. Zambia.
Botswana	Meat and by-products Edible oils Hides and skins Soda ash Tallow and candles	Angola, Mozambique. Angola, Tanzania, Zambia. Lesotho, Tanzania, Zambia. Zambia, Zimbabwe. Malawi, Swaziland, Zambia, Zimbabwe.
Lesotho	Processed fruit and vegetables Garments Footwear Furniture, Upholstery Medicines Tallow and candles Ceramic ware Building materials Umbrellas	Mozambique, Swaziland, Zambia, Zimbabwe. Angola, Botswana, Mozambique, Mozambique. Angola, Botswana, Malawi, Tanzania. Angola, Botswana, Mozambique, Zimbabwe. Angola, Botswana, Malawi, Swaziland, Tanzania, Zimbabwe. Malawi, Swaziland, Zambia, Zimbabwe. Swaziland, Zimbabwe. Botswana, Tanzania, Zimbabwe. Angola, Mozambique, Swaziland.
Malawi	Processed fruit and vegetables Groundnuts Dried beans and peas Sugar Tea Tobacco and products Textiles Cotton Leather goods Paper products Structural fabrication Industry machinery	Mozambique, Swaziland, Zambia, Zimbabwe. Botswana, Swaziland. Angola. Angola, Botswana, Lesotho, Tanzania. Angola, Botswana, Zambia. Botswana, Mozambique. Angola, Botswana, Mozambique. Zimbabwe. Angola, Botswana. Angola, Botswana, Mozambique, Tanzania, Zambia. Angola, Botswana, Zimbabwe. Swaziland.
Mozambique	Milk Processed fish Tea Garments Footwear Wood and by-products Furniture Glass products Cement Iron sheets Building materials GLS lamps, Refrigerators Agricultural pumps Trailers	Angola, Tanzania. Swaziland, Zambia, Zimbabwe. Angola, Botswana, Swaziland. Angola, Botswana, Malawi. Angola, Botswana, Malawi, Tanzania. Tanzania, Zambia, Zimbabwe. Botswana, Zambia. Angola, Zimbabwe. Swaziland, Tanzania, Zambia. Botswana, Zimbabwe. Botswana, Tanzania, Zimbabwe. Tanzania. Angola, Malawi, Tanzania. Malawi, Tanzania.

Swaziland	Meat and by-products	Angola, Mozambique.
	Edible oils	Angola, Tanzania, Zambia.
	Sugar	Angola, Botswana, Lesotho, Tanzania.
	Beverages, Garments	Angola.
	Furniture	Botswana.
	Wood and pulp	Tanzania, Zambia, Zimbabwe.
	Paper products	Angola, Botswana, Malawi, Mozambique, Tanzania, Zambia.
	Soda ash	Angola, Tanzania.
	Paint and varnish	Botswana, Mozambique, Tanzania, Zimbabwe.
	Tallow and candles, Explosives	Zimbabwe, Tanzania.
	Ceramic ware	Tanzania, Zimbabwe.
	Glass products	Zimbabwe, Angola.
	Tractors	Angola.
Tanzania	Meat and by-products	Angola.
	Edible oils	Angola, Zambia.
	Coffee	Angola, Botswana, Mozambique, Swaziland, Zambia.
	Sugar	Angola, Botswana, Lesotho.
	Spices	Swaziland.
	Tea	Angola, Botswana, Swaziland, Zambia.
	Honey	Lesotho.
	Beverages, Tobacco and products	Angola.
	Blankets	Botswana.
	Sisal products	Zimbabwe.
	Garments	Angola, Botswana, Malawi, Mozambique.
	Leather goods	Angola, Botswana, Malawi.
	Wood and by-products	Zambia, Zimbabwe.
	Paper products	Angola, Zimbabwe.
	Fertilizer,	Angola.
	Insecticides	Mozambique, Zambia.
	Soap and detergents	Angola, Botswana.
	Tyre and tubes	Angola.
	Ceramic ware	Swaziland, Zimbabwe.
	Glass products	Angola, Zimbabwe.
	Steel tubes and pipes	Angola, Botswana.
	Fabricated metal items	Angola, Botswana, Zimbabwe.
	Agricultural implements	Angola, Malawi.
	Building materials	Botswana, Mozambique, Zimbabwe.
	School materials	Angola, Malawi.
Zambia	Groundnuts	Angola.
	Sugar	Botswana, Lesotho.
	Tobacco and products	Botswana, Mozambique.
	Textiles	Angola, Botswana, Malawi, Mozambique.
	Wood and by-products	Angola, Zimbabwe.
	Lime	Swaziland, Zimbabwe.
	Glass products	Zimbabwe.
	Cement	Botswana, Lesotho, Swaziland, Tanzania.
	Copper and products, lead, zinc	Angola, Mozambique, Tanzania, Zimbabwe.
	Aluminium utensils	Angola, Zimbabwe.
Zimbabwe	Edible oils	Angola, Tanzania, Zambia.
	Coffee	Botswana, Mozambique, Swaziland, Zambia.
	Sugar	Angola, Botswana, Lesotho, Tanzania.
	Garments	Angola, Botswana, Malawi, Mozambique.
	Hides and skins	Lesotho, Tanzania, Zambia.
	Footwear	Angola, Botswana, Malawi, Tanzania.
	Chemicals	Swaziland, Tanzania.
	Cement	Botswana, Lesotho, Swaziland, Tanzania, Zambia.
	Steel ingots and bars, copper and products, lead, zinc	Angola, Tanzania.
		Swaziland.
	Industrial machinery	Angola, Botswana, Malawi, Mozambique, Swaziland, Tanzania.
	Earthmoving equipment	Angola, Botswana, Malawi, Swaziland.
	Car and parts	

Source: Amin et al (1987:240-242).

Table A-8: SADC major mineral production and trend, 1993-1997 (Tonnes)

(a) Asbestos

Country	1993	1994	1995	1996	1997
South Africa	103 994	92 130	88 642	579 420	50 104
Swaziland	33 565	28 591	28 591	26 014	25 888
Zimbabwe	158 810	151 905	169 487	165 494	160 500
Total	296 369	272 626	286 720	770 928	236 492

Notes: There has been a continuous decline in production of asbestos in the region due to the world wide ban on several asbestos products due to the negative environmental and health effects of the mineral.

(b) Coal

Country	1993	1994	1995	1996	1997
Botswana	890 000	900 298	898 383	763 240	776 917
Malawi	52 752	34 630	14 635	50 000	36 560
Mozambique	663	0	0	0	0
South Africa	182 225 652	190 671 949	206 210 700	206 363 033	217 206 099
Swaziland	35 644	227 730	171 666	128 973	203 115
Tanzania	40 248	45 027	43 200	52 000	28 448
Zambia	260 067	162 899	151 874	128 063	164 443
Zimbabwe	4 616 540	5 515 336	4 743 480	4 757 707	4 749 790
Total	188 121 566	197 557 869	212 233 938	212 243 016	223 165 372

Notes: Generally production has been growing, except for in 1996 when there was a slight fall in production. A significant growth in output in Zambia is directly linked to the steady recovery of the building, mining and construction industries. For Zimbabwe, a decline in production has been due to the operational problems which the country has been experiencing, e.g. increases in electricity rates, labour costs, interest rates and the cost of most consumables. The low mineral commodity prices have also affected coal production in Zimbabwe (SADC Mining Sector, 1999:6).

(c) Cobalt

Country	1993	1994	1995	1996	1997
Botswana	205	225	271	406	334
South Africa	243	258	189	243	312
Zambia	4 212	2 638	2 934	4 830	4 539
Zimbabwe	113	126	109	106	120
Total	4 773	3 247	3 503	5 585	5 305

Notes: Zambia is a significant producer of cobalt with outstanding production levels. On the whole, the region experienced a significant increase in production in 1996 after a sharp fall of -32.54 percent in 1994. Of the world's top seven producers of cobalt, the region's two companies, namely, ZCCM in Zambia and Gecamines in the D.R.C., ranked fourth and fifth respectively, thus contributing to the 31 percent increase in output of refined cobalt by all Cobalt Development Institute producing countries

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in 1996. The price of cobalt fell in 1997 due to increased supply on the world market. This could probably explain the decline in production by Botswana and Zambia and the overall decline in the region as evidenced by the -4.48 percent production growth rate in 1997 (SADC Mining sector 1999:7).

(d) Chromite

Country	1993	1994	1995	1996	1997
South Africa	2 826 652	3 590 305	5 086 053	5 000 000	5 779 424
Zimbabwe	252 033	516 801	707 433	658 416	669 767
Total	3 078 685	4 107 106	5 793 486	5 658 416	6 449 191

Notes: High production rates have been experienced although there was a fall in 1996 from the 1995 production level. The stainless steel industry is the driving force behind chromium demand as it accounts for more than 75 percent of mined chromite (SADC Mining Sector, 1999:5). The increase in chromite production in South Africa can be attributed to international and local demand, favourable prices and the introduction of new mines Chrome Resources opened the Wonderkop mine and treatment plant which is designed to handle 750 000 t/a of mined chromite. The Thorncliffe mine was opened with a capacity of 1 million t/a (SADC Mining Sector Report, 1999:6).

(e) Copper

Country	1993	1994	1995	1996	1997
Botswana	20 132	22 780	20 460	23 299	19 820
Namibia	37 531	30 055	28 784	20 705	24 997
South Africa	176 348	160 136	161 573	152 902	153 058
Zambia	403 451	360 384	307 181	313 984	318 312
Zimbabwe	8 187	9 350	8 045	9 028	6 832
Total	645 649	582 705	526 043	519 918	523 019

Notes: Zambia and South Africa, respectively are the largest producers in the region. Copper prices have been declining due to the global demand fears and prospects of increased supply. The fluctuating copper prices on the world market have negatively affected production in the region. The fall in production has also been as a result of continued technical and operational problems which the region has been experiencing, e.g. Botswana and Zambia. Cash flow and technical problems as wellas very low grades of ore reserves and depleting reserves have affected production in Zimbabwe (SADC Mining Sector, 1999:8).

(f) Diamonds (Carats)

Country	1993	1994	1995	1996	1997
Angola	146 797	306 867	671 394	917 419.10	1 314 181.79
Botswana	14 730 000	15 538 000	16 802 000	17 707 700	2 111 000
Lesotho (X)	1 555	1 200	13 190	3 128	4 203
Namibia	1 141 352	1 312 348	1 381 756	1 400 000	1 416 334
South Africa	10 324 025	10 812 386	9 682 744	9 886 748	10 093 456
Swaziland	61 687	..	..	64	..
Tanzania	40 847	17 177	49 129	126 670	122 522
Zimbabwe	43 850	173 588	204 416	437 266	421 307

Notes: Positive growth rates have been experienced, with the highest in 1997, where production rose by 13.88 percent from the

1996 production level. The rise in production has been a result of confidence and stability in the diamond market internationally (SADC Mining Sector, 1999:9). The Angolan government has deployed troops to free up former UNITA-controlled areas in order to increase diamond production, and the country has also attracted several foreign diamond exploration companies. Botswana introduced the continuous operation system at all mines, expanded capacity at Orapa, and the Tswapong mining company opened small new diamond mines. Namibia's production increased as a result of offshore operations of Namdeb (Debmarine) and Ocean Diamond Mining; and in the first quarter of 1998, Namibian Mineral Corporation (NAMCO) started production from its offshore areas, thus further increasing its production levels (SADC Mining Sector, 1999:9).

(g) Gold (kilograms)

Country	1993	1994	1995	1996	1997
Botswana	192	234	86	5	28
Mozambique	149	336	236	67	
South Africa	619 201	579 678	523 815	496 846	492 643
Namibia	2 025	2 430	2 099	2 145	2 416
Tanzania	3 370	2 861	1 413	1 300	232
Zambia	266	165	79	113	227
Zimbabwe	18 565	20 512	23 959	24 677	24 226
Total	643 768	606 216	551 687	525 153	519 772

Note: Of late there has been very low confidence in the gold market, primarily driven by expectations of gold sales by central banks. As a result, gold prices fell by 18.0 percent in 1998 reaching the lowest level of US$311.00 per ounce in twelve years. This has resulted in a continuous fall in gold production in the region. Some mine closures have been experienced in South Africa and Zimbabwe. For South Africa, workplace disruptions caused by underground fires, strikes, seismic activity and problems associated with mining at ever increasing depths, have also contributed to the decline in production. For Zimbabwe, the major contributory factor to the decline in production is the fall in the gold prices (SADC Mining Sector, 1999:10). Some companies have thus been forced to either shelve some of their projects, scale down projects or close down. Rio Tinto (Zimbabwe), one of the country's biggest gold mining companies as well as Falcon Gold Zimbabwe Ltd, were severely affected. In Tanzania, gold purchases by authorised dealers dropped by 82.15 percent from 1 300kg in 1996 to 233kg in 1997. However there are some success stories in gold prospecting that led to the discoveries of six new prospects. It is also reported that resources at one deposit are in excess of 5 million ounces and is still growing (SADC Mining Sector, 1999:4, 10).

(h) Nickel

Country	1993	1994	1995	1996	1997
Botswana	21 621	19 041	18 090	22 905	20 157
South Africa	29 868	30 135	29 803	33 861	34 830
Zimbabwe	11 097	13 516	10 864	9 694	10 134
Total	62 586	62 692	58 757	66 460	65 121

Notes: A large production growth of 13.11 percent was experienced in 1996. Nickel production is expected to increase as a result of the following: (i) in South Africa, a major feasibility study on a large mine was completed at the end of 1997, while the Nkomati MSB joint venture reached full production capacity; and (ii) in Zimbabwe, the development of green field resources such as the Hunters Road deposit is expected to raise production; further, with nickel production as a by product of platinum production in the Hartley Platinum mine (BHP) an additional boost could be given to the sector (SADC Mining Sector, 1999:11).

(i) Lead

Country	1993	1994	1995	1996	1997
Namibia	31 236	23 813	29 752	85 880	505
South Africa	100 171	95 824	88 501	87 354	83 114
Zambia	1 856	2 002	..	..	..
Total	133 263	121 639	118 253	173 234	83 619

(j) Zinc

Country	1993	1994	1995	1996	1997
Namibia	34 557	64 568	59 207	35 873	72 816
South Africa	77 096	76 361	71 118	77 029	71 062
Zambia	3 869	102	0	0	0
Total	115 522	141 031	130 325	112 902	143 878

Notes: The high production growth experienced in 1994 was followed by negative growth rate of 7.59 percent in 1995. However, production has since been recovering as a result of some measures put in place by the respective member countries. For example, to counter South Africa's declining zinc production, the South African company Zincor intends to increase its capacity by 20 to 30 percent through, among other things, cutting its processing costs by introducing new technology and modifying the plant. Gencor announced an expansion to its proposed zinc refinery on the Eastern Cape coast so as to effect an increase in zinc metal production. As for Zambia, some operations at the former ZCCM Kabwe, have been resuscitated, and Kabwe Power and Metal Ltd has been engaged in extracting lead and zinc from the ore dumps. Lead and zinc to the tune of approximately 30 metric tonnes have been produced every month (SADC Mining Sector, 1999:12). For Namibia, in order to improve on production of zinc, a Memorandum of Understanding on shareholding and royalties was signed between ISCOR and Namibia Mining Ventures. With this memorandum of understanding signed between the two principal parties, uncertainty at Rosh Pinah, Namibia's significant producer, was removed (SADC Mining Sector, 1999:11).

Source: SADC Mining Sector (1999:85-89).

Table A-9   Share of GDP by sector for regional countries

Botswana

Sector	1992/93	1993/94	1994/95	1995/96	1996/97
Agriculture	4.44	4.22	3.91	3.64	3.39
Mining	33.30	33.59	32.09	32.97	32.62
Manufacturing	6.31	5.98	6.05	6.02	5.93
Construction	5.57	5.41	5.33	5.12	5.05
Trade, hotels and restaurants	15.47	15.60	16.31	16.36	16.92
Business services*	9.28	9.76	10.19	10.05	10.06
Others	25.63	25.44	26.12	25.84	26.03

Source: Own calculations from SADC (1999:138).
Notes: * includes banks, insurance and business services.
Others include transport, general government, social and personal services, electricity and water.

Lesotho

Sector	1992	1993	1994	1995
Agriculture	9.04	12.35	14.01	9.57
Mining and quarrying	0.42	0.57	0.65	0.44
Manufacturing	17.28	17.23	15.43	16.30
Building and construction	17.38	16.79	19.34	24.09
Wholesale and retail trade	10.14	10.08	10.09	9.89
Others	45.74	42.98	40.48	39.71

Source: Own calculations from SADC (1999:166).
Notes: Others includes government and services, and electricity and water.

Namibia

Sector	1993	1994	1995	1996	1997
Agriculture	15.73	17.38	17.11	17.59	15.81
Mining and quarrying	16.97	17.65	17.95	18.42	19.00
Manufacturing	11.86	11.69	11.63	10.56	11.21
Construction	2.71	2.77	2.76	2.87	2.51
Wholesale and retail trade	6.16	5.89	5.96	5.90	6.13
Hotel and restaurants	1.25	1.46	1.60	1.45	1.57
Financial and professional services	7.50	7.09	7.01	7.26	7.42
Others	37.82	36.07	35.98	35.95	36.35

Source: Own calculations from SADC (1999:236).
Notes: Agriculture includes forestry, subsistence and commercial farming and fisheries.
Others includes transport and communications, private, social and community services, government services, electricity and water.

Swaziland

Sector	1992/93	1993/94	1994/95	1995/96	1996/97
Agriculture and forestry	11.83	11.07	11.12	10.25	11.60
Mining and quarrying	1.94	1.96	2.02	1.90	1.84
Manufacturing	37.93	37.14	37.46	37.91	36.60
Construction	2.79	3.36	3.77	4.56	4.64
Trade, hotels and restaurants	8.34	8.84	9.14	9.83	10.40
Financial services, real estate*	7.16	7.09	6.96	7.27	7.39
Others	30.01	30.54	29.53	28.28	27.53

Source: Own calculations from SADC (1999:301).
Notes: Others include owner-occupied dwellings, government and other services, electricity and water.
 * also includes wholesale and retail.

Angola

Sector	1991	1992	1993	1994
Agriculture, forestry and fishing	24.13	19.49	19.53	12.23
Oil and gas	17.75	33.01	37.58	54.46
Manufacturing	5.75	4.04	4.65	2.17
Trade and commerce	13.50	10.90	12.49	7.61
Transport and communications	3.38	2.62	3.06	1.87
Other tradeable services	4.50	8.33	7.98	12.61
Non-tradeable services	23.63	13.62	10.71	5.71
Others	7.36	7.99	4.00	3.34

Source: Own calculations from SADC (1999:122).
Notes: Others include electricity and water, construction, banking and insurance, import duties, and diamonds and other mining.

Malawi

Sector	1994	1995	1996	1997	1998
Agriculture (large and small scale)	25.08	30.43	36.78	36.34	36.20
Manufacturing	17.39	16.11	14.22	13.61	13.88
Distribution	26.71	25.04	22.64	24.19	24.31
Financial and professional services	8.29	7.97	7.31	7.49	7.43
Transport and communications	5.07	4.71	4.22	4.31	4.28
Others	17.46	15.74	14.83	14.06	13.90

Source: Own calculations from SADC (1999:176).
Notes: Others include electricity and water, construction, ownership and dwellings, mining and quarrying.

Mozambique

Sectors	1993	1994	1995
Agriculture	26.39	24.23	25.49
Industry and fishing	15.53	14.75	17.25
Construction	10.54	11.50	12.22
Transport and communications	14.37	12.56	12.47
Commerce and services	33.17	36.96	32.57

Source: Own calculations from SADC (1999:214).

Mauritius

Sector	1994	1995	1996	1997
Agriculture, hunting, forestry, fishing	8.46	8.6	8.48	8.34
Manufacturing	23.30	23.33	23.45	23.66
Construction	7.36	6.83	6.71	6.39
Wholesale and retail trade	12.98	13.41	13.37	13.31
Restaurants and hotels	3.81	3.94	4.32	4.69
Transport and communications	12.29	12.39	12.49	12.55
Financial and professional services	10.21	10.80	10.98	11.25
Others	21.59	20.70	20.20	19.81

Source: Own calculations from SADC (1999:196).
Notes: Others include electricity, gas and water, ownership of dwellings, private social and community services and government services, mining and quarrying.

Seychelles

Sectors	1992	1993	1994	1995	1996
Agriculture, forestry and fishing	3.83	3.70	4.16	4.17	4.09
Manufacturing and handicraft	11.90	10.73	11.42	11.46	13.38
Building and construction	5.76	7.78	7.40	7.65	8.18
Transport, distribution, communications	30.61	27.83	28.29	28.56	28.58
Hotels and restaurants	8.62	8.59	8.81	9.19	9.44
Finance and business services	9.62	8.85	10.15	10.12	10.03
Others	29.66	32.52	29.77	28.85	26.30

Source: Own calculations from SADC (1999:262).
Notes: Others include electricity and water, government and other services.

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South Africa

Sectors	1993	1994	1995	1996	1997
Agriculture, forestry and fishing	5.07	5.54	4.58	5.74	5.58
Mining and quarrying	10.09	9.59	9.03	8.64	8.60
Manufacturing	24.05	24.05	25.16	24.49	24.87
Electricity, gas and water	4.75	4.80	4.82	4.91	5.03
Wholesale, retail, catering and accommodation	14.80	15.00	15.52	15.61	15.43
Transport, storage and communication	7.73	7.82	8.00	8.01	8.07
Finance, insurance, real estate and business	15.14	15.19	15.29	15.32	15.44
Others	18.37	18.01	17.60	17.28	16.98

Source: Own calculations from SADC (1999:276).
Notes: Others include community, social and personal services, general government and other producers, construction.

Tanzania

Sectors	1993	1994	1995	1996	1997
Agriculture, livestock, forestry, hunting	37.58	38.03	39.27	39.20	38.54
Manufacturing	11.32	11.17	11.00	11.02	11.21
Construction	5.07	5.08	3.99	4.17	4.44
Wholesale, retail, hotels and restaurants	21.66	21.66	21.72	21.48	21.85
Transport and communications	7.13	7.11	7.30	7.05	7.16
Finance, insurance, real estate and business services	8.24	8.34	7.97	7.48	8.08
Others	9.00	8.61	8.75	9.60	8.72

Source: Own calculations from SADC (1999:318).
Notes: Others include mining and quarrying, electricity and water, public administration and other services.

Zambia

Sectors	1991	1992	1993	1994	1995
Agriculture, forestry, fishing	16.9	22.6	28.5	26.7	17.1
Mining and quarrying	8.9	5.9	8.2	8.0	9.4
Manufacturing	35.6	35.3	30.1	30.6	37.8
Trade and commerce	14.7	11.5	12.1	9.3	12.9
Transport	5.5	4.6	4.1	4.3	5.1
Others	18.4	20.1	17.0	21.1	17.7

Source: SADC (1999:336).

Zimbabwe

Sectors	1992	1993	1994	1995	1996
Agriculture and forestry	13.10	16.32	16.64	15.46	17.51
Mining and quarrying	4.34	4.46	4.38	4.62	4.31
Manufacturing	21.96	19.85	20.75	18.41	17.86
Construction	3.42	3.29	3.13	2.94	2.94
Finance, insurance and real estate	10.04	11.04	11.05	11.45	11.49
Distribution and hotels	17.31	17.01	17.27	18.26	18.37
Transport and communications	7.07	6.61	6.78	8.31	8.31
Others	22.76	21.42	20.00	20.55	19.21

Source: Own calculations from SADC (1999:350).
Notes: Others include electricity and water, public administration, education and health and other services.

APPENDIX 3: ADDITIONAL DATA FOR CHAPTER FOUR

Table A-10:   Funding of sectoral projects by SADC in 1998

Sector	Project number	Estimated cost (US$ mn)			Secured funding and source	Status of project
		Total	Foreign	Local		
Livestock production and animal disease control	AAA.2.3 (1)	3.93	3.46	0.47	3.46 Denmark & Netherlands 0.468 Belgium, UNDP & SADC	Under implementation
Forestry	AAA.5.1	4.00	3.60	0.40	3.60 Canada 0.40 SADC	Phased out on 31/05/98
	AAA.5.3	14.32	12.92	1.40	7.50 Norway 0.40 SADC	Under implementation
	AAA.5.23	29.19	27.34	1.85	0.07 SADC	Funding being sought
	MOZ.5.14	1.63	1.42	0.21	1.42 Finland 0.21 SADC	Under implementation
Finance and investment	AAA.3.1	0.04		0.04	0.04 SADC	Under implementation
	AAA.5.1	0.05		0.05	0.05 SADC	Under implementation
	AAA.10.1	0.48	0.38	0.10	0.10 SADC 0.38 EU	Under implementation
	AAA.11.1	0.48	0.38	0.10	0.10 SADC 0.38 EU	Under implementation
	AAA.12.1	0.48	0.38	0.10	0.10 SADC 0.38 EU	Under implementation
Environment and land management	AAA.7.6	1.78	1.62	0.16	0.16 SADC	Funding being sought
	AAA.7.11	0.64	0.45	0.19	0.19 SADC	Funding being sought
	AAA.7.12	1.08	0.78	0.30	0.78 SIDA	Under implementation
	AAA.7.14	2.30	2.00	0.30	0.30 SADC 0.30 SADC	Advanced negotiations with SIDA for funding
	AAA.7.15	2.00	1.70	0.30	0.30 SADC	Advanced negotiations with GTZ for phase I
Marine fisheries	AAA.4.11	20.00	20.00		1.33 GTZ, NORAD 0.18 SADC	Funding sought for 18.49
Tourism	AAA.1.1	0.20		0.20	0.20 SADC	Under implementation
	AAA.1.2	0.48	0.389	0.091	0.14 ComSec 0.04 SADC	Funding being sought for 0.30
	AAA.1.4	0.60	0.50	0.10	0.10 SADC	Funding being sought
	AAA.1.6	0.55	0.40	0.15	0.052 RETOSA 0.001 SADC	Under implementation and funding being sought
	AAA.2.1	0.06	0.05	0.01	0.05 Tourism 0.01 SCU	Under implementation
	AAA.3.2	0.10	0.08	0.02	0.03 TC & RETOSA 0.02 SADC	Under implementation
	AAA.3.3	0.163	0.153	0.010	0.153 Tourism sector 0.010 SADC	Implemented & making RETOSA operational is in progress.
	AAA.4.1	0.605	0.542	0.063	0.05 Tourism, SADC	On hold pending RETOSA becoming operational
Mining	31 projects	19.2			12.8 SADC	Under implementation

Source: Own table derived from project funding status tables in selected 1999 SADC Sectoral Reports.

Table A-11: Institutions which promote trade and industrial development in the SADC region

Country	Institutions in place
Angola	Ministry of Commerce and Industry; The Institute of Small and Medium Enterprises (INAPEM), Cabinet of Information and Industrial Promotion, The Angolan Institute for Normalisation and Quality, Foreign Investment Institute, Industrial Development Institute of Angola (IDIA), Cabinet of Privatisation (CARE) and Angolan Institute of Industrial Property.
Botswana	Botswana Development Corporation (BDC), Botswana Technology Centre (BTC), Rural Industries Promotions Botswana (RIPCO), The Development of Trade and Investment Promotion (TIPA), Botswana Confederation of Commerce Industry and Manpower (BOCCM).
Lesotho	Lesotho National Development Corporation (LNDC), Basotho Enterprise Development Corporation (BEDCO).
Malawi	The Malawi Development Corporation (MDC), The Export Processing Zones (EPZs), The Malawi Investment Promotion Agency (MIPA), Malawi Entrepreneurship Development Institute (MEDI), Malawi Export Promotion Council (MEPC), Development of Malawian Entrepreneurs Transfer (DEMAT), Small Enterprise Development Organisation (SEDOM), Malawi Bureau of Standards (MBS), Malawi Chamber of Commerce, Malawi Industrial and Technology Development Centre, Investment and Development Bank, the Reserve Bank of Malawi.
Mauritius	The Mauritius Standards Bureau (MBS), The Mauritius Export Development and Investment Authority (MEDIA) The Development Bank f Mauritius, The Export Processing Zone Development Authority (EPZDA), The Small and Medium Industries Development Organisation (SMIDO), Industrial and Vocational Training Board (IVTB), Ministry of Industry and Commerce.
Mozambique	Industrial Free Zones, The Investment Promotion Centre (CPI), The Technical Unit for Enterprise Restructuring (UTRE), Business Associations Working Commission (CTA), National Institute of Standardisation and Quality (INNOQ), Local Industry Development Institute (IDIL), The Mozambique Institute of Export Promotion (IPEX).
Namibia	The Namibia Investment Centre (NIC), The Namibian Development Corporation (NDC), The Namibian Export Processing Zone (EPZ), The Bank of Namibia, The Namibian Chamber of Commerce and Industry (NNCCI), Namibian Development Fund, Development of Research and The Polytechnic of Namibia.
South Africa	Industrial Development and Investment Centre (IDIC), Council for Scientific and Industrial Research (CSIR), Industrial Development Corporation (IDC), Small Business Development Corporation (SBDC).
Swaziland	Swaziland Industrial Development Company (SIDC), Tibiyo Taka Ngwane, The Swaziland Investment Promotion Authority (SIPA), Swaziland Chamber of Commerce, and the Trade Promotion Unit (TPU).
Tanzania	Tanzania Bureau of Standards (TBS), Board of External Trade, Tanzania Engineering and Manufacturing Design Organisation (TEMDO), Tanzania Industrial Studies and Consultancy Organisation (TISCO), Tanzania Industrial Research and Development Organisation (TIRDO), Centre for Agricultural Mechanisation and Rural Technology (CAMARTEC), The Tanzania Chamber of Commerce, Industries and Agriculture, The Tanzania Confederation of Industries, Tanzania Exporters Association, Tanzania Textile Association, Dar es Salaaam Chamber of Commerce, the Investment Promotion Centre (IPC).
Zimbabwe	Confederation of Zimbabwe Industries (CZI), Zimbabwe National Chamber of Commerce (ZNCC), Indigenous Business Development Centre (IBDC), Zimbabwe Investment Centre (ZIC), Indigenous Business Women Organisation (IBWO), the Zimbabwe Export Processing Zone (EPZ).
Seychelles	The Investment Development Advisory Services (IDEAS), The Development Bank of Seychelles (DBS), The Islands Development Company (IDC), The Seychelles International Business Authority (SIBA),
Zambia	The Zambia Privatisation Agency (ZPA) and the Zambia Investment Centre (ZIC).

Source: SADC Industry and Trade Sector (1999:7-8, 10-11, 13, 15, 18, 21, 24, 26-29, 31, 36); SADC (1999:124, 168, 180, 201, 218-9, 263, 302, 320, 338, 354-5).

Table A-12: Industrial projects and corresponding possible industrial raw material sources in the SADC region

Industrial project	Industrial raw materials	Possible sources for industrial raw materials		
		Short-term supplier	Medium-term supplier	Long-term supplier
Pulp and paper	pulp and paper. plywood, veneer and fibrewood. sawn timber.	Swaziland, Angola Zimbabwe, Tanzania and Malawi Moz, Swaz, Bot, Zimbabwe	Tanzania, Zambia Zimbabwe, Botswana Swaziland, Mozambique	Swaziland Swaziland
Fertilisers	fertiliser compounds. amonium and urea	Swaziland, Zimbabwe Tanzania, Mozambique	Mozambique Mozambique	Mozambique Tanzania, Mozamb.
Cement	cement	Tanz, Moz, Ang, Zam, Zim.	Mozambique	Namibia, Mozamb.
Textiles	fibres textiles garments	Mal, Tanz, Les, Moz. Mal, Tanz, Zimb, Zamb, Les	Les, Moz, Tanz, Mal. Moz, Les, Zimb, Mal.	Zambia, Swaziland Tanzania, Lesotho Tanzania, Lesotho
Tractors and farm implements	farming equipment light tractors	Tanzania, Zimbabwe Swaziland	S. Africa, Mozambique South Africa	Tanzania South Africa
Chemicals, insecticides and pesticides	coal base chemicals mining chemicals insecticides vaccines pharmaceuticals	South Africa Zimb, Zambia and S. Africa Zimbabwe, South Africa Botswana, Mozambique Lesotho, Zimbabwe, Zambia	South Africa Zamb, Namb, S. Africa Zimbabwe, S. Africa Botswana Tanzania	Tanz, Moz, Zim. South Africa South Africa Tanz, S A. Botsw. Mozambique
Electrical transmission and distribution equipment	copper copper wire cables	Zambia, Zimbabwe, Mozamb Moz, Zamb, Zimb, Tanzania	Namibia, Zambia Tanzania	Namibia
Transport equipment	bicycles bus and lorry bodies railway wagons trailers automotive batteries dry cell batteries tyres and tubes	Tanz, Zimb, Mozambique Tanzania, Moz, Zimbabwe S. Africa, Moz, Zimbabwe Mozambique, Zimbabwe Moz, Zimbabwe, Zambia Tanzania, Zimbabwe Moz, Tanzania, Zimbabwe	Tanzania, Zimb, Moz. S. Africa, Botswana Mozambique, Angola Mozambique, Botswana Tanzania, South Africa South Africa, Zimbabwe S. Africa, Moz, Tanz	Tanzania, S. Africa South Africa South Africa South Africa South Africa South Africa South Africa
Oil refinery	crude oil refinery petroleum bitumen	Angola Tanzania and Mozambique	Angola Tanzania, Mozambique Zimbabwe.	Angola Tanzania, Moz. Angola, Moz, Tanz.
Food processing	wheat vegetable oil sugar cocoa, tea, coffee fish meat	Zimbabwe Zimbabwe, Mozambique Moz, Swaz, Ang, Zimbabwe Tanz, Malawi, Zimb, Moz. Angola, Namibia, Moz, Mal. Botswana, Zimbabwe	Zimbabwe Botswana Zimbabwe Tanzania, Mal, Zimb, Mozambique Moz, S. Africa, Namibia, Tanzania, Botswana	Zimbabwe, Lesotho Lesotho Zimbabwe Tanz, Mal, Zimb, Moz, S. Africa Namibia, Lesotho

Source: Own table derived from Ndlela (1987:58-9); Mudenda (1987:139); Table A-7 (Appendix 2).

APPENDIX 4: ADDITIONAL INFORMATION FOR CHAPTER SIX

Table A-13(a): Average annual percentage nominal growth rates of trade (%): Zimbabwe and South Africa compared

Region		Zimbabwe			South Africa		
		1990-1993	1994-1996	1997-1998*	1990-1993	1994-1996	1997-1998**
Total SADC	(Imports)	30.32	36.20	6.92	22.36	25.21	..
	(Exports)	31.41	13.20	-0.04	12.60	6.54	..
SACU	(Imports)	48.69	33.66	8.84	23.57	33.34	..
	(Exports)	46.66	6.84	1.54	7.89	4.82	..
BLNS	(Imports)	28.27	21.51	8.84	23.57	33.34	..
	(Exports)	31.16	7.19	-3.76	7.89	4.82	..
Non-SACU SADC	(Imports)	38.29	-28.92	-16.98	19.21	-10.22	70.57
	(Exports)	31.52	23.25	-1.99	31.91	10.37	1.87
ROW	(Imports)	37.87	16.70	3.37	12.29	21.46	..
	(Exports)	33.82	30.49	-8.82	11.70	16.06	..
Total Trade	**(Imports)**	**37.50**	**24.00**	**4.87**	**12.79**	**21.69**	**12.96**
	(Exports)	**33.34**	**25.15**	**-6.03**	**11.92**	**13.59**	**12.34**

Country	Zimbabwe			South Africa		
	1990-1992	1993-1995	1996-1998*	1990-1992	1993-1995	1996-1998
Angola	-7.19	119.82	10.83	167.96	25.24	..
Malawi	9.42***	28.38	26.08	34.57	7.66	59.51
Mauritius	85.33	60.96	6.57	147.48	4.19	-2.81
Mozambique	8.90	17.12	-16.02	26.37	38.59	47.06
Tanzania	-29.58	55.53	142.61	71.63	170.86	341.44
Zambia	35.67	33.75	34.97	51.96	0.56	31.03
Zimbabwe	-	-	-	24.12	47.54	6.99
Non-SACU SADC	69.60	30.71	19.96	57.28	30.54	27.73

Table A-13(b): Zimbabwe's average annual percentage nominal growth rate (%) of its trade with the countries with which it has bilateral preferential trade agreements

Country	1990-1992	1993-1995	1996-1998*
Botswana	14.29	25.66	20.40
Malawi	9.42	28.38	26.08
Namibia	100.86	177.39	-0.63
South Africa	71.75	56.87	17.81

Source: Own calculations from ZIMTRADE statistics; Tables 6.2, 6.3 and 6.6.

Notes: * the 1998 trade statistics are up to September. ** South Africa's trade statistics with BLNS were not available.
*** except for Malawi, the growth rates are for the period 1990-1991 as the 1992 trade statistics were not available.

Average annual percentage growth rate formula

Examples

1990-1993 GDP growth rate

1994-1996 growth rate

$[(GDP_{1993} / GDP_{1990})^{1/3} - 1] \times 100 \%$

$[(GDP_{1996} / GDP_{1994})^{1/2} - 1] \times 100 \%$

Table A-14(a) Growth of manufactured exports by technological categories (% per annum) 1990-1995

	Resource-based	Labour-intensive	Scale-intensive	Differentiated	Science-based	Total
Zimbabwe	23.1	16.6	2.4	8.6	14.1	10.1
South Africa	8.5	12.5	17.1	22.7	18.6	13.6

Table A-14(b): Distribution of manufactured exports by technological categories (%)

	Year	Resource-based	Labour-intensive	Scale-intensive	Differentiated	Science-based
Zimbabwe	1990	11.30	26.40	56.00	5.90	0.40
	1995	19.70	35.20	39.00	5.60	0.50
South Africa	1990	44.30	11.20	34.90	6.90	2.60
	1995	35.30	10.70	40.60	10.20	3.20
World	1995	15.10	17.90	23.70	23.40	19.90

Table A-14(c): Technological complexity of manufactured exports (% of manufactured exports)

	Zimbabwe		South Africa	
Category	1990	1995	1990	1995
Technologically complex	62.3	45.1	44.4	54.1
High technology	6.3	6.0	9.6	13.4
Less / not technical	31.4	49.9	46.0	32.5

Source: Adapted from Gemini Consulting (1999:10, 11).

Table A-15: Participation in intra-SADC trade: Zimbabwe and South Africa compared

	Percentage of trade with SADC to total trade (%)					Percentage of intra-SADC trade to total intra-SADC trade (%)			
	1994	1995	1996	1997	1998	1993	1994	1995	1996
South Africa	17.24	11.99	15.09	6.14*	5.59*	29.37	24.18	28.49	44.26
Zimbabwe	34.29	37.18	35.96	38	39.55**	20.43	14.17	14.65	10.93

Source: Own calculations from Tables 6.2 and 6.6; Cattaneo (1998:48); Imani Development (1997:x-xi; 1999:53-54); SADC Industry and Trade Sector (1999:78-79).

Notes: * South Africa's trade statistics with the BLNS countries were not available.
** Trade statistics were up to September.

Table A-16: Investment opportunities within the region

Country	Investment opportunities
Botswana	**Technology:** electronics components and product manufacturing; engineering plastics and packaging; food processing; water conservation, rehabilitation and re-use. **Manufacturing:** garments and textiles; assembly/automotive; consumer products; pharmaceuticals; leather and leather related products; ostrich farming. **Financial services:** unit trusts; dual listing on the Botswana Stock Exchange. **Tourism:** hotels and lodges; camps, tour operations and travel agencies; airlines, mobile safari and restaurant services.
Lesotho	**Agro-business:** livestock and fish production; forestry development; diversification in high-value, high-yield crops. **Manufacturing:** garments and textiles; footwear; consumer products. **Furniture:** furniture production. **Tourism:** hotels/lodges; adventure tours; pony trekking; water-based recreational facilities.

Namibia	**Mineral processing:** cutting and polishing diamonds and dimension stone; production of granite and marble; cutting and processing sodalite. **Agro-industry:** cotton ginning; weaving; milling/pressing cotton seeds for oil; tomato paste for the fishing industry; cakes for animal feeds; leather tanning and processing. **Small-scale industry:** plastic injection moulding; cement and fertiliser production; light industries; processing of fish and fish products; fish canning packaging; production of cans and packages.
Swaziland	**Manufacturing:** processing of sugar cane; manufacturing of sweets and confectionaries; canning and further processing of tobacco, pineapples and vegetables; production of ceramic ware, paper, pharmaceuticals and glass; processing of coal; production of chemicals, cement and fertiliser. **Tourism:** further development of tourist attraction sites; hotels/lodges, tours.

Angola	**Oil and Gas Mining:** diamonds and iron ore. **Agriculture:** coffee, cotton, palm oil, tropical fruits and vegetables. **Fisheries:** redevelopment of the fishing industry, modernisation of freezer plants, canneries and factories. **Forestry:** commercialisation of plantations and the pulp mill. **Tourism:** construction of new hotels and revamping of the old ones.
Malawi	**Agro-industry:** processing of agricultural produce, production of aual and perennial cash crops, animal husbandry, cultivation and milling of sugar. **Textiles, clothing and footwear:** production of yarn, garment manufacturing, production of variety of shoes. **Wood, wood products, pulp, paper:** saw milling, plywood, veener, pulp and paper; downstream wood products. **Fertilisers and pesticides:** pesticide formulation and production of chemical fertilisers. **Mining and mineral products:** exploitation of known reserves; manufacture of ceramics and glassware; production of cement, iron and steel, sponge iron, steel billets, ignots, slabs, blooms, steel sheets, e.t.c. **Machinery, transport equipment and electrical engineering:** production of a variety of machine tools. **Diesel engines and generators:** production of diesel powered generating equipment. **Agricultural machinery and equipment:** production of agricultural equipment, construction equipment, transport equipment, automotive components, motorcycles and bicycles, electrical and electronic products. **Tourism and hotel industry:** ground and water transport facilities, building/renovation of hotels.
Mauritius	**Manufacturing sector:** information technology, printing and publishing, electronics, precision engineering, jewellery, pharmaceuticals and health care, agro-based industry, textiles and apparel.
Mozambiq ue	**Mining:** development of tantalite and pegmatitie mining, bauxite mining and other minerals. **Agriculture and forestry:** production and processing agricultural products e.g. cashew nuts, coconuts, sugar, cotton and sisal; development of forest plantations and the industrial processing of wood products. **Fishing:** prawn, lobster, crayfish and fish farming; development of boat yards and processing factories; fishing of more exotic species; development of the acquaculture

	industry. **Manufacturing:** production of sugar and cement manufacturing. **Tourism:** new construction projects and refurbishment and modernisation of existing tourist facilities.
Seychelles	**Agriculture:** livestock and animal feed production, fishing and fish processing. **Tourism:** small hotels nd tourist facilities. **Light industry:** boat building for export to states around the Indian Ocean. **Oil exploration**
S. Africa	**Export-oriented industries:** food and related products, textiles and clothing, wood-related products, chemicals, non-metallic mineral products, basic metals.
Tanzania	**Petroleum and mining:** exploration and production of oil, gas, all minerals (metallic and non-metallic). **Agriculture:** production of cash crops. **Livestock development:** animal breeding, dairy farming, poultry, beef ranching. **Natural resources:** forestry, fishing and fish farming, commercial game cropping and wildlife ranching. **Construction:** hotels and other tourist accommodation, residential houses, commercial buildings. **Manufacturing:** animal feed processing, agro-based industries, pharmaceuticals, textiles and leather goods, cement, paints and ceramics, packaging, electrical and electronic engineering, steel, metal and automotive engineering, printing and publishing. **Computers and high technology:** assembly, marketing, service. **Tourism:** operation of tourist hotels and other accommodation, tourist transportation.
Zambia	**Agro-industry:** tobacco processing, cotton ginning, crop production. **Industry:** production of consumer goods, fertilisers and soil conditioners. **Tourism:** quality holiday accommodation of all types, managed safaris, licensed hunting safaris, organised holidays.
Zimbabwe	**Manufacturing:** retooling and expansion projects. **EPZs:** export oriented manufacturing activities and services (variety of areas).

Source: Own table derived from SADC (1999:124, 141, 168, 179-180, 198, 218, 234, 263, 281, 302, 319-320, 338, 354).

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