



D P R U
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Regional Trade Integration in
Southern Africa: Critical Policy
Issues

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1. Introduction

This working paper is part of a research project on regional economic integration in Southern Africa. It is envisaged that in its initial formulation, the paper provides input into sectoral and crosscutting issues for further research, and in its final form, as a synthesis of insights gleaned from primary research of the overall project. The central focus of this paper is the process of intra-regional trade integration as envisaged under the Southern African Development Community (SADC) Trade Protocol of August 1996¹, and the need for complementary policies to underpin such a process.

A critical question that arises in discussions on regional integration in Southern Africa relates to what can be expected from the establishment of a free trade area (FTA) among SADC countries, in which South Africa remains a core. Limited studies have been conducted to assess its impact on regional economies. A preliminary IDC (1995) study argues that an FTA is likely to impact negatively on most SADC countries, primarily in the form of de-industrialisation as a result of increased competition from suppliers in South Africa. Davies (1998) conducted a simulation on the impact of a FTA involving South Africa and the rest of Southern Africa. He argues that there is scope for trade creation to outweigh trade diversion since intra-regional barriers are high. The most significant output effect of removing tariffs on trade between South Africa and the rest of Southern Africa has been found to be on light manufactures (mostly textiles and clothing). Davies argues that this reflects the regional comparative advantage of the rest of Southern Africa in light manufactures and the existing high tariff barriers on trade in these commodities.

Another study by Evans (1997) tries to estimate the effects of a FTA on output, trade, employment and customs revenue. It concludes that such a FTA will lead to strong intra-SADC trade creation effects, thus supporting a rapid completion of the FTA.² The Evans study further argues for special provision for countries with particular adjustment difficulties in few adversely affected sectors or as a result of reduced customs revenue. Cattaneo (1998) cautioned the results of the Evans study as an exaggeration of the likely trade creation effects and the downplaying of the possible reduction in both import-competing production and employment in some SADC countries. It further states that the Evans Model may have understated the possible benefits due to its inability to estimate potential benefits from the exploitation of economies of scale and intra-industry specialisation that may result.

It is evident from these studies that assessing the possible impact of the establishment of the free trade agreement on the SADC economies is fraught with complexity, primarily due to data constraints. This paper assumes that conventional economic analysis is not likely to be an adequate tool to inform appropriate policy making. The trade integration process should be embraced not only from an intra-regional trade expansion perspective, but more so as a critical mechanism to build confidence and credibility around the region's macroeconomic policy framework so as to encourage investment formation. Credibility of commitment to a free trade arrangement by regional policy makers, complemented by efforts to promote appropriate macroeconomic policies and stability, is likely to have profound positive effects on investment and growth.

Secondly, it is evident that there is a divergence with respect to the objectives of trade and industrial strategies among SADC countries. Some, such as Zambia, follow more neutral trade policies while others, particularly South Africa, appear to have an industrial restructuring strategy that guides the Southern African Customs Union (SACU) trade policy regime. There is a need to develop a regional trade policy informed by specific industrial development strategies³ or to move towards some form of a regional consensus in areas such as external tariff policy. Individual

¹ *The Trade Protocol envisages a gradual reduction and elimination of tariffs leading to the establishment of a free trade area (FTA) in the SADC region, within eight years of its ratification by at least two-thirds of the member States. SADC is comprised of Angola, Botswana, Democratic Republic of the Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.*

² *Evans has underscored the preliminary nature of his GCE modeling exercise due to data deficiencies.*

³ *However, the range of traditional instruments used for conducting industrial policy has been changing due to either unilateral action by structurally adjusting SADC countries or emerging multilateral trade rules.*

countries' regional and international comparative and competitive advantages should guide such a strategy⁴.

Thirdly, stimulating competition within the SADC region should be accompanied by gradual lowering of external levels of protection. While not advocating a common external tariff (CET) for SADC, a move towards a coordinated external trade policy framework is critical, particularly in sectors and products regarded as 'sensitive' by a number of SADC countries. Some of these sectors or products also reveal a good measure of regional comparative advantage. It is also important not to ignore empirical evidence suggesting that earlier inward looking and highly protectionist regional trade arrangements have not been successful in achieving their intended objectives.

Fourthly, the implementation of a SADC Trade Protocol will undoubtedly introduce a measure of import competition in the region. But trade policies alone are not sufficient in creating a competitive environment, which is geared at preventing the abuse of market power, dominance, exclusionary practices as well as collusion among competitors. Many SADC countries do not have clear-cut policies on competition. The paper argues for a regional policy on competition as a critical means of levelling the playing field in support of greater market opening associated with a free trade area. This needs to be complemented by greater harmonisation or mutual recognition of other commercial policy instruments such as technical and phytosanitary standards, etc.

Finally, the present institutional framework of SADC is inappropriate for the implementation and enforcement of the trade protocol, and the handling of trade disputes. SADC still applies its traditional approach that is suited to its previous focus on sectoral project co-ordination at national levels and the mobilisation of development aid. It appears that the implementation and enforcement of the trade protocol provisions require a certain measure of supra-nationality. This remains a critical issue for policy debate.

2. Theoretical insights and empirical evidence

Economic theory provides strong support for unilateral and multilateral trade liberalisation as the best policies for a country to follow, at least in terms of static economic comparative advantage. Unfortunately theory does not have much to say on the impact of regional trade arrangements (RIAs). Traditionally, RIAs (mostly customs unions) have been analysed from a static perspective, by considering the effects of trade creation and trade diversion⁵. Normally, if trade creation outweighs trade diversion, it is generally argued that the arrangement is welfare enhancing. Theory suggests that this is likely to happen if initial trade between members is higher, indicating a global comparative advantage in some sectors or products. Trade diversion is also likely to be less if members' external tariffs are lower.

Other theoretical and empirical studies suggest that welfare gains will be greater the higher the trade barriers are being reduced or eliminated. Certain SADC countries have been complaining about inadequate market access into the South African/SACU market for their exports. Peters-Berries et al (1999) cited the reluctance of certain interest groups in South Africa to open the South African market as one of the problems facing the SADC regional economic integration process. There is also strong support for a country joining its main trading partner, although a trading partner may be larger only on the export or import side. South Africa, for example, remains a larger exporter to SADC countries, but imports less from the region. Thus, a theoretical

⁴ See Valentine (1998) for an analysis of SADC revealed comparative advantage.

⁵ 'Trade creation' refers to the expansion of trade in accordance with international comparative advantage (which would also occur under multilateral liberalisation as well) – i.e. the substitution of domestically produced goods by lower-cost imports from a partner country. 'Trade diversion' represents a shift in imports from the least-cost exporter to the more expensive product from the partner country. This analysis is more related to a customs-union arrangement, in which there is a common external tariff than a free trade area.

argument can be made for accelerated market access of SADC exports into the South African/SACU market⁶.

There is no conclusive empirical evidence on the effect of RIAs on trade patterns, although there exists near unanimity that trade creation occurred in the case of the European Union (EU). However, it is not known whether this has been mainly due to trade liberalisation or to other factors. There are some indications of positive trade effects of certain RIAs in the 1990s such as NAFTA with respect to Mexico's exports to the US market (Arndt, 1996 and Casario, 1996). The trade intensity index (which measures the change in trade between two or more countries to the change in the trade of same countries with the rest of the world) for Israel increased following the US-Israel bilateral trade agreement. But there has been a declining trend of Israel's (non-fuel) imports from the US between mid-1980s to mid-1990s.⁷

There is also evidence suggesting that tariff preferences may not necessarily lead to trade expansion. Yeats (1994) provides a comprehensive analysis of the Lome and Generalised System of Trade Preferences (GSTP) enjoyed by Sub-Saharan African (SSA) countries and their effect on trade. Although the average tariff facing non-oil exporters from SSA countries in OECD markets ranged between 0% and 0.6%, such mechanism had not helped the region to expand and diversify its exports. The reason for this has been related to the absence of export capacity necessary for preference-receiving economies to take full advantage of favourable market access. Mauritius is often cited as an exemption, in that it has derived significant gains from special trade preferences with the EU, especially in the textile and clothing export sector. The experience of bilateral preferential trade agreements between some SADC countries suggests that market access is likely to be of modest significance to the expansion of intra-regional trade. Only countries whose industrial capacity is relatively developed have experienced significant trade gains.

Notwithstanding the inability of the theoretical literature to pronounce itself clearly on the effects of RIAs, they have continued to dominate the global trading system. A key question is what is behind this development despite the fact that no conclusive evidence can be made on their trade effects? Srinivasan, et al (1992) argue that this 'new regionalism' seems to be driven by a number of factors which are not captured by existing available quantitative analysis. They argue that,

regionalised is a fear of the intensification of existing RIAs as much as a fear of proliferation of more regional agreements. Along with this comes the fear of more-exclusionary RIAs. Hence, concerns over regionalism in the 1990s reflect increases in the coverage of countries in existing regional schemes; in product and area coverage such as services and investment provisions; and in coverage of other instruments of trade protection such as rules of origin" (Srinivasan, et al, 1992:74).

Received literature on the US and Mexico free trade agreement suggest that Mexico had a desire to secure free and preferential access to the large market of her principal trading partner; to attract foreign investment; and to lock-in her trade liberalising policies which commenced in the mid-1980s.⁸ It is not easy to disentangle the key motivations for SADC countries on the proposed free trade agreement, and to ascertain to what extent it is beyond the rhetoric of past attempts at trade integration in Sub-Saharan Africa⁹. Nevertheless, a superficial analysis of various official pronouncements of SADC policymakers suggest that some emphasise the need for increased security of access and improved market access, while others indicate a desire to attract investment due to a larger regional market. Non-SACU SADC countries have often complained

⁶ South Africa has offered to open up faster the SACU market for non-SACU/SADC goods (asymmetrical tariff reduction approach), but an argument can be made that unless such an offer includes products in which the region has a comparative advantage, it may not be of critical importance.

⁷ See World Bank website on regional integration.

⁸ See http://www.worldbank.org/wbiep/trade/RI_map.html

⁹ The objectives of the SADC Protocol on Trade (1996) does include the need to ensure efficient production within SADC in accordance with existing and dynamic comparative advantages and the need to foster a climate for domestic, cross-border and foreign investment so as to enhance industrial and economic development.

about the protectionist nature of the SACU common external tariff (CET) and as such could not afford to be excluded from the larger South African market. On the other hand, some industries in South Africa seem to have been interested in protecting regional markets (non-SACU) from international competition, particularly from the Far East. Furthermore, most countries see integration as a means of enhancing their bargaining power in international economic and political affairs. There is no clear evidence of locking-in domestic trade policy reform efforts *per se*.

Generally, there is a persistent belief among SADC policymakers that a free trade area will generate economies of scale necessary to overcome the smallness of domestic (national) markets. It is often stated in official pronouncements that SADC is a regional market of 199 million people with a Gross Domestic Product of US\$ 176 billion (SADC Trade, Industry and Investment Review, 1999). Harvey (1999) argues that this remains largely an illusion, citing that such an enlarged market is extremely small by wider international standards¹⁰. After all, an enlarged market should reveal growth prospects to be able to complement trade. This requires that integration policies should have, as a principal objective, the stimulation and enhancement of growth. Since investment is a key determinant of economic growth, a free trade agreement should be underpinned by policies that are conducive to investment formation. Perhaps a fundamental prerequisite is that the process of regional integration should be credible in the eyes of economic agents to be able to generate the necessary dynamism. Credibility requires that the process is not prone to reversals, hence requiring utmost political commitment in terms of implementation. This requires an appropriate institutional framework to ensure implementation and enforcement of compliance.

There are sound theoretical reasons to believe that the presence of South Africa, as a large and relatively developed economy, in the SADC trade integration process can be a positive factor in supporting the growth of the region's productive capacity. South Africa's trade, industrial and investment policies remain critical in this process. This largely depends on the commitment, as stated in the objectives of the trade protocol, to allow for 'regional efficient production in accordance with existing and dynamic comparative advantage'. Unfortunately, this may not necessarily translate itself into sustained growth in jobs in all countries, particularly in the short to medium term. This is particularly worrying noting that unemployment is high and growing, and continues to be the most pressing problems facing all SADC governments. On the other hand, there is extensive empirical evidence to support the view that inward-looking trade policies have been a significant source of low growth outcomes.

A large theoretical and empirical literature suggests evidence of positive correlation between trade openness and economic growth (Mankiw *et al*, 1992). There is also evidence pointing to the fact that benefits from domestic openness are a positive function of openness in the rest of the world (Vamvakidis, 1997) However, no conclusive evidence can be cited on the relationship between preferential trade openness and growth¹¹.

New trade theoretical literature investigates why trade openness promotes growth (Grossman and Helpman, 1989; Romer, 1990; Krugman, 1990). According to this analysis, trade increases innovation through economies of scale, technological spillovers, and elimination of the replication in research and development (R&D) in different countries. Coe and Helpman (1997) provide empirical evidence showing that a country's total factor productivity depends not only on its own R&D capital stock but also on that of its trading partners. Thus, it is argued that developing countries with limited R&D stock can boost productivity by trading with a more developed country that has a large stock of knowledge from its cumulative R&D activities. Vamvakidis (1998) argues that economies of countries near large and open economies grow faster and that the level of development of neighbouring economies, especially when they are open, has

¹⁰ *The GDP of the whole of Sub-Saharan Africa remains just more than 1% of global GDP, roughly of the same magnitude as that of Belgium or the Netherlands (Harvey, 1999).*

¹¹ *The only study that can be cited is of Ben-David (1993) suggesting that all liberalising countries in Europe moved to new and higher long run growth paths. He argues that trade constitutes a mechanism through which this convergence occurs.*

significant spillover effects. These results suggest that trade agreements between developing countries and large and more developed countries may lead to faster growth.

From this perspective, it can be argued that openness of the South African market to regional competition is of critical importance. Limited evidence can be found to support this if one looks at the BLNS economies, which suggest some form of convergence on the South African economy (Jenkins and Thomas, 1997)¹².

3. Overview of the trade policy framework in Southern Africa

Historically, Southern African economies were characterised by highly interventionist and protectionist trade regimes. On the import side, extensive use of restrictive licensing systems, high tariffs with escalating and cascading structures, varying degree of import prohibitions and tight foreign exchange controls were implemented. While on the export side, there was substantial implicit and explicit export taxes and prohibition of certain items for export. These measures were designed to serve multiple objectives, which often were conflicting. The two most important objectives were to promote industrialisation through import-substitution and to raise government revenue. Trade policy often was used to serve objectives that could be served by other economic policies. In particular, protectionist policies have been much more in the nature of ad hoc responses to re-current balance of payments crises. There is almost a consensus that the record of such trade policy regimes in Southern Africa has been very disappointing. There is also evidence to suggest that regional trade arrangements that were based on these policies had a disappointing record.

Since the mid-1980s, there has been a fundamental shift in the domestic policy and outward orientation of SADC economies. The region has made substantial reforms of its foreign trade regimes either as part of the IMF/World Bank structural adjustment programs or unilateral and multilateral trade reforms.¹³ This was followed by countries' commitments to reduce tariffs under the Uruguay Round outcome. Within the region, arrangements such as COMESA (and its predecessor PTA) as well as the Cross-Border Initiative (CBI) further led to liberalisation of intra-regional trade among some SADC countries. This has resulted in lower tariff rates and less dispersion in tariff regimes in individual SADC countries. A cascading tariff structure is in operation in almost all countries, whereby highest rates are being applied to consumer goods, middle rates to intermediate goods and lower rates to capital goods and raw materials.

With the exception of Angola and the Democratic Republic of Congo (DRC), all SADC countries have seen a decline in their structure of protection, albeit invariably. Notable changes have taken place in Zambia and SACU. With respect to SACU, South Africa initiated the reduction of its complex tariff structure from about 12500 tariff lines in 1990 to 8250 in 1996. The target was to reduce the number of tariff rates from approximately 210 in 1990 to 6 in 1996. This was, however, not fully achieved by 1996, but significant progress has been made to this effect (DTI, 1998). Nevertheless, special provision for the 'sensitive industries' – such as textiles, clothing, footwear, sugar and motor vehicles were made. This ensured that these sectors would still attract high tariff rates at the end of the five-year phase down period, i.e., the year 2000. Table 3.1 illustrates South Africa/SACU's tariff reduction schedule with respect to clothing and textile industries. These sectors remain a source of discontent in South Africa's trade relations with the non-SACU SADC countries that desire more market access into its market. While SACU has low trade-weighted and simple mean tariffs, it still has a large number of rate bands and high levels of dispersion. Tsikata (1999) argues that the dispersion and discretion in South Africa's tariff regime may help explain why there is widespread perception that it has not liberalised its trade policy regime.

¹² Harvey (1999) provides further discussion on this.

¹³ Botswana, Namibia, South Africa and Swaziland have not undertaken such IMF/World Bank adjustment programs. But South Africa's (hence SACU) comprehensive trade liberalisation programme represents a 'typical' adjustment process (it commenced in January 1995 in terms of the WTO and offers unilateral policy measures to achieve macroeconomic stability).

Table 3.1: Tariff Reduction for Textile & Clothing Industry

	1994	2002
Clothing	90%	40%
Household Textiles	55%	30%
Fabrics	42%	22%
Yarns	30%	15%
Polyester Fibre	25%	75%

Source: Textile Federation of South Africa

Zambia has the most liberal trade regime in SADC, characterised by a moderate cascading tariff structure ranging from 0% to 5% for most capital goods and raw materials, 15% for intermediate goods and 25% for finished goods (Imani, 1997). SACU, Mauritius and Zimbabwe have the highest tariff peaks.

Most SADC countries have considerably reduced trade policy related non-tariff barriers (NTBs) such as quantitative restrictions on imports. But, significant NTBs still exist, and remain the most critical obstacles to trade. These include quantitative restrictions on certain imports such as agricultural imports (maize, wheat, dairy products), automatic import licensing system (for example, SACU operates an import licensing system which finds little or no justification in terms of trade policy management, but rather represents a bureaucratic waste of resources). Other NTBs relate to surcharges on imports, customs documentation and related procedures, border-related controls and transportation of goods and persons, foreign exchange bottlenecks which tend to discourage trade transactions, delays in payments, clearance and settlement systems, etc.

Some countries such as Botswana and Mauritius have abolished exchange controls on both current and capital accounts; but there are still strict foreign exchange controls in some SADC countries. Some national currencies are also inconvertible. Thus, NTBs are still pervasive in the region, but the most critical ones relate to administrative and bureaucratic inefficiencies as opposed to those that are a result of trade policy. A survey conducted among South African importers of food and beverages from the region confirmed that the low level of imports was to a large extent related to existing business culture and lack of information rather than the absence of competitive supply sources in the region (SAFTO & ITC, 1997). In addition, lack of trade finances, high transport costs and unfavourable macroeconomic policies continue to exert an inhibiting role on regional trade expansion. Thus, the reduction of both tariff and non-tariff barriers as well as trade facilitation schemes should continue to form part of the region's short to medium term strategy to promote trade.

4. Trade relations in Southern Africa and some critical issues

Trade relations in Southern Africa are characterised by a number of overlapping bilateral treaties, regional arrangements and multilateral arrangements. SACU¹⁴ is the oldest arrangement and has been in existence since 1910. The agreement provides for duty-free movement of goods within the customs union, and members apply a common external tariff (CET) on goods imported into the union from the rest of the world. The revenue derived from customs duties is further pooled together in a common revenue pool administered by South Africa, and distributed to members on the basis of a specific formula. The agreement was subsequently renegotiated in 1969 to reflect increases in the member countries' shares of regional imports. Since 1995, the agreement has been re-negotiated without much success. It seems that members, mostly South Africa on the one hand and the BLNS countries on the other, could not agree on the revised revenue sharing formula and the institutional framework. Since its inception South Africa has been unilaterally deciding on matters related to the SACU trade policy regime. This, in essence, reflected South Africa's own industrial policy priorities.

¹⁴ SACU comprises of South Africa, Botswana, Namibia, Lesotho and Swaziland.

Various studies have argued that the agreement has been trade diverting rather than trade creating. The 42 percent enhancement factor built into the 1969 revenue sharing formula was meant to compensate members for the price-raising effect of the CET.

It is also aimed at compensating the other members for the implicit protection of industries in South Africa, the industrial polarisation that resulted from the tendency of industries to locate in South Africa, and for the loss of fiscal discretion in the BLNS countries. Despite their complaints, the BLNS countries have not left the arrangement. In fact, they rely heavily on SACU receipts as an important source of their public revenues, although this dependence is increasingly becoming a critical challenge in light of the changing trade policy environment in South Africa and globally.

There are lessons that can be learned from the SACU experience:

- Unlike other regional trading arrangements in Sub-Saharan Africa, SACU has not disintegrated. The issue of compensation is definitely one, although in its current form it is not sustainable. It is also debatable as to whether such fiscal transfers really supported industrial growth in the BLNS countries or simply translated themselves into a 'dutch disease' to maintain recurrent spending. This is not to argue that such spending is not important, but if some of the SACU transfers were clearly targeted at the promotion of efficient productive economic activities, the situation might have been different. Evidently, regional trade arrangements, whether customs unions or free trade areas, entail benefits and costs, particularly those related to de-industrialisation, industrial polarisation and loss of customs revenue. Any compensatory mechanism must positively address these problems.
- Secondly, there is a debate around integrating economies at different stages of industrial development, and the fear that the more industrialised partner may accrue most of the gains. Despite the fact the BLNS countries have incurred certain costs due to their membership in a customs arrangement with South Africa, there is evidence suggesting that they have converged (in GNP growth terms) on the South African economy relative to other countries in the sub-region¹⁵. McCarthy (1996) and Harvey (1999) emphasised an increase in regional competition as critical in raising greater efficiency and a probable stepping-stone towards international competitiveness. Judging from the BLNS exports to South Africa, it is evident that some manufacturers in these smaller markets are competing successfully in the South African market. This happened despite the fact that the practical workings of the SACU had, to a greater extent, constrained industrial deepening in the BLNS countries (AfDB, 1993: 266-270).
- Thirdly, many of the regional trade integration schemes have not lasted due to growing inequalities in bilateral trade balances. This has been perceived, in many instances, as representing an unbalanced distribution of the costs and benefits of adjustment. While this remains a genuine concern, redressing trade imbalance does not necessarily need to be reflected in nominal trade flows, especially if there is a noticeable growth in trade in both ways. Trade deficits may be an inadequate tool for identifying the costs of adjustment, at least from an economic policy perspective. Unless such deficits are genuinely being caused by a lack of market access in a partner country, which is not supposed to occur in a customs union or a free trade area. After all, a country's total trade is not bilateral but multilateral, and imports are not necessarily bad, as the mercantilist believed in the eighteenth century.
- Fourthly, regional trade arrangements in Sub-Saharan Africa have not been successful, and in most instances have disintegrated. SACU has endured. Various reasons can be advanced for this endurance (Oyejide, et al, 1997). Collier and Gunning (1997) argue that 'an agency of restraint' is needed to make sure that policies are not unilaterally reversed. In the case of SACU, South Africa has been acting as 'an agency of restraint',

¹⁵ Harvey (1999) argued that small members of SACU grew faster than South Africa over a long period, despite colonial neglect.

despite the undemocratic nature of the trade policy-making process¹⁶. It is therefore necessary for SADC to conceive an institutional framework capable of enforcing discipline and compliance for the implementation of the FTA provisions, despite the fact that the gains and costs of integration will not be equally distributed. Of course, this must be done in cognisance of the fact that countries should perceive some degree of mutual benefits being derived from this process.

- Finally, Genberg and De Simone (1992) argue that market integration and interdependence of a group of economies produce the need for some co-ordination of their macroeconomic policies, although co-ordination is not sufficient for reaping all the benefits from integration. They further argue that macroeconomic policy discipline is also required for the integration process to take place and be beneficial. Lessons from MERCOSUR suggest that countries may be forced to create barriers to intra-regional trade as a reaction to balance of payments difficulties, leading to trade conflicts. Brazil and Argentina experienced problems in their trade liberalisation efforts generated by their diverging macroeconomic performance. The experience of CACM and LAFTA/LAIA indicate that persistent macroeconomic imbalances lead to overvalued real exchange rates, thus making trade liberalisation difficult. There are strong reasons to suggest that market integration in SACU has been substantially supported by some macroeconomic preconditions. While it is relatively difficult to converge macroeconomic policies of various SADC members in the short to medium term, a commitment to macroeconomic discipline and stability is likely to enhance market integration as well as contribute to its effectiveness. It will also generate the credibility required for trade integration to produce positive dynamic effects.

The Common Market for Eastern and Southern Africa (COMESA)¹⁷, established in November 1993 as a predecessor to the Preferential Trading Arrangement (PTA) for Eastern and Southern African states, is another trade integration scheme in the region. COMESA intends to establish a free trade area by the year 2000, and a customs union by 2004. By the end of September 1998, eight countries achieved a reduction of 80% on intra-COMESA tariffs and six other countries a reduction of between 60% and 70%. SACU members in COMESA were given an exemption from tariff reductions¹⁸.

In addition, there are bilateral preferential trade agreements between South Africa and Zimbabwe (largely confined to textiles and clothing), South Africa and Mozambique, Namibia and Zimbabwe, Malawi and Zimbabwe as well as Botswana and Zimbabwe. On the other hand, there exists a fast-track mechanism to facilitate intra-regional trade liberalisation, involving some SADC countries such as Malawi, Mauritius, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe¹⁹. Countries belonging to SADC have adopted a Trade Protocol in August 1996, with the aim of forming a free trade area by the year 2004.

In addition to intra-regional and bilateral trade arrangements, all SADC members (with an exception of South Africa) had non-reciprocal preferential trade relations with the European Union (EU), under the recently expired Lome IV Convention. Negotiations for a new trade and aid pact are currently in progress. The agreement, under negotiation since September 1998, seems to suggest a shift from trade preferences towards regional free trade agreements between

¹⁶ This has also been supported by the fact that their membership in the Common Monetary Area (CMA) has prevented macroeconomic divergence between the smaller SACU members and their main trading partner. Although Botswana left the CMA in 1976, it has maintained a constant exchange rate policy with South Africa. Thus both, the SACU arrangement and the CMA acted as agencies of restraint that supported market integration.

¹⁷ COMESA is comprised of Angola, Burundi, Comoros, Democratic Republic of the Congo, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

¹⁸ This is because their membership in SACU prevents them from offering tariff concessions to third parties without the agreement of all other members. However, some of them (including South Africa) have bilateral preferential trade agreements with individual COMESA members. South Africa has entered into a free trade agreement with the EU.

¹⁹ The Cross-Border Initiative (CBI) is a 'typical' structural adjustment market integration exercise sponsored by the African Development Bank, the European Union, the IMF and the World Bank.

the EU and the better-off ACP states after an eight-year transitional period. This proposed new form of relationship is being termed 'economic partnership agreements' based on the free trade area approach. To the extent that these agreements will differentiate between developing and least developed countries (LDCs) in SADC, it is likely to pose challenges to the SADC free trade arrangement.

Furthermore, the implementation of the EU-South Africa Trade, Development and Co-operation Agreement (TDCA), also based on the free trade approach is likely to further complicate SADC trade relations. Already, countries belonging to a customs union arrangement with South Africa (SACU members) can be considered to be party to the EU-South Africa trade pact. This has a number of implications for the BLNS countries. Apart from the economic effects of tariff revenue losses and costs to their manufacturing and agricultural-related industries, this is also conditioning them to the type of the economic partnership agreement they will have with the EU in post-Lome IV period. In the same way, to the extent that there will be a SADC free trade area involving South Africa, the ACP/SADC countries are likely to be party to a *de facto* EU-Southern Africa free trade arrangement. It can thus be argued that both the SACU and the non-SACU/SADC countries are likely to have no options in terms of their relationship with the EU other than those determined within the context of the EU-South Africa trading arrangement. Choosing a different approach is likely to result in a number of complications with regard to rules of origin to prevent trade deflection as well as to customs control and administration systems. This may be costly and inefficient, particularly to smaller and poorer SADC economies.

In the light of these potential developments, SADC should move swiftly towards the full implementation of the trade protocol. This process should entail a great degree of external trade policy harmonisation and a certain level of consensus on industrial restructuring within the region, particularly around sectors still considered as 'sensitive'. While not advocating a common external tariff (CET) for SADC countries, a move towards convergent external trade policies as well as other policies that complement trade is likely to enhance rather than frustrate the regional trade integration process.

In addition to the need for rationalisation (and harmonisation) of individual countries' trade arrangements with third parties, SADC should develop a strategic approach to membership in the World Trade Organisation (WTO). This goes beyond the issue of adequate representation and mere participation at the WTO. The WTO framework has critical implications for domestic and regional policy making. On the other hand, WTO members are treated differently in terms of obligations. Less developed countries are, for example, allowed some flexibility in adapting certain trade-related measures in conformity with WTO regime. This poses a challenge for SADC as it involves a developed country, developing countries and least developed countries. This becomes even more problematic in the absence of a clear regional trade and industrial strategy to inform members' participation in multilateral trade negotiations. From this perspective, a move towards harmonisation of external trade relations, informed by the development needs of various member countries is vital. This is particularly critical in view of the pending negotiations related to agriculture and new 'trade' (emerging) issues.

5. Intra-regional trade patterns and trends

This section is not intended to provide a comprehensive analysis of SADC trade patterns and trends, but to highlight the fact that there is a certain degree of trade complementarity within the region. Although most of SADC exports are destined for OECD markets, mainly mineral and agricultural primary commodities, the region is a significant market for its own manufactured goods. Data on intra-SACU trade are very limited, but South Africa accounts for a substantial share of the BLNS trade. Nevertheless, there is a significant two-way trade between South Africa and the other members of SACU (Stoneman, 1994). In fact, most of the manufactured exports of the BLNS countries are destined to the South African market. Exports from SACU (effectively from South Africa) to the rest of the non-SACU SADC markets have, in particular, seen noticeable growth since the early 1990s. This is largely attributable to the post-apartheid situation, which saw

the end of sanctions against South Africa and trade liberalisation in some of the structurally adjusting SADC countries.

It is general knowledge that South Africa has large trade surpluses with most SADC countries. This has become a source of strain in its relations within the region. Theoretically, such trade deficits do not really matter, and should not be bad for the region's economies. However, this becomes only problematic to the extent that there are critical obstacles to the region's exports, which can effectively compete in the South African market. There is evidence to support the fact that there are countries in SADC, which are competitive exporters of certain products to the rest of the world. South Africa does import such products from the rest of the world as well. Kirchbach and Roelofsen (1998) identify some of these products²⁰. Most of these products have historically attracted a significant level of tariff protection under the SACU trade regime. South Africa has started to import some of these products from SADC countries, although in small quantities. This clearly suggests that there is potential for SADC export expansion into the South African market.

It is also possible that the freeing of intra-regional trade may generate dynamic comparative advantage in favour of low-cost locations in the region. Already some South African firms in clothing production have relocated their production capacities to other SADC countries (mainly Malawi and Mozambique) in response to increasing global competition and the search for low cost labour. Malawi, for example, was becoming the biggest exporter of clothing apparel to South Africa after China (IDC, 1998). This could largely be attributed to a preferential bilateral trade agreement between Malawi and South Africa. This supports McCarthy (1999)'s assertion that a reduction in trade barriers between SADC countries may encourage investment by South African companies wishing to capitalise on low-cost labour in other SADC countries.

Tables 5.1 and 5.2 provide the SACU export and import shares in SADC, excluding the DRC and Seychelles. High growth percentages were recorded, particularly during 1995. Over the period 1989 and 1998, countries that traditionally had less trade with South Africa (Angola, Tanzania and Mozambique) recorded growth of imports from South Africa. More traditional trading partners (Zimbabwe, Zambia and Mauritius) had their imports from South Africa growing at lower rates. Zimbabwe, however, remains South Africa's largest export destination. Data indicates that SACU imports from the rest of SADC have increased but at a lower rate (by 13%), but Zimbabwean exports to SACU have declined (from 80% to 55%).

Table 5.1: SACU Import shares (%)

Years	Angola	Mauritius	Malawi	Mozambique	Tanzania	Zambia	Zimbabwe	Total
1989	1.9	1.5	10.8	3.3	0.3	1.0	81.3	100
1990	0.0	1.9	14.7	5.5	0.5	1.0	76.4	100
1991	0.0	1.9	14.7	5.6	0.1	2.1	75.5	100
1992	0.1	1.3	13.7	5.2	1.1	4.6	74.1	100
1993	0.1	1.9	16.0	6.1	2.2	7.6	66.0	100
1994	1.2	1.1	12.9	6.4	1.1	7.2	70.1	100
1995	0.2	2.6	14.0	8.3	1.1	6.5	67.3	100
1996	12.8	0.8	14.5	3.8	1.1	8.7	58.4	100
1997	9.4	1.1	17.8	7.6	0.9	8.1	55.1	100
1998	0.4	1.3	17.8	8.3	1.1	9.7	61.6	100

Source: TIPS Database

²⁰ These include food, beverages and tobacco, refined copper, cotton yarn, leather, copper wire, toilet and kitchen linen, woven fabrics, furniture, travel goods, footwear, toys, etc.

Table 5.2: SACU Export shares (%)

Years	Angola	Mauritius	Malawi	Mozambique	Tanzania	Zambia	Zimbabwe
1989	0.7	9.9	16.2	13.5	0.1	17.9	41.7
1990	1.7	9.8	13.4	15.8	0.4	17.6	41.4
1991	3.0	8.6	13.9	16.9	0.2	16.2	41.2
1992	7.9	7.9	14.5	13.6	0.6	22.9	32.6
1993	5.4	8.4	10.9	17.7	1.0	24.0	32.7
1994	4.5	7.7	9.0	20.1	3.0	19.6	36.0
1995	4.3	6.8	6.9	18.9	6.2	13.5	43.4
1996	11.2	6.8	7.1	17.9	4.1	13.2	39.6
1997	6.0	8.1	7.7	18.4	6.5	15.1	38.2
1998	7.2	7.1	8.2	17.8	7.6	14.6	37.6

Source: TIPS Database

Table 5.3 gives import shares in SADC by commodity, excluding the DRC and Seychelles. This data indicates that foodstuffs, beverages and tobacco as well as textiles, fabrics and clothing constitute a significant share of SADC exports to the SACU/South African market.

Table 5.3: SACU Shares imports by commodity from SADC (%)

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

Source: TIPS Database

An argument can be made that improved market access of these goods is likely to lead to intra-regional trade expansion. This analysis of key trade trends and patterns seems to suggest that there are some potential complementarities, which can be exploited by a rapid reduction in trade barriers in sectors or products revealing a regional comparative advantage. Nevertheless, there are indications that some of these are considered 'sensitive' goods and are likely to be subject to a slower liberalisation process. There are also some proposals leaving open the possibility of excluding some sectors/products from trade liberalisation altogether.

Another issue for further research is the extent of intra-industry trade in SADC. The conventional Heckscher-Ohlin trade model suggests that trade takes place between different industries due to different factor proportions. But, the significance of intra-industry trade as a proportion of total

trade has been confirmed by a number of empirical studies. Intra-industry trade accounted for about 63% on average of all trade among OECD countries in 1967 (Grubel-Lloyd, 1975:36). Balassa (1979) calculated intra-industry trade for nine developing countries belonging to LAFTA and CACM, and found that intra-industry trade in manufactured goods was 23%. Parr (1993) argues that intra-industry trade is indeed a real phenomenon and is of considerable significance even among developing countries. It is also believed that the costs of adjustment arising from trade liberalisation are likely to be less if tariff reductions lead to intra-industry rather than inter-industry specialisation. To the extent that a certain degree of intra-industry trade exists in SADC, it can be argued that SADC should seek a reduction of tariffs in such sectors or products at the outset. This may be contrary to a common observed practice, which seeks to retain protection in sectors or products in which there is significant intra-regional trade. It is hoped that further research in this area may serve to inform a regional industrial strategy.

6. Other complementary trade—related policies to underpin trade integration

6.1 Competition policies

There is evidence to suggest that trade policies alone are not sufficient to create a competitive environment in a free trade area. In fact, in the absence of tariffs, trade policies such as anti-dumping measures, countervailing duties and safeguard measures may serve to limit competition. As barriers to intra-regional trade fall, competitors may resort to anti-competitive and unfair trade practices. This may undermine the benefits of negotiated intra-regional trade concessions. Competition policies will be needed as a critical means of levelling the playing field in support of greater market access, fostering economic efficiency and welfare, and strengthening the regional trading system.

Article 25 of the SADC trade protocol stipulates that, “member States shall implement measures within the Community that prohibit unfair business practices and promote competition”. However, SADC countries do not have a strong experience in enforcing anti-trust practices at national levels. In some countries such anti-trust measures do not exist. Experience from other regional trade arrangements such as MERCOSUR suggest that competitive differences among productive sectors in member countries can lead to regulatory asymmetries which impede intra-regional trade flows. The trade protocol also makes provisions for the use of anti-dumping measures, subsidies and safeguard and countervailing measures. Faced with increased import competition, domestic producers are likely to lobby for the use of anti-dumping measures to protect themselves from regional competition. To underpin the regional trade integration process, SADC should move towards the formulation of a regional competition policy or gradual harmonisation of national laws and policies to enhance competition.

6.2 Standards and related technical regulations

Standards, technical regulations and procedures for assessing conformity (product testing, certification and laboratory accreditation) are increasingly becoming critical as traditional barriers to trade fall. Common standards have been a key issue in Europe’s market integration process. In MERCOSUR, for instance, trade flows between the two dominant economies – Argentina and Brazil – have been hampered by Brazilian government’s increase in control requirements on agricultural, pharmaceutical, chemical and food imports. The Brazilian National Meteorology Institute adopted mechanisms requiring quality certificates on about 170 import items. Argentine complained that procedures that took between 24 and 48 hours for its products to enter Brazil began to take an unpredictable amount of time.

Many SADC countries have their own national regimes for standardisation, testing and certification. There is a danger that these may restrain trade, particularly in the face of reductions and elimination of intra-regional tariff barriers. There is already evidence of this happening between some SADC countries. While the first priority should be the adoption of international

standards, SADC should avoid costly and damaging technical barriers to trade. To the extent that there is differences in technical and health specifications in multiple markets, there is bound to be additional costs that undermine the objective of trade integration. This is particularly important since regional trade in processed food, beverages and related products seems to be promising. Page (1998) suggests two options: harmonisation or mutual recognition.

While the trade protocol makes reference to international standards conformity, it is evident that most SADC countries lack the necessary capacity and sophistication for the elaboration of international standards. There is little economic rationale for most SADC countries to invest heavily in their own domestic standards, especially for trade products. The best way is to adopt standards being used in the markets of their major trading partners. For various reasons, an investigation of an approach to standardisation as a trade facilitation mechanism may look into the role of the South African Bureau of Standards (SABS) in the region.

6.3 Rules of origin

In preferential or free trade areas, rules of origin are required to prevent trade deflection. Rules of origin can also be used to promote local value addition or substantial transformation. Nevertheless, experience suggests that elaborate and complicated rules of origin may act as a significant non-tariff barrier to trade. They may also further the 'hub-and-spoke' pattern into which regional trade integration may develop. Already, the SADC trade protocol negotiations took a long time to be concluded, especially because of disagreements on the rules of origin. The main reason for this can be ascribed to the fact that industries interested in trade protection, mainly from South Africa, seem to have 'captured' the importance of rules of origin as a mechanism to negotiate for continued protection. Whether this promotes value addition in a number of regional economies or simply promotes the 'hub-and-spoke' trade pattern within the region remains a matter for debate. There is a possibility that such rules may undermine the trade-creating potential of the FTA. An important issue to consider, is a move towards converging to lower MFN trade barriers. This will reduce the importance of rules of origin application. In the case where there is a definite desire to move gradually on external trade liberalisation for certain products, a move towards harmonisation of specific external tariff may be advisable.

6.4 Macroeconomic policies

Reference has already been made to the need for macroeconomic stability and co-ordination as a necessary, but not sufficient, condition for the achievement of trade integration objectives. Macroeconomic policies designed to achieve national policy objectives may have critical consequences on the trade integration process through their impact on the real exchange rate. This is particularly so if such policies lead to economic instability. Real exchange rate overvaluation, high inflation, unsustainable fiscal deficits and shortage of foreign exchange undermine market integration. Trade flows will be affected leading to intra-regional or bilateral frictions often to the detriment of integration. MERCOSUR experience suggests that, under such circumstances, pressure to introduce some forms of trade controls may be imminent. On the other hand, the process of market integration leads to more macroeconomic interdependence between the partner countries, particularly with their major trading partners in the region. For reasons stated above, this requires co-ordination and discipline in the conduct of their macroeconomic policies.

6.5 Fiscal revenue implications

Another critical issue arising from trade liberalisation in general is its fiscal implications. Imani (1997) has highlighted short-term fiscal costs for several SADC members if a free trade area is established. South Africa is not likely to experience substantial fiscal costs as it is only importing about 2.5% of its total imports from SADC compared to 47.4% (Malawi), 48% (Zambia), 48.7% (Zimbabwe) and 39.8% (Mozambique). Most of their imports are manufactured items from South Africa, which attracted higher tariff rates. For example, customs duties on motor vehicles are a major source of revenue in all SADC countries. The BLNS countries do not trade substantially

with SADC, excluding their customs union partner South Africa. But they depend heavily on SACU receipts, which will be substantially eroded by the EU-South Africa trade agreement. The COMESA tariff reduction and trade integration process is also having fiscal implications, although the amount of revenue loss will be small (COMESA, 1999). In the final analysis, trade tariffs are diminishing in importance as sources of fiscal revenue due to multilateral trade liberalisation. The challenge is for countries to devise strategies that help them reduce their dependency on import tariff revenue and switch to other alternative sources of revenue. Unless SADC economies accelerate their real growth rates; it will be difficult to compensate for this revenue loss. In the mean time, some difficult adjustment in their fiscal policies may be the only avenue available.

6.6 Industrial strategies

At present, SADC countries have divergent industrial policies, objectives and strategies. A common feature that can be observed is the role that foreign direct investment (FDI) is expected to play in industrial development. All SADC countries place heavy emphasis on the attraction of foreign investment as a critical factor in their industrialisation process. The focus on 'industrialisation' seems to be driven by a desire to stimulate the manufacturing sector. The non-manufacturing sectors such as services do not receive the same policy attention, although this differs from country to country. However, investment flows (foreign and domestic) into the manufacturing sector remain small compared to the primary and service sectors. Although countries continue to use (invariably) a mix of industrial policy instruments, such as import protection, export promotion, foreign investment restrictions, tax incentives, export processing zones, and other measures to promote industrialisation, there seems to be no coherent regional approach to industrial policy.

While it is evident that WTO rules constrain countries' flexibility in their choice of industrial policy instruments, it can be argued that many SADC countries failed to make use of the transitional phase allowed for under WTO to promote domestic industrial adjustments. More efforts are being devoted to competition for FDI and related incentives to attract foreign investors, than on specific and generic industrial policy instruments. It may be useful for SADC countries to intensify debate on the feasibility of a regional industrial policy framework, particularly on sectors and products revealing comparative advantage and potential for high growth and value added. And to consider what type of intervention is required to boost their competitiveness. It is becoming increasingly evident that reliance on hopes for FDI alone is not sufficient for the promotion of the region's industrial development. More attention should equally be paid to non-manufacturing industries such as services, agriculture and mining, as constituting an integral part of the region's industrial development strategy.

7. The need for an appropriate institutional framework

Many reasons have been advanced for the failure of regional integration efforts in Sub-Saharan Africa. Recent African Economic Research Consortium (AERC) research has largely attributed this failure to lack of implementation and poor design of integration schemes (Oyejide, 1997). There has also been incidence of non-compliance or delayed implementation of agreed tariff reduction schedules. The PTA/COMESA schedule and the CBI scheme have not to date been effectively implemented due to non-compliance and the absence of enforcement mechanisms. A central lesson that can be learned from past integration efforts is the fact that inadequate institutions undermine the achievement of their intended objectives. There is thus a need to have a strong institution responsible for ensuring implementation and enforcement of agreed measures.

It can be argued that the transformation of the Southern African Development Co-ordination Conference (SADCC) to SADC in 1992 has not been matched by appropriate changes in its institutional arrangements. The setting up of a free trade area requires a new institutional framework to oversee its implementation. The present decentralised approach in which individual member countries are assigned sectoral responsibilities may be effective when it comes to matters of regional co-operation requiring no loss of sovereign powers. Trade integration involves

some surrendering of national sovereignty to supra-national institutions. The organisation's Windhoek Declaration in 1992 clearly attaches critical importance on the institutional framework:

"Successful regional integration will depend on the extent to which there exist national and regional institutions with adequate competence and capacity to stimulate and manage efficiently and effectively, the complex process of integration... Integration does imply that some decisions which were previously taken by individual states are taken regionally." (SADC, 1993: 10).

Until now, SADC has not clearly elaborated a new institutional framework in which trade integration will be effected. The traditional approach of allocating various sectoral units to individual countries still persists. A general observation can be made that such an approach has not really been effective. Capacity problems due to lack of resources, both human and financial, as well as lack of political commitment can be associated with this ineffectiveness. It is evident that under such circumstances, the Trade Protocol is likely to experience formidable problems in its implementation, which if not addressed will render the process incredible. According to the protocol, a Committee of Senior Officials responsible for trade matters (CMT), the Trade Negotiation Forum (TNF) and the Sector Co-ordinating Unit (SITCD), presently a responsibility of Tanzania, are responsible for the trade integration process. It is not the subject of this paper to present a comprehensive discussion on the appropriate institutional framework for the SADC trade integration process, but merely to highlight this gap.

Winter (1997) suggests that one of the lessons that developing countries can learn from the European experience is to lodge responsibility for trade policy and all its outcomes in a single unified executive body. This body should be subjected to broad periodic guidance and review from elected legislatures. He warns against placing such responsibility in committees of national bureaucrats. As far as SADC is concerned, the current institutional framework may be relevant during the trade protocol negotiations, but is largely inappropriate for the effective implementation of the trade integration process. A supra-national institution is likely to be effective in realising the objectives of trade integration.

8. Conclusion

This paper has been intended to highlight critical policy and crosscutting issues needed to underpin the regional trade integration process in Southern Africa. A critical issue that has been dominant in general discussions on the prospective free trade area has been the distribution effects arising from integrating unequal partners, particularly the inclusion of South Africa as a dominant economy. The use of conventional tools to assess the impact of such a regional trade arrangement will be limited in answering such concerns. The paper argues that it is necessary not to concentrate too much attention on the possible static gains that are arguably in favour of those economies with a capacity to compete in regional markets. Trade integration should be embraced as a mechanism to generate confidence and credibility around the region's macroeconomic policy framework so as to encourage investment formation.

There are indeed theoretical hopes of positive spillovers that can be generated by smaller neighbouring economies in their market integration with South Africa. However, this requires greater opening of the South African/SACU market, particularly in sectors and products in which the region has a revealed comparative advantage. It is therefore vital that such sectors and products should not be susceptible to 'capture' by protection-seeking competitors and other interest groups in a manner that would undermine trade creation. One way of avoiding cumbersome 'rules of origin' would be to move towards some form of harmonisation and convergence of individual members' external tariffs, especially in the case of 'sensitive' sectors and products, while vigorously promoting regional competition.

As intra-regional tariff barriers decline, there is a need to pay special attention to other complementary policies and measures to encourage a competitive trading environment such as on competition, standards and technical regulations, and other trade facilitation measures. Market integration requires a much greater degree of co-ordination of macroeconomic policies with an

objective of enhancing stability and discipline. Persistent macroeconomic imbalances are likely to undermine potential trade flows, and to render the trade integration process ineffective in realising its objectives, particularly those related to investment formation. Lastly, the implementation of a free trade arrangement is more a question of political economy rather than proper economics. This requires an institutional framework that is able to transcend national sovereignty issues. The present institutional arrangement as stipulated in the trade protocol is unlikely to lead to effective implementation and enforcement of the protocol provisions. A new framework to act as 'an agency of restraint' is required.

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