

SIMON BRAND MEMORIAL ADDRESS:

THE IMPACT OF REGIONAL INTEGRATION ON SOUTHERN AFRICAN AGRICULTURE

G. Maasdorp¹

Your Conference Organising Committee has done me a signal honour in asking me to deliver the Simon Brand Memorial Lecture. Indeed, I feel doubly honoured since Simon Brand was a personal friend of mine and someone whom I held in high esteem. He was a man of integrity, and this, together with his intellectual rigour, led to his being highly respected by all shades of political opinion. He played an important role in supporting socio-political change in South Africa, and I have no doubt that, but for his untimely death, he would have assumed an even more important role in the new South Africa post-1994. One of the fields in which he had become increasingly interested was that of economic cooperation across the Southern African region. As Simon Brand was an agricultural economist by training, I hope he would have approved of the topic which I have chosen to consider in this lecture.

THE STATE OF REGIONAL INTEGRATION

We live in a period both of growing globalism and regionalism. Multilateral trade liberalisation, sealed by the Marrakech Agreement of 1994 and the establishment of the World Trade Organisation (WTO) in 1995, has been paralleled by the proliferation of regional trade blocs, most of which are still engaged in the difficult process of tariff elimination. Regionalism has its critics - indeed, it is generally agreed that the optimal policy for any country is unilaterally to liberalise its trade on a most-favoured-nation basis - and, if it is to be a building block rather than a stumbling block towards free global trade, a regional bloc should ensure that its members maintain the impetus of lowering tariffs against third countries.

Southern Africa is an unusual region in that it boasts of the longest surviving customs union in the world. This is the *Southern African Customs Union* (SACU) comprising South Africa, Botswana, Lesotho, Namibia and Swaziland. Since the trade effects of this arrangement have already worked themselves out, it will not be the focus of this paper. Rather, what is pertinent for our purposes is the impact of new regional trade initiatives of which there are several. These need to be described in brief.

The first is the *Common Market of Eastern and Southern Africa* (COMESA). This

¹ Director, Economic Research Unit, University of Natal, Durban

has grown out of the Preferential Trade Area for Eastern and Southern African States (PTA) which commenced operations in 1983. The focus was on the gradual reduction of tariffs on a common list of commodities for intra-PTA trade. The PTA was transformed into COMESA from the beginning of 1994, the aim being the establishment of a free trade area in 2000 and a customs union in 2004. The name, therefore, is a misnomer. COMESA has 21 members: this includes the Seychelles which has only just joined. However, membership will fall to 19 at the end of the year when Lesotho and Mozambique intend to leave. The other countries which are not members are South Africa, Botswana and Somalia.

An important advance in the COMESA Treaty of 1993 is that it made provision for a multi-speed approach towards free trade, i.e., for certain members to move more quickly than others. This is often referred to in the literature as 'variable geometry'. In the context of Eastern and Southern Africa, variable geometry is reflected in the second grouping.

This is the *Cross-border Initiative* (CBI) which consists of a fast-track group of 14 countries, all of which are members of COMESA. This grouping in 1995 agreed to abolish tariffs on intra-CBI trade, that is, to have free trade among themselves, by October 1998. They also agreed to establish a harmonised external tariff by that date. A harmonised external tariff is not the same as the common external tariff of a customs union in that it allows some scope for flexibility: in the case of the CBI, a member country may adopt a tariff of 0-10-20 per cent or one of 5-15-25 per cent for raw materials/capital goods, intermediate goods and consumer goods respectively.

Some of the COMESA and CBI countries also belong to the third grouping, namely, the *Southern African Development Community* (SADC). This organisation had its antecedents in a grouping of nine countries established in 1980 with a focus on sectoral cooperation. Its transformation in 1992 saw it add trade integration to its armoury. A Trade Protocol was signed by 11 of the then 12 member countries in 1996, and would take effect when ratified by two-thirds, i.e., eight, of the member countries. A free trade area would then be established within eight years of ratification. At present only two members have ratified the protocol, while a further two countries - the Congo and Seychelles - were admitted to membership in September 1997. Assuming that the Trade Protocol is able to come into effect in 1998, a free trade area should then be established by 2006.

Although some mention will be made in this lecture of COMESA and the CBI, the focus will be on SADC as it existed prior to the admission of the Congo

and Seychelles. The reason for this is that work on intra-SADC trade (Imani, 1997b), on which much of this lecture is based, has been limited to the 12 countries. However, mention will also be made of a further possible free trade agreement, i.e., the one between South Africa and the European Union. This would have some important consequences for South Africa's partners in regional trade blocs, and studies have been done of the consequences for the SACU countries.

INTRA-SADC TRADE STATISTICS

Trade data in the SADC countries as a whole are most unsatisfactory with regard to availability, quality and comparability. In order to analyse intra-regional trade, the researcher requires, for each member country, data on imports and exports at a disaggregated level (preferably the 8-digit HS level) by country of origin and destination both in SADC and the rest of the world (ROW); levels of tariffs and charges of equivalent effect (such as excise duties and import surcharges); and customs revenue collections. Moreover, the data are required for a similar time period for purposes of comparison. The researcher has to tiptoe through a veritable minefield: data are not available for all member countries for like periods, or at similar levels of disaggregation, and some figures make no sense in relation to other comparable statistics, different sources giving different values.

Thus, in a recent study of tariff reductions under the SADC Trade Protocol (Imani, 1997b) which attempted to collect data on intra-SADC trade for the three years 1993-95, no statistics were available on Angola. For the remaining 11 countries, the value of intra-trade given by exporting countries considerably exceeded that given by importing countries. Availability and quality of data are among the reasons for this discrepancy, but other explanatory factors are the time lag between dates of exporting and importing, and exchange rate fluctuations. For the purposes of this paper, the import and export figures for these three years are aggregated in Table 1.

The notes to the table are sufficient to indicate that these figures (all provided by the governments with the exception of Lesotho for which the figures were clearly incorrect and consequently had to be obtained from another source) are not comprehensive and cannot be taken as anything but a rough indication only. Of course, researchers can work only with the data provided, but the extent to which the use of sophisticated analytical techniques may then be justified is limited.

The figures, however, do confirm some features which have been reported in

other work. The most notable are:

Table 1: Value of Intra-SADC Trade, 1993-95 (\$'000)

| Country | Reported Imports | | Reported Exports | |
|------------------------|------------------------|-------|------------------------|-------|
| | Value | % | Value | % |
| Angola | n/a | n/a | n/a | n/a |
| Botswana | 4,456,751 | 21.9 | 1,096,441 | 9.5 |
| Lesotho ^(a) | 2,311,630 | 11.4 | 222,700 | 1.9 |
| Malawi | 717,099 ^(b) | 3.5 | 207,426 ^(b) | 1.8 |
| Mauritius | 699,911 | 3.4 | 42,641 | 0.4 |
| Mozambique | 617,645 ^(b) | 3.0 | 191,101 ^(b) | 1.7 |
| Namibia | 3,772,140 | 18.5 | 795,615 ^(c) | 6.9 |
| South Africa | 1,277,436 | 6.3 | 5,527,772 | 48.0 |
| Swaziland | 2,714,905 | 13.3 | 1,611,526 | 14.0 |
| Tanzania | 445,888 ^(b) | 2.2 | 121,950 ^(d) | 1.0 |
| Zambia | 877,277 ^(b) | 4.3 | 152,443 ^(b) | 1.3 |
| Zimbabwe | 2,496,580 | 12.3 | 1,550,385 | 13.5 |
| Total | 20,337,262 | 100.0 | 11,520,000 | 100.0 |

Notes: (a) Intra-SACU trade only.

(b) No data for 1993; 1994 figures substituted.

(c) No data for 1994 and 1995; 1993 figures substituted.

(d) No data for 1993-95; 1996 figures substituted.

Source: Imani Development (International) Ltd; *Economist Intelligence Unit* (for Lesotho).

(i) The bulk of intra-regional trade occurs within the SACU area. The BLNS countries together account for 65 per cent of intra-SADC trade, and almost all of this is from South Africa. Of total intra-regional exports, South Africa and the BLNS countries together account for 80 per cent, and most of this is among themselves.

(ii) If trade with South Africa were to be excluded, intra-regional trade among the remaining countries would amount to no more than about 4-5 per cent of their total foreign trade. For all SADC countries their intra-regional trade is dwarfed by comparison with their trade with the ROW, and this position will not change materially in a free trade area. Like many other regional blocs, SADC approaches a free trade area from a low base.

(iii) Apart from the SACU countries, the only other significant contributor

to intra-regional trade is Zimbabwe. The three-year period for which data were collected is too short for any trend to be discerned, but there appears to have been a substantial growth in the value of reported exports. About 75 per cent of this growth was attributable to South Africa. This probably reflected the easing of political barriers to trade with some SADC countries, and hence the opening of new markets by South African exporters.

- (iv) South Africa is the only country which enjoys a favourable balance of trade with the region, and this imbalance in favour of South Africa is the major problem which the rest of SADC is anticipating will be dealt with in a free trade area together with other protocols for trade in power and water.

Excluded from the above, of course, is informal cross-border trade. A number of studies undertaken for COMESA (Kallungia, 1997; Chirwa, Lungu and Mkanda, 1997) of cross-border trade involving several SADC countries did not quantify its extent, but Ndlela (1996) mentions estimates of informal trade of between 15-50 per cent of total official trade. He refers to a 1994 study conducted at border posts which shows that cereal and grain products, sugar, beans, meat, vegetables, fruit and dairy products are all traded across SADC borders. Informal trade was stimulated by political instability and drought. It would decline as political instability is overcome, tariffs are reduced, marketing and prices are deregulated, exchange controls are lifted, and other non-tariff barriers are broken down, but its very existence indicates that there is a demand for intra-regional trade in these products.

AGRICULTURE IN THE NATIONAL ECONOMIES

Free trade has differential effects in terms of its costs and benefits - among member countries as well as among sectors, industries and firms in any particular country. Agriculture is an important sector in almost all the SADC countries, and it is consequently bound to be affected by a free trade area.

The impact of free trade on the production of any particular agricultural commodity in a country will be felt both on the import and export sides. Whether a country will import the commodity will depend on the relative efficiency of its producers compared with those in competitor partner countries, the initial levels of its import duty for the commodity, and the elasticity of demand for imports. On the exports side, the country's producers would gain improved access to the markets of the rest of the free trade area.

Table 2 shows the percentage contribution of agriculture to GDP in the various member countries.

Table 2: Contribution of Agriculture^(a) to GDP (%)

| Country | Year | % |
|--------------|---------|------|
| Angola | 1994 | 12.2 |
| Botswana | 1994/95 | 1.5 |
| Lesotho | 1995 | 9.6 |
| Malawi | 1995 | 36.8 |
| Mauritius | 1995 | 9.4 |
| Mozambique | 1994 | 24.5 |
| Nairobi | 1995 | 11.7 |
| South Africa | 1995 | 4.6 |
| Swaziland | 1995 | 11.3 |
| Tanzania | 1995 | 54.9 |
| Zambia | 1995 | 17.1 |
| Zimbabwe | 1994 | 13.6 |

Note: (a) This sector also includes forestry and fishing except in the case of Mozambique and Namibia for which fishing is excluded.

Source: *Official SADC Trade, Industry and Investment Review 1997*, Gaborone : SADC.

The figures, however, understate the importance of agriculture in GDP since many manufacturing sub-sectors are in fact processors of agricultural products. In countries such as Swaziland, for example, agro-industry (principally sugar and woodpulp) is a major component of the manufacturing sector's contribution to GDP.

Agriculture is also, of course, important in labour absorption in the SADC region. In most countries the largest proportion of the population is still rural, and is dependent on subsistence agriculture for a livelihood. The subsistence and smallholder sectors of agriculture may also be affected by SADC free trade, and this needs to be taken into account.

Table 2 also fails to reflect the potential of the agricultural sector and agro-industry in some countries, notably in Angola and Mozambique in both of which commercial farms and estates together with industrial installations were devastated in the prolonged civil wars. In the year before independence, for example, agriculture was a major sector in the Angola economy. It was the third largest sisal and the fourth largest coffee producer in the world, while

other important export crops were sugar, cotton, maize and palm oil. During the last 22 years Angola has been a food importer, and it has lost its commercial livestock and estate farmers together with its processing plants (refineries, abattoirs and packing plants). The potential of the sector, is enormous: it could produce almost anything in the food crop line.

Angola's agricultural sector is now being redeveloped. Foreign investors have been invited to bid for the coffee plantations while the privatised sugar estates have been bought by a multinational corporation. However, the absence of any trade statistics means that Angola was excluded from the analysis in the SADC Trade Protocol study.

Agriculture in Mozambique suffered much the same fate as in Angola, but political development and economic reforms have been more decisive than in Angola with the result that the main export products are from agro-industry (excluding fishing). The country has significant untapped land and water resources with a potential to produce a wide range of crops especially now that agriculture and agro-industry are being opened to the private sector. They are already attracting foreign investment, and the World Bank has forecast an annual real growth rate of 6.1 per cent for agriculture alone.

The two remaining countries in which agricultural development was retarded until recent years - this time by inadequate government policies - are Tanzania and Zambia. Both countries are now encouraging foreign investment in export agriculture, and some multinational corporations have already invested there. Zambia alone has the potential to be the bread-basket of Southern Africa with large areas of unutilised arable land and substantial unexploited water resources. At present only 15 per cent of its arable land is under cultivation. Apart from maize and wheat, a very wide range of crops could be produced. With such untapped potential, the opportunities for the development of agro-industry are also substantial.

The analysis which follows is based on existing trade data. It is static and does not portray the changes which might occur in agriculture and associated production in these four countries in the next decade or two.

IMPACT OF FREE TRADE

Major agricultural commodities traded in SADC

In the SADC Trade Protocol study, the terms of reference called for only the main traded commodities to be analysed in order to identify sensitive

products and formulate a tariff reduction schedule. Thus, the study did not cover the entire agricultural sector.

Data on the 20 major commodities traded by each country within SADC were collected for the years 1993-95, although for some countries the full data set for the three years was not available. For each country the top 20 commodities included some agricultural items. In listing them, forestry and fishing products have been excluded as have the category "food preparation" (which covers processed foodstuffs) and beverages, wine and juices. Agro-industrial products such as refined sugar, meat and flour have been included. The major commodities traded are:

- Meat and live animals
- Grain products - wheat, maize, edible flour and meal
- Sugar - cane, raw or refined
- Tea
- Tobacco
- Cotton and cotton seeds
- Rice
- Fruit - citrus, apples.

Mozambique, Zimbabwe and Malawi are the countries for which agricultural commodities comprise the largest number of the top 20 regional exports, while Botswana and Namibia have the smallest number.

TREATMENT OF AGRICULTURE IN REGIONAL INTEGRATION ARRANGEMENTS

When a free trade area is established, the member countries have to agree on a schedule for reducing tariffs to zero levels. In terms of the GATT as well as the Marrakech Agreement, free trade means "substantially all trade". This is not clearly defined and there is some dispute as to what it entails, but it has been taken as meaning approximately 90 per cent of trade by value in all sectors.

In any free trade agreement there are always exclusions as member countries seek to protect sensitive sectors. It has been the common experience of regional integration arrangements worldwide that the agricultural sector gives rise to the major negotiating difficulties in the path of free trade.

In the original schedule for establishing the ASEAN free trade area (AFTA), for example, unprocessed agricultural products were on the permanent

exclusion list while meat products were exempt for an undefined period. It was subsequently decided, however, that all agricultural products would be included in AFTA, although the time-table for inclusion has not yet been decided. As in many parts of the world, agriculture is extremely sensitive both economically and politically for many member countries. Thus, whilst Indonesia and the Philippines wish to delay for ten years the inclusion of rice and sugar, Thailand, the world's largest producer and exporter of rice, argues that any delay would hurt the credibility of AFTA.

Agriculture has also been the laggard in the European Free Trade Association (EFTA). Although free trade was achieved at the end of 1966 when all import tariffs and duties as well as quantitative restrictions were eliminated on intra-trade, the protective measures were allowed to remain for agricultural goods. Trade in agricultural products among member countries was very small compared with that in industrial goods, and the agreement merely provided for the encouragement of greater trade in agricultural goods although it stipulated that direct and indirect subsidies were to be abolished.

In the Common Market of the South (Mercosur) in South America, the list of temporary exclusions from tariff reductions was confined mainly to sensitive agricultural and industrial products. One product in which there is as yet no free trade in Mercosur is sugar. This is principally because it is subsidised in Argentina. Brazil, which is an efficient producer, had alternative markets so that the exclusion of sugar from free trade did not present a problem. In its free trade agreement with Mercosur, Chile negotiated for the phasing out of tariffs on a small number of sensitive agricultural products over 15-18 years. By comparison, the eight-year time frame set by SADC might appear optimistic.

The definition of sensitive products

Since WTO acceptance of a free trade area requires that "substantially all trade" be free, it follows that the list of excluded products should be small. Moreover, it is generally agreed that permanent exclusion should be avoided, and that it would be preferable to double the time allowed for the phasing-in of zero tariffs on sensitive products. But there must be some yardstick by which to define whether or not a product is sensitive and hence whether or not it should qualify for the exclusion list. A product could be regarded as sensitive on one or more of the following grounds:

- (i) It might yield a substantial part of the government's revenue from customs or excise duties. Historically, tariffs have been a major part of

central government revenue in less-developed countries, but they will be of declining importance as tariffs are reduced in line with global trade liberalisation. Governments, therefore, are having to find alternative sources of revenue.

- (ii) It might be important for reasons of national security. In agriculture, food security is an obvious issue as all Southern African countries have realised in the face of recent drought.
- (iii) It might be of great political and social importance if it is labour intensive. The down-scaling or closure of the industry concerned would then lead to a significant increase in unemployment and to social hardship. However, employment is not regarded by the WTO as a good yardstick for exclusion since, under a free trade area, some new companies will open and some existing ones will close. What is lost on the swings might be gained on the roundabouts.
- (iv) It might be critical in the country's balance of trade. This happens only in small economies (such as island economies in the Caribbean) where a single industry might account for a large proportion of total export revenue, and its failure would then have important balance-of-payments repercussions.
- (v) It might be in a sub-sector which is inefficient and which depends on tariffs for its survival. In many less-developed countries, import-substituting industrialisation policies led to the establishment of industries for which the country had no comparative advantage. If tariffs were to be removed, the industry would fail or, in some cases, determined efforts might be made to restructure it by means of various measures, the South African clothing and textile industry being a good example. In agriculture, producers of a particular commodity might not be able to survive if subsidies were withdrawn or tariffs lifted. Obviously, the more heavily protected sectors are more likely to be sensitive than those with low nominal tariffs. Moreover, a producer is likely to be more vulnerable if it has low profit margins and high tariffs, or if scale economies are important in which case a fall in production would have a more than proportionate effect on profit.

The effective rate of protection (ERP) is a measure which goes some way to capturing these varying effects, and is the tool used in the SADC Trade Protocol Study. The ERP is defined as the proportionate increase in domestic

value-added as a result of the tariff structure.²

COMPARISON WITH OTHER STUDIES

During the course of the SADC Trade Protocol Study, an attempt was made to compare the findings of other studies on intra-regional trade liberalisation in Southern Africa.

The IDC (1996) identified sensitive products on the basis of high import tariffs. On this basis the only agricultural product which showed up was tobacco (for Zimbabwe, Zambia, Tanzania, Mozambique and Malawi).

Evans (1996) used an economic policy model to estimate the effects of SADC free trade on output, trade, employment and customs revenue for 27 traded goods for the member countries in 1993. He pointed to the data difficulties and warned that the results should be treated with caution. Moreover, his quantitative model was not complemented by significant field interviews, and this also affected his results. The agricultural sector was not disaggregated by tariff line so that no sensitive products were identified. For the agricultural sector as a whole, however, there was some modest creation and expansion of

² The effective rate of protection in market j is measured by :

$$ERP_j = \frac{Q_j - (SQ_j) \sum_i M_i - (SQ_j) \sum_k NT_k}{WQ_j - (SQ_j) \sum_i WM_i - (SQ_j) \sum_k NT_k} - 1$$

where

- Q_j = value in market prices of output sold in market j
- WQ_j = value in world prices of output sold in market j
- t_j = nominal rate of protection of output sold in market j
- Wq_i = value in world prices of traded input i
- M_i = value in domestic prices of traded input i
- t_i = nominal rate of protection on traded input i
- Nt_k = value in domestic prices of non-traded input k

$$Q_i = \frac{Q_j}{1 + t_j} = \text{value in world prices of output sold in market } j$$

$$SQ_j = \frac{Q_j}{\sum_j Q_j} = \text{share of sales in market } j$$

$$M_i = \frac{M_i}{1 + t_i} = \text{value in world prices of traded input } i$$

production.

A study of the establishment of a common external tariff (CET) for COMESA (Imani, 1995) covered all the SADC countries except Botswana and South Africa which are not members of COMESA. The methodology was based on two related concepts: the ERP (which has been mentioned above) and domestic resource cost (DRC). The DRC measures the economic competitiveness of enterprises in the absence of trade policies. It is the opportunity cost of using a factor of production to produce one unit of output divided by the international value added by producing that unit.

Simply put, the DRC ratio for a commodity is shown as:

$DRC_j = DC_j / IVA_j$ where

DC_j = the domestic cost of producing j with factors valued at their social opportunity costs, and

IVA_j = value added to activity j at border prices³ (Greenaway & Milner, 1993).

If $DRC_j > 1$, it indicates a comparative disadvantage in production since the value of the factors of production used exceeds the value of foreign exchange earned or saved. Conversely, if $DRC_j < 1$, it indicates a comparative advantage since there is a net foreign exchange gain, and the production process should be encouraged since it is efficient in its use of domestic resources.

The COMESA CET Study depended on a questionnaire survey, with a widely varying response rate because of the data requirements, and consequently it did not cover all sub-sectors. Thus, it provided little comparability for our purposes.

³ This equation may be more formally written as:

$$DRC_j = \frac{\sum_h v_{hj} S_h + \sum_n \sum_h d_{nj} v_{hn} S_h}{1 - \sum_i m_{ij} - \sum_f r_f v_{fj}}$$

where v_{hj} = amount of the h^{th} domestic factor of production used in the j^{th} value-adding process (of traded goods); S_h = the shadow price of the h^{th} factor; V_{hn} = amount of the h^{th} domestic factor of production used in the n^{th} value-adding process (of non-traded goods); d_{nj} = amount of non-traded good n used in the production of a unit of good j ; r_f = repatriated return per unit of the foreign-owned factor of production f ; v_{fj} = amount of the foreign-owned factor of production f used in the production of one unit of good j ; m_{ij} = amount of the traded input i used in producing one unit of good j , and all international prices are normalised at unity.

DRCs were also used in studies of the effects of trade liberalisation in the maize and beef sectors in South Africa (Jooste *et al.*, 1996) and Zimbabwe (Takavarasha *et al.*, 1996).

RESULTS

ERPs have been calculated in some SADC countries, and these were used in the course of the study. The analysis showed that the most sensitive agricultural commodity was sugar, while dairy, cereals and milling, and tobacco were also sensitive. However, the issue of cereals, particularly maize, is complicated by the political sensitivity of it being the staple food in the SADC region. Many countries have administrative controls over the import of maize, and changes in the maize price have led to social unrest on occasions. Thus, this is an issue which has to be approached with caution. The list of potentially sensitive agricultural products is contained in Table 3.

Table 3. Potentially Sensitive Agricultural Products

| Product | Country |
|------------------------|---|
| Grain milling products | Malawi, Namibia |
| Tobacco | Malawi, Mauritius, South Africa |
| Edible fruit and nuts | Mauritius |
| Coffee, tea and spices | (Malawi), (Mauritius) |
| Meat | Namibia |
| Dairy produce | South Africa, Zambia, Zimbabwe |
| Sugar | (Malawi), South Africa, Swaziland, Tanzania |
| Cereals | Malawi, Zambia, Zimbabwe |

Source: Imani (1997 b)

Botswana, Lesotho and Mozambique did not appear to have any agricultural commodities which were sensitive to SADC free trade, while it was impossible, given the absence of data, to determine Angola's position. Mozambique and Angola, in fact, are in a rather different position to the rest of SADC as a result of civil wars and their transition from command to market economies. The main areas of sensitivity for them will be those in which efforts are being made to resuscitate food production and estate crops as well as to reconstruct and rehabilitate physical infrastructure. Both countries wish to reduce their dependence on agricultural imports, and argued that this

would require short- to medium-term protection. Examples are milk in Mozambique during the period that farmers are purchasing cattle to restock their herds, and maize in both countries. The manufacturing sector, including agro-industry, at present consists largely of infant industries because of the scale of rehabilitation required.

The major categories of sensitive products shown in Table 3 will now be considered.

- (i) **Sugar:** South Africa is not the most efficient sugar producer in the region, largely because climatic conditions are less favourable than in other producing countries. Sugar is one of ten industries for which special strategies are being developed by the Department of Trade and Industry. The industry is important in the economies of two provinces, it is a major employer as well as foreign exchange earner, and it has been in the forefront of schemes to develop small-scale African agriculture with 22 per cent of the cane now being produced by small growers. The South African Sugar Association (SASA) is pushing for the adoption of a SADC Protocol for the product. This has not been well received in some of the other producing countries which argue that they would not be able to take advantage of SADC free trade in order to exploit their comparative advantages and supply the South African market. The SASA argument is not based so much on protection per se as on the distorted nature of the world sugar trade, particularly the differential access enjoyed by the various producing countries to preferential world markets. The argument is that the growth of the industry would be better achieved if producing countries were to cooperate in world marketing negotiations, anti-dumping procedures, research and technology rather than by disrupting local markets.

Sugar is the only sensitive product for Swaziland but for different reasons. The country has developed a comparative advantage within the SACU for the location of sugar-based processing industries, and this has led to a dispute with the SASA which is concerned about the loss of domestic sales to industries which have relocated their processing operations to Swaziland. The Swaziland Sugar Association wants free trade within the SACU, and thus has resisted South African proposals for a Protocol limiting such trade. But it also does not wish to lose its comparative advantage monopoly in the SACU market - something it might lose if SADC free trade allowed access for the product from Zimbabwe and Malawi as well as in the long term from Mozambique and Zambia.

However, Tongaat-Hulett Sugar Limited's expansion in Mozambique and Zambia, together with the recent takeover by South Africa's Illovo Sugar of the Lonrho interests in Swaziland, Malawi and Mauritius means that the industry is now a transnational one within SADC, and the implications for free trade could be significant as the parent companies use their influence to limit cross-border marketing. Already, it appears that the South Africa-Swaziland dispute has been settled by the mediation of such transnational interests.

Both Tanzania and Zambia saw sugar as one of the agro-industrial products which might require short- or medium-term protection while the industry, which is potentially competitive, is being developed in the general process of economic transformation. The COMESA CET study, interestingly enough, found that the sugar industry in Zambia had negative value added at world prices and would be expected to fail under greater competition from free trade. However, this static analysis fails to take into account the potential of an industry which has been seriously disadvantaged in the past both by poor macro-economic policies and the neglect of physical infrastructure. The Zimbabwe sugar industry considers that it could gain regional markets in a free trade area, but recognises that South Africa's concerns are a major stumbling block. Malawi's sugar industry should be regionally competitive, but it faces severe transport problems at present which are increasing its production costs.

It now appears likely that the SASA's proposals, supported by the Department of Trade and Industry, for a SADC Sugar Protocol will be adopted.

- (ii) **Grain milling and cereals:** Grain millers in the smaller economies such as Malawi face two major problems: they do not enjoy economies of scale, and there are no effective anti-dumping measures. Thus, they would be unlikely to be able to withstand competition from larger mills in South Africa and Zimbabwe. Also vulnerable are the small-scale peasant maize growers who lack the marketing and management skills to compete with commercial producers in South Africa and Zimbabwe. The severity of the threat to these growers could be determined with accuracy only if there were a comparative price study in the SADC region.

In Mozambique, millers felt that they could be competitive if they were given time to improve the quality of their products, build relationships

with bakeries and develop brand loyalty with customers. They were also concerned with the problem of countering dumping within a free trade area.

The grain milling and cereal sectors are heavily protected in Namibia, imports being restricted so long as local maize and wheat are available. Namibia is not self-sufficient in cereals, and much of the maize and wheat is grown under unfavourable climatic conditions, e.g., according to the Namibian Agricultural Union only 35 per cent of the existing production area can produce maize economically, and alternative land use would be more economic. A tariff reduction schedule over eight years would probably be sufficient to enable the milling industry in Namibia to restructure and to compete in a free trade area.

In other studies of this sector in the SADC region, Takavarasha et al (1996) found that maize production in Zimbabwe is efficient for domestic but not for export markets except perhaps for immediate regional markets because of the high transport costs associated with such a bulky commodity. Of the producing regions in South African itself, Jooste et al (1996) found that only the Highveld under irrigation had a comparative advantage. Kafuli and Mawela (1996) quote World Bank calculations of DRCs for Zambian maize production, all well below unity indicating a comparative advantage. Despite this finding, the Bank's policy recommendation was that Zambia should not concentrate on exports since other agricultural activities could make better use of domestic resources.

However, the position of maize relative to these other crops could be strengthened if world grain prices rise under the WTO as predicted by the FAO. This would further strengthen Zambia's regional prospects. In addition, from the point of view of food security - a high priority for SADC - there is a good *regional* reason why Zambia should increase its production of cereals. There are significant annual variations in grain supplies in the various SADC countries, and this could be mitigated by the development of new areas of production in, for example, north-eastern Zambia which is less susceptible than the rest of SADC to drought. Moreover, only the Southern and Eastern African region itself can supply the *type* of maize, i.e., white maize, which is demanded by consumers; as Weeks and Subasat (1996) point out, the resistance of local consumers to imported yellow maize has been a persistent problem in emergency food aid programmes.

- (iii) **Meat:** A SADC free trade area could present a problem for Namibian beef exports. At present Namibia enjoys preferential access to the South African market under the SACU, but SADC free trade would confer similar access to Zimbabwean producers. The competition will be in the sphere of beef cuts rather than live animals. South Africa takes some 58 per cent of Namibia's exports of beef cuts. The precise extent of the threat, however, can be gauged only if there is more detailed information on price factors, South Africa's readiness to shift import sources, the quality of Namibian versus Zimbabwean beef, and so on, all of which were beyond the scope of the SADC trade protocol study.

In Zimbabwe, however, the meat industry was confident that it could gain market share in South Africa in respect of cut beef. Zimbabwe's concern in the meat industry relates more to the imports side and stems from problems concerning the rules of origin. In terms of the Lomé Convention, EU beef cannot be sold in Zimbabwe. By contrast, South Africa imports beef from the EU and, in a SADC free trade area, the danger for producers in Zimbabwe is that EU beef exported to South Africa could filter across the border as South African produce if there were inadequate policing of rules of origin. Takavarasha *et al.* (1996) found low DRCs in Zimbabwe, indicating that that country was an efficient producer both for regional and international markets.

The marketing of meat in South Africa has been deregulated, and beef is mainly imported. Jooste *et al.* (1996) calculated DRCs for five producing regions in South Africa, and found that only the Western Cape had a comparative advantage in production; the Free State was marginal at 1.02.

- (iv) **Coffee, tea and spices:** Malawi is facing increased transport costs which might necessitate initial protection for its tea industry from regional competition. In the longer term, however, this industry should be regionally competitive. The Mauritian tea industry could be sensitive to duty-free imports, but this is a declining industry and the plantations are gradually giving way to sugar.
- (v) **Tobacco:** This is a controversial product because of growing social pressures worldwide for governments to limit smoking. Thus, Malawi's increasing dependence on tobacco is unfortunate, and government policy anyway ought to be one of diversification. Under SADC free trade, Zimbabwean processing costs might be lower and this could provide severe competition and have an adverse effect on employment

in Malawi.

It is interesting to note that studies on the proposed EU-South Africa Free Trade Agreement have shown that duty-free access of EU agricultural products to the South African market would have significant adverse effects for the livestock and meat products industry in Namibia, Botswana and Zimbabwe, sugar in Swaziland and grain milling in all countries (Imani, 1997a). This is so even given the existence of free trade within the SACU. The reason for the adverse impact is that the EU pays high producer subsidies (49 per cent) as well as export subsidies in the agricultural sector. According to Goodison (1996), this system of producer and export subsidies will remain in place so long as the EU retains its Common Agricultural Policy (CAP). Stevens (1997) argues that there will be no significant changes to this policy for the next few years.

IMPLEMENTATION OF THE TRADE PROTOCOL

The SADC ministers have decided, in line with the Imani recommendations, to proceed as follows:

1. Member countries will identify, at the 6-digit HS level, products which could fall into the following three categories:
 - (i) immediate liberalisation list, i.e., products currently traded within SADC for which immediate zero tariffs would not be problematic;
 - (ii) temporary exclusion list, i.e., products which a country considers sensitive; and
 - (iii) gradual liberalisation list, i.e., all products not in the other two lists and for which tariffs would be phased out gradually (over a maximum of eight years).
2. For the last two lists, tariffs will be reduced on a linear basis to zero at the end of eight years after the Protocol takes effect. However, some highly sensitive products may require a longer period. Reductions for sensitive products will start later than those for products on the gradual liberalisation list.
3. The reductions will be asymmetric because of South Africa's trade dominance. Thus, SACU tariffs will be reduced more rapidly than those

of the non-SACU countries. To offset this, the non-SACU countries will liberalise their tariffs towards the BLNS countries more rapidly than towards South Africa.

Although the precise details have still to be agreed upon, the process could be fairly smooth. A high proportion of intra-SADC trade is already duty free, largely through the SACU but also through bilateral free trade or zero-rated raw material imports. For the non-SACU countries a significant proportion is about to become duty free under the CBI and COMESA, and presumably such trade will fast-track the SADC tariff reduction schedule. Most of the tariffs which will need to be reduced in fact relate to non-SACU countries' imports from South Africa, with a smaller volume of trade comprising SACU (especially South African) imports from the non-SACU countries.

A major problem with a differential (more rapid) reduction of tariffs by non-SACU countries against BLNS than against South Africa could relate to trade deflection, for example, the evasion of duties by goods from South Africa entering BLNS under SACU free trade and then being re-exported to a non-SACU country without adequate rules-of-origin identification. Clearly, appropriate implementation of rules of origin will be necessary, although this is unlikely to be a significant issue with regard to trade in agricultural commodities.

CONCLUSION

Free trade theoretically should enable each country to exploit its comparative advantages. Protectionism prevents this: it favours domestic producers and keeps out goods from more efficient producing countries. But free trade also requires the removal of subsidies and non-tariff barriers. South African agricultural subsidies are lower than those in all OECD countries except New Zealand and Australia (Absa Bank, 1996), and are being phased out so that this should not be a major problem for SADC free trade. The position is different with regard to other non-tariff barriers, however.

The establishment of a SADC free trade area differs from that of many other integration schemes in that it starts from a position of significant polarisation among member countries with regard to the geographic coverage of the transport network, the standards of physical infrastructure, and the operational efficiency of transport modes. South Africa, with a transport sector comparable in sophistication to that of industrialised countries, is at one end of the spectrum; at the other end are other countries (Zambia, Tanzania, Angola and Mozambique) in which the infrastructure is woefully inadequate,

decayed or destroyed. Inadequate transport networks present a substantial non-tariff barrier in these countries yet they have enormous agricultural potential. If all SADC countries are to take advantage of free trade in agriculture, farmers must be able to obtain their inputs and market their outputs with assurance, and improvements to the transport infrastructure are therefore critical. Prevailing patterns of intra-regional trade in agricultural commodities are distorted by these transport differentials. It is not just farm production costs but also distribution costs which influence competitiveness in a free trade area; so long as transport non-tariff barriers exist, therefore, transport costs will be high and will prevent farmers and agro-industries in a country such as Zambia from reaching their potential.

Poor transport systems, however, are not the only non-tariff barrier to increased intra-trade in agricultural commodities. Storage facilities for grain are important, and farmers also need access to credit, long-term finance to tide them over the natural disasters to which the region is prone, and reliable telecommunications.

Financial, technical and marketing support is especially important for small-scale farmers. The development of small-scale peasant agriculture is an important policy aim in most SADC countries yet this segment is often ignored in studies. In Malawi, for example, small-scale peasant farmers growing maize and soya have found it very difficult to compete with commercial growers from Zimbabwe under a bilateral free trade agreement. SADC governments, therefore, should pay careful attention to the impact of free trade on emerging small farmers. These farmers are a diverse group, operating under varying tenurial, agro-climatic and economic conditions in the SADC region. Free trade in agriculture could be a sensitive issue not only for commercial producers but also for the small-scale sector. Strict rules on dumping will be required in the SADC free trade area to ensure that small farmers are not further disadvantaged vis a vis large producers.

Dynamic aspects of free trade are not quantifiable but also have to be taken into account. They include positive effects on demand, investment and the emergence of new types of production and directions of trade; efficiency gains through greater competition; gains from the lowering of administrative barriers; and benefits from technology transfer. There will be some sensitivities in the negotiations on the phasing out of agricultural tariffs but many of SADC's traditional agricultural exports are to non-regional markets anyway, and the move towards free trade could open up new possibilities for the sector and bring about greater regional food security.

REFERENCES

- ABSA BANK (1996). A perspective on agriculture in South Africa. *Economic Spotlight*, 17.
- CHIRWA, J.B., LUNGU, J. & MKANDA, H. (1997). *The impact of informal cross-border trade on price, production and intra-COMESA trade : An empirical analysis*. Lusaka : COMESA/IDRC Research Network.
- EVANS, D (1996). *Trade policy strategies for Southern Africa : Building SADC trade policy capacity*. Discussion draft. London : Commonwealth Secretariat.
- GOODISON, P. (1996). *The EU-South Africa free trade area : Possible implications for the SADC agricultural sector*. Brussels : European Research Office.
- GREENAWAY, D. & MILNER, C. (1993). *Trade and industrial policy in developing countries*. London : Macmillan
- IMANI DEVELOPMENT (INTERNATIONAL) LIMITED. (1995). *The establishment of a common external tariff in the common market for Eastern and Southern Africa*. A report prepared for COMESA. Harare.
- IMANI DEVELOPMENT (INTERNATIONAL) LIMITED. (1997a). *Study on the economic impact of the proposed EU-SA free trade agreement on the BLNS countries*. Harare.
- IMANI DEVELOPMENT (INTERNATIONAL) LIMITED. (1997b). *Study to determine tariff schedules for the implementation of the SADC protocol on trade*. Report prepared for the SADC Secretariat. Harare.
- JOOSTE, A., VAN SCHALKWYK, H.D., BEKKER, J. & LOUWRENS, J. (1996). South Africa country paper. In M Mupotola-Sibongo (ed), *Effects of liberalisation on beef and maize sectors in five SADC countries*. NWP 57. Windhoek : NEPRU.
- KAFULI, D, & MAWELE, L. (1996). Zambia country paper. In M Mupotola-Sibongo (ed), *Effects of liberalisation on beef and maize sectors in five SADC countries*. NWP 57. Windhoek : NEPRU.
- KALLUNGIA, S.K. (1997). *Impact of informal cross-border trade in Eastern and Southern Africa*. Lusaka : COMESA/IDRC Research Network.

NAMIBIA, REPUBLIC OF. (1996). *Report of the parliamentary standing committee on economics on the possible implications of the proposed EU-South Africa free trade area agreement*. Windhoek : National Assembly.

NDLELA, D. (1996). *Zimbabwe's trading position and competitiveness in the Southern Africa region*. Paper to the 16th Arne Ryde Symposium, Lund, Sweden.

OFFICIAL SADC TRADE, INDUSTRY & INVESTMENT REVIEW. (1997). Gaborone : Southern African Marketing Company (Pty) Limited.

STEVENS, C. (1997). *Agricultural policy : Living with managed trade*. Trade and Industry Monitor, 1, April.

TAKAVARASHA, T., MAFURIRANO, D., ZITSANZA, N. & MFOTE, D. (1996). Zimbabwe Country Paper. In: M Mupotola-Sibongo (ed), *Effects of Liberalisation on Beef and Maize Sectors in Five SADC Countries*. NWP 57. Windhoek : NEPRU.

WEEKS, J & SUBASAT, T. (1996). *Agricultural trade integration for Eastern and Southern Africa*. Paper to the 16th Arne Ryde Symposium, Lund, Sweden.