# SOUTH AFRICA'S INTERNATIONAL ECONOMIC RELATIONS IN THE CONTEXT OF THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

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## DECLARATION

I, Monde Tshetsha hereby declare that this dissertation is a product of my original work. I further declare that this dissertation has never been authored and / or submitted to any institution of higher learning or University.

SIGNATURE: ______________ DATE: 06-03-06

## CONTENTS

## Preface and Acknowledgements

With the end of hostilities in the Southern African sub-region and the attainment of democratic rule in South Africa, the democratic government of South Africa made a decision to become a member of SADC. This came as a great disappointment to the members of the Common Market for Eastern and Southern Africa (COMESA), who had hoped that South Africa would become a member of its organisation. By this time SADC had redefined its goals and objectives and had identified trade integration as a major objective.

The study of regional integration in any part of the world is a challenging task. I only trust that this dissertation helps to unravel the complexity of the dynamics of regional integration in the SADC sub-region. In January 2003, I was encouraged to enroll for the Master of Public Administration programme (MPA) at the University of Fort Hare, Division of External studies in Bisho. As I completed the course work of the MPA programme, I had to start writing my research proposal and dissertation. When I approached Priscilla Monyai to be my supervisor, I was not sure about the topic I wanted to pursue for this study. Priscilla's acceptance, to supervise me, came with an incredible bonus. As I completed each chapter, she very meticulously read and critiqued each line of the manuscript. Priscilla's editorial skills and enthusiasm for the subject challenged me to be more rigorous in both my presentation and analysis. Word cannot express my gratitude to Priscilla for her unwavering support.

My academic home since 2003 has been the Master of Public Administration Programme at the University of Fort Hare in Bhisho. The director of the Master of Public Administration programme Isioma Ille has been both a mentor and tremendous source of inspiration. She always encouraged me to complete the MPA Programme. Nomxolisi Ntintili, the Administrative Assistant to the MPA Programme, provided encouragement, technical support and made studying a much easier enterprise. My excellent lecturer of Political Economy of Southern Africa, Professor Sipho Buthelezi, was always available to lend a helping hand. I owe a great debt to all these individuals.

Many of my ideas about theories of regional integration were honed while studying Development Management and Planning; and Political Economy of Southern Africa, thanks to lively class discussions with the lecturers Priscilla Monyai and Professor Sipho Buthelezi. For my mother and other family members, I want to say thanks for understanding why I was not always available. Finally, I owe a great debt to the staff at Ok Communication Centre for assisting with their resources and pursuing this project vigorously.

## ACRONYMS AND ABBREVIATIONS

| | | |
|---|---|---|
| ADB | : | African Development Bank |
| AGOA | : | African Growth and Opportunity Act |
| ANC | : | African National Congress |
| BLNS | : | countries Botswana, Lesotho, Namibia and Swaziland (used in various combinations, e.g BLS, LNS etc. |
| CBI | : | Cross-border Initiative |
| CFM | : | Mozambique Ports and Railways |
| CMA | : | Common Monetary Area |
| COMESA | : | Common Market for Eastern & Southern Africa |
| CSA | : | Common Wealth Sugar Agreement |
| DOE | : | Department of Education |
| DOT | : | Department of Trade |
| DRC | : | Democratic Republic of Congo |
| EC | : | European Commission |
| EFTA | : | European Free Trade Association |
| EU | : | European Union |
| FDI | : | Foreign direct investment |
| FISCU | : | Finance and Investments Sector Co-ordinating Unit |
| FLS | : | Frontline States |
| FTA | : | Free trade Agreement |
| GATT | : | General Agreement on Tariffs and Trade |
| GDP | : | Gross Domestic Product |
| ICBT | : | Cross-border trade Investment |
| ICP | : | International Cooperating Partner |
| IMF | : | International Monetary Fund |
| LDC | : | Less Developed Country |
| MAMU | : | Macro Analysis and monitoring Unit |
| MERCOSIR | | Southern Cone Common Market |
| MFN | : | Most Favoured Nation |
| MIDP | : | Motor Industry Development Programme |
| MMTZ | : | Malawi, Mozambique, Tanzania, and Zambia |
| NAFTA | : | North American Free Trade Agreement |
| NTB | : | non-tariff barrier |
| NRZ | : | National Railways of Zimbabwe |
| OPEC | : | Organization of Petroleum Exporting Countries |

| | | |
|---|---|---|
| PPP | : | Public – private partnership |
| Protocol | : | SADC Protocol on Trade |
| PTA | : | Preferential Trade Area for Eastern and Southern Africa |
| RDP | : | Reconstruction and Development Programme |
| RSA | : | Republic of South Africa |
| SACU | : | Southern African Customs Union |
| SADC | : | Southern African Development Community |
| SADCC | : | Southern African Development Coordination Conference |
| SAIIA | : | South African Institute of International Affairs |
| SAP | : | Structural Adjustment Programme |
| SAPP | : | Southern African Power Pool |
| SARDC | : | Southern African Research and Documentation Centre |
| SATCC | : | Southern African Transport and Trade Commission |
| SCU | : | Sectoral Coordinating Unit (SADC) |
| SITCD | : | SADC Industry and Trade Coordination Division |
| SMME | : | small, medium, and micro enterprise |
| The Organ | : | SADC Organ on Politics, Defence and Security |
| TNF | : | trade negotiation forum |
| TIU | : | Trade Implementation Unit |
| UNCTAD | : | United Nations Integrated Regional Information Network |
| WTO | : | World Trade Organization |
| ZESA | : | Zimbabwe Electricity Supply Authority |

**ABSTRACT**

Regional integration amongst the SADC member states is experiencing a fundamental realignment in the post-apartheid era. This dissertation explores the causes of economic inequalities in the SADC sub-region and the subsequent challenges that South Africa is facing as a new democracy. The causes of the inequalities identified are explored in relation to the SADC's most important trading arrangement; the Southern African Development Community Free Trade Agreement (SADC FTA). This study also investigates the possibility of sharing resources as an alternative for the current economic situation in the SADC sub-region. The study also seeks to identify alternatives that can be employed in order to enhance the process of regional economic integration within SADC.

The sub-regional economic inequalities understudy are making progress towards unfair and unjust economic imbalances in South Africa's favour and to the disadvantage of other SADC member countries. Some of the underlying broad aims and objectives of the study include, inter alia, trade liberalization and economic harmonization amongst the member states. The SADC member states' central objective in this regard is the acceleration of market integration, transformation and industrialization. A suggestion as to how this objective can be achieved will have to be a collective decision between South Africa and other SADC member states. This dissertation seeks to come up with an alternative as to how other SADC member states can play a meaning role in the quest for equitable regional economic integration process to various decision-making institutions within the sub-region. The main challenge facing SADC member states lies in addressing economic imbalances which characterize the sub-region.

Studies reveal that, currently the trade gap between South Africa and other SADC member states seems to be increasing since the adoption of the Free Trade Agreement by the SADC in 2000. The trade ratio between South Africa and the rest of the region has moved from, 6:1 in 1999 to 8:1 in 2000 and 9:1 in 2002 (Loxton, 2002:47). A number of studies on the potential impact of intra-regional trade liberalization suggest that South Africa is experiencing a surge in its exports to the region more than the SADC member states, a situation which gives South Africa an unfair advantage.

Recent trade data indicates an increase in South African exports of capital and intermediate goods to the SADC sub-region. In contrast, SADC member states account for a very small share of South Africa's total imports. Formal trade in the sub-region is currently characterized by two realities. The first is the huge disparity in exports to the SADC countries by SACU which is dominated by South Africa. The second reality about trade in the SADC region is that, South Africa, Zimbabwe, and Mauritius have industries that afford them and opportunity to export both industrial as well as primary products. The other member states are exporters of primary products (Kalenga, 1999: 22). In 1997 the trade imbalance was 6:1 in South Africa's favour, in the ensuing year (1998) this had increased to 7:1. According to the former Minister of Trade and Industry in South Africa, this figure was 8:1 in 1999.

# CHAPTER ONE



## ECONOMIC INTEGRATION THEORY

### Introduction

After a peaceful transition from the apartheid system to a democratic rule, South Africa was admitted to the Southern African Development Community (SADC) as a member and partner in the economic integration of the sub-region. The transitional process paved the way for South Africa to embark on a task of improving her economic relations with SADC member states. The emergence of democracy in South Africa and also the fact of the country becoming part of the peaceful regional environment has socio-economic implications which to a certain extent have an impact on the process of the economic development of the sub-region.

South Africa's foreign policy in the SADC has benefited from its transition. The country now is part of the regional security and has by example, strongly promoted regional norms of democracy and human rights (Awhireng – Obeng and McGowan, 1998). South Africa's destructive campaign of destabilization and inter-state hostilities during the apartheid era have been replaced by a cooperative philosophy and a professed intention to become part of a movement to create new forms of economic interaction in the region based on principles of mutual benefit and interdependence (ANC, 1994). The RDP White Paper further encouraged the new government to negotiate with neighbouring states to forge an equitable and mutually beneficial programme for increasing cooperation, coordination and integration (RDP White Paper, 1994). As a measure of its commitment to regional development, South Africa joined the Southern African Development Community.



On 29 August 1994 in Gaborone, Botswana, South Africa acceded to full membership of SADC and declared her official policy position on Southern African regional economic relations, ending much speculation concerning varying policy proposals that had been positioned by different schools of thought for the democratic South Africa.

The acceptance speech by the then first Deputy President Thabo Mbeki, committed South Africa to three principles, which reads as follows:

(i) To redress the historical trade imbalances, between South Africa and her neighbours and to maintain sustainable economic interactions based on a more equitable two-way flow of goods and services;

(ii) To lend weight to South Africa in bargaining with other economic blocs and multilateral institutions; and

(iii) To resolve conflict through negotiations.

Implicit in the then Deputy President's speech was that South Africa was joining SADC as a committed partner free from hegemonic ambitions, with a desire to give serious attention to acute imbalances and structural inequities that characterize the trade relationship between South Africa and her neighbours in the sub-region and that are inimical to long-term sustained development.

The main challenge facing SADC member states today lies in addressing economic imbalances in the process of regional economic integration. The process of regional integration has generally been viewed as holding out prospects for cooperation and opportunities for economic development for integration process which is based on cross-border investment can bring about a sense of belonging in the sub-region and sense of stability.



However there is a feeling in the debate on regional integration that South Africa's economic domination in the sub-region poses a serious challenge to the economic integration process as already a huge trade inequality between South Africa and the rest of SADC exist. South Africa enjoys a greater percentage of trade surplus with SADC member states, particularly in manufactured goods. In contrast, SADC member states account for a small share of South Africa's total imports.

Studies reveal that, currently the trade gap between South Africa and other SADC member states seems to be increasing since the adoption of the Free Trade Agreement by the SADC in 2000. The Trade ratio between South Africa and the rest of the region has moved from, 6:1 in 1999 to 8:1 in 2000 and 9:1 in 2002 (Loxton, 2002:47).

A number of studies on the potential impact of Intra-regional trade liberalization suggest that South Africa will experience a surge in its exports to the region more than the SADC countries a situation which gives South Africa an unfair advantage (Mayer, 1997: 33).

Recent trade data indicates an increase in South African exports of capital and intermediate goods to the SADC sub-region, accompanied by a steady increase in light manufactured exports from SADC countries to the Southern African Customs Union (SACU) market mostly to South Africa (Kalenga, 1999: 22). In contrast, SADC countries account for a very small share of South Africa's total imports. Primary products dominate SADC exports of light manufactured products such as foot wear, clothing, and furniture.

Formal trade in the sub-region is currently characterized by two realities. The first is the huge disparity in exports to the SADC countries by SACU which is dominated by South Africa. In 1997 the trade imbalance was 6:1 in South Africa's favour, in the ensuing year (1998) this had increased to 7:1. According to the former Minister of Trade and Industry in South Africa, this figure was 8:1 in 1999.

The then South African Minister of Trade and Industry revealed in November 2000 that South African exports to the rest of SADC were approximately R17 billion, while imports were R2 billion (Business Day, 3 November 2000). There is a view that although there has been a surge in intra-regional trade since South Africa joined SADC, this is caused by an increase in South Africa's exports to regional partners (Mayer, 1997: 34). The second reality about trade in the SADC region is that, South Africa, Zimbabwe, and Mauritius have industries that afford them an opportunity to export both industrial as well as primary products. The other member states are exporters of primary products (Kalenga, 1999:22).

The area of focus of this study is the role played by South Africa in partnership with other SADC member states in regional economic integration process. An analysis of the integration process in terms of dynamic involved for example the sectoral approach as a strategy for economic integration is embarked upon. The essence of discussing economic integration theory is to throw light on the broad understanding of the regional economic integration process.

**The concept of Economic Integration.**

In his classic work "The Customs Unions ", Viner (1950) demonstrated that in general; a preferential trading arrangement (PTA) gives rise to both trade creating and trade diverting effects. Viner (1950) says: "Economic Integration" can be defined as a process that progressively removes tariff and non-tariff barriers between co-operating members and eventually harmonizing external trade regime and fiscal and monetary policies. According to Viner, this process progresses in a linear fashion starting first with the preferential trade area (PTA), in which member countries charge each other preferential rates, but with no free movement of goods within the PTA.

The Preferential Trade Area of Eastern and Southern Africa, now known as the common market of Eastern and Southern Africa, (COMESA) since 1993, serves as an example of this type of integration. The second type is the Free Trade Area (FTA), in this one duties are abolished on goods from member countries, but each member country determines its own tariff policy on goods from outside the FTA. The North American Free Trade Area (NAFTA) made up the U.S.A., Canada and Mexico is an example of an FTA.



The third stage is the Customs Union (CU), in a Customs Union Trade with non-members is governed by a common external tariff, and there are no tariffs on goods from member countries. The Southern Africa Customs Union made up of South Africa, Botswana, Lesotho, Namibia and Swaziland are an example of a Customs Union. The fourth type of regime is the Common Market (CM) in a Common Market there is free movement of goods, capital and labour and some harmonization of fiscal and monetary policies. The European Economic Community serves as an example of the common market type of union.

With regard to investigating Customs Unions theory as a basis for this dissertation, the first decision to be made is on the basic modeling approach to be followed. The two main existing approaches are the trade creation – trade diversion approach pioneered by Viner (1950) and the terms of trade-volume of trade approach initially developed by Meade (1995), Jones (1969) and Ohyama. Viner (1950) argued that, regional trade agreements, although they do eliminate some tariffs, do not necessarily result in gains to members. He developed the trade creation – trade diversion approach to regional trade agreements to help understand how this can happen.

These two forces can be explained with a simple example, i.e., suppose two countries A and B form a customs union with country C (remaining outside agreement).

Suppose that before the Customs Union forms, country A imports clothing from country C, who is the low cost producer of clothing. Further suppose, that as a result of the agreement country A imports clothing instead from country B because country B has the advantage of tariff – free access to country A's market. In this case trade into country A is diverted from low cost producer of country C to high cost producer country B and welfare may be lowered. However, if country A formed a union with country C, country A would import more from low cost producer country C and less from high cost producer country B; in this case trade would be created and welfare increased.

In this model, a situation where trade creation effects are greater than trade diversion is regarded as desirable. This situation has conventionally been seen as most likely to occur in situations where either trade among co-operating members is currently or potentially a large proportion of their total trade or there is high level of complementarity in production structures, that is, where country A produces what country B needs and vice versa.



The main criticism of this theory, concerning the regional integration, has been centred around the issue of trade creation and trade diversion. The first criticism is that the analysis of trade creation and trade diversion is static in that it refers to existing comparative advantages without considering the potentials of regional integration to overcome obstacles and to create new comparative advantages. In other words, the theory does not consider how the process of integration will dynamically change the structural conditions of production and technology, addressing the question of resource diversification thereby going beyond the of question specialization.

The second criticism stems from the fact that the conditions that have been described for regional integration do not apply in developing countries. To explain the above phrase further, most of the developing countries are producers of primary products which have markets only the industrialized nations.

Instead of complementing one another, developing countries compete with one another for well developed markets (Meade, 1955; Lipsey, 1957).

This work culminated in Lipsey and Lancaster's (1958) characterization of general theory of the second best; which states that, given distortions exist, the removal of some distortions does not necessarily increase the productivity and trade. Lipsey and Lancaster (1958: 11 – 38) argue that, "a Customs Union removes some distortions (tariffs) but not all of them hence there is no guarantee, that Customs Unions increase economic welfare".

Vaitsos, (1978) takes the criticism further by pointing out that the traditional theory is silent on the key issue of the distribution of costs and benefits and their impact on the evolution of the integration process; and on how the role played by the key economic actors affect final outcomes. This question as posed by Vaitsos is quite crucial for integrating members in the developing countries. In the defunct East African Community Kenya was seen as benefiting more from the community than other members, and the same view has been held in SADC about the position of Zimbabwe which held 45 percent of total investment in SADC was seen to be gaining at the expense of other members. The same fears have been and are still being expressed about South Africa in the SADC.

A genuine integration process must start with acknowledging that the developing states lack most of the prerequisites that are considered necessary for successful economic integration to take place. Vaitsos, (1978) states that, an integration scheme must start from the premises that these requisites must be created to address the principal need to promote development by employing previously non-used factors of production and not to concentrate on the consolidation and rationalization of existing production according to comparative advantage.

A new approach known as the terms of trade – volume of trade approach became popular, under which the impact of a regional trade agreement can be summarized by its effects on both terms of trade (prices) and trade volumes. These terms of trade-volume of trade approach uses general equilibrium instead of Vinerian partial equilibrium analysis and emphasizes the impacts of the Union on individual countries as integration occurs, instead of on world welfare. In a three-country pure exchange economy, any pair of countries can benefit by forming a regional trade agreement. In a region where countries are of the same size the above mentioned conjecture is true, but as Riezman (1999) shows, this conjecture fails to hold more generally.

In a region with one large and two smaller countries, a regional trade agreement between the large country and other smaller country can result in the large country, doing worse than in the initial equilibrium. In the initial equilibrium, the large country benefits from its use of tariffs against both countries, while small countries lose. When the large country forms a Customs Union, it shares some of its tariff advantages with the other union-partner(s), but foregoes the opportunity to play strategically against the smaller partner (Bhagwati and Panagariya, 1996; Summers, 1991).

**Forms of Integration**

Regional economic integration in the 1990s, to a large extent, became an international economic trend with regional economic trading blocs, free trade areas and regionally integrated economies becoming more common in the global economy. These regional economic structures vary in their respective degrees of economic integration. Some are in the form of simple trading coalitions of product orientated organizations like the organization of Petroleum exporting countries (OPEC), or regional free trade areas like the North America Free Trade Agreement (NAFTA) as created between the United States of America, Canada and Mexico, or they may take the form of partially integrated regional economy in the process of greater integration such as the Southern African Development Community (SADC) or a fully integrated regional economic currency such as the European Union.



The process of economic integration still holds true of regional economic integration processes that are currently being undertaken. This study focuses on the regional economic integration process that is currently being undertaken within the SADC, so it would be appropriate at this point to consider the current position of SADC.

The sub-region as a whole currently find itself in a position where it must compete with other structures within itself such as the Common Monetary Area (CMA) which comprises, South Africa, Lesotho and Namibia as well as the SACU which consists of Botswana, Lesotho, South Africa, Namibia and Swaziland. The above mentioned structures do not form part of SADC structures. The CMA allows for the free movement of goods between the members unimpeded by tariffs or quantitative restrictions and there is a common tariff on goods imported. From 1 September 2000, and in light of the reality, access to the South African market in sectors where non-CMA and non-SACU member states have competitive advantages under a SADC FTA, the growing trade imbalances between South Africa and these countries will increase. In order to avoid trade disparities between South Africa and the other member states, SADC needs to incorporate both the CMA and SACU models into its integration process in the sub-region.

## HISTORICAL ORIGINS AND RATIONALE OF THE SADC

The Southern African Development Coordination Conference (SADCC) the forerunner of the Southern African Development Community (SADC) was formed in Lusaka, Zambia, on 1 April 1980, following the adoption of the Lusaka Declaration Southern Africa: Towards Economic Liberation by the nine founding member states. The declaration and treaty establishing the Southern African Development Community which has replaced the Southern African Development Coordination Conference was signed at the summit of Heads of State or Government on 17 August 1992, in Windhoek, Namibia. SADC has 14 member states namely, Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Sychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe (Davies, 1996:112). The 1992 SADC Treaty sets out as its foundation the need for all countries of the sub-region to coordinate, harmonize and rationalize their policies and strategies for sustainable development in all areas of human endeavors. The SADC Heads of States and Government convened an extra ordinary summit on 9 March 2001, in Windhoek, Namibia at which they approved a report on the restructuring of SADC institutions, which spells out enhanced objectives and a common agenda for SADC based on the objectives of the 1992 SADC Treaty.



The report on the restructuring of SADC institutions, articulates a more explicit common agenda which takes into account a number of principles such as development orientation; subsidiary; market integration and development; facilitation and promotion of trade and investment; and variable geometry based on the above principles. SADC Common Agenda includes:

(i) The promotion of sustainable and equitable economic growth and socio-economic development that will ensure poverty alleviation with the ultimate objective of its eradication,

(ii) The promotion of common political values, systems and other shared values which are transmitted through institutions which are democratic legitimate and effective, and

(iii) The consolidation and maintenance of democracy, and peace security (Davies, 1996: 114).

In contrast to the country based coordination of sectoral activities and programmes, SADC adopted a more centralized approach through which coordinating units have been grouped into four clusters, namely, Trade, Industry, Finance and Investment; Food, Agriculture and Natural Resources; Infrastructure and Services; Social and Human Development and Special Programmes (Lee; 2003: 54).

The rational for the transformation from SADCC to SADC was two fold, namely, to give SADC a legal and formal status and to move the institution from being a mere coordination of development projects towards the more difficult task of integrating economies in the region aligned to global economic integration trends. This action informs the particular strategy of integration that SADC adopted. From inception, in 1980, an overriding approach for SADC was developmental and holistic rather than the need for a Free Trade Area (FTA) Model.

In March 2004, the SADC Executive Secretary announced a strategic plan that set out measures and time frames for the economic integration of the sub-region. Some of the outlined measured including the following:

(i) The creation of a free trade area by 2008,



(ii) Establishment of a SADC customs Union and implementation of a common external tariff by 2010,

(iii) Elimination of exchange controls on intra-SADC transaction by 2006,

(iv) Establishment of SADC regional development fund and self financing mechanism by 2005, and

(v) Establishment of a common market pact by 2012.

The plan also states that, policies, regulations and legislation on petroleum, gas and electricity in all SADC countries are to be harmonized between 2004 and 2006. According to the current SADC chairman, the ultimate objective of SADC is to build a region in which there will be a high degree of harmonization and rationalization to enable the pooling of resources to achieve collective self-reliance in order to improve the living standards of the people driven development strategy as a central tenet for a development model of regional integration.

Consistent with the idea of decentralization, each member state of SADC is afforded an opportunity of coordinating one or more sectors in the regional structure. Each member country involved in sector responsibilities is given the task of proposing policies, strategies and priorities and processing projects for inclusion in the sector programme. The SADC Program of Action (SPA) is characterized by the totality of sectoral programmes, with policy objectives, strategies and projects designed to realize overall goals. The SPA has encouraged the development of common approaches and policies for projects through the adoption of protocols. Thus far, out of the 20 protocols signed, nine have been ratified and are currently under implementation (Isaken &Njonneland, 2001).

In each country that is responsible for a particular sector, a Sector Coordinating Unit is established in the relevant ministry, for example, in the case of South Africa, the ministry of Finance and Investment was established with a designated contact person. The same method was employed throughout the SADC sub-region. At the February 2000 Annual Consultative Conference, held in the valley of Ezulwini, Swaziland, it was reported that the Programme of Action consisted of approximately 378 projects with an estimated value of US$7,7 billion. Although theoretically each country was to present well-developed projects that were of a regional nature, in practice this was not the case.



In fact, most of the projects were more national than regional in character and therefore did not qualify for funding from foreign donors. Projects that are considered to be of regional in nature are those that have an impact on at least two countries, for example, a regional project would be the development of road between two member states, e.g. Zimbabwe and Mozambique that is used for the transport of goods (SADC, 2000).

In 1997, the SADC Secretariat commissioned a report to review the SPA. The consultants among other things concluded in their review and Rationalization of the SPA, that a large number of sectors and sub-sectors could not be sustained (SADC, 1997 a: 9). Subsequently, the consultants recommended that SADC should get rid of the sector approach and replace it with clusters of inter-locking cooperation arrangements, which would be highly flexible, and essentially reliant on regional resources. In addition to the cluster approach resulting in a more fluid programme of action, it was argued that it would not be reliant on donor funds nor based on projects (SADC, 1997 a: 12). The majority of SADC member states however, rejected this recommendation and decided to maintain the existing system.

With a view to becoming more self-reliant, the SADC member states plan to establish a regional development fund and develop investment programmes in order to generate additional funds for the SADC Programme of Action. The idea is to ensure sustainability of the Programme of Action. An integral part of the proposed strategy to make SADC more self-reliant entails the involvement of the private sector in helping to implement the SADC agenda (SADC, 2000 b: 29).

The SADC member states, in the November 2000 Report of the SADC Council of Ministers, once more aimed to evaluate SADC with a view to restructuring it. Contrary to previous evaluations where external consultants had been hired, the SADC countries decided to undertake their own internal evaluation. On 18 – 24 February 2001, the Council of ministers recommended some changes during a meeting in Midrand, South Africa, at which a proposal to overhaul SADC's organizational structure was presented (Madakufamba, 2001a). At an extraordinary SADC summit held in Windhoek, Namibia on 9 March 2001, the heads of state and governments approved the restructuring programme. With respect to the SADC Programme of Action, Council of Ministers recommended that the sectoral approach be replaced by the cluster approach. This means that over a two-year period from 2002 to 2003, SADC sectors were replaced by four core clusters, which are:



(i) Trade, industry, finance, and investment;
(ii) Infrastructure and services;
(iii) Food, agriculture, and natural resources; and
(iv) Social and human development.

The four clusters are called directorates, with each headed by a director who is being recruited from the SADC sub-region. Each director reports to the chief director. The directorates fall under the SADC Executive Secretary. According to the Report of the SADC Council of Ministers, each directorate has specific functions to perform in order to attain the objectives of the SADC.

**The Sectoral Approach As A Strategy For Economic Integration**

As previously highlighted that, at the heart of SADCC's strategy when the organization was created was regional cooperation and development. This was initially to be achieved through a project approach to development, which was later transformed into a strategy of sectoral development. This strategy became known as the SADC Programme of Action and each member state was given a regional sector or sub-sector to coordinate.

The rational behind such an exercise was to afford each member state an opportunity to participate directly in the regional integration so as to benefit in the process.

Having a sector to coordinate meant assuming responsibility for the development and implementation of projects in the Sector throughout the SADC sub-region. At the very foundation of this approach was the assumption that the member state given the responsibility for coordinating a sector was the most qualified to execute such a responsibility. Mozambique is responsible for coordinating the SADC transport and communications sector. The Southern African Transport and Communications Commission (SATCC), located in Mozambique has been responsible for coordinating the activities of this sector. The projects were divided into seven sub-sectors, namely, roads, railways, ports, civil aviation, telecommunication, postal services, and meteorology.

There have been 42 energy projects valued at US$530 million. A total of US$318 million had been secured from SADC's International Cooperating Partners (ICPs) for project implementation, while an additional US$26 million was under negotiation (SADC, 2000a). The sub-sectors of the energy sector were petroleum, coal, electricity, new and renewable sources of energy, woodfuel, and energy conservation.



Located within the electricity sub-sector is the Southern African Power Pool (SAPP). The major objectives of SAPP are as follows:

(i) To enhance the efficient production of electricity and to increase the ability of countries to share electricity resources,

(ii) To ensure that eventually all SADC member states' electricity systems are interconnected,

(iii) To extend electrical grids to rural and underserved communities in order to provide them with access to electricity (Business Day, 22 February 2000; Namibian, 7 August 2000; Maas dorp, 1998). As a result of SAPP, there has been a 15 % increase in inter-state electricity trade amongst SADC member states (Namibian, 7 August 2000). The SAPP coordination centre is located in Harare, within the Zimbabwe Electricity Supply Authority (ZESA). Zimbabwe was chosen as the coordination centre because of its central location within the seven-member operating group, namely Botswana, Mozambique, South Africa, Namibia, DRC, Zambia and Zimbabwe, whose systems are inter-connected (Alexander's Gas & Oil Connection, 1997).

The major objective of the centre is to coordinate the trading of power among SAPP members. Currently, good cooperation and trade exists between Lesotho, the DRC, Malawi, Mozambique, South Africa, Swaziland, Zambia and Zimbabwe (Namibia, 7 August 2000). There are two categories of SAPP membership, namely, operating members and non-operating members. The operating members represent the National utilities of the SADC member states. These seven utility companies are the official members of SAPP, since membership is currently only extended to national utilities of SADC countries. The non-operating members, namely Angola, Malawi, Lesotho, Tanzania and Swaziland are independent power producers and thus only have observer status (Chimowa, 1998).

**Critique Of The Sectoral Approach Strategy**

As previously noted, at the heart of SADC's strategy when the organisation was created was regional cooperation and development. This was initially to be achieved through a project approach to development, which was later transformed into a strategy of sectoral development. Monyai (1995: 18) argues that, despite the impressive achievements made in the various fields by SADCC the predecessor to the Southern African Development Community (SADC) since 1980 until 1992, certain economic imbalances continue to plague the organization and have made the aims of reducing dependency on South Africa and achieving equitable growth among member states an elusive objective. SADC economies are characterized by colonial structures concentrating on the production of primary products for foreign markets. According to Monyai, in 1982 SADCC bought 80 percent of their imports worth US$ 7, 150 million from industrial countries and shipped 64 percent US$ 5.500 million to these countries.

Further, Monyai states that, as a result of these colonial linkages intra-regional trade in SADC accounted for only five percent while two percent was with the rest of the region in 1972. The development of SADC grew with internal disarticulation in the sub-regional economies and more dependence on South Africa. This problem of internal disarticulation as Monyai highlighted was as a result of the very approach of project coordination adopted by SADC. The SADC Programme of Action consisted of national projects of member states approved as SADC projects by their respective governments and presented to donors.

This resulted into wasteful duplication of projects. Consequently, national interests took precedence over sub-regional priorities in competing for investment. Accordingly in 1986 South Africa sold 30 percent of her total exports to SADCC and bought only seven percent worth of imports from SADCC.

The lack of sub-regional integration programme and narrow self interests exacerbated inequalities among member states and also caused duplication of industrial ventures. In the first phase of SADC (SADCC) Zimbabwe remained the dominating partner and accounted for 45 percent of SADCC total manufacturing value added, and 41, 7 percent of all intra-regional export of manufactured goods, followed by Botswana at 27,5 percent and Mozambique at 14 percent in 1982, while the other six member states had a share ranging between 7,4 percent and zero. (Monyai, 1995).

The duplication of industrial ventures is a waste of scarce resources and has encouraged fragmentation and distorted economic development in SADC. In 1988 Zimbabwe went ahead with a new power station at Kariba South despite studies undertaken indicated that taking electricity from Zambia or Mozambique would be US$ 300 million cheaper. Various national electricity projects went ahead in Botswana, Lesotho and Mozambique without taking sub-regional needs into consideration.



As mentioned previously, a perennial problem arising from the sectoral approach strategy among the SADC states is the unequal distribution of benefits in the process of economic integration. It is South Africa that benefits the most, for example as the ADB notes, a market model of integration creates further polarization between a few “haves” and a lot of “have nots” because trade, investments and technology tend to flow to more developed countries at the expense of others in the name of efficient resource allocation (ADB, 2000: 197). As the section above indicates, under a sectoral approach strategy, South Africa, as the sub-regional economic power house, is the greatest beneficiary of the sectoral development. In the mean time, many other SADC member states are losing from the sectoral development scheme.

With respect to industrialization, it is also the case that South Africa is experiencing the greatest gains, although this is not the case with investment. In 1980, approximately 80 percent of SADC sub-regional goods were transported through South Africa. Of the three port transport systems in Mozambique (Maputo, Beira, and Nacala), Maputo received the least amount of financial assistance from SADC's ICPs during the 1980s.

This was the case because of South Africa's usage of Maputo. During this period, approximately 50 percent of all goods handled at the port were from South Africa. Consequently, the South African government was investing heavily in the port. The financial assistance from SADC's ICPs was therefore benefiting South Africa (Driver & De Barros, 2000:5).

**"People - To - People" Approach As A Strategy For Economic Integration**

The people–to–people approach seeks to identify prospects that can be of benefit to the process of regional integration and contribute to a stable conducive environment. One way to achieve this is, according to Nzongola – Ntalaja (1993: 130) through the inculcation of the culture of understanding and therefore trust between peoples in different member states with similar problems, common history, language and culture. As Nzongola – Ntalaja points out that in pre-colonial Africa, there were nations at different levels of intensity corresponding to social formations made up of closely related lineages unified by a core culture and tradition and relatively durable politico – administrative structure.

These formations according to Nzongola – Ntalaja were held together by ruling class based on tribute collection and which succeeded in promoting the growth of long-distance trade, protecting markets and trade routes, and ensuring the centralization and redistribution of the surplus.



The common Market as a more developed form of integration, which allows movement of labour among member states can provide a climate that would be favourable for the citizens of various member states to participate in socio-economic development and regional integration. Clusters, i.e., geographical and sectoral concentration of enterprises amongst various member countries can play a big role in bridging the gap between small and medium enterprises thereby forming the basis for the gradual integration at regional and sub-regional levels between business entrepreneurs. Clustering as an arrangement for small business to overcome growth constraints, can also enable entrepreneurs to trade with distant markets at regional and sub-regional levels.

This can be induced by cultural factors, by small firms acting in their own interest, or by encouragement from local or even national governments. Peberdy (2000) argues that the absence of regional business networks in Africa is the most noticeable phenomenon between various economic communities and other growing economies of the world; here isolation proves to be a barrier to participation and trade of this kind.

Evans et al., (1999:55) states that, clustering has recently become an active part of South African industrial policy, which means that this approach could be looked into as a strategy to create conducive conditions of citizens of SADC to interact directly with their counterparts in neighbouring countries on the basis of fostering trade links. Creation of a conducive climate for socio-economic development can lead to the forging of politico – economic opportunities at the individual level through the movement of labour from one country to another. The labour migration is even more suitable for "People–to–People" as a strategy for regional integration because it affords workers of different member states an opportunity to share ideas and therefore trust between peoples of different nations. African labour forces are exceptionally mobile, and workers of all descriptions from unskilled labourers to academics readily move to where the economic opportunities are greatest.

While labour migration has a tendency of being perceived by the citizens of the SADC member states and also other countries which are not SADC members, as an encroachment on their chances of getting jobs, at the same time, labour migration may help with the transfer of skills, knowledge and expertise from one state to another. The transfer of skills, knowledge and expertise by experts in various fields of specialization enables peoples of different national states to learn and share information on aspects of social development and thereby increasing chances of smooth integration at a level of "People–to-People". The high levels of effective, reliable transport system and communication linkages between national states and amongst sub-regions can enhance regional integration at the level of "People–to–People" as it is envisaged as a strategy.



Education system in national states and various regions that encourage exchange programmes amongst students of the sub-regions can help to bring people from different backgrounds together and the need to know more about different cultures can draw people much closer together and therefore consolidate the idea of "People–to–People" as a strategy for integration. Curriculum that includes subjects which are studied in various national states in the sub-region can easily encourage citizens of other member states to migrate therefore helping to enhance People–to–People integration.

Information bureaus can go a long way in helping to consolidate integration through accessing a variety of information about business and employment opportunities to citizens of member states. These can also serve as centres that provide information and facts about projects that are aimed at improving the role of civil organizations and human development in national states.

The role of the media is very critical in fostering "People-to-People" integration in the sense that, some people are not in a better position to know about what is happening in other countries of the continent and one of the roles that media can play is to inform the nation. This can be done by publishing business opportunities and the changes that are taking place in member states thereby providing them with an opportunity to take informed decisions. The coordination of research work that is being conducted by researchers in different countries of the sub-region can facilitate close interaction among the regional scholars and therefore pave the way for "People-to-People" integration with the aim of providing knowledge on a particular matter (DOE, 2003). Research organizations such as Human Science Research Council (HSRC), Markinor and South African Broadcasting Corporation Research Department sometimes embark on a research project for example, investigating the level of demand on some sport code, i.e. soccer, rugby or cricket that is popular in various sub-regions in the continent. In the process of the investigation researchers interact with other people who are knowledgeable about different sport codes, this consolidates work relations between various groups of people with common interests and eventually this rapport leads to integration of their activities.



The ability to reconcile cultural and corporate leadership and create trust and harmony in companies across the sub-region can produce good results in terms of furthering the aims of "People-to-People" integration, and also this can help small business in SADC to grow and bring entrepreneurs more closely. Such an approach can assist the entrepreneurs to play the role of being a parent by establishing effective communication, and offering culturally sensitive motivation to the aspiring entrepreneurs all in an integrated and mutually reinforcing manner (Puga and Venable, 1997). Fully fledged "People-to-People" integration as a strategy for regional integration requires the building up of the requisite capacity to enable all member states to contribute to shaping and designing the rules and regulations for the management of the regional agenda. Active involvement of the people of the sub-region in designing the rules of multi-lateral trade – related interactions through various civil organizations, trade unions and non-governmental organizations constitute one dimension of getting people together. The number of SADC citizens struggling amidst instability and conflict is a clear testimony that participatory democracy and social cohesion are yet to take root on the entire sub-region (Peberdy, 2000). However, for the idea of "People-to-People" integration to succeed, citizens in the sub-region should be endowed with the means by the national states to elect their leaders and hold them accountable for their actions and conduct in government.

Leaders would need to be responsive as public trustees and adhere to the rule of law in order to come up with policies that afford interaction amongst people.

There must be social reciprocities in which the different groups in a country and region as a whole and their leaders are capable of transcending the boundaries of religion, kinship, ethnicity and race. In pursuing regional integration at the level of "People-to-People" in SADC member countries good governance should not be only a worthy human goal in itself, but it should be SADC's overarching objectives of fostering economic growth and reducing unnecessary barriers between regions. This is evident in South Africa since 1994 where the country cities have become cosmopolitan through the migration of labour from neighbouring countries (Peberdy, 2000).

## OUTLINE OF THE STUDY

### Problem Statement

The major problem that is facing South Africa together with other SADC member states is to identify a plan that will enable the sub-region to address the problem of economic inequalities. The current issues of concern among SADC countries is the question of trade imbalances between South Africa and the SADC member states. This problem has been raised by the President of Zimbabwe in 2001 when he highlighted his concern to the South African government regarding the economic relations between South Africa and Zimbabwe that do not benefit both countries on an equal basis (Business Day, 15 March 2001).

South Africa's trade surplus with SADC partners continues to be a source of serious concern, more especially with Zimbabwe which is the largest trading partner in the continent. The figures reported by the Economic Intelligence Unit 1999 – 2000 reveal that between 1994 and 1997, South Africa's exports to Zimbabwe have more than doubled from US$535 million to US$1.379 million. At a continental level, South Africa in 1998 accounted for over 23 percent of the continent's GDP (Davies, 1996: 142). The focus on South Africa stems from the fact that the GDP of the country accounts for more than 75 percent of the sub-region.

This dissertation is premised on the assumption that the sub-region is characterized by economic in equalities, which result in some citizens of SADC member states crossing national boundaries through illegal means. In order to bring about an economic balance in regional integration, this study assumes that economic equity through the sharing of resources amongst SADC countries can be the best method to address the problem of economic inequalities. The problem of the high rate of unemployment in SADC member states coupled with economic in equalities is regarded as the cause of the citizens from neighbouring states entering countries that are better-off as well as causing squatting problems and shortages in housing in member states that host these economic-refugees.

The provision of basic services such as water, sanitation and shelter to citizens of member states who seek employment opportunities in countries which are economically stable, pose both economic and social problem in the sub-region. Socio-economic problems emanate from the fact that, SADC is faced with huge backlogs in terms of services delivery to their own citizens and the arrival of economic-refugees makes things more difficult for various hosting states. Economically weak and smaller states in the sub-region do not seem to be getting what they were hoping will be a benefit to them in the process of regional economic integration, for example, accessing the economies of the member states that are economically better-off through increased intra-regional trade along with inflows of foreign capital (Evans et al., 1994:4).



A number of SADC member states are concerned that by giving South Africa greater access to their markets, further economic decline will follow. This is consistent with the literature on regional integration, which argues that South Africa as the regional economic hub, gains the most from economic integration process. The theoretical literature posits that only minimal gains can be expected from efforts to increase intra-SADC trade, and also it can be anticipated that the SADC FTA will not result in a significant increase in intra-regional trade. The study assumes that it will probably continue to be as a result of increased exports from South Africa to the other SADC member states.

**Research Objectives**

The main aim of this dissertation is to gain an understanding of the role that the democratic South Africa can play in pursuit of addressing the problems of regional economic integration in SADC. The specific objectives of this study are to:

(i) Explore the causes of economic in equalities in the SADC sub-region and the subsequent challenges that South Africa is facing as a new democracy,

(ii) Investigate the possibilities of sharing resources as an alternative for the current economic situation; and

(iii) Identify alternatives that can be explored in order to enhance the process of regional economic integration within SADC.

**Research Methodology**

This dissertation employs a historical method as its premise for qualitative analysis of literature. The research methodology that has been used therefore, consists of a library based literature study of secondary sources. The secondary data was used in order to be in a better position to analyze and examine a range of secondary sources. A qualitative analysis of various secondary sources was conducted using the data that has been collected. The collected information was analyzed in terms of the research objectives. The conclusion drawn from the analysis of the available information formed part of the suggestions that are aimed at addressing the problem of inequalities in the SADC sub-region. Based on data regarding the economic in equalities within the sub-region, it was essential to consider South Africa's international economic relations as against other member states within SADC. This has been done for the purpose of analyzing how South Africa is dealing with SADC states on economic issues.



With regard to collecting data for analyzing the economic impact of South Africa's international economic relations in the context of SADC sub-region, the study focused on data dealing with general economic trends across SADC member states. In order to examine the role that is played by South Africa in partnership with other member states in improving economic development within SADC, the study evaluated progress that has been achieved since the approval of a report on the restructuring of the SADC institution on 9 March 2001, in Windhoek, Namibia, and drawn conclusions thereof. For the benefit of this study it was necessary to consider broadly the current literature on regional economic integration theory as well as providing a theoretical basis and empirical evidence for further regional economic integration practice. The development policies of at least five member states, namely, Malawi, Mozambique, Mauritius, Swaziland and Zambia has been used as secondary sources for this study.

The process included; collection of data on regional economic integration theory as well as figures on trade and economic development between South Africa and SADC member states, analysis of data and deduction of economic trends and conclusions for application to further data on ensuing work regarding the role of South Africa to enhance or impede the process. Conclusions and deductions made in previous research work were used for the purpose of analyzing data.

## CHAPTER TWO

### RIEVIEWING THE LITERATURE

Vale's most informative work is a timeous intervention in the current debate about South Africa's economic domination within the SADC sub-region and the role the democratic government play in forging an equitable and beneficial integration scheme appropriate to the conditions of Southern Africa as a whole. This work is premised on South Africa's utilization of state structures and economic dominance in the sub-region for its own benefits. According to Vale (2003:77), the suffering endured under the apartheid regime drew the region together at the popular level and economic factors such as the use of migrant labour, reinforced the process of regional economic integration. At a broader level, the author's concerns are of critical importance, given the widening and deepening socio-economic deterioration of the member states and their citizens.



This work has been inspired by the existence of prevailing inequalities on the practice of regional economic relations, all of these imbalances in all their various forms, were constructed by apartheid South Africa to destabilize the SADC sub-region and further deepen the position of South Africa in the region. Vale (2003:36) posits that, the process of regional economic integration in SADC have been profoundly one-sided; it has sought to legitimize the access of privilege to power and sanctioned the power of the powerful to set the terms of inter-state economic relations.

The central thesis of Handley and Mill's book revolves around the specifics and full regional co-operation in the African continent as well as economic integration in particular in the SADC sub-region. Davies, provides an overview of the state of regional integration in Southern Africa. He also warns of the inherent dangers for South Africa and the stability of the sub-region as a whole, furthermore he highlighted the acute inequalities evident in sub-region, and how these imbalances could be exacerbated by the widening gap between South Africa and its sub-regional trading partners. According to Davies while regional integration is occurring in many sectors, several of the most important pending decisions and new departures lie in the area of trade (Davies, 1996: 40).

A calculation by the Department of Trade and Industry shows that while total trade with the European Union (EU) exports and imports, were greater than that to SADC, exports to SADC in 1994 and 1995 were larger than those to the EU.

Essentially, the main poles of accumulation were located in South Africa, while the economies of the other state nations were incorporated in subaltern roles as providers of migrant labour services and as captive market for higher priced South African exports.

The aforesaid economic imbalances were exacerbated in the years of conflict and destabilization that characterized the late apartheid era. An examination of the trade figures included in the literature show that South Africa's acceptance as a full-fledged trading partner has led to a rapid increase in exports to the region, imports from the region have remained remarkably flat. The tensions that have been evident between South Africa and its SADC partners highlight the reality that sustaining export volumes in these markets may simply not be possible unless action is taken to provide opportunities to SADC partners to increase their visible and invisible earnings from economic interaction with South Africa (Davies, 1996:42).

The Southern African economy is well integrated and is, according to Matlosa (1996), built upon the region's single dominant economy located in South Africa. Willingness to work towards a new regional trade arrangement was proclaimed as a goal of the new South African government at an early stage. The new government found itself bombarded with proposals from several individual SADC countries to either re-negotiate existing, or negotiate new, preferential bilateral trade agreements. South Africa's preference was to work towards a multilateral, regional agreement with some flexibility to accommodate bilateral specifics (ADB, 1998). This formula was criticized as not taking to account of the variations in capacity of the individual member states, nor of concrete conditions in specific industries or sectors. All of this suggested the need for an asymmetrical arrangement, in which South Africa opened up its market to a greater extent than would be required by other nation states and which operated on a some what differentiated basis member state by member state.

According to Davies (1996:42), the South African government has also regarded implementing the SADC trade protocols as a top priority, and that any reciprocal concessions that may have to be made in extra-regional trade negations must be phased in such that SADC states enjoy greater preferential access to the South African market. The current trade patterns between South Africa and the other SADC member states is unbalanced, as imports from South Africa exceed exports to South Africa by five to one. Exports to SADC member states amounted to R10, 6 billion, with imports of R1, 4 billion (Crefsa, 1996; Matsebula, 1996). The figures which are stated here depict acute imbalances between South Africa and its sub-regional partners, a situation which is unsustainable.

Data compiled by the SADC Industry and Trade Co-ordination Division (SITCD) indicates continued strengthening of intra-SADC trade. According to the SITCD report most countries in the SADC sub-region expanded their exports in 1996 and the beneficiaries were South Africa, Zimbabwe, Botswana, Swaziland, Namibia and Zambia who jointly accounted for 95 per cent of the total intra-SADC exports (Bronstein, et al., 1996). A number of studies reveal that as a result of tariff and non-tariff barriers to formal trade in Southern Africa and the marginalization of the population from economic structures the informal trade sector is thriving (Handley and Mills, 1998:35). Other factors enhancing informal cross-border trade are stringent and bureaucratic formal cross-border controls, economic prosperity social and political stability in neighboring states in contrast to the worsening economic hardships in other member states of the sub-region (Tekere, 2000:27).

Studies conducted between 1995 and 1996 in SADC to determine the significance of formal cross-border trade between 6 countries, namely, Malawi and Zambia, Malawi and Mozambique and Malawi and Tanzania indicate that formal trade accounted for only US$44 million. Malawi exported a total of US$3.3 million to Zambia, US$3.9 to Mozambique, and US$6.5 million to Tanzania. Malawi's imports from Zambia totaled US$6.4 million from Tanzania. The distribution of the share of informal trade was; Zambia 39 per cent, Malawi 31,1 percent, Mozambique 15,3 per cent and Tanzania 14.6 percent (Minde & Nakhumwa, 1998).



According to Macamo(1998), the benefits of informal trade to the unemployed and poor people in Mozambique include enhanced food security, increased employment opportunities and poverty alleviation. In a study conducted by the World Bank, it was determined that free trade agreements that involve South Africa would not be in the best interest of other integration partners because of South Africa's intransigence to market liberalization and stringent policies in terms of accessing its market (Holden, 1996:v). The rules of origin issue once again placed South Africa at the centre of controversy in as far as the SADC Trade Negotiation Forum (TNF) is concerned. On the textiles and clothing front, the stalemate occurred when South Africa insisted that a two stage transformation process was needed in the textiles and clothing sector as proof of origin from within the sub-region.

At a broader level, South Africa has been very careful to ensure that most of the products in which the other SADC states could offer some competition to its products are subject to quota limitation (Keet, 2000).

In light of the above SADC countries that are non – SACU members will in real terms have minimal access to the South African market in sectors where they can offer competition. An alternative solution to the problem of the worsening trade imbalances between South Africa and the other SADC countries in the long term is to transform the production structures in the sub-region so as to enhance the ability of SADC member states to produce for the South African market. As a temporal measure, intra-regional trade can be increased by increasing access to the products that are imported into the sub-region by countries outside the realm of the SADC which are also produced by SADC member states and exported to the developed world. Harvey argues that, because a significant number of the SADC member states do not have the capacity at present to increase their exports to the region, therefore these countries would need to attract investment in new capacity that would enhance exports growth (Harvey, 2000a:11).

Another argument is that, in the SADC, economic integration should be perceived to produce tangible benefits to participating countries, and the benefits should be seen to be evenly distributed among member states.

Three elements that should form the basis of trade equity amongst SADC countries have been identified as follows:



(i) Participating countries should vigorously promote regional industrial and agricultural projects;
(ii) They should cooperate jointly in the development of their physical infrastructure, transportation and communication services; and
(iii) Finally, they should cooperate in finding ways of taking advantage of the opportunities offered by the international economy (Buthelezi; 1997:8).

Southern Africa is an important export for South Africa and a market that has become even more important over time. Although in 1992 the sub-region took the same share of total manufactured exports over 20 percent, the share of total exports going to the region has increased to a 9 percent, from 6, 5 percent five years ago. This penetration has become more one-sided. In 1992 for every R4.50 of goods exported, South Africa imported only R1.00 of products from its neighbours. The trade imbalance has steadily increased in 1997, the ratio had improved to 5.8 to one. There is some thought that, although South Africa is likely to continue to export far more than it imports from the region, the ratio may narrow. As the sub-region's economies stabilize and grow, they may as well export more to South Africa.

It is argued that, agricultural goods and clothing and textiles are two possible examples. Further there are plans to lower trade barriers within SADC, and this should give more firms better access to the relatively large South African market. As South African firms invest in the region, exports are likely to increase (to their subsidiaries). Importantly, the subsidiaries may increase exports back to South Africa or even further a field. Followed through, this trend should ease the pressure on regional partners (Malewezi, 2000:19).

As the dominant economy in the sub-region, South Africa is the most highly integrated with the global economy and, as a result, it has been negatively affected by the East Asian crisis and by a significant outflow of capital. Its economic performance inevitably affects other economies in Southern Africa, because most countries in the region have a trade relationship with South Africa.

The region also serves as market for many South African products. Malewezi (2000:19) argues that the reality of Southern African economic integration is that it is already extensively practiced through informal trade. Its growth across borders establishes the extensive trade in goods and the migration of people that were a feature of economic and social life before colonialisation. Therefore, the challenge for Southern Africa is to create market incentives that will encourage the private sector to engage in wealth-creating exchanges across boarders. Malewezi argues that, trade within Southern Africa can stimulate economic growth, and not simply because it permits countries to exchange complementary commodities and services but through increasing the efficiency of firms and farms so that they can compete against alternative sources of supply (Malewezi; 2000:21).



According Malewezi (2000:23), to sustain trade in the SADC member states, policy should make it possible to free the movement of labour. He posits that, freeing labour flows within the sub-region would improve growth prospects. Apart from the potential to improve welfare, labour mobility also helps to relieve pressure in labour-scarce regions. That is why in recent years the migration of skilled workers who cannot find work in their own countries has increased within South Africa. In the area of development the author deals with this issue by looking at the nature and content of the human resources development. The first part of the book focuses on the strategy for future development to developing SADC' s human resources. The second part of this text calls for two immediate priorities: namely;

(i) To improve the quality and relevance of education at every level,

(ii) To redirect public resources towards basic education and care, including family planning.

The broad conclusion Malewezi has reached is that issues of human resources development cannot be directly deduced from the problem of Human Immunodeficiency Virus / Acquired Immunodeficiency Syndrome (HIV/AIDS) from a general theory of development.

Evans (2003) using computable general equilibrium model finds that, with unilateral liberalization undertaken by SADC countries by 2002 (under World Bank Structural Adjustment Programmes and World Trade Orgnaisation) their welfare increased by 3.45 percent compared with expected gain of 0,37 percent from a SADC FTA by 2006. The central thesis of Evans findings revolves around the specifics and unilateral liberalization in the region as well as economic development agenda and economic integration in the SADC sub-region. He also states that, under a Doha Development Round Scenario of a 40 percent cut in tariffs, export taxes and production subsidies, the projected impact for Southern Africa countries would be a 1.03 percent increase in Welfare by 2012. Finally, with a full SA-EUFTA, as is possible under the Cotonou Agreement, Welfare could increase 0.12 percent by 2012.



In terms of poverty reduction, Evans's results show that in Zambia the headcount of poorest has fallen by 3.06 percent under unilateral liberalization, and is predicted to fall only 0.7 percent with a SADC possible 1.66 percent in the Doha Trade Round of WTO and 1.11 percent in a SADC – EU FTA. Evans's analysis confirms what other comparative static models have demonstrated that economic gains are greatest with unilateral liberalization and through the multilateral liberalization processes of the WTO, and increase with greater degrees of liberalization. Flatters (2002) argues that the current rules of origin in the SADC are both complex and restrictive in the sense that the continuation of the same approach to rules of origin may seriously impede regional integration in the SADC, even when tariff barriers on intra-SADC trade are dismantled. Furthermore, according to Flatters, current rules of origin will make SADC irrelevant in promoting integration and competitiveness of SADC industries in the global economy. Flatter's argument is backed up by a wide number of case studies which illustrate that SADC industries may benefit from the simplification and relaxation of rules of origin. He indicates two choices that member states within the SADC have if they wish to improve their global competitiveness, namely,

(i) To go it alone, i.e. undertaking non-preferential trade liberalization and domestic regulatory reform; and

(ii) Or the member states can use the scheduled review of 2004 to re-examine rules of origin and other weaknesses in the trade Protocol.

According to Flatters, this would be in parallel to unilateral measures to enhance competitiveness. Flatter's work contributes to a growing body of analysis which shows that the benefits of regional integration and trade liberalization are severely constrained by strict rule of origin.

Vale (2003:36) posits that, Southern African Customs Union (SACU), the region's oldest surviving inter-state institution, buttressed South African power and its wealth in the sub-region for close to a century. According to Vale, by affording member states with a source of income and participation in SACU opened the door to the statehood that would come to its three junior partners, namely Botswana, Lesotho and Swaziland. With the new SACU agreement reached in September 2000, two new institutions were created. The first is a council of ministers of five members, which serve as SACU's decision – making structure. Decisions are taken by consensus. If consensus cannot be reached, a tribunal of experts is convened to help arbitrate the situation. The second is a secretariat and this institution established technical committees to deal with administration issues, including customs, trade and industry, agriculture, and transport (Business Day, 13 September 2000; 26 October 2001). Agreements have been reached with respect to agricultural, tariff, competition, and industrial policies. In the mean time, sectoral policies are being developed with respect to agriculture (e.g. dairy, wheat, maize, red meat) and industry (e.g. clothing / textiles, motor and component industries, footwear and sugar) (South African DTI, n.d.).



The most contentious issue of the new SACU agreement concerns a new revenue formula which, must be seen within the context of the geopolitics of SACU, namely, that South Africa is committed not to destabilize the economies of the BLNS countries. While South Africa is interested in a formula that is 'clean', such a formula might result in the economic destabilization of Lesotho, Namibia and Swaziland. A 'clean' formula would be one in which revenue calculations would grow out of verifiable data and tariff duties actually collected. The 'political' formula that was in place was not an economically rational formula in that the calculation of the compensation given to the BLNS countries was not quantifiable.

For example, it was impossible to quantify loss of fiscal discretion or polarization. Since a 'clean' formula would destabilize Lesotho, Namibia, and Swaziland economically, all SACU member states agreed that such a formula was not viable.

On 14 December 1999, to the surprise of BLNS ministers, the then South Africa's Minister of Trade and Industry at a SACU ministerial meeting, presented South Africa's 'new' approach to SACU revenue-sharing. BLNS representatives were surprised because they were under the impression that (Working Group II) which was dealing with a new revenue-sharing formula, was in the process of finalizing a new revenue formula. They therefore considered South Africa's announcement of new revenue to be a major shift in the renegotiation process (SARB, 2000).

The new approach combined customs and excise transfers with discretionary budgetary assistance. Contained in a confidential document, according to the South African government officials, it would entail the following:

(i) The pool of excise duties should be kept separately and allocated according to the GNP, used as a proxy for consumption, of each member state.

(ii) A new discretionary excise subsidy should be allocated to the BLNS countries as compensation for loss of fiscal autonomy in determining excise duties. This subsidy is provisionally set at 100 percent of the calculated share in excise duties.

(iii) The customs pool should be distributed according to total intra and extra SACU imports of each member state, i.e. the share of South Africa is also now to be calculated. The South African government will not receive the residual as was the case in the 1969 agreement.

(iv) A further new discretionary subsidy is proposed for BLNS countries as compensation for cost-raising effects and the loss of involvement in a tariff setting authority. The subsidy is also preliminarily set at 100 percent of the relevant share of BLNS countries in the customs pool (SARB, 2000).

The proposal further stated that:

(i) The total amount to be received by BLNS countries, that is, calculated payments plus transfers, for purposes of transparency and affordability be limited to 3 percent of total budget expenditure in South Africa from the year 2001 – 02. For the period 2001 – 02, the calculated amounts due in terms of the existing formula, amounted to 3,3 percent.

(ii) The total amount allocated the BLNS countries as indicated above, less calculated customs and excise payments and relevant subsidies, is proposed to represent a Budgetary Assistance Fund and distributed to BLNS in accordance with agreed criteria such as population, wealth, education and health.

(iii) The total amount of explicit subsidies, i.e. Customs and Excise subsidies plus the proposed budgetary assistance, amounted to R5, 299 million for 2000 – 01 compared with total transfers of R7, 614 million calculated on the new basis. Subsidies therefore comprise almost 70 percent of the total transfers in the proposed new scheme.

(iv) The present enhancement factor of 42 percent and the stabilization factor of 17 percent of total imports by BLNS states falls away. Revision of historical figures will no longer have an impact on the annual calculation.

(v) The broad principles of the new approach originate from budgetary considerations and have a less complicated structure for calculations. According to the new approach, the specific percentages proposed should be subject to change in consultations with BLNS countries (SARB, 2000).



In October 2001, after eight years of negotiations, agreement was reached on a new revenue formula. The first agreement allows for the BLNS countries to continue to be subsidized; second agreement guarantees that revenue flows to the BLNS countries will be stable and not fall below the current level; third agreement ensures that South Africa will not continue to experience a decrease in its share of the revenue pool; fourth agreement has a development component for the poorer countries; and fifth agreement establishes a SACU tariff board that will meet at least quarterly to review applications for tariffs and anti-dumping protection (Business Day, 25 & 26 October 2001).

Customs and excise duties are dealt with separately in the new formula. Although South Africa contributes 80 percent of the customs pool, it receives about 50 percent of the revenue. While 85 percent of the revenue from the excise pool is distributed based on the relative GDP of all five member countries namely Botswana, Lesotho, Nambia, Swaziland and South Africa, the remaining 15 percent is distributed as a form of development assistance based on income per capita, with countries that have a lower income per capita receiving more. While South Africa collects approximately R8,5 billion in excise duties, the other member states only collect about R500 million. Although South Africa contributes 95 percent of the excise pool it will actually get back approximately 80 percent (Business Day, 26 October 2001).

For the first two years namely, 2002 – 2003, excise duties are determined by finance ministers, and the common excise pool is managed by South Africa. In the mean time, a task force has been created to look into options for a long-term mechanism for management. The new revenue formula took effect beginning with the 2002 fiscal year (Business Day, 25 & 26 October 2001).

As Sidaway and Gibb note, for the BLNS states, the revenue-sharing formula offers a trade-off between the relative fiscal autonomy and an income to state coffers. In this respect it represents the ascendancy of a rentier class in the BLNS states and cements their (sometimes uneasy) relationship to the dominant strata in South Africa (Sidaway & Gibb, 1998: 174). The Deputy Director-General of International Trade and Development within the South African Department of Trade and Industry, feels that SACU is the model for integration for the rest of the African continent (Business Day, 26 October 2001). South Africa's regional economic dominance has had a significant impact on other regional organizations namely, COMESA and SADC. South Africa refused to join COMESA, whose overall goals and objectives are very similar to SADC's. For some SADC member states, retaining membership in COMESA is designed to make a political statement against South Africa's regional economic hegemony.

# CHAPTER THREE

## THE TRADE REGIME IN THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC)

### Introduction

This chapter explores the SADC Protocol on trade as a premise for regional integration and development which member states have embarked upon. The regional agenda comprises first, the economic integration which has been the hallmark of SADC since 1992 to date in building interdependence among member states; second, the trade which forms the basis for economic growth and development amongst member states; and finally the implementation of the SADC FTA by the Trade Implementation Unit (TIU) on 1 September 2000.

The first decade after South Africa has been admitted as a fully-fledged partner in the sub-region, Southern Africa is on the threshold of important decisions which could take the sub-region to higher levels of economic integration. While regional integration is occurring in many sectors, several of the most important decisions and new departures lie in the area of trade. The adoption of a protocol on trade, on 24 August 1996, at the Annual SADC Summit in Maseru, Lesotho, signaled the SADC's intention to establish a free trade area (FTA) in the region.



However, one of the major issues that has faced both South Africa and SADC in the period since the emergence of democracy in South Africa has been how to structure a new regional trading relationship that promotes equitable and mutually beneficial economic integration. Southern Africa is seen by South Africa as a market of major strategic significance, with growth potential in precisely those manufactured export commodities which South Africa needs to prioritise. However, expanding such exports is acknowledged as being unsustainable unless the needs and demands of neighbouring countries are accommodated in terms of access to the South African market, and recognition is given to the need to wok towards more equitable trading arrangements in the sub-region (SAPEM, 1996:10).

Willingness to work towards a new regional trade arrangement was proclaimed as a goal of the new South African government at an early stage. According to Davies (1994: 44), a strategic choice had to be made as to whether the new trading relationship aimed at should have a bilateral or a multilateral basis. At the same time the SADC Secretariat, which had for some time been working on a regional trade protocol, had, even before South Africa's accession, tabled a draft protocol to establish a free trade area in the SADC region.

**The SADC protocol on trade**

The evolution of the SADC is well documented and there is, therefore, no merit in re-writing its history here. The SADC protocol on Trade has been principally motivated by the urgent need to liberalise intra-regional trade in goods and services on the basis of fair, mutually equitable and beneficial trade arrangements in Southern Africa. This overarching objective is an essential factor to be addressed, in relation to the issue of equity in the distribution of the benefits of economic integration in the sub-region.

Most noticeable, the SADC Protocol on trade is silent on the issues related to SADC capital investments for intra-regional projects and infrastructural development. The sub-regional transport is one such sector that would enhance trade facilitation as envisaged under Article 3 – 11 as follows; Article 3 calls for the elimination of all barriers to intra-SADC trade and provides a provision for the granting of a grace period for those countries that may be affected negatively by the removal of tariff or Non-Tariff Barriers (NTBs) to trade. Article 4 calls for the eventual elimination of all import duties on member states' goods, a process that should accompany the development of an industrialization strategy that would enhance competition among member states (SADC, 1996: 6). Article 5 calls on members not to apply export duties on goods to member states, and Article 6 calls for the elimination of all existing forms of NTBs. SADC member states are asked in Articles 7 and 8 to phase out quantitative restrictions on imports and exports. Article 10 deals with the protection of security interests and Article 11 with the treatment of national goods. Other trade-related issues include stipulations that SADC member states should adopt policies that allow them to implement their obligations to the World Trade Organization (WTO) in the areas of the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (SADC, 1996: 14 – 15). Article 27 on preferential trade arrangements allows member countries to maintain existing preferential trade arrangements as well as other trading arrangements, and enter into new ones as long as such arrangements do not conflict with the Protocol. However, SADC member states are required to review the current trade-related arrangements to determine if they are compatible with the objectives of the Protocol. Article 28 (1) calls on member states to grant most favoured nation (MFN) treatment to all members and Article 28 (2) does not prevent a member state from maintaining preferential trade arrangements with third countries as long as such arrangements are compatible with the Protocol.

However 'any concession, privilege or power granted to a third country' must also be granted to other member states (SADC, 1996: 16). Article 28(3) stipulates that notwithstanding Article 28 (2), 'a Member State shall not be obliged to extend preference of another trading bloc of which that member state was a member at time of entry into force of the said Protocol' (SADC, 1996: 16 – 17). Article 29 deals with the coordination of trade policies, while rules regarding cooperation with third countries or groups of third countries are also identifies in Article 30. Institutional arrangements and dispute settlement procedures are outlined in Articles 31 – 39. In the quest to enhance the economic development, diversification and industrialization of the sub-region, consideration should be given to capital investments made by SADC countries in the physical infrastructure of these economies (Buthelezi, 1997: 14 – 15).

**Implementation of the SADC FTA**



After the announcement on 1 September 2000 that the SADC FTA was in force, only South Africa and Mauritius had deposited their instruments of implementation and thus were able to accede to the SADC FTA Protocol (Business Map, 2000a: 20). By January 2001, only three additional countries had deposited their instruments of implementation, namely, Botswana, Lesotho and Swaziland. The actual deadline for implementing the Protocol was 31 August 2001 (SADC Today, 2001). By 1 August 2001, all member states had deposited their instruments of implementation (Madakufamba, 2001d). The SADC member states established a Protocol on Trade Implementation Unit (TIU) to monitor the implementation of the SADC Protocol on Trade.

In order to implement the SADC FTA, the member states must comply with General Agreement on Tariffs and Trade (GATT) rules regarding free trade areas. According to Article 24 of GATT, a free trade must substantially cover all trade, and member countries are not supposed to raise their external tariffs. In the case of developing countries, however, there is more leniencies, including the fact that, under the enabling clause, they can bypass Article 24. The SADC member states intend to report their intentions to the World Trade Organisation (WTO) under the enabling clause or Article 24. The member states have determined that since the 'Member States trade coverage' will go beyond 85 percent of total SADC trade, WTO requirements for free trade areas like SADC will be met (SADC Report, 2002: 21).

In the process of SADC FTA implementation, South Africa has been very careful to ensure that most of the products in which the other SADC countries could offer some competition to South

African producers have been placed on the list of 'sensitive products' which are subject to quota limitation (Keet, 2000). International Monetary Fund (IMF) argues that, it is precisely such labour-intensive, more efficient products, such as textiles, clothing, and footwear, that would be welfare enhancing for South Africa under a SADC FTA (IMF, 1998: 157). The increase in this imbalance as a result of a SADC FTA will deepen the regional dissatisfaction towards South Africa. This reality is reinforced by the IMF, which argues that the only way that a SADC FTA could be a welfare-enhancing proposition for the region is if South Africa enhances its efficiency.

The alternative solution to the problem of the worsening trade imbalance between South Africa and the other SADC member states in the long-term is to change the production structures in the region in order to enhance the ability of the non-SACU SADC countries to produce for the South African market. In the short-term, intra-regional trade can be increased by determining products that are imported into the sub-region by South Africa that are produced by non-SACU SADC countries and exported to the developed world. Although South Africa talks about how untenable its advantageous 8:1 trade ratio with the region is, it does not seem prepared to seriously try to alter this reality. Charles Harvey argues that, "a free trade area will not have much chance of surviving, because a significant number of the non-SACU members of SADC do not have the capacity that would make such export growth possible (Harvey, 2000a: 11).



It is with good reason that most of the SADC countries are concerned that by giving South Africa greater access to their markets, further economic decline will follow. This view is consistent with the literature on regional integration, which argues that the regional giant gains the most from market integration. The theoretical literature posits that only modest gains can be expected from efforts to increase intra-African trade, the same can be anticipated that the SADC FTA will not result in a significant increase in intra-regional trade. To the extent that such trade is increased, it will probably continue to be as a result of increased exports from South Africa to the other SADC member states.

Leape is of the view that, exports from South Africa to the other SADC countries will neither spearhead economic structural transformation, nor strengthen regional economies, nor result in a decrease in the economic disparity in the region (Leape, 2000).

The question of compensating countries for customs revenue losses is an issue that has to be dealt with if market integration is to be successful. In many countries, customs revenue represents a significant part of state revenue. With a SADC FTA, there will be significant customs revenues losses in Malawi, Mauritius, Zambia and Zimbabwe. Leape further argues that, policies designed to restructure and expand the tax bases of these countries are not likely nor will South Africa have the capacity to compensate them for the losses. Leape states that in the third case, unless compensatory policies are put in place, it appears that Malawi, Mauritius, Zambia and Zimbabwe stand to lose from a SADC FTA in this regard.

An integral part of the trade protocol within SADC dictates that in order to implement the SADC FTA, the SADC states must comply with GATT rules regarding free trade areas. As a new member of SADC and the regional economic giant, South Africa ignored the fact that in order to implement the SADC FTA, the member states must comply with GATT rules regarding free trade areas. According to Article 24 of General Agreement on Tariffs and Trade (GATT), a free trade area must substantially cover all trade, and member countries are not supposed to raise their external tariffs. In the case of developing countries, however, there is more leniency, including the fact that, under the enabling clause, they can bypass Article 24. In May and June 2001, Zimbabwe ignored GATT rules by increasing import tariffs on a variety of items, including selected clothing, fruit juices, tobacco, clear beer, trade advertising material, blankets and other items. Such increases were in direct contradiction to Zimbabwe's commitment under the new SADC tariff regime. Also in May, the Zimbabwe government imposed a carbon tax (Z$400 or R57) on cross-border carriers for the processing of documents at the border. This tax followed on the heels of increased road user charges imposed in 2000 on foreign carriers and increased toll tariffs at Beitbridge, the border crossing between South Africa and Zimbabwe (Freight & Trading Weekly, 2001a, Rushmere, 2001b).

In a further abroagation of SADC FTA rules that stipulate that foreign road hauliers are allowed to pay for services in local currency, in contrast the Zimbabwe government announced that all services (e.g. fuel) must be paid for in foreign currency. In addition, the National Railways of Zimbabwe (NRI) has been demanding that all exporters must pay in foreign currency, preferably US Dollars. All the above highlighted cases were in direct violation of the FTA rules which provide guidelines on trade issues. This action resulted in both fuel shortages and personnel problems whereby due to the currency depreciation in Zimbabwe most people lost their jobs and others crossed-borders either to South Africa or Botswana to look for employment opportunities and better paying jobs. (Freight & Trading Week, 2001b, 2001c).

As highlighted, concerns have been raised regarding the SADC FTA with respect to the rules of origin. In addition to the problem of implementing the SADC rules of origin, the implementation of rules of origin will be made to control foreign goods from flooding the regional market as a result of the trade agreement between South Africa and European Union (EU – SA FTA).

As a result of the EU – SA FTA chances are that European Union may use trade relations that exists between EU and South Africa to penetrate regional markets by doing so evading the rules of origins which controls trade transactions. Another problem is that, there is a possibility of four other South African free trade areas; first with both Brazil (or MERCOSUR) and second, with India, a third with the US growing out of AGOA, and a fourth with EFTA (Business Day, 2000). Prospects for the first two grow out of South Africa's so-called 'Butterfly Strategy' developed by the South African Department of foreign Affairs to enhance South Africa's South – South trade relations. According to Kornegay, this strategy envisages South Africa and the SADC as the hub of an expanding network of trade relations.

As highlighted earlier that as a result of the EU – SA FTA chances are that the SADC region could become a haven for non-originating products or trans-shipment. This could prove to be a win – win environment for the informal trade sector in that there will be more informal trade and that there will be more incentives to try and bypass customs regulations. With regard to different tariff rates, customs officials will have to distinguish between tariff structures for SADC countries and non SADC member states. With respect to SADC tariffs, once customs official determine that SADC tariff schedules are applicable, they will then have to decide which category the goods are in (e.g. frontloading, midloading, or backloading, the particular phase they are in and whether they are sensitive or not.)



As mentioned previously, a problem arising from the creation and implementation of SADC free trade area and customs union among developing countries is the unequal distribution of benefits. It is the regional giant(s) that benefits the most. In fact, as the African Development Bank (ADB) posits, a market model of integration could create a further polarization between a few "haves" and a lot of "have nots" because trade, investments and technology tend to flow to more "developed" countries at the expense of others, in the name of efficient resource allocation (ADB, 2000: 197).

As the section above indicates, under a SADC FTA, South Africa, as the regional giant, will be the greatest beneficiary of the new trade regime. In the process, other SADC member states stand to lose from the free trade area.

It is suggested that the impact of the SADC FTA on industrialization in the region could be catastrophic. It is anticipated that there will be losses experienced by the SADC states to compete with cheaper South African products that will continue to flood regional markets.

Added to the above, will be the contest from South African businesses which are continuing their aggressive expansion forcing the closure of local enterprises. South Africans, instead of using local resources for needed inputs, often source them from South Africa, further contributing to the huge trade imbalance in the region. The sectors most likely to be adversely affected by a SADC FTA are in manufacturing.

According to Harvey, exposing some non-SACU countries in SADC to free trade with South Africa could have a damaging effect. Firstly, their existing manufacturing sectors would be unable to compete with imports from South Africa, so that much of it would be driven out of business. Secondly, their existing industry would not be able to take immediate advantage of access to the South African markets, so that they would gain little or nothing from a SADC FTA in the short term, and probably not much in the medium term (Harvey, 2000a: 5). The two countries that have previous been able to compete with South Africa in some manufacturing sectors are Mauritius and Zimbabwe. The ability of the latter to be able to continue to contest, however, is being questioned as a result of its current political and economic instability. Economic instability has already increased the level of de-industrialization in Zimbabwe.



In the case of Zambia, trade liberalization in the name of Structural Adjustment Programmes (SAPs) revealed the fact that Zambia could not compete with South African manufactured products (Harvey, 2000a: 5). According to Sikhakhane, South African corporations, with the support of labour, are ensuring that the South African market is not opened to accept more goods from SADC member states (Sikhakhane, 1998). South Africa's relationship with SACU in this regard can perhaps warn the region about the overwhelming dominant role that South Africa will command in the area of regional industrialization under a SADC FTA. In order for regional economic integration to be successful in Southern Africa, the SADC member states should consider whether or not they want to continue expending financial resources that are much needed for development and economic transformation on the SADC FTA, which will probably fail to realize its goals and objectives. The SADC member states work cooperatively to integrate their economies through the development of regional comparative advantages and the regionalization of production seemingly has more potential for economic structural transformation than does market integration (Business Day, 2000).

In 2000 / 01, approximately 80 percent of SADC's GNP was produced in South Africa, which had 18 percent of the sub-region's land area and 32 percent of its population (Malewezi, 2000). According to the South African Department of Trade and industry, South African exports to the SADC member states after the implementation of the SADC FTA amounted to US $5, 639 million whereas imports totaled only US $1.345 million. This asymmetric balance of economic interaction leaves South Africa with a multi-million dollar regional trading surplus. It also creates a number of serious obstacles that need to be addressed by any future integrative structure. Most importantly, it raises the question of how best to integrate a semi-developed state, (South Africa), with developing countries. Traditional customs union theory suggests that broadly comparable levels of development need to exist between participating member states for integration to succeed (Robson, 1980). Otherwise, polarized economic development is likely to take place that will favour the developed at the direct expense of the underdeveloped.

After the implementation of the SADC FTA many member states experienced the polarizing effects of trade imbalances in terms of accessing the South African market although South Africa is one of the member states that deposited their instruments of implementation of the SADC FTA. In a sub-region such as Southern Africa, characterized by intense inequalities, regional integration based on the principles of the free market, promotes a tendency towards agglomeration which eventually exacerbates inequalities (TSIE, 1996).



The SADC FTA as a liberalizing measure resulted in enhanced competition in Southern Africa's domestic and export markets, faced with structurally weak economies and political volatility, SADC states appear particularly vulnerable to globalization and its associated liberalizing policy agenda. Since the implementation of Free Trade Agreement in the SADC there is an unparalleled degree of support amongst the member states to advance regional integration initiative that will address the question of how to lessen regional inequalities in development levels. After the sub-region implemented free trade agreement, South Africa continues to serve as the focus for regional growth and will retain, and perhaps even intensify its hegemonic position, this means that the other member states are not benefiting out of the Free Trade Agreement.

The potential for conflict between those forces advocating an interventionist form of integration in order to reduce inequalities and those advocating an open and competitive form of regional integration is considerable. The implementation of the FTA has been exposed to an unprecedented level of economic liberalisation and this movement towards liberalization, which to a large degree is being imposed from outside the SADC by the international economic forces such as World Bank and IMF through the Structural Adjustment Programmes, has resulted in robust trade competition. At the same time, as a result of the implementation of the FTA, free market agenda reinforced the trend to pursue some form of regional integration a member states try to defend their territorial integrity and ability to influence domestic market.

The Protocol has been vehemently criticised from some quarters. Page (1998: 5 – 6), argues that a limited framework is provided in the Protocol, for using trade measures for a development strategy. Furthermore, Page posits that the Protocol only covers provisions for business representation and not other economic actors such as labourers, farmers, and commerce. According to Page, actors are represented in other regional organisations (e.g. the EU and MERCOSUR). Page also criticises the rules of origin as being relatively simple and therefore warns that serious complications will arise when attempts are made to implement these rules of origin, and that this will be made more complex because of other trade arrangements that some SADC countries have among themselves or with other countries.



Stahl (1997: 11) warns that the provision of the Protocol that allows countries to protect their trade regime with safeguard measures in the event that imports threaten the domestic industry may frustrate SADC's trade liberalization agenda if used too freely. On the other hand, Cassim and Mayer are concerned about the fact that there is not a clear linkage in the Protocol between trade and industrial development (Cassim & Mayer, 1997: 59). Mayer and Thomas further argue that as a framework to drive the integration process, the Protocol is deficient (Mayer & Thomas, 1997: 31).

The short period of time (seven months) from the development of the Protocol to its signing contributed to many of its weaknesses. Prega Ramsamy, the current SADC executive secretary, reinforced the above mentioned point by noting that the specifics of the technical details were to be negotiated among the member states (Ramsamy, 1998:3). The Protocol was amended in August 2000 in order to accommodate new agreements growing out of the FTA negotiations. SADC rules stipulate that protocols must be ratified by a two-thirds majority of member states.

**The Impact Of EU-SA FTA To Trade In The SADC Region**

South Africa, the major trading partner of EU in the SADC, signed trade and development cooperation agreement in 1999 who's objectives is to establish a free trade area in line with WTO provisions from 1999 – 2009 which is a transitional period of 10 years maximum for the EU and 12 years for South Africa from 1999 – 2013 which is a maximum period for South Africa in seeking a new trade agreement with the EU.

This has implications on non-SACU SADC member states particularly on the outcome of the trade negotiations in which SADC states are involved in SADC Trade Protocol negotiations, the renegotiations of the Lome IV Convention and the WTO Millennium round. It is suggested that the Agreement will open up some opportunities in the manufacturing sectors, the reciprocal obligations will require costs adjustments but these adjustments will be felt not only by South Africa, but in neighbouring South African countries as well.

Tekere (2000: 18) argues that, the SA-EU Free Trade Area will impact on broader intra-SADC trade and on exports by other SADC countries to South Africa. According to Tekere the agreement will also have negative and positive effects on SADC. The extent of these effects will depend on the relative importance of preferences enjoyed by SADC's exports in the South African markets relative to EU exporters and in the EU market relative to South Africa's exporters. In the future, the impacts will depend on the relative phasing of South African exporters. The long-term impact will depend on whether there will still be preferences for one party over another at the end of the liberalization processes required by the SA-EU FTA, the SADC Trade Protocol and whatever agreement SADC negotiates with the EU. Further more, the conclusion of the SA-EU economic agreement has also had an impact on South Africa's perspective of SADC process particularly as reflected in the SADC Trade Negotiation Forum (SADCTNF). Other negative effects include, sneaking in of cheap subsidized EU goods into SADC states via South Africa by EU imports, erosion of preferential access in South Africa and EU for SADC goods, loss of revenue due to sneaking in of goods, increased customs control burden in terms of administering rules of origin and investments diversion from SADC states to South Africa.



On account of the above stated potential threats policy priorities and strategies for SADC should include putting SADC trade integration on fast track, and ensuring adequate safeguard measures are in place. Other policy measures should focus on fostering regional integration, defining national and regional trade policy and thereafter situating third party trade policy and situating trade relations within it. Emerging conditions impose a fast track structural adjustment for the textile and the clothing sector in the SADC region. SADC member states are potential exporters of textile and clothing manufactures. However, most SADC states have remained exporters of raw material fibre with little value added and they have not taken advantage of the tariff – free benefits of the EU market. On the other hand, the clothing sector especially that of Zimbabwe has been unable to reach the level of competitiveness required to capture its neighbouring market where Asia is making inroads. Mauritius, one of the biggest and competitive garment producers of the region, has made little effort in penetrating the SADC market given better remuneration from the EU and American markets.

Regarding Sugar the SADC region is a net surplus producer of sugar as well as a net sugar exporter with South Africa being the largest producer, consumer and exporter of the product. However sugar is regarded as one of the most sensitive products because of the existence of distortions in the form of tariff and non-tariff barriers surrounding various markets in the different regions of the world. At a regional level, SADC sugar industries are subject to various forms of distortions such as quantitative import restrictions, high tariff walls, export licensing, subsidies, administrative changes in exchange rates, etc (Thomas, 2000: 81 – 2).

The agricultural sector in the SADC region faces several problems such as low productivity, low quality inputs, subsistence nature of the agricultural output, food insecurity, high demand for food than the production levels, stagnant production of exports crops, reduced availability of available land and perpetual food deficits that inhibit expansion and international competitiveness. SADC economies are heavily dependent on agriculture accounting for about 20 percent of the Gross Domestic Product (GDP) and 68 percent of employment and contributing significantly to foreign currency earnings for these countries.



Use and patenting of genetically modified organisms pose serious policy problems for SADC member states. For example, seed trade in the sub-region is affected by shrinking budgets for the governments and donors in the 1990s, and also the shrinking of parastatal, the influx of investment in seeds due to the liberalization of goods markets, lack of national seed policies in a number of countries and lack of seed laws and regulations (Tekere, 2000:26).

**Unofficial Trade In SADC**

Trade within the SADC region is grossly understated due to the failure to capture the size of informal cross-border trade (ICBT) that is now widespread and has been growing for over a decade. For example, in view of the deteriorating macro-economic environment in Zimbabwe, informal cross-border trade is viewed as a viable activity that generates employment, supplement income, to improve food security by households and a means for improving living standards. According to Tekere (2000:27), other factors enhancing informal cross-border trade are stringent and bureaucratic formal cross-border controls, liberalization of exchange control, economic prosperity, social and political stability in neighbouring countries in contrast to the worsening economic hardships in Zimbabwe. The main push and pull factors of informal cross-border trade in Zimbabwe include, failure to get formal employment, securing supplementary income, high income, in the informal sector, death of bread winner and economic and social independence. ICBT enhances employment creation, household incomes, food security and access to foreign currency as well as alleviates poverty and enhances social welfare. On the other hand, Zimbabwe government is losing revenue and there are some social costs (Tekete, 2000:27).

Another form of unofficial trade relatively widespread in the region is drug trafficking. Drug traffickers and money launderers have taken advantage of advances in technology and the good infrastructure. Several conditions facilitate drug trafficking in the SADC region, include among other things inadequate control measures, weak entry point and weaker legislation. The region also lacks technical expertise in the identification of illicit drugs while political instability in some of the states and existence of corrupt practices has worked in favour of drug trafficking. On the other hand, drug trafficking has caused untold hardships on the families and society as a whole. This presupposes that the SADC trade regime requires a high degree of flexibility in the application of regional economic policies and levels of consultation which permit SADC member states to take account of what regional integration can offer in achieving their national development goals. This exercise also requires regional institutions that identify projects and programmes conducive to integration and that can promote their implementation, as well as infrastructural facilities that can enhance new industrial development and trade creation where the scope for profitable investment will arise. The latter requires the provision of a climate that would be conducive for investment incentives and provision for capital mobility so as to avoid customs revenue losses. In many countries, customs revenue represents a significant part of state revenue. Literature on regional integration argues that as a result of Structural Adjustment Programmes which impose IMFs and World Bank on the sub-region, this is impossible because member states are not formulating their own policies.



With the SADC FTA implementation, it is anticipated that there will be significant customs revenue losses in Malawi, Mauritius, Zambia and Zimbabwe. Policies designed to restructure and expand the tax bases of these countries need to be formulated and implemented in order to improve their economic situation. In this case therefore, through the SADC FTA, compensatory policies should be put in place as a measure to recover customs revenue losses in Malawi, Mauritius, Zambia and Zimbabwe (Leape, 2000).

In conclusion, the foregoing discussion indicate clearly that there is a need to revise and institute regional economic policies in the sub-region governed not by South African economic dominance, but by collective cooperation and self-reliance; the only guarantor of peace and development in Southern Africa.

# CHAPTER FOUR

## SADC TRADE VOLUMES AND IMBALANCES

### Introduction

This chapter examines the trade volumes in order to highlight trade imbalances in the SADC region. The issues of handling of sensitive products as well as rules of origin are some of the controversial features of the regional integration process in SADC. The sub-region has established strict and complicated formulas to establish SADC rules of origin, which means that duties need to be paid on goods that derive a substantial portion of their value from labour, components or materials that originate outside SADC. For developing countries, market integration is often pursued with a view to attracting both foreign and domestic investment.

After a great deal of discussion, the SADC member states agreed to adopt a linear approach to tariff reduction, with trade offers being prepared in three categories:

(i) Category A – Products for immediate liberalization upon entry into force of the SADC Trade Protocol;

(ii) Category B – Products for Gradual Liberalization within the 8 year time-frame from 2001 – 2008 prescribed by article 3(b) of the SADC Trade Protocol; and

(iii) Category C- Sensitive Products which may not face Tariff Reductions provided this category satisfied the basic principles on substantial liberalization (Zimbabwe Ministry of Industry and Commerce, 1999 a:5).

With respect to Category C, it was initially agreed that sensitive products should not be more than ten percent of regional trade. The rationale for products to be placed in Category C included social sensitivity, which encompassed levels of employment and stable foods in terms of food security as well as revenue sensitivity on the part of government; and business sensitivity with respect to the question of infant industries. The member state also agreed to incorporate an asymmetrical tariff reduction strategy; for this purpose, the countries were also divided into three categories:

(i) Category I – Constitutes all SACU Member States who, as a unit, have offered to liberalize faster than other SADC Member States, namely, South Africa, Botswana and Namibia.

(ii) Category II – Constitutes all SADC Member States who are defined as developing countries according to the United Nations Criteria, namely Zimbabwe, South Africa, Mauritius and Botswana excluding SACU Member States.

(iii) Category III – Constitutes all SADC Member States who are defined as least developing countries according to the United Nations Criteria, excluding Category 1 and Category II, namely Malawi, Mozambique, Tanzania, Zambia, Botswana, Lesotho and Swaziland.

The countries in Category 111 are Malawi, Mozambique, Tanzania and Zambia. During the phase-in period, tariff reduction would be implemented at different stages. This means that Category I states are scheduled to frontload, Category II states to midload, and Category III states to backload (Zimbabwe Ministry of Industry and Commerce, 1999 a :3).

Frontloading, midloading, and backloading are defined as follows:

(i) Category I – Frontloading: Commitments to liberalization begin and end in the early part of the agreed-upon phase in period of the tariff reduction, June 2000 Zimbabwe to South Africa.

(ii) Category II – Midloading: Commitments to liberalize start in the middle of the agreed – upon phase in period of tariff reduction, June 2003.

(iii) Category III – Backloading: Commitments to liberalize start towards the end of the agreed – upon phase in period of tariff reductions, June 2008. Member States with a lower level of applied tariff rates would begin implementation at a later date than other category III Member States (Zimbabwe Ministry of Industry and Commerce, 1999 a : 3).

Zimbabwe's offer to South Africa as of June 2000 illustrates the approach adopted for tariff reductions. According to the offer, 31,9 percent of trade would be bound at zero tariffs immediately (category A) upon implementation of the FTA, namely 1st September 2000. In category B, an additional 46.6 percent of trade would be bound to zero at the end of the midloading period, 2003 – 06 representing 78.5 percent of all trade. Currently Zimbabwe's trade offer to South Africa as of 2003-06 is at 100.0 percent representing all trade.

The number of tariff lines contained in Category C is within the recommended 5 – 20 percent of sensitive products. The most controversial issues involving the trade relations in the sub-region have been how to deal with sensitive products and rules of origin. This has been made more difficult by the fact that these are the products that are regionally competitive.

In order to facilitate comparisons, all country trade offers were aggregated in US dollars. It was also agreed that trade statistics on the share of SADC trade in World trade by country be provided to facilitate a fair assessment of the adequacy or inadequacy of the country offers including coverage of Tariff Lines. Other agreements were that technical experts on sanitary and phytosanitary and technical barriers to trade would participate in negotiations for tariff schedules, especially in the sensitive sectors: and that policies that were complementary had to be developed in order to underpin the phase-in period of the FTA (Zimbabwe Ministry of Industry and Commerce, 1999 a: 10).

**Trade Offers**

The first country to present its trade offer was South Africa in November 1998. According to Ralinala and Saunders, although South Africa presented the offer, it was made on behalf of all the members of SACU. As a customs union, SACU had to participate in the negotiations as one economic entity. During the discussion of the offer, South Africa had not consulted Botswana, Lesotho, Namibia and Swaziland (BLNS) before presenting the trade offer. According to the BLNS states there was no consultation to cover their various interests within the offer.

The non – SACU SADC representatives assumed that the BLNS countries went along with the SACU offer because South Africa had promised them something beneficial in return. As trade negotiations progressed, however, it became obvious that South Africa had not made a special offer to the BLNS countries to entice them so as to approve the SACU offer. The BLNS countries therefore began to complain that given their status as least developed countries (LDCs), they should be treated differently from South Africa. Out of this debate came the idea of differentiated trade offers, where each non-SACU SADC country would develop two offers; one for South Africa and one for all other SADC countries. With respect to Zimbabwe's offer to all SADC countries with the exception of South Africa, 37,7 percent of trade would be bound at zero tariffs immediately (Category A) upon implementation of the FTA, this is so because South Africa is regarded as developed country by SADC states.

In Category B, an additional 45.1 percent of trade would be bound to zero at the end of the midloading period, 2003- 06, representing 82.8 percent of all trade. The amount of tariff lines contained in Category C, (5.7 percent) is within the 5-20 percent recommended allocation for sensitive products. In comparing the two offers, namely, category B and category C while better access is given to Zimbabwe's market under the differentiated offer, of 45.1 and 82.8 overall access under category B and category C does not appear to be significantly different.

Although the issue of trade offers was resolved, most representatives felt that South Africa had created the problem of excluding SACU Member States and unilaterally presenting a trade offer on behalf of all SACU states, even though South Africa knew that it did not reflect the position of the BLNS countries.

South Africa's behaviour in this regard reinforced the growing perception that it was only negotiating from the perspective of its own best interest. This was clearly reflected in the South Africa / SACU trade offer. Although according to the offer as of June 2000, 76.5 percent of SADC exports in category 1 to South Africa were bound at zero immediately upon implementation of the FTA, the majority of SADC exports to South Africa are in Category C, sensitive products, and therefore will not have preferential access to the South African market over a period of time. Whilst the member states were still in the process of negotiating final tariff schedules in January 2000, South Africa published its SADC tariff schedules, which meant that it had become part of South African legislation.

This means that South Africa finalized its tariff schedule before the trade negotiating forum (TNF) meeting in December 1999, which was in defiance of the overarching principle that 'nothing is agreed until everything is agreed.' This was the case even though South Africa had received requests from some member states to modify its tariff schedule. Such action reinforced the image that South Africa was not negotiating in good faith. Throughout the entire negotiations, none of the member states was able to transcend its nationalist perspective to make policy decisions based on the best interests of the region. For example all the states where not proposing issues that would benefit the SADC but they were steaking to the mandate of their national states instead of SADC.

This problem, namely, the unwillingness of members to concede any sovereignty to a regional entity, has been a major contributing factor to the failure of regional intergration in Africa. In the case of the SADC negotiations, the problem may have been complicated by the involvement of external forces in the negotiations in the form of consultants. Not only did some of the BLNS countries have external consultants, but their consultants often changed the countries they were representing presumably as a result of better, financial offers (Ralinala & Saunders, 2000: 22).

**Handling Of Sensitive Sectors**

As previously mentioned, it was proposed that sensitive products consist of no more than 5 – 20 percent of trade (Category C). The most sensitive regional sectors include the automotive industry, footwear and leather, clothing and textiles and sugar.

The major issue regarding these sectors is liberalization, namely; how much time should be given to allow sensitive products to adjust to market competition before tariffs are removed. The guide lines for handling sensitive products were outlined at the 7th TNF, held in Harare, January 1999. Member States agreed to adopt the following guidelines:

Terminology – Sensitive products are those products whose liberalization may start during the agreed upon phase-in period of tariff reductions amongst the SADC states and could continue beyond the 8 year period.

(i) **Product Sensitivity**

The guidelines of selection of sensitive products should be based on the impact on revenue, employment and domestic industries.

Member states must provide reasons to justify their lists of sensitive products.

Member States must also indicate steps that they intend to take with regard to the reduction of tariffs on sensitive products.

(ii) **Coverage**

The SADC Free Trade Area should cover substantially all trade.

The list of sensitive products should be kept as small as possible.

(iii) **Dynamic Concept**

Sensitivity of products is likely to change over time. Therefore, Member States are encouraged to review their lists of sensitive products regularly with a view to move such products to their gradual or immediate liberalization lists.

Member states agreed to hold a general review meeting on tariff reduction schedules not later than 4 years after entry into force of the Trade Protocol (7th TNF, January 1999: 4 – 5). A review is to be undertaken in 2006 to determine if conditions prevail in the sub-region for liberalization.

Although it was agreed that by 2012 all sensitive products would be eliminated and thus would have zero tariffs, some countries have extended their phase-down of sensitive product beyond this time frame. Malawi is a case in point. According to its offer for the phase-down of sensitive products by 2012, only those sensitive products with a tariff rate of five percent will have zero duties. For sensitive products that have a tariff rate of 30 percent, during the ninth year of the implementation of the FTA, the rate will be reduced to 20 percent, 15 percent during year 10, eight percent during year 11, and four percent during year 12.

Each of the member state has products that are excluded from the phase-down tariff reduction schedule. Notwithstanding the list, at the TNF held in Dar es Salaam in November 1999, it was agreed that the only permanent exclusions would be arms and ammunition and endangered animals, which fall under Article 9 and 10 of the Protocol. Consequently, member states were requested to remove from their exclusion lists those products not falling under Article 9 and 10. Member states were also required to give a convincing explanation as to why products should remain on the list. All other products should be placed on the schedule for tariff liberalization.

Of major concern to the SADC member states is intra-regional trade in second-hand products. Consequently, a decision was made that intra-regional trade in such goods would not be allowed. It was agreed, however, that each member state could have their own domestic policies for the use of second-hand products.

**Sugar Industry**

Although South Africa produces the largest amount of sugar annually (2.5 million tons during 1999 – 2000) before the political instability disrupted the economy, Zimbabwe was the most efficient producer at US$189 per ton. South Africa's production cost is US$230, and Malawi's is US$195 (Atkins & Terry, 1998: 140). The sector provides job opportunities for many and serves as a major source of foreign exchange. Regional production is 4.5 million tons annually, although countries such as Zimbabwe and Mozambique are expected to increase their production in the near future. With respect to the SADC region, the South African Department of trade and Industry (DTI) estimates that production will increase to six million tons by 2010 (Atkins and Terry, 1998: 132).



With a view to protecting the SACU market against regional competition, during the trade negotiations, SACU under the leadership of South Africa proposed the establishment of a regional sugar protocol that would introduce sugar quotas. Such sugar would enter the SACU market duty-free. For the first three years, SACU proposed that SACU's market share of 45 000 tons would be distributed as follows: 40 000 tons to SACU, 3000 tons to Zambia, and 200 tons to Zimbabwe. Malawi, Mauritius, Mozambique, and Tanzania would not receive an allocation because the distribution of allocation was based on the export exposure of the non-SACU SADC states. With the offer, South Africa expected the proposed sugar protocol to supercede all other existing sugar agreements. This would mean, for example, that Zimbabwe, which exported 80 000 – 90 000 tons annually to Botswana and Namibia through bilateral trade agreements, would forfeit these agreements and replace them with one that gives it market access of 2000 tons annually.

Clearly unhappy with South Africa's offer, the non-SACU SADC countries presented a counterproposal at the 13th TNF in Cape Town during September 1999 that stated the following:

(i) Market access should be reserved to non-SACU countries on the basis of a 5 percent share of total SACU consumption.

(ii) As from year two and the ensuing year, the 75 000 tons would be increased to take into account the actual growth in the SACU market.

(iii) The 75 000 tons would be shared among the non-SACU countries who would agree among themselves on the initial quotas.

(iv) A reallocation formula would be provided for in case of shortfalls by individual countries (13th TNF, September 1999:12).

To illustrate how different the SACU and non-SACU countries were on this issue of market access, Zimbabwe indicated that it felt it should have market access of 85 000 tons. Tanzania sought clarification on the issue because it did not see logic, when SACU reserves for itself a quota of 40 000 tons. In response to the non-SACU countries, SACU reinforced its position that free market access on sugar was not possible (13th TNF, September 1999: 14).



South Africa's protectionist position is based on the fear that free market access to the SACU market would erode its ability to provide for the domestic market, which would result in South Africa as an economic hegemon in the SADC having to export sugar to the world market, where prices are below the cost of production. Protectionist policies adopted by South Africa are no different than those adopted by the richest countries of the world and are designed to prevent the developing countries from having access to their markets due to fear of competition. Ironically, South Africa is using the same strategies against its regional neighbours, while simultaneously calling on the developed countries to open their markets to developing countries. In the case of the sugar industry, if South Africa allowed for unrestricted regional access, consumers in South Africa would benefit from lower sugar prices, resulting in a net economic benefit for the country (Thomas, 2001:82 – 3). With respect to protection against non-SACU SADC member state, a Zimbabwean official involved in the trade negations noted that, South Africa is afraid of the fact that if it opens up its market Zimbabwe sugar will penetrate the SACU market.

However, as a result of the fact that this is the most protected agriculture sector in South Africa, huge tariffs are placed on imported sugar. Industrial sugar users argue that as a result of protectionism, South African sugar production is inefficient and non-competitive (Sunday Times, 5 March 2000). At the 8th Special Meeting of the SADC Industry and Trade Committee of

Ministers held in Sandton, South Africa during March 2000, SACU improved its offer, which included the full liberalization of the SADC sugar sector and an additional quota of 20 000 tons to non-SACU surplus producing counties. The distribution of the allocation of the additional 20 00 tons was to be based on the export exposure at the non-SACU SADC countries. The SADC Technical Committee on Sugar was approved as a permanent entity to oversee the sugar cooperation agreement.

South Africa's refusal to allow free access to the SACU sugar market is one of the many ironies of the movement towards market integration in Southern Africa. Theoretically, under market integration, the most efficient and cost effective producer or producers should dominate the market since they would have a competitive advantage over other producers. In this case, Zimbabwe is the most efficient and cost effective producer in the region (Gerber, 1999:425). Maistry agrees that South Africa should source sugar from the more efficient regional producers (Maistry, quoted in Thomas, 2001: 82).

As the regional giant, South Africa has the ability to dictate terms in such a way that it guarantees that its interests are protected. Nonetheless, it appears that the problem over access to the growing SACU sugar market is symptomatic of the larger picture, namely, that implementing market integration in Southern Africa is problematic.



This is especially poignant in that South Africa, as the regional giant, maintains an 8:1 trade ratio in its favour against the SADC member states. South Africa adopted similar protectionist policies throughout the trade negotiation process.

This is not the spirit in which market integration can be successfully implemented. All countries must perceive that there are benefits to be gained, otherwise market integration will result in greater regional polarization and de-industrialization. When the prerequisites are in place for market integration, countries that have economies that are diversified, such as South Africa, can make decisions to redirect their resources from a less efficient industry with little value added to one that is more efficient and has more value on the regional market (Maistry, quoted in Thomas, 2001: 83).

**Automotive Industry**

South Africa overwhelmingly dominates the regional automotive industry. The second largest motor vehicle producer in the region is Zimbabwe, which in 1998 produced 14 000 vehicles, compared to South Africa's 313 000.00. The 'other' category mainly consists of production in Zambia, Botswana, and Mozambique.

Zambia's small industry was adversely affected by the structural Adjustment Programme (SAP) and economic deterioration, while Botswana was forced to close its Hyundai plant, where it was assembling vehicles, due to financial difficulties. The Mozambique operation, which is also small, assembles medium and heavy commercial vehicles (Black & Muradzikwa, 2000:7).

Although Zimbabwe has the second largest market for vehicle production in the region, it does not pose a threat to South Africa's market. As a competitor, Zimbabwe is declining in significance. For example, while Zimbabwe has the capacity to produce 40 000 light vehicles annually, only 14 000 were produced in 1998 (Black & Muradzikwa, 2000:7). Of the approximately 30 percent of vehicles that are imported into Zimbabwe, most are sourced from South Africa, along with original equipment components. Most of Zimbabwe's automotive exports are to the SACU countries.

SACU automotive exports to SADC member states in 1998 totaled R3 billion, which reflects a significant increase over the 1995 figure of R1.7 billion (Black & Muradzikwa 2000:8). Under the FTA, SACU exports is likely to increase and, in fact, it is speculated that South Africa will be the centre of all automotive activity, with SADC countries having to pay higher prices for vehicles sourced from South Africa. With the financial incentives under South Africa's Motor Industry Development Programme (MIDP), the big car manufacturers of the world have been lured to South Africa. The strategy has worked and South Africa has become a profitable export base for cars and, for motor industry components (The times, 4 January 2001). While in 1988 automotive exports from South Africa totaled R315 million, by 1999 the figure had grown to an estimated R14 billion (Black & Muradzika 200:8).

The above figures represent 90 percent of the total SADC export market. According to Gerber, South Africa has a comparative advantage over its SADC neighbours in the automobile industry. With the import – export complementation, the industry receives de facto export subsidies which means that Zimbabwe, for example, faces unfair competition from South Africa (Gerber, 1999:425). Whilst South African vehicle assemblers would welcome competition from the SADC region and thus the removal of trade barriers, South African-based vehicle manufacturers are not as positive about an FTA. If an agreement is reached to have a free trade regime for this sector, it would mean that MIDP de facto export subsidies would be eliminated. In cost and benefit analysis terms, the perception is that since they are already heavily entrenched in the regional market, the cost might outweigh the benefits of an automotive free trade regime (Zimbabwe Ministry of Industry and Commerce, 1999 a : 9).

**Rules of Origin**

One of the most controversial issues during the trade negotiations was over the rules of origin. Rules of origin are designed to ensure that only products and goods, which are produced and traded among the member states of the FTA, benefit from the agreement preferential market access arrangement' (SADC, 1999 a:1). According to the Protocol, there are three rules of origin for classifying products and goods:

(i) Wholly Produced Goods with no import content mainly Agricultural produce;

(ii) Achievement of specified Local Content-40% local materials or 35% value added.

(iii) Change of Tariff Heading – where the Tariff classification of the inputs is different from that of the resultant product (SADC, 1999 b:1).

According to the Protocol, the exporter identifies the rule that is most appropriate for exported goods. Under the protocol, with respect to originating goods, the SADC region is deemed to be one territory. This means that, anything sourced within SADC and processed in the SADC countries is deemed to be originating. The trade negotiations over rules of origin once again placed South Africa at the centre of controversy. While the non-SACU SADC outlined in the Trade Protocol, SACU, under the leadership of South Africa, demanded that SADC adopt new rules of origin that cover all tradeable items in the region, or product – specific rules of origin.



The non-SACU SADC countries responded by arguing that the rules of origin did not need to be revised prior to the implementation of the Protocol. The fundamental objection of the non-SACU countries to SACU's proposed rules of origin centred around the perception that SACU was attempting to protect its trade regime against competition from the non-SACU members. This perception was reinforced following SACU's submission to the TNF in June 1999 regarding its recommendation on product – specific rules of origin. Although SACU had indicated that such rules would apply only to a limited number of sensitive sectors, namely, agriculture, textile, clothing, leather, footwear, automotive, and chemicals – the proposal covered all intra-SADC trade. The greatest contention among the SADC member states with respect to rules of origin has been in the textiles and clothing sector (SADC, 1999a : 5)

The statement over textiles and clothing occurred when South Africa insisted that a two stage transformation process, resulting in a double tariff heading change, was needed in the textile and clothing sector as proof of origin from within the SADC. A Two –stage transformation process would be, for example, the manufacture of fibre into yarn and yarn into cloth. For the non-SACU SADC countries, this proposal would enhance South Africa's economic domination of the region. In order to move the negotiations forward, South Africa agreed to a compromise that would allow the non-SACU LDCs to have a derogation on the two-stage transformation process. This would mean that for five years Malawi, Mozambique, Tanzania and Zambia (MMTZ) could continue to export to regional countries products within the clothing and textile sector that only undergo a one-stage transformation, with quota restrictions.

During the grace period of five years given to MMTZ, it is anticipated that they will be able to attract the necessary investments that would allow them to conform to the two-stage transformation process (Coughlin; 2001:33). On its part, Malawi noted that the SACU quotas allocated by SACU were well below their current exports to SACU under the respective tariff lines. Mozambique argued that: (1) quotas cannot be imposed on Mozambican raw cotton that is wholly obtained; (2) the quota proposed for was below production capacities; (3) quotas should be given and increased annually by 20 percent; and (4) five years was not long enough to allow for the development of its capacity to meet the requirement of double stage transformation.

While South Africa agreed to consider the increased quota requests of Mozambique, Malawi, and Tanzania, for the MMTZ / SACU quota arrangement, they argued that an agreement had already been reached to allow goods form MMTZ to enter the SACU market duty-free, while the BLNS countries argued that tariffs should be imposed on these products, since they were given a concession of a single transformation process. Namibia complained that under the proposed arrangement, it would not benefit substantially, furthermore, that based on their offers, it would not begin to benefit from the free trade agreement (FTA) until year three or eight, because only then would the products it is interested in exporting under categories B and C experience tariff reductions (18$^{th}$ TNF, August 2000:4). At a meeting held in Johannesburg in February 2001 to iron out remaining tariff issues, Malawi was the only country that accepted SACU's quota offer (African Eyes News Service, 22 February 2001).

For MMTZ, the arrangement means that for five years they can use fabrics imported into the region for making garments exported to the SACU market duty-free, but with quota restrictions. For Malawi, the MMTZ agreement will replace the South Africa – Malawi bilateral trade agreement, which imposed a value-added criterion that has been difficult for Malawi to comply with. For Zambian manufacturers, the MMTZ arrangement will also remove previous restrictions, such as high SACU duties on human-made fibres that are imported as well as fabric produced fro imported yarn and garments made from such fabrics (MUS & Mudenda, 2001:31. Excluded from the special MMTZ / SACU arrangement, Zimbabwe and Mauritius suggested that those countries that comply with two-stage transformation should be rewarded with an accelerated tariff reduction schedule, which they were granted (Madakufamba, 2001c). this request was made in light of the fact that it will not be possible for their clothing industries to comply with the two – stage transformation, especially for synthetic fabrics. This will therefore mean that under Option 1, the clothing sector of Zimbabwe and Mauritius would be excluded from having–free access to the SACU market.

For Zimbabwe, not having duty-free access to the SACU market means that the growth of the textile and garment industries will be hampered. For example, when South African fabric is used by Zimbabwe to make garments for export to South Africa, a 13 percent tariff is imposed on clothes that are covered by the quota and 26 percent on other clothes under the South African – Zimbabwe bilateral trade agreement. In addition, a 22 – 30 percent tariff is imposed by SACU on most fabrics of human-made fibres that are imported from outside SADC, even if such fabrics are not available in the region. A 40-60 percent tariff is then imposed on garments made from the imported fabric. In the case of Mauritius, tariffs on some garments exported to SACU are as high as 80 percent (Coughlin et al., 2001: 17).

A number of studies commissioned by SADC on the regional textile and garment industries, recommended that SACU should revisit the double-stage transformation rule imposed on Mauritius and Zimbabwe. In addition to the restrictions imposed on Mauritius and Zimbabwe, the double-stage transformation rules place limitations on Botswana and Swaziland. For Botswana, the tariffs imposed by SACU on Zimbabwean cotton yarn and fabrics increases the cost of garment production for the South African market (Rubin, 2001 a: 21). A 13 percent duty is imposed by SACU on yarn imported from non-MMTZ countries and 18 percent on fabric. Zimbabwean yarns cost, on average, 43 percent of those in South Africa, while the cost of fabric is approximately 58 percent of the South African price.

Swaziland also needs to be able to import yarn and fabric duty-free from Zimbabwe in order to expand the scope of its South African market and reduce the cost of production so that it can realize economies of scale. South Africa feels that the region should begin diversifying production in this area. For example, according to Mfundo Nkuhlu, former Chief Director, African Trade Relations in the South African Department of Trade and Industry, South Africa has been pushing its own industry to begin to focus on sophisticated fabrics as a niche that South Africa would like to service in the world market. For other countries, South Africa's idea that all fabric be sourced from the region is considered to be untenable, and it is viewed as the ploy to guarantee that South Africa's textile and clothing sector is protected.

It is argued that it would take the region more time to attract investors to manufacture human-made fibres than it would for the region to open up its trade regime and utilize materials that are coming from world-class producers and continue to trade among themselves. As the SADC study on the textile and garment industries of South Africa notes, given the global access to human-made fibres at low prices, the wisdom of diverting scarce resources into additional capacity for human-made fibre production in South Africa should be questioned (Jafta & Jeetah, 2001: 39). Furthermore, in order to prevent these fabrics from entering the region, trade barriers would have to be erected against non-SADC fabric producers. Clearly, the issue of rules of origin for the SADC textile and clothing sector has not been resolved, although an agreement has been reached that will be in force for five years. Since there is disagreement over the agreement, enforcing the rules of origin may indeed prove to be a great challenge.

As the dominant economy in the region, South Africa is the most highly integrated with the global economy. Its economic performance inevitably affects other economies in the SADC sub-region because the countries in Southern Africa have a trade relationship with South Africa. The sub-region also serves as a market for various South African products. Official trade in the SADC sub-region is characterized by two realities.



The first is the huge disparity in trade exported to the SADC member states by South Africa versus that which is imported by South Africa from the other member states. While in 1997 the trade imbalance was 6:1 in South Africa's favour, by 1998, this had increased to 7:1. It was reported that in 1999, South African exports to the rest of SADC were approximately R17 billion, while imports were R2 billion (Business Day, 3 November 2000). Although there has been an increase in intra-regional trade since South Africa joined SADC, this is mainly reflective of an increase in South Africa's exports, not an indication of overall enhanced intra-regional trade.

The second reality about official trade in the SADC region is that only South Africa, Zimbabwe, and Mauritius have significant industrial sectors that allow them to export both industrial as well as primary products. The other member states are exporters of primary products. South Africa, however, again dominates the sub-region in terms of industrialized products that are exported. South Africa therefore has a competitive advantage over all other member states.

After the implementation of the SADC FTA many member countries experienced the polarizing effects of trade imbalances in terms of accessing the South African market although South Africa is one of the member states that deposited their instruments of implemation of the SADC FTA. As a result of the FTA between South Africa and EU after the SADC implemented free trade agreement, South Africa continues to serve as the centre for SADC's growth and will retain, and perhaps even intensify its hegemonic position; this means the other member states are not benefiting out of the free trade agreement between South Africa and European Union.

# CHAPTER FIVE

## ALTERNATIVES FOR ECONOMIC DEVELOPMENT IN THE SADC

### Introduction

This chapter proposes issues that could be considered alternatives for economic development in the sub-region so as to enhance SADC's trade opportunities in a globalised world economy. Specifically, there has been a decline in European Union financial and technical support to Southern Africa, increased conditionality placed on the disbursement of economic Assistance, and the implementation of European Union (EU) trade policies that have been counterproductive to regional integration in Southern Africa.

As a consequence, the countries of Southern Africa are forced to asses the impact the changing EU-SADC relationship is having on the region . Of particular concern is whether the changes will leave the region further marginalized within the world economy. This is of special concern since the EU AND South Africa now have in place an FTA, and it is projected that in the future , the EU will have FTA with SADC.



The economies of the SADC member states are more integrated into the Western European bloc than into the North American or Asian blocs . Such integration, which dates back to colonial rule, has been characterized by asymmetry in that African countries have been major exporters of low value primary products and importers of capital – intensive high value products. This asymmetrical relationship leaves African countries marginalized within the world economy (Ojo, 1996:2). The major argument in this chapter is that unless this structural economic relationship is altered, the SADC member states will not be able to increase their economic development, resulting in an alteration of their status within the world economy.

### Investing in Transport Infrastructure

This chapter places in context the importance of transport infrastructural development to both regional integration and development and examines the SADC experience with respect to transport infrastructural development.

The correlation between efficient and viable infrastructures and development has been well established. Similarly, a correlation has been established between transport infrastructure and regional integration, as well as international competitiveness. With respect to the former, it is argued that regional co-operation in the transport sector is a prerequisite for regional economic integration (Lipman, 1997:86). In terms of international competitiveness, the African Development Bank (ADB) posits that without adequate or reliable infrastructure services, the international competitiveness of a country or region is reduced, along with its ability to be involved in international trade.

With respect to regional integration, the ability to attract investment is dependent on a viable transport and communication system (ADB, 2000: 183). Key to any regional infrastructure strategy for the sub-region is reducing high transaction costs as a result of infrastructural deficiencies, excessive charges for information, and ancillary public services that are of poor quality. When SADC was established in 1980, the member states understood the importance of developing the regional transport network. Therefore, a major priority of the sub-region should be the development of the regional part transport systems.

Transport facilities in Southern Africa are largely geared to the needs of overseas rather than intra – regional trade making the latter physically difficult, time consuming and costly. The experience of Latin America and Africa today show that it often costs less to transport goods to Europe than to regional destinations. It may be desirable to overcome such problems through an integrated market. This means that the member states should operate jointly to develop part of their physical infrastructure and transport services. It is an important policy instrument in the restructuring process of the regional economies. In the quest to enhance the economic development, diversification and industrialization of the region, consideration should be given to capital investment made by SADC countries in the physical infrastructure of these economies (Buthelezi 1997:14).



Failure to do so will generate conflict of interests if the restructuring process does not take into account of the existing imbalances. In the absence of an enlightened political will on the part of the participants, corrective mechanisms will have to be introduced to deal with this issue if economic development is to be viable. As noted earlier in the text, regional transport is one such sector that would enhance trade facilitation as envisaged under Article 14 of the Protocol. In this respect, the experience of the Latin American integration process shows that efforts should be directed not so much to the enlargement of the transport physical infrastructure as to the better use of existing facilities. This has been achieved in that region through the establishment of swift transit lines by means of intermodal transport practices, modern technologies, for example the use of containers and administration procedures for the speeding up of freight transport have been more effective.

It is suggested that a more efficient SADC transport system has immense benefits for the South African economy. The economic benefit is derived from providing transit facilities. The revenue earned from transport should make a significant contribution to the member states' foreign exchange earnings, as well in the creation of job opportunities in the economy (Driver, 1999:18). For the nation states, the focus should be on mega projects such as aluminum smelters and steel plants that are government – driven, which is what the spatial Development Initiatives (SDI's) are all about. The development of regional transport infrastructure should go beyond securing international financial assistance for road, railway and port projects. Instead funding should be secured from national states, along with private investors.

The notion of using the private sector to finance, develop and operate infrastructure, reflects an increasing tendency in which the public sector has been forced to include the private sector in infrastructural development. Factors that have contributed to this phenomenon include shortage of governmental revenue and public disenchantment with the delivery of services by publicly owned enterprises. Public – private partnerships can serve to rectify some of these problems, while simultaneously allowing the public sector to retain a certain level of control (Arkwright & De Beer, 1998:2 – 3). The trade protocol within the SADC dictates that any endeavor that takes place between member states should be placed within the context of regional integration.



Experience points to the reality that investors are interested in investing in areas where the profit margins are high. In this case, the SADC port transport system that merely focuses on the establishment of viable transport networks to regional ports might be the best strategy to pursue. The member states should not abandon transport infrastructural development simply because investors do not find their communities profitable. However, to the extent that the transport system has underutilized potential that is attractive to investors, it is important that a comprehensive development strategy be adopted. According to Business Map, if the true potential of public – private partnership (PPPs) in the transport infrastructure sector is to be realized, SADC countries must put in place the necessary reforms to attract large sums of private investment. This includes national legislative and regulatory regime reforms as well as economic stability (Business Map, 1999c). The success of the Southern African Power Pool in integrating the electrical power grids of all the member states will not only serve to guarantee the availability of electricity when member states experience shortages, but it will also make available reliable and affordable electricity to the larger population. This is simultaneously both development and integration.

The development of, or improvement in, existing regional infrastructure enhances the ability of member countries to have access to each other's markets, and it allows those economically marginalized because of poor infrastructure become active participants in either national or regional economy. Again, this is simultaneously both development and regional integration.

**Integrate within the context of SADC Realities**

A devoted advocate of trade focused market integration schemes, the African Development Bank (ADB), in its 2000 publication on regional integration in Africa, notes that even if increased intra-regional trade is viewed as a significant means of promoting overall economic growth and development, it would appear reasonable to embark on a road other than the narrow trade focused approach that has been experimented within the region over the past four decades (ADB, 2000: 165). Both the ADB and the World Bank are advocating that a strategy be adopted by regional states that go beyond trade focused market integration schemes. A regional strategy that deals with the economic and political realities of the SADC region should begin by unequally rejecting market integration at this juncture.

Without the requirements imposed by market integration to liberalise trade regimes that are not competitive, governments should be given the flexibility to determine the best strategy for enhancing trade without adversely affecting the smaller and weaker members states. For example, they should be able to consider if a strategy of planned regional comparative advantage should be developed and implemented before further trade liberalization is pursued. In addition, consideration can be given of the prospects for increased intra-regional trade without creating a free trade area. Such increased trade would be natural response to economic growth emanating from policies that enhance macro-economic stability. This could result in the creation of a complementary trade regime (ADB, 2006: 168).

An integral part of this transformation requires governmental investment in both human capital and advanced technology for the development. A strategy of integration that rejects market integration would allow for such planning, along with the creation of formal economic arrangements, to enhance economic interaction among member states. The competition that arises when member countries at different levels of development attempt to integrate their economies by adopting a strategy of market integration can be so fierce that robust trade competitions are created. There are indeed more productive ways to increase intra-regional trade if it remains a major priority of regional governments.

A regional strategy that transcends market integration also allows for a broader assessment of the integration process. If half of Malawi's trade with its neighbours takes place in the informal trade sector it can be concluded that a high degree of integration exists. Huge sums of government revenue are lost annually as a result of the volume of informal trade that takes place. Instead of being preoccupied with whether or not a country is implementing the agreed tariff regime under the SADC FTA, governments can begin to refocus their attention on providing support to informal traders in the hope of reincorporating this important sector into the formal trade. The need to re-attach the informal sector with the formal is very apparent in Southern Africa.

Malate, the former SADC Focal Point For Mozambique, argues that, the informal traders are probably the closest thing the region has to successful entrepreneurs. What these traders need is support from SADC governments. By keeping the informal traders marginalized from the formal economy, the SADC government lose out. For example, informal traders should be given incentives to put their money in banks something along the new Umzantsi Account introduced in South Africa by the banks. In addition, it has been suggested that if tariffs in the region are lowered then informal traders will have less reason to operate illegally in the final analysis, SADC governments need to begin to provide support to this important sector.



By acknowledging the importance of the informal trade sector, a better assessment can be made of the level of regional integration that actually exists in the SADC region. Afterall cannot be successful if people in the informal sector are not considered as an integral part of the region. Reattaching the informal sector to the informal economy would lend itself to more potential for enhancing economic development and integration than a policy in which member states argue over having access to each other's markets for goods they all produce. The above approach to integration should be under pinned by the existing SADC regional co-operation strategy including the recommended changes.

**Economic and Political Stability**

Macroeconomic stability is essential not only for regional integration to be successful, but also for economic development and employment creation. It is the case, however that most of the SADC countries have experienced economic reform policy reversals. Numerous studies have been undertaken regarding the need for macro economic stability to be realized in order for market integration to be successful in the SADC region (e.g. SADC, 1998a; Jenkins & Thomas, 2000; Harvey, 2000a). Again, even though market integration as a strategy should be approach with caution, macro-economic stability is essential if regional integration is going to be successful.

Harvey posits that, solving the issue of macro-economic stability among the SADC member states can only be accomplished from within the sub-region. This could possibly be accomplished through the creation of a SADC regional Agency of restraint (SADC – RAR). That would be designed to constrain macro-economic extravagance. Such an agency, Harvey argues, would need to be created, not necessarily in order to establish a free trade areas, but in order for it to have a chance of being sustained. The agency would have to be created by voluntarily negotiated agreement, with credible sanctions against breaking its rules (Harvey, 2000a:17).

Harvey's idea of creating a SADC Regional Agency of Restraint should be considered as a mechanism to prevent the reversal of macro-economic stability. At this juncture, however, there is a view that creating such a mechanism might be premature, according to a comprehensive SADC study on macroeconomic convergence and adjustment. In the above-mentioned study (SADC, 1998a) undertaken by the SADC Finance and Investment Sector Co-ordination Unit (FISCU), it was determined that for some time to come, SADC member states will remain committed to achieving national goals and objectives. Therefore, none of the member states are currently prepared to 'cede sovereignty and transfer macroeconomic policy making from the national to the sub-regional level' (SADC, 1998a:7 – 5).



A major problem the sub-region is confronted with is the reality that the SADC economies have different structures and sizes and also adjustment problems.
Consequently, the foundation must be laid for developing a region wide approach to macroeconomic policy-masking. This can be achieved, according to the FISCU study, through a twin-track programme designed to create institutional structures to handle macroeconomic policy making at both the national and sub-regional levels. The overall objective of the strategy is to enhance the ability of the SADC member states to realize their regional integration objectives.

The key to laying the foundation for macro-economic policy making at the national level is for the SADC member states to begin to share information among themselves about their macroeconomic policy environments, constraints to macroeconomic stability, and successful efforts to create macro-economic stability. One of the major objectives of this exercise is for member states to gain an understanding of how their respective macro-economic policies impact on one another other. The sharing of information would be designed to rid the sub-region of the problems of 'institutional dissonance' with respect to macroeconomic policy debates and discussions. The SADC agenda can be advanced, according to the FISCU study, if each member state undertakes a national institutional macroeconomic audit in order to enhance the efficiency, effectiveness and transparency with which policies and out comes that have impacts and implications for other SADC members are understood (SADC, 1998a: 7-8).

The ultimate objective of the exercise would be to create a nationally based framework to integrate national and extra national macroeconomic policies better and to enhance information exchange and research between member states on macro-economic issues. The national programme is to be underpinned by a sub regional component. The immediate objective by a sub regional approach to macro-economic policy making would be the exchange of information and the monitoring of national macroeconomic performance. The FISCU study envisages that the objective of the sub-regional approach would be the coordination and harmonization of the regional macro-economic policy making. These objectives are to be achieved through the creation of SADC wide Macro-economic analysis and Monitoring Unit (MAMU).

This study undertaken by FISCU and the recommendations made should be seriously considered as a way to begin to facilitate macro-economic stability in the SADC region. If the member states are serious about implementing the SADC regional agenda a collective approach to macro economic stability is imperative. The FISCU study therefore and its policy recommendations should be implemented. Concerning political stability at the 2001 SADC Summit held in Blantyre, Malawi, on 12 – 14 August the Chairman of SADC, President Muluzi of Malawi, noted that SADC economic goals will be irrelevant unless the sub-region achieves political stability'. He expressed grave concern at the conflicts.



Angola and the DRC, stressed that political stability is a prerequisite for economic growth and development (SADC, 2001b). The conflicts in the DRC and Angola have had a negative impact on efforts to integrate the economies of the SADC region. As has been evident by the fact that neither country was able to participate in the SADC FTA negotiations.

It is essential that political stability is restored in Zimbabwe in order for economic growth and development as well as integration to be successful. It is imperative that the SADC organ on Politics, Defence and Security is utilized in such a manner that the heads of State and Government take it upon themselves to end the various conflicts in the region and help to institutionalize a culture of democracy. Otherwise, SADC effort to integrate the region and foster economic development will be a lost opportunity.

**Increased Intra-Regional Trade and Trade Diversification**

In a study undertaken by the International Trade Centre (ITC) of UNCTAD, it was determined that significant potential for increased trade exists between SACU and the non SACU SADC countries. In the study the non SACU SADC countries are referred to as the SADC 7. The DRC and Seychelles are excluded. In order to determine the increased trade potential the ITC identified products that the SADC 7 successfully exports to the world that SACU sources from the world. The study concluded that if SACU were to import these products from its regional neighbours instead of the world, in tra-regional trade would be enhanced. The total potential value of this increased trade would be an estimated US$3.6. billion.

A large percentage of this US$2.6 billion would result from SACU importing crude petroleum from Angola. This means that some of the trade potential could have already been realized. In addition to importing crude petroleum form Angola, other sectors that have tremendous potential for increased trade potential (exports to SACU) include minerals, foods, beverages, tobacco, and textiles. It is highlighted in the text that part of the reason why this potential for increased intra-regional trade has not been realized is because from the perspective of South African importers, their import requirements are too sophisticated to be met by regional countries with a generally low level of economic development (Von Kirchbarch & Roelofse, 1998:8).



Furthermore, that the problem stems from the fact that South Africa unfairly protects its industries by maintaining high levels of import duties and other barriers to products form the region (ITC, UNCTAD / WTO, 1999:2). Clearly, under a strategy of regional integration that is more conducive to the region, the SADC member states should be able to determine a way to foster this trade potential between SACU and the SADC 7. This could occur without fierce negotiations transpiring over having access to each other's market. All the SACU countries would have to do is make a decision to source these competitive products from their neighbours instead of from mainly Europe and the United States of America.

Notwithstanding the potential for increased intra-regional trade as noted in the text, the real challenge for the SADC member states with respect to increased intra-regional trade is how to diversify the regional export regime in order to decrease the trade imbalance that exists between the SACU and non SACU SADC countries. This will require a level of investment in the region that presently does not exist.

Similarly, enhanced regional investment is also required to increase regional economic development that could result in economic growth and employment creation. In terms of export diversification the World Bank posits that it should be accompanied by a strategy for structural economic transformation, the management of which should be the responsibility of the Member State (World Bank, 2000: 232).

This will require the state to invest in new technology and provide support to domestic firms that have the potential for producing non- traditional exports. The development of non- traditional exports will be necessary if the untenable trade imbalance between SACU and the non SACU SADC countries is to be narrowed. This should be part of a regional strategy to develop comparative advantages.

**Political commitment to Regional Integration**

It goes without saying that the SADC member states have to make a political commitment to regional integration in order for it to be successful. This means developing the ability to sacrifice short term national interests for long-term regional interests. There is no doubt that the issues that are the greatest constraints to regional harmony must be resolved and political stability must be in place before the full benefits of the SADC regional agenda can be realized. The ability to cede some level of sovereignty is also important if integration is going to work.



In addition, there must be some rationalization of the overlapping of membership in a regional economic organizations, in other words member states should belong to one economic organization. Until the latter is done, the international community has no reason to believe that the SADC member states are really serious about integration. As long as this is the case, the region will remain vulnerable to being exploited by external forces (governments and transnational corporations) that seek to have access to the SADC market for their own interests. Although all SADC member states must assume responsibility for creating a more harmonious regional environment, South Africa, as the regional giant, should take the lead by engaging member states on resolving internal disputes because South Africa is one of the most stable country in the SADC.

Instead of taking a protectionist stance against the other SADC member states and spreading its wings to take advantage of every opportunity that avails itself, more energy needs to be expended on enhancing regional economic development. It will also require that the South African government discontinue its effort to enhance the country's integration into the world economy unilaterally.

The more FTAs South Africa signs, the greater the probability that its neighbours will be faced with more competition as a result of the porous regional borders. Such competition will result in increased economic decline.

As the regional giant, South Africa should make the prosperity of its own region its number one priority. This could help reverse the current economic decline and resultant political turmoil that is befalling all the regional countries. This would send a clear message to both domestic and foreign investors that serious measures are being taken to correct some of the structural problems of the region. With respect to Zimbabwe, until the crisis is resolved, the government will not likely be responsive to such a gesture.

## CONCLUSION

The democratic South Africa has joined the Southern African Development Community at a time when the sub-region is confronted with a climate that is not conducive for both peace and stability due to political turbulence and economic challenges in the SADC member states, namely, Zimbabwe and the Democratic Republic of Congo (DRC). As the dominant economy in the region, South Africa is the most highly integrated with the global economy and, as a result its economic performance inevitably affects other economies in Southern Africa, because all the countries in the sub-region have trade relationship with South Africa. The sub-region also serves as a market for many South African products. Southern Africa is already an important export market for South Africa and a market that has become even more important over time.

South Africa's imports from SADC constitutes only a small amount of products. The trade imbalances has therefore steadily increased since 1998, with the ratio worsening to 9:1. South Africa is going to continue to export far more than it imports from the sub-region, the ratio may narrow. As the SADC sub-region's economies stabilize and grow, they can also export more to South Africa. Furthermore, there are plans to lower trade barriers within the SADC, and this is hoped will give more firms better access to the relatively large South African market. As South African firms invest in the sub-region, exports are likely to increase. Importantly, South Africa's subsidiaries in the SADC, will increase exports back to South Africa. Followed through, this trend would ease the pressure on South Africa to roughly balance trade with its regional partners. Whatever happens in Southern Africa, even if the best policies are vigorously applied, the outcome of the political and economic transformation occurring in South Africa is crucial. If South Africa grows, drawing global attention to the region, demand for the region's exports should increase, raising South African investments in the sub-region's exports should increase, raising South African investments in the sub-continent. On the other hand, a failing South Africa would wipe the whole region off the investment and trade map.



The major challenges facing SADC member states are high rates of unemployment, mass poverty, and economic decline. South Africa joins the SADC with a backlog of the provision of basic services such as water, sanitation and shelter to her citizens and those of member states who seek employment opportunities in South Africa. The other aspect about South Africa is that it also comes in with technological acumen with underutilized capacity in manufacturing.

The integration of South Africa into the SADC has brought about economic stability and enhancement to regional integration process. The participation of South Africa as a fully-fledged partner in SADC's efforts for economic revival has lended weight and rallied support for the Southern African region. The respect and good relations that South Africa commands globally is an added advantage that the sub-region should seize and utilize in addressing the challenges it is facing. South Africa's political changes and stability have created a favourable climate for the country to use its expertise in the area of manufacturing, banking and entrepreneurial capacities to the benefit of sustainable development in the sub-region.

The support from the Private Sector can result in a process of making crucial decisions in putting to place a set of alternatives towards attaining sustainable economic growth and development. The extent of South Africa's success in its role as a leading member state in the process of regional economic integration will depend upon her commitment and political will.

## RECOMMENDATIONS

### Move Towards Deeper Integration

Realising that enhancing Free Trade Area (FTA) would require a fundamental realignment and a loss of sovereignty, SADC should begin to actively explore possibilities for moving beyond the objectives defined by the trade protocol to a form of deeper integration as is noted in the Windhoek Treaty. SADC should move towards a regime of rule-based economic relations. This approach should involve the removal of all obstacles to trade going beyond tariffs and other border-based non-tariff measures and addressing the issue of where domestic policies inhibit trade and integration including flows of capital and eventually labour. Furthermore, much of what is required should involve actions which are highlighted in the Windhoek Treaty or the trade protocol. SADC needs to define what the coverage of the Free Trade Area is. This should ideally be 100 percent of goods, and in the process any exceptions should be signaled, without any ambiguity, to business people.



The rules governing other exceptions must also be worked out as precisely as possible. SADC needs to find a way to create self-fulfilling expectations that rules will be respected. This should be a legal mechanism which in principle, secures the nullification of measures that break the rules. This study, therefore, is of the view that SADC should aspire to the above stated recommendation. As already noted above, the pooling of sovereignty benefits both large and small states, week and strong players. In the SADC the smaller member states should be made aware of the fact that by being part of rule-based system they can get a say in what would otherwise be imposed on them.

Much attention needs to be paid to what further harmonization is needed to avoid the need for the use of intra-SADC anti-dumping action, which is normally taken by states who feel their partners have broken the rules. Among the measures that need to be taken include consideration of a framework of competitive rules so that dominant positions in one market of the sub-region cannot be abused to distort trade. Therefore, the development of regional competition rules can assist somewhat in this and is valuable for its own sake in preventing private firms from using control of markets to perpetuate segmentation. Moreover the strict application of competition rules is likely to give the right signals to external investors.

In addition to completion of what is already mentioned some new developments will be needed. Further progress on the protocol on finance and investment is also needed as soon as possible to complement the trade regime, to ensure predictable conditions for inward and outward investment. A tax protocols is also needed to ensure that any tax revenue lost through regional free trade is replaced by taxes which do not distort trade.

### Transform the FTA Into A Customs Union

There is a view that the best framework for addressing the economic imbalances would be the creation of a customs union for SADC. The practical advantages of a customs union means that a move to this stage is to be recommended. Much tariff revenue is already given up due to bilateral arrangements. However, as long as member states retain separate trade regimes in relation to the outside world, they will need to maintain rules of origin and tight intra-SADC border controls to police them. A customs union would also provide a common source of revenue for redistribution and development, as is the case within both SACU and the EU.

### Integrate Productive Activity and Promote Networks

In order to attain the economic aims highlighted in the text, this study recommends that in pursuing a development strategy and seeking economies of scale, SADC should focus on the benefits from clusters of firms, facilitating linkages which cross borders. SADC should strive for the growth-promoting effects of clusters of economic activity, and crossing borders where this is appropriate. The endeavour should be for integration to encourage linkages and partnerships as well as competition between agricultural sector and firms who have complementary skills and know-how. This should be done rather than trying to use the trade policy to promote a small number of big firms as national or regional 'champions,' a policy which did not yield good results.

### Common Currency Should Wait For A Later Date

Although there is a view that SADC needs to pursue a strategy of deep integration, it is essential that SADC should draw attention to the fact that such a proposition does not mean that they should proceed towards a monetary unification. It is suggested that as long as exchange rate policy can be used it is a useful instrument to be retained during the period of adjustment towards a truly integrated market. This is an issue that will need to be addressed at a particular time in the future, but it is suggested that it is not an immediate priority.

**Revise the SADC Treaty and its Protocols**

The revision of the SADC Treaty and its Protocols can be achieved by agreement among member states and administrative re-organisation. There is a view, however, that reform needs to go beyond the revision of the SADC Treaty and Protocols. Therefore, one task to be urgently undertaken by the enhanced and upgraded Secretariat would be to prompt member states to fast-track the evolution envisaged in the SADC Treaty and by forcing the velocity and strengthening the protocols. This would ensure that these instruments become more explicit in their intention and provisions.

In turn, the above provisions should assist member states towards a consistent and unwavering political commitment to deep integration, supported by a set of firm supranational rules. With respect to the area of trade relations, the Secretariat should expedite the process from the free trade area to a customs union, with a second stage trade protocol that would reflect the goals broadly highlighted in the Windhoek Treaty. As it is noted in the text above, the proposed free trade area under the SADC trade protocol is very much in line or consistent with the tariff structure of a customs union.



**SADC Should Co-ordinate its Economic Relations**

This implies that SADC member states should consult and seek to coordinate their strategies towards the rest of the world, including wasteful competition with investment incentives. Whilst the establishment of a customs union is not the same as having a common framework for external economic relations, it would be a helpful institutional framework for SADC to undertake. The systematic transfer of technology from the North to the South may be the best avenue to explore in order to create viable partnerships between the North and South. The annual SADC Consultative Meeting should be the forum through which to raise these questions.

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# APPENDICES

## Appendix 1 : Direction of Trade Tables

### Trade by Exporting Country, 1990-98

| **Total – all commodities (US$'000)** | | **Value** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Exporter | Angola | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Importer | DRC | 0 | 890 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Importer | Malawi | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Importer | Mauritius | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Importer | Mozambique | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Importer | Seychelles | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Importer | South Africa | 298 | 0 | 239 | 342 | 4 747 | 978 | 779 | 4 420 | 2 738 |
| Importer | Tanzania | 0 | 9 364 | 0 | 0 | 0 | 0 | 0 | 5 | 0 |
| Importer | Zambia | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Importer | Zimbabwe | 0 | 0 | 0 | 0 | 232 | 0 | 7 | 0 | 0 |



| **Total – all commodities (US$'000)** | | **Value** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Exporter | DRC | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Importer | Angola | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Importer | Malawi | 0 | 0 | 0 | 0 | 0 | 10 | 0 | 0 | 0 |
| Importer | Mauritius | 556 | 248 | 492 | 939 | 659 | 188 | 1 138 | 72 | 309 |
| Importer | Mozambique | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Importer | Seychelles | 0 | 0 | 0 | 0 | 0 | 16 | 7 | 0 | 0 |
| Importer | South Africa | 0 | 0 | 3 924 | 80 305 | 99 453 | 100 701 | 111 880 | 89 133 | 3 863 |
| Importer | Tanzania | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 144 | 0 |
| Importer | Zambia | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Importer | Zimbabwe | 1 098 | 414 | 374 | 227 | 24 | 391 | 222 | 241 | 0 |

| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Exporter | Malawi | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Importer | Angola | 0 | 284 | 0 | 0 | 79 | 0 | 0 | 0 | 0 |
| Importer | DRC | 0 | 965 | 0 | 0 | 766 | 498 | 0 | 0 | 0 |
| Importer | Mauritius | 418 | 485 | 310 | 93 | 58 | 368 | 449 | 74 | 72 |
| Importer | Mozambique | 0 | 1 494 | 0 | 0 | 4 339 | 8 722 | 10 735 | 0 | 0 |
| Importer | Seychelles | 45 | 0 | 0 | 38 | 38 | 81 | 50 | 0 | 0 |
| Importer | South Africa | 0 | 44 400 | 46 821 | 48 809 | 50 233 | 45 794 | 68 942 | 85 123 | 71 525 |
| Importer | Tanzania | 0 | 2 162 | 0 | 0 | 2 222 | 6 453 | 0 | 2 773 | 0 |
| Importer | Zambia | 0 | 3 271 | 0 | 0 | 4 033 | 5 096 | 0 | 0 | 0 |
| Importer | Zimbabwe | 4 844 | 3 293 | 2 641 | 2 107 | 6 169 | 7 000 | 23 685 | 15 937 | 0 |

| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Exporter | Mauritius | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Importer | Angola | 0 | 0 | 0 | 0 | 14 | 0 | 0 | 0 | 0 |
| Importer | DRC | 69 | 0 | 473 | 79 | 21 | 43 | 0 | 40 | 0 |
| Importer | Malawi | 117 | 5 | 133 | 595 | 1 647 | 669 | 3 877 | 3 352 | 1 717 |
| Importer | Mozambique | 0 | 33 | 1 142 | 4 935 | 678 | 217 | 22 | 41 | 362 |
| Importer | Seychelles | 3 771 | 11 071 | 2 650 | 3 849 | 3 582 | 3 521 | 2 390 | 3 455 | 4 685 |
| Importer | South Africa | 6 917 | 5 192 | 12 230 | 7 152 | 5 720 | 6 348 | 12 198 | 9 084 | 7 664 |
| Importer | Tanzania | 71 | 183 | 636 | 2 108 | 140 | 948 | 4 701 | 637 | 3 164 |
| Importer | Zambia | 269 | 1 356 | 1 090 | 1 191 | 593 | 247 | 41 | 791 | 171 |
| Importer | Zimbabwe | 4 170 | 4 776 | 4 213 | 5 746 | 6 265 | 9 068 | 10 475 | 14 745 | 6 677 |

| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Exporter | Mozambique | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Importer | Angola | 0 | 0 | 0 | 0 | 727 | 138 | 479 | 0 | 0 |
| Importer | DRC | 0 | 0 | 0 | 0 | 288 | 5 | 129 | 0 | 0 |
| Importer | Malawi | 0 | 1 647 | 0 | 0 | 1 075 | 2 556 | 1 423 | 0 | 0 |
| Importer | Mauritius | 47 | 1 337 | 143 | 0 | 0 | 121 | 0 | 962 | 5 316 |
| Importer | Seychelles | 0 | 656 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Importer | South Africa | 0 | 0 | 17 810 | 18 440 | 28 606 | 41 277 | 43 323 | 37 059 | 36 151 |
| Importer | Tanzania | 0 | 0 | 0 | 0 | 1,080 | 114 | 4 060 | 5 067 | 0 |
| Importer | Zambia | 0 | 0 | 0 | 0 | 102 | 47 | 106 | 0 | 0 |
| Importer | Zimbabwe | 671 | 4 971 | 5 012 | 701 | 7 057 | 7 847 | 10 923 | 22 819 | 0 |

| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Exporter | Seychelles | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Importer | Angola | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Importer | DRC | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Importer | Malawi | 0 | 31 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Importer | Mauritius | 135 | 1 057 | 1 186 | 1 809 | 246 | 256 | 407 | 250 | 1 340 |
| Importer | Mozambique | 0 | 39 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Importer | South Africa | 124 | 59 | 279 | 255 | 375 | 425 | 999 | 1 330 | 1 543 |
| Importer | Tanzania | 0 | 0 | 0 | 0 | 0 | 22 | 0 | 0 | 0 |
| Importer | Zambia | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Importer | Zimbabwe | 0 | 0 | 124 | 0 | 0 | 0 | 0 | 0 | 0 |

| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Exporter | South Africa | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Importer | Angola | 0 | 0 | 131 046 | 82 419 | 87 050 | 113 290 | 362 458 | 183 796 | 198 393 |
| Importer | DRC | 0 | 0 | 103 998 | 98 086 | 104 157 | 191 237 | 143 959 | 181 921 | 182 520 |
| Importer | Malawi | 0 | 229 299 | 250 455 | 185 474 | 175 270 | 172 427 | 224 432 | 236 015 | 222 253 |
| Importer | Mauritius | 148 732 | 200 815 | 145 236 | 161 987 | 169 574 | 219 050 | 201 565 | 202 458 | 179 248 |
| Importer | Mozambique | 0 | 0 | 244 742 | 302 734 | 322 599 | 444 589 | 414 933 | 427 334 | 403 270 |
| Importer | Seychelles | 25 233 | 22 196 | 22 175 | 29 662 | 27 662 | 35 572 | 40 185 | 40 291 | 33 519 |
| Importer | Tanzania | 0 | 0 | 9 836 | 18 264 | 50 930 | 156 781 | 99 948 | 103 044 | 135 988 |
| Importer | Zambia | 0 | 0 | 400 680 | 409 432 | 317 902 | 360 214 | 421 734 | 452 671 | 378 834 |
| Importer | Zimbabwe | 445 758 | 578 570 | 573 745 | 762 428 | 727 391 | 1 228 940 | 1 188735 | 1 080 531 | 899 366 |



| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Exporter | Tanzania | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Importer | Angola | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 108 | 0 |
| Importer | DRC | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8 842 | 0 |
| Importer | Malawi | 0 | 488 | 0 | 0 | 1 366 | 2 086 | 0 | 5 473 | 0 |
| Importer | Mauritius | 420 | 6 861 | 1 633 | 2 360 | 900 | 1 630 | 225 | 832 | 22 |
| Importer | Mozambique | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 273 | 0 |
| Importer | Seychelles | 70 | 0 | 0 | 0 | 0 | 46 | 0 | 0 | 0 |
| Importer | South Africa | 0 | 0 | 3 562 | 6 488 | 4 415 | 4 552 | 5 176 | 8 318 | 3 903 |
| Importer | Zambia | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 602 | 0 |
| Importer | Zimbabwe | 1 764 | 2 751 | 6 030 | 1 381 | 699 | 1 806 | 2 288 | 17 023 | 0 |

| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Exporter | Zambia | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Importer | Angola | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Importer | DRC | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Importer | Malawi | 0 | 5 373 | 0 | 0 | 13 342 | 6 064 | 0 | 0 | 0 |
| Importer | Mauritius | 14 | 20 | 0 | 0 | 0 | 12 | 0 | 1 475 | 74 |
| Importer | Mozambique | 0 | 0 | 0 | 0 | 103 | 352 | 206 | 0 | 0 |
| Importer | Seychelles | 0 | 0 | 0 | 0 | 0 | 0 | 8 | 0 | 0 |
| Importer | South Africa | 0 | 0 | 15 525 | 23 206 | 28 869 | 26 200 | 22 449 | 37 082 | 41 767 |
| Importer | Tanzania | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 073 | 0 |
| Importer | Zimbabwe | 10 815 | 11 165 | 14 016 | 13 999 | 6 507 | 15 695 | 14 808 | 26 942 | 0 |

| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Exporter | Zimbabwe | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Importer | Angola | 11 881 | 7 231 | 4 522 | 3 283 | 10 628 | 11 982 | 7 198 | 7 473 | 0 |
| Importer | DRC | 14 685 | 7 977 | 3 449 | 3 967 | 18 263 | 8 675 | 6 416 | 9 912 | 0 |
| Importer | Malawi | 73 013 | 37 779 | 41 274 | 43 784 | 80 856 | 50 252 | 62 389 | 80 808 | 0 |
| Importer | Mauritius | 789 | 996 | 3 777 | 5 547 | 7 097 | 8 434 | 3 485 | 4 667 | 5 770 |
| Importer | Mozambique | 55 598 | 34 961 | 43 246 | 55 311 | 55 260 | 54 526 | 74 776 | 72 343 | 0 |
| Importer | Seychelles | 166 | 477 | 1 018 | 365 | 431 | 1 381 | 4 865 | 2 547 | 0 |
| Importer | South Africa | 229 525 | 218 396 | 246 105 | 261 197 | 354 279 | 348 954 | 318 305 | 356 872 | 177 487 |
| Importer | Tanzania | 12 212 | 3 666 | 3 024 | 5 013 | 25 168 | 9 942 | 5 108 | 13 678 | 0 |
| Importer | Zambia | 52 958 | 45 508 | 49 180 | 68 607 | 65 608 | 95 719 | 93 531 | 119 193 | 0 |

## Trade by Exporting Country, 1990-98

| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Importer | Angola | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Exporter | DRC | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | Malawi | 0 | 284 | 0 | 0 | 79 | 0 | 0 | 0 | 0 |
| Exporter | Mauritius | 0 | 0 | 0 | 0 | 14 | 0 | 0 | 0 | 0 |
| Exporter | Mozambique | 0 | 0 | 0 | 0 | 727 | 138 | 479 | 0 | 0 |
| Exporter | Seychelles | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | South Africa | 0 | 0 | 131 046 | 82 419 | 87 050 | 113 290 | 362 458 | 183 796 | 198 393 |
| Exporter | Tanzania | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 108 | 0 |
| Exporter | Zambia | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | Zimbabwe | 11 881 | 7 231 | 4 522 | 3 283 | 10 628 | 11 982 | 7 198 | 7 473 | 0 |

| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Importer | DRC | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Exporter | Angola | 0 | 890 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | Malawi | 0 | 965 | 0 | 0 | 766 | 498 | 0 | 0 | 0 |
| Exporter | Mauritius | 69 | 0 | 473 | 79 | 21 | 43 | 0 | 40 | 0 |
| Exporter | Mozambique | 0 | 0 | 0 | 0 | 288 | 5 | 129 | 0 | 0 |
| Exporter | Seychelles | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | South Africa | 0 | 0 | 103 998 | 98 086 | 104 157 | 191 237 | 143 959 | 181 921 | 182 520 |
| Exporter | Tanzania | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8 842 | 0 |
| Exporter | Zambia | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | Zimbabwe | 14 685 | 7 977 | 3 449 | 3 967 | 18 263 | 8 675 | 6 416 | 9 912 | 0 |



| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Importer | Malawi | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Exporter | Angola | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | DRC | 0 | 0 | 0 | 0 | 0 | 10 | 0 | 0 | 0 |
| Exporter | Mauritius | 117 | 5 | 133 | 595 | 1 647 | 669 | 3 877 | 3 352 | 1 717 |
| Exporter | Mozambique | 0 | 1 647 | 0 | 0 | 1 075 | 2 556 | 1 423 | 0 | 0 |
| Exporter | Seychelles | 0 | 31 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | South Africa | 0 | 229 299 | 250 455 | 185 474 | 175 270 | 172 427 | 224 432 | 236 015 | 222 253 |
| Exporter | Tanzania | 0 | 488 | 0 | 0 | 1 366 | 2 086 | 0 | 5 473 | 0 |
| Exporter | Zambia | 0 | 5 373 | 0 | 0 | 13 342 | 6 064 | 0 | 0 | 0 |
| Exporter | Zimbabwe | 73 013 | 37 779 | 41 274 | 43 784 | 80 856 | 50 252 | 62 386 | 80 808 | 0 |

| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Importer | Mauritius | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Exporter | Angola | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | DRC | 556 | 248 | 492 | 939 | 659 | 188 | 1 138 | 72 | 309 |
| Exporter | Malawi | 418 | 485 | 310 | 93 | 58 | 368 | 449 | 74 | 72 |
| Exporter | Mozambique | 47 | 1 337 | 143 | 0 | 0 | 121 | 0 | 962 | 5 316 |
| Exporter | Seychelles | 135 | 1 057 | 1 186 | 1 809 | 246 | 256 | 407 | 250 | 1 340 |
| Exporter | South Africa | 148 732 | 200 815 | 145 236 | 161 987 | 169 574 | 219 050 | 201 565 | 202 458 | 179 248 |
| Exporter | Tanzania | 420 | 6 861 | 1 633 | 2 360 | 900 | 1 630 | 225 | 832 | 22 |
| Exporter | Zambia | 14 | 20 | 0 | 0 | 0 | 12 | 0 | 1 475 | 74 |
| Exporter | Zimbabwe | 789 | 996 | 3 777 | 5 547 | 7 097 | 8 434 | 3 485 | 4 667 | 5 770 |

| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Importer | Mozambique | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Exporter | Angola | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | DRC | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | Malawi | 0 | 1 494 | 0 | 0 | 4 339 | 8 722 | 10 735 | 0 | 0 |
| Exporter | Mauritius | 0 | 33 | 1 142 | 4 935 | 678 | 217 | 22 | 41 | 362 |
| Exporter | Seychelles | 0 | 39 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | South Africa | 0 | 0 | 244 742 | 302 734 | 322 599 | 444 589 | 414 933 | 427 334 | 403 270 |
| Exporter | Tanzania | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 273 | 0 |
| Exporter | Zambia | 0 | 0 | 0 | 0 | 103 | 352 | 206 | 0 | 0 |
| Exporter | Zimbabwe | 55 598 | 34 961 | 43 246 | 55 311 | 55 260 | 54 526 | 74 776 | 72 343 | 0 |



| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Importer | Seychelles | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Exporter | Angola | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | DRC | 0 | 0 | 0 | 0 | 0 | 16 | 7 | 0 | 0 |
| Exporter | Malawi | 45 | 0 | 0 | 38 | 38 | 81 | 50 | 0 | 0 |
| Exporter | Mauritius | 3 771 | 11 071 | 2 650 | 3 849 | 3 582 | 3 521 | 2 390 | 3 455 | 4 685 |
| Exporter | Mozambique | 0 | 656 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | South Africa | 25 233 | 22 196 | 22 175 | 29 662 | 27 662 | 35 572 | 40 185 | 40 291 | 33 519 |
| Exporter | Tanzania | 70 | 0 | 0 | 0 | 0 | 46 | 0 | 0 | 0 |
| Exporter | Zambia | 0 | 0 | 0 | 0 | 0 | 0 | 8 | 0 | 0 |
| Exporter | Zimbabwe | 166 | 477 | 1 018 | 365 | 431 | 1 381 | 4 865 | 2 547 | 0 |

| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Importer | South Africa | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Exporter | Angola | 298 | 0 | 239 | 342 | 4 747 | 978 | 779 | 4 420 | 2 738 |
| Exporter | DRC | 0 | 0 | 3 924 | 80 305 | 99 453 | 100 701 | 111 880 | 89 133 | 3 863 |
| Exporter | Malawi | 0 | 44 400 | 46 821 | 48 809 | 50 233 | 45 794 | 68 942 | 85 123 | 71 525 |
| Exporter | Mauritius | 6 917 | 5 192 | 12 230 | 7 152 | 5 720 | 6 348 | 12 198 | 9 084 | 7 664 |
| Exporter | Mozambique | 0 | 0 | 17 810 | 18 440 | 28 606 | 41 277 | 43 323 | 37 059 | 36 151 |
| Exporter | Seychelles | 124 | 59 | 279 | 255 | 375 | 425 | 999 | 1 330 | 1 543 |
| Exporter | Tanzania | 0 | 0 | 3 562 | 6 488 | 4 415 | 4 552 | 5 176 | 8 318 | 3 903 |
| Exporter | Zambia | 0 | 0 | 15 525 | 23 206 | 28 869 | 26 200 | 22 449 | 37 082 | 41 767 |
| Exporter | Zimbabwe | 229 525 | 218 396 | 246 105 | 261 197 | 354 279 | 348 954 | 318 305 | 356 872 | 177 487 |

| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Importer | Tanzania | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Exporter | Angola | 0 | 9 364 | 0 | 0 | 0 | 0 | 0 | 5 | 0 |
| Exporter | DRC | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 144 | 0 |
| Exporter | Malawi | 0 | 2 162 | 0 | 0 | 2 222 | 6 453 | 0 | 2 773 | 0 |
| Exporter | Mauritius | 71 | 183 | 636 | 2 108 | 140 | 948 | 4 701 | 637 | 3 164 |
| Exporter | Mozambique | 0 | 0 | 0 | 0 | 1 080 | 114 | 4 060 | 5 067 | 0 |
| Exporter | Seychelles | 0 | 0 | 0 | 0 | 0 | 22 | 0 | 0 | 0 |
| Exporter | South Africa | 0 | 0 | 9 836 | 18 264 | 50 930 | 156 781 | 99 948 | 103 044 | 135 988 |
| Exporter | Zambia | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 073 | 0 |
| Exporter | Zimbabwe | 12 212 | 3 666 | 3 024 | 5 013 | 25 168 | 9 942 | 5 180 | 13 678 | 0 |



| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Importer | Zambia | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Exporter | Angola | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | DRC | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | Malawi | 0 | 3 271 | 0 | 0 | 4 033 | 5 096 | 0 | 0 | 0 |
| Exporter | Mauritius | 269 | 1 356 | 1 090 | 1 191 | 593 | 247 | 41 | 791 | 171 |
| Exporter | Mozambique | 0 | 0 | 0 | 0 | 102 | 47 | 106 | 0 | 0 |
| Exporter | Seychelles | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | South Africa | 0 | 0 | 400 680 | 409 432 | 317 902 | 360 214 | 421 734 | 452 671 | 378 834 |
| Exporter | Tanzania | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 602 | 0 |
| Exporter | Zimbabwe | 52 958 | 45 508 | 49 180 | 68 607 | 65 608 | 95 719 | 93 531 | 119 193 | 0 |

| Total – all commodities (US$'000) | | Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Importer | Zimbabwe | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Exporter | Angola | 0 | 0 | 0 | 0 | 232 | 0 | 7 | 0 | 0 |
| Exporter | DRC | 1 098 | 414 | 374 | 227 | 24 | 391 | 222 | 241 | 0 |
| Exporter | Malawi | 0 | 3 271 | 0 | 0 | 4 033 | 5 096 | 0 | 0 | 0 |
| Exporter | Mauritius | 4 170 | 4 776 | 4 213 | 5 746 | 6 265 | 9 068 | 10 475 | 14 745 | 6 677 |
| Exporter | Mozambique | 671 | 4 971 | 5 012 | 701 | 7 057 | 7 847 | 10 923 | 22 819 | 0 |
| Exporter | Seychelles | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exporter | South Africa | 445 758 | 578 570 | 573 745 | 762 428 | 727 391 | 1 228 940 | 1 188735 | 1 080531 | 899 366 |
| Exporter | Tanzania | 1 764 | 2 751 | 6 030 | 1 381 | 699 | 1 806 | 2 288 | 17 023 | 0 |
| Exporter | Zambia | 10 815 | 11 165 | 14 016 | 13 999 | 6 507 | 15 695 | 14 808 | 26 942 | 0 |

**Notes:** 1) Source of data used by TIPS: World Trade Analyzer 1980 – 98 (Statistics Canada)
2) All figures in current US dollars
3) South African data refers to the Southern African Customs Union (SACU) and hence includes data for Botswana Lesotho, Namibia, and Swaziland

Tables prepared by Arjen van Zwieten, Data Unit Manager, TIPS

# *Appendix 2: Informal Trade Tables*

**Table 1: Malawi and Neighbouring Countries: Informal Trade Balance Sheet (US$' 000)**

| Trade with | Exports | | | Imports | | | Balance | | Trade balance |
|---|---|---|---|---|---|---|---|---|---|
| | Agricul-tural | Non-agricultural | Total | Agricul-tural | Non-agricultural | Total | Agricul-tural | Non-agricultural | Total |
| Zambia | 732 | 2 592 | 3 324 | 7 884 | 9 303 | 17 187 | -7 152 | -6,711 | -13 863 |
| Mozambique | 945 | 2 933 | 3 878 | 6 501 | 255 | 6 756 | -5 556 | 2 678 | -2 878 |
| Tanzania | 762 | 5 738 | 6 500 | 660 | 5 749 | 6 409 | 102 | -11 | 91 |
| Total | 2 439 | 11 263 | 13 702 | 15 045 | 15 307 | 30 352 | -12 606 | -4 044 | -16 650 |

**Source: Minde and Nakhumwa (1998:32)**



**Table 2: Malawi Export and Import Trade: A Comparison of Formal and Informal Trade (US$ '000)**

| | EXPORTS | | | IMPORTS | | |
|---|---|---|---|---|---|---|
| Trading With | Formal | Informal | % of formal to informal | Formal | Informal | % of formal to informal |
| Zambia | 2.5 | 3.3 | 75.8 | 13.2 | 17.2 | 76.7 |
| Mozambique | 5.2 | 3.9 | 133 | 4.4 | 6.8 | 64.7 |
| Tanzania | 1.8 | 6.5 | 27.7 | 1.3 | 6.4 | 20.3 |
| Total | 9.5 | 13.7 | 69.3 | 18.9 | 30.4 | 62.2 |

Source: Minde and Nakhumwa (1998: 39)

**Table 3: Estimated Annual Value of Mozambique's Informal Trade with Neighbours and Overall Trade Balance (US$ ' 000)**

| Neighbours | Mozambique's Exports | Mozambique's Imports | Total informal Trade | Informal trade balance |
|---|---|---|---|---|
| Swaziland | 30 599 | 50 689 | 81 288 | -20 090 |
| South Africa | 1 303 | 32 092 | 33 395 | -30 789 |
| Zimbabwe | 406 | 7 295 | 7 701 | -6 889 |
| Malawi | 1 367 | 2 812 | 4 179 | -1 445 |
| Zambia | 217 | 417 | 634 | -200 |
| Tanzania | 2 950 | 4 643 | 7 593 | -1 693 |

**Table 4: Comparison of Formal and Informal Trade with Mozambique and Her Neighbours (US '000)**

| Mozambique and Swaziland | | | | |
|---|---|---|---|---|
| Type of activity | Formal trade | Informal trade | Total trade | Share of informal trade % |
| | 1996 | 1995-96 | | |
| Exports to Swaziland | 103 | 30 599 | 30 702 | 99.66 |
| Imports from Swaziland | 10 000 | 50 689 | 60 689 | 83.52 |
| Total | 10 103 | 81 288 | 91 391 | 88.95 |
| **Mozambique and South Africa** | | | | |
| Type of activity | Formal trade | Informal trade | Total trade | Share of informal trade % |
| | 1996 | 1995-96 | | |
| Exports to SA | 43 800 | 1 303 | 45 103 | 2.89 |
| Imports from SA | 255 000 | 32 092 | 287 092 | 11.18 |
| Total | 298 800 | 33 395 | 332 195 | 10.05 |
| **Mozambique and Zimbabwe** | | | | |
| Type of activity | Formal trade | Informal trade | Total trade | Share of informal trade % |
| | 1996 | 1995-96 | | |
| Exports to Zimbabwe | 9 800 | 406 | 10 206 | 3.98 |
| Imports from Zimbabwe | 29 700 | 7 295 | 36 995 | 19.72 |
| Total | 39 500 | 7 701 | 47 201 | 16.32 |
| **Mozambique and Malawi** | | | | |
| Type of activity | Formal trade | Informal trade | Total trade | Share of informal trade % |
| | 1996 | 1995-96 | | |
| Exports to Malawi | 1 400 | 1 367 | 2 767 | 49.40 |
| Imports from Malawi | 10 700 | 2 812 | 13 512 | 20.81 |
| Total | 12 100 | 4 179 | 16 279 | 25.67 |
| **Mozambique and Zambia** | | | | |
| Type of activity | Formal trade | Informal trade | Total trade | Share of informal trade% |
| | 1996 | 1995-96 | | |
| Exports to Zambia | 106 | 217 | 323 | 67.18 |
| Imports from Zambia | 207 | 417 | 624 | 66.83 |
| Total | 313 | 634 | 947 | 66.95 |
| **Mozambique and Tanzania** | | | | |
| Type of activity | Formal trade | Informal trade | Total trade | Share of informal trade % |
| | 1996 | 1995-96 | | |
| Exports to Tanzania | 3 956 | 2 950 | 6 906 | 42.72 |
| Imports from Tanzania | 54 | 4 643 | 4 697 | 98.85 |
| Total | 4 010 | 7 593 | 11 603 | |

Source: Macamo (1998:32-42)

**Table 5: Tanzania and Neighbouring Countries: Informal Balance Sheet (US$'000)**

| | Exports | Imports | Total | Trade balance |
|---|---|---|---|---|
| Malawi | | | | |
| Agricultural | 272 | 3 471 | 3 743 | -3 199 |
| Other | 1 081 | 767 | 1 848 | 314 |
| **Total** | **1 353** | **4 238** | **5 591** | **-2 885** |
| | | | | |
| Zambia | | | | |
| Agricultural | 3 374 | 5 670 | 9 044 | -2 296 |
| Other | 358 | 157 | 515 | 201 |
| **Total** | **3 372** | **5 827** | **9 559** | **-2 095** |
| | | | | |
| Mozambique | | | | |
| Agricultural | 287.3 | 2 246 | 2 533.3 | -1 958.7 |
| Other | 4 229 | 929 | 5 158 | 3 300 |
| **Total** | **4 516.3** | **3 175** | **7 691.3** | **1 341.3** |
| | | | | |
| **Overall total** | **9 241.3** | **13 240** | **22 841.3** | **-3 638.7** |

Source: Ackello-Ogutu and Echessah (1998)



**Table 6: Comparison of Formal and Informal Trade Statistics (US$ million)**

| Country | Formal 1995 | Informal 1995-96 | Total | Informal trade as % of total trade |
|---|---|---|---|---|
| Zambia | 14 | 9.7 | 23.7 | 40.9 |
| Malawi | 3 | 5.7 | 8.7 | 65.5 |
| Mozambique | 12 | 7.7 | 19.7 | 39.1 |
| **Total** | **29** | **23.1** | **52.1** | **48.5** |

Source: Ackello-Ogutu and Echessah (1998:23)

# Appendix 3: SADC Trade Offers

**Table 1: Mozambique's Trade Offers**

| Offer to South Africa | | | | |
|---|---|---|---|---|
| **Category** | **Tariff lines** | **%** | **Trade (US$'000)** | **%** |
| A | 1 223 | 23.42 | 59 719 | 17.12 |
| B | 3 551 | 68.02 | 198 733 | 56.97 |
| B1 | 1 526 | 29.23 | 44 101 | 12.64 |
| B2 | 2 025 | 38.79 | 154 632 | 44.33 |
| C | 447 | 8.56 | 90 386 | 25.91 |
| C1 | 259 | 4.46 | 29 344 | 8.41 |
| C2 | 85 | 1.63 | 60 998 | 17.49 |

| Differentiated trade offer | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Share of imports by categories** | | | **Liberalization schedule** | | | | |
| | **US$'000** | **SADC%** | | | | **US$'000** | **SADC%** |
| **A** | 54 523 | 15.63 | **Immediate** | (to zero on year1) | **A** | 54 523 | 15.63 |
| **B** | 166 465 | 47.72 | **Frontloaded** | (Started on year 0) | | 74 163 | 21.26 |
| **B1 (from year 0)** | 21 263 | 6.10 | | (linear till year 8) | **B1** | 21 263 | |
| **B2 (from year 6)** | 145 202 | 41.62 | | (linear till year 15) | **C1** | 52 900 | |
| **C** | 114 994 | 32.96 | **Backloaded** | (satisfying asymmetry criterium) | | 207 296 | 59.42 |
| **C1 (form year 0)** | 52 900 | 15.16 | **Strictgradua l** | ( from year 6 to 8) | **B2** | 145 202 | 41.62 |
| **C2(from year 10)** | 62 094 | 17.80 | **Strict sensitive** | (from year 11 to 15) | **C2** | 62 094 | 17.80 |
| **E** | 12 858 | 3.69 | **Excluded** | (not liberalizing) | **E** | 12 858 | 3.69 |
| **Total imports from SADC** | 348 840 | 100.00 | | | | 348 840 | |
| **Note:** Trade figure based on 1997 imports | | | | | | | |



Source: 'Record of the 14th meeting of the SADC Industry and trade Committee of Ministers', Maseru Lesotho, 16 June 2000, p.10.

### Table 2: Zambia's Trade Offers

| Offer to South Africa | | | | | | |
|---|---|---|---|---|---|---|
| | Tariff Lines | % | 1997 SADC imports (US$) | % | Non-RSA imports (US$) | % |
| Category A | 3 229 | 53.7 | 208 337 629 | 48.9 | 37 945 734 | 45.4 |
| Category B | 2 550 | 42.4 | 166 491 063 | 39.1 | 36 650 564 | 43.9 |
| Category C | 233 | 3.9 | 51 377 473 | 12.0 | 8 900 610 | 10.7 |
| Total | 6 012 | | 426 206 165 | | 83 496 907 | |

| Differentiated Trade Offer | | | | | | |
|---|---|---|---|---|---|---|
| | Tariff Lines | % | 1997 SADC imports (US$) | % | Non-RSA imports (US$) | % |
| Category A | 1 947 | 32.4 | 99 386 918 | 23.3 | | |
| Category B1 | 3 664 | 60.9 | 218 026 155 | 51.2 | | |
| Category B2 | 166 | 2.8 | 56 902 049 | 13.4 | | |
| Category C | 235 | 3.9 | 51 891 044 | 12.2 | | |
| Total | 6 012 | | 426 206 165 | | | |

Source: 'Record of the 14th meeting of the SADC Industry and Trade Committee of ministers, Maseru, Lesotho, 16 June 2000, pp. 18-19.



## Tanzania's Trade Offers

**Table 3A: Tanzania's Offer to the Republic of South Africa (US$ '000)**

| Category | Tariff lines | Tariff lines (%) | RSA trade | Trade (%) |
|---|---|---|---|---|
| Category A | 965 | 15.5 | 8 668 | 9.2 |
| Category B | 4 127 | 66.4 | 50 687 | 53.7 |
| Category B2 | 178 | 2.9 | 23 476 | 24.9 |
| Category C | 903 | 14.5 | 11 486 | 12.2 |
| Category E | 43 | 0.7 | 10 | 0.0 |
| Total | 6 216 | 100.0 | 94 327 | 100.0 |

### Table 3B: Tanzania's offer to the Rest of SADC 9US$'000

| Category | Tariff lines | Tariff lines (%) | Non-RSA trade | Trade (%) |
|---|---|---|---|---|
| Category A | 1 077 | 17.3 | 4 064 | 14.2 |
| Category B | 4 268 | 68.7 | 19 608 | 68.7 |
| Category B2 | 39 | 0.6 | 1 181 | 4.1 |
| Category C | 789 | 12.7 | 3 707 | 13.0 |
| Category E | 43 | 0.7 | 0.7 | 0.0 |
| Total | 6 216 | 100.0 | 28 560.7 | 100.0 |

**Note:**

Category A: 0 duty from year 2000

Category B: Less sensitive products: 0 duty will commence from year 2006.

Category B: More sensitive products: 0 duty will commence from year 2008.

Category B2: More sensitive products: 0 duty will commence from year 2008 in the contest of minimization of trade creation or diversion.

Category C: 0 duty will be achieved in year 2012 subject to positive results of a review to be carried out in year 2010

Category E: Exclusion

Source: 'Record of the 14th meeting of the SADC Industry and trade Committee of Ministers', Maseru, Lesotho, 16 June 2000, pp. 12-13.

### Table 4: Mauritius' Trade Offer

| | Improved offer | | |
|---|---|---|---|
| | No. of tariff lines | % on total tariff lines | % on total value of SADC imports |
| Immediate liberalization list | 3 247 | 60 | 37 |
| Gradual liberalization list | 1 661 | 30 | 48 |
| Sensitive list | 571 | 10 | 15 |
| **Total no. of tariff lines** | **5 479** | **100** | **100** |

Source: 'Record of the 8th Special Meeting of the SADC Industry and Trade Committee of ministers', Sandton, South Africa, 31 March 2000, p.18



### Table 5: Malawi's Trade Offers

| **Offer to South Africa** | | |
|---|---|---|
| **Category** | **Offer to RSA** | |
| | **Trade%** | **Tariff lines %** |
| A | 37.2 | 33 |
| B | 46.2 | 52 |
| C | 16.6 | 15 |
| **Total** | **100** | **100** |

| **Malawi's differentiated trade offer** | | |
|---|---|---|
| | **Differentiated offer to the rest of SADC** | |
| **Category** | **Trade%** | **Tariff lines %** |
| A | 50 | 33.5 |
| B | 38.2 | 51.9 |
| C | 11.7 | 14.6 |
| **Total** | **100** | **100** |

Source: 'Record of the 14th meeting of the SADC Industry and Trade Committee of Ministers', Maseru, Lesotho, 16 June 2000, p. 17.

# APPENDIX 4

## Currency Conversion table

**For the following tables the convertibility rate is US$1**

US$1 = ________________

**European EUR**

1996 - .79

1997 - .88

1998 - .89

1999 - .94

**Botswana Pula**

1994 – 2.71

1995 – 2.82

1996 – 3.64

1997 – 3.80

1998 – 4.45

1999 – 4.63



**South African rand**

1994 – 3.54

1995 – 3.64

1996 – 4.68

1997 – 4.86

1998 – 5.86

1999 – 6.15

**Malawi kwacha**

1994 – 15.29

1995 – 15.30

1996 – 15.32

1997 – 21.22

1998 – 43.88

1999 – 46.43

**Zimbabwe dollar**

1993 – 6.5

1994 – 8.2

1995 – 8.7

1996 – 9.9

1997 – 11.9

1998 – 23.7

# APPENDIX 5

**Potential for Increased Trade between SACU and the SADC 7**

| Rank | Product | Potential for increased trade (US$m) |
|---|---|---|
| 1 | Crude Petroleum | 2 635 |
| 2 | Diamonds, sorted (other than industrial diamonds), unworked, or simply saw | 197 |
| 3 | Nickel, not alloyed | 100 |
| 4 | Cotton (other than linters), not carded or combed | 178 |
| 5 | Coffee, not roasted, not decaffeinated | 49 |
| 6 | Tobacco, not stemmed / stripped | 27 |
| 7 | Tobacco, wholly or partly stemmed /stripped | 25 |
| 8 | Other bovine and equine leather, without hair on, tanned | 21 |
| 9 | Meat of bovine and equine leather, without hair on, tanned | 18 |
| 10 | Tunas, skipjack, and Atlantic Bonito (Sarda spp), whole or in pieces | 17 |
| 11 | Other black tea (fermented) and other partly fermented tea | 15 |
| 12 | Articles of jewellery and parts thereof of precious metal | 14 |
| 13 | T-Shirts, singlets and other vests, knitted or crocheted | 12 |
| 14 | Refined Copper | 12 |
| 15 | Footwear, n.e.s with uppers of leather or composition leather | 11 |
| 16 | Wood of coniferous species, sawn or chipped lengthwise, sliced or peeled | 11 |
| 17 | Oilcake other solid residues of oil from cotton seeds | 10 |
| 18 | Wood of coniferous species, sawn of chipped lengthwise, sliced or peeled | 9 |
| 19 | Shrimps and prawns, frozen | 9 |
| 20 | Wire, or refines copper | 9 |
| 21 | Other fish, frozen (including livers and roes | 9 |
| 22 | Cotton yarn(other than sewing thread), containing 85% or more by weight | 8 |
| 23 | Waste and scrap of alloy steel other than sints steel | 8 |
| 24 | Other woven fabric, > 85% cotton, weight more than 200 $g/m^2$ , denim | 8 |
| 25 | Shirts, men's or boys', not knitted or crocheted | 7 |
| 26 | Beans, other than broad beans and horse beans, dried, shelled | 6 |
| 27 | Toilet and kitchen linen of cotton | 6 |
| 28 | Blouses, shirts, and shirt blouses, women's or girls', of textile material | 6 |
| 29 | Diamonds, rough, unsorted | 6 |
| 30 | Hides and skins (excluding those of heading 211.2) of bovine animals | 6 |
| 31 | Cane sugar, raw, in solid form, not containing added flavouring or colour 456 | 6 |
| 32 | Bed-lined, not knitted of crocheted, of cotton | 6 |
| 33 | Trousers, bib and braces overalls, breeches and shorts, men's or boys' | 6 |
| 34 | Portland cement | 6 |
| 35 | Parts for turbojets or turbo propellers | 5 |
| 36 | Spectacles, googles and the like, corrective, protective | 5 |

| Rank | Product | Potential for increased trade (US$m) |
|---|---|---|
| 37 | Asbestos | 5 |
| 38 | Preparations of the kind used for animal food, n.e.s. | 5 |
| 39 | Jerseys, pullovers, cardigans, waistcoats, and similar articles, knitted | 5 |
| 40 | Other beet or cane sugar in solid form, other than flavoures or crocheted | 5 |
| 41 | Dresses, women's or girls', of textile materials, not knitted or crocheted | 5 |
| 42 | Dresses, women's or girls', of textile materials, not knitted or crocheted | 5 |
| 43 | Motor vehicles for the transport of persons, n.e.s | 4 |
| 44 | Maize seed | 4 |
| 45 | Cobalt mattes and other intermediate products of cobalt metallurgy | 4 |
| 46 | Furniture, n.e.s, of wood of a kind used in the bedroom | 4 |
| 47 | Cuttlefish, octopus, and squid, frozen, dried, salted, or in brine; flours | 4 |
| 48 | Cloth (including endless bands(, grill, netting and fencing, of iron | 4 |
| 49 | Nickel oxide sinters and other intermediate products of nickel metallurgy | 4 |
| 50 | Veneered panels and similar laminated woods, n.e.s | 4 |
| 51 | Toys representing animals or non-human creatures | 4 |
| 52 | Parts and accessories for the machines of group 752 | 4 |
| 53 | Skirts and divided skirts, women's or girls, of textile materials | 4 |
| 54 | Gold (including gold plated with platinum), non-monetary | 4 |
| 55 | Dog or cat food put up for retail sale | 4 |
| 56 | Other woven fabrics, > 85% cotton, weight more 200g/m $^2$ | 4 |
| 57 | Cocoa beans, whole or broken, raw or roasted | 4 |
| 58 | Aeroplanes and other mechanically-propelled, of an unladen weight > 15 000 | 4 |
| 59 | Trunks, suitcases, vanity cases, executive cases, briefcases | 3 |
| 60 | Other electric conductors, for a voltage exceeding 80V | 3 |
| 61 | Shirts, men's or boys', knitted or crocheted of textile materials | 3 |
| 62 | Malt, whether or not roasted (including malt flour) | 3 |
| 63 | Other woven fabrics > 85 % cotton, weight more than 200 g/m/$^2$ dyed | 3 |
| 64 | Twine, cordage, ropes, and cables, whether or not plaited or braided | 3 |
| 65 | Other wheat (including spelt) and meslin, unmilled | 3 |
| 66 | Other outer garments, n.e.s., men's or boys | 3 |
| 67 | Other maize, unmilled | 3 |
| 68 | Copper waste and scrap | 3 |
| 69 | Seats, n.e.s, with wooden frames | 3 |
| 70 | Cotton seeds | 3 |
| 71 | Particle board and similar board of wood, whether or not agglomerated | 3 |
| 72 | Tracksuits, knitted or crocheted | 3 |
| 73 | Copra | 3 |
| 74 | Other woven fabric, > 85% cotton, weight more than 200 g/m $^2$, printed | 3 |
| 75 | Cotton, carded or combed | 6 |
| 76 | Shawls, scarves, mufflers, veils, and the like | 3 |
| 77 | Frames and mountings for spectacles, goggles or the like | 3 |
| 78 | Other travel goods, handbags, and similar containers | 3 |

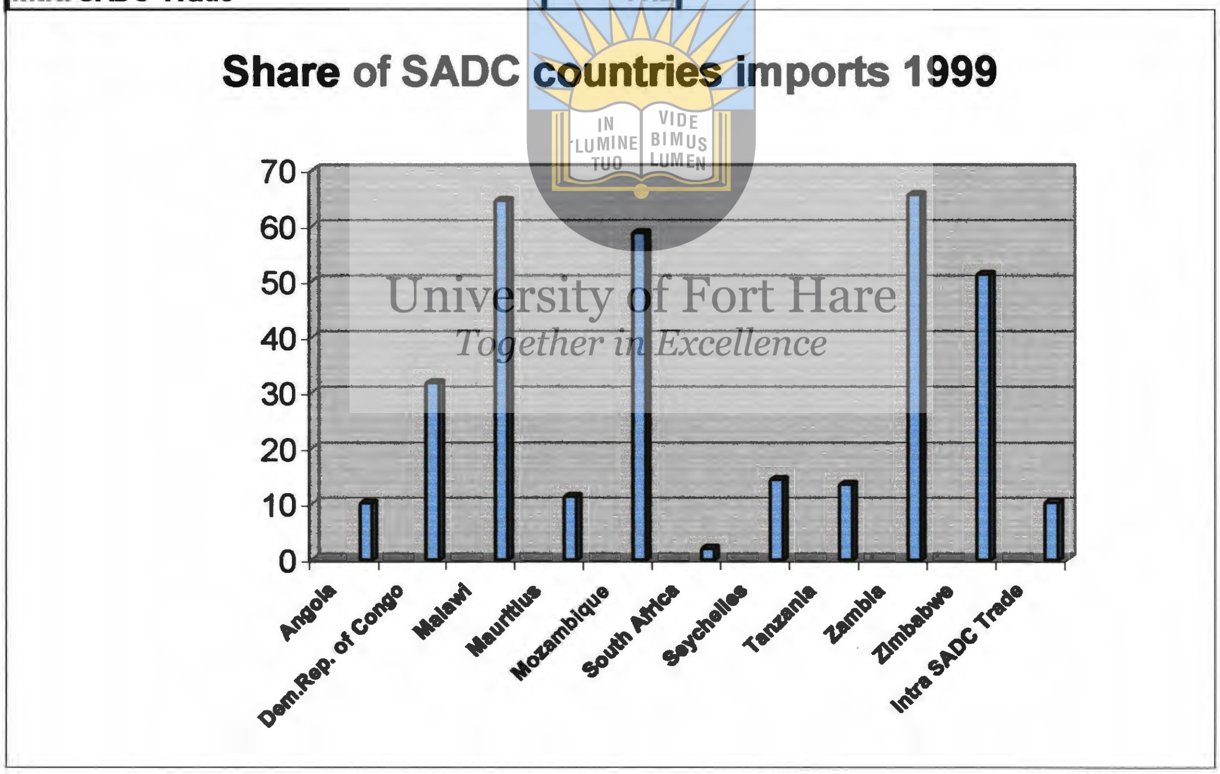
| | | |
|---|---|---|
| 79 | Articles of iron or steel, n.e.s | 3 |
| 80 | Instruments and apparatus for physical or chemical analysis, n.e.s | 3 |
| 81 | Wrist-watches, battery or accumulator powered | 3 |
| 82 | Other parts of aeroplanes or helicopters | 3 |
| 83 | Fabrics, woven, of a weight not exceeding 170 g/m, of polyester staple | 3 |
| 84 | Shirts, other textile material | 3 |
| 85 | Household articles and parts thereof, n.e.s, of aluminium | 3 |
| 86 | Furniture, n.e.s., of wood | 3 |
| 87 | Shirts, men's or boys', knitted or crocheted of cotton | 3 |
| 88 | Groundnuts (peanuts), not roasted or otherwise cooked, shelled | 3 |
| 89 | Ferrous waste and scrap, n.e.s | 2 |
| 90 | Blouses, shirts, and shirt-blouses, women's or girls', knitted of crocheted | 2 |
| 91 | Bran, sharps and other residues, of wheat | 2 |
| 92 | Pantihose and tights, knitted or crocheted | 2 |
| 93 | Articles of a kind normally carried in the pocket or handbag | 2 |
| 94 | Fruits of the genus Capsicum or the genus Pimenta , dried or crushed | 2 |
| 95 | Other beet or cane sugar in solid form, containing added flavouring | 2 |
| 96 | Live animals, n.e.s | 2 |
| 97 | Laminated safety glass | 2 |
| 98 | Other bovine and equine leather, without hair on, parchment dressed | 2 |
| 99 | Cigarettes containing tobacco | 2 |
| 100 | Articles of apparel, women's or girls', n.e.s., not knitted or crocheted | 2 |
| **Total** | | **3 585** |

## APPENDIX 6

### The Region in Economic Perspective

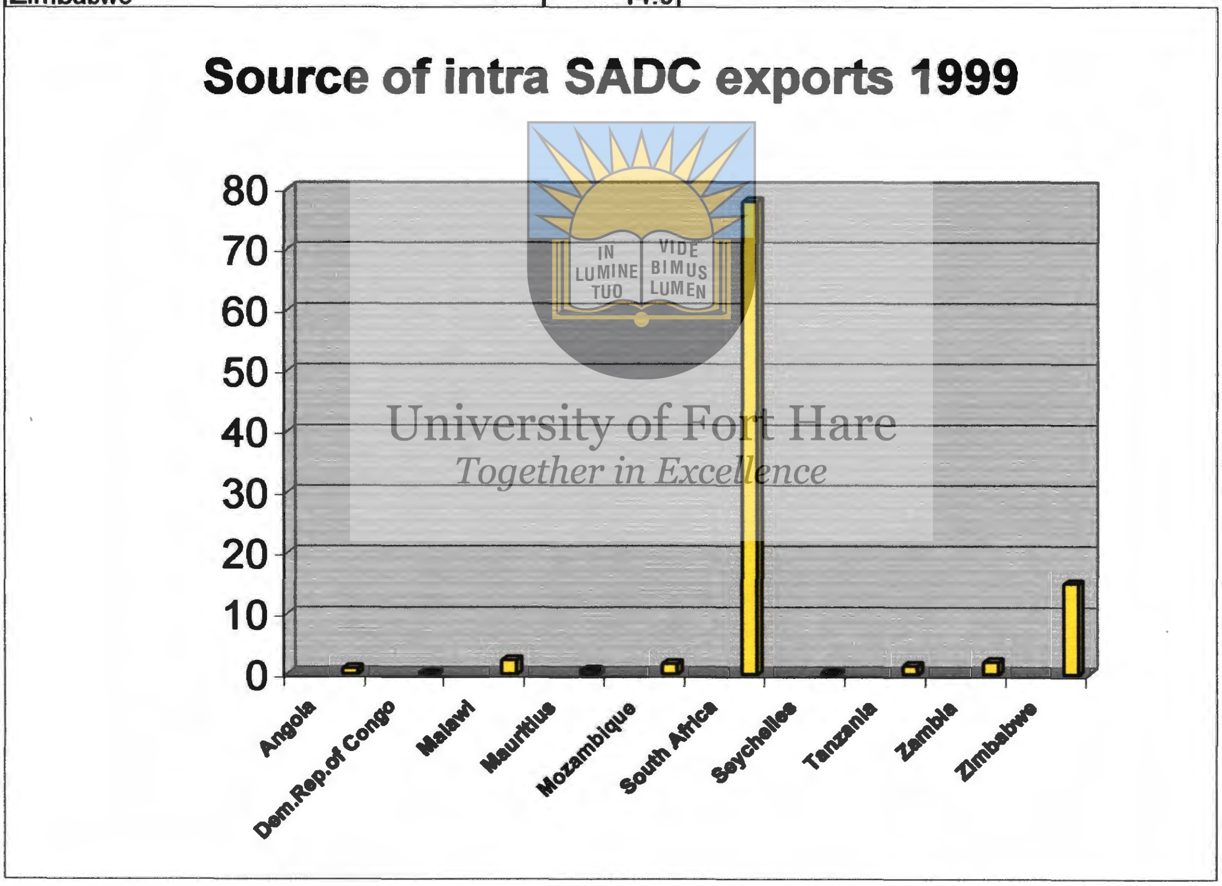
### Intra SADC Imports (%)

| Share of SADC countries imports | 1999 |
|---|---|
| Angola | 10 |
| Dem.Rep. of Congo | 31.6 |
| Malawi | 64.4 |
| Mauritius | 11.2 |
| Mozambique | 58.6 |
| South Africa | 1.9 |
| Seychelles | 14.3 |
| Tanzania | 13.3 |
| Zambia | 65.5 |
| Zimbabwe | 51.2 |
| Intra SADC Trade | 10.2 |



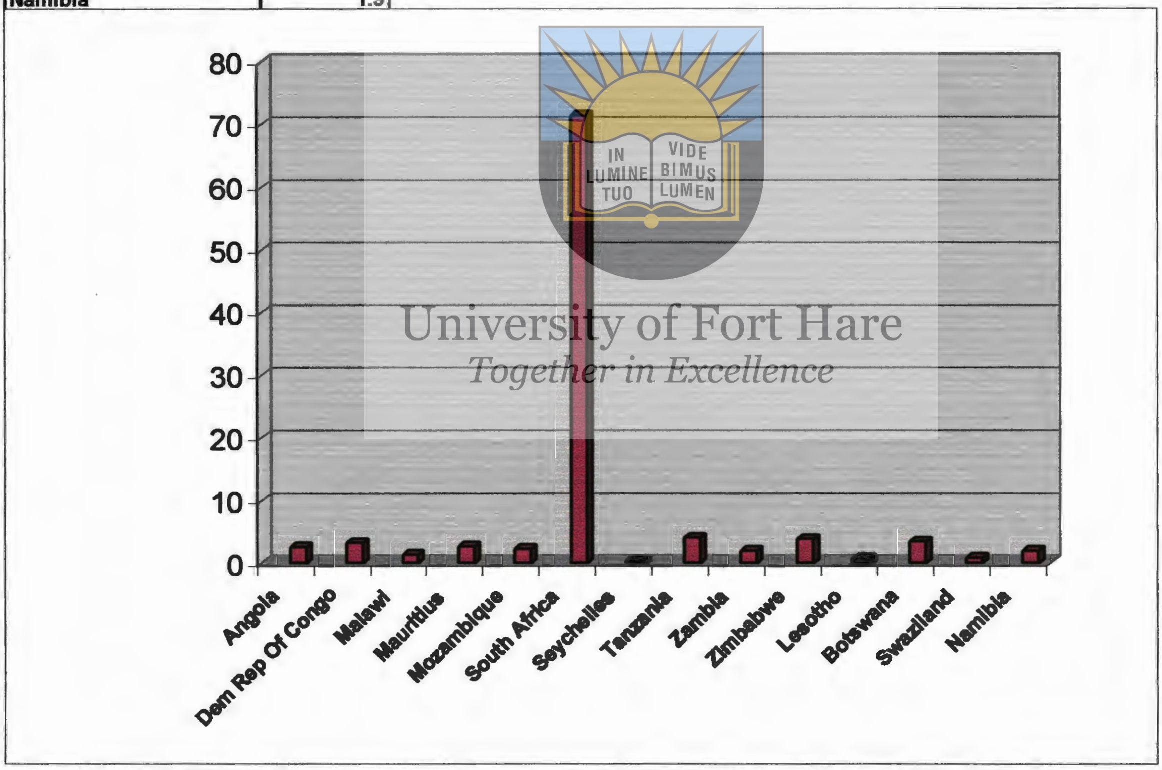
## Contribution of each country to SADC exports (%)

| Source of Intra SADC exports | 1999 |
|---|---|
| Angola | 0.9 |
| Dem.Rep.of Congo | 0.1 |
| Malawi | 2.3 |
| Mauritius | 0.6 |
| Mozambique | 1.6 |
| South Africa | 77.8 |
| Seychelles | 0.1 |
| Tanzania | 1.3 |
| Zambia | 2 |
| Zimbabwe | 14.9 |



## South Africa's Regional Economic Hegemony (% of Regional GNP)

| | |
|---|---|
| Angola | 2.5 |
| Dem Rep Of Congo | 3.2 |
| Malawi | 1.3 |
| Mauritius | 2.6 |
| Mozambique | 2.2 |
| South Africa | 71.4 |
| Seychelles | 0.3 |
| Tanzania | 4 |
| Zambia | 1.9 |
| Zimbabwe | 3.8 |
| Lesotho | 0.7 |
| Botswana | 3.4 |
| Swaziland | 0.8 |
| Namibia | 1.9 |






Source: Handout by the World Bank at the conference entitled New Directions in the Southern African Development Community, US Department of State, Washington DC, 10 December 1999