

SADCC:

TOWARD REGIONAL TRADE DEVELOPMENT

We believe there is room for substantial increases in trade among ourselves. To this end existing payment systems and customs instruments will be studied in order to build up a regional trade system based on bilaterally negotiated annual trade targets and product lists.

- Lusaka Declaration

SADCC Secretariat
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I. Economic Coordination and Trade

1. Trade is not the goal of regional economic coordination.

The goals of economic coordination in Southern Africa - as set out in the Lusaka Declaration - centre on production, employment and economic security. Trade is not an end in itself but a means to achieving certain economic ends, or to achieving them at a lower cost.

2. To assume that expanding trade is the purpose of economic coordination is one of the two basic errors of the standard free trade area approach to economic integration. States are less concerned with trade as such than with material production, employment and economic security. The second error is to argue for an unregulated, free market approach to regional trade when, in fact, all the participating governments practice economic interventionism (even if to varying degrees) nationally. To attempt to have unregulated regional trade makes it difficult for states to act to ensure that trade does in fact promote production, employment and economic security in each participating state. Further, regionally as well as nationally, free markets (as opposed to managed markets) are inconsistent with ensuring an acceptable division of gains and costs. If they are not, then progressive income taxes, profits taxes, price controls, wage regulation and much other national economic legislation would be rather pointless. Therefore in an

unregulated free trade area or common market the unregulated, free market logic of the regional integration body is directly in conflict with the interventionist logic and practice of the national member states and is inevitably eroded or broken by them.

3. These basic facts - that production, employment and economic security come first with trade as a means and that equitable regional coordination must be decided on and managed by the member states - are embodied in the Lusaka Declaration. That the Declaration's authors were correct is demonstrated by the simple fact that SADCC has made substantial and rapid progress over its three years of existence even though it has not yet acted in the field of facilitating or coordinating regional trade in goods.

4. However, that is not to say that trade is unimportant nationally or regionally. Nor is it to argue that facilitation and development of regional trade should remain peripheral to SADCC activities. As each member state knows, international trade is important as a means to realising the value of goods produced, to securing critical inputs into production, consumption and investment, to creating employment and to having the products - e.g. food and fuel - essential to economic security. Similarly the Lusaka Declaration clearly sets out regional trade as a topic to figure in SADCC's Programme of Action and suggests certain approaches to it, including frame trade agreements.

5. Indeed in one respect SADCC has promoted trade - trade in

services. While termed "invisibles", payments and receipts for transport services are quite as real as those for "visible" imports and exports of goods. Regional transport routes, after all, make little sense unless they carry inter-state traffic and cannot continue operating unless that traffic is paid for.

6. Realisation of the value of present and proposed production of Angolan oil, Batswana coal, Tanzanian ammonia and urea, Zimbabwean maize, Mozambican hydroelectric power, Swazi pulp and paper depend significantly on trade and, at least to a degree, on the enhanced development of intra-SADCC trade. Similarly food and energy security on a regional basis require the movement of grain, petroleum and hydro-electric power between and among SADCC states, i.e. trade as well as production.

7. To date explicit discussion of trade development in SADCC has taken place in the context of official and ministerial meetings on Industrial Coordination. It has related to enhanced utilisation of existing capacity and to ensuring viability for coordinated expansion of national capacities.

8. Several SADCC States have underutilised manufacturing capacity for basic consumer goods and intermediate goods which other SADCC states currently import from outside the region (in certain cases from South Africa). If that capacity could be utilised to produce for export within the region, there evidently would be an increase in production, employment and export earnings on the part of the member states producing the products. Because only a fraction of the value of these manufactures would

represent import content, there would be a net reduction of regional imports from the outside world. Further, dependence on South Arica could, at least marginally, be reduced.

9. Somewhat similar considerations apply in respect to coordinated expansion of national manufacturing sectors. Regional markets range from useful through important to critical for a substantial number of potential plants. This is especially true for the three smallest SADCC members whose national markets are too small to absorb the output of plants which could quite easily market their whole output nationally in one of the economically larger members. Sustained regional industrial expansion - especially in respect to complex consumer products, intermediate goods and capital goods including onstruction inputs, and also especially in respect to the smaller member economies - does depend significantly on market expansion by trade including regional trade.

10. However, as noted above, trade within SADCC is not limited to manufactured goods. It encompasses:

- (a) services (especially transport);
- (b) fuel and energy (especially crude oil, coal, petroleum products and hydro-electric power);
- (c) food and other agricultural, animal, forestry and fishery products;
- (d) manufactured goods (and inputs into manufacturing).

11. These arguments are by no means new. The desirability of

greater trade between and among SADCC states has been recognised from well before SADCC's formal creation. There are quite real obstacles to achieving it. These obstacles will be reviewed in the fourth section of this paper - and ways toward reducing them in the fifth - following a review of the sub-sectoral possibilities for trade set out above and a sketch of the case for a broad approach to trade development rather than one limited to one category of products (e.g. manufactures) or one instrument (e.g. tariff or exchange control reduction) of promoting trade.

II. Trade in Transport, Energy, Agriculture, Industry

12. Trade in transport is, almost by definition, significant within SADCC:

- (a) five of the six landlocked states use transport services purchased from the three coastal and (as intermediate transit corridor participants) two of the land-locked members;
- (b) for two of the coastal states "invisible" export earnings on transit traffic are significant and for Angola they will become so when the end of the South African backed insurrection makes restoration of normal traffic possible;
- (c) the independence of Namibia will increase the potential for transport trade with SADCC by providing direct access to an Atlantic port which is particularly important for Botswana and Zimbabwe (and especially for their development of steam coal exports to Europe);
- (d) to a significant extent use of ADCC transport routes is a direct substitute for use of South African, thereby reducing dependence on RSA and reducing total "invisible imports" of the region taken as a whole.

13. Transport has not usually been seen in terms of trade as opposed to production (providing routes, increasing efficiency of operation). This is partly a matter of accounting conventions - transport revenues and payments are called "invisibles" rather

than "visible trade" in Balance of Payments. In addition they are not subject to export or import duties. At least equally critically one cannot substitute transport routes with the same ease as one can sources of manufactured goods - the only alternative to SADCC routes (and transport trade) for most members is RSA routes, dependence on which they are seeking to reduce.

14. However, trade is relevant to transport as well as to other sectors:

- (a) the viability of inter-state routes depends substantially on "export earnings" from transit cargo;
- (b) delays in payments for transport have serious repercussions of efficiency of route operation and maintenance just as delays in payments for goods effect the viability of producers, exporters, bankers;
- (c) a large negative balance in trade in transport (a structural characteristic of land-locked states) does limit their capacity to run a negative visible trade balance with their coastal neighbours - more positively it increases the importance to them of regional market development in respect to goods which they can export to their coastal neighbours.

15. Trade in energy is essential if Regional Energy Security is to be effective:

- (a) as a region SADCC is a net exporter of crude oil, coal and hydro-electric power;
- (b) however, eight states import crude oil and/or petroleum products (basically from outside the region) while three are dependent on power imports from South Africa;
- (c) low cost energy development (and reduction of dependence on South African sources) cannot be based totally on domestic production; especially because only one member has, as yet, discovered exploitable oil reserves.

16. In respect to petroleum and products, trade is possible - often with a cost saving. Given the present state of the petroleum market, it could be useful to Angola to develop additional assured markets within the SADCC region. Similarly - especially for the states partly or wholly dependent on South African sources for refined products - additional refinery capacity would increase economic security and reduce foreign exchange cost (and cost of products in general compared with South African supplies). Again trade is required because only five states have adequate market size to justify a refinery. The key potential refined products sources would be Mozambique (especially to Botswana) and Angola (on the independence of Namibia to Namibia, and on the completion of the Trans-Kalahari to Botswana).

17. Hydroelectric and coal fired thermal capacity development among the central five SADCC states (Botswana, Zimbabwe, Zambia, Mozambique, Swaziland) can be developed more efficiently (in both capital and recurrent cost terms) if there is inter-state trade in electric power. In some cases this may involve cross imports and exports to and from different parts of a country. For Botswana and Swaziland such trade is particularly crucial. Their options are growing dependence on imports from South Africa; very high cost national thermal units of sub-optimal size; imports from Mozambique and Zimbabwe or optimal sized coal-fired thermal plants with export contracts to their neighbours. For Mozambique developing an export trade in power to SADCC states could significantly reduce Cahora Bassa's dependence on the South African market. For Zimbabwe power imports from SADCC states could reduce the very high capital bill for large scale thermal plants and might facilitate exports of manufactured goods as part of a package trade agreement combined with power import contracts.

18 Agriculture has been approached by SADCC primarily in terms of regional food security. However, security based on surplus production and reserve stocks in one or more member states can only be effective if trade in agricultural products on a commercial basis - as well as by externally financed food aid programmes - is built up.

19. Agricultural trade potential is wider than grain and potential suppliers are not limited to Zimbabwe. In good weather years both Zambia and Tanzania have maize surpluses. There are

patterns of both fish and meat imports by some members and exports by others, but very little regional trade. Vegetable oil is another possible area of trade as are root crops (potatoes and cassava, the latter probably as cattle feed) and coarse grains (either for drought relief or as cattle or poultry feed).

20. For some of the smaller states development of production and processing of certain crops is likely to depend on acquiring absolutely small but relatively critical export markets in their neighbours. A possible example is oil seed and vegetable oil production in Swaziland.

21. Trade in manufactures has received more study within SADCC. The Industrial Coordination work has identified 75 significant products for which there is (or soon will be) exportable surpluses or capacity to produce them in one or more states and imports from third countries by other SADCC members.

22. Further, the evolving regional strategy for coordinated development does assume trade to realise economies of scale and coordination. This is true in respect to its two more articulated foci of industrial inputs into agricultural production and basic consumer goods. It appears likely to be even more significant as articulation of products and product groups proceeds with respect to capital goods.

23. The limited trade now taking place in the region does consist, to a significant extent, of manufactures. Several of the trade agreements among pairs of member states have also

concentrated on such products. However, it is unfortunately true that the development of even this branch of trade is not proceeding rapidly or smoothly. There have even been one or more cases of special restrictions on certain manufactured imports from a fellow SADCC member state.

III. The Need for an Overall Approach

24. Trade development in SADCC can be facilitated by approaching it from a broad perspective. Attention should not be focused on separate sub-sectors of trade - notably transport, energy, agriculture, manufactures - but should also look at overall intercountry and intra-regional trade encompassing both "visibles" and "invisibles".

25. This is not to suggest that there is no scope - or indeed need - for special arrangements. In the cases of some manufactures, grain, crude oil, electric power and perhaps others term contracts relating to a specific product may be critical. These could cover multi year commitments to buy and to supply initial year prices and subsequent year price adjustment formulae. However, trade relations built up only by such contracts are apt to remain rather limited in terms of coverage and to be in danger of erosion if the balance of overall imports and exports is very unequal. It is at the overall level, not the specific product or sectoral, that intervention to achieve net gains in output and employment in each trading partner is most likely to be effective and especially to be effective through increasing trade to achieve mutual gains at a higher level not decreasing trade to reduce perceived inequality of division of gains by making the overall gains smaller.

26. This approach requires an interventionist rather than a free trade stance. (Since none of SADCC's members practices free trade, without intervention or tariffs or import licensing in

general, managed trade development within SADCC should pose no problem of principle.) Perceived gains by all participants are necessary to maintain the perceived common interest in trade development; the operating principle in which SADCC is based in each programme area.

27. The particular methods of intervention can - and will - vary from state to state and time to time. Public enterprise (state) trading and detailed import licensing are by no means essential to promotion of regional trade (indeed in respect to transport and power they are rather irrelevant). However, they can be used as instruments to enhance regional trade and probably should be so used by the majority of SADCC states using detailed import licensing and/or with substantial public sector participation in exports and imports.

28. SADCC has deliberately followed a mixed approach to programme development. Regional decisions on frameworks and general measures have been linked with dominantly national or bilateral implementation. Trade development seems likely to fit into this pattern. A number of steps which could be taken by all SADCC members, acting on a coordinated basis, to create a framework conducive to regional trade development are identified in the concluding section of this paper. However, at least initially, actual agreements on trade targets and specific measures to attain them will almost certainly need to be pursued primarily bilaterally rather than multilaterally.

IV. Present Barriers to Trade Development

29. The main barriers to trade development are discussed in fairly general terms below. How critical they are varies from sector to sector and from state to state. However, none is totally irrelevant to any sector nor totally absent in any SADCC member.

30. Knowledge of what goods (and services) are available, where, who sells them, how to order and when delivery could be expected is exceedingly poor. This is truer at the level of import/export firms than of officials and of producers/users than of import/export houses. With rare exceptions both officials and enterprises know what is available at what cost, how and when from outside states in much more detail than they know in respect to fellow SADCC members. Both information sought (as to sources or markets) and sent out (as to desires to buy or to sell) is concentrated on traditional markets and sources of supply outside the region, and on traditional exports which are not necessarily those most relevant to regional trade development. There are certain exceptions - e.g between Botswana and Zimbabwe and Mozambique and Tanzania - but, in general, this external orientation of knowledge remains dominant. It is a major barrier to trade development - unknown goods are , by definition, not ordered and unknown customers not canvassed.

31. An inferiority complex exists in respect to many national and regional products. Not merely is there a preference for known brand or producer names but also for products imported from

industrial economies. The initial reasons for this attitude are understandable: a known, reliable brand name is some guarantee of a product's nature; a product from an industrial economy usually (not always) is reasonably suitable; some local (and initial import purchase) products have proven to be inferior. However, the general attitude to domestic and regional products often goes well beyond what is reasonable. Many SADCC products are of high quality by world standards, e.g. Botswana foot and mouth vaccine, Tanzanian instant coffee. Many others are adequate basic products which are more suitable to meeting basic needs for food, clothing, shelter or cleaning at prices within SADCC state consumers' ability to pay than higher quality, but also costlier, imports, e.g. several countries soap, textiles and shoes, Zimbabwean iron and steel products, some Zambian mining industry supplies.

32. Transport and supporting services are in many cases less adequate within SADCC than between its members and outside countries. This does not apply simply to road, rail, air and coastal ship transport. It also pertains - though to a decreasing extent - to communications. Commercial knowledge does depend on rapid, reliable communication by post as well as telecommunication. Further, even when physical transport facilities and communications are adequate associated services - e.g. shipping agents, clearers and forwarders, insurance agents - policies - claims adjusters/inspectors - are often weak or even absent.

33. Regional products are believed (often correctly) to cost

more. This is less true of services (although South Africa appears to subsidise transport rates in some cases), electricity and energy and but is especially so in respect of manufactured goods. In certain cases the extra cost is the result not of production but of transport, e.g. maize ex-Zimbabwe may be as cheap or cheaper than ex-Chicago but freight from Harare to Dar es Salaam or Luanda (though not to Gaborone, Mbabane, Maputo or Lusaka) is higher than from Chicago. However, to the importer the point is that the C.I.F. price is higher, not whether this is caused by higher ex-warehouse prices or more freight. The problem of higher cost falls into three categories:

- (a) goods which in fact either do not (or at least should not) cost more which includes items which the member state in question exports to third countries and for which it is, therefore, apparently a competitive source of supply, as well as commodities for which there are significant transport economies (e.g. Zimbabwe sugar and cement in much of Botswana);
- (b) goods which could be competitive if the exporter priced at marginal cost - the normal global export pricing approach - not at the protected domestic wholesale price and/or which could become competitive in price were the factories in question to operate at or near capacity (e.g. by winning regional export orders);
- (c) goods for which regional sources really are more expensive than third country supplies (including South Africa).

The problem in the first two categories relate to knowledge (including how to price for export) and, often, an inferiority complex (carefully nurtured by foreign suppliers, their local representatives and some vocal proponents of economic cooperation who never fail to add "of course the imports will cost more".) The third category is rather different. Here the problem is that SADCC states do not yet view regional trade as in any sense like domestic trade - in which protection for local production (by tariff or exchange control or other means) is quite normally considered if imports threaten local production. While it is quite reasonable to consider costs (in terms of domestic protection as well as of regional purchases) and to give special consideration to domestic producers, economic coordination in trade (and the development of each SADCC member's regional exports) cannot be based purely on the general application of least cost sourcing any more than a coherent domestic manufacturing sector can be developed on the rigorous application of free trade principles.

34. Credit for exports/exporters is often inadequate within SADCC both relative to domestic trade and to credit available to the exporters of third countries (including South Africa). Exports - especially in the SADCC context - are likely to have a longer period between dispatch and receipt of payment than domestic sales and, therefore, to require either additional overdraft facilities or special term credit - neither of which is always readily obtainable. In addition, many exporters provide short to medium term (six months to five years) export credit to allow lower export prices and/or higher exporter profits (if the

credit is to the exporter) or more attractive terms (if the credit is to the purchaser). This is particularly likely to be critical in respect to capital goods, e.g. railway rolling stock from Zimbabwe, electrical transformers and switchgear from Tanzania. No SADCC state has a full fledged scheme of this type.

35. Import licensing affects intra-SADCC trade in two respects. First it increases uncertainty - to interest a customer and to secure his applying for a permit to import by no means guarantees that an actual order will be forthcoming and when. This is a considerable disincentive to seeking regional sales - both domestic orders and - where relevant - those from convertible currency markets are less uncertain as to the completion of a formal order and as to its date. Second - and perhaps less obvious - is the way in which raw material, spares and related import licenses to producers are usually allocated. Rarely are they divided into inputs for local production and inputs allowed on the basis that the resulting goods are to be exported. A firm winning substantial regional export orders is not - under present import licensing procedures - likely to be able (or at least to be able promptly) to secure augmented import allocations to meet it. Because export prices are often below domestic and because most factories can (under current circumstances) sell all they can produce at home, the absence of special import licensing procedures and allocations for export production is a severe disincentive to producers' considering exporting and encourages sticking to the domestic market. A somewhat different form of this problem arises if import licenses for inputs are divided into those to produce for domestic use and those to produce for

hard currency exports, with goods produced for sale under regional trade arrangements not falling in either category as is apparently the case in one SADCC member state.

36. Export licensing can have similar results - especially in respect to causing delay and uncertainty. This is especially true if one criteria is "adequacy of supply to domestic market" which - taken literally - might prevent over half of existing intra-SADCC trade in manufactures. Another is export licensing procedures which may at the last moment shift consignments from SADCC bilateral trade agreement to extra-regional hard currency markets.

37. Exchange control is a major barrier to the growth of intra-SADCC trade. The delay in making current account commercial payments (in some cases for over two years) is a major burden on any exporter and especially on a relatively financially weak exporter with no access to subsidised export credit or export payments risk insurance. This is especially true in those cases in which issuance of an import license does not (in practice and in some cases not even in principle) carry any guarantee of an early approval of remittance of payment for the goods following their arrival. An analagous problem exists in some cases in respect to payments for transport services with the funds tied up in blocked accounts. The cash flow problem to the seller is evident enough. However, a further cumulative problem arises even if payments are presently received. He has had to borrow money at interest pending receipt and does not receive any interest on delayed transfers. If the average delay is 12

months, the only way a seller can protect himself against the extra cost is to raise his initial selling price by 15 to 20% - with the predictable result of being seen as a "high cost source".

38. Two barriers sometimes seen as primary obstacles to intra-SADCC trade are less important than is often supposed. They do hinder trade but do not (in most cases) hinder SADCC imports more than those from third countries. These are import duties and non-convertible currencies.

39. Import duties do not discriminate against SADCC exporters relative to those of third countries unless the third countries enjoy lower tariffs. The only major case of this is that of the South African Customs Union members and even they can maintain free trade arrangements with Zimbabwe and Malawi (as successor states to the former Central African Federation). Other minor cases may exist of preferential tariffs to third countries, but these are minor and could probably be corrected easily. What is true is that tariff preferences to SADCC members (whether bilaterally, on a multilateral SADCC basis or within the PTA) might be a useful (if secondary) means of facilitating trade.

40. Inconvertible currencies do not, by themselves, hamper trade. What does so is uncertainty as to import licensing and delays in clearing payment. All SADCC currencies do have established parities (some admittedly pegged to floating baskets) and transactions fixed in terms of their (the SADCC currencies') exchange ratio at the date of sale or of payment are perfectly

feasible. They are little used partly because of habit and lack of knowledge and partly because, in the absence of some effective balance settling procedure (clearing and remittance at central bank level), they have little attraction to enterprises. An effective balance settling procedure need not imply full convertibility (even on current account), nor need it be on a global basis applying to third countries, if its purpose is to facilitate regional coordination in energy, food, transport and manufacturing production and trade.

V. First Steps to Barrier Dismantling

41. Outlining the nature of barriers is critical to deciding what to dismantle and how. However, it is not by itself adequate. The knowledge barrier was identified in some detail by the Industrial Coordination officials meeting in April 1980; but without any very systematic or rapid progress toward dismantling this barrier to trade development. One reason has probably been the absence of any forum specifically charged with responsibility for trade development. Energy, Industry, Agriculture and Transport ministers and officials are not - at domestic level - primarily responsible for, nor necessarily expert in, interpreting or discussing possible changes in trade and payments policy and practice. That responsibility and expertise lies basically with Ministers of Trade and of Finance and with Central Banks.

42. Knowledge is needed at several levels:

- (a) major purchasers and producers need to know of each others' existence, product (to sell or to order) range and approximate prices;
- (b) importers and exporters other than producers and ultimate users need to know who (import or export house and/or producer or user) in the other states sells (buys) which products of interest to them at what prices;
- (c) governments need the same information - in a simplified form - for two reasons: to have a directory on their own buyers/sellers to transmit

to partners and similar directories from their partners to transmit to their own enterprises; and to be able (especially in states with import planning or export promotion) to facilitate managing increases in their participation in intra-SADCC trade. The first case is not as a substitute for direct contact among enterprises but rather as a means of facilitating it.

Similarly the means for building up operational bodies of mutual knowledge need to be multiple. Larger firms (producers, sellers or traders) should undertake commercial visits to other SADCC members. If they wish they should provide (via their trade ministry) data on their product and price interest range to the trade ministries of the states they are visiting and, in return, receive lists of potential customer or source enterprises in that country. Trade fairs are, at least for larger firms, probably inferior to preplanned visits by one or a few enterprises at a time but the two approaches may usefully be combined. Smaller enterprises either need to communicate electronically and by post, or (and) to nominate larger firms (particularly relevant importers and exporters) to act as their agents for buying and selling in other SADCC states. For them participation in trade fairs - if made financially feasible - may be valuable in developing contacts. None of this sounds very dramatic or novel - nor is it. But it is the way trade links (internationally or, for that matter, within a national market) are built up and by and large it is not now happening systematically within SADCC (with a limited number of enterprise and perhaps one national

exception). Chambers of Commerce (or of Trade) also have a role to play - e.g. through a formal or informal SADCC Association of Chambers.

43. Inferiority complex reduction about SADCC products can only be eroded by increasing user awareness that they are satisfactory. That requires that they do use them. This can be a vicious circle (as it can be for new national products in the domestic market). Three possible ways forward are: "Buy national and SADCC" publicising and displaying good (and only good) products; use of government or other public sector purchases to help SADCC products gain initial entry; selective import control with at least part of the licenses limited to SADCC sources for products which are known to be available, reasonable in quality and acceptable in price.

44. Transport and communication gap removal and cost reduction falls basically within the ambit of SATCC. However, more attention to ensuring that competent clearing and forwardings, cargo agency, insurance and related services are in fact available, competent and plausibly priced is needed and - to date - has not figured prominently on SATCC agendas. Whether trade or transport ministries should take the lead is a question to which the answer probably varies from state to state and even complementary service to complementary service. In practice governments have some leverage here. Many of these services in several SADCC states are at least partly provided by public sector enterprises and/or joint ventures who would have to be responsive to instructions/requests to devote their attention to

acting competently in the regional trade sector. Even private firms would respond to moral persuasion especially in a context in which they saw intra-SADCC trade as likely to expand and therefore render this expansion of their service coverage (or quality) lucrative.

45. Cost needs to be tackled differently depending on the product:

- (a) in a not insubstantial number of cases the products are priced competitively now;
- (b) in others full capacity use would reduce average cost to levels quite close to world market levels (e.g. Tanelec's switchgear and electrical distribution products now cost 30 to 50% Fob above European prices while the plant is operating at 25 - 30% of capacity. At capacity the cost differential would be under 10% Fob. The cost pattern for the Zimbabwe plant - especially if it is modernised - may be similar);
- (c) when a competitive price is below the exporters average but above his incremental cost, the fact that exporting quite regularly takes place at such prices and is profitable at any price above incremental cost if it increases output needs to be brought home to producers. Incremental cost as a pricing base is standard in world trade in competitive manufactures. Those with no history of exporting quite often do not understand this (nor indeed do government officials always

recognise it).

In the - by no means insubstantial - number of cases covered by approaches (a)-(b)-(c) the cost problem can be overcome by achieving a directly competitive price. But more than that probably is needed for rapid intra-SACC trade development. It is no use to suppose that all regional trade (any more than all national production) can be at prices equal to or lower than the most competitive third country sources. The justification for a higher price is basically that the economy is thereby achieving more production of goods and services because it is also selling goods and services to other SADCC states. This justification does not require exact balance to be valid. It does require that each SADCC state have significant sales as well as purchases (possibly largely sales of services and purchases of goods). There are a variety of means to giving preference to particular SADCC sourced products if it is seen as acceptable to pay some extra price in order to make possible sustained expansion of one's own production for intra-SADCC sale:

- (a) preferential tariffs (whether within PTA or bilaterally);
- (b) preferential government purchasing (i.e. preferential vis a vis third countries not vis a vis national products);
- (c) import licenses for some goods (or some portion of the imports of some goods) valid only for specific SADCC members or SADCC sources in general;
- (d) in countries with some import licensing by

product but also significant OGL (open general license) lists having an intermediate category ORL (open regional license) with SADCC sourced goods not needing a license but those from third countries requiring one;

- (e) multiyear negotiated price (or price formula) contracts with minimum purchase and delivery commitments. Assuming that contracts in both directions (or goods contracts partly offsetting power and/or transport purchases) are made there is a common interest at national economy level and assuming the importer can pass on the cost (which may require interference of one variety or another with competing imports) the importing enterprise will be content with the contract;
- (f) target trade agreements (perhaps in the longer term multi-member but initially overlapping bilateral ones among pairs of SADCC members) indicating (on the basis of knowledge not pure guesswork) approximate levels and prices of main commodities intended to implement the target and involving (formally or informally) known enterprise interest in and commitment to achieving these targets.

It is perfectly true that the GATT, several OECD member states, EEC and - especially - IMF will mutter about approaches (c) through (f). However, if SADCC is convincingly seeking to build up regional economic integration and trade these mutterings are

unlikely (judging by experience of other groupings) to be pushed to the point of serious "retaliatory" action. A high proportion of world trade already takes place under preferential purchasing arrangements and rules and as "compensation" or "barter" trade at private enterprises parastatal and government levels. None, of the preferences and incentives listed above, it should be noted is dependent on public sector dominance of imports and exports nor of detailed import licensing (foreign exchange budgeting) for all imports. Such conditions would make operation of all simpler, but are neither necessary (nor - without an operational commitment to using intra-SADCC trade to build up national and regional production - even sufficient) conditions.

46. Credit for export transactions up to 365 days (to the exporter) should not pose major difficulties for normal commercial banks if some clearing or settlement mechanism to ensure that there is not an indefinite delay in the exporters' receiving effective payment exists. (If no such arrangement exists, the commercial bank and/or the exporter does need insurance against that risk. As the only body with much leverage in securing remittances, the logical issuer of such insurance is a Central Bank.) Longer term credit at subsidised rates (e.g. 5%, 18 months grace, 42 months to pay) poses far greater problems. It may be possible for specific products whose regional sales would be net production gains and for which either the producing enterprise (or a government owning it) can afford the lagged cash flow. Crude oil may be an example. Otherwise it probably requires soft external finance to provide the credit. One plausible source is for SADCC to seek to have intra-SADCC goods

make eligible for purchases from aid grants or credits. This is of course already the case - at least in principle - in respect to purchases for EEC financed projects when both buyer and seller are ACP states and - with greater limitations - in respect to some Scandinavian and USAID funding. It is also true in respect to World Bank and ADB tenders. The most striking examples relate to Zimbabwean maize via multilateral and bilateral food aid. Broadening the coverage and loosening the restrictions on "intra-SADCC third country procurement" will not be easy but if SADCC finance ministers make a coordinated push for it in negotiating aid agreements there should be some results. Trying to get outside funding for a substantial SADCC export credit agency seems less likely to be successful and - if it were - might well simply divert funds from other sectors (e.g. transport and communication) which is much less likely if the "third country procurement" route is pursued. However, an "import content support fund" to cover the extra regional content of intra regional exports is worth exploration. It could be tied to bilateral mutual credit agreements (with or without a fuller frame trade agreement) so that the exporting country could receive from the fund a proportion -say 25% - of its exports to the other SADCC member. The EEC and Norway are among the co-operating states and agencies which have shown signs of being prepared to help finance such a fund.

47. Import licensing can be a positive factor in respect to intra-SADCC trade if the following conditions can be met:

- (a) licenses (forex allocations) are made well in advance to allow buyer and seller forward

planning;

- (b) licenses - at least in respect to intra-SADCC trade - carry a guarantee (in practice not only on paper) that at the end of the agreed commercial credit period (whether 90 or 180 days after shipment or arrival) the funds will be available to the exporter in his own currency (whether by remittance or an intra-Central Bank clearing/swing credit arrangement);
- (c) licenses are at least as readily available for SADCC sourced as for third country imports and, preferably, are used to give preferential access;
- (d) exports result in higher import licenses (forex allocation) to exporting enterprises either by specific extra allocations to import inputs for export production or by allowing some per cent (say 25%) for most manufacturing enterprises of export earnings to be added to the firm's basic forex (import license) allocation in the licensing period after the exports are achieved.

In practice several SADCC states have import licensing and export incentive (or non-incentive) practices which to a greater or less degree fall short on most (or all) of the criteria.

48. Export licensing procedure needs review to identify what purposes are being served and what type of export licensing, if any, is needed to further them. For example, if the purposes are

availability of goods for the domestic market and for known exports for hard currency, then a system allowing quarterly licenses to enterprises could be set:

- (a) on the basis of projected output less domestic and third country export allocation
- (b) or on the basis of certification (by the enterprise) that it had met domestic and third country delivery targets and could export regionally out of the balance.

The first approach is simpler - a matter of some importance as complex, slow systems create delay and uncertainty which are highly trade deterring for manufacturers, exporters, importers and users.

49. Several of the problems turn on customs - transit traffic and related documentation. These should, to the maximum extent possible be:

- (a) reduced in quantity - by having required data for as many purposes as possible entered on one form prepared in duplicate for those (e.g. Customs, Treasury, Trade, Central Bank) requiring copies;
- (b) simplification of forms to make them intelligible (to the enterprise completing and to the recipient agencies) and to eliminate provision of data nobody uses;
- (c) simplification of procedures to speed up transit and import trade and to facilitate whatever valuation is needed while still protecting the revenue (and domestic producers) e.g. for transit

traffic by simple sealed container, lorry and rail wagon methods;

- (d) standardisation of forms and procedures to avoid repetition and confusion which is inevitable if - say - Tanzanian, Mozambican, Malawian, Zambian and Zimbabwean documentation and procedures vary markedly (as in some respects they do).

Ongoing efforts to achieve these ends supported by the UNCTAD financed regional unit based in Blantyre could provide a starting point for joint action by SADCC Customs Departments acting together with their Ministries of Finance and of Trade and their Central Banks and after consultation with user enterprises (producers, traders, transporters, clearers and forwarders) to determine what problems users had with existing documentation and procedures.

50. Exchange control is a problem because (to the extent that) payments are not made on time even when import licenses had been issued and the goods shipped in normal 90 or 180 day commercial credit. For an exporting enterprise (including an exporter of transport services) the cash flow and cost results (as discussed earlier) are disastrous. A number of alternative approaches could in principle be taken to this problem:

- (a) general clearing of all commercial arrears and then keeping such payments up to date for all sources including SADC ones (unfortunately quite beyond the present or medium term capacity of several SADCC members);
- (b) agreed phased clearing of intra-SADCC arrears

(i.e. as a priority within any global arrears reduction strategy) and immediate institution of prompt payment on new imports (of goods or services) following the effective beginning date of such "arrears elimination phasing" agreement (possible albeit only with a fairly long rundown of backlog period for certain states but bedevilled by the fact that third country arrears claimants are economically stronger, more influential with sources of external finance and less sympathetic to the arrears owers' problems than fellow SADCC states);

- (c) setting up clearing procedures on a SADCC wide basis to cover all current transactions (along the lines of the PTA's clearing agreement - or if all SADCC states were to join the PTA by using that mechanism rather than a separate SADCC one);
- (d) negotiating target payments flows (covering energy, food, manufactures, transport services together) with:
- (i) provisional monthly payments if the agreed target was an unbalanced one (likely for a coastal state/landlocked state agreement);
 - (ii) exporters' Central Bank to pay him when commercial credit due to date arrived and debit account of importers' Central Bank;
 - (iii) agreed mutual swing credit levels (for trade in goods and services between them

- only) by each Central Bank to the other;
- (iv) a procedure which resulted in rectification of imbalances beyond projections before the swing credits were exhausted and frozen (whether by hard currency remittances by debtor or stepped up imports by creditor).

Implicitly both (c) and (d) assume that the arrears problem would be handled separately. A line would be drawn, new transactions kept current and ways to reduce the old backlog explored. The problem with the last approach is not one of principle, nor with the usefulness of mutual swing credits, but of practice - imbalances (for whatever reason) have tended to be above planned levels, discussions on how to reduce credit overhangs less than fully effective and "solutions" largely by the debtor buying less and creditor selling less (balance by trade destruction rather than trade expansion). It is useless to seek a technically failsafe clearing approach because the underlying problems are substantive:

- (a) the external balance position of a majority of SADCC members is very weak - it is hard to pay anybody in time and almost harder to give any export market substantial credit;
- (b) for whatever reasons, Central Banks, trade ministries and treasuries have been unwilling or unable to give preferential (or in some cases even general most favoured nation) treatment in keeping payments current, in arrears reduction or in balance solving by trade expansion to their

SADCC partners.

No institutional arrangement in and of itself can "solve" these problems which turn on financial capacity and priorities in forex use, exportables allocation by destination and import sourcing.

VI. Toward Frame Agreements?

51. The Lusaka Declaration cites bilateral frame trade agreements as a positive way of taking initial steps toward intra-SADCC trade expansion. The example cited, Mozambique-Tanzania, happens to cover basically manufactures but for a case in which intertrade in energy, transport services or food is significant (as it has usually not been in the Mozambique-Tanzania case) these could be logically covered as well.

52. This approach can be described as "balanced" or "compensation" or "barter" trade. The last is somewhat misleading as prices and selection of products are involved not a strict exchange of quantities of goods for quantities of goods with neither prices nor flexibility. "Balanced" and "compensation" trade are now very common - by some estimates accounting for well over 25% of global trade. They are not unique to the state trading economies of central and eastern Europe and Asia. Recent examples include oil exporters in respect to their dealings with, e.g. France and Scandinavian states. The volume of such trade is often underestimated because in the industrial capitalist countries the partner is usually an enterprise which agrees to purchase (usually for resale) a value of goods equal to all or a proportion of the value of the exports it is selling. A number of specialist firms (and departments of major trading firms such as those of Japan) have sprung up to handle the resale side. It is more efficient if the compensation/balancing aspects can be at national level as then

purchasers can be enterprises really wanting to use, or trade in, the imports and not exporters accepting products with whose sale they have no experience in order to close a deal.

53. Bilateral agreements - as illustrated by the substantial number which now exist among pairs of SADCC members - vary widely in precise form. They also (and less satisfactorily) vary widely in apparent effectiveness. A review of the present agreements evaluating results both against pre-agreement trade and against expectations/targets, followed by consideration of what approaches or elements seemed to be most/least effective and why, would appear to be desirable if the bilateral frame agreement approach is to be used more widely and effectively in the future.

54. However, a number of elements likely to be conducive to an effective agreement can be identified:

- (a) coverage of all major transactions not simply visible trade or trade in manufactures;
- (b) agreed target levels of trade in each direction - not necessarily balance;
- (c) sub-targets by main service or product with rough quantity and unit value goals;
- (d) adequate data to make (c) a serious projection exercise not one in guessing or crystal ball gazing;
- (e) direct or indirect association of major enterprises whose actual production (and its allocation among domestic, SADCC and third country markets) and sourcing of purchases would

- be critical to whether the actual outcome roughly corresponded to the target with the formulation of targets and the process of executing them;
- (f) use of mutual credits handled via Cental Bank accounts to facilitate initial trade flows and to ensure that exporters receive prompt payment in their own currency;
 - (g) building in monthly initial payments (if the target is for an imbalance of a significant amount), swing credits and prompt mechanisms for agreeing on how to overcome divergences of actuals from projections before they swamp the agreement;
 - (h) consideration of multi-year contracts (with price formulas and agreed minimum order and supply levels) for new industries agreed within the SADCC Industrial Coordination context to become part of the baseline data for successive annual frame trade agreements.

55. None of these elements requires state trading nor comprehensive import licensing. Admittedly the latter - and perhaps the former - make the likelihood of being able to hold actuals in fairly close relation to targets more likely. The point is that even assuming limited import licensing and basically private importers and exporters, use of the incentives discussed in para 45 above could significantly manage/influence trade toward the targeted levels.

VII. Notes Toward an Action Check List

56. SADCC trade development cannot be fully discussed, let alone cast in the form of a strategic plan, least of all articulated into a package of workable policies at one meeting.

57. Therefore, if it is decided to pursue a coordinated action programme in respect to trade there are certain procedural requirements:

- (a) a regular (perhaps twice a year) series of official level and probably (once a year) of ministerial meetings;
- (b) an ongoing exchange of information;
- (c) bilateral negotiation/implementation as a significant means of putting the coordinated trade development approach into practice;
- (d) specialist meetings - e.g. on documentation simplification and standardisation - when necessary to achieve specific targets;
- (e) a coordinating country to facilitate information exchange, arrange background data and basic papers/agendas for the meetings, be responsible for seeing that agreed studies were done (whether by the coordinating country's own personnel, a permanent technical assistance person in the coordinating country or on a one off consultancy).

58. However, that is in a sense putting the plough in front of

the ox - there is a need for a set of procedures and meetings only if there is an agreed list of things to be done which are seen as both possible in themselves and likely to stimulate the development of nationally and regionally beneficial expansion of intra-SADCC trade.

59. A possible check list of items for coordination national action includes:

- (a) creating government level information exchange including directories of products and enterprises, as suggested under knowledge development in para 41;
- (b) encouraging producers/users/international traders to look to (at) SADCC markets and sources and perhaps subsidising their initial trips, including to trade fairs, to develop market contacts;
- (c) reviewing the adequacy of bank credit available to exporters and seeking to negotiate wide "third party procurement" eligibility for SADCC state products in aid agreements as discussed at para 46;
- (d) give serious consideration to holding national seminars (primarily for enterprise management but also for relevant officials) on building up exports (including principles of export pricing) possibly making use of Finnish and UNCTAD/GATT International Trade Centre expertise;
- (e) review import and export licensing with a view to

making it at least neutral between SADCC and third country sources and to providing forex availability incentives to enterprises which build up SADCC market (and for that matter other non traditional) exports as discussed at paras 35 and 46;

- (f) review the availability, adequacy and cost of clearing and forwarding, shipping agency and insurance services for intra-SADCC trade in close consultation with SATCC;
- (g) create a specialist sub-committee to explore alternatives in respect to payments/clearing arrangements (as discussed at paras 40 and 50 above) and report back to the next official meeting with proposals;
- (h) work toward a specialist meeting of Customs officials to seek simplification and standardisation of documentation following consultation with affected enterprises and national determination (by Customs, Treasury, Trade, Central Bank, etc.) of practicable steps (as discussed at para 49 above);
- (i) review the results, strengths and weaknesses of exiting "bilateral frame agreements" (see Section VI) with a view to presenting a paper to the next meeting on how such agreements might be made more effective and on what their potential as a trade development mechanism is likely to be in the SADCC context;

- (j) explore the possibility of securing external finance for an "import content support fund" to facilitate regional trade expansion (as discussed at para 46 above).

60. The first six areas would require national action - preferably with brief notes on results tabled at the next meeting either by each member state or in a consolidated form by the coordinating state on the basis of the national submissions. The seventh requires a specialist (presumably Central Bank or Central Bank/Treasury) subcommittee to meet on the basis of terms of reference set by the ministers and a set of papers on alternative approaches. While the eighth calls for national reviews leading to a specialist meeting. The first stage of the ninth topic would be national reviews, a comparative evaluation and a set of suggestions would require that the coordinating state (or a consultant chosen by it) visit each member state to secure its study and discuss it with its compilers and then prepare the overall report. The last topic requires pursuing inquiries by the coordinating state in cooperation with the Secretariat and Ministerial Chairman.

61. None of the proposals above appears to conflict in principle with the goals or requirements of the Preferential Trade Area as they apply to its members during its multi-year initial period. Most relate to topics or instruments which either do not feature in the PTA Treaty or on which no action is in hand or likely to begin soon. More critical from a SADCC perspective - PTA is not at present a practicable instrumentality for coordinating

intra-SADCC trade development because four SADCC members are not PTA members. To use PTA as the sole means of regional trade promotion would be to exclude virtually half SADCC's members from that process. The proposals of this paper are based on the goals embodied in the Lusaka Declaration and its specification of intra-SADCC trade as an important means of working toward those goals by co-ordinated action involving all SADCC member states.

Annex: SADCC-PTA Complementarities and Differences

- i. There are two main regional intergovernmental organisations concerned with trade development in the Southern African region: SADCC and the Preferential Trade Area of Eastern and Southern Africa. However, while they are overlapping in area and in membership they are not identical in either. SADCC is geographically bounded by Southern Africa and includes all nine independent states. PTA's geographic zone is Eastern and Southern Africa (including the Indian Ocean states) and has 22 potential members of whom slightly over half have ratified the PTA Treaty. Four SADCC members are not while five are PTA members at present. Therefore, neither geographically nor in terms of membership are SADCC and PTA alternatives. It is not possible to promote trade development in the SADCC region solely via PTA because to do so would exclude four SADCC members.

- ii. SADCC and PTA do not have the same primary goals and approaches:
 - a. SADCC is based on coordination of production, information and research to achieve economic security, employment, development oriented to the basic needs of its peoples and reduction of dependence, especially on South Africa. Trade is important as a means to assist in realizing these goals;
 - b. PTA is based on the reduction of barriers (customs, licensing, documentation, etc.) to trade and the promotion of supporting devices to facilitate it (e.g clearing arrangements). For it trade is central and other sectors are means to promote it.

- iii. Predictably, therefore, SADCC and PTA do not propose to use identical toolkits of measures to promote and manage trade and, do not lay the same emphasis on those which are common to both, e.g.:

- a. SADCC - in the Lusaka Declaration has identified bilateral frame agreements as a major element in building a regional trade system whereas they are absent from PTA's approach (though they are present in the Lagos Plan of Action of the OAU);
- b. PTA has placed primary emphasis on multilateral tariff preferences among all members whereas in SADCC bilateral tariff preferences among certain pairs of members are of varying importance and are not, in general, central to preferential trade development;
- c. SADCC has placed more stress on enterprise exchange of information and contacts (backed by Trade Ministry coordination and inter-change of data) to date than has PTA although this might not be a permanent difference in emphasis;
- d. PTA, like most common market/free trade area bodies has opted for a detailed treaty, a strong secretariat and limited direct involvement of government in organisational programmes whereas SADCC has opted for a broad initial compact identifying common goals and interests with subsequent operational agreements as the need arises, a limited secretariat and maximum member state involvement.

These difference are significant. They arise out of the different natures of the two bodies. It is quite possible that each body has made the correct choice of emphasis, of policy tools and of organisation given its own geographic scope and primary focus. Certainly one must assume that the member states of each believe these choices to be correct.

- iv. In principle no conflict exists between the goals and approaches of SADCC and of PTA. This is certainly true as to goals. In respect to the PTA treaty it applies to approaches at least in respect to the initial transitional period. That period is scheduled to last for several more

years and - from precedents in other trade areas - may well be extended. Even after that period fairly minor amendments to the treaty would avoid any conflict with the SADCC programme. As the PTA is the creature, not the master, of its members of whom five (and potentially nine) are SADCC members, there seems no reason such amendments (e.g. as to what constitutes parallel treatment in respect to bilateral trade agreements and multiyear contracts) would be difficult to secure. SADCC explicitly endorses the concept of member state participation in other economic co-ordination arrangements with non-SADCC member neighbours. This is, of course, totally consistent with the Lagos Plan of Action which envisages a network of sub-regional arrangements as the building blocks toward Pan-African economic coordination. The conclusion of basic complementarity, not conflict, is not new. The United Nations Economic Commission for Africa (while serving as interim PTA Secretariat) confirmed absence of conflict in a letter to the then SADCC Ministerial Vice Chairman and the SADCC Council of Ministers reached the same conclusion on the basis of a technical memorandum considered at its 1983 Dar es Salaam Council Meeting.

- v. Questions of actual or potential overlap are harder to answer definitely. Most of the SADCC trade development proposals are not on the present PTA agenda. The evident exception is tariff preferences, however, those operational or proposed within SADCC are both bilateral (not multilateral) and much more sweeping than any currently contemplated by PTA for the next several years. Documentation simplification work has, in fact, been coordinated not by PTA but by an UNCTAD financed technical unit for three clusters of countries involving SADCC and PTA members and countries which are members of neither. In terms of present ongoing activities of PTA there appears to be no overlap at all with the main areas of activity envisaged for a SADCC programme of intra-SADCC trade development. The sectors in which overlap - at least at the level of formal stated programmes - exist are transport

and communication, where PTA's agenda (albeit not its work to date) would appear in large part to duplicate SATCC's, and industrial coordination. This is unfortunate as there is plenty of room for non-overlapping complementary programmes (e.g involving the northern PTA members, Indian ocean shipping and routes between SADCC members and Kenya-Uganda-Rwanda-Burundi-Zaire for PTA in transport and communications) but it does not directly involve SADCC's proposed trade development sectoral programme.

- vi. In practice, the main potential overlaps and divergences between programmes and instruments within SADCC and the PTA treaty already exist quite independent of a SADCC trade development sector. These include:
- a. actual or potential bilateral major preferential or free trade arrangements between, e.g. Zimbabwe and Botswana, Malawi and Zimbabwe and Tanzania and Mozambique;
 - b. bilateral trade agreements with targets and main product lists among inter alia Zimbabwe and Tanzania, Mozambique and Zimbabwe, Tanzania and Mozambique, Zambia and Tanzania.

Quite clearly both of these routes are developing and will develop within SADCC. Member states clearly intend to use them and have a sovereign right to do so. The question is not a theoretical one as to their formal coherence with PTA but rather whether their development in the context of a co-ordinated SADCC trade development sector would be speedier and more efficient.

- vii. In summary:
- a. there is no conflict in principle or as to goals between SADCC and PTA;
 - b. PTA, because four SADCC states are not members, is not a substitute for a SADCC trade development sector;
 - c. major overlap should be relatively easy to avoid; it is not apparent on the initial steps proposed

- within PTA and SADCC;
- d. PTA can do certain things better than SADCC - e.g. arrange preferential tariffs over a broad geographic area - and undertake certain tasks SADCC probably cannot - e.g. transport and communications coordination between SADCC states and the northern PTA area as well as Indian Ocean shipping or, to be precise, it can do so if all or almost all of its 22 potential members eventually do join;
 - e. in certain areas practical technical cooperation may be desirable, e.g. documentation simplification to have maximum value should involve Kenya, Uganda, Rwanda (PTA members) and Burundi (to date not a member) as well as the nine SADCC members;
 - f. The Council of Ministers may wish at some point to instruct the SADCC Trade Development Sector Coordinating State to talk with the PTA Secretariat to exchange information on concrete programmes and to identify specific technical areas in which cooperative or joint action might be useful;
 - g. SADCC member states may wish to discuss - in respect to all sectors covered by the Lusaka Programme of Action, not just trade - how to avoid conflict, minimize overlap and maximize complementarity (possibly on occasion including joint technical programmes or consultations) between SADCC and PTA. Agreed proposals could then be acted on within PTA meetings by the five SADCC members who are also members of PTA.