

Development Policy Research Unit  
University of Cape Town



# **What are the critical issues arising from the SADC trade integration process?**

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**Industrial  
Strategy  
Project**  
REGIONAL INTEGRATION,  
ECONOMIC COOPERATION  
IN SOUTHERN AFRICA  

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D P R U

## **Foreword**

The Development Policy Research Unit (DPRU), located within the University of Cape Town's School of Economics, was formed in 1990 to undertake economic policy-oriented research.

The aim of the unit's work is the achievement of more effective public policy for industrial development in South and Southern Africa.

The DPRU's mission is to undertake internationally recognised policy research that contributes to the quality and effectiveness of such policy.

The unit is involved in research activities in the following areas:

- Trade and Industrial policy
- Technology policy
- Labour market policy
- Industrial organisation

These policy briefs are intended to catalyse policy debate. They express the views of their respective authors and not necessarily those of the DPRU.

They present the major research findings of the **Industrial Strategy Project** (ISP). The aim of the ISP is to promote industrial development in the *Southern African Development Community* (SADC) through regional economic integration and cooperation. It is a three-year project that commenced in August 1998 and is funded by the International Development Research Centre (IDRC). Ultimately, this project will identify the policies and programmes that support regional interactions that contribute to the industrialisation of SADC national economies.

This policy brief is a shortened version of the following paper:

Overview of Trade Relations in SADC: Some Empirical Observations

by Paul Kalenga

If you have any questions, or comments pertaining to the content of this policy brief, please do not hesitate to contact us:

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## Introduction

This policy brief highlights critical issues confronting the Southern African Development Community's (SADC) trade policy regime.

### Redressing existing imbalances

The 1990s have witnessed a general improvement in cross-border trade flows in Southern Africa. However, intra-regional trade is still dominated by the more industrialised countries, mostly South Africa and Zimbabwe. Intra-regional trade does not exhibit regional orientation but is rather concentrated among few countries, mostly following bilateral relationships.

South Africa's trade surplus with most SADC countries has been rising since the early 1990s. This can be attributed to the end of sanctions on South Africa and general import liberalisation in structurally adjusting SADC countries.

There is no doubt about the fact that South Africa's rising trade surplus with SADC is a source of strain in its relations with the region. This situation is not politically sustainable and may undermine the region's trade integration process.

### **Export competitiveness is ineffective, but SADC countries do have export expansion potential**

Many SADC countries are unable to effectively compete in the South African market due to a lack of export supply capacity.

- Some SADC countries (particularly Zimbabwe, Zambia and Mauritius) regard the existence of trade barriers as a critical stumbling block to effectively compete in the Southern African Customs Union (SACU) market.
- There are countries in SADC, which are competitive exporters of certain products to the rest of the world.
- South Africa does import such products from the rest of the world as well. SACU has started to import some of these products from SADC countries, although in small quantities.

<b>SADC countries export competitive commodities to the rest of the world</b>	
<b>SADC countries</b>	<b>Competitive exports</b>
Zimbabwe, Mauritius, Mozambique, Tanzania and Angola	Food, beverages and tobacco
Angola	Primary commodities such as petroleum
Tanzania, Zimbabwe and Mozambique	Cotton
Other resource-intensive basic manufactures such as refined copper, cotton yarn, leather, copper wire, toilet and kitchen linen, woven fabrics, furniture, travel goods, footwear and toys etc.	

Source: Kirchbach and Roelofsen (1998)

### **SADC's export expansion requires the following improvements:**

- Access into the South African market (eliminating tariff and non-tariff trade barriers)
- Export competitiveness through growth-enhancing supply-side measures.

### **Compensating for trade imbalances: Increasing flows of investment capital from SA**

The South African Government has **relaxed exchange control restrictions** allowing South African firms to invest up to over US\$40 million per investment in any SADC country.

**Some South African firms in clothing production have relocated their production capacities to other SADC countries** (mainly to Malawi and Mozambique) in response to increasing global competition and the search for low cost labour.

Malawi, for example, has become the biggest exporter of clothing apparel to South Africa after China (IDC, 1998). This has also been facilitated by the existence of a preferential bilateral trade agreement between Malawi and South Africa (the agreement provides for duty-free access into South Africa for goods of Malawian origin, with some exceptions).

This supports the argument that a **reduction in trade barriers between SADC countries encourages investment by South African companies** wishing to capitalise on low-cost labour in other SADC countries (McCarthy 1999).

Investments are not necessarily concentrated in primary extractive industries or retailing and wholesaling. **Substantial investment has also been directed towards the food and beverage sector, involving some form of processing as well as in financial and other service industries** (Kalenga & Oosthuisen 1999).

There is, as yet, no conclusive evidence on the impact of such investment on the recipient economies.

- Some SADC countries are capitalising on investment by South African firms
- Other SADC countries have been rather sceptical fearing domination by the regional economic giant.

To the extent that this investment

- enhances local supply capabilities and
- raises export competitiveness,

it constitutes a mechanism for redressing existing imbalances.

<b>CH22</b>	<b>Description</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
01	Live animals animal products	3.1	2.8	3.4	3.3	4.1	2.4	2.4	2
02	Vegetable products	11.1	9.3	16.3	11.1	9.2	7.1	9.8	9.3
03	Animal, vegetable fats & oils	0.7	1.7	1.1	1.4	0.3	0.7	1	0.8
04	Prepared foodstuffs, beverages, tobacco	29.6	21.7	19	14.5	17.6	17.5	13.7	17.5
05	Mineral products	8.8	8.3	6.9	4.5	4.1	21.6	15.1	6.9
06	Products of chemical or allied industries	1.1	1.6	1.8	1.8	1.9	1.3	1.3	1.5
07	Plastics and rubber	1.7	2.4	2.2	1.9	2	1.7	1.9	2
08	Raw hides and skins, leather	1.7	1.9	1.9	2.4	2.3	1.3	0.8	0.8
09	Wood, cork, straw	3.5	6.4	5	5.9	7.5	7.1	6.1	5.3
10	Pulp, paper & paperboard, books	0.9	1	1.2	1.1	1.5	1.6	1.9	1.1
11	Textiles, fabrics, clothing	18.4	19.9	16.9	25.5	20.6	18.5	25.7	30
12	Footwear, headgear, umbrellas	1.6	2.7	3.4	2.4	3	1.3	0.7	0.6
13	Articles of stone asbestos ceramics glass	0.5	0.6	0.6	0.7	0.8	0.7	0.9	0.8
14	Precious metals	0.4	0.3	0.6	1.7	1.8	0.3	0.2	0.4
15	Base metals	8.1	10.6	9.2	11.1	11.5	7.4	7.3	9.4
16	Machinery, mechanical & electrical	3.8	4.8	6.2	5.5	5.4	4.5	5.3	6.6
17	Vehicles, aircraft, ships	1.8	2.2	1.4	2.3	2	1.7	1.8	1.5
18	Optical photograph measuring musical inst	0.3	0.2	0.4	0.3	0.4	0.6	2	1.5
20	Miscellaneous manufactured articles	1.3	1.6	2.4	2.7	3	2.4	2.1	1.9
21	Works of art collectors pieces & antiques	0	0	0	0.2	0.1	0.2	0.1	0.1
22	Other unclassified goods	1.7	0	0	0	0.9	0	0	0
	<b>Total</b>	<b>100</b>							

Source: TIPS Database

## **Rules of origin problems**

Rules of origin are necessary to

- prevent trade deflection
- promote local value addition

**Complicated rules of origin may act as a significant non-tariff barrier (NTB).**

In Southern Africa, overlapping trading arrangements and domestic pressure to protect sensitive industries are likely to produce some complications in the design and administration of rules of origin.

It is already becoming evident that the implementation of the SADC Trade Protocol is being delayed by differences in the rules of origin for some 'sensitive' products.

## Harmonising external tariffs

A free trade area with significant differences in the level of external tariffs is likely to result in trade diversion and deflection, regardless of the existence of rules of origin.

***There is a need to set external tariffs at roughly the average of the rates of the partner countries***

This may mean that some countries will have to raise their external tariffs, while others' will decline.

**The SADC Trade Protocol (1996) does not address itself to external tariff policies:**

The SADC Trade Protocol allows members to grant or maintain preferential trade arrangements with third countries, provided that these do not impede or frustrate the objectives of the protocol and that these should also be extended to other members.

**Harmonising external tariffs requires**

- countries' rising above national interests, particularly with regard to tariff structures for certain products.
- a move towards common external trade and industrial strategies on products requiring certain levels of protection.

## **Loss of government revenue**

### **Which SADC countries will lose government revenue from a free trade area?**

Mostly **Zimbabwe, Zambia and Malawi**, that is, countries that have

- higher tariffs on intra-SADC import and
- those that largely depend on intra-regional imports

The Common Market for Eastern and Southern Africa (COMESA) tariffs reduction schedule and the eventual establishment of a COMESA free trade area (FTA) will also have fiscal implications, although the amount of revenue likely to be lost would be very small.

Under the cross border initiative (CBI), the co-sponsors of the initiative (World Bank, International Monetary Fund, the European Union and the African Development Bank) have undertaken to compensate CBI participating countries for the loss of revenue resulting from tariff reduction and eventual elimination. In the final analysis, due to multilateral trade liberalisation, trade tariffs are diminishing in importance.

***The challenge is for countries to devise strategies that help them reduce their dependency on import tariff revenue and switch to other alternative sources of revenue.***

Mauritius and Tanzania source few imports from SADC. The BLNS countries (Botswana, Lesotho, Namibia and Swaziland) do not trade substantially with SADC, but depend heavily on SACU revenues. The EU-South Africa trade agreement will significantly reduce this revenue.

## **The need for an institutional framework**

The failure of regional integration efforts in Africa has been attributed to

- a lack of implementation and poor design of integration schemes and
- delayed implementation of agreed tariff reduction schedules.

There is thus a need to have a strong institution responsible for ensuring adequate implementation.

In this regard, developing countries can learn lessons from the European experience:

- lodge responsibility for trade policy and all its outcomes in a single unified executive body.
- This body should be subjected to broad periodic guidance and review from elected legislatures. Winter (1997) warns against placing such responsibility in committees of national bureaucrats.

**As far as SADC is concerned, the present institutional framework remains largely inadequate.**

## **Conclusions**

There is a need for **convergent bilateral and multilateral trading arrangements in SADC** so as to avoid trade deflection and diversion as well as to ensure ease of administration.

There is also a need to arrive at an **appropriate institutional framework** to ensure effective and efficient implementation of the potential trade protocol. The growth in intra-regional trade over the last few years seems to suggest that tariff reduction and general trade liberalisation are starting to positively impact intra-regional trade flows of some SADC countries, particularly those economies with a capacity to compete in regional markets.

A critical challenge facing the region is the need to **attract both domestic and foreign investment** to raise export competitiveness, which requires a **credible trade integration process**.

In order for the trade integration process to be **perceived as credible by investors**, the following needs to occur:

- A move towards some form of trade policy harmonisation and convergence, underpinned by institutional strengths
- political stability
- greater co-ordination
- stability and predictability of macroeconomic policies.