AN INDUSTRIAL STRATEGY FOR SADC (05 AUGUST 1998)

Dave Lewis (DPRU) Introduction to the Research Programme of Southern African Economic Integration

Dave Lewis is involved in a project which will identify an industrial strategy for SADC. They have commissioned two papers which were discussed at a seminar organised by the Trade and Industrial Policy Secretariat (TIPS)

Sheila Page (ODI) Some Questions for Industrial Research in SADC

Sheila's paper focuses on how other regions have moved forward towards greater industrial integration then it uses other region's experiences to identify questions which now face SADC and choices which must be made. It asks the question: What really are the objectives of SADC at the moment, what are the shared objectives, what are attainable objectives and what steps needs to be taken in order to achieve them.

There has been proposals for a joint approach to investment (a desire to bring trade and investment policies together) and much discussion of the need for SADC to merge its trade and investment sectoral administration. Trying to make progress in investment policies i.e. to agree on a regional approach to investment has been difficult in SADC unlike in other regions, because of the different legal traditions and industrial strategies of the SADC countries. Different countries legislation will have to be brought together to have a common approach in negotiating with other regions.

SADC has one large country (South Africa) and there has always been the fear of domination of that country over others and that it will convince other countries of its laws and there is also the fear that increased integration would mean increased dependence on one partner country. Therefore, the approach to negotiations is very important.

The only regions where there is significant **investment** discrimination in favour of members are SACU, MERCOSUR and CARICOM (all customs union). Four SACU members are in a common monetary area and therefore have no monetary controls and Botswana has freer capital movements with the other SACU members than with the rest of the world. While capital controls with the rest of the world are being liberalised, all still regulate inward and outward investment and impose exchange controls. Therefore, there is greater freedom of capital movement inside than outside SACU.`

A common exchange rate often extends beyond a single country and may be a possible step for a region at an early stage, not necessarily as an indication of a late stage of economic policy co-ordination. Some currency areas do not include free trade like the franc zone in Africa and only a few regions have a common currency. Some of the countries have high or variable inflation, making a tie to a trading partner difficult to sustain. The question of whether exchange rate instability is damaging in itself to trade remains unresolved, because of the other problems which the instability reflects and the undesirability of what may be the alternative, a seriously misaligned rate. SACU has a common currency except for Botswana, the pre-existing condition at the time of independence was a common currency so the decision was whether to leave the area and not whether to form one.

Free **movement of labour** is still rare in regional groups, only the European Union explicitly includes or allow full freedom of movement. Under GATS countries could include provisions for allowing particular types of service providers to enter the country. Few countries which did this made very limited offers, they are limited to a few sectors and often only to senior labour. CARICOM, MERCOSUR and the EU, like SADC have different immigration treatment at borders for regional members, providing a visible sign of the region as well as easier entry.

It could be argued that common labour standards if they reduce competitive differences among countries, reduce trade creation, and therefore work against the benefits of a region but the circumstances in which the provisions were introduced differ in regions. Some were introduced as part of a common approach and common market not simply to ensure fair competition among the members. Regions should be able to avoid imposing labour standards labour standards of other countries which are biased.

Macro-economic convergence is either a prerequisite for regions or a result of greater integration. There has been some convergence in the EU but this has not been the results for developing countries. The convergence in the EU has been partly deliberate particularly during the preparation of the single currency. Some regions include countries which have widely different levels of development and the effects of integration may be more favourable to some members than others. This can be used to justify longer transition periods for the poorer countries. In regions where smaller members are linked to a dominant partner, convergence might occur without any institutional regionalisation.

It was also raised that the trade protocol has to get support from all stake holders it does not have to a trade and investment document only, there are other questions which might arise from other sectors which will need attention and the region has to e able to separate issues and legislation pertaining to other sectors.

We need a focused analysis off what we want to do, we have to find out what is acceptable in the international context of industrial policy, we need a focused analysis of the services sector, we need an agricultural policy, this will have several structural implications and would imply how we make transfers and some common prices and policies, we also need a measure of effective industrial policy i.e. what is the industrial policy being pursued at the moment and what which tariffs apply on different industries.

We have other arrangements in different countries with different industrial policy implications, from this we have to identify what can we mobilise into a common SADC approach.

Common **administration** is a difficult and sensitive question for all other regions but at the end a common stand is needed in SADC as in all other regions. The regions vary in how they are organised, one source of difference is whether the region is regarded as a complete agreement or alternatively as a new institution which will need to adapt to new circumstances and perhaps to take initiatives. A more permanent secretariat becomes necessary the greater the responsibilities and the number of countries in the region.

SADC has a small secretariat and regular summit and ministerial meetings. It delegates different aspects of policy to different governments. This can only work if responsibilities are small and disputes are unlikely.

SACU has meetings of civil servants but the administration of the customs revenue is within the South African Finance Department and all decisions on taxes are taken by South Africa and there has been proposals for a secretariat. The EU has the most comprehensive institutional structure which is permanent, the commission has the equivalent of senior ministers as commissioners giving it a status between that of a secretariat and that of a government and there is presentation of business, labour and other interests in the appointed Economic and Social Committee.

A region that is more than a static treaty of co-operation needs a permanent ability to adapt, to change policy, to adopt new objectives. SADC had a decentralised approach, the sectors are all relevant to an industrial strategy and it is necessary to consider whether these will be brought together if necessary through *de facto* delegation rather than a new formal structure.

SADC needs to look at case studies of different sectors and decide on which are the industries where a regional approach gives SADC an advantage, we need to promote, and identify even the sectors which can not exist efficiently without a regional approach. We have to define the advantage, sometimes it may even be a developmental advantage

Industrial research should also look at actual trade and investment relations, a joint production, conventional identified obstacles to trade and the costs of regional trade relative to either purely national or non-regional trade and the advantages.

Finance is an essential element to the cross-border trade which is essential to a region whether market based or planned. SADC contains a contrast between credit worthy countries (which do not need much finance) and non-credit worthy countries (which need finance, this is considered as an obstacle to regional finance. If SADC is able to take a regional approach then the creditworthy countries will to help mobilise funds for the others. The region as a whole will be the unit, on average, still be in need of finance and only slightly less creditworthy.

One of the problems for policy makers in regions is to know what type of barriers are important on the ground, how different are trade barriers, what are those and how can they be removed. SADC needs to be a process rather than a treaty.

Nicole Valentine (DPRU) The SADC's revealed Comparative Advantage in Regional and International Trade

The primary focus of Nicole's paper is to analyse indicators of comparative advantage both current and potential. The economic structure of the SADC region is such that the value of output is dominated by the services and manufacturing sector. However, the services and the agricultural sector are the largest employers of labour. The exports of goods to the world is dominated by the mining and the manufacturing sectors, while intra-regional trade is dominated by manufactured goods.

The analysis of the services sector has not been done due to poor availability of services trade statistics. Relative to its prominent position in production, the services sector remains an under-developed aspect of trade in the SADC region.

According to Nicole's paper, trade is divided into intra-regional trade and international trade to assess the distribution of regional trade strengths. Two possible calculations for estimating comparative advantage have been used:

The Balassa formula

It is used to express that if a share of a country's exports to total trade in that commodity were higher than the share of its total exports in world trade, the exporter had a comparative advantage in the export of that commodity. If comparative existed the revealed comparative advantage (RCA) formula would generate an indicator greater than 1. Theoretically in cases of comparative advantage, the RCA indicator ranges from 1 to infinity. When there is no comparative advantage, the indicator lies between 0 and 1. The value of 1 is therefore the cutting off point for comparative advantage.

The own trade formula

It is the difference divided by the sum of exports and imports, this formula has shown strong positive correlation with Balassa's formula. The indicator ranges from -1 to +1 with the positive sign indicating the existence of comparative advantage. The value 0 is therefore the cut off point for comparative advantage.

The data used was from the Industrial Development Corporation (IDC) and the United Nation data. The most recent production and employment data available from the IDC that included all SADC countires were for the years 1991-1993. The regional overview was therefor presented for the average of these three years. For the analysis of the comparative advantage two trade data sets were used, hoever these data sets describes SADC trade for different time periods and were of different levels of completeness and were documented under different classification systems. The two classification systems were the International Standard Industrial Classification (ISIC) system and the Standard International Trade Classification (SITC) system. The ISIC based data set included trade data averaged between 1991 - 1993 and all 12 SAC countries were included. The SITC based data set included trade up to 1995 and 7 SADC countries were covered. The difference between the two data sets made their derivative analyses complement one another, both analysis were presented in Nicole's paper.

Regional Comparative Advantage

At an aggregate level no countries in SADC have a comparative advantage in regional trade in mining sector output, all countries have a comparative advantage in exported agricultural produce. Several countries have a comparative advantage in exporting manufactures regionally and all countries have a comparative advantage in at least one manufacturing sectors exports. Mauritius, South Africa and Zambia are the three countries with the highest ranked comparative advantage indicator for sugar exports in the regional export of agricultural produce. The regional manufacturing sector exports in which at least some countries have a comparative advantage are: Industrial chemicals, food products, paper and paper products, fabricated metal products, wood products, furniture, tobacco, textiles, non-ferrous metals, clothing, other chemicals, beverages, basic iron and steel and non-ferrous metals. South Africa is the major trading partner, and comparative advantage for other sectors is higher in partnerships which excludes South Africa.

International Comparative Advantage

At an aggregate level, several but not all SADC countries have a comparative advantage in agricultural exports to the rest of the world. Comparative advantage for the region as a whole includes all agricultural sectors except for maize and other grain, there is also a comparative advantage for mining exports for the region.

Only Botswana, Namibia and Swaziland have a comparative advantage in manufacturing exports. Manufacturing sectors in which SADC has a comparative advantage are: other manufactures products, non-ferrous metals, basic iron and steel, clothing, food products, paper and paper products.

In the potential comparative advantage we have more technological potential emerging and sectors which are more technological intensive were high in the rank. Potential comparative advantage emerges with 12 countries which are our major trading partners and higher growth comparative advantage is experienced with non traditional trading partners. Coincidentally high growth in comparative advantage in some other sectors is growing consistently sharewise in the world. Sectors recommended for further research are the technological intensive sectors. A move to technology resources would be advantageous if specific sectors with specific trading partners are identified. The paper has a summary of areas of potential comparative advantage using ISIC data and SITC data. It was suggested that trading partnerships should be looked at in more detail in the project and the possibilities to explore other value added area in other developing countries.

Discussion

It is important that there should be common objectives in member states in SADC, and we have to be clear about the issues and be able to identify problems and also ways in which those problems can be eliminated collectively as a region. There is a need for a common industrial policy for different sectors since products from these sectors are trade internationally and they also need a tariff policy. It might be a bit difficult to get the actual process of the project running since there are regional sensitivities which are important like the issue of South Africa being the dominant partner in the region, such projects should be initiated by SADC and not only South Africa i.e. the project should start regionally. However, there are some things which the small countries can not do in a region.

There were also concerns about the exclusion of services in the SADC protocol, but it was said that the protocol was concluded quickly for political reasons and not as a point of departure for the region. Considering that SADC has different external policies, the entry point would be to look at the protocol and have some countries like South Africa offering a certain amount of the market as negotiations proceed then the other countries will also open up. There should also be an impact on the supply side to lessen the structural difficulties.

The Free Trade Agreement (FTA) should be supportive of high growth in high technology products and encourage efficiency and competitiveness in industrial policy, if there are interventions they should enhance capabilities and competitiveness in different countries.

The relationship between trade and integration might help in developing capabilities between sectors and we should keep some taps on intra-industry flows coming in as a result of foreign direct investment.

There is a problem that IDC data does not take into account some illegal trade flows and the way in which the project will assist policy makers should also be thought clearly.

It was pointed out that the RCA's identification of potential export is usually not desirable for pointing out direction for policy makers and it is sometimes mistaken as a measure of competitiveness.