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Determinants of Exports from SADC and the Role of Market Access

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LIST OF ABBREVIATIONS

ACP	Africa Carribean Pacific
AGOA	African Growth and Opportunity Act
BLNS	Botswana Lesotho Namibia Swaziland
CAP	Common Agricultural Policy
CBI	Cross Border Initiative
COMESA	Common Market for Eastern and Southern Africa
CU	Customs Union
DRC	Democratic Republic of Congo
EAC	East African Community
EPZ	Export Processing Zone
EU	European Union
FCA	Foreign Currency Accounts
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	General System of Preferences
IMF	International Monetary Fund
LDCs	Least Developed Countries
NTBs	Non-Tariff Barriers
OECD	Organisation for Economic Cooperation and Development
OGIL	Open General Import License

PTA	Preferential Trade Area
RIFF	Regional Investment Facilitation Forum
SACU	Southern African Customs Union
SADC	Southern Africa Development Community
SADC FTA	Southern Africa Development Community Free Trade Area
SAPs	Structural Adjustment Programme
SME	Small to Medium Scale Enterprise
TDCA	Trade, Development and Cooperation Agreement
TNC	Transnational Corporation
TNF	Trade Negotiation Forum
WB	World Bank
WTO	World Trade Organisation
DTI	Department of Trade and Industry
IMF	International Monetary Fund

1. INTRODUCTION

1.1 The Objectives of the Paper

The paper will examine the structural characteristics of the SADC economies and its lop-sidedness in terms of size and patterns of production, consumption and trade. This basic problem of the transformation of the economies in the sub-region will constitute an important part of my analysis of the determinants of exports from SADC. Though the picture of the economic performance of a few of the Southern African economies appears to be improving, the region's economies are still characterised by poor manufacturing capabilities, declining market share in international markets and a sluggish economic growth.

The paper will also provide a comprehensive overview of the multifaceted issues that act as deterrent to growing trade in the SADC region. In doing this, the paper examines the factors influencing the performance of SADC economies. The paper argues that until policy makers constantly address the issues ranging from the macro-economic factors such as price stability, foreign exchange regimes and gross capital formation, first at the domestic level, efforts at trade liberalisation at the regional and international level though not meaningless, will not deliver growth in trade from the region.

It is the intention of the present paper to drive home a message that for trade to develop and grow at the regional level, the policy makers have to start the game at the national level, focusing on those macro-economic strategies that enhance stability such as retention of skilled labour, infrastructure, monetary policies and constantly fine tuning these policy instruments to be in line with trade policies espoused at the regional level. The determinants of exports growth from SADC will ultimately be influenced by the structural changes taking place in these economies and the supply-side constraints bedevilling the individual economies of the region.

1.2 The Structure of SADC economies

The SADC economies are dominated by services, manufacturing, agricultural and mining sectors. The value of SADC's output and GDP is dominated by the services sector (which include tourism, transport and business services) followed by manufacturing. Of the total projected GDP for 1996 amounting to US$159.2 billion for the SADC region, 84 per cent or US$133,8 billion was accounted for by South Africa (Bronstein, et al, 1996: 28). The second and third largest economies of SADC, Angola and Zimbabwe are in deep trouble in terms of their economic performance. This is compounded by very low GDP growth rates in SADC with some countries even registering negative rates between 1995 and 2000 (Table 2). The service and manufacturing sectors are also the largest import sectors, therefore suggesting a lop-sided openness and excessive dependence of the economies on external factor inputs. The highest employer is the services sector (44%) followed by agriculture (37%), while the value of exports of agricultural and mining products was greater than imports, the opposite was true of manufacturing sector (Valentine 1998: 6).

The countries whose structure of production is dominated by agriculture and mining sectors are Angola and Tanzania. Highly agriculturally centred economies are those of Malawi, Mozambique and Tanzania, while Angola, Botswana, D R Congo and South Africa are mining centred economies. The countries where at least over 20 per cent of production is dominated by manufacturing are Mauritius, Mozambique, South Africa, Swaziland, Zambia and Zimbabwe. The SADC manufacturing sector's export is dominated by South Africa accounting for about 88% of total SADC exports, with Zimbabwe's manufactured exports regarded as more diversified and sophisticated than those of other member states other than South Africa, accounting for nearly half of total exports.

The intra-SADC trade is mainly dominated by unprocessed primary commodities going to South Africa and Zimbabwe, and manufactured goods and semi-processed intermediate goods going the other direction. There is however considerable cross-border trade in tourism and business services mainly in favour of South Africa. Mineral exports account for around two-thirds of SADC's total exports (ADB Report, 24). In the late 1990s mining provided about 60% of SADC countries foreign exchange earnings, 10-11% of regional GDP and about 5% of formal employment (Ibid). Whereas SADC's manufacturing sector exports accounted for only about 0.3% of the worlds manufactured exports and contributed less than 5% of the region's total production.

The manufacturing sectors of the SACU economies excluding South Africa are still undeveloped and do consist mainly of small consumer-oriented industries. For the SADC region as a whole, manufacturing sector production is slightly higher in value than the mining production (22% compared to 20%), but the services sector has the highest share of value at 58% of GDP.[1] The services sector production formed the largest percentage of total production (over 50%) for SACU countries as well as for Mauritius and Malawi.

2. MACROECONOMIC FACTORS

In general the most prominent factors impacting on competitiveness, diversification and performance of exports are the country's macroeconomic (fiscal, monetary and trade) policy environment as well as incentives/ regulatory policies. These policies either provide the basis for domestic industries to pursue competitiveness or deny them to do so. In short, consistent and sound macroeconomic economic policies, coupled with fiscal prudence provide and nurture the availability and growth of basic factors of production, which are essential for exports growth.

The growth and diversification of exports in the SADC region hinges on the structural changes taking place in the respective economies. Almost all countries in Southern Africa have embarked upon and are proceeding with the restructuring of their economies towards responsiveness to regional and international market forces. A certain degree of convergence of their incentive structures and key macroeconomic parameters are taking hold[2]. However, it is the unstable macroeconomic conditions in the region, which have led to the implementation of unstable trade policies.

[1] See Nicole Valentine (1998) *The SADC's Revealed Comparative Advantage in Regional and International Trade*, Development Policy Research Unit, University of Cape Town

[2] Review of the ADB Report, Economic Integration in Southern Africa, Industry, Infrstructure, Water, Wildlife and Tourism (Draft) 1995, 2

It has been observed that South Africa, Botswana and Mauritius are the most stable SADC economies, while Mozambican, Tanzanian and Zambian economies have of late improved significantly, having managed to reduce inflation to a figure below 10%, and those of Malawi and Zimbabwe have inflation rates of around 20% and over 100% respectively with the latter not only registering very high inflation rates but also experiencing an extremely overvalued exchanged rate and high budget deficits[3]. The major cause of instability in SADC economies has been the high budget deficits run by governments in anticipation of monetary policy to counter the adverse effects of the deficits, which has not been possible due to the weaknesses inherent in the financial sector.

2.1 Price instability

High inflation levels have also become a significant obstacle to production of exports as they often translate into high costs of inputs as well as other domestic costs of production. The high inflation rates are often caused by high budget deficits, weak monetary policy and rise in costs of imports. Part of the inflation rate in Lesotho, Namibia and Swaziland is imported from South Africa due to their high volume of trade under SACU and the common monetary area. High rates of inflation undermine attempts to create export-oriented industries and also the competitiveness of economies in the global environment. In addition to other constraints discussed above warring countries like Angola, D R Congo and of late Zimbabwe have average inflation rates way above that of other SADC countries, showing the extent to which production is severely affected (See Table 1).

Price controls introduced by Seychelles, Zambia and Zimbabwe to combat the high inflation has further constrained production through creating shortages of essential inputs whose prices are controlled. This often translates into reduced levels of exports, as domestic supply shrinks. There is therefore need for SADC countries with runaway inflation to stabilise their economies. The region's inflation could be brought down to sustainable levels if the causes are addressed. The prominent causes of inflation namely overvaluation of currency and excessive growth in money supply have to be addressed first at the national level. Overvaluation of currency has been the fuelling factor to thriving black markets with ever depreciating exchange rates destabilising prices (as in some instances producers are forced to acquire inputs through these exorbitant rates and passing on the burden to consumers). It is important that currencies be properly priced, by constantly reviewing exchange policies. There is need for growth in money supply to be accompanied by growth in productivity. For policy makers it is not trite to say that growth in money supply undermines export competitiveness through raising the level of inflation.

2.2 Foreign exchange regimes

In some SADC countries lack of sound and stable foreign exchange regimes has been an impediment to export development. The exchange rate control policies often result in the overvaluation of currency and loss of export competitiveness. Those SADC countries with pegged exchange rates have been prone to foreign currency shortages

[3] See Dr Moeketsi Senaona ed, *John Shields presentation in* "The SADC Macroeconomic Convergence Workshop". Technical Report 2001

and thriving parallel markets, e.g. in Angola, Seychelles and Zimbabwe. Though liberalization of the financial reforms has long been set in motion under the structural adjustment programmes (SAPs) supported by the World Bank and the IMF, in some SADC economies the policies were implemented half-heartedly due to perceived donor pressure and conditionalities and hence they have lacked credibility. Some countries have since reversed flexible exchange rate policies and re-imposed financial controls, thus impacted negatively on investment growth as many investors become reluctant under such conditions to make sizeable and largely irreversible long-term investments. An extreme example of a distorted exchange rate is the case of Zimbabwe where the parallel market rate is twelve times higher than the official rate of the local currency unit.

Foreign exchange allocation systems have also been a contributing factor to the poor performance of exports. Certain countries in the SADC region require that there be central bank's approval for any repatriation of profits by private investors or foreign currency purchases. In South Africa, Mauritius, Botswana however, authority has been delegated to commercial banks and *bureaux de changes* and there are no exchange controls on imports. In other words the institutions that are licensed foreign exchange dealers can advance funds based on commercial invoices. In Botswana and Namibia for example, the abolishing of exchange controls, has enabled commercial banks to issue foreign exchange without prior approval of the central bank and also resident firms to hold foreign currency accounts (FCAs). However the rationing of foreign exchange is still prevalent in countries like Zimbabwe and Seychelles which hampers the process of acquiring inputs, replacing and repairing of worn out machinery. The unfavourable macroeconomic environment is undermining the effectiveness of export incentives such as duty drawbacks, export retention schemes and FCAs which are meant to assist the exporters with acquiring the necessary inputs. As a core of policy environment misaligned foreign currency regimes have created distortions with pervasive influence on the whole structure of prices and pattern of production in an economy.

2.3 Gross capital formation

High budget deficits, which have culminated into unserviceable debts, are a common characteristic of SADC economies. The high interest rate burden has had a further dampening effect on government efforts in creating conducive environment for investment. The lack of proactive policy measures to expand the country's basic infrastructure in urban areas (workspace provision such as factory shells, commercial stands, communication facilities and electricity), and in rural areas (water, roads, communications, marketing channels, agro-industry etc) in many SADC countries is to a large extent a result of inadequate funding. This can be attributed to the investors' failure to modernise their outdated and worn-out machinery, particularly in view of stiff local, regional and international competition.

In the SADC region and the world in general transport costs constitute a significant part of total production and marketing expenses. The high transport costs have often translated into high marketing costs thereby making the export less competitive. In addition to all this there has generally been an urban bias in the development of infrastructure in the region, which is attributed to the poor contribution by rural business people to overall exports. As the technological development in Africa has not kept pace with the rest of the world, the flow of production gets disturbed by intermittent breakdowns due use of outdated equipment with high fault rates.

A variety of policy distortions that often result in the lack of competition such as soft budgets for state owned enterprises and the agency problem that allow managers of enterprises to operate inefficiently are barriers preventing enterprises from operating efficiently[4]. Policies governing factor mobility as well as resource barriers such as managerial and technical skills have also been contributing factors to enterprise performance. Government created monopolies for marketing either agricultural produce or minerals have also led to inefficiencies in exporting commodities and price distortions[5]. The price distortions have become a disincentive to many export producers resulting in low production. A great deal of fiscal discipline and commitment is needed at both the national and regional levels to ensure that developmental projects (not only those benefiting exporters) are successful and not wasteful of resources.

3. INFRASTRUCTURE, SOCIO-POLITICAL AND HUMAN RESOURCES POLICIES

Trade liberalisation measures are important in promoting exports, but it should also be noted that infrastructural development, socio-political and human resources development and retention are equally important. Though almost all SADC member states have undertaken trade reforms, it is important that policy makers realise that their success hinges on the state of these factors as well as the macroeconomic factors discussed above.

Infrastructure: The basic conditions of infrastructure (physical, institutional, socio-political, human) with which firms exploit technology are lacking in the SADC region. In SADC region poor state of infrastructure has been the major obstacle to investment. The availability of telecommunication facilities is just part of the problem for example in Malawi only about 350 international telephone calls can go through at any one time, and also inadequate e-mail and internet services only found in few areas. Generally the rates charged for communication system are often higher in SADC countries compared to OECD and other African countries (O`brien 1997,2-7). The reliability of the communication systems and other infrastructure is yet another problem.

Poor infrastructure has been a major drawback in promotion of private investment and diversification of exports especially among less industrialized SADC countries like Tanzania, Mozambique, Malawi, Zambia and some BLNS states. The availability of well-serviced industrial land is also a very crucial factor in attracting investments. Water supplies are a major problem in some SADC member states with fairly large factories often forced to run several boreholes on their own at high utility charges. Poor road and railway networks are also constraining factors (Ibid). In countries like

[4] AfDB Report, Human Capital Development, 1998, 49
[5] Ibid, 39-42

Zimbabwe, Mauritius, South Africa and Botswana notable achievements have been recorded though a lot more is still needed. However in countries like Mozambique, Zambia, Malawi and Tanzania not much development has transpired due to inadequate funding and lack of machinery. Poor infrastructure reduces availability, reliability and increases the operating costs hence adversely affecting export performance.

In addition lack technological advancement has also culminated into uncompetitive exports. The rate of relevant technological innovation has been quite slow in the whole of Africa not just in the SADC region. This has been partly due to inadequate research and extension facilities especially in the agricultural sector.

Land policy: This is one of the most crucial factors in agricultural and industrial sectors. Generally land issues are regarded as very sensitive matters often taken as political and cultural matters not just in SADC region alone. This has contributed to land disputes, often resulting in civil wars, political and economic instability. What has adversely affected export performance in SADC region with regards to the land factor has been the inappropriate land policies. In some SADC countries, the land allocation process has been characterised by lack of proper legal basis and also plagued with frequent allegations of impropriety and lack of transparency. A vague selection criterion is often used in some cases allowing governments to confiscate any agricultural land at its own price, with the owners having no recourse to the judiciary or other mechanism for an alternative assessment of the price or method of sale or disposition of the land. Zimbabwe and to a lesser extent Tanzania provide good examples of this sort of behaviour. Lack of transparency and proper legal instruments defining and protecting property rights have undoubtedly been a major stumbling block to private investment, which contribute substantially to exports in the region.

SADC's agricultural and agro-related sectors exports have also been influenced by climatic conditions. The intermittent drought faced by some SADC countries has been one of the main causes of drastic reduction agricultural yields and the output of related sectors. Floods have also been a contributing factor to poor yields. Countries most prone to floods include Mauritius, Mozambique and those severely affected by drought in recent years include Zambia, Zimbabwe and Botswana. The poor climatic conditions have also resulted in compromised quality of agricultural exports or manufactured agricultural products.

Human resources development: Skilled labour that allows for specialisation and efficiency is in short supply among SADC countries, which is a major problem facing production units. This has been a major drawback in improving levels of exports in SADC bearing in mind that in the context of globalised economic environment, which is knowledge-based, the conventional comparative advantage of raw materials and unskilled labour is increasingly becoming insignificant. High quality services such as accounting, management, production engineering, design, packaging, processing, quality control etc. are crucial for export survival. SADC countries like Zimbabwe have invested a lot in human capital yet only to lose this precious factor through brain drain to the more advanced economies. This is due to poor working conditions and extreme deterioration in real wages and salaries. Civil unrest also has contributed loss of skilled personnel for example in countries such as Angola, DRC and more recently

Zimbabwe. SADC countries, which have experienced rising indebtedness, rapid inflation, budgets deficits, real incomes have fallen dramatically, especially in the public sector.

The high labour costs associated with skilled personnel are also a significant constraint to export production and investment, as has been the case in Mauritius. Minimum wage controls constrain producers resulting in either reduced output or expensive commodities therefore having a bearing on the competitiveness of products. However in some countries the minimum wage is determined by collective bargaining between employers and employees.

Availability and accessibility of capital: are important factors in determining production and export performance. SMEs in the SADC region have not been contributing much to exports as they tend to be sidelined by banks when extending credit facilities, while top priority is given to large-scale operators, who in most cases are foreigners and transnational companies having a wide choice for raising capital externally through home-country equity markets, local financial institutions and international capital markets. The main reason for the discriminatory behaviour has been the lack of collateral by the SMEs. Though the accessibility problem has been slightly eased through financial reforms, the cost of capital has since been skyrocketing to unsustainable levels thereby slowing down investment. Countries with diversified and sophisticated financial systems such as South Africa and Zimbabwe have been able to set up special financial provisions for exporters whereas in many SADC economies there is urgent need for financial deepening. The cash flow problems faced by domestic firms coupled with weak currency has prevented firms from achieving the full potential of their capacity.

It is not only the access to funds and the cost of servicing the debt hindering production, but also poor financial management within exporting institutions as well as aspiring ones. This has often resulted in heavy indebtedness hampering chances to expand operations.

4. SADC's TRADE POLICY REGIMES

4.1 Shifts in the region's trade regimes

Trade policy orientations in many SADC countries have been characterised by shifts between protectionism and liberalisation. The trade policy shifts first moved from the pre-independence trade policies that were designed to serve the metropolis, followed by the heavily protected import substituting industries policies of the 1980s which were characterised by control of imports through licensing, quotas, high tariffs, administrative exchange rate allocation and various non-tariff barriers. Only a few countries [Mauritius and to some extent the SACU] had liberal trade regimes.

However by the early 1990s, SADC countries with support of the International Financial Institutions [IMF and WB] had embarked on autonomous structural adjustment market oriented programmes of which trade liberalisation was a key component. Subsequently, a number of countries made commitments to reduce tariffs further under the multilateral umbrella of the Uruguay Round. Existing and potential regional integration arrangements such as COMESA (and its predecessor PTA), the Cross-Border Initiative (now Regional Investment Facilitation Forum)[6], and the SADC Trade Protocol have among their objectives, further liberalisation of trade. Trade liberalisation has seen the lifting of restrictions on trade through removal of non-tariff trade barriers and the reduction of tariffs.

Thus, most of SADC countries although at various levels are pursuing more open trade policies by further liberalising trade within regional and multilateral framework. Trade liberalisation is seen as a vehicle to enhanced domestic productivity, efficiency, improved quality and low prices, which ultimately lead to improved consumer welfare. For many SADC countries their trade policy is guided by rules and discipline of regional and multilateral trade arrangements to which they are members. Generally, trade policy of SADC is guided by the WTO disciplines, structural adjustment program supported by IMF and World Bank, ACP-EU Cotonou Arrangement, AGOA, SADC trade protocol, COMESA free trade agreement, SACU and EAC as well as bilateral agreements. The common denominator in terms of trade policy orientations and objectives include[7]:

- Commitment to autonomous trade liberalisation which many countries embarked on even before WTO was established and before the SADC trade protocol or COMESA free trade area launch;
- Commitment to regionalism [regional trade liberalisation] as building blocks towards multilateralism;
- Seeking increased market access for their exports in the world markets;
- Utilisation of preferential market access currently available under AGOA, ACP-EU Agreement and WTO especially for LDCs;
- Pursuing a significantly liberalised economy based on tariffs and increased market access for their products especially the EU market;
- Trade policy is guided by adherence to WTO rights and obligations with government policy and regulation attempting to codify each country's WTO obligations;
- New trade policy focuses on the promotion of exports and the maintenance of open markets abroad;
- Use of trade defence instruments in place of NTBs.

Thus to some degree, various levels trade policy objectives of SADC states are generally compatible. They all follow one direction of trade liberalisation, commitment to WTO obligations, pursuance of export led growth, seeking increased market access for their products in regional and world markets and use of tariff based protection in place of NTBs, rationalising and lowering tariff structure.

[6] Of the fourteen countries participating on the CBI programme, eight are SADC states namely: Malawi, Mauritius, Namibia, Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe. The CBI programme and agenda is supposed to complement and not compete against the regional economic integration programmes of the Southern African RIAs (SADC and COMESA). CBI was transformed into the Regional Investment Facilitation Forum (RIFF) in May 2000 in Mauritius. Unlike the CBI the RIFF has placed ownership in the hands of the participating states.[6] South Africa is currently an "observer", most probably as a prelude to joining the RIFF.

[7] For details see "Impact Assessment of EPAs" SADC Secretariat/ACP Secretariat, 2002, memo, Chapter 3

But what always varied was the level of commitment and consistency of trade policy among member states. Countries that have carried out trade policy liberalisation consistently include the SACU group (excluding SA), Zambia, with its "big bang approach", Mauritius, Mozambique and Malawi. On the other hand, in some countries and for various reasons such as economic failure, politics and power of industrial lobbyists there is some inconsistency between official position on trade policy and practice including trade policy reversals. For example, Zimbabwe recently imposed controls on some imports and exports, increased tariffs on selective products, and introduced price controls including exchange rate controls, which directly affects trade performance. Tanzania recently, and so did Lesotho and Mozambique earlier, withdrew from COMESA just in time for the launch of the free trade area, which meant implementation of zero duty. South Africa continues to maintain some quota restrictions on imports from non-SACU countries particularly affecting Zambia's exports from the region.

SADC trade policy has also to contend with the demands of the SADC-FTA into a full fledged FTA by 2012 and thereafter a transformation into a customs union thereafter; the demands for the negotiation of a SADC/EU EPA. In the ideal situation, to sign an FTA with the EU, SADC must be an effective free trade area or customs union such as SACU. Thus, *progress of regional integration processes* need to be achieved in a very short time at least before the launch of the negotiations an impossible task for SADC. The experience of the SA-EU TDCA shows that tremendous negotiations capacity is required yet *trade negotiation capacities* of SADC as evidenced from the SADC TNF are very weak. In addition the SADC secretariat has neither capacity nor mandate to negotiate on behalf of its members

A free trade area with the EU may threaten the fragile political cooperation in SADC for various reasons, namely:

- The threat of a differential treatment for non-LDCs and LDCs in the same region;
- The situation where LDCs are guaranteed of continued preferential market access in the EU therefore have no interests in negotiating reciprocal arrangements with the EU;
- For the non LDCs, if they choose something apart from EPA are likely to end up with less favourable market access in the EU compared to Lome Arrangement;
- South Africa has already concluded a free trade agreement with the EU, which entails that the BLNS are defacto part of that agreement without negotiating it.

In view of these difficulties a strong political will is needed and the SADC need to know the support they can get from the EU. It also seems that rejection of an EPA is no more a choice because doing so risks losing EU aid, preferential market access and the important commodity protocols. On the other hand, by deciding on EPAs they would be giving priority to maintaining political links with the EU and its member states over their own sovereignty in trade policy matters.

In this context the entry into force of an EPA between SADC and EU will engender shifts in economic and trade policy, particularly to take care of revenue losses, adjustment costs, increased competition and commitments, which these countries have undertaken within regional and multilateral trade arrangements.

4.2 Registration and licensing procedures

Policies involving registration and licensing of new domestic and foreign investments have been a stumbling block in improving investment levels. Registration and licensing of new business have since been reviewed with countries like South Africa, Botswana resulting in notable improvements in investments. The inefficiency and complexity associated with the process of registration, and licensing is a significant constraint on the exports performance. Up to the mid 1990s in Tanzania for example businesses were required to obtain a number of "one time" licenses in the process of formation including a certificate of approval from Investment Promotion Centre, certificate of incorporation from the Registrar of Companies, an Industrial License and Certificate of Registration from the Registrar of Industries. In addition annual licenses are also required and other specific licenses[8]. The same applies for countries like Zimbabwe[9]. South Africa, Botswana and Mauritius however, have a fairly straightforward registration and licensing process.

4.3 Export incentives

Institutional mechanisms such as modification of tariff schemes to exempt exporters from protective tariffs on imported inputs (duty drawbacks, waivers, exemptions and rebates, bonded warehouses), foreign direct investment promotion (tax rebates or holidays, agreements to avoid double taxation, exemption from trade duties, preferential interest rates, unrestricted investment licensing, liberal capital repatriation schemes, liberalization of equity capital ownership guidelines are essential for export growth. Investment schemes aim to increase domestic firms' exposure to foreign technologies and offshore production marketing partners. In addition export promotion schemes such as export market development projects, export promotion boards, trade fairs, exporter training programs, market information systems etc. are equally important as they represent efforts to improve export production/ marketing abilities (Salinger and Savaresse, 1996, 15).

Despite all the above, barely half of SADC countries have established export promotion arrangements such as the Export Processing Zone (EPZ). Mauritius is the only country with the longest and successful record of operating EPZ schemes, but of late these are being threatened by high flight rates and long transit times. EPZ schemes have been beneficial in that they provide key exemptions to trade related taxes and corporate taxes. EPZ schemes have been criticized because of the cumbersome export licensing and registration requirements, prior to shipment of goods, which render export promotion efforts ineffective.

Export incentives implemented in the SADC region include tax holidays for export-oriented investments, duty free imports of equipment, raw materials and spare parts,

[8] Kenya Export Development Support Project"Export Competitiveness study Vol 1: Comparative analysis. January 1994. Draft Final Report.

[9] Ibid.

duty drawbacks, bonded warehouses and export retention schemes. The removal of duty has to an extent improved capacity utilization by enabling firms to rebuild the fixed capital equipment and restructure industry through exposure to competitive forces. The export retention schemes are generally argued to be under utilized and to have become ineffective because of widespread access to foreign currency and unification of exchange rates as was in the case of Tanzania and Zimbabwe in the late 1990s[10]**.** Delays in payments of export rebates, which allows producers to acquire necessary inputs for production is a major weakness in the region.

Export credit insurance has been recognized as an important factor in stimulating non-traditional exports and diversification of markets with countries like Botswana taking a leading role in implementation. The aim of export credit insurance is to promote exports by covering against the risk of foreign buyers' failure to pay because of either commercial failure or political and economic problems such as civil wars and foreign currency shortages.

4.4 Trade barriers

Trade within the SADC region is regulated by national tariff and trade regimes, by Preferential Trade Area (PTA) agreements, by the SACU agreement, COMESA and by bilateral agreements among individual member states. Import tariffs presently in place are generally intended to hold down the cost of importing intermediate and capital goods to domestic producers of consumer goods.

Non-tariff barriers are far more significant than tariff barriers in impeding intra-regional trade. The NTBs include constrained ability to pay as well as policies of sourcing financial assistance on imports. Whilst multilateral agencies enable importing countries to source imports, OECD bilateral donors continue to tie 30% of the financial aid to finance their own exports. This clearly limits the scope of imports to be sourced from within the region[11]. Import licensing and quotas are implemented in most cases as a way of rationing imports due to foreign currency problems (with the exception of imports traded under OGIL). High transport costs of moving goods within the SADC region are also considered to be significant. NTBs emanating from the high cost of spare parts, difficulties in mobilising and marshalling railway stock and poor state of the road networks and in case of sea transport the lack of "back load" in countries with ports. Border controls and permit requirements, which often cause delays in transportation of goods due to individual country requirements for a range of forms and entry fees. In addition lack of market information on availability of products and prices[12] is also affecting trade.

4.5 Sensitive products and urge for protectionism

The sensitivity of sectors is based on their degree of influence on key economic variables such as employment, foreign currency, share of contribution to GDP and share of exports. In the SADC region agriculture and manufacturing sectors are major

[10] Ibid, 47

[11] Economic Integration in Southern Africa, Integrating Regional Markets and Infrastructure Volume 2 1993, Great Britain, Oxford Limited.

[12] Economic Integration in Southern Africa Executive Summary, African Development Bank 1993.

contributors to economic growth and employment thereby making most of affiliated products sensitive. Sensitive products in the agricultural sector include cereals, food processing and dairy products (Imani Development, 1998, 103). In the manufacturing sector sensitive products include textiles, clothing, meat, beverages, leather and footwear (Ibid). The major issue regarding the sensitive products in trade liberalisation is how much time should be given to allow sensitive products to adjust to market competition before removing of tariffs. In the case of SADC the guidelines of set out at the 9th TNF held in Maputo included the following[13]:

- Product sensitivity
  - i) The guidelines for selection of sensitive products should be based on the impact on revenue, employment and domestic industries;
  - ii) Member states must provide their reasons to justify their lists of sensitive products;
  - iii) Member states must also provide steps that they intend to take with regard to the reduction of tariffs on sensitive products.
- Product coverage
  - i) The SADC FTA should cover substantially all trade;
  - ii) The list of sensitive products should be kept as small as possible.
- Dynamic concept
  - i) Since sensitive products are likely to change over time, member states should be encouraged to review their lists of sensitive products regularly with a view to move such products to either gradual or immediate liberalisation lists;
  - ii) Member states agreed to hold a general review meeting on tariff reduction schedules not later than 4 years after entry into force of the Trade Protocol.

The biggest impediment to trade liberalisation is the stance by SADC member states to hold on to protectionism at all costs at the intra-regional trade level, while at the same time preparing themselves for opening up their economies with the rest of the world. The preparation of negotiating and entry into the EPAs, marks a process of deepening regional integration between a much less developed SADC region and much more developed EU economies. While this process allows the two groups of countries to have voluntary access to each other's markets, it must also prepare for the adjustments of macroeconomic stability, types of trade regime, factor endowments, and degree of political stability.

Currently SADC must initially address the critical issue that militates against the progressive movement towards the spirit and letter of Article 3 (c) of the SADC Protocol. This article allows member countries to protect their trade regime with safeguard measures should they feel that imports threaten their domestic industry. This provision, if used too freely can frustrate SADC's trade liberalisation as it goes against the spirit of trade liberalisation, in that the latter by its nature results in trade creation or trade diversion, thereby resulting in gains or losses for the trading partners. Within the static and dynamic context of a regional integration arrangement like SADC, gains and loses will obviously occur if the reduction or elimination of trade barriers causes the replacement of inefficient domestic industries in one member state

[13] Margaret Lee,Challenges to Regionalism in Southern Africa, forthcoming, 218 - 219

by a relatively more efficient industry of another member country. Trade creation may also occur when there is displacement of a less efficient external supplier by a more efficient producer within SADC.

SADC should also be worry about is a form of trade diversion that will result from a distorted form or a relatively simple form of the 'rules of origin' which can be a cause for serious complications when attempts are made to implement the 'rules of origin'. This factor is likely to be made more complex when member countries face the impacts of entry into an EPA or from other FTAs, e.g. the impact of the EU-SA-FTA. For a smooth transformation of SADC towards market integration and entry into an EPA the potential adjustments on trade and polices must take into account (a) the necessity to prevent the region from further marginalisation within the world economy; and (b) the fulfillment of the objective of fostering market integration and/or economic integration that is linear progression in degrees of integration from free trade area, customs union, common market to an economic community.

5. MARKET ACCESS

5.1 International Players with regard to market access

The non-reciprocal trade preferences to ACP states, which were granted by the EU since 1975 at the beginning of Lome I Convention including tariff and non-tariff preferences have been rolled over under the Cotonou Agreement until December 2007. This is to allow for negotiations for new trade arrangements. The agreement provides that as from January 2008, there is a new set of reciprocal trade agreements, termed Economic Partnership Agreements (EPAs). In essence the new Free Trade Areas (FTAs) will replace the current trade regime. These new agreements should be WTO compatible by meeting provisions of Article XXIV of GATT and covering "essentially all trade." Due to the nature of its preferences, the Cotonou Agreement has been notified to the WTO and the parties have applied for a waiver.

One major initiative of market access by SADC countries is through the route of the triad blocs of the major developed countries, the current Africa Growth and Opportunity Act (AGOA) initiated by the USA and the proposed future ACP-EU trade cooperation arrangements aiming at promoting trade between the ACP states and the EU and amongst the ACP states. These triad blocs' initiatives, while ensuring a better balance in the trade of the cooperating parties, have as their main objective the promotion of the progressive integration of ACP countries into the global economy by enhancing production and attracting investments. But are these cooperation arrangements, while being WTO compatible at the same time meant to accommodate the special and differential treatment of countries according to levels of development? This could mean graduated preferences and phased or asymmetrical liberalisation with sufficient transition periods.

5. 2 Market Access for non-agricultural products under Doha

In Doha the WTO declared that a new "work programme" had been agreed and acceptable to all of the organisation's member states with the following agenda: (i)

new multilateral trade organisations to begin in January 2002 and to be completed by 1st January 2005; (ii) negotiations on the so called "new issues" which are not currently covered by WTO agreements – trade and competition policy, trade facilitation and investment, and transparency in government procurement – to only take place after the Fifth Ministerial in 2003 if an "explicit consensus" exists among WTO members and (iii)
WTO was mandated to continue exploratory work and study on many other trade-related issues.

The ministers agreed at Doha to launch tariff-cutting negotiations on all non-agricultural products on the following issues[14]:
"To reduce, or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries". It is stated that these negotiations shall take full account of the special needs and interests of developing and LDCs, and recognize that these countries do not need to match or reciprocate in full tariff-reduction commitments by other participants. The participants have to reach agreement on how ("modalities") to conduct the tariff-cutting exercise. The agreed procedures will include studies and capacity-building measures that would help LDCs participate effectively in the negotiations. Several options of the modalities are to be taken into account, e.g. in the Tokyo Round, the participants used an agreed mathematical formula to cut tariffs across the board; in the Uruguay Round, participants negotiated cuts product by product. In the WTO "work programme" launched at Doha a formula or several formulas will be found to conduct the tariff-cutting exercise.

While average customs duties are now at their lowest levels after eight GATT Rounds, certain tariffs continue to restrict trade, especially on exports of developing countries — for instance "tariff peaks", which are relatively high tariffs, usually on "sensitive" products, amidst generally low tariff levels. For industrialized countries, tariffs of 15% and above are generally recognized as "tariff peaks".

The practice of "tariff escalation", in which higher import duties are applied on semi-processed products than on raw materials, and higher still on finished products is another example tariff barrier used by industrialized countries. This practice protects domestic processing industries and discourages the development of processing activity in the countries where raw materials originate.

The key dates for negotiations on market access on non-agricultural products are: (i) January 2002 as the starting date of negotiations, (ii) 5th Ministerial Conference, in 2003 (in Mexico) as the stock taking target date, and (iii) 1 January 2005, as part of "single undertaking" deadline. But from SADC as a region the member states' several concerns include the question of how to deal with the recognised position of the fragility of the economies of the LDCs as a distinct ACP group within SADC states. Under the ACP-EU Trade Arrangement, the EU has provided that this category of countries do not have to negotiate for new trade arrangements in order to continue enjoying non-reciprocal preferences.

[14] The Doha Declaration explained, WTO, 4

Negotiations for EPAs due to begin in September 2002 with the new trade arrangements coming into force on 1st January 2008 aim to achieve free trade areas within a stipulated period. It is also envisaged that some financial aid will be negotiated for and provided to compensate ACP states for the costs of trade liberalisation and economic restructuring.
As from March 2001, the EU opened its market to "Everything But Arms" (EBA), extending duty and quota-free access to all imports from all LDCs except arms[15]. In this context EBA will further complicate the configuration of negotiating groups for the proposed EPAs. E.g. it may not be in the interest of Malawi, Mozambique and Zambia to negotiate an EPA in the same group with Zimbabwe and Botswana

In addition to non-LDCs SADC member states, there is also the unique position of South Africa a non-LDC and non-developing country excluded from benefiting from most of the provisions of the Cotonou Agreement, has concluded a TDCA that was signed in October 1999. The TDCA, which meets the requirements of the WTO Article XXIV of GATT of 1994, includes provisions for financial assistance, trade-related issues, economic cooperation and a Free Trade Area by the year 2012 after asymmetrical liberalisation of trade between the two parties.

5. CONCLUSIONS

The study has concluded that the development of exports in the SADC region heavily depends on domestic macro-economic environments. It is therefore important that exchange rate, pricing and infrastructural policies be taken seriously by policy makers as driving factors for export development. However there maybe need for regional consented efforts in terms financial resources and expertise if this is to be realised.

In terms of trade liberalisation, perhaps the most fundamental change has been the gradual opening of the economies of the Southern African region to pressures from international competition. The main reasons for this growing exposure stems from regional and multilateral trade negotiations, including the renegotiation of the SACU Treaty, negotiations of the SADC FTA, and the implementation by SACU of the WTO agreements. Increased competition resulting from lower trade barriers has been reinforced by more efficient transportation, which enables foreign goods to reach Southern African markets more cheaply and thus increase import competition. The combined effect of tariff reductions, lower transportation costs and productivity gains by foreign suppliers makes it essential that domestic policy be directed towards high productivity growth and increased competitiveness.

However, in terms of market access, for developing countries especially the LDCs market access has become a chicken and egg issue. On one hand developed countries make market access available to developing countries, especially LDCs, while on the other hand, these countries fail to have production capacities to export into these markets. Still on the other hand, those non LDC countries that have capacities to

[15] The only variation is that liberalisation for sugar and rice will be in 2009 and for bananas in 2006, with the LDC's being given annual increases of 15 percent in the quotas for sugar and rice until full liberalisation is achieved.

export into developed countries are denied market access through a variety of means, including NTBs, tariff peaks on those countries' so called 'sensitive' products, and the rampant use of subsidies [CAP in the EU and US subsidies].

The role of access to markets as offered under various multilateral facilities such as the Cotonou Agreement, and the WTO Doha declaration does take into account the various permutations of how SADC countries will take advantage of the market access, given the three tier structure of the regional economy: the LDCs, the developing country category [Mauritius and Zimbabwe] and South Africa classified as developed country. Primary commodities have accounted for almost $4/5^{th}$ of the Africa's total exports in the region over the past two decades. The most contributing factor being failure by some SADC countries to break into fast growing export markets for high-tech/advanced technology and sophisticated manufactured goods. Thus while in theory market access does play a significant role in enhancing export diversification, in practice countries in the South do find insurmountable hurdles in their endeavour to exports into the developed countries' markets.

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ANNEX

Table 1

Annual consumer price index growth (%)

Country	1990	1995	1996	1997	1998	1999	2000
Angola	1.8	3783.3	1649.5	64	134.8	329	268
Botswana	10.6	10.2	10.4	9	6.1	7.2	8.9
D.R.C		541.8	659	176	147	243	394
Lesotho	11.5	9.3	8.9	7.7	9.3	12.3	8.6
Malawi	11.4	83.3	37.6	9.2	29.8	44.9	25
Mauritius	13.5	6	6.6	6.6	6.8	6.9	4.2
Mozambique	58.8	55.8	26.6	6.6	-0.4	6.2	11
Namibia	12	10	8	8.8	6.2	8.6	9.2
Seychelles	3.9	-0.3	-0.9	0.7	2.6	6.3	6.3
South Africa	14.4	8.7	7.4	8.6	6.9	5.2	5.3
Swaziland	11	6.5	7.2	8	5.9	7	7.3
Tanzania	35.7	27.4	21	16.1	12.9	7.8	5.1
Zambia	109.6	46	35.2	18.6	30.6	20.6	20.2
Zimbabwe	15.5	22.6	21.4	18.8	31.7	58.5	56

Source: SADC member states, SADC Secretariat, IMF World Economic Outlook

Table 2

GDP Annual Growth rates (%) in SADC						
	1995	1996	1997	1998	1999	2000
Angola	11.5	14.2	3.6	4	2.7	3.6
Botswana	3.2	5.5	5.6	8.1	4.1	7.7
D R C	1.6	0.9	-6.4	-3.5	-5	5
Lesotho	4.3	10	8.1	-4.6	2	4
Malawi	13.5	10.5	6.6	3.3	4.2	2.3
Mauritius	5.6	5.8	5.8	5.8	3.4	4
Mozambique	3.3	6.8	11.3	12.1	7.3	8
Namibia	4.1	3.2	4.5	3.3	4.3	3.1
Seychelles	1	4.9	11.7	5.5	2.9	2.5
South Africa	2.9	4.2	2.5	0.7	1.9	3.1
Swaziland	2.7	3.6	4	2.7	2	2.5
Tanzania	3.6	4.5	3.5	3.7	4.8	5.1
Zambia	-2.3	6.6	3.3	-1.9	2.4	3.5
Zimbabwe	-0.6	8.7	3.7	2.5	0.5	-5.5
SADC	**4**	**5.1**	**3.5**	**2.5**	**2.2**	**3.3**
Sources: SADC Member states, SADC Secretariat, IMF World Economic Outlook						