ECONOMIC INTEGRATION AND TRADE LIBERALISATION IN THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

by

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DISSERTATION

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EXECUTIVE SUMMARY

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In this study, the effects of economic integration and trade liberalisation are examined. This is done in Africa in general, and the Southern African Development Community (SADC) in particular. The factors that have hindered successful regional economic integration arrangements in the SADC and the benefits that accrue to the SADC member countries as a result of this integration are analysed. The study examines in detail the pattern and structure of trade in the SADC region. The new dimension of economic integration where SADC countries have shifted their approach from North-South to South-South integration, because of the greater benefits that accrue to SADC members as a result of this new approach are analysed. The study finds that there is significant trade taking place between Asian economies and the SADC and Sub-Saharan African countries. The United States is also becoming a major trading partner of oil-rich Sub-Saharan African countries. However, though growing, there is little trade taking place between the SADC countries and the rest of Africa. The study also finds that the SADC countries are mainly exporters of primary products, but their imports mostly consists of manufactured and capital goods. Finally, the

study investigates the links between trade openness, foreign direct investment (FDI) and levels of employment in 9 SADC countries. The study finds that both trade openness, and FDI have a positive effect on employment levels in SADC. In particular, a 1-percentage increase in FDI leads to 0,048 per cent increase in total employment in SADC. While a 1-percentage increase in trade openness leads to 13,4 per cent increase in total employment. These findings suggest that trade openness plays a more important role in creating employment in the SADC region than FDI.

Recommendations for improved regional economic integration in Africa and other developing countries are presented.

DECLARATION

I, the undersigned, declare that this dissertation is my own work, except where acknowledged in the text. It is submitted in fulfilment of the requirements for the degree of Master of Commerce in Economics in the University of Johannesburg, Auckland Park. This dissertation has not been submitted before for any degree or examination in this or any other university.

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Charles Mwebi Motaroki

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DEDICATION

To my Grandmother, Priscikillah Kwamboka who sacrificed her scarce resources to finance my education up to "A" level so that I could add value to society.

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Abbreviations and Acronyms

ABS- Australian Bureau of Statistics

ADF- African Development Fund

AfDB- African Development Bank

ADR- African Development Report

ARJ- Africa Recovery Journal

AEU- African Economic Union

AIDS- Acquired Immuno-Deficiency Syndrome

AMS- Aggregated Measurement of Support

AMU- Arab Maghreb Union

Anon.- Anonymous

AU- African Union

ACP- Africa, Caribbean and Pacific

AEU- African Economic Union/African Union

AGOA- African Growth and Opportunity Act

ASEAN- The Association of South-East Asian Nations

AER- African Economic Research

ATPC- African Trade Policy Centre

BEL-LUX- Belgium-Luxembourg

BLNS- Botswana, Lesotho, Namibia and Swaziland

CET- Common External Tariff

Cif- Cost insurance and freight

COMESA- Common Market for Eastern and Southern Africa

CMA- Common Market Area

CMT- Committee of Ministers responsible for Trade matters

CUSTA- Canada-United States Trade Area

DALYs- Disability Affected Life Years

DATA- Debt Aids Trade Africa

DDA- Doha Development Agenda

DTI- Department of Trade and Industry, South Africa

DFAT- Department of Foreign Affairs and Trade, Australia

DRC- The Democratic Republic of Congo, former Zaire

ECA- Economic Commission for Africa

ECCAS- The Economic Community of Central African States

ECOWAS- Economic Community for West African States

EITL- Economic Integration and Trade Liberalisation

EIU- The Economic Intelligent Unit

EEC- European Economic Community

EPAs- Economic Partnership Agreements

ESRF- Economic and Social Research Foundation

EU- The European Union

EXIM Bank- Export-Import Bank of India

FDI- Foreign Direct Investment

FISCU- Finance and Investment Sector Coordinating Unit

fob- Free on Board

FTA- Free Trade Area

GATT- General Agreement on Trade and Tariffs

GCR- Global Corruption Report

GDP- Gross Domestic Product

GMR- Global Monitoring Report

GNI- Gross National Income

GNP- Gross National Product

GSP- General system of preferences

HCTs- High Commission Territories

HDI- Human Development Index

HDR- Human Development Report

HIV- Human Immuno Deficiency Virus

HWWA- Hamburgisches Welt Wirtschafts-Archiv (Hamburg Institute of
         International Economics)

ICTSD- International Centre for Trade and Sustainable Development

IFC- International Finance Corporation

IMF- International Monetary Fund

Jr- Junior

LPG- Liquid Petroleum Gas

NAFTA- North American Free Trade Arrangements

NBER- National Bureau of Economic Research

NEPAD- New Partnership for Africa's Development
NEPRU- Namibian Economic Policy Research Unit

ODI- Overseas Development Institute

OECD- Organisation for Economic Cooperation and Development

OSACUA- Old SACU Agreement

PCA- Paris Club Agreement

PSE- Producer Subsidy Equivalent

REIs- Regional Economic Integrations

REPAs- Regional Economic Partnerships Agreements

RGDP- Real Gross Domestic Product

RGNI- Real Gross National Income

RGNP- Real Gross National Product

RIAs- Regional Integration Arrangements

RTAs- Regional Trade Agreements

ROW- Rest of the World

SACU- Southern African Customs Union

SACUA- Southern African Customs Union Agreement

SADC- Southern African Development Community

SADCC- Southern African Development Coordination Conference

SAES- Southern African Economic Summit

SARB- South African Reserve Bank

SSA- Sub-Saharan Africa

TI- Transparency International

TNCs- Trans National Corporations

TNI- Trade Negotiations Insights

UAE- United Arab Emirates

USA- The United States of America

WB- World Bank/The World Bank Group

WBI- World Bank Institute

WBWDI- World Bank World Development Indicators

WIR- World Investment Report

WTO- World Trade Organisation

ZAR- South African Rand

CHAPTER 1

THE PROBLEM AND ITS SETTING

1.1 Background to the Study

The concept of regional integration is not new (Jenkins, 2003: 4). Many regional integration arrangements (RIAs) or regional economic integration arrangements (REIs) have existed on every continent (Robson, 1998: 1). Some date back to 1860 when the Anglo-French accord was signed (Robson, 1998: 8; Mistry, 1996: 11). Since the early 1950s the world has witnessed the creation of a large number of regional economic groupings in virtually every region of the world (Kabbaj, 2003: 67). Generally, nearly all developing countries are members of at least one regional trade agreement, while many countries are members of more than one regional trade agreement (ODI, 2005: 1; Shams, 2005: 3).

In addition, most regional economic integration arrangements in Africa and elsewhere have been expanding their horizon by admitting new members into their groupings, while the previously defunct ones have been revived (Robson, 1998: 277). For example, the European Union, is considered to be the most successful form of economic integration in the world today (Hocking & McGuire, 1999: 275; LeClair, 1997: ix), evolved humbly as a coal and steel community consisting of six countries (LeClair, 1997: 5, 42; Mistry, 1996: 12). These countries were France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg (Robson, 1998: 9; Tinbergen, 1954: 121). Currently the European Union consists of 25 countries.

Such integration does not preclude Africa, as African leaders have always accepted economic integration as a strategy for trade and development (Mshomba, 2000: 181). African leaders are convinced that Africa has no other choice than to pursue regional integration in order to transcend its growing marginalisation, (Jenkins, 2003: 5; Jilberto & Mommen, 1998: 19; Maasdorp 1996a: 1-16).

According to Asante, Nwonwu, and Muzvidziwa (2001: 1), the pace of regionalism in the world has accelerated, causing a renewed interest among African countries to resuscitate regional integration in Africa to keep in line with the world economic trend of integration based on the three trading blocs of Europe, the Americas, and East Asia (Clark & Tracey, 2004: 124; Hirst & Thompson, 1996: 2).

For Africa to achieve further growth and respond appropriately to the forces of globalisation, its economies are attempting to transform their trade and investment policies for their products and services to be competitive on the world market (Wohlmuth, 2001b: 539-549).

In order to strengthen their institutions and managerial capacity, Africa and the Southern African Development Community (SADC) have made some strides towards regional integration. Enlarging, broadening and deepening the existing regional economic integration arrangements in Africa, such as the Common Market for Eastern and Southern Africa (COMESA); the Economic Community of Central African States (ECCAS); the SADC; and the Economic Community for West African States (ECOWAS), is one way of reintegrating Africa to the world trading system (Van Brabant, 2001: 396).

The effect of globalisation on world production, liberalisation of world trade, the rapid changes in technology, and the growing marginalisation gap between developed and developing countries have compelled SADC economies to reposition themselves in the world trading system. This is done by forming a formidable trading bloc that would counter the existing European and American trading blocs that threaten to isolate Africa (Asante, *et al.,* 2001: 1-3).

Kabbaj (2003: 113-114) states that Africa is looking for better ways of harnessing the forces of globalisation in order to improve its economic performance and help raise the standards of living of its people. The implication of Kabbaj's argument is that the African continent cannot afford not to act, because it has been

generally acknowledged that Africa, more than any other region of the world, is in danger of being left behind by the rapid changes being brought about by the forces of globalisation.

The purpose of this study is to examine the extent and effects of economic integration and trade liberalisation in the SADC. The researcher undertakes a statistical analysis on both intra and inter-trade within the Southern African Customs Union (SACU), the SADC and with the rest of the world with a view to establishing whether or not trade liberalisation fosters economic growth and employment.

1.2 The Research Question

This study aims to determine the extent and effects of economic integration and trade liberalisation in the SADC. The questions raised in this research include: Firstly, to determine the extent of economic integration, and to examine the factors that have hindered regional economic integration arrangements. This is done in Africa in general and in the SADC in particular. Secondly, to explore what benefits might accrue to the SADC member countries as a result of economic integration and trade liberalisation. Thirdly, the thesis also attempts to establish whether there are links between trade liberalisation, foreign direct investment (FDI) and levels of employment in the SADC region.

1.3 Importance of the Research Question

After an extensive survey of available literature on economic integration and trade liberalisation in Southern Africa, it appears that not enough research has been done on regional economic integration in the SADC. Most of the available literature on the subject tends to focus on the North American Free Trade Arrangements (NAFTA), and the Latin American and Asian economies when analysing the impact of economic integration and trade liberalisation among developing countries.

The researcher chose the SADC countries as the field of study because of the region's significant economic size relative to the rest of the African continent. For example, the real Gross Domestic Product (Real GDP) of the SADC region was US$ 242,6 billion or 55 per cent of that of Sub-Saharan Africa (SSA) in 2003 (World Bank, 2005a: 202-204). Table 1.1 shows SADC countries' real GDP in 1990 and 2003.

Table 1.1: SADC Countries' Real Gross Domestic Product in 2003				
SADC Countries	Average annual Percentage growth (%)		Gross Domestic Product (US$ billions)	
	1980-90	1990-2003	1990	2003
Angola	3,4	3,2	10,260	13,189
Botswana	11	5,2	3,791	7,530
DRC	1,6	-3,9	9,348	5,671
Lesotho	4,5	3,4	0,615	1,139
Madagascar	1,1	2,1	3,081	5,474
Malawi	2,5	3,0	1,881	1,714
Mauritius	6,0	5,2	2,383	5,224
Mozambique	-0,1	7,0	2,463	4,321
Namibia	1,3	3,7	2,35	4,271
Seychelles	n/a	n/a	n/a	n/a
South Africa	1,0	2,3	112,014	159,886
Swaziland	6,9	3,1	0,859	1,845
Tanzania	n/a	3,7	4,259	10,297
Zambia	1,0	1,4	3,288	4,335
Zimbabwe	3,6	1,1	8,784	17,750
SADC			**165,376**	**242,646**
SSA	1,7	2,8	298,376	439,287
SSA excl. SADC			133	196,641
East Asia & Pacific	7,9	7,6	665,990	2 032,633
South Asia	5,5	5,4	401,029	765,083
Latin America & Carib.	1,5	2,7	1 102,889	1 740,625
World	3,3	2,8	21 687,666	36 460,632
Source: World Bank (2005a: 198-200; 202-204). This table shows Real GDP and it uses 1995 = 100 (1995 constant prices). N/a denotes data was not available.				

Table 1.1 shows that the real GDP of South Africa in 1990 was US$ 112 billion. In 2003, this figure had increased by 42,8 per cent to US$ 159,9 billion. The GDP of South Africa alone was almost equivalent to the SADC GDP in 1990. With a real GDP of US$ 159,9 billion in 2003, South Africa is the most powerful economy on the African continent (Nyirabu, 2004: 27). This real GDP represents 66 and 36 per cent of the SADC and Sub-Saharan regions respectively (World Bank, 2005a: 204; Table 1.1).

Because of the economic size of the SADC region, and particularly the dominant role that South Africa plays in all economic activity in Africa, what happens in the SADC region will influence the rest of the African continent (Arora & Vamvakidis, 2005a: 4; Knedlik, 2002: 87). For example, Arora and Vamvakidis' (2005a) study on *The Implications of South African Economic Growth for the Rest of Africa* concludes that South African economic growth is an engine of growth in Sub-Saharan Africa. Arora and Vamvakidis (2005a) use panel data estimation for 47 African countries over a period of four decades. After controlling for other growth determinants, they conclude that South African growth has a substantial positive impact on growth in the rest of Africa (Arora & Vamvakidis, 2005a: 9). This makes the SADC region, and the South African economy in particular, an epicentre of the African economy, and thus an appropriate candidate for examining regional integration. This research contributes to the available literature on economic integration and trade liberalisation in the SADC.

The SADC is one of Sub-Saharan Africa's more promising regions for successful integration (Ng'ong'ola, 2000: 485; Jenkins, 2003: 7). This is particularly the case because Southern Africa is the most industrialised and fastest growing region in the Sub-Saharan region (World Bank, 2004b: 16). This makes the study of regional economic integration in the SADC region even more relevant. Understanding what hampers regional integration in the SADC region can assist planners in the SADC economies to design better integration models for the region. Another reason why the researcher chose the SADC area as a field of study is because the SACU (the oldest Customs Union in the world), is in the

SADC[1] (McCarthy, 2003: 605). SACU provides the researcher with statistical data to be used in the regional economic integration and trade liberalisation analyses.

In addition, South Africa is the most influential economy on the African continent, because it is the most important trading economy on the African continent (Arora & Vamvakidis, 2005a: 4; McCarthy, 2003: 605; Griffiths, 2002: 1; Ng'ong'ola, 2000: 485). South Africa has become the hub of industrial development in the Southern African Sub-region (World Bank, 2004b: 10).

Further, South Africa has become a major player in Africa by investing throughout the continent (Seria, 2004: 2; Griffiths, 2002: 1), and particularly in East, Central and West Africa (Efrat, 1995: 4). According to LiquidAfrica, an online business information company, South Africa's FDI in Africa in 2000 averaged US$ 1,4 billion a year. This made South Africa the largest investor on the continent, ahead of the United States, France and the United Kingdom (Seria, 2004: 2).

The growth of South African investment in Africa has been partly due to the relaxation of foreign exchange controls, which now allows South African companies to invest up to R2 billion in projects in Africa compared with R500 million on projects elsewhere in the World (Seria, 2004: 2). Many would like to see South Africa and the SADC region succeed so that it can be replicated elsewhere in Africa and further afield (Maasdorp, 1996b: 48).

1.4 Research Methodology

This SADC study is mainly a literature study analysing various official sources of primary data. These sources include, SACU and SADC websites, newspapers, and SADC Annual Reports. Secondary data was gathered through economic journals and published academic sources on economic integration and trade

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[1] The SADC and SACU member countries are discussed in Chapter 3.

liberalisation. The study is limited to SADC and SACU only. Trade integration in these regions is analysed in terms of inter- and intra-regional trade growth. The researcher does this by examining the nature and composition of exports and imports of the SADC countries. The volume and value, the GDP and the real GDP income per capita for these countries are also examined.

Growth in Real Gross Domestic Product (RGDP) and particularly Real Gross National Income (RGNI) or Real Gross National Product (RGNP) is an indication that economic growth has taken place. Increases in trade ratios or exports and imports as shares of GDP, indicate to what extent an economy is open (Kenen, 1994: 5; Mshomba, 2000: 36-39). These vital parameters are examined in Chapters 4 and 5 when assessing the extent and impact of economic integration and trade liberalisation in the SADC.

The study uses both qualitative and quantitative approaches in analysing the impact of trade integration in SACU and SADC. While this study considers the period 1990 to 2005, some references are made to the period prior to 1990. This is done to describe the situation prior to the period under study. In so doing, the researcher could determine the extent and effects of economic integration and trade liberalisation in the Southern African Development Community.

1.5   Layout of the Thesis

The rest of the thesis is set out as follows: Chapter 2 examines the theory of economic integration, focusing on the static and dynamic effects of economic integration. It discusses the motivation for regional economic integration and the rationale for regional integration in Africa. Various forms of economic integration are examined, and also factors that promote or hinder successful regional integration in the SADC and developing countries in general. The chapter also examines the new dimension of economic integration and why the SADC countries emphasize this new approach.

Chapter 3 gives an historical overview of economic integration in Southern Africa. This is done, by discussing how the SACU and the SADC evolved. The aims and objectives of SACU and SADC, and the principal trading partners of the SADC are examined.

Chapter 4 examines the structure and pattern of trade in the SADC and the possible future prospects for trade liberalisation in this region. This is done by analysing statistical data on trade both intra- and inter-regional trade within the SACU and the SADC and with the rest of the world. The nature of exports and imports of each of the SADC countries are examined. Their volume, value and relative importance is analysed. Also included in the chapter are export destinations and import sources of the SADC merchandise. The role of trade in development is discussed, showing why trade is important for the SADC countries.

Chapter 5 examines the impact of economic integration and trade liberalisation in the SADC and developing countries. The purpose of the statistical analysis above is to determine whether or not trade liberalisation fosters economic growth and creates employment. Also included in this chapter is an investigation into the links between trade, foreign direct investment and levels of employment using economic theory and empirical evidence. Chapter 6 summarises the thesis and gives policy recommendations.

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CHAPTER 2

THE THEORY OF ECONOMIC INTEGRATION

2.1   Introduction

There has been a new wave of deeper regional economic integration in the past decade (Kreinin & Plummer, 2002: 1; Kennes, 2000: 5, 47), as major world economic groupings in both the developed and developing world are adapting in order to manage the challenges of globalisation. The challenges of globalisation and market forces are creating tensions and shaping new patterns of interdependence (Jilberto & Mommen, 1998: 1; Kennes, 2000: 1-11; Cho, 1995: 1). Some regional groupings, such as the European Union (EU), the Canada-USA Free Trade Area (CUSTA), the North American Free Trade Agreement (NAFTA), the Association of the South-East Asian Nations (ASEAN), and the Mercado Común de Sur (MERCOSUR) have been expanding and deepening their integration arrangements (Bach, 2003: 21).

Some economic integration arrangements such as the NAFTA and the EU have deviated from their traditional approach of North-North integration to North-North-South integration (Hocking & McGuire, 1999: 229; LeClair, 1997: ix; Robson, 1998: 269). They thereby incorporated developing and emerging economies such as South Africa and some Latin American countries. Most economies in Africa are busy finding trading partners from developing countries, particularly in Asia (Harsch, 2004: 1; Osava, 2003: 1; Heine, Mills, Porter, & Handley, 1998: 13).

The purpose of this chapter is to examine the various forms of economic integration. It also investigates how economic integration differs from economic cooperation, and the motivation for economic integration and/or cooperation from the 1960s to the present. Factors promoting or hindering successful regional economic arrangements in Africa in general and SADC in particular are also

investigated. Finally, it explores why regional integration is assuming new dimensions in the world today. The SADC is used as a case study.

2.2   Definition of Economic Integration

Balassa (1961: 1), Machlup (1976: 63), Mennes (1973: 1), Jovanović (1992: 3), and Swann (1996: 3), define economic integration as a process and a state of affairs. When defined as a process, the term includes all measures, which aim at abolishing discriminations between economic units from different countries. Defined as a state of affairs, economic integration describes the absence of various forms of discriminations between countrie*s.*

Balassa (1961), one of the pioneer writers on the theory of economic integration, and Van Brabant (2001: 381-382) distinguish between economic integration and cooperation. The authors see the difference between the two concepts in terms of qualitative and quantitative phenomena. Cooperation refers to all actions aimed at decreasing discrimination in certain areas of interest (Van Brabant, 2001: 382). The process of economic integration involves measures that entail the suppression of some forms of discrimination (Balassa, 1961: 2).

Economic cooperation involves less intensive measures that are broader in scope than economic integration. Economic cooperation is broader than economic integration, because the former can be extended to fields not normally covered by the latter. Examples of these fields include scientific and technical cooperation, and setting up the institutions of the market economy. While economic cooperation is broader in scope, it is more limited in the measures it takes, because the cooperative arrangements that countries engage in are less formal and usually voluntary. As such, terms of agreements are often difficult to enforce and monitor (Kritzinger-Van Niekerk & Moreira, 2002: 50). Regional governance is usually more complex than the formal integration schemes (Van Brabant, 2001: 382). Perhaps this explains why countries engage in cooperation arrangements before engaging in economic integration.

According to Robson (1984: 1) economic integration is concerned with efficiency in use of resources with particular reference to the spatial aspect. Robson notes that full economic integration is achieved if there is free movement of goods and factors of production, and when there is no discrimination.

Regional economic integration is a situation in which the price of all goods and similar factors in two regions are equalised to the extent that the economic bloc becomes one region or market. This is possible through the flow of goods and/or factors of production from the lower to higher price part of the newly formed region, until equality is achieved. A single market is created out of two or more distinct regions leading to greater specialisation and economies of scale (Holzman, 1976: 59).

Van Brabant (2001: 381) defines economic integration as a process designed eventually to abolish discrimination between local and partner goods, services, and factors of production over some agreed period of time. This expands the effective market horizon against which economic agents can productively mobilise their resources. However, Leclair (1997: 35) has suggested that regional integration provides a perfect mechanism for discriminately opening up markets.

Tinbergen (1954: 95) states that economic integration refers to the creation of the most desirable structure of international economy, achieved by removing artificial hindrances to the optimal operation of the region. This is achieved by introducing all the desirable elements of co-ordination or unification.

Market integration according to Tinbergen (1965 cited in Robson, 1998: 2), may result in either negative or positive integration. *Negative integration* refers to those aspects of regional integration that simply involve the removal of discrimination and restrictions on movement, for example, through trade liberalisation. *Positive integration* is concerned with the modification of existing instruments and institutions and the creation of new ones. This is done for the

purpose of enabling the market to function effectively, and also to promote other broader policy objectives in the economic union.

The present trend is for countries to engage in "deep" rather than "shallow integration". "Deep integration" refers to the elimination of constraints that operate within countries, such as industrial and environmental standards, government procurement rules, health and sanitary standards. By contrast "shallow integration" simply refers to free trade areas and customs unions (Kennes, 2000: 47).

According to Mshomba (2000: 175), regional economic integration refers to special treatments between countries in a given geographical area. This definition implies that SADC member countries could receive special and preferential treatment in trade and other factor mobility issues, unlike non-SADC members. Robson (1998: 1) defines international economic integration (also called regionalism) as the institutional combination of separate national economies into larger economic blocs or communities.

Robson (1998: 64-65) defines economic integration as any effort that leads to the formal harmonisation of economic goals through integrated common policies. He argues that policy integration may result in a positive gain for the integrating members. Economic integration through policies intended to overcome allocational cross-border spillovers, macroeconomic and stabilisation spillovers, and policies promoting cohesion and convergence are likely to achieve greater benefits for integrating members.

Economic integration consists of three levels.
   (a) The first level of integration is defined in its most restrictive sense. It refers to the assignment of particular economic functions and instruments to the union or community. The execution of those economic functions occurs at the union or community level rather than at the level of the member states.

(b) The second level of integration is harmonisation. This refers to agreement on the manner in which each member state will exercise or use a particular instrument over which it retains control. It involves legislation by the institutions of the community designed to bring changes in the internal enactment of member states.

(c) The third level is the voluntary and unenforceable alignments of national policies and measures in particular fields (Robson, 1998: 65).

For the purpose of this study, economic integration and trade liberalisation centres on what Tinbergen (1965 cited in Robson, 1998:2) termed *positive integration.* That is, the modification of existing instruments and institutions and the establishment of new ones for the purpose of enabling the market to function more effectively. Economic integration can also promote other broader policy objectives in the SADC region (Van Brabant, 2001: 381).

2.2.1 The Various Levels of Economic Integration

There are several forms of economic integration, namely, trade integration, factor integration, policy integration, and total integration. These are achieved, as economies move through seven theoretical stages, not necessarily in the order listed below. These stages are: a Preferential Trade Area (PTA), a Partial Customs Union, a Free Trade Area, a Customs Union, a Common Market, an Economic Union and finally a Total Economic Union (Appleyard & Field, 1992: 438; Jovanović, 1992: 9; Mennes, 1973: 1; Swann, 1996: 3-8).

However, most literature on economic integration tend to identify four types or levels of integration, namely, Free Trade Areas (FTA), Customs Unions, Common Markets and Economic Unions (Kennes, 2000: 46). Only these four levels of integration are discussed in this chapter. In this case the FTA is the most basic form while the economic union is the most advanced stage of integration. Note that the first stages of economic integration are not as

threatening as the later stages where the country loses domestic control as well as sovereignty. (Bhalla & Bhalla, 1997: 197; LeClair, 1997: 2).

Countries contemplating an economic integration that is meant to promote regional integration may decide to engage in what is referred to as "Preferential Trading Arrangements". This kind of trade arrangement is an interim arrangement towards a Free Trade Area (Kennes, 2000: 46). Preferential Trading Arrangements or Preferential Trade Areas (PTAs) therefore refer to regions where member countries have agreed to lower trade barriers between themselves in order to promote trade and other common interests, ultimately aiming at a Free Trade Area (Mshomba, 2000: 175).

If the tariffs for the member countries are reduced to the agreed level, or fully eliminated, the region becomes a Free Trade Area (FTA). FTA member countries receive preferential treatment in terms of trade and factor mobility unlike non-members. For example, Preferential Trade Area members as in a Free Trade Area set their own tariffs and other barriers for non-member goods (Mshomba, 2000: 175-176).

A Free Trade Area is the most basic form of regional economic arrangement (Jovanović, 1992: 9; Swann, 1996: 3). The Free Trade Areas are the most popular forms of economic integration in the world and are more prevalent than Customs Unions (Robson, 1998: 3). This is because they do not involve any loss of sovereignty of national governments (Bhalla & Bhalla, 1997: 197). In a Free Trade Area all members of the group remove tariffs on each other's products (Robson, 1998: 3), while retaining the independence of each member in establishing trading policies with non-members (Mshomba, 2000: 176). While this economic arrangement is referred to as a Free Trade Area, member countries may apply a mix in trade policy. This may involve a mix of free trade in some products and preferential and protected treatment in others (Appleyard & Field, 1992: 437-438).

In other words, Free Trade Areas may be partial in the sense that only certain economic sectors may be covered (Swann, 1996: 3). Each member country sets its own external tariff (Kennes, 2000: 46; Robson, 1998: 3). These may give room for some member countries to export their goods to another member country with the lowest level of outside protection. Hence export takes place through the FTA to other member countries where there is a high level of protection with the rest of the world (Mshomba, 2000: 176). This is referred to as the transhipment of goods (Appleyard & Field, 1992: 437-438).

To avoid the problem of transhipment, there is a need for proper trade coordination between member countries in the preferential trade area. One way of dealing with this problem of transhipment is by member countries signing and enforcing the "rules of origin" (Hartzenberg, 2003: 175; Kritzinger-van Niekerk & Moreira, 2002: 50-51; Mshomba, 2000: 176). The rules of origin is not a general panacea, particularly where there is overlapping of a regional trading arrangement (Sharer, 1999: 29).

The rules of origin is a term or clause that relates to a preferential trade arrangement. It is used by countries that have formed a Preferential Trade Area or common market, for example, in the SADC and COMESA areas. According to the rules of origin requirements, goods that have been produced in a member country say in South Africa can be sold to another SADC member country where they are treated as originating in South Africa. If South Africa imports goods from non-SADC members, these goods are not going to be given preferential treatment in the SADC, because they do not origin in the SADC (Kritzinger-Van Niekerk & Moreira, 2002: 50-51).

Applying the rules of origin is sometimes difficult, particularly in the SADC where there is dual-membership with the Common Market for Eastern and Southern Africa (Shams, 2005: 3). For example, some SADC countries are also members of COMESA. This is creates a problem because the SADC-COMESA dual-membership makes the interpretation of trade agreements to differ significantly

(Kritzinger-Van Niekerk & Moreira, 2002: 50). Both the SADC and COMESA trade agreements[2] recognise the rules of origin, but their interpretation is problematic mainly because of inconsistencies in provisions, and difficulties in enforcing them. This is because member countries require that certificates of origin be produced when exporting to the Free Trade Area (Shams, 2005: 3).

On the question of rules of origin, both the COMESA and SADC agreements allow goods that have been **wholly** produced in a member state to be accepted as originating in that state if they are consigned directly from the member to a consignee in another member state (Kritzinger-Van Niekerk & Moreira, 2002: 50). For the SADC, the problem arises when dealing with goods produced with imported material. Unlike COMESA, whose rules of origin are less complex, and has implemented several measures aimed at facilitating intra-regional trade, SADC has not gone that far (Hartzenberg, 2003: 175). In its new rules of origin for example, COMESA has carefully defined the nature or type of goods that qualify as originating in a member state. The criteria for such goods are as follows:

Firstly, the cost insurance and freight value (c.i.f) of imported materials contained in such goods shall not exceed 60 per cent of the total cost of the material used to produce the good.

Secondly, the value added resulting from the process of production accounts for at least 35 per cent of the ex-factory cost of the goods, and thirdly, the goods are classified or become classifiable under a tariff heading under which they were imported (Kritzinger-Van Niekerk & Moreira, 2002: 50-51).

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[2] The SADC Free Trade Agreement (FTA) came into force on the 25th January 2000 and the subsequent adoption of SADC Amendment Protocol on Trade, on the 7th August same year, gave SADC member states the right to trade on preferential terms (Ng'ong'ola, 2000: 495).

Another problem associated with overlapping membership in COMESA and SADC is the extra cost of member participation in several international organisations, and attending meetings. This requires the provision of personnel and other backup facilities (Shams, 2005: 4). Moreover, because of scarce resources and budget constraints, some members end up defaulting on their membership fees. This problem of overlapping membership was one of the factors that made Seychelles quit the SADC in August 2003. The membership dues had become too high, and had become a burden to the country (Games, 2003: 9; Mills, 2003: 9).

An example of a free trade area in Africa is the common market for Eastern and Southern Africa (COMESA). This was signed in 1993, but came into force in October 2000 with nine members, namely: Djibouti, Egypt, Kenya, Madagascar[3], Malawi, Mauritius, Sudan, Zambia, and Zimbabwe (Hartzenberg, 2003: 175; Kritzinger-Van Niekerk & Moreira, 2002: 51).

At present COMESA is composed of nineteen member countries down from twenty-one (Hartzenberg, 2003: 175; Sidaway & Gibb, 1998: 171). Of the nineteen countries, nine are also members of SADC. Other COMESA members include Angola, Burundi, Comoros, Democratic Republic of Congo, Eritrea, Ethiopia, Libya Arab Jamahiriya, Rwanda, Swaziland, and Uganda (Hansohm, *et al.*, 2003: 212). The Libya Arab Jamahiriya was admitted to COMESA as a full member in June 2005 (COMESA, 2005: 15). Only five SADC countries, namely Botswana, Lesotho, Mozambique, South Africa, and Tanzania do not have dual membership (See Figure 2.1). Madagascar applied to join SADC in 2004, and was admitted in August 2005 (SADC Summit, 2005: 11). Meanwhile, Seychelles officially withdrew from SADC in July 2004 (Business Day, 2005: 9).

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[3] At the SADC (2004) Annual Summit, Madagascar applied for membership in SADC, but it was not clear whether Madagascar wanted to withdraw her membership from COMESA. Membership in COMESA is decreasing and Mozambique withdrew from COMESA in 1997, Tanzania in 2000, and Namibia in 2004 (Hansohm, Adongo, & Tutalife, 2005: 2).

Figure 2.1: COMESA-SADC Dual Membership

Burundi, Comoros, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Rwanda, Sudan, and Uganda

COMESA

SADC

Angola, DRC, Malawi, Mauritius, Namibia, Seychelles, Swaziland, Zambia, and Zimbabwe

Botswana, Lesotho, Mozambique, South Africa, and Tanzania
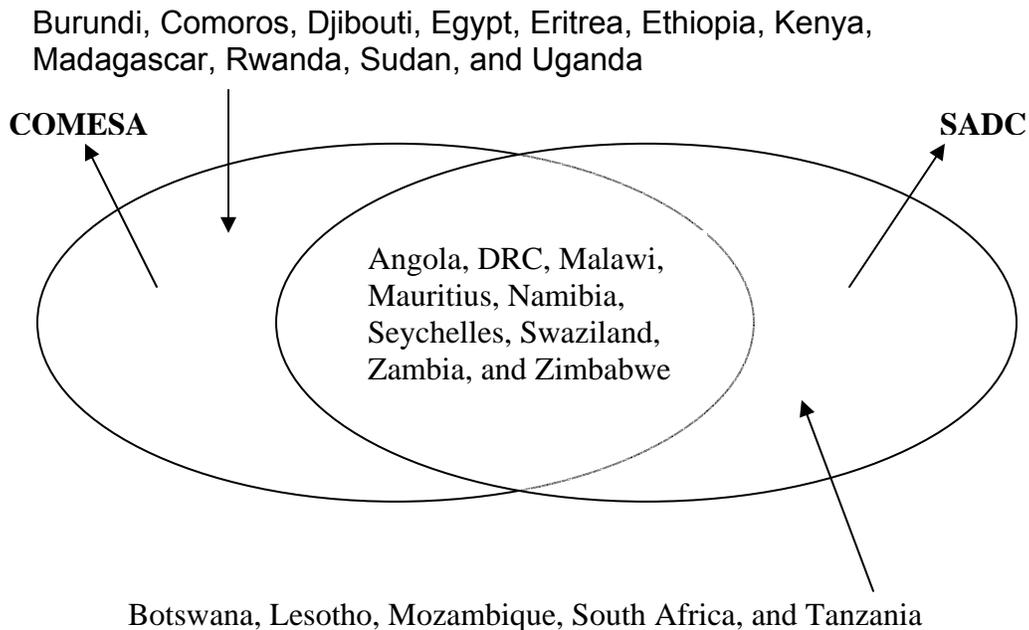
Source: Adapted by author based on SADC 2004 Annual Summit; Hartzenberg, 2003: 174-175; Hansohm, *et al.*, 2003: 212.

A Customs Union is the second stage of economic integration after the FTA. It involves the removal of all tariffs between member countries (Robson, 1998: 2), but discriminates against the rest of the world (Swann, 1996: 11). The group adopts a common external commercial policy where common external tariffs (CETs) are levied on non-member countries (Mshomba, 2000: 177).

The customs union group also designs modalities and formulas regarding the apportionment of customs revenue (Robson, 1998: 17). The group acts as a single body in the negotiation of all trade agreements with non-members. In other words, a Customs Union requires a common trade policy (Kennes, 2000: 46; Swann, 1996: 4-5). This practice results in either trade creation or trade diversion (Meyer & Zarenda, 1994: 33). Trade creation is beneficial, and it results when

there is a switch of production from a less efficient country to a more efficient one. Trade diversion occurs when there is a switch of production from a more efficient country to a less efficient country (Kennes, 2000: 61; Swann, 1996: 11). Trade diversion is not often beneficial (Mandle, 1998: 42; Piazolo, 2001: 11-14).

The practice of imposing common external tariffs eliminates the transhipment of goods by non-member countries (Appleyard & Field, 1992: 437). An example of a customs union in Africa is the SACU, which is the oldest Customs Union in the World (McCarthy, 2003: 605). SACU was established in 1910 (Bhalla & Bhalla, 1997: 58), but its origin can be traced back to 1889 (Sidaway & Gibb, 1998: 172). SACU has five member countries namely; Botswana, Lesotho, Namibia, South Africa, and Swaziland (McCarthy, 2003: 605).

The third level of economic integration is a common market. The main features of this form of integration include the removal of all tariffs between member countries and the adoption of a common external policy by member countries. All barriers to factor movements among the member countries are also removed. There is free movement of labour and capital between the member states leading to high economic integration and a reduction of national control of the individual economy (Swann, 1996: 4-5). An example of a common market in Africa is COMESA, which was established in 1994 to replace the Preferential Trade Area for Eastern and Southern Africa. This had been in existence since 1981 (EIU, 1989: 4; Hartzenberg, 2003: 175; Sidaway & Gibb, 1998: 171).

From a common market we move to a more comprehensive form of economic integration referred to as an economic union. The European community refer to this stage as an *economic and monetary union* (EMU), because it is made up of a common market as well as a monetary union (Swann, 1996: 5). This form of economic integration has all the features of a common market plus the unification of economic institutions and the coordination of economic policy throughout all member countries (Mshomba, 2000: 178).

Member countries retain separate political entities, but there is an establishment of several supra-national institutions whose decisions are binding upon all members. It involves the adoption of a common currency, and with this the group becomes a monetary union (Swann, 1996: 5-8). This is a difficult stage of economic integration because of the complex logistics involved. It includes the integration and harmonisation of a range of policies in other areas, such as the elimination of exchange controls and the sacrificing of national sovereignty (LeClair, 1997: 2; Robson, 1998: 3-4; Swann, 1996: 6).

The final level of economic integration is a monetary union. In this stage of integration the partner countries share a common currency. Alternatively different currencies operate, but they are fully convertible and the exchange rates are irrevocably fixed (Kennes, 2000: 47). A monetary union can be achieved without achieving an economic union. In other words, an economic union is not a pre-condition for a monetary union.

A monetary union can exist without trade integration or it can co-exist with trade integration. For example, a monetary union can be combined with a free trade area, a customs union, a common market or an economic union. However, monetary instability, for example that of the Asian financial crisis necessitates the incorporation of other forms of integration (Yang, 2002: 150; 157-158). In addition, because competitive devaluations can hamper all forms of economic integration, it becomes necessary to establish an economic union and then a monetary union as countries engage in deeper integration. Sometimes it is difficult to distinguish between an economic union and a monetary union. Hence, the term "economic and monetary union" and "fiscal integration" are used together as the most advanced form of integration (Kennes, 2000: 47; Robson, 1998: 3-4). There is a general consensus that a common monetary policy is a prerequisite for a viable monetary union (Gandolfo, 1998: 344).

An example of an economic union as well as a monetary union is the European Union, which launched a single currency, the Euro on 1st January 2002. It currently has twenty-five members.

2.3 The Motivation for Regional Economic Integration

The motivation for economic integration or economic groupings in developing countries in general and the SADC region in particular, is no longer based on the traditional customs union theory or the import substitution industrialisation strategies (Robson, 1998: 271-273). Rather deeper economic integration considerations tend to underlie the integration process (Kennes, 2000: 47).

Many authors, such as Balassa (1961), Bhalla and Bhalla (1997), Clapham, Mills, Morner, and Sidioropoulos (2001), Dell (1962), International Economic Association (1976), Jovanović (1992), LeClair (1997), Mennes (1973), and Ronson (1984), and Robson (1998) have identified various reasons why an economic integration or trading bloc would be formed. For instance, Robson (1998: 84) has identified four sources of potential gain from regional integration. These include firstly, the fact that integration, by reducing trade barriers, increases effective market size, giving rise to more competition. It can lead to a decrease in oligopolistic mark-ups and reduced market segmentation (Madeley, 1996: 65).

Secondly, the large market size encourages longer production runs and hence reductions in operation cost. In the process, some higher-cost firms may be eliminated and the demand met by imports (McLeod, 2003: 221).

Thirdly, the increased market size accompanying trade expansion may enable more products to be produced profitably. This generates welfare gains from increased product diversity (McLeod, 2003: 221; Mshomba, 2000: 180).

Finally, integration may permit firms to engage in more plant specialisation thus reducing the number of products produced in a given plant. Therefore, integration

is likely to achieve increased levels of investment and research and development spending, resulting in lowering production and transaction costs (LeClair, 1997: 29; Swann, 1996: 11-13).

From this it can be argued that the rationale for trade integration among developing countries, whether COMESA or SADC, rests mainly on the effects of the creation of regional markets. However, it also includes the search for better ways of solving regional problems and the need to increase the opportunities for profitable domestic and foreign investment (Tromp, 2003: 9; UNCTAD, 2003: 19; 33-37).

Finally, the rationale for trade integration in the SADC is the need to mobilise unemployed resources (Baile & Breier, 1994: 20-25; Bhalla & Bhalla, 1997: 196; Ng'ong'ola, 2000: 491; Schneider, 2003: 394; Thompson, 1992: 136).

Therefore, regional integration among developing countries is largely based on the prospective gains from rationalising the emergent structure of production (Carim, 1997: 347). There are benefits whether this integration takes place between North-North, North-South or South-South (McLeod, 2003: 220-223; Kreinin & Plummer, 2002: 136). In fact, the lower the level of development, as it is in the case of COMESA, SACU or SADC, the greater will be the importance of the gains from prospective rationalisation (Kreinin & Plummer, 2002: 137; Kennes, 2000: 124; LeClair, 1997: 25).

Many developing countries have small domestic markets (World Bank, 2004b: 4; Kennes, 2000: 6-7). Hence, trade and integration on a regional basis is a very important milestone towards achieving economic transition to higher levels of development. As these countries open up their economies to the global forces, their dynamic international competitiveness may develop leading to higher levels of development (Hartzenberg, 2003: 176; Kabbaj, 2003: 68; UNCTAD, 2003: 37-39; Clapham, *et al.*, 2001: 15; Robson, 1998: 14).

Kreinin and Plummer (2002: 136-137) suggest that outward-oriented regional integration can be a useful means of strengthening the competitiveness of member countries as it reduces intra-regional transactions costs (Hartzenberg, 2001: 90). It can also minimise partner-non-partner country price distortions (Hartzenberg, 2003: 176).

According to Venables (1999 cited in Hartzenberg, 2001: 90), by forming economic integrations with developed countries, developing countries might gain more than when they engage in South-South free trade arrangements. The dynamic gains from economic integration with developed nations could be much larger for developing countries, because of greater expected gains from economies of scale, technology transfer and increased investment flows (World Bank, 2004b: 3-4; Kreinin & Plummer, 2002: 137).

Regional economic integration has significant benefits in the form of higher economic growth for individual member countries and the region as a whole (Jovanović, 1992: 3). This is particularly the case, because economic integration is concerned with the promotion of efficiency in resource use on a regional basis (Robson, 1998: 2). Regional integration offers an alternative viable development strategy that favours growth and sustainability (Lipalile, 2003: 130).

According to Abaza and Baranzini (2002: 1-2), and Swanepoel and De Beer (2000 cited in Lipalile, 2003: 130), "…sustainable development refers to a path of growth that meets the needs and aspirations of the present generation without compromising future generations' ability to meet their own needs and aspirations". Successful regional integration creates conditions that attract investors, enhance economies of scale and empower Africa generally to be competitive in the global economy (Lipalile, 2003: 130; Mair, 2001: 9).

Hansohm and Mbazima (2003: 9) argue that regional integration offers the potential to members of a regional integration arrangement to catch up with the rest of the world. As such, regional integration is regarded as necessary for

economic growth for the SADC member countries. While it is widely acknowledged that economic integration may benefit some of its members more than others, it is better to be inside an integration arrangement rather than outside it (McLeod, 2003: 220; Menon, 2002: 165; LeClair, 1997: 9; Robson, 1968: 13).

Even the most developed nations engage in some form of political and economic integration, due to the benefits of sustainable development mentioned above. A study by AER (2000) for example, argues that in order to be competitive globally and specifically to compete with the European Union and to expand its markets, United States of America worked for many years to establish the North Atlantic Free Trade Area (NAFTA), with Canada and Mexico as members (AER, 2000: 1; Robson, 1998: 287).

Dell (1962: 160) suggests that the primary motive underlying the efforts of developing countries to strengthen their economic ties with one another is their dissatisfaction with the framework of the General Agreement on Trade and Tariffs (GATT) which became the World Trade Organisation (WTO) in 1995 (Adhikari & Athukorala, 2002: 40; Kennes, 2000: 2; World Bank, 2005a: xx). More than four decades later, Dell's view is still valid, as one of the primary motives for developing economies in forming regional economic blocs is to strengthen their bargaining power at international forums such as the World Trade Organisation (Kennes, 2000: 45-46). Secondly, developing countries' regional integration blocs are aimed at unifying these countries and to integrate their economies into the world economy (Kreinin & Plummer, 2002: 3; Kwarteng, 1997: 265).

The above assertion has been echoed by Piazolo (2001) who argues that the reason why regional integration arrangements (RIAs) surged during the 1960s is because multilateral trade liberalisation through the WTO had failed to deliver for developing countries (Kreinin & Plummer, 2002: 1-3). This situation forced these

countries to turn to the second best policy of liberalising trade within regional groupings (Piazolo, 2001: 8).

Summers (1991 cited in Bhalla & Bhalla, 1997: 200), has also suggested that if the world were grouped into three major trading blocs, for example, the United States, Japan-East Asia, and the European Union, it would be easier to negotiate global reduction in trade barriers than if all the countries entered into such negotiations individually.

It is widely believed that through trade and/or economic integration, it is easier to achieve international competitiveness as a bloc or for some countries in the group (Kwarteng, 1997: 15). This in turn implies greater and easier access to the world market for the region's products. When countries negotiate individually at international forums such as at the WTO, their bargaining positions are curtailed. It is on this basis that Kreinin and Plummer (2002: 2-3) emphasise that developing countries form regional economic integration in an effort to minimise discrimination against them at the WTO negotiations.

Some multilateral negotiations can be lengthy and complex and also costly as well (Pearson, Laurent & Julian, 2005: 1-7; Tromp, 2003: 9). These multilateral negotiations are often technical and they require resources, capacities and technical expertise that most African countries do not have (ECA, 2005: 12; Hoekman, 2002: 29; Nair & Chansa, 2004: 3-4). Thus regional integration can help reduce the cost of bargaining, and increase the effectiveness of developing countries (Kennes, 2000: 6). This has been an incentive for Africa and SADC in forming the African Economic Union (AEU), while at the same time forming strategic alliances with other developing countries in the Southern hemisphere (Harsch, 2004: 1; Turok, 2003: 2; Erwin, 1998: 13).

Agreements on regional economic integration and/or political co-operation have become important in less-developed countries (Yopo, 1998: 16-17). Regionalism is viewed as a pre-condition for achieving effective competitiveness, better

positions in global markets and increased negotiating capacity in the field of international economic and political relations. This is particularly true, as widened markets are considered more attractive to foreign investment (UNCTAD, 2003: 47). Further, large markets are effective instruments for competing for goods, services and capital in world markets (Yopo, 1998: 17).

Having realised the stakes involved in the multilateral trade negotiations, the SADC member economies sought co-operation with would-be negotiating partners (Pearson, *et al.,* 2005: 1-3). To emphasise the necessity and importance of bargaining collectively the SADC, launched negotiations with the European Union (EU) jointly with the African, Caribbean and Pacific (ACP) Countries in Windhoek, Namibia on 8 July 2004 (China View, 2004: 1; Julian, 2004: 6-7).

The case for economic integration rests further on deeper considerations and goes beyond restrictive trade policies imposed by other economic blocs such as NAFTA (Kreinin & Plummer, 2002: 125; Kennes, 2000: 47). The basic argument for a customs union or preferential trade area among developing countries as advanced by the UN regional commission is that it may help to stimulate potential economic development. Thus, small countries with a relatively low income, joint or co-operative tariff protection is likely to be more effective in protecting new types of business activity than if each country were separately to protect the market (Robson, 1968: 12).

According to Robson (1968: 10-27; 1998: 63-71), the formation of regional blocs or loose groupings in the sixties was based on the assumption that it would raise the demand for raw materials and foodstuffs. Exports of manufactured goods among developing countries could increase and help reduce these countries' economic and technological dependence on the industrialised countries (Bruton, 1998: 903). However, overvalued currencies and exchange rates hindered export opportunities of the developing countries (Bruton, 1998: 93; Mommen, 1998: 28).

Regional groupings would enable countries to achieve economies of scale resulting from enlarged markets and thus lower the cost of production and raise economic efficiency (Robson, 1968: 30; 1998: 272). Mennes (1973: 2) argues that the ultimate purpose of economic integration among developing countries is to achieve lower costs and accelerated economic growth in the partner countries given a limited available amount of scarce resources.

Whether in the sixties, nineties or 21st century, regional integration arrangements have been based on both economic and political considerations (Clapham, *et al.*, 2001: 15; Mshomba, 2000: 195; Nsekela, 1981a: 11). These two motives are intertwined (Menon, 2002: 165; Konings & Meilink, 1998: 128; Chang, 1994: 3; Robson, 1968: 11).

From the foregoing it can be argued that both economic and political motives underlie regional integration in developing and SADC countries (Mshomba, 2000: 195). For example, the primary motivation for the establishment of the ASEAN in 1967 was political rather than economic (Kreinin & Plummer, 2002: 108; Than & Singh, 2001: 167; Robson, 1998: 14). However, soon after its inception, ASEAN widened and deepened its economic, political, social and security co-operation (Than & Singh, 2001: 167).

There is growing interdependence in trade between the rich and poor, the developed and developing and emerging economies (Cho, 1995: 1; Kennes, 2000: 104-107). Because of the significant role played by trade in development (Toye, 2003: 77), economic integration and trade liberalisation efforts in the SADC region, just as in the EU and NAFTA regions, is based on both political and economic considerations (Robson, 1998: 269).

Developing countries could pursue regional integration even without the possibility of trade creation. However, the motivation for their course of action depends on the significance of the desired outcomes. These desired outcomes are assessed on several factors (Robson, 1998: 271).

Firstly, the weight attached to industrialisation in economic development. Secondly, the possibilities if any, of exporting manufactured goods to world markets rather than to protected regional markets. The third factor is the size of scale economies in prospective regional industries. The fourth factor is the difference in the costs of producing industrial products in the different member countries, and the location of markets in member countries. Finally the consideration of the cost of transporting raw materials and finished products within the region is considered (Robson, 1998: 271-272).

Robson (1998: 272-273) notes that developing countries use four techniques, or approaches for their economic integration endeavours. The first is the classic approach, which involves cross-border trade liberalisation for all or most products, through the formation of customs unions or free trade areas. The second is what is referred to as the complementarity agreement approach. This involves trade liberalisation for certain existing industries or product groups, intended to lead to a rationalisation of production. The third takes the form of inter-country agreements for the establishment of new industries in the region. The final technique prefers tariff preferences for industrial products or industries to complete free trade. This technique is also limited to specific products or industries.

2.4   The Rationale for Economic Integration in Africa

Regional integration schemes became common in the 1950s, and in 1957 the European Economic Community (EEC), now the European Union (EU) emerged (Kwarteng, 1997: 5). In Africa, regional integration arrangements started taking shape in the late sixties through the seventies. In the eighties they became very popular among African leaders (Konings & Meilink, 1998: 129; Robson, 1968: 10-27; 1984; 1998).

Broadly, the factors that explain this surge of regional integration arrangements in the world in general, and Africa in particular, centre on economic, political, security and social issues (Arestis, Baddeley, & McCombie, 2003: 266; Than &

Singh, 2001: 167; Wohlmuth, 2001a: 368-369). In Africa the first motive was to seek new ways of expanding intra-regional trade among the African states (Asante, *et al.,* 2001: 1-3; Piazolo, 2001: 8; Wohlmuth, 2001a: 365-374).

Secondly, during the sixties most African economies had low per capita incomes, small populations and narrow resource bases (Clapham, *et al.*, 2001: 59). This made individual African member economies' development efforts costly (Robson, 1968: 12). There was a need to pull resources together so as to reduce the costs of operation as joint developmental efforts enhance effectiveness in meetings, negotiations and dispute resolution and eases the financial burden (Kennes, 2000: 28).

Thirdly, according to Robson (1968: 12), it was widely believed by Africa's development agents that Africa's development could be accelerated if the continent were to forge close links with the developed world. This integration process had to start with intra-Africa "links". As Malewezi (2001: 19), Mshomba (2000: 175), and Robson (1968: 16) point out, African leaders have always accorded high priority to regional co-operation and integration.

Most of the SADC member countries produce similar goods (Hansohm, Peters-Berries, Breytenbach &. Meyns, 2001: 31-32; Otobo, 2004: 122-123). This is not necessarily a hindrance to development. Trade between countries producing similar goods can be beneficial, because it helps increase the efficiency of firms and farms so as to compete against alternative sources of supply (Malewezi, 2001: 22; Robson, 1998: 83). Thus, it can be argued that economic integration and trade liberalisation within Southern Africa could help stimulate economic growth in the SADC region. This is because trade liberalisation increases the contestability of markets by facilitating the entry of new products and services (Hartzenberg, 2002: 43-44).

Fourthly, through regional groupings, African economies wanted to achieve economic autonomy or self-reliance (Mair, 2001: 9). Although African economies

were and still are predominantly primary commodity producers, they wanted to make use of the comparative advantage inherent in the production of their abundant resource endowments (Kabbaj, 2003: 73; Otobo, 2004: 122; Robson, 1968: 69; World Bank, 2004b: 7).

Fifthly, virtually every African economy was faced with the problem of high unemployment rates (Kabbaj, 2003: 4). It was thought that by forming regional groupings they could increase their production capacities, attract foreign capital, and consequently expand their economies to create employment opportunities (Robson, 1968: 12).

Sixthly, Africa pursued regional cooperation, which was meant to diversify output with the aim of attaining economic growth and stability. Diversification was necessary, because African countries did not want to put "all their eggs in one basket". Regional groupings would reduce the vulnerability of developing countries to external shocks (Adhikari & Athukorala, 2002: 157-158), as they rely on exports of primary products whose prices are subject to cyclical fluctuations in the world market (Kabbaj, 2003: 9; Robson, 1998: 270).

Seventh, the import substitution strategies or inward-looking development approach, which had become very popular in Latin America and Asian economies, was seen as a panacea for economic problems (Edwards, 1993: 1358-1359; Waterbury, 1999: 325-327). Every African economy adopted the same approach, only to realise that African economies were not making any inroads (Kennes, 2000: 1; Mshomba, 2000: 193). African countries resorted to African integration as a way of promoting import substitution. That is, they produced goods domestically which were previously imported (Page, 2003: 4). For example, during the 1980s, it was widely believed that through regional economic integration, developing countries could achieve economic growth (Lipalile, 2003: 130). Economic integration meant a large market size and the associated economies of scale (Mshomba, 2000: 180).

Eighthly, according to Wohlmuth (2001b: 539), many countries in Africa were separated from the world market for various reasons, and regional integration was one way of opening and integrating these African countries into world markets. Regional integration can help make repositioning socially and politically more sustainable (Kennes, 2000: 81; Lipalile, 2003: 130).

Wohlmuth (2001b: 539-542), argues that the forces behind African countries' reintegration towards the world economy revolve around the need for further economic growth, an appropriate response to the processes of globalisation, and being a tool for these countries to transform their trade and investment policies. Moreover, the high transport and freight costs necessitate cross-border and international traffic infrastructure. Finally, countries reintegrate towards the world economy in order to eliminate the need for these countries to arrange for tariff structures and export administration.

Some African countries were previously cut off from the world markets but are now reintegrated. These countries are Libya because of international sanctions and South Africa also due to international sanctions on the grounds of the apartheid system of governance. Angola and Mozambique, because of civil wars, and Namibia, because of its political status before independence are further examples (Wohlmuth, 2001b: 539).

Ninthly, African states and the Economic Commission for Africa (ECA) saw regional integration arrangements as stepping-stones to industrial development (Clapham, *et al.*, 2001: 15). As globalisation is taking shape, African and other developing countries alike, want to penetrate the world market by integrating their economies into the world trading system (Forsyth, 1998: 128; Kwarteng, 1997: 10; Minty, 1998: 139). However, for the above to be realised economic, political and institutional effort is needed (Otobo, 2004: 123–124).

Tenth, regional integration was popular among African countries as a means of reducing the heavy dependence of African economies on international trade and to achieve a degree of economic self-reliance (Blumenfeld, 1991: 4; Jenkins, Leape & Thomas, 2000: 4-5; Jilberto & Mommen, 1998: 129; Nsekela, 1981a: 11).

Eleventh, at independence, most African states joined regional integration arrangements because it was the order of the day (Robson, 1968: 1-22). For instance, Kenya, Uganda, and Tanganyika (now the Republic of Tanzania), formed the East African Community (EAC) in 1967 in an effort to enlarge the market size and overcome the limits imposed by small domestic markets (Nixson, 1973: 1). However, the EAC became defunct in 1977 because of differences in political ideologies, claims on national sovereignty, and economic disparities among these states (Nsekela, 1981a: 11). Kenya was benefiting more than her sister states, Uganda and Tanzania (Clapham, *et al.*, 2001: 61; EIU, 1976: 56; Mair, 2001: 10; Nyong'o, 1990: 5; Robson, 1968: 125-127). The East African Community has been revived and there is now free movement of people in East Africa.

The political motive for forming regional integration arrangements has become very strong in the world generally and developing countries and Africa in particular. In the words of Bhagwati (1997: 282 cited in Adhikari & Athukorala, 2002: 165), "No politician is happy unless he appends his [her] signature to one of the regional trading arrangement (RTA) documents". In addition, according to Nyong'o (1990: 1), citing Kwame Nkrumah's call, "Africa would remain too weak, too poor and too politically vulnerable to serve her peoples …unless it united" (Thompson, 1992: 125).

Pioneer African statesmen in particular, Kwame Nkrumah of Ghana, Mzee Jomo Kenyatta of Kenya, and Mwalimu Julius Nyerere of Tanzania, urged for the establishment of Pan-Africanism in 1958. This is a continental political forum for championing Africa's ideas. This materialised on 25 May 1963 with the formation

of Organisation of African Unity (OAU) (Nyong'o, 1990: 1). Four decades later, the OAU has developed to incorporate economic aspects, and has been re-launched as the African Economic Union (AEU) with the aid of the New Partnership for Africa's Development (NEPAD) (Hansohm, Breytenbach & Hartzenberg, 2003: 213; Otobo, 2004: 124).

It is easier to achieve significant progress towards international peace and reconciliation through regional cooperation than at global level (Kwarteng, 1997: 29). Thus, peace-building has been one of the goals of regional cooperation in Africa, with its prospects for easing political tension and promoting increased friendly neighbourliness (Otobo, 2004: 124). In addition, Nsekela (1981a: 11) sees economic cooperation, co-ordination and integration as a globally effective way of forming a Trade Union of the poor.

Finally, according to Konings and Meilink (1998: 129), African economies traditionally engaged in long-distance trade before colonial masters disoriented them. These distance trades involved some kind of economic integration.

2.5 Factors that Favour Successful Regional Integration

A number of factors may assist efforts aimed at promoting regional integration. Kennes (2000) has termed these factors "*preconditions and success factors*". These preconditions and success factors can be grouped into economic and non-economic factors (Kennes, 2000: 52-53). The absence of adequate institutional design and the lack of fulfilment of basic preconditions have been the most frequent causes of failure of developing countries' regional arrangements (Clapham, *et al.,* 2001: 4-5).

Firstly, the non-economic (mostly political) factors that may make a regional integration programme succeed, include peace, security, respect for human rights, precedence of the rule of law, and good governance (Peters-Berries & Naidu, 2003: 110-118). Regional integration is likely to succeed if the above non-economic preconditions are present. But strife within and between countries will

act as a deterrent to growth-enhancing cross-border economic activity (Kennes, 2000: 52-53). Countries can only cooperate and integrate successfully if their legal and political systems are compatible (Kennes, 2000: 56). Successful integration requires strong political commitment (Kennes, 2000: 59).

Secondly, regional trade integration is likely to succeed if there is a higher proportion of goods imported within the region rather than from outside (Clapham, *et al.*, 2001: 5). By examining the volume and value of exports and imports in SACU and SADC regions, it is observed that the volume of trade among SADC member countries is growing, except for South Africa, which mostly trades with developed and emerging economies. For example, the intra- and inter-regional trade between SACU and SADC grew significantly over the 1989-1998 period, and during this period SACU had a trade surplus with the rest of SADC (SAES, 2000: 65).

Another positive development, according to Chauvin and Gaulier (2002: 29), is that SADC countries have increased their trade with each other since the 1980s. South Africa in the recent past has been increasing her trade with other African countries (Heine, *et al.*, 1998: 2; Kritzinger-van Niekerk & Moreira, 2002: 35-38). In particular, South Africa has increased its trade with SADC and COMESA members, but has reduced its trade with the European Union. In addition it has been identifying trading partners from emerging economies such as Japan, Korea, Malaysia, and China (Chandler, 1997; Erwin, 1998: 10-15; Valenzuela, 1998: 38; Yopo, 1998: 16-24).

The third factor is the relative size of the intra-regional market (Carim, 1997: 347). The SADC has a population of more than 210 million people, which is a sizeable market (World Bank, 2005a: 22-24). Despite the low income per capita in most SADC member countries, the demand for SADC products has been growing because member economies have realised the need to strengthen their economies. This is done by reducing where possible, income leakage through imports (Hansohm & Mbazima, 2003: 10-11).

The fourth factor favouring regional integration is the diversity of production structures among member states (Clapham, *et al.*, 2001: 5). The importance of this is to determine whether citizens would be in the position to enjoy a variety of goods and services. If so, this might put a limit to the imports from outside the SADC region. Unfortunately, most SADC economies have undeveloped manufacturing sectors. South Africa is the only SADC economy with a relatively diversified industrial base and it accounts for over 70 per cent of the US$ 226,1 billion of the SADC GDP (Chauvin & Gaulier, 2002: 26). Most SADC member countries produce similar products (Hansohm, *et al.*, 2001: 31-32; Jenkins, *et al.,* 2000: 5-7). The above production structures tend to work against regional integration among the SADC countries.

Fifth, macroeconomic stability fosters regional integration by discouraging countries from engaging in harmful activities, such as competitive currency devaluation that may damage the economies of partner countries. Currency convertibility, reasonably converging inflation rates and central banks that are autonomous and exercising prudent policies, are necessary for cross-border investment and to sustain trade (Adhikari & Athukorala, 2002: 157-158; Kennes, 2000: 54; Msishkin, 2000: 5-6).

2.6 Factors that Hinder Regional Integration

Regional integration is likely to fail in regions where there is one or more of the following conditions. The first one is when economies have low levels of industrialisation (Meyer & Thomas, 1997: 337-340). Botswana, Lesotho, Namibia, and Swaziland have been complaining that they do not benefit equally from the SACU Common Pool (Hartzenberg, 2003: 175; McCarthy, 2003: 613-616). The reason is their low levels of industrialisation compared to their trading partner, South Africa. Kennes (2000: 55) argues that the absence of large disparities across member states in the level of development, income, industrial structure and size are preconditions for successful integration. This is not the case in SACU and SADC.

Secondly, a high regional dependency on foreign trade and imports from outside the regional economic integration area is another factor that deters regional integration. If this dependency is on more industrialised economies, it might lead to further polarisation of developing countries (Chauvin & Gaulier, 2002: 23). Vanhove and Klaassen (1987: 9-19) call this the "backwash" and "spread effects".

LeClair (1997: 35) argues that developing countries can only benefit from freer trade with the countries whose economies are similar to theirs. Otherwise their integration with most industrialised nations is more likely to lead to their polarisation or marginalisation. The implication of this is that developing countries are seldom self-reliant, and cannot be autonomous. The gains from integration are far less than the losses incurred. In addition, these economies remain small economies, even after regional integration (Kennes, 2000: 79-80). In most cases, these small economies are forced to live with many conditions that are imposed on them by their superior trading partners (Easterly, 2003: 37; Wallace, 1997: 13).

Thirdly, high transport costs may escalate transaction costs, thus becoming a hindrance and a barrier to trade (Clapham *et al.*, 2001: 5). Fourthly, regional integration efforts can be hampered where regional economic integration involves small economies in terms of GDP, income per capita and population numbers (Robson, 1968: 12). A large market is essential for assimilation of technology and also to draw foreign direct investment (Cadot, De Melo, & Olarreaga, 1999: 6).

The population of Sub-Saharan Africa (SSA) in 2003 was 705 million, while that of COMESA and SADC was 340 and 219 million respectively (World Bank, 2005a: 22-24). However, what is essential for an effective market is not the population figures *per se*, but personal disposable income. This ensures that there is adequate effective aggregate demand for the goods and services

produced in the region under study. Most SADC economies have low levels of income per capita except for Botswana, Mauritius, Seychelles, and South Africa (See Table 2.1). This state of affairs has worked against the SADC member economies' efforts to deepen economic integration that can attract significant foreign direct investment (FDI) (Hansohm & Mbazima, 2003: 12).

Table 2.1: SADC Population, Real GNI and Real Income Per Capita in 2003							
SADC MEMBERS	Population in Millions 2003	Surface Area thousands sq. Km 2003	Population Density people per sq. Km 2003	Gross National Income in (billion US $) 2003	Rank[4] 2003	Gross National Income per Capita (US $) 2003	Rank[5] 2003
Angola	14	1 247	11	10	93	740	148
Botswana	2	582	3	6,1	112	3 530	86
DRC	53	2 345	23	5,4	117	100	206
Lesotho	2	30	59	1,1	169	610	156
Madagascar	17	587	29	4,9	121	290	187
Malawi	11	118	117	1,8	155	160	200
Mauritius	1	2	602	5,0	119	4 100	78
Mozambique	19	802	24	3,9	131	210	195
Namibia	2	824	2	3,9	132	1 930	112
Seychelles	n/a	n/a	n/a	0,72	n/a	7 490	n/a
South Africa	46	1 219	38	126,0	33	2 750	94
Swaziland	1	17	64	1,5	160	1 350	127
Tanzania	36	945	41	10,7	89	300	183
Zambia	10	753	14	4,0	129	380	177
Zimbabwe	13	391	34	17,8	n/a	n/a	n/a
SADC	**227**	**3 325**	**76[6]**	**198,9**			
SSA	705	24 265	30	351	nr	500	nr
SSA excl. SADC	478			152,1			
Latin America & Caribbean.	533	20 418	27	1 747	nr	3 280	nr
East Asia & Pacific	1 855	16 302	117	1 988	nr	1 070	nr
South Asia	1 425	5 140	298	733	nr	510	nr
World	6 273	133 942	48	34 577	nr	5 510	nr
Source: Adapted from World Bank, (2005a: 22-24) and UNDP (2004a: 184-187). **Key:** n/a and nr denote data were not available and country and/or region were not ranked respectively.							

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[4] This shows how the SADC countries were ranked in 2003 among the 177 UN members, using the Gross National Income (GNI) criteria.

[5] This also shows how the SADC countries were ranked in 2003 among the 177 UN members, using the GNI per capita criteria.

[6] This shows the average number of people per sq km who lived in the SADC region in 2003.

Table 2.1 shows that the real Gross National Income (GNI) and real Gross National Income per Capita for the SADC countries is much lower than East Asia and the Pacific, Latin America and the Caribbean regions. These regions are classified together with Sub-Saharan Africa as low- and middle-income countries (World Bank, 2005a: 22-24). In 2003, the GNI in Asia and Latin America was 5 to 6 times higher than that of Sub-Saharan Africa (SSA). Moreover, the GNI per Capita was 2 to 6 times more than that of SSA for the same period. This excludes South Asia, where the GNI per Capita is almost the same as that of Sub-Saharan Africa.

Fifthly, regions that experience high levels of disagreement and conflict, for example, the conflicts in Angola and the Democratic Republic of Congo hamper successful integration (Hansohm, *et al*, 2003: 155; Jenkins, 2003: 16). The conflicts in Liberia, Rwanda, Somalia, and the Darfur region of Southern Sudan all work against regional integration (Kennes, 2000: 52-53). An examination of annual economic growth rates in the SADC region show that Angola and the Democratic Republic of Congo had the greatest negative growth rates during the period 1993 to 1999 (SADC, 2001: 74). These negative growth rates were attributed mostly to the wars, which disrupted economic activities in these economies (Hansohm, *et al.*, 2003: 155).

Sixthly, regions whose member states have political diversity with different ideologies, tend to experience problems in their integration endeavours. For example, if some countries adhere to socialism principles and other countries believe in capitalism, a regional integration could lack coherence in its undertakings. Examples of regions that have experienced integration problems in past, because of political ideologies include Southern Africa and the East African Community. This was experienced between South Africa and the SADCC member states; and Kenya, Uganda, and Tanzania prior to 1977. This is also the case if some states observe democratic rights while other member states do not (Clapham, *et al.*, 2001: 4; Kennes, 2000: 56; Przeworski & Limongi, 1993: 51-69).

Lastly, regional economic integration is likely to fail if there is more external economic dependence and less intra-regional trade among the integrating members. Extra-regional and region-region partnerships, for example, the overlapping regional integration arrangements in Eastern, Central, and Southern Africa hampers regional integration. Economic blocs, such as the EAC, ECCAS, COMESA, SADC, and SACU with multiple memberships, have retarded the facilitation of trade efforts in Southern Africa (Kritzinger-van Niekerk & Moreira, 2002: 50). Some SADC members also belong to COMESA. Dual membership hampers trade integration as this kind of arrangement makes it difficult for SADC members to adhere to and administer trade protocols (De la Rocha, 2003: 17-18).

Despite the many steps taken, including a careful analysis of the above factors in an effort to establish regional economic integration, developing countries still face three major difficulties. The determination in operational terms of the appropriate scope and direction of regional trade, development, and specialisation is one such problem. The question of equity in the distribution of benefits to the group members, and the direction of policy towards foreign investment and multinational enterprises, are the other two issues which remain unresolved (Robson, 1998; 1984).

2.7 The New Dimension of Economic Integration

In the sixties, seventies, and even eighties regional integration was popular, because of the case for import substitution (Edwards, 1993: 1359). What is the rationale for regional integration in a globalised economy? Mistry (1996: 23) argues that the regional integration of the sixties and seventies failed because they were limited to immediate, tangible benefits. In addition, this first generation of regional integration arrangements lacked political support for their continuation once the immediate goals were not achieved.

This section deals with two related issues: Firstly, it advances some reasons why both developing and developed countries still pursue regional economic integration, despite the World Trade Organisation, International Monetary Fund, and The World Bank's urge for world economies to liberalise their markets (Schneider, 2003: 389; The Lancet, 2002: 1359). Secondly, it explains why regional economic integration is assuming a new dimension in the sense that developed economies are enlarging and intensifying their integration efforts. Developing countries, particularly African economies, are shifting their economic integration arrangements from South-North to South-South (Heine, *et al.*, 1998: 1-3). They are focusing mainly on the emerging market economies in Asia (Harsch, 2004: 24; Heine, *et al.,* 1998: 13; Schneider, 2003: 389; World Bank, 2004b: 1).

Africa in general, and the SADC region in particular, have realised that they lose economic benefits when trading with more advanced countries such as the United States of America and the European Union member countries. Because of this they have been exploring export opportunities in the Asian markets where there are similarities in economic structure and less disparity in economic development. Africa and Asia have been strengthening trade relations and this has helped Africa's exports to penetrate the large Asian market. For example, the total trade between Africa and developing countries in Asia grew by nearly 50 per cent, from US$ 20,9 billion to US$ 30,1 billion between 1995 and 2001. Both exports and imports between the two regions grew steadily over this period with few exceptions (Harsch, 2004: 24).

According to Harsch (2004: 25) and Heine, *et al. (*1998: 3), Africa and the SADC region have been shifting their trade pattern from the USA and the EU regions. This happened because of the gains associated with export and import opportunities, resulting in mutual agreement between African and the Asian economies. One such benefit is that Asian countries are able to export industrial equipment, fertilizer and consumer goods to Africa at much lower prices than

those from Africa's traditional commercial partners in the North. This has strengthened the South-South trade (Gunning, 2002: 314).

In addition, a recent World Bank study concluded that Asia has emerged as Africa's important trade and development partner (World Bank, 2004b: 2). The study further shows that Africa's exports to Asia during the 1990s grew significantly in both relative and absolute terms. For example, of Africa's total export earnings, which were estimated at about US$ 130 billion per year for the period 1999 to 2001, 16 per cent of the total earnings during this period were from Asia. The study also reveals that, Africa's export values to Asia has been increasing at the rate of 10 per cent per year and this has been relatively higher than the rates for the European Union and the United States, whose rates of exports grew by 3,7 and 4,6 per cent respectively in the past decade (World Bank, 2004b: 1).

The Asian financial crisis reduced demand for Africa's exports to Asia in 1998, but normal demand resumed again in 1999 (Thoburn, 2001: 61). In 1999 most of Africa's exports went to India and China, the two largest Asian economies. This was because these economies were able to absorb the shocks caused by the Asian financial crisis. The Africa-Asia volume of trade is growing faster than that to other Africa trading partners. For example, during the first nine months of 2003, the total trade between China and Africa reached US$ 13,4 billion. This figure was much higher, compared to US$ 12,4 billion achieved for the whole of 2002 (Harsch, 2004: 32).

Through South-South integration, the technology transfer that exists between Japan and other Asian countries could be transmitted to the SADC countries and African countries in general. The South-South aspect of technology has been considered very effective and more appropriate for African economies. This is because the Asian economies are more compatible with African economies (World Bank, 2004b: 72).

Therefore, Africa-Asia trade integration is likely to increase Africa's total trade value by contributing to the overall export expansion of African countries. This enhances market diversification for the primary commodity exports on which African countries rely, by increasing product diversification in the manufacturing sector (World Bank, 2004b: 45).

This discussion shows that developed and developing countries still pursue economic integration arrangements for political, social and economic reasons (Arestis, *et al.*, 2003: 266). Particularly for developing countries, regional economic integration may increase member states' bargaining power in their economic relations. This appears to have been an important consideration among most developing countries (Kwarteng, 1997: 10). However, developing countries, mostly in Africa and the SADC region, have not gained much from trade liberalisation and economic integration. This is discussed next.

2.8 Trade Liberalisation, Economic Integration and the Marginalisation of Africa

Jenkins (2003: 4) states that Africa has a poor record of creating and sustaining regional economic arrangements. This is mainly because African trade blocs are largely pursued for political reasons (Gunning, 2002: 311). Many of these schemes were designed without regard for members' incentives to comply with the many regional economic integration and trade liberalisation rules, regulations and procedures. Because of this, almost all trade initiatives in Africa have achieved very little success (Jenkins, 2003: 5).

Marginalisation of the periphery in Sub-Saharan Africa (SSA), partly explains why regional economic partnership agreements (REPAs) have had little impact in promoting intra-Africa trade. For example, increases in FDI from outside to SSA do not benefit all countries equally. This is because the investment is biased towards the hub rather than towards the spokes. The hubs are regions or countries that are attractive to the investors. They are core regions or centres in terms of economic activities. The spokes on the other hand, are the regions that

are not the main focus from the investor's point of view. The spokes are also referred to as the periphery (Cadot, *et al.*, 1999: 6). Between 1990 and 2002 for example, most of Asian FDI to Africa went to South Africa (World Bank, 2004b: 59). While this bias is based on firms' rational behaviour, in the sense that, the hub raises more return on investment than the spokes, this approach hinders successful trade liberalisation and intra-Africa trade. Because of the hub-spoke effect, the smaller countries in Africa tend to lack both the institutional and political will to fully support "a common course" (Cadot, *et al.*, 1999: 6-7; Management Today, 2002: 4-6).

Yang and Gupta (2005: 6) argue further that, regional trade arrangements in Africa have created some vested interests that are opposed to broad-based liberalisation. The authors state that, "exporters who have benefited from regional preferential market access will want to keep their niche markets". In addition, Mears (2005: 2) states that Africa has not benefited much from either globalisation or trade liberalisation, mainly because of three reasons.

Firstly, the continent is finding it difficult to bridge the gap between skills and technological capabilities needed to achieve dynamic competitiveness (James, 2002: 62-63). Africa cannot rely on cheap labour as this has become irrelevant. Innovation and technological advancement is the way forward (James, 2002: 113; Schydlowsky, 1984: 445). Investment in human capital and skill development is a prerequisite to overcome the skill-technological gap (Psacharopoulos, 1996: 1-4). This is necessary if Africa is to fill this gap and revive the economy so as to reap substantial gain from globalisation and/or trade liberalisation (AfDB, 2002a: 138; Israel, 1983: 15; Stein, 2004: 69; World Bank, 1989: 77). This is particularly important because institutional arrangements and capacity-building are the pillars for economic development (Andersson, Bigsten, & Person, 2000: 30; Nsouli, 2000: 34; World Bank, 2003: 37). An enabling environment creates the conditions for higher productivity (Psacharopoulos, 1996: 2; World Bank, 1989: 54.)

According to the World Bank (2003: 37-38), institutions refer to those "rules, organisations and social norms that coordinate human behaviour, and are essential for sustainable and equitable development". Martens, Mummert, Murrell, and Seabright (2002: 1) have distinguished between institutions and organisations. Institutions are the formal and informal rules of behaviour that constitute incentives for all economic agents involved in the dispensation and delivery process. Organisations are groups of persons that adhere to a particular set of rules.

Secondly, Africa is not a successful developmental state (Grabowski, 1994a: 413; 1994b: 3-17). Because of this, Africa is not creating a business community. In particular, the continent lacks adequate strong entrepreneurs (Mears, 2005: 2). Instead, it has weak institutions, and is in a weak developmental state (Grabowski, 1994a: 413; Padaki & Vaz, 2003: 29-31; World Bank, 1989: 54; World Bank, 2003: 161).

There is a need for African governments to formulate their industrial strategy, besides working with the private sector. Shapiro and Taylor (1990: 861) emphasise that "…industrial strategy rests upon directed public interventions at the sectoral or firm level, aimed at stimulating particular lines of economic endeavour". It is the duty of the state to design and implement programmes that promote economic development (Grabowski, 1994b: 3).

Thirdly, most countries in Africa have given little attention to corporate governance and protection of investors' assets (Mears, 2005: 2-3). This partly explains why Africa does not attract significant foreign direct investment (FDI). For example, according to UNCTAD (2003: 34), FDI to Africa in 2002 reduced by 41 per cent. Some economies in Africa support domestic economic policies that limit market access. Political instability is another factor that has deterred the effectiveness of African trade integration. In addition, the structure of demand and production are too similar across African countries (Jenkins, 2003: 5; Wood & Mayer, 2001: 369). This has hampered substantial trade creation.

Most African countries do not have adequate capacity to tackle complex issues reminiscent in the World Trade Organisation. For example, strengthening the process of regional integration in Africa through the promotion of intra-regional and international trade and physical integration has been hampered by inadequate and costly transport and communication sectors (ECA, 2005: 12; Michalopoulos, 2001: 90-91; Yang & Gupta, 2005: 9-10).

Poor infrastructure in developing countries makes the cost of operation prohibitive to multinational companies (MNCs) that wish to relocate to Africa and attract FDI (Financial Mail, 2002: 34-35; Kennes, 2000: 6). In telecommunication for example, firms and companies cannot conclude foreign transactions by telephone. This is mainly because telephone calls originating in African countries with poor telecommunication facilities are very expensive. A 3-minute call that originates in Sudan is 12,2 times more expensive than one that originates in India (World Bank, 2004a: 51). This information is contained in Table 2.2.

Table 2.2: Cost of making a telephone call for selected countries (in US$)	
Country where call originated	Cost of a 3-minute call to USA (in US$)
India	3,20
Syrian Arab Republic	20,04
Sudan	39,08
Source: Adapted from World Bank, 2004a: 51	

According to Gunning (2002: 312-313), Africa has seen at least four phases of trade blocs between the 1960s and the 1990s, but the performance of these blocs has been disappointing. Authors such as Fine and Yeo (1997 cited in Gunning, 2002: 313) have described African regional integration as a "dead end". This is because Africa has many trade blocs, but little trade takes place between these blocs and partner countries (Gunning, 2002: 313).

Yang and Gupta (2005), also acknowledge that Africa as a region has indulged in regional trade arrangements (RTAs) aimed at helping local industries to develop.

This is done with the ultimate goal of improving the continent's overall trade and to strengthen intra-regional trade. However, because of low complementarity of natural resources, and the region's small markets and administrative capacity constraints, Africa's integration process has lagged behind (Yang & Gupta, 2005: 6; 9-10). Yang and Gupta (2005: 8) identify African economies' lack of complementarity in their trade structure, their narrow focus on intra-regional tariff reductions, weak capacity for policy implementation, and a lack of policy credibility as the key reasons for failure of intra-African regional trade arrangements.

Rodrik's (1997) economic study documents that Sub-Saharan Africa fared worse in the 1990s than it did in the 1960s and 1970s. For example, many Sub-Saharan Africa countries undertook trade liberalisation and other economic reforms during the 1980s, but they benefited little. Instead, Sub-Saharan Africa was marginalised in world trade due to its slow growth. Rodrik (1997: 3-4) documents that, approximately a third or 16 countries in Sub-Saharan Africa, had higher GDP in the early 1960s than they did in the 1990s.

Ghana and Uganda for example, which were the leading economic and trade liberalisation reformers in the 1980s, managed to recover from long periods of economic decline in the 1990s. However, these countries' income per capita remained lower in the 1990s than it had been in the 1970s (Rodrik, 1997: 4). Moreover, since the 1990s, FDI to developing countries and Africa in particular, has been on a downward trend. For example, Africa's FDI inflows declined to US$ 11 billion in 2002 down from US$ 19 billion in 2001. The region's share in global FDI fell from 2,3 per cent in 2001 to 1,7 per cent in 2002 (UNCTAD, 2003: 33). These are all indications that Africa has been performing poorly for more than three decades, and the situation has not improved.

While FDI fluctuation is inevitable, it is not clear why FDI inflow to SSA has declined more than in other developing countries. Macro- and microeconomic factors and institutional factors account for FDI downturn. The most important

macroeconomic factors that contribute to the decline of FDI include global slow growth, recession and business cycle in most parts of the world, and the decline in stock market valuations (UNCTAD, 2003: 15).

The microeconomic factors that reduce FDI are lower corporate profits, large repayments of intra-company loans, and a slowdown in corporate restructuring (UNCTAD, 2003: 17). Some of the institutional factors contributing to the FDI downturn include the winding-up of privatisation projects, corporate scandals and the accompanying loss of confidence, and firms' unwillingness to take risks (UNCTAD, 2003: 19).

Collier and Gunning (1999), also document that since the 1980s, African economic performance has been declining relative to other developing countries. For example, the region's GDP declined by 1,3 per cent per annum or 5 percentage points below the average for all low-income developing countries during the 1980s. The situation became even worse in the nineties, as Africa's GDP decline accelerated to 1,8 per cent per annum, widening the gap to 6,2 percentage points (Collier & Gunning, 1999: 64).

Africa faces many problems and challenges. For example, many African countries are landlocked small economies with inadequate infrastructure (Yang & Gupta, 2005: 9). In terms of population, of the 53 African countries, 39 have fewer than 15 million people, and 21 have fewer than 5 million (ECA, 2004 cited in Yang & Gupta, 2005: 9). Africa's population is 12 per cent of the world's but its output is only 2 per cent. This is due to Africa's low productivity and the vicious cycle of poverty (Financial Mail, 2002: 34-35; World Bank, 2005c: 28-29; Yang & Gupta, 2005: 9). Holiday Jr, Schmidheiny and Watts (2002: 53), emphasise that the "…vicious cycle of the poverty trap limits market access, and lack of market access keeps countries poor".

Problems such as the overlapping and incompatible memberships have rendered Africa's regional integration efforts ineffective (Gunning, 2002: 313-314). For example, in the case of a Customs Union, there is a danger that once a country joins it, its trade policy cannot be altered without the consent of its partners. Other obstacles relate to local producers who, having benefited from rules of origin, will resist reductions in external trade barriers and efforts to make the rules more transparent and less restrictive (Yang & Gupta, 2005: 6).

For Africa to increase its economic growth, the continent needs to make the necessary structural adjustments aimed at addressing the problems of heavy dependence on primary commodity exports and a weak manufacturing base (Yang & Gupta, 2005: 8). There is a need for the continent to pursue arrangements that are truly development-oriented with developed countries such as the EU and the emerging economies in Asia in order to strengthen their domestic economies and for innovation and technological diffusion (World Bank, 2004b: 3-4; Yang & Gupta, 2005: 8). Countries that have grown rapidly are those that have adopted appropriate endogenous technology (Fagerberg, 1994: 1148; 1171).

2.9 Summary of the Main Findings and Conclusions

The various forms of economic integration, the motivation for forming regional economic integration, the factors that promote successful regional economic integration as well as those that hamper the regional integration process have been examined. The chapter identified seven theoretical stages that economies move through during their integration endeavours. These stages are the preferential trade area, a partial customs union, a free trade area, a customs union, a common market, an economic union, and a total economic union. Most literature, however, tend to identify only four stages of economic integration. These are Free Trade Areas, Customs Unions, Common Markets and Economic Unions.

The preconditions and success factors that promote successful regional integration are broadly classified under economic and non-economic (mostly political) factors. These preconditions and success factors include adequate and strong institutions, peace, security, respect for human rights, precedence of the rule of law and good governance as well as an absence of civil wars. In addition, compatible political systems, strong political commitment, more intra-regional trade, the size of the intra-regional market, diversified production structures, and macroeconomic stability also work together to ensure successful regional integration.

Countries have moved away from the traditional shallow economic integration to deeper economic integration. It is largely because of this new trend in economic integration that the SADC and developing countries have engaged in both South-South and North-South integration. South-South integration is more beneficial to developing countries, as it brings together economies with similar production structures and level of development. However, because the process takes longer to develop regional complementarities and to achieve industrial growth, given the socio-economic problems and technological and innovation constraints inherent in most developing countries, these countries end up engaging in North and South integration.

Africa has a poor record of creating and sustaining regional economic arrangements. This is mainly because African trade blocs are largely pursued for political reasons. Because of this state of affairs, almost all trade initiatives in Africa have achieved very little success. Many of these schemes were designed without regard for members' incentives to comply with the many regional economic integration and trade liberalisation rules, regulations and procedures.

Furthermore, Africa has many trade blocs, but little trade takes place between these blocs and partner countries. This is mainly because regional trade arrangements in Africa have created some vested interests opposed to broad-based liberalisation. There are problems such as overlapping and incompatible

memberships that render the continent's regional integration efforts unsuccessful. Some African countries' domestic economic policies have hindered the effectiveness of African trade integration. In addition, the structure of demand and production are too similar across African countries. This has hampered substantial trade creation.

Most African countries do not have adequate capacity to tackle complex issues reminiscent in the World Trade Organisation. For example, strengthening the process of regional integration in Africa through the promotion of intra-regional and international trade, and physical integration has been hampered by inadequate and costly transport and communication sectors.

Africa as a region has engaged in regional trade arrangements (RTAs) aimed at helping local industries to develop. This is done with the ultimate goal of improving the continent's overall trade and to strengthen intra-regional trade. However, because of low complementarity of natural resources, and the region's small markets and administrative capacity constraints, Africa's integration process has lagged behind. The key reasons for failure of intra-African regional trade arrangements include African economies' lack of complementarity in their trade structure, their narrow focus on intra-regional tariff reductions, weak capacity for policy implementation, and a lack of policy credibility.

Many Sub-Saharan countries undertook trade liberalisation and other economic reforms during the 1980s, but they did not benefit much. Instead, Sub-Saharan Africa has been marginalised on world trade due to its slow growth and a lack of adequate market access to developed countries. Foreign direct investment and economic growth has been declining in Sub-Saharan Africa since the 1980s. For example, only approximately a third or 16 countries in Sub-Saharan Africa had higher GDP in the early 1960s than they did in the 1990s.

Africa faces many other challenges. For example, many African countries are landlocked small economies with inadequate infrastructure. In terms of population, of the 53 African countries, 39 have fewer than 15 million people, and 21 have fewer than 5 million. Africa's population is 12 per cent of the world's but its output is only 2. This is partly due to Africa's low productivity and the vicious cycle of poverty.

For Africa to increase its economic growth, the continent needs to make the necessary structural adjustments aimed at addressing the problems of heavy dependence on primary commodity exports and a weak manufacturing base. There is also a need for the continent to pursue arrangements that are truly development-oriented with developed countries such as the EU and the emerging economies in Asia in order to strengthen their domestic economies and for innovation and technological diffusion. Countries that have grown rapidly are those that have adopted appropriate endogenous technology.

This chapter reinforces the notion that countries, whether developed or not, cannot afford to be isolated politically and economically. It is better to be inside rather than outside an integration arrangement. There is a great need for the SADC countries to harmonise their economies. They have to develop their competitiveness and encourage deeper integration if they are to take their place in the world trading system.

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CHAPTER 3

AN HISTORICAL OVERVIEW OF ECONOMIC INTEGRATION IN SADC

3.1   Introduction

This chapter addresses three issues. Firstly, it gives an historical overview of economic integration in Southern Africa. Secondly, it analyses how and why the SACU and the SADC evolved, and thirdly, the chapter concludes by examining the major trading partners of the SADC.

Before the 1970s Southern Africa was an economically coherent region (Shaw, Söderbaum, Nyang'oro & Grant, 2003: 194-195), where the Southern African states had an interdependent relationship (Blumenfeld, 1991: 2, 42; Mandaza, 1990: 141). However, this relationship gradually changed to a subservient relationship (Ng'ong'ola, 2000: 486; Blumenfeld, 1991: 4). This is mainly because South Africa had total freedom of action both economically and politically. In other words, South Africa had the overwhelming economic and military power in Southern Africa (Adam & Moodley, 1987: 175; Blumenfeld, 1991: 3).

In addition, South Africa had the freedom of relocating industries in Southern Africa, while other Southern African states did not (Harden, 1985: 125). These other Southern African States were thus viewed as subservient states as there was no longer a reciprocal relationship (Harden, 1985: 125; Ng'ong'ola, 2000: 486). Because of her overwhelming political and economic power, South Africa started dictating political and economic policies in the Southern African region. This angered its economic partners. This and other economic and political factors caused other Southern African states to isolate South Africa (Blumenfeld, 1991: 2-5). Moreover, the international community subjected South Africa to political and economic sanctions (Ng'ong'ola, 2000: 486). Section 3.2 examines the origins and objectives of SACU and SADC.

3.2   The Origin and Creation of SADC and SACU

The SADC was founded in 1980 (Bhalla & Bhalla, 1997: 44; Meyns, 2001: 60; Sidaway & Gibb, 1998: 164), when nine countries in Southern Africa decided to form a regional co-operation agreement (Holden, 1996: 7; Jenkins, Leape, & Thomas, 2000: 4; Mshomba, 2000: 187; Thompson, 1992: 125). These countries were Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, and Zimbabwe (Harden, 1985: 125; Lipalile, 2003: 131; Sidaway & Gibb, 1998: 164). These economies, through the Southern African Development Coordination Conference (SADCC), wanted to achieve economic liberation and integrated development in the region (Grant & Söderbaum, 2003: 164; Jenkins, *et al.,* 2000: 5; Lipalile, 2003: 131).

According to authors such as Blumenfeld (1991: 137), Gelb (1998: 33), and Sidaway and Gibb (1998: 166), the nine economies' main objective at the time was to reduce their economic dependence on South Africa and the rest of the world. Reduction of economic dependence, particularly on South Africa, was because of its political ideology, which was questionable due to the apartheid system of governance (Blumenfeld, 1991: 1, 4, 57, 141; Ng'ong'ola, 2000: 486).

In August 1992 SADC Heads of State and Governments signed a treaty, in Windhoek, Namibia transforming the Southern African Development Coordination Conference into the Southern African Development Community (Jenkins, *et al.,* 2000: 5; Mshomba, 2000: 187). During the 1990s five other Southern African states joined SADC as follows: Namibia joined in 1990; South Africa and Mauritius in 1994; The Democratic Republic of Congo (DRC) and Seychelles in 1998 (Sidaway & Gibb, 1998: 166).

Today SADC consists of fourteen members countries, namely Angola, Botswana, The Democratic Republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, United Republic of Tanzania, Zambia, and Zimbabwe (See Figure 3.1).

Figure 3.1: Map of SADC Member Countries

Source: SADC TIIR, 2005

The latest available statistics on the SADC region show that the fourteen SADC countries had a total population of at least 220 million people in 2003 (Table 3.1) It had a combined Real GDP of US$ 242,6 billion in 2003 (World Bank, 2005a: 198-200 & 202-204). Although Seychelles left the SADC organisation in 2004 and Madagascar applied for membership in 2004 and became a full member in 2005 (The Star, 19 August, 2005), both are included in the SADC demographic and economic statistical analyses.

Table 3.1 shows that the SADC population grew by an average of 3 per cent per year during the period 1990-1995. This trend continued during the 1995-2003 period, but at a reduced rate mainly due to the impact of HIV/AIDS (UNAIDS, 2005: 1). The population grew on average by 2 per cent for the eight-year period.

Table 3.1: The SADC Member States' Population in Millions, 1990-2003													
Countries	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Angola	9,57	9,883	10,229	10,598	10,971	11,339	11,695	11,047	12,398	12,759	13,134	13,5	13,12	14
Botswana	1,24	1,277	1,316	1,353	1,389	1,422	1,453	1,48	1,504	1,524	1,541	1,7	1,71	2,0
DRC	36,999	38,483	40,099	41,765	43,369	44,834	46,124	47,280	48,389	49,581	50,948	52,4	51,58	53
Lesotho	1,682	1,718	1,755	1,793	1,832	1,869	1,906	1,942	1,977	2,008	2,035	2,1	1,78	2,0
Madagascar	11,6	12,3	12,65	13,02	13,39	13,79	14,20	14,62	15,06	15,51	15,97	16,44	16,44	17
Malawi	9,434	9,656	9,774	9,833	9,899	10,02	10,211	10,456	10,739	11,03	11,308	10,5	10,74	11
Mauritius	1,057	1,067	1,079	1,091	1,103	1,114	1,125	1,134	1,143	1,152	1,161	1,2	1,21	1,0
Mozambique	13,645	14,031	14,549	15,147	15,7	16,293	16,771	17,195	17,576	17,936	18,292	18,1	18,44	19
Namibia	1,375	1,423	1,467	1,508	1,547	1,585	1,621	1,657	1,691	1,724	1,757	1,8	1,98	2,0
Seychelles	0,07	0,071	0,072	0,073	0,074	0,075	0,076	0,077	0,078	0,079	0,08	0,1	0,08	0,8
South Africa	36,376	37,107	37,841	38,576	39,308	40,033	40,752	41,456	42,131	42,754	43,309	43,2	45,35	46
Swaziland	0,769	0,786	0,799	0,81	0,821	0,835	0,852	0,871	0,891	0,909	0,925	1,1	1,09	1,0
Tanzania	26,043	26,965	27,938	28,935	29,921	30,868	31,768	32,628	33,46	34,285	35,119	34,4	18	36
Zambia	8,049	8,282	8,515	8,747	8,981	9,218	9,458	9,702	9,946	10,187	10,421	10,3	10,24	10
Zimbabwe	10,241	10,518	10,774	11,013	11,244	11,475	11,707	11,939	12,171	12,4	12,627	12,8	13,00	13
SADC	**168,2**	**173,3**	**178,7**	**184,2**	**189,4**	**195,2**	**200,2**	**204,6**	**209,1**	**213,5**	**219,0**	**219,4**	**221,94**	**227,8**
Annual growth rate		**3,0**	**3,1**	**3,1**	**2,8**	**3,1**	**2,6**	**2,2**	**2,2**	**2,1**	**2,6**	**0,2**	**1,2**	**2,6**

Source: AfDB, 2002b; World Bank, 2005a: 48-50. Annual population growth rate is author's calculation based on SADC population for the years shown. By taking the average growth rates of 1996 to 2003, the annual growth rate is 1,96 per cent.

Chapter 3: An historical Overview of Economic Integration in SADC

The SACU has a longer history than SADC. According to Maasdorp (1989, cited in Sidaway & Gibb, 1998: 172), and Robson (1968: 254), the SACU Agreement dates back to the 1889 Customs Union Convention signed by the British colony of the Cape of Good Hope and the Orange Free State Boer Republic. In 1893, Bechuanaland and Basutoland, which were under the direct administrative control of the British high commissioner, joined the 1889 Customs Union Convention.

In 1903 a Customs Union Convention was signed between the Cape, Natal, Orange River Colony, Transvaal and Southern Rhodesia. At this meeting, Bechuanaland, Basutoland and Swaziland were admitted as members, but with fewer rights (Sidaway & Gibb, 1998: 172).

However, many authors (Bhalla & Bhalla, 1997: 58; Blumenfeld, 1991: 35; EIU, 1976: 84; Holden, 1996: 4; McCarthy, 2003: 2) refer to the 1910 Customs Union Agreement as the origin of the present day SACU Agreement. This is perhaps because the 1910 Agreement provided for the free movement of manufactured goods, and also introduced a common external tariff (CET) and a revenue-sharing formula (Sidaway & Gibb, 1998: 172).

The Original SACU Agreement (OSACUA) was signed between South Africa and Britain (Sidaway & Gibb, 1998: 171-172). The agreement was signed at Potchefstroom, binding South Africa, Bechuanaland (Botswana), Basutoland (Lesotho), and Swaziland (Kirk & Stern, 2003: 2). The 1969 agreement was preceded by the one of 1910, which created a customs union between South Africa and the high commission territories (HCTs) at the time of the establishment of the Union of South Africa in 1910 (McCarthy, 2003: 611).

During the late sixties, Botswana, Lesotho, and Swaziland renegotiated the agreement for implementation in 1969 (Bhalla & Bhalla, 1997: 44; Simon, 1998: 171-178). Another renegotiation took place in 1976. Moreover, following the 1994 democratic elections in South Africa, SACU members Botswana, Lesotho,

Namibia, Swaziland and South Africa signed a new agreement on the 21st October 2002, after eight years of renegotiations (Kirk & Stern, 2003: 1; McCarthy, 2003: 605; Visser & Hartzenberg, 2004: 5). Discussed in section 3.3 are the aims and objectives that led to the creation of SACU and SADC.

3.3 The Aims and Objectives of SADC and SACU

The initial objectives of the Southern African Development Coordination Conference (SADCC) were not totally different from those adopted by the SADC, (Bhalla & Bhalla, 1997: 44). When SADCC transformed to SADC, the new organisation retained some of the original objectives of the SADCC and ventured into other areas of co-operation. This resulted in the SADC Programme of Action being expanded considerably (Kritzinger-van Niekerk & Moreira, 2002: 91-92; Nyirabu, 2004: 28; SADC, 2001: 66).

The nine states which formed SADCC, did so in order to achieve four specific objectives. These objectives were, firstly, to rehabilitate and extend the regional transport network within the SADCC region (Blumenfeld, 1991: 135). Some SADCC States such as Zimbabwe, Zambia and Malawi were landlocked, and most of their foreign trade was carried out via neighbour states, mainly Maputo in Mozambique.

Like many other African countries, the Southern African economies were under colonial rule until the nineteen-sixties (Nsekela, 1981a: 41). They were mainly exporters of primary products (Gelb, 1998: 32). These primary products were bulky, and therefore required rail, road, and sea modes of transport. In order to protect their profit margins, producers used the shortest and most direct routes to the sea to reduce costs. This meant that the Democratic Republic of Congo, Zambia, Zimbabwe and other countries in the SADCC region used Mozambique, Angola, and South Africa for shipping their exports and imports (Harden, 1985: 137-138).

The SADCC projects focused mainly on transportation, communication and transport sectors, which took 77 per cent of donor finance (Gelb, 1998: 33; Nsekela, 1981b: 71). Despite this heavy expenditure, the infrastructure in the Southern Africa region remained relatively poor, and it needed regular maintenance and upgrading. The transport costs in the SADCC region remained high, and the Southern African economies were incurring large transportation costs. For example, according to Gelb (1998: 33), transporting 30 per cent of the imports and two thirds of the exports, the transport costs were more than 30 per cent of the total value compared with Brazil, which incurred only 12 per cent of the total value.

Because of this the SADCC members were not concerned with trade integration as a primary motive. Instead, these countries gave priority to transport and communication projects. This was later extended to other areas of integration, namely, security, energy, industry and trade integration (Holden, 1996: 7). The reasoning of the SADCC members centred on the cost-reduction, that could be achieved through the rehabilitation and upgrading of the infrastructure. Rehabilitating the transport network in the SADCC region could help reduce the shipping and transportation costs, and thus improve these economies' trading position.

According to Gelb (1998: 33-34), the high transport costs in the SADCC region were mainly due to bad policy design. For example, tariffs were based on *ad valorem* rates (i.e. based on containers) instead of applying rates on the value of the contents. Cumbersome customs procedures and slow border crossings, lack of co-ordination across and within transport modes, low economic activity due to military activity, and economic recession and drought particularly between 1979 and 1983 all militated against development. Moreover, the short-run effect of structural adjustment programmes (SAPs), which required import compression to restore the balance of payments (BOP) equilibrium, hindered export growth. In addition, a lack of rolling stock on railways, poor training and low productivity of

both management and workers also contributed to high transport costs in the SADCC region (Harden, 1985: 137).

The second objective of the SADCC was to reduce economic dependence, not only on the South African economy, whose political ideology was questionable, but also on the rest of the world (Blumenfeld, 1991: 135; Jenkins, *et al.,* 2000: 5; Sidaway & Gibb, 1998: 166).

The third objective was to achieve a degree of self-reliance for each of the SADCC member economies. In order to achieve this they agreed to increase the level of trade among member states and reduce the proportion of export and import with non-SADCC member countries (Blumenfeld, 1991: 3).

While the third objective gives an impression that these countries were promoting regional economic integration, the SADCC members were actually against that idea. Instead they adopted the self-reliance approach (Jenkins *et al.,* 2000: 5; Blumenfeld 1991: 135). At the core of the third objective was the aim of achieving balanced and equitable regional projects and development (Ayisi, 1992: 65; Blumenfeld 1991: 141; Holden, 1996: 7).

The fourth objective was twofold. Firstly, to use all available means to help those countries that were still under colonial rule, such as Namibia, to achieve self-independence. This was achieved. Secondly, to assist those countries which had gained self-independence, such as Zimbabwe, to consolidate power (Thompson, 1992: 126 and Nsekela, 1981b: 71). In a way, the SADCC member states' commitment to achieving the fourth objective made some contribution to the political and democratisation process in Southern Africa (Meyns, 2001: 62).

The citation below shows the zeal and vigour with which the SADCC members wanted to be liberated politically and economically. Reminding the international community of the political nature of economic cooperation, President Joaquin Chissano of Mozambique reaffirmed at the SADCC annual meeting in January

1992 that: "…the people of this region have committed themselves to the liberation struggle, because they were aspiring for not only their freedom, but also their well-being. Such was the posture of the people of Angola, Mozambique, Zimbabwe, Namibia and still today of South Africa" (Thompson, 1992: 126).

Therefore, the pressure from the international community and the SADCC member states facilitated the democratisation process. This includes the transfer of power in the Southern African region (Adam & Moodley, 1987: 184, 188). As a result, Namibia and South Africa gained democratic independence in 1990 and 1994 respectively (Baile & Breier, 1994: 20; McCarthy, 2003: 605; Thompson, 1992: 125-126).

As the SADCC organisation underwent a metamorphosis to incorporate other Southern African economies, the original objectives of SADCC had to be redefined to reflect the new situation (Holden, 1996: 7; Jenkins, *et al.*, 2000: 5; SADC, 2001: 66). The objectives of the SADC as stated in Article 5 of the Windhoek Treaty, are firstly, to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged through regional integration.

Secondly, to develop common political values, systems and institutions, thirdly, to promote peace and security, fourthly to promote self-sustaining development on the basis of collective self-reliance, and the interdependence of member states, fifthly, to achieve complementarity between national and regional strategies and programmes.

Sixthly, is the objective to promote and maximise productive employment and utilisation of resources of the region. Seventhly, is to achieve sustainable utilisation of natural resources and effective protection of the environment, and lastly to strengthen the long-standing historical, social and cultural affinities and

links among the people of the region (Kritzinger-van Niekerk & Moreira, 2002: 129; SADC, 1992; SADC, 2001: 66).

In order to realise these objectives the member states made a commitment at the Windhoek meeting on 17 August 1992 and the subsequent Annual Summit Conferences to do the following. The SADC economies agreed firstly to harmonise political and socio-economic policies and plans of member states; secondly, to encourage the peoples of the region and their institutions to develop economic, social and cultural ties across the region, and to participate fully in the implementation of the programmes and operations of SADC and its institutions (Hansohm, Breytenbach, & Hartzenberg, 2003: 215).

Thirdly, to develop policies aimed at the progressive elimination of obstacles to the free movement of capital and labour, goods and services, and of the people of the region generally and among member states. Fourthly, to promote the development, transfer and mastery of technology; fifthly, to promote the development of human resources, and to improve economic management and performance through regional cooperation (Hansohm, *et al.*, 2003: 215; Meyns, 2001: 60-66).

Sixthly, to develop instruments to enhance the activities of the SADC member states, and lastly, to secure international understanding, co-operation and support. This was done to mobilise the inflow of public and private resources into the region (Hansohm, *et al.*, 2003: 215; Meyns, 2001: 60-66; SADC, 1992).

With the common acceptance that poverty cannot be alleviated unless countries deal with disease, SADC member states have adopted activities and programmes dealing with HIV/AIDS (Kritzinger-van Niekerk & Moreira, 2002: 222). This is mainly because HIV/AIDS is rampant in Sub-Saharan Africa and particularly in the SADC region (Hansohm, *et al.*, 2003: 215; UNDP, 2004b: 1). According to UNAIDS (2004 Report), about 25 million people are infected with HIV/AIDS in the Sub-Saharan Africa. In addition, Kritzinger-van Niekerk and

Moreira (2002: 13) state that, "two-thirds of the world's HIV/AIDS cases are in Africa and that every three seconds an African child dies".

The Southern African region is the worst affected by HIV/AIDS pandemic in the world as the literature on the subject makes clear. The UNDP (2004 Human Development Index) (HDI), "shows that 13 Sub-Saharan Africa countries have suffered reversals in human development since 1990. This decline is largely attributed to the AIDS pandemic". Seven of these 13 countries, have life expectancy below 40 years because of the increasing effects of HIV/AIDS (UNDP, 2004b: 1). Moreover, of the seven countries with life expectancy below 40 years, six are in SADC. Table 3.2 shows the HIV prevalence and life expectancy in 1990 and 2002 for selected countries in Sub-Saharan Africa (SSA). Their HDI ranking for 2002 are shown in brackets.

Table 3.2: Life expectancy and HIV/AIDS rates in selected SSA Countries			
Country/HDI rank	Life expectancy in 1990	Life expectancy in 2002	HIV prevalence (%), 15-49 years
Central Africa Republic (169)	47,2	39,8	13,5%
Lesotho (145)	53,6	36,3	28,9%
Malawi (165)	45,7	37,8	14,2%
Mozambique (171)	43,1	38,5	12,2%
South Africa (119)	62	46,0	20,9%
Swaziland (137)	55,3	35,7	38,8%
Zambia (164)	47,4	32,7	16,5%
Zimbabwe (147)	56,6	33,9	24,6%
Source: Adapted from UNDP, 2004a: 139-142; UNDP, 2004b: 1. World Bank, 2005a: 30-32			

Furthermore, the July 2004 Statistics on HIV/AIDS Report released at the XV International AIDS Conference in Bangkok, Thailand, show that South Africa was only second with 4,5 million people living with HIV/AIDS. India was leading with 5,1 million cases (UNDP, 2004b). The populations of India and South Africa in 2003 were 1,064 billion and 46 million respectively (World Bank, 2005a: 23-24).

Using these facts and the above statistics on HIV/AIDS, it can be argued that South Africa is leading in the number of people living with HIV/AIDS in the World.

UNAIDS (2005: 1) states that "Southern Africa remains the worst affected sub-region in the world with South Africa having the highest number of people living with HIV in the world. An estimated 5,3 million people were living with HIV at the end of 2003 in South Africa".

The figures above indicate that over 10 per cent of the South African population were living with HIV/AIDS in 2004. The infection in India was only 0,5 or less than 1 per cent of the population, according to the Bangkok International AIDS Conference statistics. In other words, the HIV/AIDS cases in South Africa were 20 times higher than in India. South Africa has recently started experiencing negative annual population growth rate, and life expectancy has fallen from 62 years in 1990 to 46 years in 2003 (World Bank 2005b: 195). For the period 1990 to 2001, life expectancy in Botswana and South Africa fell by 18 years and 15 years respectively (World Bank, 2004a: 11). This can largely be attributed to the effects of HIV/AIDS (Hansohm, *et al.*, 2003: 10; UNAIDS, 2005: 1). The aims and objectives of the SACU are discussed in the following paragraphs.

The 1969 SACU Agreement was replaced in March 2002 when a new SACU was concluded (Hartzenberg, 2003: 173). However, it was not until 21st October 2002 that the new SACU Agreement (SACUA) became operational. This is because the new SACUA only becomes effective when all the members have ratified and deposited their instruments as per Article 46 (Hartzenberg, 2003: 173; McCarthy, 2003: 605).

The BLNS States (Botswana, Lesotho, Namibia and Swaziland) required the renegotiation of the 1969 SACU Agreement to make it more democratic, and also to allow a more balanced development requirement in the BLNS states. The previous revenue-sharing formula was deemed biased towards the "giant" South

Africa (Hartzenberg, 2003: 182; Kritzinger-van Niekerk & Moreira, 2002: 122; McCarthy, 2003: 610).

Article 2 of the new SACUA spells out eight objectives, each of which is meant to deepen and foster economic integration in Southern Africa. These objectives aim to:

(a)   facilitate cross-border trade in goods;

(b)   create effective, transparent and democratic institutions to facilitate trade;

(c)   promote conditions for fair competition;

(d)   improve investment opportunities in SACU;

(e)   enhance economic development;

(f)   integrate members into the global economy;

(g)   facilitate the sharing of customs, excise and other duties equitably; and

(h)   develop common policies and strategies (Hartzenberg, 2003: 173).

Examined in the subsequent sections are the principal trading partners of the SADC.

3.4   The Principal Trading Partners of the SADC

As the SADC members have many trading partners, this section examines only the principal trading partners of SADC in 2003. These are defined as those countries that rank in the top ten in terms of exports or imports. In some cases only the top five SADC trading partners are considered. Looking at each country individually, it is concluded that Zimbabwe's major trading partners in 2003 were South Africa, the United Kingdom, Germany, the United States, Botswana, COMESA and other SADC countries (SADC TIIR, 2004; Table 3.3). Zimbabwe's top five trading partners in 2003 are examined below.

3.4.1 Zimbabwe's Trading Partners

Looking at Zimbabwe's top five trading partners in 2003 (see Table 3.3), South Africa imported 6,4 per cent, and became the largest buyer of Zimbabwe's exports in that year. Others were China, Germany, Japan, and the Netherlands, which imported 5,5 per cent, 4,8 per cent, 4,7 per cent, and 3,8 per cent respectively. In imports, South Africa was again the largest supplier at 52,2 per cent of Zimbabwe's imports. The Democratic Republic of Congo, Germany, United Kingdom, and Mozambique were next in that order. They exported 6,1 per cent, 2,7 per cent, 2,5 per cent and 2,5 per cent respectively. Note that the United Kingdom and Mozambique tied in fourth position. The United States did not appear at all in Zimbabwe's top five trading partners in 2003. Table 3.3 shows Zimbabwe's top five trading partners in 2003.

Table 3.3: Zimbabwe's Principal Export & Import Partners in 2003					
	Export Destinations	Percentage		Import Sources	Percentage
1	South Africa	6,4%	1	South Africa	51,2%
2	China	5,5%	2	DRC*	6,1%
3	Germany	4,8%	3	Germany	2,7%
4	Japan	4,7%	4	United Kingdom	2,5%
5	Netherlands	3,8%	5	Mozambique	2,5%
Source: Adapted from DFAT, 2004. * DRC is the Democratic Republic of Congo.					

Among the SADC countries, South Africa is Zimbabwe's leading trading partner (Kritzinger-van Niekerk & Moreira, 2002: 36). This is partly because, South Africa has some trade arrangements with Zimbabwe (Kritzinger-van Niekerk & Moreira, 2002: 140-141). This has facilitated trade between the two countries (Wange, 2001: 51). South Africa's geographical proximity to other SADC countries, her diversified export base, the preferential treatment of SADC countries, and South Africa's competitiveness in Southern Africa account for South Africa's large volume of trade with Zimbabwe and other SADC countries (ESRF, 2003: 8). In addition to the above, Jenkins and Knight (2002: 289) point out that the two economies (South Africa and Zimbabwe) are historically closely integrated. This

factor promotes trade between the two countries, even when there is hostility and mistrust.

Zimbabwe has a relatively diversified export base given that more than 6 000 different products are manufactured in the country. The bulk of the export base consists of Agriculture, mining, manufacturing and tourism. More than 6 000 different products are manufactured in the country (AfDB & OECD, 2004: 359).

In terms of external trade, Zimbabwe's exports reached the peak of US$ 3,1 billion in 1997, only to fall by more than half or by 54,8 per cent to US$ 1,4 billion in 2002. The country's external position has deteriorated badly since 2000 (AfDB & OECD, 2004: 365; Kritzinger-Van Niekerk & Moreira, 2002: 35). Zimbabwe's real GDP has declined for the sixth consecutive year in 2003 (AfDB & OECD, 2004: 357). In 2002 the Zimbabwean GDP fell by an estimated 24 per cent. Real GDP fell by an average of more than 6 per cent in 2000/2001, and more than 30 per cent in 2002/2003 (AfDB & OECD, 2004: 357). According to Games (2005: 13), the manufacturing output declined by 8,6 per cent in the first four months of 2003. In 2004, it declined by 8,5 per cent and was expected to decline by 5 per cent in 2005.

Zimbabwe's manufacturing sector was most affected between 2001 and 2003. The capacity utilisation level in the country fell from about 60 per cent in 2002 to an all-time low of 55 per cent in 2003. Industrial production, which relies on imports, was affected by acute foreign currency shortages, which in turn caused the output of non-metallic minerals to fall by 40 per cent, food by 30 per cent, textiles by 26 per cent, wood and furniture by 20 per cent and transport equipment by 12 per cent (AfDB & OECD, 2004: 361).

Overall, the Zimbabwean economy experienced a cumulative decline of 38,5 per cent between 1999 and 2003, while the trade deficit widened from 2,4 per cent of GDP in 2001 to 15,6 per cent in 2003. By the end of 1997, Zimbabwe's external debt had reached nearly 90 per cent of GDP (Jenkins & Knight, 2002: 144).

These foreign payment arrears have increased from US$ 109 million in 1999 to US$ 1,5 billion at the end of 2002. More than 40 per cent of this debt was owed to multilateral institutions. The situation became worse at the end of 2003 as this figure rose to US$ 2,5 billion and was expected to reach US$ 4 billion by the end of 2004 (AfDB & OECD, 2004: 366)

The inappropriate land reform programmes in Zimbabwe and the subsequent sanctions by the commonwealth, macroeconomic mismanagement, low productivity, narrow tax base, fall in plant capacity utilisation, drought, inflation and currency depreciation, political tension and the lack of foreign exchange are some of the explanations for the country's unmanageable external debts (AfDB & OECD, 2004: 358-369; Esipisu, 2003: 11; Games, 2005: 9-11; Kritzinger-van Niekerk & Moreira, 2002: 31).

Zimbabwe's principal imports are chemicals, machinery and equipment, motor vehicles, manufactured goods and petroleum products. Zimbabwe's exports consist mainly of agricultural produce, namely beef, cotton, tobacco, sugar, horticulture, and minerals such as gold, asbestos, and platinum. Tourism and manufacturing are also important export sectors. Because of the political and economic uncertainty in Zimbabwe, the output of gold, the country's second-largest foreign exchange earner, has been falling since 2001. Gold, which accounted for half of the mining sector and contributed 14 per cent to the total exports in 2002, fell by 14,3 per cent to 15,47 tonnes in 2002 down from 18,05 tonnes in 2001. It was expected to fall further by another 20 per cent in 2003. (AfDB & OECD, 2004: 360-366). Examined next is Zambia's main trading partners.

3.4.2 Zambia's Trading Partners

Zambia's main trading partners in 2003 were Germany, the United Kingdom, Japan, the United States, India, South Arabia, Thailand, South Africa, Malawi, Zimbabwe and the Democratic Republic of Congo (SADC TIIR, 2005). The main export commodities in Zambia are cobalt, compressor lubricants, copper, cotton,

electric appliances and parts, lead products, mineral products, lime and hardwood. The main import commodities include capital goods, chemical products, crude oil, fertilizers, petroleum products, and raw materials (AfDB & OECD, 2005: 482).

Table 3.4 shows Zambia's top five trading partners in 2003.

Table 3.4: Zambia's Principal Export & Import Partners in 2003					
	Export Destinations	Percentage		Import Sources	Percentage
1	South Africa	28,4%	1	South Africa	71,4%
2	Malawi	8,7%	2	China	2,8%
3	St. Pierre-Miquelon	7,7%	3	United Kingdom	2,8%
4	Japan	6,2%	4	Tanzania	1,7%
5	Egypt	5,4%	5	India	1,7%
Source: Adapted from DFAT, 2004.					

In 2003 South Africa exported 71,4 per cent of all Zambia's imports and remained the largest exporter to that country (See Table 3.4). The other largest exporters were China 2,8 per cent, United Kingdom 2,8 per cent, Tanzania 1,7 per cent, and India 1,7 per cent. Zambia's export destination in 2003 were South Africa which imported 28,4 per cent, Malawi 8,7 per cent, St. Pierre and Miquelon 7,7 per cent, Japan 6,2 per cent, and Egypt 5,4 per cent (Table 3.4).

In 2004, Zambia's imports increased by 32 per cent as a result of the high demand for capital goods by the mining sector for new investment expansion. Imports from South Africa represented more than 50 per cent of total imports and these were mainly mining equipment, chemicals, processed foods and consumer products (AfDB & OECD, 2005: 482).

Zambia is diversifying away from her traditional exports of copper and cobalt. The country is now promoting non-traditional export products, while at the same time trying to diversify sectors such as manufacturing, agriculture, mining, and

handicrafts, through increased private sector participation in order to promote economic growth and improve her trade position (AfDB & OECD, 2005: 476). While mineral products account for about 69 per cent of Zambia's total exports, non-mineral exports in 2004 increased by 26 per cent. These were agricultural products mainly tobacco, cotton, sugar, vegetables and cut flowers (AfDB & OECD, 2005: 482)

Zambia's external position in 2004 improved significantly as the external current account deficit declined due to total export earnings. During this period, the export earnings increased by an estimated 50 per cent mainly as a result of higher copper and cobalt export earnings (AfDB & OECD, 2005: 481-482). Zambia's major exports recorded a good performance in 2003 and 2004. For example, copper receipts increased by 66 per cent in the period January to September 2004, compared with the same period in 2003.

Owing to the improved economic performance and the implementation of the Paris Club Agreement (PCA) of September 2002, Zambia's external debt, which stood at US$ 7,12 billion in 2002, declined to US$ 6,45 billion at the end of 2003. However, in 2004 external debt increased again to US$ 6,8 billion and US$ 129 million were spent on debt servicing. The PCA of September 2002 urged debt creditors to give debt relief up to 90 per cent for the consolidated period January 2001 to 31 March 2003 (AfDB & OECD, 2005: 482).

3.4.3 Tanzania's Trading Partners

Tanzania's main trading partners in 2003 were India, United Kingdom, Germany, Japan, Kenya, Netherlands, the United States, and South Africa. Tanzania imports consumer goods, machinery and transport equipment, crude oil, and industrial raw materials. South Africa, Japan, the United States, and India supply most of Tanzania's imports (SADC TIIR, 2005). Tanzania's traditional exports are coffee, cotton, sisal, tea, tobacco, and raw cashew nuts; while, its non-traditional exports are petroleum products, minerals, and manufactured goods. Gold, though considered a non-traditional export, is now Tanzanian's largest export

(AfDB & OECD, 2005: 436). Table 3.5 shows Tanzania's top five trading partners in 2003.

Table 3.5: Tanzania's Principal Export & Import Partners in 2003					
	Export Destinations	Percentage		Import Sources	Percentage
1	Japan	9,9%	1	South Africa	10,7%
2	India	9,0%	2	China	9,9%
3	Netherlands	8,5%	3	India	6,1%
4	United Kingdom	5,6%	4	UAE*	5,7%
5	Germany	5,5%	5	Kenya	5,4%
Source: Adapted from DFAT, 2004. * UAE denotes United Arab Emirates.					

The top five export destinations for Tanzania's products in 2003 were Japan (9,9 per cent), India (9,0 per cent), the Netherlands (8,5 per cent), the United Kingdom (5,6 per cent), and Germany (5,5 per cent). In terms of import sources, South Africa was leading with 10,7 per cent, followed by China (9,9 per cent), India (6,1 per cent), United Arab Emirates (UAE) (5,7 per cent), and Kenya (5,4 per cent) (Table 3.5).

In 2003, Tanzania's imports increased by 26,6 per cent in nominal terms . In relative terms the imports changed from 15,5 per cent of GDP to 18,8 per cent in 2003. The overall goods exports increased from 9,2 per cent of GDP to 11 per cent of GDP in 2003. As most Paris Club Creditors gave Tanzania debt relief of between 90 and 100 per cent, Tanzania's official foreign exchange reserves at the end of March 2004 stood at a level equivalent to eight months imports cover (AfDB & OECD, 2005: 436-437; IMF, 2004: 936-937).

3.4.4 Seychelles' Trading Partners

Table 3.6 shows Seychelles' top five trading partners in 2003. Most of Seychelles' imports are supplied by China, Singapore, South Africa, and the United Kingdom. Seychelles' main export trading partners are France, the United Kingdom, China, Germany, and Japan.

Table 3.6: Seychelles' Principal Export & Import Partners in 2003					
	Export Destinations	Percentage		Import Sources	Percentage
1	United Kingdom	20,9%	1	Saudi Arabia	15,3%
2	France	16,1%	2	France	14,0%
3	Italy	11,2%	3	Spain	11,7%
4	Thailannd	10,1%	4	South Africa	10,9%
5	Mauritius	9,9%	5	Italy	9,6%
Source: Adapted from DFAT, 2004.					

Saudi Arabia ranked top as the source of Seychelles' imports in 2003, followed by France (14 per cent), Spain (11,7 per cent), South Africa (10,9 per cent) and Italy (9,6 per cent). Seychelles' top five export destinations in 2003 were the United Kingdom (20,9 per cent), France (16,1 per cent), Italy (11,2 per cent), Thailand (10,1 per cen)t, and Mauritius (9,9 per cent). Both exports and import were evenly distributed in the sense that there were no dominant trading partners in 2003. South Africa only ranked fourth as an import source.

Canned tuna accounts for about 80 per cent of Seychelles' export receipts. Re-exportation of petroleum products is also rising rapidly. Generally, Seychelles is a net importer of visible goods such as machinery and transport equipment, foodstuffs, and manufactured consumer goods (ATPC, 2004: 14). This exerts pressure on the country's foreign exchange reserves (Rousseau, Meintjes, & Barnard, 2002: 67-69).

3.4.5 South Africa's Trading Partners

South Africa's main export trading partners in the order of export value between 1999 and 2002 include the United States, the United Kingdom, Germany, Japan, Netherlands, Belgium-Luxembourg, Italy, Mozambique, and Zimbabwe. This pattern was maintained in the 2003/2004 fiscal year, except that by 2003 Germany had been overtaken by Japan (Table 3.7 & Annexure A1). Most of

South Africa's imports are supplied by, Germany, the United States, the United Kingdom, Japan, Saudi Arabia, France, Italy, China, and Iran (DTI, 2004: 12-14).

Table 3.7: South Africa's Principal Export & Import Partners in 2003					
	Export Destinations	Percentage		Import Sources	Percentage
1	USA	12,2%	1	Germany	14,8%
2	United Kingdom	10,1%	2	USA	9,9%
3	Japan	10,0%	3	United Kingdom	8,7%
4	Germany	7,7%	4	Japan	7,0%
5	Netherlands	4,8%	5	China	6,4
Source: Adapted from DFAT, 2004.					

Table 3.7 gives a summary of South Africa's principal trading partners in 2003. South Africa's top five export destinations in 2003 were the United States with 12,2 per cent, the United Kingdom with 10,1 per cent, Japan with 10 per cent, Germany with 7,7 per cent, and the Netherlands with 4,8 percent. South Africa's imports were supplied by Germany (14,8 per cent), the United States (9,9 per cent), the United Kingdom (8,7 per cent), Japan (7 per cent), and China (6,4 per cent). Because of South Africa's industrial sophistication compared with other SADC countries, her top five trading partners are in America, Europe, and Asia.

3.4.6 Swaziland's Trading Partners

Swaziland's trading partners in 2000 were South Africa, the Far East, Mozambique, Zimbabwe, the United States, the European Union, and the United Kingdom. Swaziland's economy is export-oriented, with exports amounting to 70 per cent of GDP (Rousseau, *et al.*, 2002: 77). The depreciation of the *Lilangeni* (Swaziland's currency), and the expanding international market for Swaziland's products, especially in the period 2001-2003 ensured that the country recorded increased exports both in volume and value (IMF, 2004: 908). Table 3.8 shows Swaziland's principal trading partners in 2000, the latest year for which trade statistics on her trading partners were available.

Table 3.8: Swaziland's Principal Export & Import Partners in 2000					
	Export Destinations	Percentage		Import Sources	Percentage
1	South Africa	72%	1	South Africa	88,8%
2	European Union	14,2%	2	European Union	5,6%
3	Mozambique	3,7%	3	Japan	0,6%
4	USA	3,5%	4	Singapore	0,4%
Source: Adapted from DFAT, 2004.					

Table 3.8 shows that South Africa was the dominant trading partner of Swaziland in 2000. It supplied 88,8 per cent of Swaziland's imports in that year. The European Union, Japan and Singapore were next and they supplied 5,6; 0,6 and 0,4 per cent respectively. During the same period, Swaziland exported 72 per cent of all its exports to South Africa. Other export destinations were the European Union 14,2 per cent, Mozambique (3,7 per cent), and the United States (3,5 per cent) (Table 3.8).

Despite the fact that the depreciation of the currency worsens a country's terms of trade, the weaker *Lilangeni* relative to the US Dollar made Swaziland's exports more competitive in international markets (Rousseau, *et al.*, 2002: 80). In 2001 Swaziland's merchandise exports grew by 10,9 per cent, despite the general global slowdown that year. Swaziland's major export products are soft drink concentrates, sugar, unbleached kraft pulp, refrigerators, citrus fruits and textiles (Rousseau, *et al.*, 2002: 77).

Swaziland is a member of the Common Monetary Area (CMA) (Barrat, 1995: 146-147) and the General System of Preferences (GSP). These arrangements have worked in favour of the economy (Kritzinger-van Niekerk & Moreira, 2002: 123; World Bank, 2004b: 103). Swaziland is also a member of the international organisations such as the Arab Bank for Economic Development, the African Union (AU), African Growth and Opportunity Act (AGOA), the Common Market for Eastern and Southern Africa (COMESA), the Commonwealth, SACU, SAD,

United Nations (UN), World Trade Organisation (WTO), African Development Bank (AfDB), International Monetary Fund (IMF), and the World Bank (WB) (World Bank, 2004b: 100).

3.4.7 Namibia's Trading Partners

Namibia's major trading partners in 2002 were the European Union, Japan, the United States, Switzerland, Zimbabwe, and other members of the SACU and the SADC. Since 1990 its exports on average have accounted for some 50 per cent of the country's GDP. In 2001 the total value of exports (free on board) increased by 10,74 per cent to N$ 10,148 billion up from N$ 9,164 billion in 2000. The total value of imports (including cost, insurance and freight) increased from N$ 10,755 billion in 2000 to N$ 13,319 billion in 2001 (IMF, 2004: 694; IMF, 2003: 443).

Table 3.9 depicts Namibia's principal trading partners in 2002. The principal export destinations were the United Kingdom, which imported 48 per cent, South Africa (23 per cent), Spain (15 per cent), and France (4 per cent) in 2002. The principal import sources were South Africa which supplied 80 per cent, the United States (5 per cent), Germany (3 per cent), and Russia (1 per cent) (See Table 3.9).

Table 3.9: Namibia's Principal Export & Import Partners in 2002					
	Export Destinations	Percentage		Import Sources	Percentage
1	United Kingdom	48,0%	1	South Africa	80,0%
2	South Africa	23,0%	2	United Status	5,0%
3	Spain	15,0%	3	Germany	3,0%
4	France	4,0%	4	Russia	1,0%
Source: Adapted from DFAT, 2004.					

Like many developing countries, Namibia has been experiencing an increasing trade deficit, a decline in net current transfer receipts and an increasing deficit in the capital and financial account (IMF, 2004: 692-694). These trade and finance deficits are partly explained by two factors. Firstly, Namibia exports mainly

unprocessed primary products, which are vulnerable to fluctuations and deteriorating international commodity prices (Rousseau, *et al.*, 2002: 63; World Bank, 2004b: 7).

Secondly, the foreign exchange receipts were greatly affected by the weaker Namibian dollar, which depreciated by 24,1 per cent, and 22,4 per cent during the 2000/2001 and 2001/2002 periods respectively. For the periods 1997 to 2001, the depreciation was 86,8 per cent using the 1997 exchange rate as a base year. On average, it depreciated by 10,4 per cent during the 1997-2003 seven-year period (IMF, 2004: 692; SARB, 2004: S-108; Table 3.10). The seven-year average depreciation rate was lower than the individual year average rates because it appreciated by 28,2 per cent against the US Dollar in 2003 (IMF, 2004: 692; SARB, 2004: S-108).

Except for 2003, when the Namibian dollar appreciated against the US dollar by 28,2 per cent, it depreciated against the US dollar throughout the period 1997-2002. Namibia belongs to the Common Monetary Area (CMA) and thus the Namibian dollar and the South African rand (ZAR) exchange at parity (Hansohm, Peters-Berries, Breytenbach, & Meyns, 2001: 33; Nyirabu, 2004: 25). Table 3.10 shows the Namibian dollar/US dollar end-of-period average exchange rates and the depreciation of Namibian dollar for the period 1997 to 2003.

Table 3.10: Namibian Dollar/US Dollar exchange rates for the period, 1997-2003							
Year	1997	1998	1999	2000	2001	2002	2003
N$: US$	4.608	5.529	6.109	6.939	8.609	10.540	7.565
Depreciated:	-	20.0%	10.5%	13.6 %	24.1%	22.4%	(28.2%)
Source: adapted from SARB, 2004: S108; IMF, 2004: 692. Depreciation is author's calculations.							

In 1991, the United States granted Namibia duty-free access under the Generalised System of Preference (GSP), covering some 4000-trade items. All Namibia's major trading exports were covered under this arrangement. In

addition, Namibia is a member of the following organisations: SACU, SADC, COMESA, AU, the African Growth and Opportunity Act (AGOA), The Commonwealth, UN, African Development Bank (AfDB); International Monetary Fund (IMF); The World Bank (WB), and World Trade Organisation (WTO) (Lewis, Robinson & Thierfelder, 2003: 157; World Bank, 2004b: 100).

3.4.8 Botswana's Trading Partners

In addition to being the most open economy in Africa, Botswana has also been ranked by Transparency International (TI) and the Global Corruption Report (GCR) as the least corrupt country in Africa since 1998 (AfDB & OECD, 2004: 67; GCR, 2004; TI, 2004: 285). SACU, Zimbabwe, the United States, the United Kingdom, and other European and African countries are the main export destinations of Botswana's exports. This is shown in Table 3.11.

Table 3.11: Botswana's Principal Export & Import Partners in 2001					
	Export Destinations	Percentage*		Import Sources	Percentage*
1	United States	47,1%	1	SACU	76%
2	China	23,1%	2	Other European	9,0%
3	Taiwan	8,7%	3	United Kingdom	4,8%
4	France	7,3%	4	All other	4,5%
5	Belgium	3,1%	5	Zimbabwe	3,2%
Source: Adapted from SADC TIIR, 2004. * Denotes that data is up to September.					

The main suppliers of Botswana's imports include SACU, Zimbabwe, South Korea, the United States, the United Kingdom, and other European and African countries. Botswana has gained free access to the SACU and SADC markets by the virtue of being a member of both organisations (World Bank, 2004b: 100). This includes duty-free access to the EU markets and the United States under the African Growth and Opportunity Act (AfDB & OECD, 2004: 73).

It has been suggested that Botswana and other eligible African countries could expect even greater benefit under the AGOA II, which was concluded on 15th

June 2004 in Durban, South Africa. This extended the original eight years' grace period by seven more years up to 2015 (Inggs, 2004: 11). The United States President signed the AGOA Acceleration Act of 2004 on 7 September 2004 (Presidential Documents, 2004: 54739; President Report, 2004).

Botswana's current account remained in a surplus as a result of substantial trade surpluses for almost a decade during 1994 to 2001 (AfDB & OECD, 2004: 73; IMF, 2004: 186; IMF, 2003: 188). However, since 2001 the total exports as a share of total GDP has been declining, and consequently the current account balance has declined. This is also shown by the decline in the foreign exchange reserves, which was US$ 5,47 billion (an equivalent of 32 months imports cover) at the end of 2002, but declined to US$ 5,3 billion an equivalent of 26 months imports cover at the end of 2003 (AfDB & OECD, 2004: 73).

Botswana's external account is greatly influenced by FDI, which has also been declining, despite its favourable international credit rating by multilateral agencies. FDI in Botswana declined from about US$ 95,3 million in 1998 to US$ 56,9 million in 2001. That is a 40 per cent decrease in the three-year period (AfDB & OECD, 2004: 73).

3.4.9 Lesotho's Trading Partners

Lesotho is the only economy in the SADC that has the same trading partners in the sense that it exports mainly to countries that supply her imports. The country's main trading partners in the order of export values are the SACU, North America, the EU and Asia. The country's imports in the order of import values in 2002 were SACU, Asia, European Union, and North America (See Table 3.12). Lesotho's top five export destinations in 2002 were North America, SACU, the European Union and others who took 76,3 per cent, 23,5 per cent, 0,18 per cent and 0,02 per cent respectively. The principal suppliers of Lesotho's imports in 2002 were SACU (73,9%), Asia (23,4%), Others (1,14%), the European Union (0,95%) and North America (0,61%). Table 3.12 shows that Lesotho's foreign trade in 2002 dependent on three main regions, namely, SACU, North America,

and Asia. It shows that the first two export destinations and import sources respectively, accounted for 99.8 and 97,3 per cent of all Lesotho's foreign trade in 2002.

Table 3.12: Lesotho's Principal Export & Import Partners in 2002					
	Export Destinations	Percentage		Import Sources	Percentage
1	North America	76,3%	1	SACU	73,9%
2	SACU	23,5%	2	Asia	23,4%
3	European Union	0,18%	3	Others	1,14%
4	Others	0,02%	4	European Union	0,95%
5	Asia	0,0%	5	North America	0,61%
Source: Adapted from SADC TIIR, 2004.					

Lesotho is an agricultural economy and about 80 per cent of the country's population depends on agriculture. However, the agricultural sector has been declining over the last decade as the sector's contribution to GDP for the period 1998-2001 averaged 18,2 per cent, based on producer prices. Lesotho's poor agricultural performance in 2001 was due to poor soil and land degradation as a result of increases in population. The inadequate land tenure system, poor credit delivery system, successive droughts in the past six years and erratic rainfall affected agricultural performance. Inadequate rural transportation infrastructure to support input and output of agriculture marketing, an inappropriate policy framework characterised by extensive government intervention in the production, marketing and pricing of agricultural products also contributed to poor agriculture performance (AfDB & ADF, 2003: 5).

In terms of foreign trade, Lesotho's imports exceed the exports by far, causing a large trade deficit, particularly during the period 1997-2000. In 1997, for example, the import values were 5,22 times larger than export values. The import values were 4,39 times in 1998; 4,53 times in 1999, and 2,3 times larger in 2000 than the export values respectively. From 2001 the trade gap started to narrow, as the

imports were 2,4; 2,11; and 2,13 times the value of exports in 2001, 2002, and 2003 respectively (Table 3.13).

Table 3.13: Lesotho's Trade deficit for the period, 1997-2003.							
Exports/ Imports	1997	1998	1999	2000	2001	2002	2003
1. Exports	904	1071	1053,3	1528	2426,2	3852	3604,9
2. Imports	4722	4699	4773,2	5048	5823,8	8120	7693,3
3. Balance=X-Z	(3818)	(3628)	(3719,9)	(3520)	(3397,6)	(4268)	(4088,4)
4. Z= X Times	5,22	4,39	4,53	3,30	2,40	2,11	2,13
Source: Adapted from IMF, 2004: 582.							

Table 3.13 shows Lesotho's balance of trade for the period 1997 to 2003. Rows 1 to 4 show Lesotho's exports, imports, trade balance and how many times imports were larger than exports for the period 1997 to 2003 respectively. Trade balance is obtained by subtracting imports from exports i.e., (X-Z) where X and Z are exports and imports receipts respectively. Both exports and imports values are in millions of Maloti. The export figures shown are free on board, while import figures include cost, insurance and freight charges. If X is greater than Z, then a country experiences favourable balance of trade, or a trade surplus. When Z is greater than X the country records an unfavourable balance of trade, or a trade deficit.

The fact that Lesotho exports labour to South Africa, to work mainly in the mining sector, helps to repatriate large amounts of foreign currency to the country. However, the amount repatriated has been declining because of the retrenchment in the South African mining sector (Rousseau, *et al.*, 2002: 43).

Lesotho's balance of payments position has improved significantly in the recent past. For example, Lesotho's balance of payments position registered a surplus for the second consecutive year in 2001. During that year the country registered an overall balance surplus of 1 637,79 million Maloti. Lesotho's foreign reserves increased, and at the end of 2001 it stood at 11,4 months of import cover. The depreciation of the Loti, Lesotho's currency against major world currencies made Lesotho's exports more competitive on the world market. The expanded

production capacity in the manufacturing sector, and the increased clothing and textiles exports to the United States under the African Growth and Opportunity Act (AGOA) also contributed to Lesotho's better trade position in 2001 (Rousseau, *et al.,* 2002: 42; Visser & Hartzenberg, 2004: 4; 7).

3.4.10 Mauritius' Trading Partners

Mauritius is one of the most open economies in Africa with a ratio of exports and imports as a percentage of GDP of over 80 per cent in 2002 (AfDB & OECD, 2004: 213). Mauritius' main trading partners in 2003 were the United Kingdom, France, the United States, Madagascar, Italy, Germany, Spain, Netherlands, South Africa, India, China, Japan, and Hong Kong (AfDB & OECD, 2004: 213). Under the Generalised System of Preferences, Mauritius enjoys duty-free tariff preferences on a wide range of products exported to the United States, Australia, Japan, Norway, and Switzerland (AfDB & OECD, 2004: 215).

During the period 1997 to 2001, Mauritius' major exports in terms of value (cumulative free on board figures) in Mauritius rupees (Rs) were as follows. Clothing Rs50 077 million, sugar Rs21 284 million, and textile materials Rs6 197 million (SADC TIIR, 2004). These export figures translate to US$ 1 993,27 million; US$ 847,19 million; and US$ 246,67 million for clothing, sugar, and textile materials respectively[7].

The Mauritius rupee, like most SADC currencies, is relatively weak. The exchange rate for the Mauritius Rupee to the US Dollar (US$: Rs) for the period 1997 to 2003 was 21,057 in 1997; 23,993 in 1998; 25,186 in 1999; 26,250 in 2000; 29,129 in 2001, 29,962 in 2002 and 27,901 in 2003 (IMF, 2004: 646). Shown in Table 3.14 is the US$/ Rs exchange rate.

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[7] The dollar equivalents were obtained by using the average exchange rate of 25,123 Mauritius Rupees to one US Dollar [Rs 25,123:US$ 1] for the period 1997 to 2001.

Table 3.14: The US Dollar/Mauritius Rupee exchange rates for the period, 1997-2003							
Year	1997	1998	1999	2000	2001	2002	2003
Rs: US$	21,057	23,993	25,186	26,250	29,129	29,962	27,901
Depreciated:	-	13,94%	4,97%	4,22 %	10,97%	2,86%	(6,88%)
Source: IMF, 2004:646. Depreciation is author's calculations.							

With the removal of the Multi Fibre Agreement (MFA) privileges enjoyed by Mauritius since 1973, the sugar, clothing and textile sectors are likely to face even greater competition from Asian giants, particularly China (AfDB & OECD, 2004: 215; Katseli, 2003: 1; Krueger, 1993: 129-130; Panitchpakdi, 2003: 11; World Bank, 2004b: 41; Yang & Gupta, 2005: 8).

Mauritius used to rely on sugar production for export, but it has now diversified the economy to include sugar, clothing and textile, tourism and financial services as the key sectors for growth (AfDB & OECD, 2004: 209). For example, the clothing sector accounted for about 63 per cent of total trade in 2002, while the sugar sector accounted for 21 per cent. Mauritius' sugar export earnings could have been much higher were it not for the EU export subsidies (Oxfam, 2005: 1).

The Mauritius' tertiary sector did very well in 2002, as it accounted for 65 per cent of the GDP, and employed 64 and 39 percent of the male and female workforce respectively (AfDB & OECD, 2004: 210).

The Central Bank of Mauritius, in an effort to control inflation, uses monetary and exchange policies to achieve price and exchange rate stability to increase growth. The Mauritius Rupee, which has been losing ground against the world's major currencies, appreciated by 6,88 per cent in 2003, as depicted in Table 3.14. This made it possible for Mauritius to import relatively cheaply from Asia where most of her imports, which are denominated in dollars, come from. Exports to Europe increased due to the effects of the strong Euro, which made Mauritius' exports cheaper and more affordable in the European market. Exports to Europe

in 2002 were 64 per cent, the United States 19 per cent and Africa 10 per cent (AfDB & OECD, 2004: 210-213).

Mauritius is a member of COMESA, SADC, Indian Ocean Commission (IOC), African Union, Indian Ocean Rim Association for Regional Cooperation (IOR-ARC), United Nations, African Development Bank, International Monetary Fund, and The World Bank (World Bank, 2004b: 99).

3.4.11 The Democratic Republic of Congo's Trading Partners

The top five trading partners of the Democratic Republic of Congo (DRC) in 2002 are shown in Table 3.15. The DRC's principal export destinations in order of value in 2002 were Belgium (64,4%), Taiwan (24,3%), the United States (13,4%), Zimbabwe (6,7%), and Finland (4,9%). The principal suppliers of the DRC's imports in the same year (also in the order of value) were Belgium (14,4%), South Africa (13,9%), Nigeria (10,2%), France (9,3%), and Germany (7,1%). In 2002 Belgium was the leading trading partner of the DRC whose exports to and imports from the DRC were 14,4 per cent and 64,4 per cent respectively.

Tables 3.15 and 3.16 show that the pattern of trade in the DRC shifted in 2003 when both South Africa and Zimbabwe increased their export shares to the DRC. South Africa pushed Belgium to second position by exporting 16,1 percent while Belgium exported 13,2 per cent. Taiwan did not appear in the top five, while Zimbabwe increased her exports to the DRC by nearly 4 per cent.

Table 3.15: Democratic Republic of Congo, Principal Export & Import Partners, 2002					
	Export Destinations	Percentage		Import Sources	Percentage
1	Belgium	64,4%	1	Belgium	14,4%
2	Taiwan	24,3%	2	South Africa	13,9%
3	USA	13,4%	3	Nigeria	10,2%
4	Zimbabwe	6,7%	4	France	9,3%
5	Finland	4,9%	5	Germany	7,1%
Source: Adapted from DFAT, 2004.					

France was the third largest exporter to the DRC up from fourth position while the United States and France were the second and fifth respectively in terms of exports to the DRC in 2003. Belgium remained in the first position, but its imports from the DRC declined to 57,7 per cent in 2003 down from 64,4 per cent in 2002 (See Tables 3.15 & 3.16).

Table 3.16: Democratic Republic of Congo, Principal Export & Import Partners, 2003					
	Export Destinations	Percentage		Import Sources	Percentage
1	Belgium	57,7%	1	South Africa	16,1%
2	USA	14,6%	2	Belgium	13,2%
3	Zimbabwe	10,5%	3	France	11,9%
4	Finland	4,5%	4	Nigeria	10,6%
5	France	2,4%	5	Germany	6,4%
Source: Adapted from DFAT, 2004.					

3.4.12   Mozambique's Trading Partners

Mozambique's main trading partners are South Africa, the United States, Spain, Portugal, Japan and Zimbabwe. Mozambique's export commodities are sugar, cashew nuts, citrus fruits, coal, coffee, tea, timber, and fisheries, including prawns and shrimp (SADC TIIR, 2004). The country's main imports consist of raw materials, spare parts, mining equipment, pharmaceuticals, consumer goods, chemical goods and crude oil (AfDB & OECD, 2005: 344-345; Exim Bank, 2004: 3).

In terms of Mozambique's trade with African countries, South Africa and Zimbabwe provide a significant market for Mozambican exports (ESRF, 2003: 8; Kritzinger-van Niekerk & Moreira, 2002: 36). For the period 1996 to 2000, Mozambican exports to South Africa and Zimbabwe grew from year to year yielding cumulative figures of US$ 244 million and US$ 168 million respectively (Table 2.17). South Africa has emerged as the dominant foreign supplier of Mozambican imports in recent years (DTI, 2004: 15). For example, South Africa's

exports to Mozambique during the period 1996 to 2000 were 72 per cent of all Mozambican total imports (See Table 3.17).

Table 3.17: Mozambique's Exports and Imports, 1996-2000 (US$ million)						
Exports to	1996	1997	1998	1999	2000	Total	% of Total
Zimbabwe	10	10	43	40	65	168	20,2%
South Africa	44	36	40	71	53	244	29,3%
Portugal	17	21	18	25	42	123	15,0%
Spain	48	42	38	35	39	202	24,0%
USA	26	26	14	13	17	96	11,5%
Total	**145**	**135**	**153**	**184**	**216**	**833**	**100%**
Imports from	1996	1997	1998	1999	2000	Total	% of Total
Zimbabwe	31	18	18	20	5	92	3,4%
South Africa	270	647	317	302	425	1961	72,0%
Portugal	49	47	64	43	92	295	10,9%
USA	33	40	40	44	36	193	7,1%
Japan	31	35	30	44	51	191	7,0%
Total	**414**	**787**	**451**	**453**	**609**	**2714**	**100%**
Balance=X-Z	(269)	(652)	(298)	(169)	(393)	(1881)	
Source: Adapted from SADC TIIR, 2004.							

There is a large volume of trade between South Africa and Mozambique, partly because of the 1989 non-reciprocal concession trade agreement signed between the two countries. This agreement allows Mozambican goods to enter the South African market at full rebate of the import surcharge or custom duty (Kritzinger-van Niekerk & Moreira, 2002: 136).

Table 3.17 also shows that Spain is the second-largest export market for Mozambican exports after South Africa. Spain's imports from Mozambique consist mainly of seafood products. Textiles, tyres, and processed raw materials are the country's major export components accounting for about 10 per cent of all the total exports (Exim Bank, 2004: 3).

While agriculture in Mozambique enjoys favourable soil conditions, the sector suffers from erratic rainfall patterns, resulting in drought, particularly in the south where it is more arid. In 2004 production of staple foods, namely beans, maize and manioc, and cash crops such as cashew nuts, cotton, sugar, and tobacco exceeded the 2003 period by over 8 per cent. Despite large potential, agricultural exports have not been fully exploited in Mozambique, due to constraints such as the country's underdeveloped trading networks, inadequate technological innovation and poor rural infrastructure (AfDB & OECD, 2005: 340).

3.4.13 Malawi's Trading Partners

Table 3.18 depicts Malawi's foreign trade for the period 1994 to 1998, a period before AGOA had come into force. Therefore, the large volume of exports to the United States could be attributed to the generalised system of preference, which gave preferential treatment to exports from developing countries with certain conditions (Krueger, 1993: 119; Martin & Winters, 1996: 39).

Secondly, the United States' high income per capita, and the associated high marginal propensity to import out of disposable income also ensured that Malawi's exports to the United States increased throughout the period 1995 to 1997 (Arora & Vamvakidis, 2001: 6; ESRF, 2003: 17; World Bank, 2004b: 30).

Malawi's main export trading partners in order of export value during the period 1994 to 1998 were South Africa (13,4%), the United States (11,5%), Germany (10,6%), Netherlands (7,0%), Japan (6,9%), and the United Kingdom (3,6%). The rest of the world took 46,4 per cent. Malawi's major import suppliers, also in terms of value, were South Africa (34,4%), Zimbabwe (17,0%), Zambia (5,5%), the United Kingdom (4,2%), Japan (3,5%), and the United States (2,5%). The rest of the world supplied Malawi with 33,2 per cent of the imports during the period 1994 to 1998 (See Table 3.18).

Table 3.18: Malawi's Exports and Imports, 1994-1998 (US$ millions)							
Exports to / Year	1994	1995	1996	1997	1998	Total	% of Total
South Africa	52	56	66	87	99	360	13,4%
USA	57	40	71	80	59	309	11,5%
Germany	50	57	51	69	57	284	10,6%
Netherlands	22	24	31	62	49	188	7,0%
Japan	45	44	24	30	42	185	6,9%
United Kingdom	36	23	23	20	16	97	3,6%
Other	165	183	228	323	348	1247	46,4%
Total	**427**	**427**	**494**	**671**	**670**	**2689**	**100%**
Imports from:	1994	1995	1996	1997	1998	Total	% of Total
South Africa	193	211	242	271	308	1225	34,4%
Zimbabwe	86	106	124	137	156	609	17,0%
Zambia	4	9	55	60	69	197	5,5%
United Kingdom	33	24	35	33	24	149	4,2%
Japan	32	15	21	22	34	124	3,5%
USA	21	20	15	19	16	92	2,5%
Other	207	230	244	259	248	1188	33,2%
Total	**576**	**615**	**736**	**801**	**855**	**3583**	**100%**
Trade balance	(149)	(188)	(242)	(130)	(185)	(894)	
Source: Adapted from SADC TIIR, 2004. The Percentages column may not add up to exactly 100% due to rounding off.							

Despite the preferential access treatment that Malawi receives from the EU for most of her agricultural commodities, South Africa remained Malawi's largest export destination during the period 1994 to 1998. There are two possible explanations for this. One of the reasons is because Malawi has a bilateral trade agreement with South Africa, which has been described as the most successful trade agreement in the SADC region (Kritzinger-van Niekerk & Moreira, 2002: 134-135). Under this arrangement, Malawi's exports have duty-free access to the South African market except for those agricultural products that require a permit. This trade arrangement makes Malawi's exports more competitive on the South African market.

The other explanation has to do with the shorter distance between Malawi and South Africa than the EU markets, where Malawi's export commodities become more expensive due to freight and shipment costs (ESRF, 2003: 18-19). Geographical proximity is known to favour trade (ESRF, 2003: 17; Jenkins, 2003: 9; World Bank, 2004b: 17). The United States was the second-largest importer of Malawi's exports during the period 1994 to 1998 (See Table 3.18).

Malawi is mainly an agricultural exporting economy whose major export commodities are tobacco, tea, sugar, and cotton (Rousseau, *et al.*, 2002: 47). Other agricultural products such as beans, chillies, coffee, macadamia nuts, rice, pulses or beans, dhals, cut flowers, and live tropical fish are also exported. In an effort to diversify the export base, it exports furniture, ceramics, gemstones, enamelware, and crafts. Textiles, farm implements, rubber, confectionery, buses, and trailers are also exported.

Malawi has been experiencing a trade deficit since 1980 (Rousseau, *et al.,* 2002: 48). For more than a decade, the country's imports have consistently exceeded export receipts. For example, the expenditure on imports in 1997 was 1,46 times the export earnings. The subsequent import expenditure were 1,18; 1,49; 1,36; 1,24 and 1,71 times in 1998, 1999, 2000, 2001, and 2002 respectively, as reflected in Table 3.19. In this table export values are free on board while the import values are inclusive of cost, insurance and freight charges.

Table 3.19: Malawi's trade deficit in Million Kwacha, 1997-2002							
Exports/ Imports		1997	1998	1999	2000	2001	2002
1.	Exports (fob)	8,827	13,861	19,907	23,630	31,817	31,417
2.	Imports (cif)	12,848	16,431	29,696	32,252	39,480	53,657
3.	Balance=X-Z	(4,021)	(2,57)	(10,062)	(8,622)	(7,663)	(22,24)
4.	Z= X Times	1,46	1,18	1,49	1,36	1,24	1,71
Source: Adapted from IMF, 2004: 614.							

Table 3.20 shows Malawi's export and import values between 1997 and 2001. Total exports in 2001 were US$ 391 million (or 28,2 billion Malawian Kwacha)[8] compared with US$ 401,4 million (23,9 billion Malawian Kwacha) recorded in 2000. Total imports for the same period were US$ 447,4 million (32,3 billion Malawian Kwacha) in 2001 down from US$ 460,2 million (27,4 billion Malawian Kwacha) in 2000 (SADC 2005; Hansohm, *et al.*, 2001: 33). Malawi has been experiencing a deteriorating external trade position (Kritzinger-van Niekerk & Moreira, 2002: 35).

Seven factors have aggravated Malawi's trade deficit. These are the high shipping costs (ESRF, 2003: 19), the sluggish growth in exports occasioned by international commodity prices, the weaker Malawian Kwacha which results in deteriorating terms of trade and a disincentive to foreign investment in assets denominated in Kwacha. Adverse weather leading to low agricultural yields particularly tobacco, Malawi's dominant agricultural crop, and the high marginal propensity to import capital goods given that the Malawian economy has a very low industrial base also contributed to the trade deficit (Nyirabu, 2004: 27; Wobst, 2002: 3). Finally, the importation of fuel at higher prices as fuel is denominated in US$ also aggravated Malawi's trade deficit (ESRF, 2003: 9; Nsekela, 1981a: 42; Rousseau, *et al.*, 2002: 47-50; World Bank, 2005a: 139). Tobacco is Malawi's largest export earner (ESRF, 2003: 9; Table 3.20) accounting for some 61,5 per cent of all exports for the period under review; followed by items classified as "others", then tea, sugar, coffee, and cotton which contributed: 18,4 per cent, 8,3 per cent, 7,3 per cent, 1,8 per cent, and 1,4 per cent respectively. Pulses and rice each accounted for less than 1 per cent (Table 3.20).

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[8] The Dollar equivalents were obtained by using the prevailing Malawian Kwacha: US Dollar official exchange rates for the years shown. The Malawian Kwacha: US Dollar (MK: US$) official exchanges were: 16,44; 31,07; 44,09; 59,54; 72,20, and 76,69 for 1997, 1998, 1999, 2000, 2001, and 2002 respectively (IMF 2003: 405)

Table 3.20: Malawi's Export and Import Values, 1997-2001 (US$ millions)							
Exports fob	1997	1998	1999	2000	2001	Total	% of Total
Tobacco	351,5	331,7	247,7	246,8	236	1440,7	61,5%
Tea	42,6	40,2	39,3	37,0	35,5	194,6	8,3%
Sugar	24,1	50,3	23,1	39,2	35,3	172,0	7,3%
Cotton	11,6	5,0	5,3	7,1	4,6	33,6	1,4%
Rice	1,8	2,4	2,5	1,6	1,0	9,3	0,4%
Coffee	12,7	10,5	8,9	5,2	3,9	41,2	1,8%
Pulses	6,4	4,3	6,5	2,2	0,8	20,2	0,9%
Others	115	94,2	86,8	62,7	73,9	432,6	18,4%
Total	**565,7**	**538,6**	**447,1**	**401,4**	**391**	**2343,8**	**100%**
Imports fob	1997	1998	1999	2000	2001		
Total	**696,7**	**497,0**	**572,5**	**460,2**	**447,4**	**2673,8**	
Trade balance	**(131)**	**41,6**	**(125,4)**	**(58,8)**	**(56,4)**	**(330)**	
Source: Adapted from SADC TIIR, 2004.							

Figure 3.2 gives a glimpse of Malawi's major export earners during the period 1997 to 2001. It shows that tobacco, other products, tea and sugar were the principal export earners respectively during the period 1997 to 2001.

Figure 3.2: Malawi's Main Commodity Exports by Value, 1997-2001 (US$ millions)
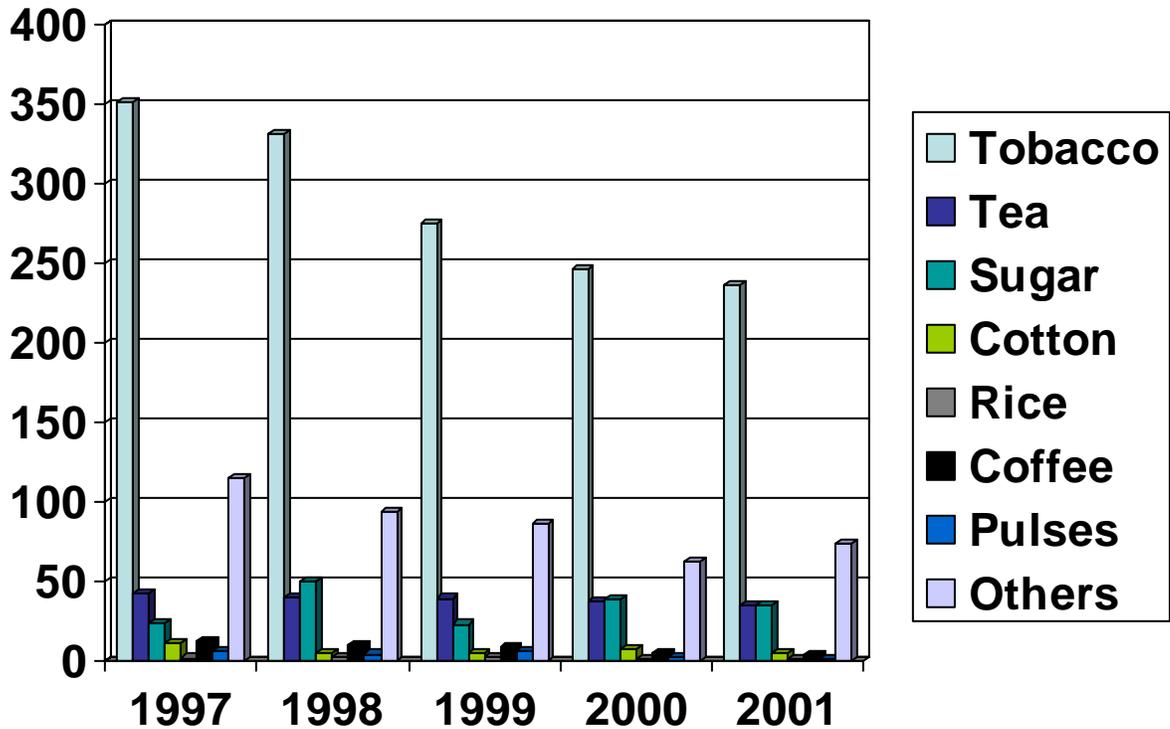
Source: Derived from Table 3.20

3.4.14   Angola's Trading Partners

Angola's main export destinations are United States of America, Belgium, Luxembourg, China, and Taiwan. The main imports originated from South Africa, Portugal, South Korea, the United States and France (SADC 2004). Angola is endowed with natural resources such as diamonds, oil products, gas, fish, wildlife, agricultural products, sea, and marine resources (Rousseau, *et al.*, 2002: 28).

Angola's principal exports are crude oil, diamonds, and refined petroleum (Afrol, 2005a: 1; Coakley, 2000: 3.1). The principal imports are consumer goods; capital and intermediate goods; and food (Rousseau, *et al.*, 2002: 28). With all its natural

resources, Angola has the potential of being one of the richest countries in Africa. However, due to political instability, civil war and poor economic management, the country has not achieved its full potential (Rousseau, *et al.*, 2002: 31). Consequently Angola's output per capita is among the lowest in the world (Le Billon, 2001: 60), largely because the country has been devastated by decades of almost continuous war (Kritzinger-van Niekerk & Moreira, 2002: 8; Wilson, 1982: 300-301).

The civil war and corruption have hampered economic growth in Angola (Business in Africa Magazine, 2004: 35; Svensson, 2005: 19-20). This is not surprising, as there is an inverse relationship between political instability and economic growth (Barro & Sala-i-Martin, 1995: 435). Infrastructure, economic and social institutions have been severely damaged or even completely destroyed (Asante, *et al.,* 2001: 30). This perennial war has ruined agriculture, oil and diamond production, and the economy in general (Rousseau, *et al.*, 2002: 27).

Bates (2004: 495-497) argues that political instability creates uncertainty with regard to property rights (Przeworski & Limongi, 1993: 51). As a result of this, the economic growth of a country experiencing political instability is slowed (IFC & World Bank, 2005: 39). Greater political instability reduces the incentive to invest in various activities (Barro & Sala-i-Martin, 1995: 435). This happens because of the high risk involved, which causes investors to discount future returns heavily. This erodes the gross capital formation. Some investors might pull out their investment out of the affected economy, while potential investors divert their investment elsewhere (Summers, 2000: 5).

Angola is the fourth-largest diamond producer in the world (Business in Africa, 2004: 35; Le Billon, 2001: 57). In terms of value of natural diamonds, Angola was ranked seventh in 1994 (Boucher, 1994: 20.3). In 2003 it was the fifth-largest, and seventh in terms of the number of mined carats (Afrol, 2005b: 6) However, due to wars and illicit trade, mainly through smuggling, the country's

manufacturing sector and mining industry have nearly crumbled (Business in Africa Magazine, 2004: 35-36; Coakly, 2000: 3.1; De Boeck, 2001: 549).

Recent studies have estimated the effects of war on economic growth. For example, according to the Global Monitoring Report (GMR) (World Bank 2005c), widespread conflict and civil war causes the GDP of the affected country to decline by more than 2 per cent during each year of conflict (World Bank 2005c: 27-28). In addition, this results in substantial spillover costs, or contagion effects that undermines economic performance in neighbouring countries. This has been the case in Angola and its neighbouring countries as empirical evidence below suggests.

Civil war in Angola has had both quantifiable and un-quantifiable costs. These costs include the millions of people who were killed (Le Billon, 2001: 59). Moreover, the cost of forced migration of refugees, the cost of caring for orphaned children, reduction in economic growth and the reduction in the welfare of Angola's population are some of the spillover costs. The adverse effect on human health has increased. This is measured by disability-affected life years (DALYs[9]). There is also the problem of contagion. For example, military spending as a share of GDP in Angola's and neighbouring countries' increases due to civil wars. This in turn contributes to lower development. Other costs include, increases in income inequality as the gap between the rich and the poor widens, increase in the production of hard drugs, increase in AIDS infections as women are raped, and the rise in international terrorism leading to the degeneration of the economic and social fibre (Aegisson, 2001: 5-6; Bakonyi & Stuvøy, 2005: 361-362; Collier & Hoeffler, 2004: 1-6).

During the 1970s Angola was the seventh-largest diamond producer in the world (Wilson, 1982: 296). The country was producing 2 million carats per year. But because of civil war, diamond production decreased from 2 million to less than

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[9] DALYs is the measure of the total number of people affected and the period for which their disability lasts (Collier & Hoeffler, 2004: 1).

750 000 carats a year (Wilson, 1982: 300-301). The oil industry is now the only major source of Angola's foreign exchange earnings, with almost 80 per cent of the government revenue coming from the oil industry (Aegisson, 2001: 5). Oil production and supporting activities contribute about 45 per cent towards Angola's GDP, and 99 per cent of all exports (Le Billon, 2001: 61; Rousseau, *et al.*, 2002: 29; World Bank, 2004b: 13).

Another obstacle to the development of the Angolan economy has been seignorage (Rousseau *et al.*, 2002: 30). Seignorage arises when a country is experiencing budget deficits and decides to finance these deficits through printing and minting of more money (Bailey, 1956: 93; Romer, 2001: 510). For developing countries, this is a common practice particularly during the election periods. Seignorage often results in very high rates of inflation known as hyperinflation. According to Romer (2001: 510) hyperinflations *are traditionally defined as periods when inflation exceeds 50 per cent per month.* Angola experienced hyperinflation between 1991 and 2000 (Rousseau, et al., 2002: 30).

Countries may experience large budget deficits as a result of tax evasion, wars, political stalemates, and falls in export prices. This situation increases the government's need to obtain seignorage, that is, revenue from printing money (Romer, 1996: 420). Because of poor public debt management, investors lose confidence fearing that the government concerned may not honour its debts. Seignorage is practised in many developing countries where the reserve banks are not insulated from the political process. It also happens when these countries lack sound financial and banking management practices (Msishkin, 2000: 5-6; Nsouli & Rached, 1998: 26).

Civil war and seignorage, caused hyperinflation until 1999, and in 2000 the local currency, the Angolan Kwanza, had to be readjusted (Rousseau, *et al.*, 2002: 30). In December 1999, the readjusted Kwanza (Kzr) was replaced with the Kwanza at Kzr 1 000 000 to Kz1. This is reflected in Table 3.21 where the

Angolan Kwanza/US Dollar exchange rates and inflation rates for the period 1997 to 2003 are shown.

Table 3.21 Angola Kzr/US$ Exchange rates and inflation rates for the period, 1997 to 2003							
Year	1997	1998	1999	2000	2001	2002	2003
KZr: US$	262 376	741 000	5 579 920	10,16	22,06	43,53	74,61
Inflation rates	28%	135%	3000%	325%	126%	106%	98%
Source: World Bank Live Database; SADC Economic Review 2003 & 2004; IMF, 2003: 614							

3.4.15   Madagascar's Trading Partners

Table 3.22 shows Madagascar's main trading partners for the year 2002. Madagascar's principal export destinations in 2002 in the order of value were France (34%), the United States (24,7%), the Netherlands (6%), Germany (5,9%), and Mauritius (4%). The following countries were the principal suppliers of Madagascar's imports in 2002: France (17,2%), Iran (11%), Mauritius (10,6%), Bahrain (9,3%), and Hong Kong (6,9%). During 2002, France was the leading trading partner of Madagascar. Its exports and imports were 17,2 per cent and 34 per cent respectively (See Table 3.22).

Table 3.22: Madagascar's Principal Exports and Imports Destinations in 2002				
Export Destinations		Percentage	Import Sources		Percentage
1.	France	34,0%	1.	France	17,2%
2.	USA	24,7%	2.	Iran	11,0%
3.	Netherlands	6,0%	3.	Mauritius	10,6%
4.	Germany	5,9%	4.	Bahrain	9,3%
5.	Mauritius	4,0%	5.	Hong Kong	6,9%
Source: Adapted from DFAT, 2004.					

Table 3.23 gives a summary of the principal trading partners of SADC member Countries. Principal trading partners are defined as countries in the top five in

terms of percentage of SADC country, export destinations or as a source of SADC imports. Where a country exported or imported a significant portion (that is, over 60 per cent), to or from a common market, such as the SACU, SADC or the EU, that country is indicated rather than the common market.

Partner	BEL	COMESA	CHN	EU	FRA	GER	IND	ITY	JPN	NED	SACU	SADC	UK	USA
Table 3.23: SADC Main Trading Partners (%), Exports and Imports in 2003														
Angola	√		√	√	√					√	√RSA	√RSA		√
Botswana				√UK							√	√	√	√
DRC	√	√		√	√	√						√RSA		√
Lesotho			√	√								√SACU		√
Madagascar		√			√	√				√		√		√
Malawi				√		√					√			√
Mauritius		√	√	√	√	√		√						√
Mozambique	√			√	√			√			√			√
Namibia				√								√SACU		√
Seychelles				√	√				√		√		√	√
South Africa				√		√			√	√			√	√
Swaziland				√							√RSA	√	√	√
Tanzania				√	√		√		√	√			√	√
Zambia									√		√RSA	√		√
Zimbabwe						√			√	√	√	√	√	√

Source: Adapted from SADC TIIR, 2005; DFAT, 2004.

Key: √ Denotes SADC member countries' principal trading countries defined as the top five in terms of exports and imports. BEL= Belgium; CHN= China; DRC= The Democratic Republic of Congo; EU= European Union; IND= India; ITY = Italy; FRA= France; GER= Germany; JPN= Japan; RSA= South Africa; COMESA= Common Market for Eastern and Southern Africa; SACU= Southern African Customs Union; SADC= Southern African Development Community; UK= United Kingdom; USA= United States of America.

Table 3.23 shows that the United States and the European Union are SADC's most important overall trading partners. Other large countries, such as France, Germany and Japan are also important. This is discussed is detail in chapter 4.

3.5   Summary of the Main Findings and Conclusions

In this chapter the evolution of SADCC and SADC were discussed. SADCC was created to achieve four specific objectives. These were to rehabilitate and extend the region's transport network, reduce economic dependence on South Africa and the rest of the world, achieve some degree of self-reliance, and to assist newly-independent states such as Zimbabwe to consolidate power.

Lack of sound management and weak institutions such as the lack of adequate property rights contribute to low levels of investment in the SADC region and developing countries in general. Civil wars in some SADC countries particularly Angola, Mozambique and the Democratic Republic of Congo have resulted in both quantifiable and un-quantifiable costs ranging from mass murder to severe disabilities. The concomitant costs include costs associated with forced migrations of refugees and orphaned children, reduction in economic growth and peoples' welfare, increased military spending in the affected countries due to the contagion effect, increased income inequality and AIDS infections. As discussed below, the HIV/AIDS pandemic is a major challenge facing human development in the SADC region.

According to the Human Development Report (UNDP, 2004a; 2004b), the Southern African region is the worst affected by HIV/AIDS pandemic in the world. This report shows that 13 Sub-Saharan Africa countries have suffered reversals in human development since 1990. This decline is largely attributed to the AIDS pandemic. Seven of these 13 countries, have life expectancy below 40 years because of the increasing effects of HIV/AIDS (UNDP, 2004b: 1). In terms of life expectancy, the SADC is the worst affected. For example, of the seven countries with life expectancy below 40 years, six are in the SADC. These SADC countries are Lesotho, Malawi, Mozambique, Swaziland, Zambia and Zimbabwe. Their life expectancies in 2002 are stated below with the corresponding life expectancies in 1990 in brackets. Lesotho, 36,3 (53,6), Malawi,37,8 (45,7), Mozambique, 38,5 (43,1), Swaziland, 35,7 (55,3) Zambia, 32,7 (47,4) and Zimbabwe, 33,9 (56,6). The life expectancy for South Africa was 62 and 46 years in 1990 and 2002

respectively. This shows that the life expectancy in South Africa had fallen by 16 years between 1990 and 2002.

Another finding from this chapter is that the volume of trade between South Africa and other SADC countries was not as significant as it could be because of the low levels of industrialisation in the other SADC countries. For example, while South Africa is the main source of imports for other SADC countries, its imports are limited by the low levels of industrialisation in these countries. This forces South Africa to trade more with Europe, America and Asia, because these are the countries that meet South Africa's import requirements. Similar production structures in most SADC countries also contribute to little trade among them. Because, most SADC countries produce similar goods and have an undiversified industrial base, they are forced to trade with partners from outside the African continent where they can get what they do not produce. However, SADC's intra-regional trade is slowly growing. proximity as predicted by the gravity model and trade arrangements have favoured the SADC's intra-regional trade.

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CHAPTER 4

THE STRUCTURE AND PATTERN OF TRADE IN SADC

4.1   Introduction

The key development challenge facing the SADC and Africa in general is how to reduce poverty through sustained economic growth. One possibility lies in trade. This is particularly so because there is an emerging consensus that trade, if well managed could play an important role in confronting the problem of poverty, and achieve sustained economic growth (ATPC, 2004: 5-6; Lopes, 2005: 7).

The Southern Africa Economic Summit (SAES, 2000: 65) states that trade is the primary form of economic interaction within the SADC. SADC countries have introduced a variety of trade liberalisation initiatives (Lewis, Robinson & Thierfelder, 2002: 1). Moreover, because of the role trade plays in development, the SADC countries and Africa have shown keen interest in multilateral trade negotiations. This could help the African continent to reduce its marginalisation on the global economy (ATPC, 2004: 5; Lopes, 2005: 7).

In addition, most SADC economies have excessive dependence on a few primary commodities, and this has heightened the vulnerability of these countries. This is mainly due to price fluctuations and external shocks (ATPC, 2004: 8). Re-examining the composition and trade structure in the SADC region can yield tangible benefits for these countries. Since trade negotiation is a bargaining game, the SADC countries have united in order to gain negotiating power in multinational issues and trade negotiations (ATPC, 2004: 1).

The purpose of this chapter is to examine the structure and pattern of trade in the SADC since its inception in 1992. This is done in five sections. Section 4.2 examines the role trade plays in development, and why it is important for the SADC countries.

Section 4.3 examines the structure and pattern of trade in the SADC. This is achieved by analysing the composition of exports and imports of the SADC countries. Unlike chapter 3, which examined the principal trading partners of the SADC countries in a particular year, this section examines SADC's trading partners for a period of at least three to five years. In so doing, a realistic trade pattern is established in the short to medium term. The volume, value and relative importance of the main export and import items of each of the SADC countries are analysed.

Section 4.4 examines the nature of exports and imports of the SADC countries. Section 4.5 discusses the possible future prospects of trade in the SADC, and section 4.6 reports the main findings of the chapter and draws some conclusions.

4.2   Why Trade is important for SADC Countries

Trade is an important means of reducing poverty and improving the quality of lives of people, and more so for the poor (Masters, 2005: 2). This is particularly so when trade is viewed as more than the mere exchange of goods and services (The Courier, 2002: 72). Trade can enable a country to achieve growth and development. Trade is a transmission mechanism through which the technical knowledge, innovation and experience that make development possible, is disseminated (Cho, 1995: 2-3; Theberge, 1968: 108-109). In addition to the above, many studies have shown that there is positive correlation between export growth and economic growth (Sharer, 1999: 26).

Arora and Vamvakidis (2005b: 24) state that a country's economic growth is partly influenced by its trading partners. Arora and Vamvakidis' (2005b) panel estimation results, based on four decades of data for more than 100 countries, show that trading partners' growth has a strong effect on the domestic economy. In particular, countries benefit more when trading with fast-growing and relatively more developed countries.

Lopes (2005: 7) argues that through trade and the new approach to development, countries could relieve poverty. This is because the new approach to development seeks to attain a deep transformation of society through innovative technological progress, set within a framework of sound macroeconomic policy. Improved terms of trade and better pricing mechanisms can also help developing countries increase their gains from trade.

In their recent study, Freund and Bolaky (2004) found that trade influences growth positively in economies with moderate domestic regulation. In economies with excessive domestic regulation, trade is likely to hamper growth (Freund & Bolaky, 2004: 2-3). Because of this positive correlation between trade and economic growth, it has been widely acknowledged that trade that leads to economic growth is a necessary component for poverty reduction (Sharer, 1999: 26). Freund and Bolaky (2004: 2) further suggest that trade leads to more rapid income growth. This is vital for the SADC countries because of the ripple effect of faster income growth and the resultant increase in GDP due to the multiplier effect.

Furthermore, according to the official SADC statistics released in August 2005, trade liberalisation in the SADC countries has enabled some SADC countries to achieve faster economic growth. For example, the SADC economic growth increased from 3,2 per cent in 2003 to 4,1 per cent in 2004, while Malawi and Botswana achieved average growth rates of 4,8 and 4,9 per cent respectively. These two countries' growth rates were above the SADC average growth rate (Business Day, 2005: 9).

By reducing poverty, sustainable economic growth could be realised (AfDB, 2002a: 132; DATA, 2004: 1). Despite the difficulties encountered when trying to establish causality, particularly in the medium-term, there is some consensus that trade is more important in the medium-term, while in the very long run, institutions are more important (Barro & Sala-i-Martin, 1995: 8; Freund & Bolaky, 2004: 3; Hak-Su, 2004: 1).

Chapter 4: The Structure and Pattern of Trade in SADC

Trade is the means for the dissemination of technological knowledge, the transmission of ideas, the importation of skills, managerial talents and entrepreneurship from the developed to least developed and developing countries (Theberge, 1968: 108-109). Thus, through trade the SADC countries are able to acquire additional FDI, raw materials, intermediate materials, capital goods and technologies, all of which are essential to innovation, improved production, and for development (Athukorala, 2000: 94; Fosu, 2001: 80; World Bank, 2004b: 5). Moreover, Feenstra (1998: 31) states that because of trade, the world is much more integrated today than it was more than a century ago.

In addition, members of the Organisation for Economic Cooperation and Development (OECD) are the primary export markets and major donors of African economies. OECD assistance to the SADC economies is transmitted through two channels, namely trade and financial flows. Trade is the unifying factor, because it is the primary form of economic interaction within the SADC area (Lewis, *et al.*, 2003: 160; SAES, 2000: 65). Trade also cements the political and economic relations between SADC economies and the industrialised countries. (AfDB, 2002a: 5; Masters, 2000: 1; The Courier, 2002: 72).

Trade is often viewed as an engine of growth (Arora & Vamvakidis, 2005a: 4-9; Edwards, 1993: 1358; Sharer, 1999: 26-29; World Bank, 2004b: 4). Many African countries including the SADC are desperate for opportunities that could lead to accelerated economic growth and reduce poverty (DATA, 2004: 1-6). Many do not have effective aggregate demand due to high levels of unemployment and low per capita and disposable incomes. Trade allows SADC countries to export to countries with high marginal propensities to import, such as the United States, the European Union and the newly industrialised economies in Asia (World Bank, 2004b: 7-9). Trade is one way through which SADC countries could contribute to their growth and development (Cho, 1995: 5; World Bank, 2004b: 4). In particular, trade plays a catalytic role in promoting technological innovation domestically (World Bank, 2004b: 3-4).

Most SADC and other African countries derive a significant amount of their government revenue from trade tariffs (Hinkle & Schiff, 2004: 1327). The tariffs range from 2 per cent of GDP in the median Sub-Saharan country to between 4 to 6 per cent of GDP for African countries that rely heavily on tariff revenues. It has been estimated that one per cent of GDP is equivalent to 7 to 10 per cent of government revenue (Hinkle & Schiff, 2004: 1327). Through trade, the SADC countries are able to earn foreign exchange to build their foreign exchange reserves. In this way these countries are able to service their external debts and to improve their domestic economic efficiency, by developing sectors where their comparative advantage lie (Sharer, 1999: 29; World Bank, 2004b: 3).

Trade between two countries can be beneficial to both countries if each country exports only those goods in which it has a comparative advantage. A country has a comparative advantage in producing a good if the opportunity cost of producing that good in terms of other goods is lower in that country than it is in other countries (Krugman & Obstfeld, 2000: 13). The citizens of a country are able to consume a variety of goods and services because of trade (Gunning, 2002: 311). Countries are able to "produce" indirectly by importing what they do not produce locally (Krugman & Obstfeld, 2000: 19).

Because their small domestic markets hamper production capacity in the SADC and other African countries, producing for the external markets could increase these countries' income. It has been pointed out that the Southeast Asian economies have managed to achieve higher income growth rates than most developing countries, because the former relied strongly on the external sector to achieve such growth (World Bank, 2004b: 4).

Most of the SADC and Africa's merchandise is produced for the external market. For example, in 2000 Africa as a whole exported approximately US$ 129 billion worth of goods and services to the World (World Bank, 2004b: 6). This was a significant foreign exchange earning, given that 52,23 per cent of all Africa's exports went to the European Union, 19,07 per cent to the United States, 16,43

per cent to Asia, and only 3,42 per cent to Africa (World Bank, 2004b: 6-7). This data shows how small our domestic markets are, and the role trade and the external sector can play in development and as a source of foreign exchange and revenue for the government.

While a wide range of literature acknowledge that trade plays a vital role in development (*e.g.,* Krugman, 1995: 327-328; Masters, 2005: 2; Rowthorn & Ramaswamy, 1999: 18; Sharer, 1999: 26; Van Beers & Biessen, 1996: 1; Vanston, 1995: 11), world trade is riddled with inequity in trading conditions and double standards (Panagariya, 2004: 146). The SADC countries have gained little from both globalisation and trade liberalisation. It has been argued that the Southeast Asian economies have managed to achieve higher income growth rates than most developing countries, because they relied strongly on the external sector as a stimulant for growth (World Bank, 2004b: 4). Producing for the external markets, however, is a necessary but not sufficient condition (Falkenberg, 2004: 1).

Unless developed countries remove the extraordinary subsidies and other trade related barriers so as to allow developing countries to gain free market access and develop dynamic international competitiveness, any trade development policies pursued by developing countries might not achieve the desired outcomes (Tokarick, 2005: 30-33). Dynamic international competitiveness is the "degree to which a country can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people in the longer-term" (OECD, 1992: 237 cited in Boltho, 1996: 3).

Because countries in the north heavily subsidise their farmers, for example, through producer subsidy equivalent (PSE), developing countries are not able to reap the full benefits of comparative advantage (Krueger, 1993: 130-131; Panagariya, 2004: 146; The Lancet, 2002: 1359; Wolf, 2004). PSE reduces the importing of agricultural products from developing countries, and thus acts as a

distortion to world trade. This renders the concept of comparative advantage irrelevant as developing countries now compete with artificially lower priced products from the north.

Producer subsidy equivalent is the percentage by which the price of a commodity or group of commodities is subsidised so as to leave the incomes of farmers in developed countries unchanged (Krueger, 1993: 130-131). The PSE thus reduces the consumption of agricultural products from developing countries, hurting these countries as the primary producers of agricultural commodities (Oxfam, 2005: 1; Financial Times, 2004). As a result of this, most African and SADC Countries are being marginalised on the global market due to the trade gap caused by globalisation (Sharer, 1999: 27; Wolf, 2002: 1; World Bank, 2004b: 3).

Because of this African countries are hesitant to liberalise their economies fully, despite the growing literature by economists that free trade is good for growth and development. Several reasons account for this reluctance (ATPC, 2004: 7-8). There is no clear evidence that trade liberalisation would lead to growth and development. Put differently, there is no convincing evidence that trade liberalisation is systematically associated with economic growth. For example Rodriguez and Rodrik (2001) argue that domestic institutions play a key role in determining whether or not [trade] liberalisation will have a positive impact on an economy. Furthermore, there is strong evidence from regions where liberalisation has worked, that selective rather than comprehensive liberalisation achieved such positive outcomes (Edwards, 1993: 1360).

African leaders are also hesitant to liberalise their economies fully through multilateral trade liberalisation. They fear that through multilateral trade liberalisation and the associated rules and obligations their countries might lose their domestic policy instruments, and in particular, suffer from external shocks, since these countries rely on few commodity exports (ATPC, 2004: 8). Many African policymakers also fear that open trade with the rest of the world would

permanently damage Africa's infant manufacturing base (Yang & Gupta, 2005: 7).

Several African countries including SADC members rely on trade taxes as sources of government revenue. This is because these countries have narrow tax bases (Hinkle & Schiff, 2004: 1327). These countries fear that full liberalisation of their economies would worsen their fiscal deficits. Finally, African countries have already opened their economies, yet they have not seen meaningful benefits. Thus, there is less incentive to liberalise further.

In a nutshell, it is inevitable that through liberalisation there will be winners and losers. African countries are likely to lose in terms of global trade in the short-term. Even in the long-run they can lose unless a conducive environment is created to ensure free market access for their agricultural products, domestic support and export competition stemming from dynamic competitiveness (Boltho, 1996: 3; TNI, 2004:2-3; Tokarick, 2005: 30).

Section 4.3 examines the structure and pattern of trade in the SADC region for the period 1990 to 2005. The aim of sections 4.3 to 4.5 is to determine whether there has been a shift in trading partners in the SADC and the possible future direction of trade in this region given the nature of SADC countries' exports and imports.

4.3   The Structure and Pattern of Trade in the SADC Region

In order to determine the structure and pattern of trade in the SADC, the principal trading partners and the nature of exports and imports of the SADC are examined. The researcher distinguishes between two periods, namely the period 1990 to 1995, and 1996 to 2005. These periods are differentiated so that the impact of the 1997/98 Asian financial crises, which affected world trade, does not distort the analysis.

The SADC countries, like most other African countries are heavily dependent on trade (De la Rocha, 2003: 6). This is shown by the ratio of their total trade or exports and imports as a percentage of GDP. This ratio is over 60 per cent in most SADC countries and in many other African countries (AfDB, 2002a: 5). In particular, these countries rely heavily on primary commodity exports as their main source of foreign exchange earnings (AfDB, 2002a: 3).

A comprehensive literature review and the data provided in sections 3.4 and 4.3 to 4.4 of this dissertation, tend to suggest that most of the SADC trade is with countries in other continents (Lewis, Robinson & Thierfelder, 2002: 15). For example, the top five country destinations of SADC exports in 1997 were the United States, the United Kingdom, Japan, Italy and Germany. In the same period, the composition of SADC trade (excluding SACU) with the rest of the world consisted largely of primary products, while her imports were mainly capital goods (Lewis, *et al.,* 2003: 165-168; SAES, 2000: 69). This trend is not likely to change soon as Africa's exports are heavily concentrated on unprocessed primary products and has been that way for more than three decades (Wood & Mayer, 2001: 369; 376-385).

Table 4.1 shows the direction of trade for the SADC region during the period 1991 to 2001. From this table it is evident that, while the intra-regional trade as a percentage doubled over the 1991-2001 period, the SADC countries are still relying heavily on imports from outside the SADC region (De la Rocha, 2003: 6).

A closer examination of Table 4.1 shows that a new trade pattern is emerging in the region. It is observed that, while the intra-SADC export trade increased from 6,3 per cent in 1991 to 9,9 per cent in 2001, and its imports increased from 7,9 per cent in 1991 to 13 per cent in 2001, its extra-regional exports declined from 93,7 per cent in 1991 to 90,1 per cent in 2001. The extra-regional imports declined even further from 92,1 per cent to 87 per cent over the same period. This has been attributed to the South African economic influence in Africa and the SADC area in particular. This trade data tend to support the economic theory

that trade integration and tariff harmonisation plays an important role in increasing intra-regional trade (Arora & Vamvakidis, 2005a: 4; Khandelwal, 2005: 2; SAES, 2000: 66).

Table 4.1: Direction of Trade for SADC, 1991 and 2001.				
SADC Trade	Exports		Imports	
	1991	2001	1991	2001
Intra-SADC	**6,3%**	**9,9%**	**7,9%**	**13%**
Extra regional	**93,7%**	**90,1%**	**92,1%**	**87%**
Intra-SADC	6,3%	9,9%	7,9%	13%
Rest of Africa	1,1%	2,7%	1,1%	2,1%
East Asia and Pacific	16,3%	16,8%	17%	20,3%
United States of America	16,1%	17,6%	11,9%	10,4%
European Union	49,1%	43%	51,1%	39,4%
Rest of World	11,1%	10,1%	11%	14,8%
Total World	100%	100%	100%	100%
Source: Adapted from De la Rocha, 2003: 6				

Table 4.1 also shows that the SADC countries have shifted some of their import trade from their traditional trading partner, the European Union to Japan, China and other Asian countries (Heine, *et al.*, 1998: 13; Regmi, Trueblood & Shapouri, 2000: 21; Schneider, 2003: 389; World Bank, 2004b: 1). The reason for the shift is that SADC considers Asian countries as compatible trading partners (World Bank, 2004b: 46). As a result of this, both exports and imports of the SADC and European Union registered significant trade decline between 1991 and 2001 period. In particular, the percentage of exports to the European Union declined by about 6 per cent (from 49,1 per cent in 1991 to 43 per cent in 2001), while SADC imports from the European Union declined by almost 12 per cent (from 51,1 per cent in 1991 to 39,4 per cent in 2001). This information is reflected in Table 4.1.

Another reason for Africa's trade shift is because of its export growth opportunities to Asia, mainly food and agricultural commodities due to Asia's large populations with more rapidly growing average income levels than other developing regions (World Bank, 2004b: 46). The third reason is because of the 1997/1998 Asian financial crisis, which saw Japan and the United States as shock absorber economies (Adhikari & Athukorala, 2002: 157-158; AfDB, 2002a: 5).

The above data suggest that there is little trade taking place between the SADC countries and the rest of Africa. For example, exports to the rest of Africa only increased by a meagre 1,6 per cent over the past decade (1991-2001). Imports from the rest of Africa registered a growth rate of 1 per cent. The increase in intra-SADC exports from 6,3 per cent in 1991 to 9,9 per cent in 2001 and intra-SADC imports from 7,9 per cent in 1991 to 13 per cent in 2001 is due to South Africa becoming a major trading partner in the region after the 1994 democratic elections (De la Rocha, 2003: 6).

Annexures A1 and A2, which show the SADC top five export destinations and import sources per SADC member respectively for the year 2003, also show that there is little trade taking place between SADC and other African countries as most of the SADC trading partners were from outside Africa. Furthermore, according to Anon. (2005: 2), trade between South Africa and the rest of the continent is unbalanced. For example, in 2002, 16 per cent of South Africa's exports went to the continent, and South Africa imported only 4 per cent from Africa.

Nevertheless, according to Arora and Vamvakidis (2005a: 4), the average share of South Africa in the rest of Africa's external trade rose to three times its 1970-1993 average during the period 1994 to 2002. The rest of Africa's trade with South Africa rose to four times its 1970-1993 average during the period 1994 to 2002. Furthermore, according to the South Africa Foundation Report, South Africa exports more to the continent than it imports (Anon., 2005: 2; Seria, 2004:

2). For example, between 1991 and 2002, South African exports to the continent grew from R5 billion to R43 billion, while her imports were only R5 billion (Seria, 2004: 2). One of the reasons for this is the many organisations and firms that have their bases of operation in South Africa, are gradually spreading to the rest of the continent (Efrat, 1995: 4; Maasdorp, 1996b: 48).

Data consistently show that in both the SACU and SADC regions, trade flow is often biased towards South Africa. For example, South Africa accounts for more than 70 per cent of the intra-SADC imports, and enjoys a large trade surplus with other SADC members, estimated at 4 billion US$ a year. In fact, Botswana, Lesotho, Namibia, Swaziland, Malawi, Mozambique, Zambia, and Zimbabwe are all heavily dependent on imports from South Africa. This is because it is cheaper for these countries to rely on South Africa than on any other source (De la Rocha, 2003: 6).

For the period 1990-1997, the SADC (excluding SACU) top ten exports to the rest of the world and their respective percentage of total exports in 1997 indicated in brackets were: Petroleum, petroleum products and related materials (13,1%); non-ferrous metals (8,5%); non-metallic mineral manufactures (6,9%); gold (non-monetary) (6,9%); coal, coke, and briquettes (4,7%); metaliferous ores and metal scrap (4,5%); iron and steel (3,8%); Vegetables and fruit (3,3%); articles of apparel and clothing accessories (3,0%) and tobacco (2,8%) were exported to the rest of world (SAES, 2000: 70).

4.3.1 The Structure and Pattern of Trade in SADC prior to 2000

The SAES (2000: 67-68) states that during the period 1990 to 1999, the European Union, Germany, Indian and COMESA were the principal trading partners of SACU and SADC. However, the European Union remained SACU's largest trading partner accounting for 46 per cent of total exports in 1998. There was also significant trade taking place between SACU and other developing countries excluding SADC. The trade of SACU with SADC more than doubled

between 1990 and 1999. It rose to US$ 3,3 billion in 1999 up from US$ 1,6 billion in 1990, that is, an increase of 106 per cent for the period.

For the period 1990 to 1997, the top ten imports to SADC from the rest of the world, based on SADC total percentage imports in 1997, were road vehicles (12,9%), general industrial machinery, equipment and parts (6,9%), telecommunication and sound recording apparatus (6,2%), textile yarn, fabrics, made-up art and related products (5,0%), machinery specialised for particular industries (4,9%), miscellaneous manufactured articles (4,4%), electrical machinery, apparatus and appliances (3,6%), cereals and cereals preparations (3,4%), medicinal and pharmaceutical products (3,1%), and professional, scientific and controlling instruments (2,9%) (SAES, 2000: 70).

Almost one-third of trade within the SADC member states consisted of petroleum and petroleum products, road vehicles, iron and steel, cereals, general industrial machinery and equipment in 1997. Based on the trend analyses, telecommunications and sound recording apparatus, animal and vegetable oils and fats, essential oils and perfume materials, office machines and automatic data processing equipment, fish and crustaceans were the product categories which mostly formed the intra-SADC trade (SAES, 2000: 70-71).

Before the Asian financial crisis the performance of trade within the SADC region was not that significant, particularly during the period 1990 to 1996. This was due to volatile export earnings during the nineties, while the import growth during the same period remained relatively strong. This resulted in a declining trade surplus for the SADC region including the SACU. Statistics for the period show that there was a sharp rise in imports to US$ 62,8 billion in 1995 up from US$ 48 billion in 1994 (SAES, 2000: 67-69).

The growth in exports for the same period were relatively lower, resulting in a meagre trade surplus of US$ 1,6 billion, down from US$ 8 billion trade surplus recorded in 1994. This trade balance deteriorated further in 1996 as export earnings declined by nearly US$ 5 billion. The decline in the trade surplus was

due to the East Asian markets' financial crisis, lower commodity prices in the world market, and weak domestic currencies. This resulted in an increase in export volume, but remained lower in value terms (SAES, 2000: 65-68).

SACU consisting of Botswana, Lesotho, Namibia, South Africa and Swaziland, accounts for almost 44 per cent of SADC's total trade. SACU imports from the rest of the world were US$ 28,2 billion, or 48 per cent of overall SADC imports in 1997. Imports by the rest of the region was approximately US$ 30 billion. SACU exports were US$ 31 billion, and this represented 41 per cent of total SADC exports earnings in 1997 (SAES, 2000: 66).

However, the recovery of the East Asian markets and higher commodity prices in the world market during the 1998/1999 period, improved the trade surplus for the SADC region. For instance, SACU exports amounted to US$ 28,4 billion in 1999. Its imports totalled US$ 24,5 billion, resulting in a trade surplus of almost US$ 3,9 billion for that year (SAES, 2000:65-67). This was a significant improvement of over US$ 1,8 billion on the surplus recorded in 1998. This was US$ 1 billion higher than the equivalent for 1997. South Africa was the largest beneficiary during this period, as the country contributed about 94 per cent of SACU export earnings in 1999. This was equivalent to 98 per cent of total SACU imports (SAES, 2000: 65-67; Table 4.2 and Figure 4.1).

Table 4.2: SACU Exports by Stage of Manufacturing as Percentage of Total Exports, 1990-1999				
Goods category	**1990**	**1993**	**1996**	**1999**
Primary products	24,7	25,4	21,5	20,4
Beneficiated products	26,2	23,4	28,0	31,8
Material-intensive products	6,1	5,7	7,1	7,9
Manufactured products	9,2	14,4	19,9	23,6
Gold	33,7	31,2	23,5	16,3
Source: SAES, 2000: 66.				

Figure 4.1: SACU Exports by Stage of Manufacturing as Percentage of Total Exports for the period 1990-1999
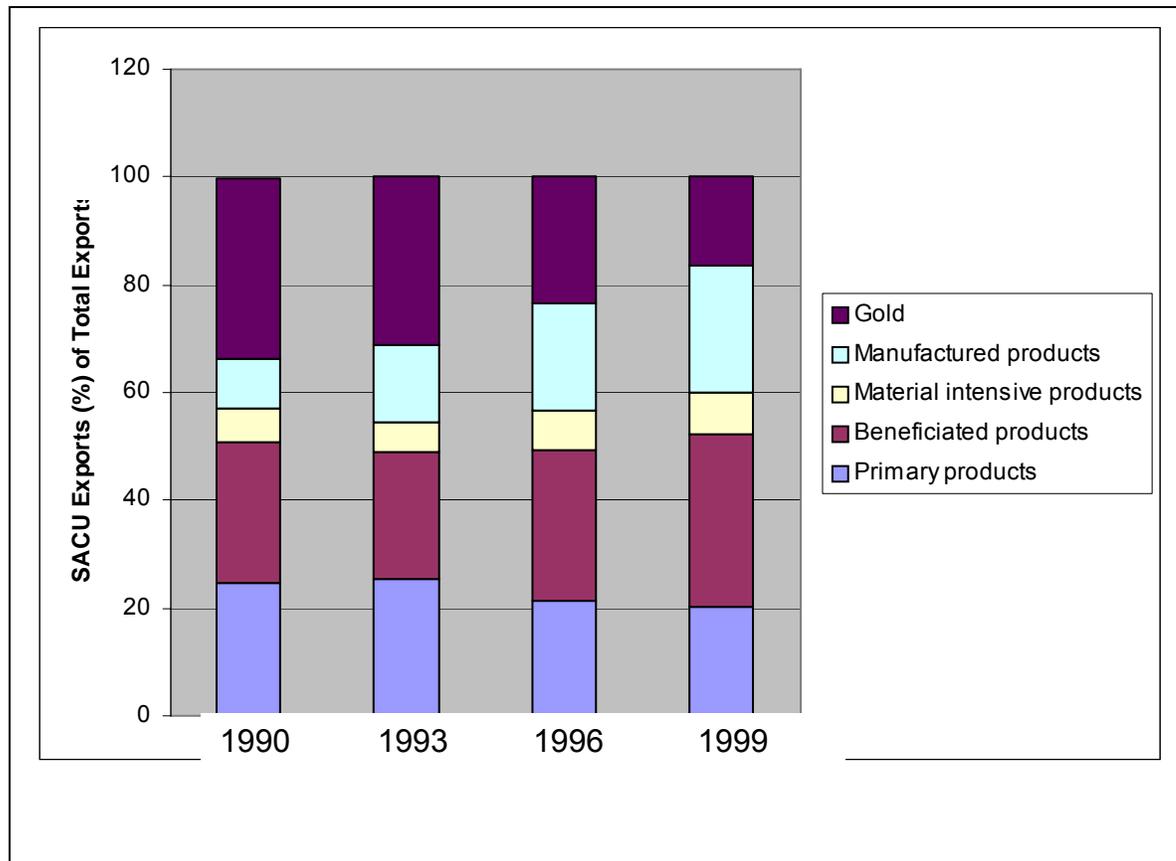
Source: Table 4.2

Figure 4.1 and Table 4.2 show that SACU diversified her exports over the period 1990 to 1999. For example, manufactured goods accounted for approximately 24 per cent of total exports in 1999, while this figure was only 9,2 per cent in 1990. This significant increase in SACU's exports of manufactured goods is important for SACU countries, because such goods lead to an increase in export earnings. In particular, because primary export products are affected by volatile price fluctuations, exporting manufactured goods reduces export earnings instability (Todaro, 2000: 455; Todaro & Smith, 2003: 522). The share of gold exports declined over the same period, as SACU was diversifying away from gold (SAES, 2000: 68). During this period, the largest improvement was in the beneficiated products. This means that value is added to the products before

they are exported thereby increasing employment creation through backward and forward linkages and development in the SACU region.

4.3.2 Zimbabwe's Trading Partners for the Period, 1999-2002

Zimbabwe's principal trading partners for the period 1999 to 2002 (Table 4.3) were South Africa, the United Kingdom, Germany, the United States, Zambia, Switzerland, Italy, Netherlands, and Botswana. Other unspecified countries accounted for some 50 to 60 per cent of all Zimbabwe's exports in any given year between 1999 and 2002.

The figures in brackets throughout this section show the principal trading partners' exports or imports share as a percentage of the total in a given year.

Table 4.3: Zimbabwe's Main Trading Partners, 1999-2002 (US$ millions)					
Exports fob to	1999	2000	2001	2002	% of Total
South Africa	219 (12%)	274 (14%)	127 (6,4%)	138 (5,7%)	9,2%
United Kingdom	182 (9,6%)	160 (8,3%)	171 (8,7%)	116 (4,8%)	7,6%
Germany	150 (7,9%)	142 (7,3%)	157 (7,9%)	130 (5,4%)	7,0%
Japan	135 (7,2%)	133 (6,9%)	122 (6,2%)	113 (4,7%)	6,1%
China	103 (5,5%)	94 (4,9%)	105 (5,3%)	145 (6,0%)	5,4%
Netherlands	66 (3,5%)	60 (3,1%)	26 (1,3%)	106 (4,4%)	3,1%
Italy	74 (3,9%)	64 (3,3%)	42 (2,1%)	49 (2,0%)	2,8%
Other	959 (51%)	1011 (52%)	1226 (62%)	1630 (67%)	59%
Total	**1 888**	**1 938**	**1 976**	**2 427**	**8 229**
Imports cif	1999	2000	2001	2002	% of Total
South Africa	780 (44%)	630 (38%)	733 (51%)	796 (48%)	45%
United Kingdom	142 (7,9%)	72 (4,4%)	57 (3,9%)	51 (3,1%)	4,9%
Germany	113 (6,3%)	48 (2,9%)	60 (4,2%)	51 (3,1%)	4,2%
USA	92 (5,2%)	98 (5,9%)	44 (3,0%)	33 (1,9%)	4,1%
DRC	n/a	7 (0,4%)	87 (6,0%)	95 (5,7%)	2,9%
Botswana	41 (2,3%)	48 (2,9%)	52 (3,4%)	33 (1,9%)	2,7%
Mozambique	12 (0,7%)	39 (2,4%)	n/a	89 (5,3%)	2,1%
Other	603 (34%)	709 (43%)	412 (29%)	521 (31%)	34,3%
Total	**1 783**	**1 651**	**1 445**	**1 669**	**6 548**
Source: SADC TIIR, 2005.					

Table 4.3 shows that Zimbabwe's imports from the countries labelled "other" on average accounted for some 34 per cent for the period 1999 to 2002. The average imports from South Africa were highest, at 45 per cent for the same period. Three reasons account for the large volume of trade between South Africa and Zimbabwe. The South African economy is more diversified than that of Zimbabwe (World Bank, 2004b: 9-10). This allows South Africa to supply Zimbabwe with goods and services that are not locally produced in Zimbabwe. Alternatively if these goods were available or locally produced in Zimbabwe, they would be more expensive than when imported (Wood & Mayer, 2001: 370).

Table 4.3 also shows that Zimbabwe's exports grew at a decreasing rate during the period under study. The country's exports to South Africa grew by 25 per cent between 1999 and 2000, declined by 54 per cent between 2000 and 2001, before increasing by 8,7 per cent between 2001 and 2002. Her exports to the United Kingdom fell by 12 per cent during 1999/2000, increased by 6,9 per cent in 2000/01 before declining by 32 per cent in 2001/02. Furthermore, Table 4.3 shows that Zimbabwe had a favourable trade balance for the period, which was necessitated by shortages of foreign exchange.

Zimbabwe's total trade (exports and imports) between 1997 and 2003 fluctuated for various reasons. For example, the 2 per cent export growth rate achieved between 1999 and 2000 was partly due to the political tension in Zimbabwe prior to the 2000 presidential elections, lack of adequate foreign exchange earnings and the depreciation of the Zimbabwean dollar against major world currencies. Moreover, the impact of inflation, which was steadily increasing slowed economic activities including export growth. The subsequent "smart sanctions" that were imposed on Zimbabwe by the Commonwealth due to the inappropriate land reforms in that country only worsened the situation (AfDB & OECD, 2004: 369; Roman, 2004: 7).

The short distance between South Africa and Zimbabwe is another factor that facilitates trade between the two economies (ESRF, 2003: 17; Jenkins, 2003: 9). This is in line with the economic theory that distance prohibits trade due to transportation costs, especially where bulky goods such as cement, building and construction materials are involved (Egger, 2005: 604; Krugman & Obstfeld, 2000: 30, 410; Pilbeam, 1998: 153). The third reason is because the two economies are in the same trading bloc (SADC), with special trade arrangements with regard to tariffs and non-tariff barriers (NTBs), (Kritzinger-van Niekerk & Moreira, 2002: 140-141).

Zimbabwe is able to import machinery and transport equipment, from South Africa due to the short distance involved. Of all the SADC member countries South Africa is the only economy that has the capacity and ability to supply other SADC member countries with machinery and transport equipment, or industrial products (World Bank, 2004b: 10).

4.3.3 South Africa's Trading Partners for the period, 1999-2003

Table 4.4 shows South Africa's exports to her main trading partners for the period, 1999 to 2003.

Most of South Africa's exports between 1999 and 2003 went to countries that are identified as "other" in Table 4.4. They imported 51 per cent in 1999, 50 per cent in 2000, 53 per cent in 2001, 53 per cent in 2002, and 53 per cent in 2003. This means that South Africa's foreign trade is taking a new shape as the country's traditional trading partner, the European Union's share is dwindling. The countries that are identified as the European Union member countries in Table 4.4 are Belgium-Luxembourg, Germany, Italy, Netherlands, and United Kingdom. These EU member countries' imports from South Africa fell by 36,6 per cent between 1999 and 2000. They fell from 26,8 per cent in 1999, to 17 per cent in 2000, before rising by only 4,7 per cent to 17,8 per cent in 2001. South Africa's exports to the United States were 10,2 per cent in 1999, it rose slightly to 12 per

cent in 2000, then fell sharply by 8,9 per cent in 2001, after which it increased by 9,1 and 9,2 per cent in 2002 and 2003 respectively.

Table 4.4: South Africa's Exports to Main Trading Partners, 1999-2003 (US$ millions)

Country/Year	1999	2000	2001	2002	2003	Total	% of Total
United States	2 693,7 (10,2%)	3 586,0 (12%)	2 263,9 (8,9%)	2 323,7 (9,1%)	3 139,8 (9,2%)	14 007,1	9,9%
United Kingdom	2 439,2 (9,2%)	2 652,9 (8,9%)	2 461,1 (9,7%)	2 420,0 (9,5%)	2 999,5 (8,8%)	12 972,7	9,2%
Japan	1 824,8 (6,9%)	2 405,1 (8,0%)	1 267,0 (5,0%)	1 470,0 (5,8%)	2 658,3 (7,8%)	9 625,2	6,8%
Germany	2 120,9 (8,0%)	2 329,3 (7,8%)	1 842,5 (7,3%)	1 735,2 (6,8%)	2 144,8 (6,3%)	8 027,9	5,7%
Netherlands	984,8 (3,7%)	994.2 (3,3%)	1 103,0 (4,4%)	1 170,6 (4,6%)	1 501,3 (4,4%)	5 753,9	4,1%
Bel-Lux (a)	871,7 (3,3%)	916,9 (3,1%)	789,8 (3,1%)	857,2 (3,4%)	966,0 (2,8%)	4 401,6	3,1%
Italy	698,5 (2,6%)	842,9 (2,8%)	763,2 (3,0%)	722,6 (2,8%)	918,4 (2,7%)	3 945,6	2,8%
Zimbabwe	779,5 (3,0%)	656,9 (2,2%)	584,1 (2,3%)	615,1 (2,4%)	831,7 (2,4%)	3 467,3	2,5%
Mozambique	639,6 (2,4%)	672,2 (2,2%)	654,3 (2,6%)	511,2 (2,0%)	724,1 (2,1%)	3 201,4	2,3%
Other	13 354,3 (51%)	14 859,8 (50%)	13 528,9 (53%)	13 572,7 (53%)	18 174,4 (53%)	75 680,5 (54%)	54%
Total	**26 407,0**	**29 916,2**	**25 257,8**	**25 398,3**	**34 058,3**	**141 037,6**	**100%**

Source: Adapted from SADC TIIR, 2005. (a) denotes Bel-Lux= Belgium-Luxembourg

Table 4.4 shows that South Africa's exports to other SADC countries, namely, Mozambique and Zimbabwe were 2,4 per cent to Mozambique in 1999, 2,2 per cent in 2000, and 2,6 per cent in 2001, 2,0 per cent in 2002 and 2,1 per cent in 2003. Zimbabwe imported 3 per cent, 2,2 per cent, 2,3 per cent, 2,4 per cent and 2,4 per cent of all South Africa's exports in 1999, 2000, 2001, 2002 and 2003 respectively (See Table 4.4). South Africa's exports to Africa were 7 per cent in 1992, of which a quarter went to Zimbabwe (The Star, 1992: 19). This means that South Africa's exports to Zimbabwe in the past decade have not changed much.

Table 4.5 shows that South Africa's principal import suppliers in cumulative value during the period 1999 to 2003 were Germany (14,7%), the United States (11,6%), the United Kingdom (8,9%), Japan (7,3%), Saudi Arabia (5,8%), China (4,7%), France (4,5%), Iran (3,7%), Italy (3,5%), and all other countries which supplied 35 per cent. South Africa's imports are mainly from outside Africa and

the SADC region. For example, in 1999 and 2003, South Africa's imports from main trading partners were US$ 24 066,7 million and US$ 34 395,7 million respectively. Based on these data, the calculations show that in 1999 and 2003 respectively, 60,9 per cent and 65,4 per cent of all South Africa's imports were from outside Africa. Moreover, Table 4.5 does not show even one African country as South Africa's main import trading partner. Because SADC and other African countries are South Africa's minor trading partners, these countries have been included in South Africa's "other" trading partners.

Table 4.5: South Africa's Main Import Trading Partners (US$ millions)						
Country/Year	1999	2000	2001	2002	2003	% 0f Total
Germany	3 525,8	3 589,2	3 774,3	3 991,6	5 088,6	14,7%
United States	3 310,3	3 182,2	3 009,2	2 947,9	3 336,8	11,6%
United Kingdom	2 298,6	2 327,4	2 139,6	2 343,4	2 992,8	8,9%
Japan	1 868,6	2 147,0	1 730,8	1 790,1	2 416,7	7,3%
Saudi Arabia	984,9	2 004,5	1 774,2	1 166,6	2 004,2	5,8%
China	819,4	996,0	1 058,0	1 347,0	2 223,0	4,7%
France	953,3	1 135,9	950,5	1 030,0	2 061,3	4,5%
Iran	654,8	1 156,5	1 036,2	941,9	1 249,3	3,7%
Italy	901,4	901,8	947,6	909,1	1 116,8	3,5%
Other	8 749,6	9 610,3	8 826,7	8 931,2	11 906,2	35,3%
Total	**24 066,7**	**27 050,8**	**25 247,1**	**25 398,8**	**34 395,7**	**136 159,1**
Source: Adapted from SADC TIIR, 2005.						

4.3.4 Mauritius' Trading Partners for the period, 2000-2003

Table 4.6 shows Mauritius' top four trading partners for the period 2000 to 2003. These trading partners are France, the United Kingdom, the United States, and Madagascar in that order. During the same period, Mauritius' top four imports suppliers were France, South Africa, India, and Germany. For the period 2000 to 2003, most of Mauritius' exports (about 68 to 75 per cent) went to countries outside Africa. Madagascar as one of the Mauritius' main trading partners, imported on average 5 per cent of Mauritius' exports during the period.

However, in terms of imports, South Africa remained the chief supplier of Mauritius' imports except in 2003 when France supplied almost two and half times more (See Table 4.6). Based on these export and import data, it can be concluded that Mauritius' main trading partners are outside Africa.

Table 4.6: Mauritius' Main Trading Partners as (%) of Total, 2000-2003.				
Export fob to:	2000	2001	2002	2003
France	21,0	18,9	19,3	35,2
United Kingdom	27,7	29,3	28,9	24,9
United States of America	19,3	18,5	19,2	14,8
Madagascar	4,9	5,8	3,8	4,5
Imports cif from:	2000	2001	2002	2003
France	9,6	9,5	11,0	34,6
South Africa	14,9	13,9	12,6	13,9
India	8,8	8,0	7,3	8,0
Germany	3,8	5,4	3,4	5,9
Source: Adapted from SADC TIIR, 2005.				

4.3.5 The Democratic Republic of Congo's Trading Partners, 1999-2003

Table 4.7 shows the principal trading partners of the Democratic Republic of Congo (DRC) for the period 1999 to 2003. The top five import suppliers, according to the 1999-2003 cumulative import values were, South Africa (32%), Belgium (29%), France (15%), Nigeria (14,5%), and Kenya (9,6%). In terms of exports value, Belgium was leading with 68,5 per cent, followed by the United States (17,8%), Finland (6,1%), Zimbabwe (5,8%) and France (1,7%) respectively.

The countries shown in Table 4.7 were assumed to be the only trading partners for this period. Each country's trade share therefore is determined by adding individual country share over the five-year period. This shows how poor the trade data is for certain countries.

Table 4.7: DRC's Main Trading Partners, 1999-2003 in (US$ millions)							
Exports to:	1999	2000	2001	2002	2003	Total	% of Total
Belgium	724	690	706	911	596	3 627	68,5%
USA	216	217	152	190	167	942	17,8%
Zimbabwe	0	7	87	95	120	309	5.8%
Finland	46	76	82	69	52	325	6,1%
France	6	18	6	34	27	91	1,7%
Total	**992**	**1 008**	**1 033**	**1 299**	**962**	**5 294**	**100%**
Imports from:	1999	2000	2001	2002	2003	Total	% of Total
South Africa	144	138	136	128	179	725	32%
Belgium	104	145	122	132	157	660	29%
France	30	44	44	86	133	337	15%
Kenya	34	39	43	47	57	220	9,6%
Nigeria	66	82	88	94	0	330	14,5%
Total	**378**	**448**	**433**	**487**	**526**	**2 272**	**100%**
Source: Adapted from SADC TIIR, 2005.							

4.3.6 Lesotho's Trading Partners for the Period, 1999-2003

Lesotho is one of the five countries forming the SACU. It imported mainly from within SACU, but its exports went to countries outside the African continent.

Table 4.8: Lesotho's Main Trading Partners, Exports & Imports, 1999-2003 (Million Maloti)							
Exports (fob) to:	1999	2000	2001	2002	2003*	Total	% of Total
North America	480,6	736,5	1 522,5	2 874,6	2 849,1	8 463,3	69,1%
SACU	568,2	727,3	897,0	856,0	689,7	3 738,2	30,5%
European Union	2,4	1,2	3,5	7,8	3,7	18,6	0,20%
Asia	0,3	0,7	0,9	0,8	8,9	11,6	0,10%
Other	2,6	2,7	2,1	0,7	6,0	14,1	0,12%
Total	**1 054,1**	**1 468,4**	**2 426,0**	**3 739,9**	**3 557,4**	**12 245,8**	**100%**
Imports (cif) from:	1999	2000	2001	2002	2003*		% of Total
SACU	4 734,1	4 870,0	5 296,6	6 261,6	7 238,5	28 400,8	82,9
Asia	372,4	526,0	953,3	2 021,7	1 109,7	4 983,1	14,6%
European Union	82,7	42,7	44,5	82,5	10,8	263,2	0,82%
North America	50,0	104,8	41,7	53,4	15,1	265	0,77%
Other	48,6	67,8	63,7	98,2	41,8	320,1	0,94%
Total	**5 287,8**	**5 611,3**	**6 399,8**	**8 517,4**	**8 415,9**	**34 232,2**	**100%**
Source: Adapted from SADC TIIR, 2005. * Denotes that 2003 figures are preliminary estimates.							

Most of the exports went to North America (69%) and only 30,5 per cent went to SACU during the period 1999 to 2003. Lesotho's trading partners, namely, the European Union, Asia and other countries each imported less than one per cent. However, 80 per cent of imports during the same period were from SACU. Other notable import suppliers were Asia (14,6%); the European Union, North America and countries identified as "other" each supplied less than one per cent (Table 4.8).

4.3.7 Mozambique's Trading Partners for the Period, 1998-2002

Table 4.9 shows that Mozambique's exports mostly went to countries outside Africa during the period 1998 to 2002. Only 25,5 per cent of all Mozambique's exports went to SADC countries, these being South Africa and Zimbabwe, which imported 13,7 per cent and 11,8 per cent respectively. Belgium imported (25,5%), Spain (8,4%), Portugal (6,3%) and other countries (34,3%).

Table 4.9: Mozambique's Main Trading Partners, 1998-2002 in (US$ million)							
Export to:	1998	1999	2000	2001	2002	Total	% of Total
Belgium	5	1	1	285	289	581	25,5%
South Africa	40	71	53	29	120	313	13,7%
Zimbabwe	43	40	65	82	39	269	11,8%
Spain	38	35	39	42	37	191	8,4%
Portugal	18	25	42	28	30	143	6,3%
Others	100,5	111,7	164	237,6	168,8	782,6	34,3%
Total	**244,5**	**283,7**	**364**	**703,6**	**681,8**	**2 277,6**	**100%**
Imports from:	1998	1999	2000	2001	2002	Total	% of Total
South Africa	317	302	425	618	386	2 048	37,2%
Portugal	64	43	92	62	78	339	6,2%
USA	40	44	36	31	66	217	3,9%
Australia	3	13	6	109	52	183	3,3%
Japan	30	44	51	15	43	18	3,3%
Other	363,3	753,8	553	228,4	637,9	2 536,4	46,1%
Total	**817,3**	**1 199,8**	**1 163**	**1 063,4**	**1 262,9**	**5 506,4**	**100%**
Source: Adapted from SADCTIIR, 2005.							

Mozambique's imports during the same period were from South Africa (37%), Portugal (6,2%), the United States (3,9%), Australia and Japan (3,3%) each and other countries supplied 46 per cent. Mozambique's export-import data

for the period 1998 to 2002 suggest that the European Union countries are the main export destinations. South Africa and the countries identified as other in Table 4.9 were the main suppliers of Mozambique's imports during this period.

4.3.8 Swaziland's Trading Partners for the Period, 1997-2001

Swaziland's exports to South Africa were 74 per cent, 65,4 per cent, 72 per cent, 59,7 per cent and 72,3 per cent of the total in 1997, 1998, 1999, 2000, and 2001 respectively. South Africa's imports from Swaziland in the same period were 82,9 per cent, 84 per cent, 88,8 per cent, 92,6 per cent, and 86,3 per cent in 1997, 1998, 1999, 2000, and 2001 respectively. These statistics show that South Africa was the chief trading partner of Swaziland between 1997 and 2001. This is because South Africa's exports to and imports from Swaziland were the highest compared with Swaziland's other main trading partners during the same period (Table 4.10).

Table 4.10: Swaziland's Main Trading Partners, 1997-2001 (E Millions)					
Exports (fob) to	1997	1998	1999	2000	2001
South Africa	2 593,2 (74%)	3 462,6 (65%)	4 067,9 (72%)	3 711,7 (59,7%)	6 370,7 (72%)
Rest of SADC	361,3 (10%)	765,0 (14%)	365,3 (6,5%)	1 065,6 (17%)	563,8 (6,4%)
USA	84,8 (2,4%)	277,8 (5,0%)	195,4 (3,5%)	550,2 (8,8%)	457,7 (5,2%)
Mozambique	181,8 (5,2%)	583,0 (11%)	208,7 (3,7%)	387,2 (6,2%)	406,2 (4,6%)
United Kingdom	74,3 (2,1%)	234,1 (4,2%)	382,8 (6,8%)	230,1 (3,7%)	112,7 (1,3%)
France	19,3 (0,55%)	229,4 (4,1%)	168,1 (2,9%)	41,5 (0,67%)	31,0 (0.,5%)
Other	263,9 (7,5%)	n/a	261,7 (4,6%)	231,0 (3,7%)	869,4 (9,9%)
Total	**3 504,3**	**5 551,8**	**5 649,9**	**6 217,3**	**8 811,5**
Imports (cif) from	1997	1998	1999	2000	2001
South Africa#	4 440,1 (83%)	5 365,1 (84%)	6 305,4 (89%)	7 380,2 (93%)	7 944 (86%)
Japan	101,7 (1,9%)	124,3 (1,9%)	40,6 (0,57%)	71,7 (0,90%)	160,6 (1,7%)
United Kingdom	92,7 (1,7%)	78,3 (1,2%)	239,8 (3,4%)	16,1 (0,20%)	59,3 (0,64%)
Singapore	80,1 (1,5%)	94,3 (1,5%)	29,6 (0,42%)	21,6 (0,27%)	28,8 (0,31%)
USA	46,6 (0,87%)	69,1 (1,1%)	18,9 (0,27%)	14,3 (0,18%)	25,9 (0,28%)
Other	594,7 (11%)	655,9 (10,3%)	466,2 (6.6%)	466 (5,8%)	986,4 (11%)
Total	**5 355,9**	**6 387,0**	**7 100,5**	**7 969,9**	**9 204,6**
Source: Adapted from SADC TIIR, 2005. # Denotes that the figures shown include products from other countries obtained from South African distributors.					

Moreover, Swaziland's manufacturing industries are highly export oriented. The manufactured products are mainly exported to South Africa where there is effective demand for these products, and secondly, because of Swaziland's limited size of the domestic market (Rousseau, *et al.*, 2002: 77).

4.3.9 Zambia's Trading Partners for the Period, 1999-2003

Most of Zambia's exports during the period 1999 to 2003 went to countries outside the SADC. Table 4.11 shows that only 22 per cent of Zambia's exports went to South Africa. The countries identified as other in Table 4.11 imported 63 per cent of all Zambia's exports during the period 1999 to 2003. While Malawi, Japan, and Egypt imported 7,5 per cent, 4,6 per cent, and 3 per cent respectively. During the same period, 70,3 per cent of all Zambia's imports were from South Africa. Other countries which supplied Zambia's imports during this period, were the United Kingdom (5,6%), China (2,7%), Tanzania (2,1%), and the countries identified as other in Table 4.11 supplied (19,3%). Zambia's trade with other SADC countries is unbalanced because, it exported only 29,5 per cent to other SADC members. That is, 22 per cent to South Africa, and 7,5 per cent to Malawi, and imported 72,4 per cent, 70,3 per cent from South Africa and 2,1 per cent from Tanzania (See Table 4.11).

Table 4.11: Zambia's Main Trading Partners, 1999-2003, in (Million US $)							
Export to:	1999	2000	2001	2002	2003	Total	% of Total
South Africa	63	186	205	223	282	959	22%
Malawi	60	57	63	68	87	335	7,5%
Japan	22	0	55	60	67	204	4,6%
Egypt	0	0	39	42	53	134	3,0%
Other	611	503	525	527	648	2 814	63%
Total	**756**	**746**	**887**	**920**	**1 137**	**4 446**	**100%**
Imports from:	1999	2000	2001	2002	2003	Total	% of Total
South Africa	373	625	759	824	999	3 580	70,3%
China	7	11	43	38	39	138	2,7%
United Kingdom	89	91	37	31	39	287	5,6%
Tanzania	26	31	7	19	23	106	2,1%
Other	561	297	125	n/a	n/a	983	19,3%
Total	**1 056**	**1 055**	**971**	**912**	**1 100**	**5 094**	100%
Source: Adapted from SADC TIIR, 2005.							

4.3.10 Angola's Trading Partners for the Period, 1999-2003

During the period 1999 to 2003, Angola's exports went mainly to the United States (42%) and countries identified as other in Table 4.12 took 30 per cent. During the same period, over 70 per cent of Angola's imports were from countries outside the African continent. These countries are Portugal, the United States, France, and Brazil. They supplied 33 per cent, 22,5 per cent, 12 per cent, and 9,9 per cent respectively. South Africa supplied 22,7 per cent and it was the only African trading partner during this period. This shows that Angola's total trade (exports and imports) is with countries outside the African continent.

Table 4.12: Angola's Main Trading Partners, 1999-2003 in (US$ millions)							
Export (fob) to:	1999	2000	2001	2002	2003	Total	% of Total
United States	2 337	3 413	2 979	2 978	4 097	15 804	42%
China	324	1 675	656	964	2 005	5 624	14,9%
France	89	342	604	577	631	2 243	5,9%
Belgium	482	567	507	452	266	2 274	6,0%
Japan	8	3	20	356	189	576	1,5%
Other	1 947	1 921	1 768	3 031	2 481	11 148	30%
Total	5 187	7 921	6 534	8 359	9 669	37 670	100%
Imports (fob) from:	1999	2000	2001	2002	2003	Total	% of Total
Portugal	323	373	493	595	810	2 594	33%
United States	278	241	304	419	541	1 783	22,5%
South Africa	211	340	335	364	550	1 800	22,7%
France	167	131	163	198	291	950	12%
Brazil	71	117	156	169	278	791	9,9%
Total	**1 050**	**1 202**	**1 451**	**1 745**	**2 470**	**7 918**	**100%**
Source: Adapted from SADC TIIR, 2005.							

4.3.11 Botswana's Trading Partners for the Period, 1998-2002

Table 4.13 shows Botswana's main trading partners during the period 1998 to 2002. During this period, most of Botswana's exports went to the United Kingdom (72%). Other export destinations were other European countries, which imported

13,3 per cent. The SACU imported 9 per cent and Zimbabwe roughly 3 per cent. The United States and all other countries each imported less than 1 per cent. In terms of imports, SACU supplied 76 per cent of all Botswana's imports. Other import suppliers were other European countries (8,5%), all other countries (4,6%), the United Kingdom (3,7%,) and Zimbabwe (3,5%). South Korea, the United States, and other African countries each supplied less than 2 per cent. These trade data show that for the period 1998 to 2002, the European Union was Botswana's most important trading partner. In terms of imports, the SACU was the main trading partner, because it supplied 76 per cent of Botswana's total imports during this period.

Table 4.13: Botswana's Main Trading Partners, 1998-2002, in (Million Pula)							
Exports to:	**1998**	**1999**	**2000**	**2001**	**2002***	**Total**	**% of Total**
United Kingdom	4 830,0	8 130,1	9 644,3	12 283,3	3 363,8	38 250,5	72,3%
Other Europe	1 873,5	2 221,0	2 417,1	452,0	74,0	7 037,6	13,3%
SACU	1 494,6	1 270,9	927,1	924,1	228,1	4 844,8	9,2%
Zimbabwe	249,9	290,9	540,6	373,8	114,6	1 569,8	2,97%
Other Africa	110,5	137,2	125,8	107,7	20,7	501,9	0,95
United States of America	90,0	86,5	81,6	35,3	12,8	306,2	0,58%
All other	48,3	91,3	98,1	130,3	21,8	389,8	0,74%
Total	**8 697**	**12 227,8**	**13 834,7**	**14 306,5**	**3 835,8**	**52 901,8**	**100%**
Imports from:	**1998**	**1999**	**2000**	**2001**	**2002***	**Total**	**% of Total**
SACU	7 111,0	7 784,0	7 846,0	8 193,0	2 189,0	33 123	76%
United Kingdom	320,5	272,5	442,3	467,8	123,5	1 626,6	3,72%
Other Europe	643,7	664,3	1 306,7	832,7	268,9	3 716,3	8,51%
Zimbabwe	374,6	396,6	366,6	335,2	74,1	1 547,1	3,54%
Other Africa	53,6	27,0	34,7	35,4	8,2	158,9	0,36
South Korea	456,4	264,0	21,5	22,2	3,3	767,4	1,76%
United States of America	134,5	188,0	174,0	190,0	47,7	734,2	1,68%
All other	418,3	568,5	421,0	480,0	128,6	2 016,4	4,62%
Total	**9 513,1**	**10 164,4**	**10 613,1**	**10 556,9**	**2 843,0**	**43 690,5**	**100%**
Source: Adapted from SADC TIIR, 2005. Denotes that the data for 2002 is up to March.							

Section 4.4 gives a synopsis of the composition of trade in the SADC from the mid-1990s to the present. The main purpose of section 4.4 is to determine to what extent the SADC countries are relying on primary exports and what the magnitude of imports of manufactured and capital goods are as a percentage of cumulative five-year export and import values. This is achieved by examining the percentage share of the SADC countries' main export and import items recorded during the period under study.

4.4 The Nature of Exports and Imports for SADC Countries for the Period, 1997-2003

This section analyses the nature of exports and imports or composition of trade for selected countries in the SADC. The volume and value of trade for these countries are examined. The cumulative figures in percentage are reported in the last column. This percentage is determined by adding the values of each line for the item recorded each year to obtain the cumulative value. The cumulative value is then divided by the cumulative grand total times hundred.

4.4.1 Swaziland's Nature of Exports and Imports for the Period, 1997-2001

Table 4.14 shows Swaziland's main export items in millions *of Emalangeni* for the period 1997 to 2001. The main export items during this period were food and live animals, beverages and tobacco, crude inedible materials, mineral fuel and lubricants, animal and vegetable oils and fats, chemicals and related products, manufactured goods by material, miscellaneous manufactured items and items classified as other. Miscellaneous manufactured items formed the largest share of Swaziland's exports (that is, 39% of all cumulative exports) for the period 1997 to 2001. The items classified as other in Table 4.14 were second in terms of export value. They contributed 19 per cent, followed by chemical and related products 17,8 per cent, food and live animals 9,8 per cent, and beverages and tobacco 9,6 per cent. The shares of each of the rest of the export items mentioned above were less than 2 per cent.

The conclusion from Table 4.14 is that, most of Swaziland's export earnings are from primary exports since manufactured items contribute only 40 per cent of the total export earnings.

Table 4.14: Swaziland's Export Value, 1997-2001 in (E Million)							
Exports	1997	1998	1999	2000	2001	Total	% of Total
Food and live animals	580,2	594,0	637,7	644,8	516,2	2 972,9	9,8%
Beverages and tobacco	392,2	447,8	470,1	648,1	955,1	2 913,3	9,6%
Crude inedible materials	63,5	83,8	77,3	40,3	39,2	304,1	1,0%
Mineral fuel, lubricants	88,4	125,6	97,1	75,6	29,5	416,2	1,4%
Animal & vegetable oils, fats	61,9	93,3	95,8	166,8	103,9	521,7	1,7%
Chemicals, related products	854,3	947,7	1 289,6	1 296,4	1 019,5	5 407,5	17,8%
Manufactured goods by material	27,3	36,0	43,7	24,4	20,6	152	0,49%
Machinery, transport equipment	10,7	13,8	21,2	62,2	5,8	113,7	0,37%
Miscellaneous manufactured items	1 649,1	2 031, 9	2 091,8	2220,3	3 854,9	11 848	39%
Other items	655,4	929,6	823,2	1 041,4	2 301,6	5 751,2	19%
Total	**4 383**	**5 303,5**	**5 647,5**	**6 220,3**	**8 846,3**	**30 400,6**	**100%**
Source: Adapted from SADC TIIR, 2005.							

Table 4.15 shows Swaziland's import items for the period 1997 to 2001. It shows that Swaziland imported the same items it exported, except for machinery and transport equipment. These items are food and live animals, beverages and tobacco, crude inedible materials, mineral fuel and lubricants, animal and vegetable oils, chemicals and related products, manufactured goods by material, machinery and transport equipment, miscellaneous manufactured items and items classified as "other". The top five import items were machinery and transport equipment (26%), manufactured goods by material (17%), food and live animals (15%), chemical and related products (12%) and mineral fuel and lubricants (12%).

Table 4.15: Swaziland's Imports for the period 1997-2001 in (E Million)							
Imports (cif)	1997	1998	1999	2000	2001	Total	% of Total
Food and live animals	789,4	853,3	1 143,1	1 152,0	1 429,0	5 366,8	15%
Beverages and tobacco	111,5	109,1	169,0	190,9	215,6	796,1	2,2%
Crude inedible materials	218,0	279,1	221,3	239,0	361,9	1 319,3	3,6%
Mineral fuel, lubricants	691,2	836,0	874,0	964,3	1 144,3	4 509,8	12%
Animal and vegetable oils, fats	68,8	92,8	80,0	70,8	101,8	414,2	1,1%
Chemicals and related products	607,1	722,8	1 003,3	861,3	1 220,8	4 415,3	12%
Manufactured goods by material	844,9	1 000,7	959,3	1 243,3	2 129,6	6 177,8	17%
Machinery, transport equipment	1 390,7	1 802,0	1 768,8	2 091,5	2 392,5	9 445,5	26%
Miscellaneous manufactured items	515,0	593,2	638,2	754,0	1 127,5	3 627,9	9,9%
Other items	80,5	95,0	118,1	101,4	185,0	580,0	1,6%
Total	**5 317,1**	**6 384**	**6 975,1**	**7 667,6**	**10 308**	**36 651,8**	**100%**
Source: Adapted from SADC TIIR, 2005.							

A closer examination of Swaziland's export and import items show that over 50 per cent of Swaziland's import expenditure was on capital goods and manufactured items. Moreover, a large portion, almost 60 per cent of Swaziland's total export earnings were from miscellaneous manufactured items and items classified as other. This shows that Swaziland has a diversified export base.

4.4.2 Zambia's Nature of Exports and Imports for the Period, 1999-2003

Zambia's export commodities in million of US Dollars for the period 1999 to 2003 were metals (65%) and non-metals (35%). This means that Zambia's economy is largely dependent on metal extraction (Table 4.16). The non-metal exports in the order of dollar value were miscellaneous or other items (11%), primary agricultural products (6,7%), processed foods (4,3%), petroleum oils (3,9%), horticultural products (3,6%), floricultural products (3,5%), textiles (3%), and engineering products (2,6%).

Table 4.16: Zambia's Exports for the period 1999-2003 in (US$ millions)*							
Exports	1999	2000	2001	2002	2003	Total	% of Total
Metals	468	497	593	594	730	2 882	65%
Non-metals	288	249	294	326	407	1 564	35%
Total	**756**	**746**	**887**	**920**	**1 137**	**4 446**	**100%**
Non-metals consists of:							
-Primary agricultural products	68,5	35,1	48,7	74,3	69,6	296,2	6,7%
-Processed foods	31,1	33,6	40,7	42,5	43,1	191	4,3%
-Horticultural products	22,5	25,9	34,5	43,6	33,0	159,5	3,6%
-Engineering products	21,9	19,4	20,1	21,4	31,7	114,5	2,6%
-Textiles	35,1	34,1	32,5	25,0	23,2	149,9	3,0%
-Floricultural products	40,3	31,9	32,2	29,3	21,2	154,9	3,4%
-Petroleum oils	6,0	0,5	1,5	1,4	18,3	27,7	0,6%
-Others	62,6	68,5	83,8	88,5	166,9	502,5	11,0%
Source: Adapted from SADC TIIR, 2005. * Denotes that the exports are free on board (fob).							

Zambia's cumulative import values in percentage during the period 1996 to 2000 for which the data are available were petroleum (10%), metals (21%), fertiliser (4,0%), maize (2,7%), and 62 per cent for items classified as other in Table 4.17. These figures suggest that Zambia imports the same commodities it exports except fertilizer. In addition, Zambia's largest import items are those it mostly exports, namely, metals.

Table 4.17: Zambia's Imports (fob) for the period 1996-2000 (US$ millions)							
Imports	1996*	1997	1998	1999	2000	Total	% of Total
Petroleum	78	87	42	115	176	498	10%
Metals	237	289	221	121	170	1 038	21%
Fertiliser	80	50	54	2	13	199	4,0%
Maize	25	12	108	0	0	145	3,0%
Other items	636	617	547	632	649	3 081	62%
Total	**1 056**	**1 055**	**971**	**870**	**1 008**	**4 960**	**100%**
Source: Adapted from SADC TIIR, 2005. * Denotes that 1996 import figures are not free on board.							

4.4.3 Angola's Nature of Exports and Imports for the Period, 1998-2002

Angola is heavily dependent on crude oil exports (AfDB & OECD, 2005: 76; Rousseau, *et al.,* 2002: 27). For example, during the period 1998 to 2002, crude oil as a percentage of the cumulative total exports was 87,6 per cent. Diamonds only accounted for about 10 per cent of all exports during the same period. Refined petroleum products' share was 1,5 per cent, and Liquid petroleum gas (LPG) and other export items each accounted for less than one per cent of Angola's total exports during the period 1998 to 2002 (Table 4.18). The Angolan state-owned oil company, Sonangol, has entered into oil production-sharing agreements with major western oil companies. These agreements have led to an increase in the production of oil in Angola. For example, the production of oil reached 1 million barrels per day for the first time in 2004. It was expected to exceed 1,3 million and 1,6 million barrels per day in 2005 and 2006 respectively (AfDB & OECD, 2005: 76).

Table 4.18: Angola's Principal Exports (fob) 1998-2002, in (US$ millions)							
	1998	1999	2000	2001	2002	Total	% of Total
Crude oil	3 018	4 406	6 951	5 690	7 561	27 626	87,6%
Refined petroleum products	62	75	132	96	95	460	1,5%
Liquid Petroleum Gas (LPG)	11	10	37	20	20	98	0,3%
Diamonds	432	629	739	689	638	3 127	9,9%
Others	20	67	62	39	45	233	0,7%
Total	**3 543**	**5 187**	**7 921**	**6 534**	**8 359**	**31 544**	**100%**
Source: Adapted from SADC TIIR, 2005.							

In terms of volume, Angola's principal exports increased steadily during the period 1998 to 2002, except for liquid petroleum gas (LPG) and refined oil products (Table 4.19). The Liquid petroleum gas exports declined by more than 400 000 barrels in 1999 compared with 1998. Its exports were highest in 2000 when 1 475 000 barrels were exported. The total volume of LPG exported between 1998 and 2002 was 5 275 000 barrels. During the same period, exports of refined oil products declined from its peak of 734 000 tonnes in 2000 to 642 000 tonnes in 2002. The diamonds exported almost doubled between 1998 and 2001. It increased from 2 765 000 carats in 1998 to 5 159 000 carats in 2001. The total diamonds exported during the period 1998 to 2002 was 21 071 000 carats.

Table 4.19: Angola's Principal Export Commodities in volume, 1998-2002						
Volume	1998	1999	2000	2001	2002	Total
Diamonds ('000 carats)	2 765	3 806	4 319	5 159	5 022	21 071
LPG ('000 barrels)	1 093	624	1 475	1 068	1 015	5 275
Refined oil products ('000 tonnes)	655	720	734	675	642	3 426
Crude oil ('000 barrels)	251	254	256	251	310	1 322
Source: Adapted from SADC TIIR, 2005.						

Like most SADC countries, Angola relies on few primary export commodities whose price elasticity of demand is often too low (Mutume, 2004: 1; Todaro, 2000: 465). This means that Angola faces two major problems. The first is the export earnings instability due to the fluctuations in prices of primary export commodities coupled with the low price elasticity of demand for these commodities. The second is the element of uncertainty and risk associated with a lack of diversity in terms of exports. This leads to hard currency and fiscal revenues constraint. This over reliance of one or two primary exports has been known to be one of the main sources of low rates of economic growth among African countries (Mutume, 2004: 18). The main reason for this is that relying on few sectors of the economy creates very few backward and forward linkages to the rest of the economy (AfDB & OECD, 2005: 75).

Unlike other SADC countries, Angola's primary imports are different from its exports. The primary imports are machinery and electrical equipment, vehicles and spare parts, medicines, food, textiles and military goods (AfDB & OECD, 2005: 80; SADC TIIR, 2005).

4.4.4 Botswana's Nature of Exports and Imports for the Period, 1998-2002

Table 4.20 displays Botswana's foreign trade in millions of Pula over the period 1998 to 2002. The five-year cumulative export values for the period 1998 to 2002 show that diamonds are Botswana's chief export commodity, accounting for 80,4 per cent of all Botswana's export earnings during this period. Items classified as other goods, contributed roughly 5 per cent, copper-nickel matte (4,82%), vehicle and vehicle parts (4,35%), meat and meat products (2,24%) and textiles (1,94%).

Table 4.20: Botswana foreign trade by value, 1998-2002 (in Million Pula)

Exports (fob)	1998	1999	2000	2001	2002*	Total	% of Total
Meat and meat products	298,5	223,4	263,5	365,9	31,8	1 183,1	2,24%
Live animals	2,9	1,9	1,2	6,9	3,0	15,9	0,03%
Hides and skins	33,6	23,9	43,7	61,3	8,2	170,7	0,32%
Diamonds	6 040	9706	11 383	12 086	3 342	42 557	80,4%
Copper-nickel matte	435,9	557,9	830,3	597,4	131	2 552,5	4,82%
Textiles	302,6	248,5	243,7	193	37,2	1 025	1,94%
Soda ash	98,5	106,9	98,1	128,2	39,6	471,3	0,89%
Vehicles and parts	965,7	666,8	270,4	298,7	101,5	2 303,1	4,35%
Other goods	518,6	691,9	700,1	569,2	144,8	2 624,6	4,96%
Total	**8 696,9**	**12 228**	**13 835**	**14 306,5**	**3 835,8**	**52 902**	**100%**
Imports (cif) inclusive of duty	1998	1999	2000	2001	2002*	Total	% of Total
Food, beverages and tobacco	1 247,4	1 411,7	1 494,1	1 475,7	399,4	6 028,3	13,8%
Fuels	433,3	494,9	523,2	711,7	197,7	2 360,8	5,40%
Chemicals and rubber products	843,0	940,6	1 033,4	1 090,3	297,4	4 204,7	9,62%
Wood and paper products	653,2	819,4	817,0	928,2	230,2	3 448	7,89%
Textile and footwear	570,2	596,1	616,5	494,1	99,1	2 376	5,44%
Metals and metal products	957,8	877,2	769,0	813,8	201,5	3 619,3	8,28%
Machinery & electrical equipment	2 018,5	2 142,3	2 356,4	2 078,4	613,9	9 209,5	21,1%
Vehicles and transport equipment	1 546,2	1 373,7	1 314,8	1 284,9	378,0	5 897,6	13,5%
Other goods	1 243,6	1 508,4	1 688,5	1 679,7	425,8	6 546	15,0%
Total	**9 513**	**10 164**	**10 613**	**10 556.9**	**2 843.0**	**43 690**	**100%**

Source: Adapted from SADCTIIR (2005). *Denote that 2002 figures are up to March.

Live animals, hides and skins, and soda ash each contributed less than one per cent. During the same period, Botswana's imports were made up of machinery and electrical equipment (21,1%), other goods (15%), food, beverages and

tobacco (13,8%), chemicals and rubber products (9,62%), metals and metal products (8,28%), wood and paper products (7,89%), textile and footwear (5,44%), and fuel (5,4%). This breakdown is shown in Table 4.20.

4.4.5 Lesotho's Nature of Exports and Imports for the Period, 1999-2003

Lesotho's cumulative exports in million Maloti for the period 1999 to 2003 show that the country's largest export share were manufactured goods, which accounted for 79 per cent of all exports. The large share of manufactured goods exported by Lesotho is mainly from the garment manufacturing industry. Most of these apparel exports go to the United States and South Africa. The United States importers place orders of up to 12 months, a process facilitated by AGOA (UNCTAD & WTO, 2001: 3). Other items exported by Lesotho include machinery and transport equipment (10,5%), food and live animals (3,5%), beverages and tobacco (3,4%), crude materials (2,2%), chemicals and by-products (1%) and other unidentified items, which contributed less than 1 per cent towards the export earnings (Table 4.21).

Table 4.21: Lesotho's foreign trade by Value, 1999-2003 in (Million Maloti)							
Exports (fob)	**1999**	**2000**	**2001**	**2002**	**2003***	**Total**	**% of Total**
Food and live animals	49,7	54,4	81,6	123,2	117,9	426,8	3,5%
Beverages and tobacco	94,0	63,9	72,6	94,9	96,4	421,8	3,4%
Crude materials	17,8	37,5	60,1	64,6	90,3	270,3	2,2%
Chemicals and by-products	4,9	6,5	18,6	45,5	49,3	124,8	1,0%
Manufactured goods	768,4	1 129,7	1 933,0	3 026,7	2 818,8	9 676,6	79%
Machinery and transport equipment	111,7	173,3	254,5	371,4	373,8	1 284,7	10,5%
Others	7,6	3,1	5,5	13,6	10,9	40,7	0,3%
Total	**1 054,1**	**1 468,4**	**2 425,9**	**3 739,9**	**3 557,4**	**12 245,7**	**100%**
Imports fob	5 287,8	5 611,3	6 399,8	8 517,4	8 415,9*	34 232,2	
Trade Balance= X-Z	(3 707,4)	(3 582,2)	(3 398,2)	(4 018,0)	(4 138,3)	(21 986,5)	
Source: Adapted from SADC trade profile. *Denotes that 2003 figures are estimates.							

4.4.6 Malawi's Nature of Exports and Imports for the Period, 1998-2002

Malawi's cumulative exports in millions of Malawian Kwacha for the period 1998 to 2002, show that the country is heavily dependent on primary products. For the period under review, Malawi's major exports by value were tobacco (60%), other unspecified items (20%), tea (8,3%), sugar (8%) cotton (1,3%), and coffee

(1,22%). Rice and pulses or beans each contributed less than one per cent (Table 4.22).

Table 4.22: Malawi's foreign trade by value, 1998-2002 (in Million Kwacha)

Export fob	1998	1999	2000	2001	2002	Total	% of Total
Tobacco	10 306	12 109,1	14 696,4	18 376,2	18 800,7	55 912,2	60,2%
Tea	1 247,8	1 734,6	2 200,0	2 570,6	2 563,8	10 316,8	8,3%
Sugar	1 563,1,	1 019,5	2 334,1	2 500,0	2 474,0	9 890,7	8,0%
Cotton	154,8	235,0	420,2	317,9	409,4	1 537,3	1,3%
Rice	74,0	110,1	96,6	86,8	54,2	421,7	0,34%
Coffee	327,1	392,2	312,0	282,2	187,9	1 501,4	1,22%
Pulses	134,1	284,9	132,2	66,7	131,2	749,1	0,51%
Others	2 927,9	3 827,1	3 733,6	6 598,2	7 680,6	24 767,4	20,1%
Total	**16 734,8**	**19 712,5**	**23 925,1**	**30 798,0**	**32 301,8**	**123 472,2**	100%
Imports fob	15 442,5	25 240,8	27 414,2	34 023,5	43 905,0	146 026	
Trade balance = X-M	**1 292,3**	**(5 528,3)**	**(3 489,1)**	**(3 225,5)**	**(11 603,2)**	**(22 553,8)**	
Source: Adapted from SADC TIIR, 2005.							

4.4.7 Mauritius' Nature of Exports and Imports for the period, 2000-2003

Most of Mauritius' exports are items produced in the export-processing zone. For the period 2000 to 2003, the leading cumulative export values were export-processing manufactures, which were 66,6 per cent of all exports. These were made up of clothing (51,8%), other manufactures (11,4%) and textile yarn and thread (3,41%) (See Table 4.23).

Table 4.23: Mauritius' Foreign Trade by Value, 2000-2003 (million Rupees)

Export fob	2000	2001	2002	2003	Total	% of Total
Sugar	5 544	8 557	8 869	8 430	31 400	16,2%
EPZ Manufactures	31 174	33 695	32 683	32 059	129 611	66,6%
-Clothing	24 590	25 626	25 516	25 005	100 737	51,8%
-Textile yarn and thread	1 914	2 473	1 161	1 088	6 636	3,41%
-Other manufactures	4 670	5 596	6 006	5 966	22 238	11,4%
Others	4 164	3 322	12 341	13 675	33 502	17,2%
Total	**40 882**	**45 574**	**53 893**	**54 164**	**194 513**	**100%**
Imports cif	2000	2001	2002	2003	Total	% of Total
Manufactures	n/a	17 611	18 744	18 817	55 172	22,6%
Machinery and transport equipment	12 427	13 132	13 543	14 865	53 967	22,1%
Others	42 501	27 197	32 321	32 707	134 726	55,3%
Total	**54 928**	**57 940**	**64 608**	**66 389**	243 865	**100%**
Trade balance= X-Z	(14046)	(12366)	(10715)	(12 225)	(49 352)	100%
Source: Adapted from SADC TIIR, 2005.						

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During the same period, Mauritius' exports that came from outside the export-processing zone were sugar (16,2%) and other products (14,2%). Almost half of Mauritius' imports during the period 2000 to 2003 were mainly industrial products. Industrial products were 44,7 per cent of all imports. That is, manufactures were 22,6 per cent and machinery and transport equipment were 22,1 per cent. Other products accounted for 55,3 per cent (Table 4.23). Mauritius' manufacturing sector is growing fast because of the country's openness to foreign direct investment (Mutume, 2004: 1; World Bank, 2004b: 52).

4.4.8 Mozambique's Nature of Exports and Imports, 1998-2002

Table 4.24 shows that Mozambique's main export items for the period 1998 to 2002, in cumulative million US dollars were, aluminium (35,3%), items identified as other (17,2%), prawns (16,9%), electricity (14,5%), cotton (4,68%), raw cashew nuts (3,76%), and timber (2,81%). There were other export items that contributed less than two per cent. These are sugar (1,94%), processed cashew nuts (1,69%), and manufactured products, which had the least cumulative trade value of 1,24 per cent of all exports for the five-year period (Table 4.24).

Table 4:24: Mozambique's Foreign Trade by Value, 1998-2002 (US$ million)							
Export fob:	1998	1999	2000	2001	2002	Total	% of Total
Aluminium	0,0	0,0	60,2	383,3	361,1	804,6	35,3%
Prawns	72,6	65,5	91,5	92,4	63,9	385,9	16,9%
Electricity	36,2	62,9	67,0	57,3	107,4	330,8	14,5%
Cashew nuts (raw)	21,6	25,1	11,9	10,9	16,2	85,7	3,76%
Cotton	22,3	19,9	25,5	18,3	20,7	106,7	4,68%
Manufactured products	14,3	13,9	n/a	n/a	n/a	28,2	1,24%
Timber	11,0	8,8	14,2	12,6	17,4	64,0	2,81%
Cashew nuts (processed)	19,1	7,8	8,4	2,1	1,1	38,5	1,69%
Sugar	8,4	5,3	4,3	8,1	18,1	44,2	1,94%
Others	39,1	74,5	81	120,6	75,9	391,1	17,2%
Total	**244,6**	**283,7**	**364,0**	**705,6**	**681,8**	**2 279,7**	**100%**
Total Imports cif	817,3	1 199,8	1 163,0	1 063,4	1 262,9	5 506,4	
Source: Adapted from SADC TIIR, 2005.							

During the same period, Mozambique's main import goods were raw materials, spare parts, mining equipment, pharmaceuticals, consumer goods, chemical goods and crude oil (AfDB & OECD, 2005: 344-345; Exim Bank, 2004: 3; SADC TIIR, 2005).

4.4.9 Namibia's Nature of Exports and Imports for the period, 1999-2003

Table 4.25 shows Namibia's major export and import items during the period 1999 to 2003. Namibia has a relatively developed industrial sector. This is because the composition of her cumulative exports as a percentage over the 1999 to 2003 five-year period were made up of ores and minerals with 51,2 per cent and manufactured goods 43,1 per cent. If this 43 per cent was strictly produced in Namibia and did not originate from SACU, then Namibia is one of the SADC countries with a relatively developed manufacturing sector. Live animal and animal products accounted for roughly five per cent while electricity and other unspecified items each accounted for less than one per cent.

Namibia's main imports during the same period were transport equipment (16%), chemical and plastic products (11,7%), refined petroleum products (10,4%), machinery and equipment (10%), other food products (7,7%), textile and clothing (6%), fabricated metal products (5%), and other products (26,8%). Others were agriculture and forestry products (3%), ores and minerals (1,89%), beverages and tobacco (1,62%), and meat and meat products (1,52%).

In terms of the nature of imports, Namibia mostly imports industrial and manufactured goods. These items accounted for about 53 per cent of all cumulative imports for the period 1999 to 2003. Of the 53 per cent, the share of transport equipment is 16 per cent, chemical and plastic products 11,7 per cent, refined petroleum products 10,4 per cent, machinery and equipment 10 per cent, and fabricated metal products 5,16 per cent.

Table 4:25: Namibia's Export & Import commodities, 1999-2003 (Million N$)							
Export fob	**1999**	**2000**	**2001**	**2002**	**2003**	**Total**	**% of Total**
Ores and minerals	4 016	5 196	5 578	7 026	4 801	26 617	51,8%
-Diamonds	2 860	3 947	4 172	5 205	3 557	19 741	38,4%
-Copper	0	58	201	262	186	707	1,38%
-Metal ores, uranium ore	1 104	1 190	1 342	1 709	1 095	6 440	12,5%
-Other minerals	52	59	64	112	149	436	0,85%
Manufactured goods	3 072	3 607	4 535	5 362	5 593	22 169	43,1%
-Prepared, preserved fish	2 090	2 273	2 710	3 118	3 463	13 654	26,6%
-Meat and by-products	532	525	689	530	476	2 752	5,35%
-Beverages & food products	302	540	689	923	938	3 392	6,6%
Fish, unprocessed	16	22	8	11	43	100	0,2%
Animal (live and products)	377	304	366	690	602	2 339	4,55%
Electricity	3	4	4	5	7	23	0,05%
Others	55	31	59	n/a	n/a	145	0,3%
Total	**7 539**	**9 164**	**10 550**	**13 094**	**11 046**	**51 393**	**100%**
Imports cif	**1999**	**2000**	**2001**	**2002**	**2003**	**Total**	**% of Total**
Agriculture & forestry products	365	293	267	461	473	1 859	3,0%
Meat and meat products	197	196	207	166	175	941	1,52%
Other food products	885	893	1 050	956	985	4 769	7,7%
Beverages and tobacco	220	196	193	198	199	1 006	1,62%
Textile and clothing	662	673	758	823	846	3 762	6,07%
Ores and minerals	90	89	274	402	318	1 173	1,89%
Refined petroleum products	741	953	1 562	1 550	1 609	6 415	10,4%
Chemical and plastic products	1 077	1 184	1 814	1 593	1 609	7 277	11,7%
Fabricated metal products	398	461	729	797	813	3 198	5,16%
Machinery and equipment	736	885	1 431	1 541	1 572	6 165	10,0%
Transport equipment	2 124	1 741	1 976	1 998	2 044	9 883	16,0%
Others	2 339	4 280	2 761	3 965	3 232	16 637	26,8%
Total	**9 834**	**10 755**	**13 022**	**14 450**	**13 897**	**61 958**	**100%**
Source: Adapted from SADC TIIR, 2005.							

4.4.10 South Africa's Nature of Exports and Imports for the Period, 2002-2003

According to Table 4.26, South Africa's top five export items in 2002 and 2003 were jewellery, precious and semi-precious stones and coins (22,9%), machinery and transport equipment (18,6%), base metals and articles thereof (16,4%), minerals and articles thereof (13,2%) and chemicals and articles thereof (6,7%). This implies that South Africa has the strongest industrial base in the SADC. South Africa's other export items in this period were other items (6%), food, beverages and tobacco (4,3%), wood and wood products (3,9%), vegetable products (3,8%), textile and clothing (2,5%), and live animal and animal products (1,6%).

During the same period, South Africa's most import expenditure items were machinery and transport equipment (38,6%), other unspecified items (22%), minerals and articles thereof (12,5%), chemicals and articles thereof (10,8%), base metals and articles thereof (4,24%), textiles and clothing (3,15%), and wood and wood products (2,28%).

Table 4.26: South Africa's Export & Import items, 2002-2003 (R Millions)				
Exports fob	2002	2003	Total	% of Total
Animal (live and products)	4 300,6	3 778,6	8 079,2	1,6%
Vegetable products	9 922,3	9 809,6	19 731,9	3,8%
Food, beverages and tobacco	11 437,5	10 887,8	22 325,3	4,3%
Minerals and articles thereof	34 899,9	33 936,5	68 836,4	13,2%
Chemicals and articles thereof	19 468,9	15 342,0	34 810,9	6,7%
Wood and wood products	10 336,0	10 284,2	20 620,2	3,9%
Textiles and clothing	6 875,5	6 070,2	12 945,7	2,5%
Jewellery, precious & semi-precious stones and coins	60 673,6	59 100,3	119 773,9	22,9%
Base metals and articles thereof	41 985,6	43 684,6	85 670,2	16,4%
Machinery and transport equipment	49 805,4	47 316,6	97 122	18,6%
Others	15 985,9	15 349,6	31 335,5	6,0%
Total	**265 691,2**	**255 560,0**	**521 251,2**	**100%**
Imports cif	**2002**	**2003**	**Total**	**% of Total**
Animal (live and products)	1 505,4	1 806,5	3 311,9	0,63%
Vegetable products	5 581,9	4 654,7	10 236,6	1,95%
Food, beverages and tobacco	4 827,5	4 891,6	9 719,1	1,85%
Minerals and articles thereof	32 909,5	32 830,0	65 739.5	12,5%
Chemicals and articles thereof	30 266,7	26 078,5	56 345,2	10,8%
Wood and wood products	5 469,4	6 499,3	11 968,7	2,28%
Textiles and clothing	8 334,1	8 192,8	16 526,9	3,15%
Jewellery, precious & semi-precious stones and coins	5 312,7	5 283,5	10 596,2	2,02%
Base metals and articles thereof	11 408,1	10 819,0	22 227,1	4,24%
Machinery and transport equipment	101 181,3	101 020,2	202 2201,5	38,6%
Others	59 151,3	56 354,7	115 506	22,0%
Total	**265 947,9**	**258 430,8**	**524 378,7**	**100%**
Source: Adapted from SADC TIIR, 2005.				

4.5 The Possible Future Prospects of Trade in the SADC Region

Empirical evidence and trade data in chapters 2 to 4 tend to suggest that South Africa, the United States, the emerging economies in Asia such as China and Japan, and other African countries are likely to dominate in the SADC trade in the next two decades (Diemond, 2005: 4; Table 3.7; World Bank, 2004b: 1). This is mainly because the SADC trade data show that a new trade pattern is emerging. For example, the trade data between Africa and Asia show that the volume and value of trade between these regions is growing faster than with

other continents. Section 2.6 for example, showed that Africa's exports to Asia during the 1990s grew significantly in both relative and absolute terms. In particular, Africa's export values to Asia have been increasing at the rate of 10 per cent per year. This rate of growth has been relatively higher than the rates for the European Union and the United States (World Bank, 2004b: 1-2).

Moreover, the SADC member countries are not trading with their traditional trading partners, the European Union and the United Kingdom, as much as they used to do prior to 2000. Instead, most SADC countries including South Africa have reduced their volume of trade with the European Union (Tables 3.23; 4.5). Table 3.23 shows that all the fifteen countries covered by this study, had the United States as their main trading partner in 2003. Twelve countries had the European Union as their main trading partner and only six traded with the United Kingdom in that year. Some of the SADC countries' trade with the European Union, particularly for South Africa has been shifted to Asia mainly because, Africa and Asia are compatible trading partners (Tables 4.4 and 4.5; World Bank, 2004b: 1-2).

Table 4.4 shows that during the period 1999 to 2003, South Africa's main export countries were from outside the European Union. These countries are Japan, Zimbabwe, Mozambique and other countries, which together imported 65,6 per cent of all South Africa's exports during this period. In addition, Table 4.5 shows that during the same period, South Africa's main import suppliers were also from outside the European Union. They supplied 62,6 per cent of South Africa's total imports. South Africa's imports from the SADC and other African countries are constrained, because it is more developed than these countries. Instead, it is the main supplier of manufactured goods and services in the SADC region and to the rest of Africa (Anon., 2005: 2; Rousseau, *et al.*, 2002: 76; Seria, 2004: 2). Capital goods and other high technology items that South Africa needs are supplied by some of the EU countries, the United States and some Asian economies.

Moreover, because South Africa is the most important trading partner in the SADC, it is likely to influence the trading pattern in the SADC region in the direction predicated by the researcher (Arora & Vamvakidis, 2001: 1-26; Ng'ong'ola, 2000: 485).

Furthermore, the United States' trade with Africa through the African Growth and Opportunity Act (AGOA) and particularly its oil interests in the Sub-Saharan African countries such as Angola, Chad, Equatorial Guinea, Gabon, Nigeria, and the Democratic Republic of Congo is a further impetus to ensure that the United States-Africa volume of trade continue to increase for several decades. The United States' trade with Africa and Sub-Saharan Africa's principal trading partners between 2000 and 2004 are examined below showing why trade between SSA and the United States could increase further in future. In 2004 the United States imports from all the oil producing countries in Sub-Saharan Africa increased significantly. Imports from Nigeria grew by 56 per cent, from Angola by six per cent, from Gabon by 25 per cent, from Equatorial Guinea by 30 per cent, and from the Democratic Republic of Congo by 98 per cent (Diemond, 2005: 1).

A closer examination of Africa's trade with the rest of the world, shows that the Sub-Saharan African total merchandise exports to the United States increased sharply in 2003 and 2004 (Table 4.27). The United States' imports from Sub-Saharan Africa increased by 40 per cent from 2003 to US\$ 35,9 billion in 2004. This was due to increases of the crude oil imports, and increased imports of platinum, woven and knit apparel and ferroalloys (Diemond, 2005: 1). Furthermore, the United States-Sub-Saharan Africa two-way trade increased sharply between 2001 and 2004. It increased from about US\$ 28 billion in 2001 to roughly US\$ 45 billion in 2004 or 61 per cent within a period of four years (Diemond, 2005: 4; see also Table 4.27).

Table 4:27: US trade with Sub-Saharan Africa, 2001-2004 (US$ millions)				
	2001	2002	2003	2004
US Exports	6 941,8	6 026,1	6 870,9	8 565,7
US Imports	21 286,8	17 891,4	25 633,3	35 874,9
Source: Diemond, 2005: 1				

Figure 4.2: US Trade with Sub-Saharan Africa, 2001-2004 (US$ millions)
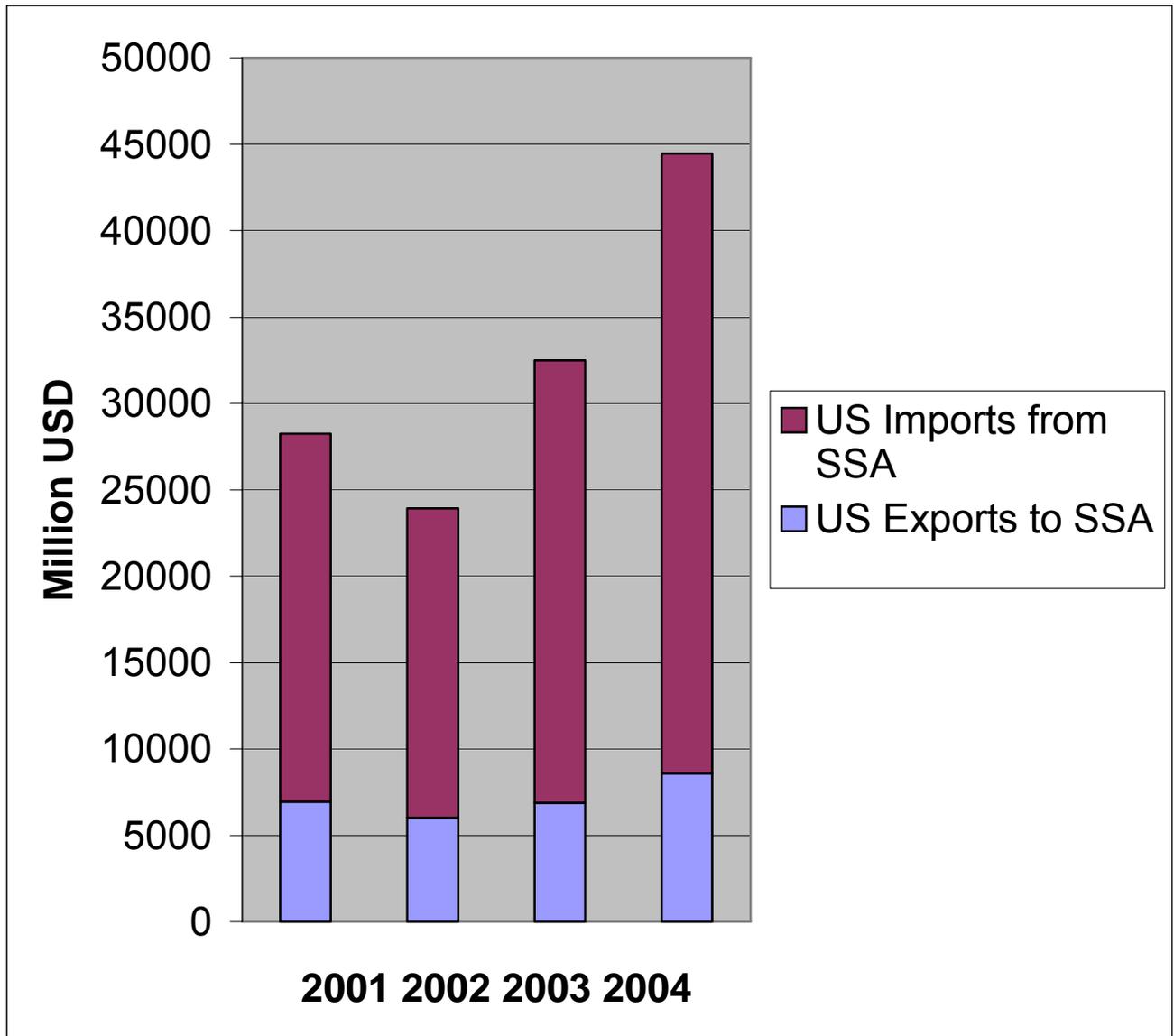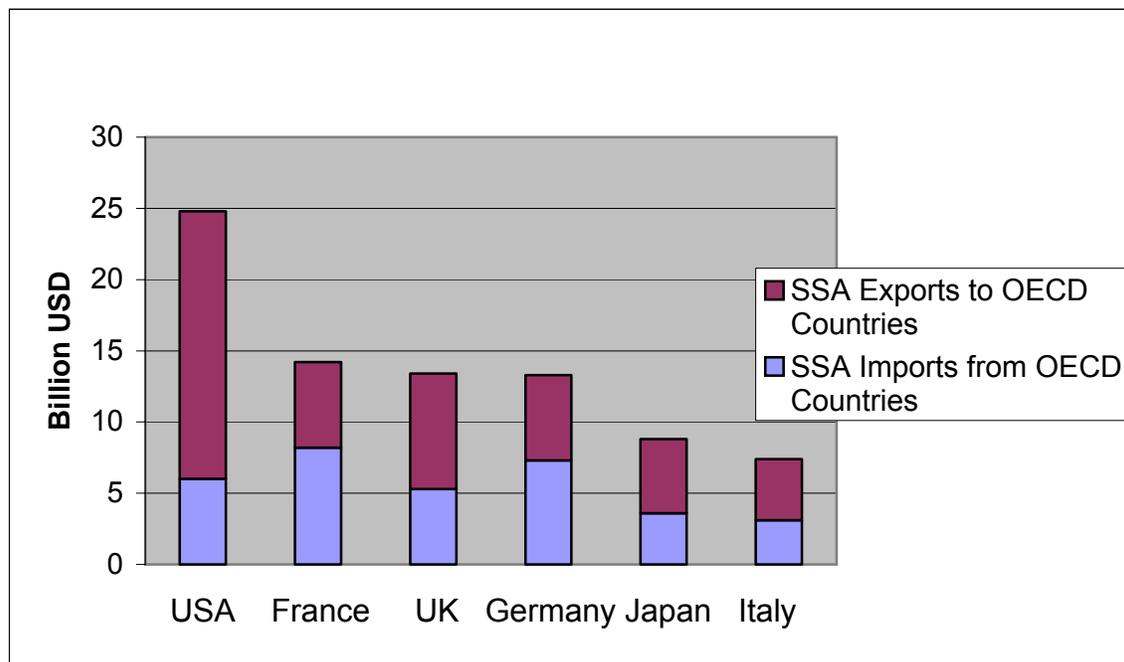

Source: Derived from Table 4.27

Table 4.27 shows that during the period 2001 to 2004, the Sub-Saharan African countries exported 3 to 4 times more in dollar terms than they imported from the United States (Tables 4.27 and Figure 4.2). This was not the case with Sub-Saharan Africa's other principal trading partners (Tables 4.27; 4.28 and Figures 4.2; 4.3). Sub-Saharan Africa imports more from France and Germany than it exports. The countries that import more from Sub-Saharan Africa than they export are the United States, Japan and Italy (Table 4.28). Given this trend and coupled with the changing trading pattern in Sub-Saharan Africa, the United States and Asian countries are likely to be the SADC's dominating trading partners in the foreseeable future (Diemond, 2005: 4; Harsch, 2004: 32; World Bank, 2004b: 1).

Table 4.28: SSA and OECD Country trading partners (US$ billions & Market share)				
SSA Imports	**2002**	**% Share**	**2003**	**% Share**
France	8,2	9,4%	9,5	8,4%
Germany	7,3	8,4%	8,7	7,8%
USA	6,0	6,9%	6,8	6,1%
UK	5,3	6,1%	6,4	5,7%
Japan	3,6	4,2%	4,0	3,6%
Italy	3,1	3,5%	3,5	3,1%
Total OECD	**33,5**	**38,6%**	**40,7**	**36,2%**
SSA Exports	**2002**	**% Share**	**2003**	**% Share**
USA	18,8	20,4%	27	24,3%
UK	8,1	8,8%	9,1	8,2%
France	6,0	6,5%	6,8	6,1%
Japan	5,2	5,7%	6,1	5,5%
Germany	6,0	6,5%	6,0	5,4%
Italy	4,3	4,6%	4,4	3,9%
Total OECD	**39,0**	**42,4%**	**43,5**	**39,1%**
Source: Adapted from Diemond, 2005: 4.				

Table 4.28 and Figures 4.3 and 4.4 show the top six trading partners of Sub-Saharan Africa in 2002 and 2003. Table 4.28 depicts both the individual industrial country's dollar value and its market share in percentage for 2002 and 2003. Figures 4.3 and 4.4 and Table 4.28, show that the United States' imports from Sub-Saharan Africa rose sharper than any other industrial country identified in Table 4.28 (Diemond, 2005: 4). Table 4.28 shows that SSA exports to the United States rose sharper than the other five industrial countries identified in this Table.

Figure 4.3: SSA and OECD Principal Partners in 2002 (US$ billions)

Source: Derived from Table 4.28

The SSA exports rose from US$ 18,8 billion in 2002 to US$ 27 billion in 2003. This is an increase of US$ 8,2 billion. In relative terms, SSA exports to the United States grew from 48,2 per cent in 2002 to 62,1 per cent in 2003. During the same period, its market share increased by almost 4 per cent. The other industrialised countries' market share increased between zero and one per cent (Table 4.28). Furthermore, the SSA and OECD total trade (imports and exports) in Table 4.28 shows that the market share of the OECD countries declined except for the United States. Moreover, expect for Japan and the United States, the other

OECD countries identified in Table 4.28 are European member countries. As their market share decline, the implication is that, countries outside the EU including the United States are gaining this market and in the process increasing their market share thereby becoming the SSA important trading partners.

Figure 4.4: SSA and OECD Principal Trading Partners in 2003 (US$ billions)
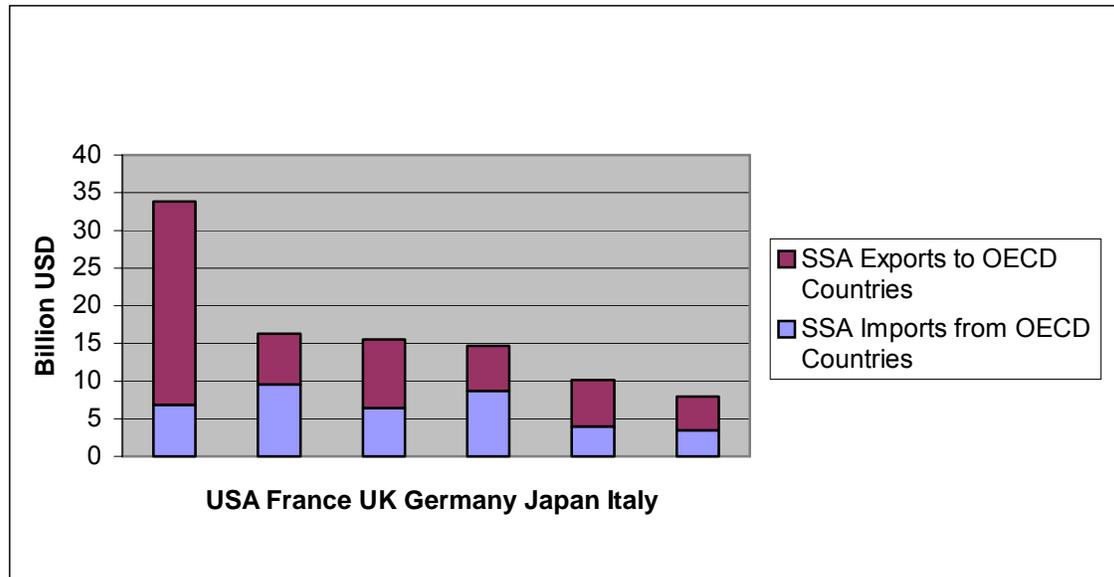
Source: Derived from Table 4.28

4.6   Summary of the Main Findings and Conclusions

This chapter shows that most of the SADC countries are mainly exporters of a few primary commodities. They import mainly manufactured and capital goods. Their export destinations are mostly the United States, the European Union and its member countries, namely, France, Germany, Italy, and the United Kingdom, and some Asian countries such as Japan, China and India. The same trading partners in turn supply the SADC countries with their import needs, although there is a changing pattern of trade as the United States and Asian economies' share tend to increase at the expense of the European Union. This trend has been necessitated by the United States increasing interest in oil from the Sub-Saharan African countries, in particular Nigeria, Gabon, Angola, Chad, Equatorial Guinea, and the Democratic Republic of the Congo. The strong growth of Africa-

Asia trade is mainly because Asia and Africa are compatible trading partners. The trade data in chapters 2 to 4 suggest that South Africa is playing a dominant role in shaping the trade pattern in the SADC region.

Trade can enable a country to achieve growth and development. This is particularly so, when trade is viewed as more than the mere exchange of goods and services. The following are the key functions or roles that trade plays in development. Firstly, trade is a transmission mechanism through which the technical knowledge, innovation and experience that make development possible, is disseminated. Through trade the SADC countries are able to acquire additional FDI, raw materials, intermediate materials, capital goods and technologies, all of which are essential to innovation, improved production, and for development. In addition, trade is the primary form of interaction within the SADC as the SADC countries are heavily dependent on trade.. In other words, trade is one way through which SADC countries could contribute to their growth and development. In particular, trade plays a catalytic role in promoting technological innovation domestically.

Secondly, a country's economic growth is partly influenced by its trading partners. In particular, countries benefit more when trading with fast-growing and relatively more developed countries. On the same vein, the SADC countries are likely to benefit more by trading with South Africa, the most industrialised country in the SADC region. Additionally, many studies have shown that there is a positive correlation between export growth and economic growth.

Thirdly, most SADC and other African countries derive a significant amount of their government revenue from trade tariffs. The tariffs range from 2 per cent of GDP in the median Sub-Saharan country to between 4 to 6 per cent of GDP for African countries that rely heavily on tariff revenues. It has been estimated that one per cent of GDP is equivalent to 7 to 10 per cent of government revenue (Hinkle & Schiff, 2004: 1327). Most of the SADC and Africa's merchandise is produced for the external market. Through trade, the SADC countries are able to

earn foreign exchange to build their foreign exchange reserves. In this way these countries are able to service their external debts and to improve their domestic economic efficiency, by developing sectors where their comparative advantage lie. It has been pointed out that the Southeast Asian economies have managed to achieve higher income growth rates than most developing countries, because the former relied strongly on the external sector to achieve such growth. Producing for the external markets, however, is a necessary but not sufficient condition.

Fourthly, the citizens of a country are able to consume a variety of goods and services because of trade. Countries are able to "produce" indirectly by importing what they do not produce locally. It is because of these important roles that trade plays in development, that the SADC and African countries have shown keen interest in multilateral trade negotiations.

Another key finding from this chapter is that the SADC countries have gained little from both globalisation and trade liberalisation. This is mainly, because the world trade is riddled with inequity in trading conditions and double standards. Because countries in the North heavily subsidise their farmers, for example, through producer subsidy equivalent (PSE), developing countries are not able to reap the full benefits of comparative advantage.

Moreover, the PSE reduces the consumption of agricultural products from developing countries, hurting these countries as the primary producers of agricultural commodities. As a result of this, most African and SADC Countries are being marginalised on the global market due to the trade gap caused by globalisation. Therefore, unless developed countries remove the extraordinary subsidies and other trade related barriers so as to allow developing countries to gain free market access and develop dynamic international competitiveness, any trade development policies pursued by developing countries might not achieve the desired outcomes.

Finally, it was seen in this chapter that African countries are hesitant to liberalise their economies fully, because of a number of reasons. Firstly, there is no clear evidence that trade liberalisation would lead to growth and development. Put differently, there is no convincing evidence that trade liberalisation is systematically associated with economic growth. Furthermore, there is strong evidence from regions where liberalisation has worked, that selective rather than comprehensive liberalisation achieved such positive outcomes.

Secondly, African leaders fear that through multilateral trade liberalisation and the associated rules and obligations, their countries might lose their domestic policy instruments. In particular, their countries are likely to suffer from external shocks, because they rely on primary commodity exports. Many African policymakers also fear that open trade with the rest of the world would permanently damage Africa's infant manufacturing base.

Thirdly, several African countries including SADC members rely on trade taxes as sources of government revenue. This is because these countries have narrow tax bases. These countries fear that full liberalisation of their economies would worsen their fiscal deficits. Finally, African countries have already opened their economies, yet they have not seen meaningful benefits. Thus, there is less incentive to liberalise further.

In conclusion, it is inevitable that through liberalisation there will be winners and losers. The SADC and other African countries are likely to lose in terms of global trade in the short-term. Even in the long-run they can lose unless a conducive environment is created to ensure free market access for their agricultural products, domestic support and export competition stemming from dynamic competitiveness.

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CHAPTER 5

THE IMPACT OF ECONOMIC INTEGRATION AND TRADE LIBERALISATION IN THE SADC

5.1   Introduction

This chapter examines the impact of economic integration and trade liberalisation in the SADC. This is done in six sections. Section 5.2 examines the impact of economic integration and trade liberalisation in the SADC region and developing countries in general, with particular reference to how economic integration and trade liberalisation could make the citizens of these countries better- or worse-off. This is achieved by examining the existing empirical evidence.

Section 5.3 surveys the literature on trade liberalisation and employment in developing countries. Section 5.4 reviews the literature on trade liberalisation and levels of employment in SADC. Section 5.5 investigates whether there are links between trade liberalisation, openness, FDI and levels of employment in the SADC region using 9 SADC countries. Section 5.6 estimates the effects of trade openness and FDI on employment in SADC, and section 5.7 discusses the findings from the SADC study. The SADC trade-employment study is limited to the period 1991 to 2000, for which data is available.

While the effects of trade liberalisation on employment in developing countries such as the SADC economies can be analysed according to the type of economic activity and the key sectors, namely, agriculture, industry and services, this study analyses the SADC economies as a whole. It examines total employment, and not specific sector employment.

5.2   The Impact of Trade Liberalisation in Developing Countries

While this dissertation is on economic integration and trade liberalisation in the
SADC, this section examines the impact of economic integration and trade
liberalisation in SADC and other developing countries. In this section, the term
"trade liberalisation" is considered synonymous with "openness", although that is
not the case since the former is a subset of the latter. However, the term
"openness" and "trade liberalisation" are used interchangeably. According to
Sachs and Warner (1995, cited in Sachs & Warner, 1997: 339) and Mansour
(2003: 12), an economy is considered open to international trade, if it meets the
criteria below:

    (a) Average tax rates of below 40 per cent;

    (b) Average quota and licensing coverage of imports of less than 40 per cent;

    (c) A black market exchange rate premium of less than 20 per cent;

    (d) No extreme controls in terms of taxes, quotas, state monopoly, etc.; and

    (e) Not considered a socialist country by the standards of Kornai (1992).

If any of the above elements is absent, then the economy is classified as a
closed economy. Thus, openness to international trade, foreign investment and
technology is a prerequisite to any pro-growth package. Trade openness
promotes more efficient allocation of resources, attracts technological diffusion
from advanced countries, undermines local monopolies, and prevents a country
from adopting anti-growth policies that might cause exchange rate volatility
(Sachs & Warner, 1997: 358).

Economic integration and trade liberalisation in developing countries is likely to
have positive results in some sectors and negative results in others (Bhorat,
2000: 6). Because of this dichotomy, this section examines both dimensions. The
positive impact of trade liberalisation is first discussed.

In their econometric investigation, using cross-country regressions on data from
more than 100 countries, Freund and Bolaky (2004), find that in economies with
excessive regulation, trade does not stimulate growth. The conclusion from their

study is that in excessively regulated economies, increased openness or liberalisation can be associated with a lower standard of living. However, when Freund and Bolaky (2004), controls for the effect of domestic regulation, they find stronger evidence than previous studies that trade positively affects growth. On examining the effect of trade growth on income growth, the simple correlation between openness and income is positive and significant (Freund & Bolaky, 2004: 10). According to these authors, there is a positive correlation between institutional quality and trade. The causality runs from institutional quality and trade to growth (Freund & Bolaky, 2004: 3).

On investigating the link between poverty, economic growth and trade, Anderson (2003: 6), finds that by liberalising world trade, both the developed and developing countries could gain. Anderson's (2003) study shows that developing countries could gain less than rich countries in aggregate dollar terms from a move to global free trade in merchandise, but gain more as a percentage of GDP. Developing countries could gain as much as 1,9 per cent of GDP, while developed or rich countries could gain as much as 0,8 per cent of GDP. This shows that by liberalising the world trade in merchandise, the low income countries, particularly those in SSA, could gain three times more than the high income countries as a percentage of GDP. This is mainly because the former are more agrarian. In Sub-Saharan Africa, excluding the SACU the gain could be 1,4 per cent of its GDP. Anderson's study also shows that developing countries could gain less if they refrain from reforming their own policies. In other words, developing countries could be worse off if they do not liberalise their economies.

Ondrich, Richardson and Zhang (2003: 2) advocate for trade liberalisation. They argue that an open economy encourages innovation, is cost cutting, and it allows the acquisition of technological progress. Technical progress in turn enhances the allocation and accumulation of resources, and encourages growth as a result. However, the challenge of causality still remains unresolved (Ondrich, *et al.,* 2003: 3).

Some degree of openness is healthy for developing countries. This is particularly so, because openness promotes competition, increases market size, and eliminates excessive predatory pricing by monopolists (McLeod, 2003: 221; Krugman & Obstfeld, 2000: 122; Madeley, 1996: 65). Excessive regulations restrict growth in two ways. Firstly, it prevents resources from moving into productive sectors and to the most efficient firms within sectors of the economy. Secondly, increased trade is more likely to occur in goods where the comparative advantage does not lie, contrary to the international trade theory (Freund & Bolaky, 2004: 22-24).

Sachs and Warner (1997) use cross-country regression to investigate the sources of slow growth in Sub-Saharan Africa between 1960 and 1990. They find that lack of openness and poor economic policies play an important role in Africa's slow growth (Sachs & Warner, 1997: 335). In particular, these authors find that openness to international trade affects growth in two ways. It affects the level of steady-state income and also the speed of convergence to the steady state (Sachs & Warner, 1997: 346). Giles and Stroomer's (2005) econometric study concludes that increased trade openness promotes a faster rate of convergence of output between countries (Giles & Stroomer, 2005: 15).

Furthermore, openness encourages greater efficiency in the allocation of scarce resources in an economy, and reduces monopolistic tendencies by promoting market competition (Palley, 2003: 175). This is because trade is a vehicle for the importing of technical innovation and improvements that help raise total factor productivity (Theberge, 1968: 109). Convergence results from factor mobility (Sachs & Warner, 1997: 346).

Roberts and Thoburn's (2003) study shows that following the rapid liberalisation in South Africa during the 1990s, firms in the textile industry increased their exports due to competitive pressures from imports. Liberalisation has led many firms to upgrade their equipment, increase specialisation through vertical integration, and develop niches in South Africa's manufacturing sector. In

particular, firms have been most successful where technological capabilities based on the domestic market have led to export competitiveness (Roberts & Thoburn, 2003: 74).

Winters, McCulloch and McKay (2004), state that greater openness stimulates long-run growth and income. However, they caution that this has not been completely proven (Winters, McCulloch & McKay, 2004: 74). They assert that sustained growth requires increases in productivity, which according to these authors emanate from trade liberalisation.

On the questions of whether trade stimulates growth or relieves poverty, and whether trade liberalisation boosts productivity, particularly for farmers in developing countries, Winters, *et al.* (2004) are positive, but with some reservations. These authors argue that increases in the price of agricultural produce could reduce poverty, because the income of households increases (Winters, *et al.*, 2004: 74-75).

Antweiler, Copeland and Taylor's (2001) econometric study, concludes that free trade is good for the environment. Their study investigates how openness to international goods markets affects pollution concentrations. These authors developed a theoretical model that divides the impact of trade on pollution into scale, technique, and composition effects. They then examined the theory using data on sulfur dioxide concentrations from the Global Environment Monitoring Project. By combining the three estimates, they find that international trade creates relatively small changes in sulfur dioxide. This implies that free trade is good for the environment (Antweiler, Copeland & Taylor, 2001: 877; Copeland & Taylor, 1994: 755; Copeland & Taylor, 2004: 7).

According to Dean (2002), however, freer trade can aggravate environmental damage and at the same time lead to increases in income growth. Dean (2002: 819) estimates the impact of trade liberalisation on pollution in China. Using pooled provincial data on Chinese water pollution, Dean finds that freer trade

aggravates environmental damage, though it increases income growth. Dean's conclusion is that this increase in income growth mitigates environmental damage and therefore freer trade is beneficial.

Among other econometric studies that have investigated the relationship between economic growth and environmental quality is one by Nemat (1994). Nemat acknowledges that some income levels are often associated with increases in certain polluting activities, for example, in the development of heavy industry. However, economies with large service sectors may generate less pollution (Nemat, 1994: 757). The panel regressions based on least squares data estimates from 149 countries for the period 1960 to 1990, suggest that where environmental quality directly affects human welfare, higher incomes tend to be associated with less degradation. Where the cost of environmental damage can be externalised, economic growth tends to result in a steady deterioration of environmental quality (Nemat, 1994: 758).

White and Edward (2001) support the idea that trade liberalisation and openness is associated with significant increases in income. While it is difficult to separate pro-growth from anti-growth determinants, these authors generally agree that openness leads to increases in income. For example, Chen and Tang (1990: 577) state that rapid growth of exports accelerates economic growth. This is because the export sector is not only more productive than the non-export sector, but also generates a number of external effects that enhance the productivity of the non-export sector.

While the above discussion suggests that developing countries could benefit by liberalising their trade, the reality is that, one cannot be sure because of uncertainties. Winters, *et al.* (2004: 74-75), argue that trade liberalisation exposes developing countries to financial risk. This is because unskilled labour is abundant in developing countries. This implies that any effort aimed at trade liberalisation can make these workers worse off, to the benefit of skilled labour in developed countries. In fact, Majid's (2004) study finds that trade openness

increases wage inequalities in developing countries, but reduces it in developed countries (Majid, 2004: 25).

In addition, trade liberalisation is not beneficial to a developing country when there is depreciation of the real exchange rate, brought about by shocks. If this happens, exports of developing countries will be adversely affected, as mainly unskilled labour is employed in non-traded sectors (Winters, *et al.,* 2004: 75).

Openness might not improve developing countries' welfare. For example, Harrison (1996) argues that the measures of openness are not without methodological problems. This is because the use of long-run averages, which are widely acknowledged as the natural way of capturing the determinants of long-run growth, may hide significant variations in individual countries' performance and policies over time. Moreover, among the seven check-lists Harrison used in her 1996 cross-country studies, only the black market premium had a significant impact on growth (Mansour, 2003: 5).

Because of the preceding arguments, Mansour (2003: 8) has also argued that openness is not always good for growth. This is particularly so, because some sectors might gain more than others, or worse lose more than others.

Furthermore, Harrison (1996) does not see how trade will benefit an economy, because trade is a small component of openness. For others like Anderson and Peter (1996), trade liberalisation does not affect growth because trade restrictiveness and growth are not perfectly correlated (Amsden, 1997: 472).

5.3 Trade Liberalisation and Employment in Developing Countries

This section examines the impact of trade liberalisation or openness on employment in the SADC and the developing countries in general. This is reinforced in section 5.4 where, the effects of trade liberalisation, foreign direct investment (FDI), and employment in the SADC region are discussed.

Nurmi (2004) uses a simple econometric framework to test the relationship between the degree of international exposure and employment flows. This was done by examining employment patterns and internationalisation in the Finish manufacturing sector between 1980 and 2001. Nurmi finds that higher international openness stimulates labour demand during periods of recovery. Higher import competition in the manufacturing industry has negative employment consequences, and higher export-intensity increases net employment growth. Nurmi also finds that trade liberalisation reduces job turnover, especially in import-intensive sectors (Nurmi, 2004: 1).

Trade liberalisation exacerbates wage inequality in developing countries (Lee & Schluter, 1999: 51). Galiani and Sanguinetti's (2003) study on the impact of trade liberalisation on wage inequality in Argentina finds that wage inequality in Argentina greatly increased during the nineties. By examining the wage structure based on unskilled, semi-skilled, and skilled workers, Galiani and Sanguinetti find that the skilled-unskilled wage premium increased substantially during the nineties. This was because this was the period when a rapid and deep trade liberalisation was implemented by Argentina (Galiani & Sanguinetti, 2003:3-4).

Trade liberalisation is likely to have a profound effect on employment in countries with labour market rigidity. Hassan (2001) examines the effects of openness and labour market rigidity on labour market outcomes in the manufacturing sector, using panel data from 48 developing countries for the period 1970 to 1997. The study finds that average trade liberalisation has a weak impact on employment and wages (Hassan, 2001: 18-19). Hassan also suggests that trade liberalisation is more likely to have a positive impact on employment and wages in countries with flexible labour markets and vice-versa. This is because more regulated labour markets tend to have higher average wages at the expense of sector-wide employment (Hassan, 2001: 27).

Hassan's (2001) econometric estimation did not distinguish between skilled and unskilled workers so it is not possible to examine how trade liberalisation affects skilled or unskilled workers (Hassan, 2001: 8).

Bhorat (2000: 6) argues that trade liberalisation has both negative and positive impacts on world economies. However, when Bhorat (2000) cross-examined the relative employment shifts by occupation and sector in South Africa between 1980 and 1995, trade flow showed a positive impact on the demand for labour at all occupational levels and had benefited the economy as a whole. Bhorat's study suggests that the movement of imports and exports together had the effect of increasing the demand for labour in the economy, which was contrary to what could be observed in developed countries.

The expansionary trade-employment effect observed by Bhorat (2000) operated at all skill levels in the economy, but to varying degrees. For example, the production sector workers had a relative increase of 3,4 per cent while managerial occupations recorded the highest increase of 122,7 per cent. In this case, trade flow resulted in skewed gains as semi-skilled and skilled workers gained more than the unskilled workers who constitute the majority of the workforce in the economy. Furthermore, there were differences in demand increase for semi-skilled and skilled workers. This implies that trade liberalisation exacerbates income distribution, particularly in developing economies (including South Africa), where the incomes are very unevenly distributed (Bhorat, 2000: 6).

Arbache, Dickerson and Green's (2003) study investigates the effect of trade liberalisation and wages in developing countries. Using empirical evidence from a large developing country, namely Brazil, they find that wages fell substantially in the traded sectors after a period of rapid trade liberalisation in Brazil during the nineties. This was as a result of reduced rents by industries, as these industries now faced greater competition. This was because markets became more contested as a result of imported technology. This raised the relative demand for

highly skilled labour, but reduced rents and hence wages (Arbache, Dickerson & Green, 2003: 22-23; Arbache, Dickerson & Green, 2004: 73).

Simonazzi and Villa (1999: 283) state that persistent long-run unemployment in Europe has been due to lower rates of growth, accompanied by the existence of a constraint on production capacity. This is exacerbated by the substitution of labour with capital, which reduces the quantity of labour required to produce a given quantity of output. This holds also in SADC countries mainly due to globalisation and the presence of multinational companies. The developing countries' techniques of production are more capital-intensive and less labour-intensive. According to Arbache, Dickerson and Green (2003: 1), Balassa (1988), and Wood (1994), it is assumed that the impact of trade liberalisation in developing countries is the opposite of that in developed countries.

5.4 Trade Liberalisation, FDI and levels of Employment in SADC

This section examines the effects of trade liberalisation on employment in the SADC. In particular, the section investigates the impact of foreign direct investment (FDI) and openness on employment in the SADC. It is often argued that what developing countries need in order to achieve faster economic growth and create more employment opportunities is increase in the inflow of FDI. Furthermore, some development agencies such as the World Bank, International Monetary Fund (IMF) and the World Trade Organisation (WTO) advocate for trade liberalisation as a means of increasing the world's gains from trade (Schneider, 2003: 389; The Lancet, 2002: 1359).

The purpose of Section 5.4 is to compare the effects of FDI, and trade liberalisation on employment in the SADC and other developing countries. The literature on FDI is first discussed. It has been generally accepted that FDI has a beneficial impact on a nation's economic growth and development (Tarzi, 2005: 497). Thus, it can be argued that inflows of FDI to developing countries could help these countries create more jobs.

However, there is another school of thought that economic openness creates more jobs than FDI. This is mainly because economic openness tends to spur growth in the rural areas unlike FDI, which has a tendency to locate its operations in the metropolitan areas (Pernia & Quising, 2003: 392). These two hypotheses are tested after the literature review on trade liberalisation or openness and foreign direct investment. The researcher argues that openness has a greater impact on employment in the SADC than foreign direct investment. The role of FDI is first analysed.

A multinational or a trans-national corporation exploring the possibility of investing in a foreign market with uncertain demand growth faces two alternatives of serving this foreign market. The first option is by exporting its products, and the second is by creating productive capacity through foreign direct investment[10]. However, while FDI allows for lower marginal cost than exporting does, it is irreversible, and there is the risk of creating under-utilised capacity if the market turns out to be smaller than initially thought (Rob & Vettas, 2003: 629).

Rob and Vettas (2003: 629) further state that "the variable cost of serving a foreign market through FDI is lower than the variable cost of serving it through exports. This is due to lower transportation costs, lower taxes, or to labour and materials being relatively inexpensive in the foreign market. However, FDI requires an entry cost, which becomes irreversible as soon as resources are sunk". This fact makes multinational companies hesitant in investing in developing countries such as in the SADC economies if repatriation of profits is not certain.

According to Tarzi (2005: 510) a key location factor that attracts FDI is the ability of foreign direct investors to repatriate capital and remit profits. There is "…strong statistical evidence to suggest that investors' view to inability to repatriate capital

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[10] **Other ways of entering a foreign market include licensing or joint ventures (Rob & Vettas, 2003: 631).**

and remit profits as one of their main concerns. The more open an economy to the rest of the world, the more likely it is to offer freedom in capital movement across national borders. A high degree of openness would imply less restriction on remittances of capital income that may be in the form of interests, dividends, profits, or capital." Tarzi (2005: 498), documents that FDI is the most desirable form of capital inflows for development and growth, compared to other types of foreign capital. Tarzi cites an authoritative study in The Economist (3 May, 2003: 8) which suggests that "…a rise of one percentage point in the ratio of the stock of FDI to GDP will raise GDP by 0,4 per cent".

Tarzi (2005: 498) explains why FDI is more desirable than, for example, bank loans. Bank debt is highly risky because the borrower is obliged to pay the loan even if the income of the debtor falls drastically. Furthermore, Tarzi (2005) states that in 2001, developed countries agreed to cancel US$ 20 billion of the developing countries' debt. Despite this cancellation, 47 developing countries, including 37 African countries, still owe a total of US$ 422 billion.

It is acknowledged that foreign direct investment has a long-term time horizon, and is relatively safe, because it is harder to withdraw FDI when economic times are difficult (Tarzi, 2005: 499). However, portfolio equity investments with a very short time horizon are highly prone to capital flights, which occur if investment earnings do not materialise due to other macro-economic events. These include currency crises, banking crises, and other financial calamities (Tarzi, 2005: 498-499).

It is worrying that there is little FDI flow from rich countries to the poorer developing countries. Moreover, a select group of developing countries receive the lion's share of FDI, while the overwhelming majority are ignored (Tarzi, 2005: 499; UNCTAD, 2005: 7). Foreign direct investment in this case cannot create employment in these neglected developing countries. Some of the pull factors that attract FDI include a large and growing market, a sustainable moderate-to-high rate of economic growth, macroeconomic stability, a low level of macro-

political risk, and a well developed physical and communication infrastructure (Tarzi, 2005: 506-509).

UNCTAD (2005: 15) emphasises two important reasons why FDI might not create meaningful employment in the host countries. Firstly, FDI can take the form of mergers and acquisitions as well as "greenfield' investments. While these forms of investments entail additions to the corporate productive assets, it is not the case for the economy of the host country. Secondly, trans-national corporations (TNCs) can undertake a much more "footloose" and less stable type of FDI. One could expect little employment creation from this kind of investments. While FDI is welcomed in all open economies as a viable vehicle for development, the costs associated with FDI can far exceed its benefits. For example, the inflow of capital from FDI may be a benefit, but the subsequent outflow of profits earned on the investment may be so high as to make it a substantial cost to the host country (UNCTAD, 2005: 16-17). For example, it is estimated that capital outflows from Sub-Saharan Africa averaged US$ 7 billion annually between 1970 and 1996. This was triple the figure for FDI, and had many consequences as stated below.

According to Woodward (2001: 164-170, cited in UNCTAD, 2005: 34), FDI can have a negative impact on the balance of payments. This has been the case for some SADC and African countries in recent years. Profit remittances have surged above new FDI inflows in countries such as South Africa and Gabon. In cumulative terms, Botswana, the Democratic Republic of the Congo and Nigeria have all suffered large capital flight between 1970 and 1996. These large capital flights are less likely to create jobs. Instead they are more likely to cause retrenchments (UNCTAD, 2005: 35). The employment effects of FDI are positively correlated with per capita income. However, because there is little evidence on linkages and spillovers in Africa, FDI flows are not likely to create a significant number of jobs in the SADC (UNCTAD, 2005: 34-35). This confirms the SADC econometric study in Section 5.6 that shows that a 1-per cent increase

in FDI leads to an increase of 0,048 per cent in total employment (See Tables 5.3 and 5.4).

Table 5.1 shows the cumulative capital flight for selected SADC countries between 1970 and 1996, in millions of US Dollars. The cumulative capital flight shown in this Table has been computed using 1996 as a base year. Angola, Zambia, and Madagascar experienced the most capital flight during this period. Mauritius had the least capital flight during the same period.

Table 5.1: Capital Flight and FDI in selected SADC Countries, 1970-1996		
	Cumulative flight (Millions, 1996 US$)	**FDI Inflows** (Millions of US$)
Angola	17 033	3 103
DRC	10 099	566
Madagascar	1 649	183
Malawi	705	217
Mauritius	-268	293
Mozambique	5 311	274
Tanzania	1 699	473
Zambia	10 624	1 101
Source: Adapted from UNCTAD, 2005: 33.		

Another reason why FDI cannot create employment in the SADC and other African countries is because FDI is not available to all these countries. The FDI flows to Africa are heavily concentrated, with the top 10 recipients consistently accounting for three-quarters or more of the total FDI inflows to the continent. Countries receiving most of the FDI in Africa are those classified by the World Bank as oil- and mineral-dependent (UNCTAD, 2005: 7).

Table 5.2 shows the top 5 and top 10 recipients of FDI in Africa, between 1999 and 2003. With the exception of Mauritius, Morocco and Uganda, which featured among the top 10 recipients of FDI in some of the years during the period 1999

to 2003, all other countries in Table 5.2 have large natural resource endowments (UNCTAD, 2005: 7). In 2001, 40 per cent of FDI went to South Africa, that is, South Africa was number one among the top 10 recipients of FDI with a total of US$ 6 789 million out of the total inflow of US$ 17 028 million in that year (Table 5.2).

Table 5.2: Top 5 and Top 10 Recipients of FDI in Africa, 1999-2003 (US$ millions)									
1999		**2000**		**2001**		**2002**		**2003**	
Country	Value	Country	Value	Country	Value	Country	Value	Country	Value
1. Angola	2 471	1. Egypt	1 235	1. South Africa	6 789	1. Angola	1 643	1. Morocco	2 279
2. South Africa	1 502	2. Nigeria	930	2. Morocco	2 825	2. Nigeria	1 281	2. Equat. Guinea	1 431
3. Egypt	1 065	3. South Africa	888	3. Angola	2 146	3. Algeria	1 065	3. Angola	1 415
4. Nigeria	1 005	4. Angola	879	4. Algeria	1 196	4. Chad	1 030	4. Sudan	1 349
5. Morocco	850	5. Tunisia	779	5. Nigeria	1 104	5. Tunisia	821	5. Nigeria	1 200
6. Tanzania	542	6. Algeria	438	6. Equat. Guinea	931	6. South Africa	757	6. Chad	837
7. Algeria	507	7. Sudan	392	7. Sudan	574	7. Sudan	713	7. South Africa	762
8. Congo	491	8. Tanzania	282	8. Egypt	510	8. Egypt	647	8. Libya	700
9. Mozambique	382	9. Mauritius	277	9. Tunisia	486	9. Morocco	481	9. Algeria	634
10. Sudan	371	10. Uganda	275	10. Tanzania	467	10. Botswana	405	10. Tunisia	584
Total inflow	US$9 186	Total inflow	US$6 375	Total inflow	US$17 028	Total inflow	US$8 843	Total inflow	US$11 191
Per cent		**Per cent**		**Per cent**		**Per cent**		**Per cent**	
Top 5 to Africa	59,5%	Top 5 to Africa	54,0%	Top 5 to Africa	71,7%	Top 5 to Africa	49,6%	Top 5 to Africa	51,0%
Top 10 to Africa	79,3%	Top 10 to Africa	73,0%	Top 10 to Africa	86,8%	Top 10 to Africa	75,1%	Top 10 to Africa	74,4%
Source: Adapted from UNCTAD, 2005: 8									

This study now shifts the focus from FDI to trade, and argues that trade liberalisation unlike FDI, creates employment in the SADC. The International Labour Organisation (ILO) Director General's Report commissioned in 1971 examines, among other things, the effects of trade liberalisation on employment in developing countries. It concentrates in particular on how an increase or decrease in exports from developing countries to developed countries affects employment in both (Lydall, 1975: 1). These export products were initially restricted in their access to developed countries' markets by either tariffs or by non-tariff barriers. Lydall (1975) argues that reducing these barriers would lead to a substantial increase in developing countries' exports to developed countries, thereby creating employment in the former (Lydall, 1975: 1-2).

Anderson (2004: 423) states that "…while there is a positive correlation between increased imports and job loss …there is also a positive correlation between increased exports and job growth." It is because the popular press tends to focus on the former and ignore the latter aspects of trade on employment. This has created an impression that trade leads to job losses. Anderson's argument is valid, as increased imports often lead to job losses, because increased marginal propensity to consume imports increases a country's income leakage. In this case developing countries, by increasing their productive capacities and varieties of goods produced can counteract the situation. Also by stimulating local demand, developing countries could increase their exports at the expense of imports. In this way, developing countries are likely to increase their levels of employment.

Lydall (1975: 6-11) shows that trade creates employment in developing countries through the linkage, multiplier and expenditure effects. The employment effects of an increase in a country's exports or imports of a particular product depend on the special characteristics of that country (Lydall, 1975: 7). Lydall (1975: 8) argues that "…when there is an increase in exports from a developing to a developed country, the enterprises which produce the exports in the developing

countries are likely to be above the average for that industry in their labour productivity, while the enterprises in the developed country which feel the greatest effects of the new imports are likely to be below the average for that industry in their labour productivity."

Further, Lydall's (1975) study shows why trade liberalisation could increase employment in developing countries, because of labour-capital production requirements. In particular, the average labour requirements per US$ 10 000 of value added at US$ 3 000 of GDP per head in 1963 were 1,99 in labour-intensive industries and 0,94 in capital-intensive industries, a ratio of about 2 to 1. The corresponding figures in a country with US$ 200 of GDP per head in 1963 were 9,76 and 3,50 a ratio of nearly 3 to 1. This suggests that SADC countries, with abundant labour, can substitute labour for capital more easily in labour-intensive industries than capital-intensive industries. This further implies that technology is more adaptable in the labour-intensive than in capital-intensive industries.

Based on these observations it could be argued that SADC and the developing countries are more likely to increase employment through the expansion of their exports of labour-intensive products. Moreover, these countries are endowed with abundant labour resources. Additionally, given that the trade patterns in the SADC are consistent with the Heckscher-Ohlin model (Lewis, *et al.*, 2003: 165), these countries could increase their employment by increasing exports of manufactured goods. This reduces expenditure on imports on such goods. This has happened in Sri Lanka, where export diversification has brought about significant trade gains for the economy as a whole (Athukorala, 2000: 89).

Moreover, it has been suggested that exports can act as an engine of prosperity. This is so because export growth gives an additional boost to the economy by increasing investment in the manufacturing and other export sectors. For example, the United States economy expanded by only 0,9 per cent in 1990 while investment in producers' durable equipment rose nearly three times faster

or by 2,4 per cent. This 2,4 per cent growth was largely stimulated by export expansion (Wallace, 1991: 3).

Countries that have established dynamic competitiveness in international trade can increase their level of employment through merchandise exports. This is mainly because trade liberalisation leads to freer trade, and freer trade means more exports for economies that have achieved dynamic competitiveness (Wallace, 1991: 3). According to Davis (1992: 27), merchandise exports are a vital source of growth in the United States output and employment. While the US merchandise exports accounted for a relatively small share of 7,2 per cent of GDP in 1990, the strong increase in US merchandise in between 1983 and 1990 contributed a steadily rising proportion of the US economy. Specifically, from 1986 to 1990 the US merchandise exports accounted for 41 per cent of the rise in the US GDP in 1982 constant prices. In 1990 they contributed 88 per cent of GDP growth. During this period US merchandise exports to Canada and Mexico, supported 2,08 million jobs. The implication is that SADC countries can also create employment for their citizens by developing their export sectors.

Some authors, such as Vanston (1995: 11) and Anderson (2004: 423), have argued that a given quantity of imports destroys jobs while a given quantity of exports creates jobs. Whether trade creates jobs depends on the elasticity of imports and exports and their net effects (Leichenko, 2000: 304). Thus, depending on particular market characteristics and macroeconomic conditions, changes in trade flows may be associated with large or small changes in employment, or sometimes no employment at all (Vanston, 1995: 11). Vanston (1995) further, states that "…if a country's exports and imports both expand while trade remains broadly balanced, it is better-off as a result; the expansion would not otherwise have occurred." Economic theory suggests that in the longer term the impact on total employment can be very small.

Leichenko (2000: 304) states that the belief that trade is an engine of growth stems from the notion within export base theory that growth of exports provides externality and productivity benefits to regional economies. This export base theory suggests that regional growth in output and employment is a function of exogenous demand for a region's exports, assuming perfect elasticity of input supply and export demand.

Lastly, Dollar's (1992) study shows that outward-oriented economies grow more rapidly than inward-oriented economies. Dollar's regression results on 117 countries including African countries showed that African economies lagged behind, because they were closed economies. There is a strong relationship between price level and per capita GDP (Dollar, 1992: 529). Africa as a region was inward-oriented, and this made it to lag behind (Dollar, 1992: 530). In particular, African economies were highly distorted, because of real exchange rate variability. Openness leads to growth, and because GDP growth is a function of investment rate and real exchange rate, exchange rate variability distorts this growth (Dollar, 1992: 534). It can be argued that since openness leads to GDP growth, it is not expected that the economy will grow without creating more jobs.

5.5 Trade liberalisation, Openness, FDI and employment in SADC

In this section, the effects of openness and foreign direct investment (FDI) on employment in the SADC are examined. Openness in this study has been defined using the trade intensity ratio. That is, exports of goods and services plus imports of goods and services over GDP.

The levels of GDP rather than the GNP of the SADC countries are examined. GNP is a better measure of reflecting a country's level of growth, because it considers what is produced within the borders of the country, plus net foreign factor earnings or net property income from abroad (Begg, Fischer & Dornbusch, 2003: 282-283). However, the lack of adequate statistical data on GNP necessitated the use of GDP as an alternative measure of economic growth for

the SADC countries. It is not uncommon for developing countries to record higher GDP, but lower GNP figures because of their relatively small foreign sector. Moreover, with the exception of South Africa, most SADC countries' national wealth is derived from the domestic sector (Griffiths, 2002: 1; Lewis, *et al.*, 2003: 160; Seria, 2004: 2).

Economic development rather than economic growth of the SADC countries could yield a better estimate of the impact of economic integration and trade liberalisation in the SADC. Furthermore, this impact can be captured relatively accurately through the use of GNP rather than GDP. This is because GNP is the most commonly used measure of the overall level of economic activity in a country (Todaro, 2000: 43). Estimating the level of economic development using GNP is, however, not without methodological problems. Moreover, a country can achieve economic growth without achieving economic development, but economic development cannot be attained without economic growth. Economic growth is a quantitative phenomenon, whereas economic development entails both quantitative and qualitative phenomena (Todaro, 2000: 16). Therefore, by examining the externalities and proxies for economic growth, it can be inferred whether economic development has taken place.

This SADC econometric study has considered only two channels through which openness can affect employment. These are, firstly, through international trade, and secondly, through the flow of foreign direct investment. Development agents in the SADC believe that what the SADC and developing countries need to develop faster is trade and FDI inflows. They argue that developed countries by opening their markets to exports from developing countries, could help accelerate economic growth in the SADC.

Secondly, through FDI inflows, the SADC and developing countries could acquire technological know-how, expand their productive capacities and as a result, increase their levels of employment.

Virtually all SADC economies have undertaken deep economic reforms during the 1990s besides trade liberalisation. This has been done to make them more attractive to international capital inflow. The researcher argues that trade liberalisation referred to here as openness, creates more employment than FDI. This hypothesis is tested in section 5.6.

5.6 Model Specification and Estimation

To investigate the effects of trade openness and FDI on employment, a panel of 9 countries representative of the countries of the SADC region are used. The use of the 9 countries instead of the 14 countries representing the SADC is necessitated by the unavailability of data. Nevertheless, the conclusion drawn from this empirical analysis is still representative of the finding for the region under study.

This study makes use of the panel data model for the following benefits. Firstly, controlling for individual heterogeneity, panel data suggests that individuals, firms or countries are heterogeneous (Baltagi, 2001). Time-series and cross-section studies are unable to control for this heterogeneous effect and run the risk of obtaining biased results. To account for these heterogeneous effects, this study assumes that differences in political, institutional and economic policy systems that are not represented in this model may influence employment differently in each country of the SADC countries. Secondly, panel data give more informative data, less collinearity among the variables and more degrees of freedom as a consequence of the mix of time-series with cross-sections. Thirdly, panel data are better able to study the dynamics of adjustment. Cross-section studies may hide many changes that can only be discovered with the use of time effects encompassed in the panel data analysis.

To assess the effect of trade openness and FDI on employment in the SADC region the equation of the form shown below is estimated:

$$EMPL_{it.} = \alpha_{it} + \beta_1 OPEN_{it} + \beta_2 FDI_{it} + \beta_3 GDP_{it} + \varepsilon_{it} \qquad (1)$$

Where EMPL is employment and OPEN is the degree of openness as measured by the trade intensity ratio. The trade intensity ratio is the sum of imports and exports of goods and services over GDP. FDI is foreign direct investment, and GDP is Gross Domestic Product. β_1, β_2, and β_3 are the parameters or coefficients to be estimated. ε_i and α_i are the error term and the constant respectively. The data used in this model covers the period 1991 to 2000. The data are from four sources, namely, employment data from the Penn World Table Version 6.1 and the International Labour Organisation (ILO). FDI data are from UNCTAD World Investment Report (2005) and the rest of the data are from the World Bank database, CDRM.

To account for the multicollinearity, equation (1) is restricted and estimation is done from the following equation:

$$EMPL_{it.} = \alpha_{it} + \beta_1 OPEN_{it} + \beta_2 FDI_{it} + \varepsilon_{it} \qquad (2)$$

The country heterogeneity is captured by the country-specific coefficient α_i and the panel data estimation results from the pooled and fixed effects are represented in Tables 5.3 and 5.4.

To test whether the pooled or the fixed effect model suit the model estimation, this study proceeds with the CHOW test of the pooled against the fixed effect. It uses the following null and alternative hypotheses:

$H_{o:}$ pooled model (restricted)
$H_{a:}$ Fixed effects model (unrestricted)

The unrestricted residual sum of squares (URSS) is calculated using the residuals from within the regression. The number of parameters is given by N+K, equal to 11 in this model. Where N is the number of observations and K is the

explanatory variable. The restricted residual sum of squares (RRSS) is calculated using the residuals from the pooled regression.

The sum-of-squares test of H_o is thus:

$$CHOW= \frac{(RRSS-URSS)/(N-1)}{URSS/(NT-N-K)}$$

which is distributed $FN_{-1, NT-N-K}$ under the null hypothesis (H_o).

The regression results of openness and FDI on employment in SADC are given in Table 5.3.

Table 5.3 shows the regression results of employment on openness and FDI for 9 SADC countries. The degree of openness is given by the trade intensity ratio, which is the sum of exports and imports of goods and services divided by GDP. In other words, the trade intensity ratio is the proxy for openness. This also represents the degree of trade liberalisation in the SADC. The results show that a 1 per cent increase in economic openness or trade liberalisation in the 9 SADC countries, leads to 13,4 per cent increase in total employment in the SADC. When the effects of FDI on employment in the SADC is tested, the results indicate that a 1 per cent increase in FDI leads to 0,048 per cent increase in total employment in the 9 SADC countries. These findings suggest that trade liberalisation or openness has a greater effect in creating employment in the SADC countries than FDI. This confirms the findings in Section 5.4 which pointed out that FDI is not likely to have a positive impact on employment creation in the SADC. Instead, it is more likely to be associated with retrenchments and job losses. This is firstly, because of the problems of capital flight and profit repatriation, and secondly, because only a selected few countries in the SADC receive FDI.

Table 5.3: Fixed effects Model

Dependent Variable: ?EMPL
Method: Pooled Least Squares
Date: 02/03/06   Time: 11:12
Sample: 1991 2000
Included observations: 10
Cross-sections included: 9
Total pool (balanced) observations: 90
White cross-section standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4570.180	523.6169	8.728099	0.0000
?OPEN	13.41346	5.770915	2.324322	0.0227
?FDI	0.048427	0.010330	4.688160	0.0000
Fixed Effects (Cross)				
BWA_--C	-5285.119			
LSO_--C	-5461.884			
MDG_--C	547.8245			
MOZ_--C	2432.620			
MUS_--C	-5759.306			
TZA_--C	8991.242			
ZAF_--C	7270.330			
ZMB_--C	-2606.405			
ZWE_--C	-129.3030			

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.990468	Mean dependent var	5752.911
Adjusted R-squared	0.989262	S.D. dependent var	5010.876
S.E. of regression	519.2493	Akaike info criterion	15.45673
Sum squared resid	21299971	Schwarz criterion	15.76226
Log likelihood	-684.5528	F-statistic	820.9297
Durbin-Watson stat	0.266716	Prob(F-statistic)	0.000000

Source: Own compilation. Data is from Heston, Summers, & Aten (2002); ILO (2005); UNCTAD (2005); World Bank
Database, CDRM (2002)

Table 5.4: Pooled estimation

Dependent Variable: ?EMPL
Method: Pooled Least Squares
Date: 02/03/06   Time: 11:10
Sample: 1991 2000
Included observations: 10
Cross-sections included: 9
Total pool (balanced) observations: 90
White cross-section standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
?OPEN	13.41346	5.770915	2.324322	0.0227
?FDI	0.048427	0.010330	4.688160	0.0000
BWA_--C	-714.9391	528.5676	-1.352597	0.1800
LSO_--C	-891.7037	773.4843	-1.152840	0.2525
MDG_--C	5118.005	415.9242	12.30514	0.0000
MOZ_--C	7002.800	436.1943	16.05431	0.0000
MUS_--C	-1189.125	725.6699	-1.638659	0.1053
TZA_--C	13561.42	571.6667	23.72261	0.0000
ZAF_--C	11840.51	462.4157	25.60577	0.0000
ZMB_--C	1963.775	460.8199	4.261481	0.0001
ZWE_--C	4440.877	468.7186	9.474506	0.0000

R-squared	0.990468	Mean dependent var	5752.911
Adjusted R-squared	0.989262	S.D. dependent var	5010.876
S.E. of regression	519.2493	Akaike info criterion	15.45673
Sum squared resid	21299971	Schwarz criterion	15.76226
Log likelihood	-684.5528	F-statistic	820.9297
Durbin-Watson stat	0.266716	Prob(F-statistic)	0.000000

Source: Own compilation. Data is from Heston, Summers, & Aten (2002); ILO (2005); UNCTAD (2005); World Bank
Database, CDRM (2002)

Table 5.4 provides the regression results of the model making use of the pooled
estimation. The pooled estimation provided in Table 5.4 has been used to
conduct the CHOW test of the pooled against the fixed effect. The results have
proven that the null hypothesis of the pooled model is rejected. Therefore, the
best model to interpret the results from is the fixed effects model presented in
Table 5.3.

5.7   Summary of the Main Findings and Conclusions

There is a general consensus that economic integration and trade liberalisation could have positive results in some sectors and negative results in others. Various econometric studies suggest that there is a positive correlation between trade liberalisation and income growth. For example, Anderson's (2003) econometric study on the link between poverty, economic growth, and trade finds that by liberalising world trade, both the developed and developing countries could gain. Developed countries could gain more in dollar terms than developing countries. Developing countries could, however, gain three times more than the developed countries as a percentage of GDP. Moreover, Anderson's study shows that developing countries could be worse off if they do not liberalise their economies. Additionally, economic openness, promotes competition, increases market size, and eliminates excessive predatory pricing by monopolists.

Excessive regulations restrict growth in two ways. Firstly, it prevents resources from moving into productive sectors and to the most efficient firms within sectors of the economy. Secondly, increased trade is more likely to occur in goods where the comparative advantage does not lie, contrary to the international trade theory. Furthermore, openness to international trade affects growth in two ways. It affects the level of steady-state income and also the speed of convergence to the steady state.

Trade liberalisation, can also be associated with reductions of income and consequently increase poverty among developing countries. Majid's (2004) study for example, finds that trade openness increases wage inequalities in developing countries, but reduces it in developed countries. Moreover, unskilled labour is abundant in developing countries. This implies that these workers' productivity is relatively lower than their counterparts in the developed countries. Furthermore, trade liberalisation exposes developing countries to financial risk. Because of this, any effort aimed at trade liberalisation can make workers in developing countries worse off, to the benefit of skilled labour in developed countries.

In addition, trade liberalisation is not beneficial to a developing country when there is depreciation of the real exchange rate, brought about by shocks. If this happens, exports of developing countries will be adversely affected, as mainly unskilled labour is employed in non-traded sectors.

Openness might not improve developing countries' welfare. For example, Harrison (1996) argues that the use of long-run averages, which are widely acknowledged as the natural way of capturing the determinants of long-run growth, may hide significant variations in individual countries' performance and policies over time.

A select group of countries in Africa receive the lion's share of FDI, while the overwhelming majority are ignored. For example, there were very few countries in the SADC that ranked in the top 10 recipients of FDI in Africa during the period 1999 to 2003. In 1993 for example, only Angola, South Africa, Tanzania, and Mozambique were among the top 10 recipients of FDI in Africa. In 2003 only Angola and South Africa were in the top 10. It is not clear why some countries attract FDI while others do not. However, some of the pull factors that attract FDI into a country include a large and growing market, a sustainable moderate-to-high rate of economic growth, macroeconomic stability, a low level of macro-political risk, and a well developed physical and communication infrastructure. The literature on FDI suggests that the key location factor that attracts FDI is the ability of foreign direct investors to repatriate capital and remit profits. The more open an economy to the rest of the world, the more likely it is to offer freedom in capital movement across national borders. Thus, a high degree of openness would imply less restriction on remittances of capital income that may be in the form of interests, dividends, profits, or capital.

The links between FDI and trade liberalisation or openness on the employment levels in the SADC were investigated. This was done using 9 SADC countries representative of the SADC region. The 9 SADC countries were chosen because

of the availability of data. The regression results on FDI and openness indicate that the coefficients are of the expected signs, and are statistically significant at 95% confidence level. When the effects of FDI on the employment levels in the SADC were tested, the regression results indicate that a 1 per cent increase in FDI leads to 0,048 per cent increase in total employment. The regression results of employment on openness in the SADC show that a 1 per cent increase in openness leads to 13,4 per cent increase in total employment in the SADC. These findings suggest that trade liberalisation or openness has a greater effect on employment creation than FDI in the SADC. The problems concomitant with FDI mainly, capital flight in the form of interests, dividends, profits or capital explain why FDI is associated with relatively lower employment creation in the SADC.

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CHAPTER 6

SUMMARY OF THE THESIS AND POLICY RECOMMENDATIONS

6.1   Summary of the Main Findings and Conclusions

As stated at the outset, the aim of this study was to determine the impact of economic integration and trade liberalisation in the Southern African Development Community.

Chapter 2 examined the various forms of economic integration, together with the motivation for forming regional economic integration. Factors promoting or hindering its success were also discussed. The chapter identified seven theoretical stages that economies move through during the integration process. These stages are the preferential trade area, a partial customs union, a free trade area, a customs union, a common market, an economic union, and a total economic union.

The preconditions and factors that promote successful regional integration are broadly classified under economic and non-economic, mostly political factors. These preconditions and factors include adequate and strong institutions, peace, security, respect for human rights, precedence of the rule of law and good governance. The absence of civil wars and conflicts are also important precondition factors for successful regional integration. In addition, compatible political systems, strong political commitment, more intra-regional trade, a large intra-regional market, diversified production structures, and macroeconomic stability also contribute to successful regional integration.

Countries have moved away from the traditional shallow to deeper economic integration. This is mainly because of the new trend in economic integration that the SADC and developing countries have engaged in. This new trend of integration involves both South-South and North-South integration. South-South integration is more beneficial to developing countries as it brings together

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economies with similar production structures and levels of development. However, the process takes longer to develop regional complementarities and to achieve industrial growth. This is mainly, because of the socio-economic problems, technological and innovation constraints inherent in most developing countries. The SADC and developing countries end up engaging in North-South integration.

Africa has a poor record of creating and sustaining regional economic integrations. This is mainly because African trade blocs are largely pursued for political reasons. Because of this state of affairs, almost all trade initiatives in Africa have achieved very little success. Many of these schemes were designed without regard for members' incentives to comply with the many rules, regulations and procedures that underpin regional integration.

Furthermore, Africa has many trade blocs, but little trade takes place between and within them. This is mainly because regional trade arrangements in Africa have created some vested interests opposed to broad-based liberalisation. There are obstacles such as the overlapping and incompatible memberships that render the continent's regional integration efforts unsuccessful. Some African countries' domestic economic policies have hindered the effectiveness of African trade integration. In addition, the structures of demand and production are too similar across African countries. This has hampered substantial trade creation.

Most African countries lack the capacity to tackle complex issues as in the World Trade Organisation. For example, strengthening the process of regional integration in Africa through the promotion of intra-regional and international trade and physical integration has been hampered by inadequate and costly transport and communication sectors.

Africa as a region has engaged in and supported regional trade arrangements aimed at helping local industries to develop. This is done with the ultimate goal of improving the continent's overall trade and to strengthen intra-regional trade so

as to increase economic welfare. However, because of low complementarity of natural resources, and the region's small markets and administrative capacity constraints, Africa's integration process has lagged behind. The key reasons for failure of intra-African regional trade arrangements include African economies' lack of complementarity in their trade structure, their narrow focus on intra-regional tariff reductions, weak capacity for policy implementation, and a lack of policy credibility.

Many Sub-Saharan Africa countries undertook trade liberalisation and other economic reforms during the 1980s, but benefited little from these reforms. Instead, they have been marginalised in world trade due to slow growth and a lack of adequate market access to developed countries. Foreign direct investment and economic growth has been declining in Sub-Saharan Africa since 1980s. For example, approximately a third or 16 countries in Sub-Saharan Africa had higher GDPs in the early 1960s than they did in the 1990s.

Africa faces many other challenges. For example, many African countries are landlocked and small economies with inadequate infrastructure. In terms of population, 39 of the 53 African countries have fewer than 15 million people, and 21 have fewer than 5 million. Africa's population is 12 per cent of that of the world, but its output is only 2 per cent. This is partly due to Africa's low productivity and the vicious cycle of poverty.

For Africa to increase its economic growth it needs to make the necessary structural adjustments aimed at correcting the problems of heavy dependence on primary commodity exports. The continent needs to improve its weak manufacturing base. There is also a need for the continent to pursue arrangements that are truly development-oriented with developed countries such as the European Union and the emerging economies in Asia. This is needed in order to strengthen their domestic economies and for innovation and technological diffusion. Countries that have grown rapidly are those that have adopted appropriate endogenous technology.

Chapter 2 reinforces the idea that countries, whether developed or not, cannot afford to be isolated politically and economically. It is better to be inside rather than outside an integration arrangement. There is a great need for the SADC countries to harmonise their economies. They have to develop their competitiveness and encourage deeper integration in order to improve their position in the world trading system.

6.2 An Historical Overview of Economic Integration in SADC

The evolution and objectives of SADCC and SADC, and SADC trading partners were discussed in Chapter 3. SADCC was created to achieve four specific objectives. These objectives were to rehabilitate and extend the region's transport network, reduce economic dependence on South Africa and the rest of the world, achieve a degree of self-reliance, and to assist newly-independent states such as Zimbabwe to consolidate power.

The objectives of the SADC as stated in Article 5 of the Windhoek Treaty, are firstly, to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged through regional integration. Secondly, to develop common political values, systems and institutions, thirdly, to promote peace and security, fourthly to promote self-sustaining development on the basis of collective self-reliance, and the interdependence of member states, fifthly, to achieve complementarity between national and regional strategies and programmes. The sixth objective is to promote and maximise productive employment and utilisation of resources of the region. The seventh objective is to achieve sustainable utilisation of natural resources and effective protection of the environment, and lastly to strengthen the long-standing historical, social and cultural affinities and links among the people of the region.

Lack of sound management and weak institutions such as the lack of adequate property rights contribute to low levels of investment in the SADC region, and developing countries in general. Civil wars in some SADC countries particularly

Angola, Mozambique and the Democratic Republic of Congo have resulted in both quantifiable and un-quantifiable costs. Some examples of these costs include mass murder and severe disabilities, costs associated with forced migrations or refugees and orphaned children. These quantifiable and unquantifiable costs have resulted in the reduction of economic growth and peoples' welfare in the above mentioned countries. Increased military spending in these countries and in their neighbours, because of the contagion effect, and increased income inequality and AIDS infections are further costs in the region.

Another finding is that the volume of trade between South Africa and other SADC countries was constrained, because of the low levels of industrialisation in these other SADC countries. This forces South Africa to trade more with Europe, America and Asia. Similar production structures in most SADC countries, also contribute to the small amount of trade among them. However, the SADC intra-trade is slowly growing. For example, Table 3.3 shows that South Africa was Zimbabwe's main trading partner in 2003. South Africa exported and imported 51,2 per cent and 6,4 per cent to and from Zimbabwe respectively. During the same period, South Africa also remained Zambia's leading trading partner. Its exports and imports to and from Zambia were 71,4 per cent and 28,4 per cent respectively. Malawi and Tanzania also remained among the Zambia's top 5 trading partners in 2003. In fact, Malawi ranked second in terms of Zambia's exports and Tanzania the fourth largest importer (Table 3.4).

Furthermore, Table 3.5 shows that in 2003 South Africa was Tanzania's leading imports supplier. South Africa supplied Tanzania with 10,7 per cent of its import requirements. Tables 3.15 and 3.16 also show that South Africa's trade with the Democratic Republic of the Congo is increasing. According to these Tables, in 2002 South Africa was the DRC's second largest imports supplier. In 2003 South Africa moved to the first position and its exports' share to the DRC increased from 14.4 per cent in 2002 to 16,1 per cent in 2003. In 2002 Zimbabwe was the DRC's fourth largest importer. In 2003 Zimbabwe moved to the third position. Except for South Africa, the researcher has made use of trade data of non-SACU

SADC member countries in this section to show that trade is growing in the SADC. This analysis shows that since its inception in 1992, the SADC and its members have realised the need to increase trade among them. Geographic proximity, as predicted by the gravity model that a country is likely to trade more with its neighbours because of the short distance involved and less transportation costs has favoured the intra-SADC trade. Additionally, trade arrangements among the SADC countries and particularly, South Africa's economic role in the SADC have also favoured the growth of trade in the SADC.

6.3   The Structure and Pattern of Trade in SADC

Most of the SADC countries are mainly exporters of primary commodities. Their export destinations are mostly the United States, the European Union countries, mainly, France, Germany, Italy, and the United Kingdom, and some Asian countries, such as Japan, China and India. The same trading partners in turn supply the SADC countries with their import needs. However, there is an emerging pattern of trade, as the United States and Asian economies' shares tend to increase at the expense of the European Union. This trend has been brought about by the United States' increasing interest in oil from the Sub-Saharan African countries, in particular, Nigeria, Gabon, Angola, Chad, Equatorial Guinea, and the Democratic Republic of Congo. The strong growth of Africa-Asia trade is because Asia and Africa are compatible trading partners. There is also significant trade between SADC-SACU and other African countries. For example, the average share of South Africa's trade with the rest of Africa rose to three times its 1970-1993 average during the period 1994 to 2002. The rest of Africa's trade with South Africa rose to four times its 1970-1993 average during the period 1994 to 2002.

The SADC countries are heavily dependent on trade. The trade intensity ratio, measured as the total trade of exports and imports over GDP is over 60 per cent for most SADC countries. Trade is the unifying factor, because it is the primary form of economic interaction within the SADC region.

Another important finding is that trade can enable a country to achieve economic growth and development. Trade plays a catalytic role in promoting innovation domestically. In other words, trade is a transmission mechanism through which the technical knowledge, innovation and experience that make development possible, is disseminated from developed countries to developing countries. In addition to the above, many studies have shown that there is positive correlation between export growth and economic growth (Sharer, 1999: 26). In particular, countries benefit more when trading with fast-growing and relatively more advanced countries. This implies that the other SADC countries are likely to benefit more if they trade with South Africa, the most industrialised country in the SADC.

Most SADC and other African countries derive a significant amount of their government revenue from trade tariffs. The tariffs range from 2 per cent of GDP in the median Sub-Saharan country to between 4 to 6 per cent of GDP for African countries that rely heavily on tariff revenues. It has been estimated that one per cent of GDP is equivalent to 7 to 10 per cent of government revenue (Hinkle & Schiff, 2004: 1327). Through trade, the SADC countries are able to earn foreign exchange to build their foreign exchange reserves. In this way these countries are able to service their external debts and to improve their domestic economic efficiency, by developing sectors where their comparative advantage lie (Sharer, 1999: 29; World Bank, 2004b: 3).

The citizens of a country are able to consume a variety of goods and services because of trade. Countries are able to "produce" indirectly by importing what they do not produce locally. For example, the SADC countries can produce what they have in abundance or comparative advantage and export to South Africa to enable them to produce indirectly by importing from South Africa what they do not.

Because their small domestic markets hamper production capacity in the SADC and other African countries, producing for the external markets could increase

these countries' income. It has been pointed out that the Southeast Asian economies have managed to achieve higher income growth rates than most developing countries, because the former relied strongly on the external sector to achieve such growth (World Bank, 2004b: 4).

Most of the SADC and Africa's merchandise is produced for the external market. For example, in 2000 Africa as a whole exported approximately US$ 129 billion worth of goods and services to the world (World Bank, 2004b: 6). This was a significant foreign exchange earning, given that 52,23 per cent of all Africa's exports went to the European Union, 19,07 per cent to the United States, 16,43 per cent to Asia, and only 3,42 per cent to Africa. These statistics show how small the SADC and African domestic markets are, and the role trade and the external sector can play in development and as a source of foreign exchange and revenue for the government.

The SADC countries have gained little from both globalisation and trade liberalisation. It has been argued that the Southeast Asian economies have managed to achieve higher income growth rates than most developing countries, because they relied strongly on the external sector as a stimulant for growth. Producing for the external markets, however, is a necessary but not sufficient condition. This is because the world trade is riddled with an uneven playing field and double standard. Unless developed countries remove the extraordinary subsidies and other trade related barriers so as to allow developing countries to gain free market access and develop dynamic international competitiveness, any trade development policies pursued by developing countries might not achieve the desired outcomes.

6.4 The Impact of Economic Integration and Trade Liberalisation in SADC

There are a number of key findings from Chapter 5. Firstly, economic integration and trade liberalisation in developing countries is likely to have positive results in some sectors and negative results in others (Bhorat, 2000:6). The positive effects

of trade liberalisation include the increased income growth and economic growth. Various econometric studies suggest that there is a positive correlation between trade liberalisation or openness and income growth. For example, Anderson's (2003) econometric study on the link between poverty, economic growth, and trade finds that by liberalising world trade, both the developed and developing countries could gain. But developing countries will gain three times more as a percentage of GDP than developed countries. Moreover, Anderson's study shows that developing countries could be worse off if they do not liberalise their economies.

There is a general consensus among economists that, some degree of openness is healthy for developing countries. This is particularly so, because openness promotes competition, increases market size, and eliminates excessive predatory pricing by monopolists. Excessive regulations restrict growth in two ways. Firstly, it prevents resources from moving into productive sectors and to the most efficient firms within sectors of the economy. Secondly, increased trade is more likely to occur in goods where the comparative advantage does not lie, contrary to the international trade theory. Furthermore, openness to international trade affects growth in two ways. It affects the level of steady-state income and also the speed of convergence to the steady state.

Roberts and Thoburn's (2003) study, shows that following the rapid liberalisation in South Africa during the 1990s, firms in the textile industry increased their exports due to competitive pressures from imports. Liberalisation led many firms to upgrade their equipment, increase specialisation through vertical integration, and develop niches in South Africa's manufacturing sector. The most successful firms, which increased their export competitiveness, were those with technological capabilities based on the domestic market.

Antweiler, Copeland and Taylor's (2001) econometric study, finds that free trade is good for the environment. Their study investigates how openness to international goods markets affects pollution concentrations. Using data on sulfur

dioxide concentrations from the Global Environment Monitoring Project, they find that international trade creates relatively small changes in sulfur dioxide. Their conclusion is that free trade is good for the environment.

Trade liberalisation, can also be associated with reductions of income and consequently increase poverty among developing countries. Majid's (2004) study for example, finds that trade openness increases wage inequalities in developing countries, but reduces it in developed countries. Moreover, unskilled labour is abundant in developing countries. This implies that these workers' productivity is relatively lower than their counterparts in the developed countries. Furthermore, trade liberalisation exposes developing countries to financial risk. Because of this, any effort aimed at trade liberalisation can make workers in developing countries worse off, to the benefit of skilled labour in developed countries.

In addition, trade liberalisation is not beneficial to a developing country when there is depreciation of the real exchange rate, brought about by shocks. If this happens, exports of developing countries will be adversely affected, as mainly unskilled labour is employed in non-traded sectors (Winters, *et al.,* 2004: 75).

Openness might not improve developing countries' welfare. For example, Harrison (1996) argues that the use of long-run averages, which are widely acknowledged as the natural way of capturing the determinants of long-run growth, may hide significant variations in individual countries' performance and policies over time.

Finally, Chapter 5 investigated the links between openness or trade liberalisation, and FDI on the employment levels in 9 SADC countries. The trade intensity ratio as measured by the sum of exports and imports of goods and services was used as a proxy for economic openness. The study finds that both openness and FDI have positive influences on employment in the SADC. The regression results indicate that the coefficients are of the expected signs and are statistically significant at 95% confidence level. In particular, the regression results indicate a

1 per cent increase in FDI inflow to SADC leads to 0,048 per cent increase in total employment in the SADC. While a 1 per cent increase in economic openness leads to 13,4 per cent increase in total employment in the SADC. These findings suggest that economic openness has a greater effect on employment creation than FDI in the SADC region, because of the problem associated with FDI discussed in the literature in section 5.4.

6.5   Tentative Recommendations for Improved Integration of Developing Countries

The SADC study has a number of policy implications for the SADC members and other developing countries. For example, the SADC countries need to create and observe the preconditions for successful regional integration. The preconditions and factors that promote successful regional integration include adequate and strong institutions, peace, security, respect for human rights, precedence of the rule of law and good governance. The absence of civil wars and conflicts are also important, because of their adverse effects and the contagion effects. In addition, compatible political systems, strong political commitment, more intra-regional trade, a large intra-regional market, diversified production structures, and macroeconomic stability also complement each other to ensure successful regional integration. These findings suggest that the SADC countries, Africa and other developing countries need to develop their institutions. They also have to practice precedence of the rule of law and good governance, so as to maximise their economic benefits from trade liberalisation and economic integration.

Secondly, SADC and other African countries have a poor record of creating and sustaining regional economic integrations. This is mainly, because African trade blocs are largely pursued for political reasons. If they move away from this approach and pursue economic integration driven by genuine political and economic commitment, Africa's intra-regional trade could create a large intra-regional market and a stronger Africa. This can be further strengthened by joining other developing countries in pressurising developed countries to give market access to their products. Developed countries need to refrain from subsidising

their farmers, because they create artificial comparative advantages by subsidising their farmers to the detriment of farmers in developing countries (Tokarick, 2005: 30-33). There is also a need for the SADC countries to avoid overlapping and incompatible memberships that hinder the effectiveness of African trade integration. Overlapping memberships is a problem in the SADC as it makes the enforcement of the provisions of contracts difficulty. This situation also makes the operation of the rules of origin impracticable.

Thirdly, for Africa to increase its economic growth it needs to make the necessary structural adjustments aimed at correcting the problems of heavy dependence on primary commodity exports. Improving their dynamic competitiveness could increase these countries comparative advantage on world markets. There is also a need for the continent to pursue arrangements that are truly development-oriented with developed countries such as the European Union. Strengthening Africa-Asia economic ties further could be more beneficial. This could help Africa to strengthen their domestic economies through innovation and technological diffusion. Countries that have grown rapidly are those that have adopted appropriate endogenous technology (Fagerberg, 1994: 1148; 1171).

Finally, the SADC econometric study, suggests that economic openness is more important than FDI in creating employment in the SADC. This implies that the SADC economies and Africa could create more employment by pursuing broader policies for example, economic openness than relying too much on FDI.

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APPENDICES AND ANNEXURES

Annexure A1: Top five SADC Export Destinations (%) in 2003 per SADC Member

Angola	Principal Export Destinations	Percentage
1.	United States of America	47.1%
2.	China	23.1%
3.	Taiwan	8.7%
4.	France	7.3%
5.	Belgium	3.1%
Botswana[11]		
1.	United Kingdom	86%
2.	SACU	6.6%
3.	Other Europe	3.0%
4.	Zimbabwe	2.5%
5.	All other	0.9%
DRC		
1.	Belgium	57.7%
2.	United States of America	14.6%
3.	Zimbabwe	10.5%
4.	Finland	4.5%
5.	France	2.4%
Lesotho (a)		
1.	North America	62.8%
2.	SACU	37.0%%
3.	European Union	0.14%
4.	Other	0.08%
5.	Asia	0.04%

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[11] **Source** for Botswana trade data is SADC TIIR, 2004. The data for period 2001 is up to September.

Annexure A1 continued		
Madagascar[12]		
1.	France	34.0%
2.	United States of America	24.7%
3.	Netherlands	6.0%
4.	Germany	5.9%
5.	Mauritius	4.0%
Malawi		
1.	South Africa	22.6%
2.	United States of America	13.0%
3.	Germany	10.9%
4.	Egypt	5.5%
5.	Portugal	4.6%
Mauritius		
1.	France	34.1%
2.	United Kingdom	24.2%
3.	United States of America	14.4%
4.	Madagascar	4.3%
5.	Italy	3.0%
Mozambique		
1.	Belgium	26.6%
2.	South Africa	14.8%
3.	Italy	9.9%
4.	Spain	9.7%
5.	Germany	8.5%

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[12] **The Table shows the 2002 trade data for this Country. (a) Source for Trade data: Central Bank of Lesotho, Annual Report; Bureau of Statistics; Customs Department, data estimates in 2001.**

Annexure A1 continued		
Namibia		
1.	United Kingdom	48.0%
2.	South Africa	23.0%
Annexure A1 continued		
3.	Spain	15.0%
4.	France	4.0%
Seychelles		
1.	United Kingdom	20.9%
2.	France	16.1%
3.	Italy	11.2%
4.	Thailand	10.1%
5.	Mauritius	9.9%
South Africa		
1.	United States of America	12.2%
2.	United Kingdom	10.1%
3.	Japan	10.0%
4.	Germany	7.7%
5.	Netherlands	4.8
Swaziland		
1.	South Africa	72.0%
2.	European Union	14.2%
3.	Mozambique	3.7%
4.	United States of America	3.55
Tanzania		
1.	Japan	9.9%
2.	India	9.0%
3.	Netherlands	8.5%
4.	United Kingdom	5.6%
5.	Germany	5.5%

Annexure A1 continued		
Zambia		
1.	South Africa	28.4%
2.	Malawi	8.7%
3.	St. Pierre-Miquelon	7.7%
4.	Japan	6.2%
5.	Egypt	5.4%
Zimbabwe		
1.	South Africa	6.4%
2.	China	5.5%
3.	Germany	4.8%
4.	Japan	4.7%
5.	Netherlands	3.8%
Source: Adapted from DFAT, 2004; SADCTIIR, 2004.		

Annexure A2: Top five SADC Import Sources (%) in 2003 per SADC Member

Angola	Principal Import Sources	Percentage
1.	Portugal	18.1%
2.	South Africa	12.3%
3.	United States of America	12.1%
4.	Netherlands	11.6%
5.	France	6.5%
Botswana[13]		
1.	SACU	76%
2.	Other European countries	9.0%
3.	United Kingdom	4.8%
4.	All other	4.5%
5.	Zimbabwe	3.2%

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[13] Data shown for Botswana is for 2001 up to September; source for data: SADC TIIR, 2004.

Annexure A2 continued		
DRC	n/a	
1.	South Africa	16.1%
2.	Belgium	13.2%
3.	France	11.9%
4.	Nigeria	10.6%
5.	Germany	6.4%
Lesotho[14]		
1.	SACU	82.8%
2.	Asia	14.8%
3.	Others	1.0%
4.	European Union	0.7%
5.	North America	0.7%
Madagascar		
1.	France	17.2%
2.	Iran	11.0%
3.	Mauritius	10.6%
4.	Bahrain	9.3%
5.	Hong Kong	6.9%
Malawi		
1.	South Africa	48.7%
2.	Zambia	13.3%
3.	India	4.4%
4.	Tanzania	3.5%
5.	Japan	3.1%

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[14] Source: Adapted from SADC TIIR, 2004. Data estimates in 2001; and n/a means data was not available.

Annexure A2 continued		
Mauritius		
1.	France	27.1%
2.	South Africa	10.9%
3.	India	6.3%
4.	Germany	4.5%
5.	China	3.9%
Mozambique		
1.	South Africa	27.0%
2.	Australia	9.4%
3.	United States of America	4.0%
4.	Portugal	3.9%
5.	India	3.7%
Namibia	Principal Import Sources	Percentage
1.	South Africa	80.0%
2.	United States of America	5.0%
3.	Germany	3.0%
4.	Russia	1.0%
Seychelles		
1.	Saudi Arabia	15.3%
2.	France	14.0%
3.	Spain	11.7%
4.	South Africa	10.9%
5.	Italy	9.6%
South Africa		
1.	Germany	14.8%
2.	United States of America	9.9%
3.	United Kingdom	8.7%
4.	Japan	7.0%
5.	China	6.4%

Annexure A2 continued		
Swaziland		
1.	South Africa	88.8%
2.	European Union	5.6%
3.	Japan	0.6%
4.	Singapore	0.4%
Tanzania		
1.	South Africa	10.7%
2.	China	9.9%
3.	India	6.1%
4.	United Arab Emirates	5.7%
5.	Kenya	5.4%
Zambia		
1.	South Africa	71.4%
2.	China	2.8%
3.	United Kingdom	2.8%
4.	Tanzania	1.7%
5.	India	1.7%
Zimbabwe		
1.	South Africa	51.2%
2.	Democratic Republic of Congo	6.1%
3.	Germany	2.7
4.	United Kingdom	2.5%
5.	Mozambique	2.5%
Source: Adapted from DFAT, 2004.		

Annexure B1: The Unrestricted Residual Sum of Squares

RES-BWA_	RES-LSO_	RES-MDG_	RES-MOZ_	RES-MUS_	RES-TZA_	RES-ZAF_	RES-ZMB_	RES-ZWE_
-284.8475	-102.1547	-656.8543	-698.5194	62.21832	-1713.769	-635.0526	-196.7408	-289.1616
-116.3232	-106.345	-515.5303	-616.0186	86.17015	-1367.956	-428.916	-173.9152	-352.2115
-6.261256	-163.1868	-420.9105	-486.0297	25.52032	-1063.478	-191.0965	-36.73693	-221.6623
7.80649	-52.37487	-296.0761	-417.1766	-4.130903	-650.827	-41.02348	-135.7317	-182.1045
1.877108	-114.9695	-121.1225	-44.61541	49.96857	-327.865	69.36757	-55.06369	-278.7852
-52.57988	-96.3254	84.83038	120.9985	-28.98668	141.6136	397.9338	70.92424	25.86916
10.84625	-35.78371	229.2056	382.6492	-46.45303	744.0619	500.6132	72.41915	228.6104
115.3939	104.3126	449.527	547.6824	-75.29892	1106.449	830.2872	89.73933	218.508
200.2233	258.5803	572.4823	505.8324	-73.37855	1404.751	-575.3063	156.091	275.997
123.8648	308.247	674.4485	705.1973	4.37072	1727.02	73.19305	209.0147	574.9405

RES-BWA_	RES-LSO_	RES-MDG_	RES-MOZ_	RES-MUS_	RES-TZA_	RES-ZAF_	RES-ZMB_	RES-ZWE_
81138.09826	10435.5827	431457.571	487929.35	3871.1193	2937004.185	403291.805	38706.94	83614.4309
13531.08686	11309.259	265771.49	379478.92	7425.2948	1871303.618	183968.935	30246.5	124052.941
39.2033267	26629.9317	177165.649	236224.87	651.28673	1130985.456	36517.8723	1349.602	49134.1752
60.94128612	2743.12701	87661.057	174036.32	17.06436	423575.7839	1682.92591	18423.09	33162.0489
3.523534444	13217.9859	14670.66	1990.5348	2496.858	107495.4582	4811.85977	3032.01	77721.1877
2764.643781	9278.58269	7196.19337	14640.637	840.22762	20054.4117	158351.309	5030.248	669.213439
117.6411391	1280.4739	52535.2071	146420.41	2157.884	553628.111	250613.576	5244.533	52262.715
13315.75216	10881.1185	202074.524	299956.01	5669.9274	1224229.39	689376.834	8053.147	47745.7461
40089.36986	66863.7715	327735.984	255866.42	5384.4116	1973325.372	330977.339	24364.4	76174.344
15342.48868	95016.213	454880.779	497303.23	19.103193	2982598.08	5357.22257	43687.14	330556.579
166402.7489	247656.046	2021149.11	2493846.7	28533.177	13224199.87	2064949.68	178137.6	875093.381 21299968.33

Source: own compilation.

Annexure B2: The Restricted Residual Sum of Squares

RES-BWA_	RES-LSO_	RES-MDG_	RES-MOZ_	RES-MUS_	RES-TZA_	RES-ZAF_	RES-ZMB_	RES-ZWE_
-2456.265	1943.993	-3260.378	-1021.483	706.8161	3342.41	378.4798	-4299.138	-3344.289
-3556.805	2152.539	-3209.459	-489.3777	264.2683	4114.138	798.7757	-3766.097	-1637.629
-4193.984	2797.733	-2613.86	-161.8834	528.561	5283.458	1271.466	-4342.454	-1599.26
-4190.817	2024.145	-2162.973	1134.562	521.8219	5577.463	1497.214	-2787.164	-847.9859
-4110.426	2712.964	-2076.981	-181.7287	96.41166	6574.91	1868.866	-2767.527	34.95692
-3503.898	2728.5	-2111.005	264.8023	792.4474	6359.049	2646.781	-3157.171	-574.1388
-3968.447	2119.486	-1452.863	-134.0881	982.4996	4954.719	2536.77	-2424.687	744.5659
-4820.232	1100.504	-1385.111	-120.8013	1291.495	5261.364	3047.047	-1763.342	1627.636
-5486.681	-30.52187	-451.9086	1390.84	1350.807	5908.768	-2655.28	-1576.857	2181.22
-5598.648	-323.6919	708.9627	1423.983	618.7109	6300.554	-819.9144	-1273.587	743.378
6033237.75	3779108.78	10630064.7	1043427.5	499589	11171704.61	143246.959	38706.94	11184268.9
12650861.81	4633424.15	10300627.1	239490.53	69837.734	16926131.48	638042.619	30246.5	2681828.74
17589501.79	7827309.94	6832264.1	26206.235	279376.73	27914928.44	1616625.79	1349.602	2557632.55
17562947.13	4097162.98	4678452.2	1287230.9	272298.1	31108093.52	2241649.76	18423.09	719080.087
16895601.9	7360173.67	4313850.07	33025.32	9295.2082	43229441.51	3492660.13	3032.01	1221.98626
12277301.19	7444712.25	4456342.11	70120.258	627972.88	40437504.18	7005449.66	5030.248	329635.362
15748571.59	4492220.9	2110810.9	17979.619	965305.46	24549240.37	6435202.03	5244.533	554378.379
23234636.53	1211109.05	1918532.48	14592.954	1667959.3	27681951.14	9284495.42	8053.147	2649198.95
30103668.4	931.584548	204221.383	1934435.9	1824679.6	34913539.28	7050511.88	24364.4	4757720.69
31344859.43	104776.446	502628.11	2027727.6	382803.18	39696980.71	672259.623	43687.14	552610.851
183441187.5	40950929.8	45947793.1	6694236.9	6599117.2	297629515.2	38580143.9	178137.6	25987576.5 646008637.7

Source: own compilation.