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AN ANALYTICAL FRAMEWORK FOR THE ASSESSMENT OF COSTS AND BENEFITS OF REGIONAL ECONOMIC INTEGRATION: THE SACU AND SADC EXPERIENCES

1. Introduction

It is widely observed that among developing countries, the motivation for and the objective of economic integration is not just integration per se, but rather the attainment of economic development goals. In other words, economic integration is seen as a paradigm for industrialization. It is also worth noting that the political leadership perceives economic integration and the gains from it in national terms and this is why the economic integration pacts they sign and or ratify emphasize the notion of "perceived equity in the distribution of gains or benefits from integration".

Lynn K. Mytelka[1]/observes that due to poverty and lack of industrial goods the political leadership in third word countries is characterized by its desire for immediate gains in the industrial sector of the national systems. Consequently, economic integration is seen as a means to this end and not an end in itself and therefore in so far as integration accomplishes the development goals it will be perceived as a legitimate scheme and will be supported. But in so far as it fails to accomplish the desired goals in the immediate future; the political leadership will question its usefulness and legitimacy.

Economic benefits arising from integration will however be contingent upon the economic structures and effects of asymmetrical levels of development of these countries. The less the country is endowed in natural resources and human skills, the less likely it is that it can attract significant investment and capital from foreign sources. This is compounded by the small size of the national market.

The rationale for integration therefore is to increase the size of the market - economies of scale and promote intraregional trade by removing obstacles such as tariffs and transportation bottlenecks. Unfortunately the removal of tariffs alone may not stimulate trade as other non tariff obstacles might be more important in hindering the expansion of trade. We therefore highlight the importance of major participants to economic integration schemes moving forward together in a concerted simultaneous manner on all fronts if economies of scale are to be attained by all members across the board. Economic theory has however distinguished two effects of regional integration: trade creation and trade diversion.

Trade creation based on comparative advantages is an economic benefit of regional integration and occurs when reduction of trade barriers stimulates new trade that would otherwise not occur. It is economically beneficial because it allows countries to specialize in production where they have a comparative advantage. The benefits from specialization are classified into "static" and "dynamic" effects. Static effects arise if the pattern of production and trade, shifts from one activity to the other but without changes in technology and scale economy effects. Dynamic effects occur when enterprises are engaged in competition and learning processes of best practices are in play. These dynamic effects are extremely important for long term integration.

1/ Lynn K. Mytelka, "The Salience of Gains in Third World Integrative Systems", in

Trade diversion on the other hand could be harmful and this occurs when countries in a regional scheme buy products from other partners in the region which they have previously been buying more economically from sources outside the region. Since this does not lead countries to specialize at what they are best at producing, the new trade becomes inefficient. This could therefore lead into the failure of integration schemes.

We postulate that as a percentage of GNP, static gains from trade tend to be minimal compared to long term dynamic gains. These dynamic gains are further triggered by trade liberalization, hence the importance of implementing the trade protocols. In the case of SADC, the 1993 African Development Bank (ADB) study has noted that "countries in Southern Africa have characteristics which suggest that they should give high priority to development through regional efforts. The long term net gains are likely to be higher than would be the case otherwise." The foregoing emphasises that the impact of non-integration in SADC would be more costly than otherwise.

The economic effects of the formation of SADC will by and large be the result of an interplay between structural factors of SADC economies and the initial pattern of trade, the underlying comparative advantage, and the level or height of the initial tariffs and other trade barriers. The next section reviews the structure of SADC economies which are highly diverse with opportunities for exploiting comparative advantage. The very section also reviews SADC trade structure. Also of importance to SADC economies is the income distribution and resource endowment. Human and natural resource endowment are important because they determine the level of income and the pattern of trade. The investment in infrastructure could play an important role in spreading the gains from economic integration. Then experiences in the distribution of gains are examined in sections four and five. The Southern African Customs Union experience is seen as a model for SADC integration. The last section briefly makes conclusions and recommendations.

2. <u>The Structure of SADC Economies</u>

There are wide disparities and asymmetries in the economies of SADC countries ranging from those described by the World Bank as upper-middle income countries to the poorest countries in the world. In 1995, the total GDP of SADC countries was put at US$170 250 million with 80% of that being generated by South Africa alone. The combined GDP of SADC countries is roughly equal to that of Finland. The second largest country, namely Zimbabwe contributed only a mere 3.8% of total SADC GDP. Countries such as Lesotho, Malawi, Mozambique and Swaziland contributed less than 1% to SADC production. These disparities have important implications for designing an appropriate model of equitable distribution of gains in an economic integration scheme.

Another economic indicator which illustrates the disturbing disparities in the economies of SADC countries is the 1997 GNP per capita. Except for Mauritius, South Africa and Botswana which have GNP per capita of US$3380.00, US$3160.00 and US$3020.00 respectively, the rest of the SADC countries are either middle or low income countries with almost 50% classified as least developed while six are land-locked and two are island countries. Mozambique's GNP per capita of US$80.00 is among the lowest in the world. However, caution must be observed in looking at GNP per capita of South Africa.

Although South Africa is squarely put in the ranks of the upper-middle-income developing countries, this aggregate measure disguises an extremely skewed distribution of income. Because of the legacy of apartheid, South Africa has the most unequal distribution of income in the world and this is based on race. The skewed income distribution is reflected in the fact that the bottom 20% of income earners capture a mere 1.5% of national income while the wealthiest 10% of households receive 50% of national income [2]. Further, it is estimated that between 36 and 53% of South Africans are estimated to live below the poverty line and poverty is concentrated among Africans and coloured population: 65% of Africans are poor. Roughly 33% of the coloured population live in poverty compared to 2.5% for Asians and 0.7% for whites[3]. Discrimination in employment education and training is the major cause of poverty among Africans and not adequate steps have been taken to redress that legacy. In 1995, the South African Central Statistical Office reported the total number of unemployed at 4.7 million, yielding an unemployment rate of 32.6%

An analysis of the South African economic structure is necessary to show the level of poverty of the majority of the population and to demonstrate that although South Africa is deemed the industrial hub of SADC, its internal problems are so massive that it may not be expected to distribute its wealth to its neighbours to the north.

It should further be noted that between 1980 and 1995 several countries such as Zambia, South Africa, Mozambique, Malawi and Zimbabwe recorded negative GNP growth. But prospects for growth of GDP and GNP per capita for the remainder of the 1990s look more promising for almost all the countries of the subregion. Table 1 below illustrates the picture of GDP and GDP growth for the period 1980-1995.

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[2] Whiteford et al: A Profile of Poverty; Inequality and Human Development in South Africa; Pretoria HSRC 1995.

[3] World Bank: Key Indicators of Poverty in South Africa, 1995.

Table 1

GDP and GDP Growth of the SADC Economies 1980-1995

Country	GDP US$ Million		Percentage Distribution 1995 (%)	Average Annual Real Growth	
	1980	1995		1980-1990	1990-1995
Angola	-	3,722	2.2	3.7	-4.1
Botswana	971	4,218	2.5	10.3	4.2
Lesotho	368	1,029	0.6	4.3	7.5
Malawi	1,238	1,465	0.9	2.3	0.7
Mauritius	1,132	3,919	2.3	6.2	4.9
Mozambique	2,028	1,469	0.8	-0.2	7.1
Namibia	2,190	3,033	1.8	1.1	3.8
South Africa	73,744	136,035	80.0	1.3	0.6
Swaziland	-	1,051	0.6	-	-1.3
Tanzania	5,702	3,602	2.1	3.8	3.2
Zambia	3,884	4,073	2.4	0.8	-0.2
Zimbabwe	5,355	6,522	3.8	3.5	1.0
Total SADC	-	170,238	100.0	-	-

Sources: World Bank 1997; World Bank Development Indicators 1997, Washington and World Bank Atlas 1997.

Another dimension of the economic structure of the SADC countries is the sectoral contribution to the economies in 1995. Although the majority of SADC countries', economies are agriculturally based with Malawi and Tanzania accounting for 42% and 58% respectively, other sectors such as industry, manufacturing and services play an important role particularly in South Africa, Botswana, Mauritius, Namibia and Zimbabwe. The share of the mining sector in the industries of South Africa, Namibia and Botswana are particularly critical to their economies. Angola is the only country in SADC with significant oil reserves and it has vital diamond deposits. Its economy is dependent on the export of oil to countries outside the SADC region. Table 2 below demonstrates the sectoral distribution of the economies of the SADC countries in the year 1995.

Table 2

ECONOMIC STRUCTURE OF SADC COUNTRIES BY SECTOR 1995

Country	Percentage of GDP				
	Agriculture [1] (Column 1) %	Industry [2] (Column 2) %	Manufacturing [3] (Column 3) %	Services (Column 4) %	Total (Columns 1, 2 and 4) %
Angola	12	59	3	28	100
Botswana	5	46	4	48	100
Lesotho	10	56	18	34	100
Malawi	42	27	13	31	100
Mauritius	9	33	23	58	100
Mozambique	33	12	-	55	100
Namibia	14	29	9	56	100
South Africa	5	31	24	64	100
Swaziland	13	49	46	38	100
Tanzania	58	17	8	24	100
Zambia	22	40	30	37	100
Zimbabwe	15	36	30	48	100

1 Including forestry & fishing
2 Including mining, manufacturing, construction, water and electricity
3 Also included under industry

Source: World Bank 1997: World Bank Development Indicators 1997.

Southern Africa is an important region of the African continent. The current fourteen SADC countries constitute more than a quarter of the total African land mass with a population of nearly 187 million. A study of income distribution must of necessity look at the resource endowments of the region . According to Peter Holmes and David Evans, in a world where capital is increasingly mobile and from the point of view of SADC where it is available at a price, the critical resources which determine the level of income and the pattern of trade are human and natural resource endowments. These authors contend that the total number of months of schooling of the population relative to the amount of land in sq.km. is an important econometric tool of skills based comparative advantage because it shows "the link between institutional capability, economic policy and the extent to which exports and imports are responsive to underlying factor endowments"[4]. This is illustrated in Table 3 below.

Table 3

SADC RESOURCE ENDOWMENTS

	Land Area Millions Sq. Km. (1)	Average Years Schooling (2)	Population Millions (3)	Months Schooling per km.	
					Rank
Angola	n.a.	n.a.	9.7	n.a.	
Malawi	504	2.3	10.5	0.583	2
Mauritius	4	4.56	1.1	13.680	1
Mozambique	2,371	0.99	1.1	0.076	7
SACU	6,012	4.80	43.3	0.415	3
Tanzania	3,556	2.28	28.0	0.215	4
Zambia	3,008	3.91	8.9	0.139	6
Zimbabwe	1,530	2.55	10.7	0.214	5
SADC Average	16,985	2.97	127.3	0.267	

Source: Evans (1997)
(4) is given by [(2)x(3)]x(1)]
Quoted from: the Costs of Non Integration in SADC: Perspective from the European Union Experience by Peter Holmes and David Evans, May 1997, P.56

It is however not adequate in attaching value to land until it is clear what quality of land it is, and what valuable minerals it harbours. But also the number of months of schooling of the population should take into consideration the quality of education.

In terms of natural resource endowments, SADC countries mirror very high relative to other regions of Africa. The region has greater agricultural potential than other parts of Africa with a relatively favourable climate. It also has extensive mineral resources including gold, manganese, platinum, diamonds, oil, copper, nickel, ferro-chrome, coal, asbestos cobalt, iron, silver, tin, zinc, uranium and lead. Excepting Congo (Zaire), by 1990, SADC's mineral production as a proportion of world output was as follows: diamonds (18.7%), cobalt (15.0%) ferro-chrome (7.2%) asbestos (4.8%) chromite (4.6%) and nickel (4.0%). In terms of known world reserves, South Africa alone has 82.5% of manganese, 69% of platinum, 55% of chromium ore, 47% of gold, 33% of vanadium, 24.5% of diamonds, 16% of Zirconium, 11% of titanium, 10% of alumina silicate and 8% of coal (Jourdan 1990).

Furthermore South Africa alone produces about two thirds of the world's platinum, 50% of the world's vanadium, 36% of chromite, 33% of gold, 15% of manganese, 10% of uranium an 13% of world's coal exports (Jordan, 1989). But these production figures mean little if not translated in economic terms. Nonetheless the SADC countries possess enormous potential for harnessing their natural resources into economic development on a sustainable basis.

2.1 SADC External Trade

The SADC countries through the 1996 Trade Protocol and the recently finalized Trade Strategy address the obvious obstacles to trade arising out of weaknesses in the production base, trade policies, market access financial infrastructure and communications facilities. SADC trade accounts for US$44 billion of which $9.5 billion is intra-SADC and $6 billion is traded at less than 10% customs duties mainly because SADC countries either belong to SACU or to COMESA where tariffs have been considerably reduced.

In 1995, the SADC countries accounted for 0,64% of world exports and 0,73% of world imports. South Africa accounts for two thirds of SADC's external merchandize trade. Most countries export raw materials and import consumer manufactures and capital goods such as machinery and transport equipment. these mainly originate from South Africa.

According to the Economist Intelligence Unit's calculations, only 4% of members' trade was within the community on 1994 while 25% was with South Africa. Membership of South Africa into SADC since August 1994 has not changed the pattern of SADC trade significantly. The signing of the Trade Protocol of 1994 by heads of States was aimed at removing all import tariffs over a period of eight years. But four years hence the Protocol remains unratified by the required two thirds majority.

The major stumbling block has been South Africa which prefers to sign symmetrical preferential access agreements with individual SADC member States rather than an immediate free trade regime. The South African argument rests on the premise that its preferred policy would be less harmful in de-industrializing the smaller states. Such arrangements have so far been agreed upon with Malawi Zimbabwe and Mozambique and a possible preferential trade regime is currently being negotiated between Zambia and SACU.

3. Infrastructure Development by private Sector Investment in SADC

The form of economic integration adopted by countries has important implications for the type of response of foreign direct investment (FDI) to the redistribution of market potential caused by tariff realignments. If trade diversion

effects differ between customs unions and free trade areas then FDI response to trade diverting phenomena will be affected accordingly. But more importantly transnational corporations' response will depend on the degree of commitment of the countries in an integration scheme to the liberalization of mutual trade. As already pointed out, commitment to abolish tariffs alone is not enough since trade is affected by a variety of non-tariff barriers as well.

One of the prerequisites for the expansion of trade in an integration scheme is the high level of infrastructure provision. The SADC region has one of the lowest levels of infrastructure provision. The national infrastructures are inadequate with poor standards of service at unacceptable price levels. The development of infrastructure would ensure labour absorbing growth and this would in turn trigger off an increasing level of transactions. A high level of infrastructure development coupled with high level of public administration were in part responsible for the enormous increase in intra-European Community trade which occurred (amounting to 600% over the period 1958-1970)[5].

Almost all SADC countries have now adopted national regulatory frameworks conducive to FDI. According to the SADC Secretariat, a SADC common code of conduct towards FDI is in the offing and a study on opportunities for FDI is soon to be undertaken. Efforts to increase FDI inflows include simplification of the investment approval process (e.g. by setting up "one-stop" investment centres), the establishment of investment promotion centres, and the increased use of representative offices abroad to publicize investment opportunities. The need to attract foreign investment is increasingly gaining momentum among integration groupings especially as the level of public sector concessional lending has decreased.

Potential for FDI inflows at country level will be conditioned by the following determinants: level of development (as measured by GDP per capita), market size (in terms of total GDP or size of the population) market growth, availability of natural resources, the quality of the infrastructure and the cost and productivity of labour. Therefore the more favourably a country compares on one or more FDI determinants and the lower the current FDI, the greater the potential for increased FDI flows. From the above analysis it is clear that the number of countries in the SADC region with FDI potential is quite sizeable. In fact according to UNCTAD, (FDI in Africa 1995) nine of the fourteen SADC countries are classified as possessing such potential.

Despite such potential, the countries of the region will have to embark on a sustained programme to improve the infrastructural services at an acceptable level of quantity and quality. And in a rapidly globalising international regime, the sooner

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5/ The Politics of the European Community: Roy Price 1973, p.39.

the SADC countries embarked on this goal the better for the future of the integration scheme.

In the transport sector, the road network is the most severe infrastructural constraint and yet this is the most used system to carry passengers and freight. In Zambia during 1991 only 12 per cent of the network received maintenance funding while in Botswana and Zimbabwe (regarded as having relatively extensive road network) only 15% of all main roads have a paved surface. Malawi, Zambia and Zimbabwe are constrained even more because of their landlocked nature.

Although all countries have international airports, runways require rehabilitation, and air traffic control systems are often old while freight handling facilities are small and as a result, many businessmen complain of delays and unreliable services. What holds for airports is also true of sea ports whose productivity is just about a third of international norms. Rail transport is in a state of disarray. Railroads require urgent rehabilitation and new wagons need to replace the aging facilities.

In the sector of telecommunications, just about 2% of the population of SADC have access to a telephone services while the rate for North America and the European Union is about 50%. "Except for Botswana, Namibia, South Africa and Swaziland the average penetration rate is only 0.5% compared to an average of 11% in middle - income countries"[6]. Telephones are characterized by outdated technology, main line failure (of up to 2.4 and 2.5 in Swaziland and Zimbabwe respectively), low call completion rates (South Africa's being 60%) and inefficiencies. At times countries of the subregion will be cut off for weeks from international incoming calls because of failure to honour its obligations with international telecommunications institutions.

The provision of electricity and supply of water is equally unsatisfactory. With regard to electricity, the generation, transmission and distribution systems are outdated and inefficient. Production per person is around 600 Kw/h. Voltage fluctuations and power failures are frequent and often result in damage to electronic equipment. Virtually all SADC countries' electricity enterprises are state owned and are prone to loss making. In order to circumvent the shortages of electricity, SADC countries had in 1997 established the SADC Power Pool. The objective is to distribute power from those countries with excess capacity such as Mozambique, Zambia and Congo (Kinshasa).

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6. Foreign Direct Investment in Infrastructure: The Challenge of Southern and Eastern Africa", D. Donaldson, F. Sader and D. Wagle 1997, p.2.

Foreign investors have therefore been weary to venture into the SADC region despite enormous investment opportunities. Infrastructural weaknesses are likely to pose a major hurdle to economic growth since economic activity is dependent on the provision of such services.

Problems in implementing private infrastructure investment in SADC have arisen out of policy and regulatory weaknesses. The region is deemed to be among the riskiest in the world with a rating of 23.6 which is below the average of 38.5 for 135 countries[7]. But the general average rating for the region masks country variations. While Angola was given 11.3 making it 122nd in the world and Botswana was scored 49.0 and placed it at 43rd. Table 3, below however shows that country risk in all the countries is on the decline which means that the region is becoming more attractive to investors.

But Donaldson et al (1997) consider that despite good prospects for investment in the region, the following ten constraints must be overcome:

- <u>Lack of Government Commitment</u> Governments are said to be unwilling to introduce private infrastructure operations and their commitment to obligations are put into question;

- <u>High transaction Costs and Uncertainty in Dealing with Governments</u> Owing to a bewildering array of red tape, project sponsors face the prospects of spending large amounts of money and time in getting what they want from government ministries. Several SADC countries have a "one-stop" investment institution but others such as Congo (Kinshasa) and Angola are yet to develop such institutional mechanisms;

- <u>Reliable Privatization Programmes</u> Investors are skeptical about the effectiveness of sales processes. The processes tend to suffer from political indecisiveness arbitrary decision making and interference. Angola and South Africa have been indecisive on privatization of infrastructure and this has tended to inhibit the flow of FDI;

- <u>Non-Transparent negotiations</u> Automaticity, transparency and predictability are key factors in building the confidence of investors;

- <u>Unclear Regulatory Frameworks for Service provision</u> Investors want a predictable business environment and a reliable framework of regulations governing investments. In addition the countries of the region lack qualified human resources and expertise to enforce the regulatory framework.

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7 Institutional Investor, September 1995.

- **<u>Limited Domestic Entrepreneurship</u>** Generally the countries have few entrepreneurs with financial muscle and expertise to operate infrastructure facilities.

- **<u>Weakness of Domestic Financial Institutions</u>** Investors face difficulties in borrowing long term finance which is necessary for the development of infrastructure mainly because government borrowing has pushed up interest rates and banks cannot afford long term lending.

- **<u>Ensuring Convertibility and Transferability</u>** Despite making milestones in the liberalization of financial markets, balance of payments difficulties compel governments in imposing limits on profit repatriation and converting local into foreign currencies. But also of concern are the problems of exchange rate fluctuations and currently volatilities as well as high interest rate risks.

- **<u>Popular Resistance to High Returns and Market Pricing</u>**

  There is a general negative mood against the high tariffs for services. This stems from the perception that the pay back period for investment is three to four years because of high returns.

- **<u>Concerns over the Adequacy of the Legal Framework</u>** Investors tend to doubt the efficacy of the legal frameworks. They want concession laws that spell out rules for private participation, rules for project bidding and tendering and a description of the circumstances under which concessions can be modified or cancelled built into the legal framework.

The above requirements by private providers are considered necessary for the inflow of FDI to the region. But governments invoking the notion of sovereignty often view some of the requirements as excessive and infringing on national sovereignty. But to facilitate private investments in infrastructure, the SADC countries need to improve their policy environment. This would ensue rapid growth of the economies and redress mass unemployment which is the major cause of poverty. Inviting private capital for the region's infrastructure is a sure way of minimizing costs and maximizing benefits of regional integration.

Paradoxically, a cursory examination of the factors which foster high levels of both domestic and international investment, especially direct investment have surprisingly little to do with the prerequisites enumerated above. In 1993 FDI approvals for China which meets very few of the orthodox criteria were $111 billion although they dropped to almost half by 1996. But in 1997 Africa which has undertaken bold reform measures received only $4.7 billion. It would rather appear that it is the absence of high levels of social polarization, extreme inequality skewed income distribution and the social tensions occasioned by these and the

presence of adequate human resources and growing aggregate demand which appear to drive the investment process.

The tables which are annexed to this write up on, infrastructure indicators and Institutional Investor Index for Southern and some Eastern African countries are derived from Donaldson et.al. op.cit. The last table D on FDI effects of economic integration rounds up the benefits of attracting FDI to an integration scheme. But as Dixit and Pindyck (1994) argue, investment cannot be attracted into a region or country under conditions of uncertainty. Using the modern "option theory", they argue that the "most important cost for a businessman of investing in any given irreversible project is the "opportunity cost" of giving up the chance of waiting one more period and seeing what alternatives have in the meantime become available.

In other words if SADC countries can adopt policies that can reduce the incentives for firms to "wait and see", this will have the same benefits as lowering the cost of capital and risk premium on investing. The benefits would be enormous. While the SADC integration process has not been accompanied by steps that ensure that gains to integration are evenly spread, on the other hand, the Southern African Customs Union (SACU) has a redistributive revenue sharing mechanism. The next section reviews that mechanism.

Infrastructure Indicators for Southern and Eastern Africa

Table A. Telecommunications

Country	Telephone mainlines per 100 persons (1994 data)	Call completion rate (% of local calls) (1992 data)	Faults per 100 mainlines per year 1993/4 data)	Mainlines per employee (1993 data)
Angola	0.53	52.0	150.0	25.0
Botswana	3.1	n a	55.0	27.0
Eritrea	0.59	n a	n/a	n/a
Ethiopia	0.26	50.0	74.0	25.0
Kenya	0.85	57.0	n/a	16.0
Lesotho	0.64	89.0	n/a	13.0
Madagascar	0.27	35.0	78.0	14.0
Malawi	0.35	62.0	n/a	8.0
Mozambique	0.37	n a	90.0	25.0
Namibia	4.5	n a	78.0	36.0
South Africa	9.0	61.0	n/a	61.0
Swaziland	2.0	63.0	238.0	31.0
Tanzania	0.31	92.0	n/a	18.0
Uganda	0.12	45.0	380.0	17.0
Zambia	0.91	n a	33.0	25.0
Zimbabwe	1.2	n a	254.0	25.0
SEA Average	0.53[a]	59.6	143.0	24.4
Middle-income Country Average	11.0	98.0[b]	55.4	38.3

Notes: a: excludes Botswana, South Africa, Namibia and Swaziland; b: high income country average; n a-data not available.
Sources: *World Development Report*: 1994, International Telecommunications Union, and World Bank staff members.

Table B. Electricity

Country	Electricity production K wh/cap 91992 data)	System losses % of total output (1992 data)	Electricity consumption kWh/cap (1991 data)
Angola	194	18[c]	98
Botswana	390[c]	6	955
Ethiopia	25[a]	3[a]	18
Kenya	130	16	148
Lesotho	n/a	12[d]	168
Madagascar	47[c]	17	47
Malawi	85[c]	19	54
Mozambique	24	24	60
Namibia	n/a	n/a	1,256
South Africa	4,329	7	3,901
Swaziland	n/a	10[b]	842
Tanzania	66	12	66
Uganda	46[c]	40	n/a
Zambia	900	11	937
Zimbabwe	790	7	863
			672
SEA Average	585	14.4	n/a
Middle-income Country Average	2,144	11.8	55.4

Notes: a: includes Eritrea; b: 1991; c: 1990; d:1988

Table C. Transportation

Country	Road density km paved roads per million persons (1993 data)	Road in good condition % of paved roads 1989 data)	% of road budget going to maintenance (1991-92 data)	Maintenance shortfall % actual/ required (1991-92 data)	% of roads that are paved (1992-93 data)	% of main roads that are paved (1992-93 data)	Railways: diesels in use - % of diesel inventory (1993 data)
Angola	316	n/a	n/a	n/a	n.a	50.2	n/a
Botswana	2,022	34	n/a	n/a	13.3c	15.8	n/a
Ethiopia[a]	75	47	n/a	n/a	15	29.3	60
Kenya	334	32	25	22	13.3[a]	13.6	52
Lesotho	315	53	n/a	n/a/	15	25.6	n.a
Madagascar	366	56	15	29	15.4	31.0	n/a
Malawi	277	56	n/a	n/a	18.6[c]	25.3	70
Mozambique	277	19	n/a	n/a	n/a	34.6	n/a
Namibia	2,722	n/a	n/a	n/a	10.7[b]	n/a	88
South Africa	1,433	n/a[e]	n/a	n/a	30.4[a]	91.9	83
Swaziland	765	35	n/a	n/a	58.6	2.0	n/a
Tanzania	129	39	42.5	41	4.2	12.0	52
Uganda	120	10	13.4	33	8.5	26.0	64
Zambia	744	40	32.6	12	17.6	30.8	71
Zimbabwe	1,360	70	36.3	73	16	44.8	80
SEA Average	784	46	27.5	35	18.1	32.5	60
Middle-income Country Average	2,881	45.7	n/a	n/a	91.7[d]	98[d]	69

Notes: a: 1991; b: 1990; c: 1988; d: Western european Average; e: 5% are considered "poor";

Table D. Foreign-direct Investment effects of economic integration

Macro-economic effect of integration	TNC strategic response	New trade effect	Net FDI effect
Intra-regional trade more attractive than extra-regional trade	Replace exports with FDI (defensive import-substituting investment)	Decline as sales by regionally based foreign affiliates replace exports to the region	Increase investment in regionally based affiliates
New configuration of locational advantages among members of the region	Adjust existing investment in the region to reflect intra-regional trade (re-organizational investment)	No effect/possible increase; intra-regional trade could rise if reorganization leads to increased plant and country specialization. Extra-regional exports could rise under certain conditions	regions industries become more
cost reduction and efficiency gains	Increase value adding within region: integrate with other offshore investments (rationalized investment)	Possible decrease if less is imported into the region; possible increase if exports from the region rise	Increase FDI as TNCs increase sourcing in the region
Market expansion, demand growth and technical progress	Gain first-mover advantages via FDI (offensive import investment)	No effect, if demand in regional market grows faster than supply from new inwards FDI, otherwise possible decrease	Increase

Source: UNCTC, Regional Economic Integration and Transnational corporations in the 1990s; (United nations Publications Sales No. E 90 11 A.14.

4. The Experience of the Southern Customs Union (SACU)in the Sharing of Revenue

The Southern African Customs Union (SACU) in one form or the other has been functioning since 1889. But the present SACU agreement dates back to 1 April 1969. SACU comprises Botswana, Lesotho, Namibia, South Africa and Swaziland. The members form an economic region which is highly interdependent.

The objectives of SACU appear in the preamble of the SACU agreement and are as follows:

- creation of a common customs area;

- free interchange of goods and services between the member countries in the common customs area;

- economic development of the common customs area as a whole, in particular of the "less advanced members" of the Customs Union and diversification of their economies;

- sharing "equitable benefits" among all members of the Customs Union.

Article 14 of the 1969 agreement emphasizes the issue of revenue sharing as prescribed in the preamble of the agreement where one of the objectives is the "sharing of equitable benefits arising from trade among the member countries and with others.

South Africa is the custodian of the revenue pool of SACU. All customs excise, sales and additional duties are paid quarterly into the Consolidated Revenue Fund of South Africa. Collectively they are described as "the common revenue pool of the common customs union" and is divided annually among member countries on a basis which leaves South Africa with a residual after the shares of Botswana, Lesotho, Namibia and Swaziland. The sharing of revenue is expected to have some equalizing effect and avoid the effect of negative polarization.

The formula for the division of customs union revenue is as follows:

$$R = 1.42 \frac{(a+b+c)}{(d+e+f+g)} \times (H)$$

This means that R is the amount of revenue of the countries of Botswana, Lesotho, Namibia and Swaziland (BLNS) in any given financial year; a is the cif value of all imports into a BLNS Country; b is the pre-tax value of production and consumption of goods in the BLNS country; c is the value of excise duties for that country; d is the value of goods imported into the whole customs area; e is the

value of customs duties on d; f is the pre-tax value of goods produced and consumed in the whole of the customs area; g is the value of excise duties paid on f; and R is the common revenue pool of customs and excise duties collected during a given financial year. And R equals e+g.

The best known feature is the multiplier of 1.42 known as the 'compensating factor'. It is an effort to compensate the less developed members of SACU for certain perceived disadvantages of their membership such as loss of fiscal discretion, polarizing effects of SACU and the price raising effects of the South African policy of protecting its industries through tariffs and quotas.

According to Professor C.L. McCarthy, a stabilization factor was added in 1975/76 and by the 1990s was in the range of between 17 and 23%. The net result of including the multiplier and a stabilization factor was to ensure the BLNS countries a stabilized customs revenue rate at 20% of the value of their imports. According to McCarthy, if the formula yields a revenue rate of less than 20%, an additional amount is added equal to 50% of the difference between the amount calculated in terms of the formula and the amount commensurate with a 20% revenue rate provided that the resulting rate is not less than 17%. If the formula yields a revenue rate of more than 20%, 50% calculated on a similar basis is subtracted from the amount calculated, provided that the resulting revenue rate is not higher than 23%[8/]

Recently, there has been intense debate about the merits and demerits of the revenue sharing formula with regard to whether the formula compensates the BLNS countries adequately. While South Africa believes there is a net transfer of its fiscal resources to BLNS countries, the other partner countries think otherwise. McCarthy believes polarization should be resolved through a 'common policy which will facilitate the coordinated distribution of new industries' rather than through a revenue sharing formula. This idea is supported by BLNS countries particularly Botswana and Namibia who now want to embark on a programme of industrialization including setting up vehicle assembly plants that would compete directly with South African firms. Lesotho and Swaziland are hesitant and sceptical about such a strategy.

Another problem with the formula is that there is a time lag. Payments are made on the basis of revenue collected two years before. Accordingly, the BLNS countries accuse South Africa of enjoying an interest free loan for two years in respect of the customs union revenue collected in the common pool. Because of the time lag, the real value of revenue received by BLNS countries is also reduced because of double digit inflation and high levels of interest rates.

8/ C.L. McCarthy: The Revenue Sharing formula of SACU, Stellenbosch University, 1985, P.107.

In view of certain provisions in the agreement which are fuzzy, inconsistent and contradictory, BLNS countries economic development has been slow with their industries unable to compete with South African manufacturers. As a result most of the imported industrial and other consumer goods are produced in South Africa. Dissatisfaction with the agreement has prompted the BLNS countries to renegotiate the agreement. Such negotiations have been dragging on and if no breakthrough is achieved soon, SACU could meet its waterloo particularly if the SADC Trade Protocol was to be implemented.

The tables and figures below illustrate the implementation of the revenue sharing formula of SACU. Table I simply gives the relative size of SACU members by showing the size of population and nominal GDP for 1996.

Table I

Overview: Relative Size of SACU members

	Population ('000) 1996		Nominal GDP (Millions of US$) 1996	
Botswana	1 490	3,1%	4 939	3,6%
Lesotho	2 110	4,4%	791	0,6%
Namibia	1 600	3,3%	2 966	2,2%
South Africa	42 300	87,3%	126 388	92,8%
Swaziland	938	1,9%	1 091	0,8%
	48 438	100%	136 174	100%

Source: Department of Trade and Industry, RSA, 1996

CUSTOMS UNION COMMISSION 1996

PROVISIONAL CALCULATION OF REVENUE SHARES FOR 1997/98
(All figures in thousands of Rand)

1. **FIRST ESTIMATE OF REVENUE SHARES FOR 1997/98 BASED ON RELEVANT DATA FOR 1995/96**

Botswana $\frac{7\,328\,551}{164\,400\,785} \times 12\,257\,841 \times 1{,}42 = 775\,919$

Lesotho $\frac{5\,561\,561}{164\,400\,785} \times 12\,257\,841 \times 1{,}42 = 588\,837$

Swaziland $\frac{4\,567\,682}{164\,400\,785} \times 12\,257\,841 \times 1{,}42 = 483\,609$

Namibia $7\,372\,091 \times 12\,257\,841 \times 1{,}42 = 780\,524$

2. CALCULATION OF THE STABILISATION FACTOR

(a) Calculation of revenue rate for 1995/96

$$\frac{12\ 257\ 841}{164\ 400\ 785} \times 1{,}42 = 0{,}1058762$$

(b) Stabilised revenue rate for 1995/96

$$\frac{20{,}00000 - 10{,}58762}{2} + 10{,}58762 = 15{,}29381 \text{ per cent}$$

(c) As (b) above is less than 17 per cent, the minimum stabilised rate of 17 per cent will apply.

(d) Amount of stabilisation (17 - 10,58762 = 6,41238 per cent)

Botswana	7 328 551 x 6,41238 per cent = 469 935
Lesotho	5 561 561 x 6,41238 per cent = 356 628
Swaziland	4 567 682 x 6,41238 per cent = 292 897
Namibia	7 372 091 x 6,41238 per cent = 472 726

3. FIRST ESTIMATE OF REVENUE SHARES AFTER STABILISATION FOR 1997/98 BASED ON RELEVANT DATA FOR 1995/96

	First estimate	Stabilisation	Total
Botswana	775 919	469 935	1 245 854
Lesotho	588 837	356 628	945 465
Swaziland	483 609	292 897	776 506
Namibia	780 529	472 726	1 253 255

4. FIRST ADJUSTMENT OF REVENUE SHARES FOR 1995/96, INCLUDING STABILISATION FACTOR

	First estimate of revenue shares after stabilisation for 1997/98 based on 1995/96/data	First estimate of revenue shares after stabilisation for 1995/96 based on 1993/94 data	First adjustment of revenue shares for 1995/96
Botswana	1 245 854	-994 656	251 198
Lesotho	945 465	-718 190	227 275
Swaziland	776 506	-546 179	230 327
Namibia	1 253 255	-946 124	307 131

5. FINAL CALCULATION OF REVENUE SHARES FOR 1994/95 BASED ON RELEVANT REVISED DATA FOR 1994/95 BASED ON RELEVANT REVISED DATA FOR 1994/95

Botswana $\frac{6\ 128\ 590}{144\ 210\ 735} \times 11\ 222\ 073 \times 1{,}42 = 677\ 212$

Lesotho $\frac{4\ 787\ 314}{144\ 210\ 738} \times 11\ 222\ 073 \times 1{,}42 = 529\ 000$

Swaziland $\frac{3\ 758\ 995}{144\ 210\ 738} \times 11\ 222\ 073 \times 1{,}42 = 415\ 370$

Namibia $\frac{6\ 319\ 565}{144\ 210\ 738} \times 11\ 222\ 073 \times 1{,}42 = 698\ 314$

6. FINAL ADJUSTMENT OF 1994/95 REVENUE SHARES

	First calculation of 1994/95 revenue shares based on 1994/95 relevant data	First estimate of 1996/97 revenue shares based on 1994/95 data	Final adjustment of 1994/95 revenue shares
Botswana	677 212	-697 113	(19 901)
Lesotho	529 000	-544 644	(15 644)
Swaziland	415 370	-427 654	(12 284)
Namibia	698 314	-718 966	(20 652)

7. FINAL CALCULATION OF STABILISATION FACTOR FOR 1994/95

(a) Calculation of revenue rate for 1994/95

$$\frac{11\ 222\ 073}{144\ 210\ 738} \times 1{,}42 = 0{,}1105004$$

(b) Stabilised revenue rate for 1994/95

$$\frac{20-11{,}05004}{2} - 11{,}05004 = 15{,}52502 \text{ per cent}$$

(c) As (b) above is less than 17 per cent the minimum stabilised rate of 17 per cent will apply.

(d) Amount of stabilisation (17-11,05004 = 5,94996 per cent)

Botswana	6 128 590 x 5,94996 per cent = 364 649
Lesotho	4 787 314 x 5,94996 per cent = 284 843
Swaziland	3 758 995 x 5,94996 per cent = 223 659
Namibia	6 319 565 x 5,94996 per cent = 376 012

8. FINAL ADJUSTMENT OF STABILISATION FACTOR FOR 1994/95

	First calculation of stabilisation factor for 1994/95	First estimate of stabilisation factor for 1994/95	Final adjustment Stabilisation factor for 1994/95
Botswana	364 649	-344 560	20 089
Lesotho	284 843	-269 199	15 644
Swaziland	223 659	-211 375	12 284
Namibia	376 012	-355 361	20 651

9. TOTAL PAYMENT DUE FOR 1997/98

	First estimate of revenue shares after stabilisation for 1997/98	First adjustment of revenue shares for 1995/96 including stabilisation factor	Final adjustment of revenue shares for 1994/95	Final Adjustment of stabilisation factor for 1994/95	Total payment due for 1997/98
	(3)	(4)	(6)	(8)	(9)
Botswana	1 245 854	251 198	(19 901)	20 089	1 497 240
Lesotho	945 465	227 275	(15 644)	15 644	1 172 740
Swaziland	776 506	230 327	(12 284)	12 284	1 006 833
Namibia	1 253 255	307 181	(20 652)	20 651	1 500 385

Table 2

PAYMENT IN TERMS OF THE SACU AGREEMENT
(ALL FIGURES IN THOUSANDS OF RAND)

YEAR	BOTSWANA	LESOTHO	SWAZILAND	NAMIBIA	TOTAL	POOL	TOTAL AS% OF POOL
1969/70	4 847	5 000	7 082	-	16 929	640 654	2.64
1970/71	4 585	4 731	6 700	-	16 016	747 291	2.14
1971/72	8 287	5 932	8 488	-	22 707	859 059	2.64
1972/73	12 469	6 717	10 515	-	29 701	864 305	3.44
1973/74	20 941	14 627	13 308	-	48 876	1 010 920	4.83
1974/75	30 398	17 286	18 689		66 373	1 113 625	5.96
1975/76	24 606	15 257	18 050	-	57 913	1 447 491	4.00
1976/77	18 892	16 520	15 696	-	51 108	1 723 576	2.97
1977/78	35 659	32 841	36 400	-	104 900	2 290 264	4.58
1978/79	52 351	56 137	54 153	-	162 641	2 246 371	7.24
1979/80	82 951	71 493	74 237	-	228 681	2 122 561	10.77
1980/81	101 831	71 396	86 853	-	260 080	2 418 759	10.75
1981/82	110 323	70 806	62 666	-	243 795	3 167 775	7.70
1982/83	120 368	76 746	117 562	-	314 676	3 624 078	8.68
1983/84	160 284	109 889	120 663	-	390 836	3 561 992	10.97
1984/85	180 544	151 498	130 409	-	462 451	3 781 544	12.23

Source: Department of Trade and Industry, RSA.

Table 3

PAYMENT IN TERMS OF THE SACU AGREEMENT
(ALL FIGURES IN THOUSANDS OF RAND)

YEAR	BOTSWANA	LESOTHO	SWAZILAND	NAMIBIA	TOTAL	POOL	TOTAL AS % OF POOL
1985/86	174 429	161 086	136 576	-	472 091	3 636 921	12.98
1986/87	232 796	144 259	119 811	-	496 866	4 096 346	12.13
1987/88	284 962	157 396	134 928	-	577 286	4 653 314	12.41
1988/89	364 177	193 229	162 360	-	719 766	6 850 349	10.51
1989/90	467 548	263 643	186 831	-	918 022	7 661 095	11.98
1990/91	661 046	354 658	338 040	657 633	2 011 377	7 922 168	25.39
1991/92	1 033 661	424 070	356 422	735 465	2 549 618	8 016 967	31.80
1992/93	1 341 965	547 680	359 030	751 571	3 000 246	8 917 918	33.64
1993/94	1 106 070	746 913	454 478	765 809	3 073 270	10 136 497	30.32
1994/95	939 466	840 885	566 092	902 360	3 248 803	11 222 073	28.95
1995/96	1 084 026	906 500	743 845	1 155 746	3 890 117	12 257 841	31.74
1996/97	1 156 505	1 006 042	851 372	1 348 740	4 362 659	13 215 306	33.01
1997/98	1 497 240	1 172 740	1 006 833	1 560 385	5 237 198	N/A	N/A
1998/99	1 662 284	1 033 390	1 075 819	1 805 222	5 576 715	N/A	N/A

Source: Department of Trade and Industry, RSA.

The tables above clearly show that the SACU scheme faces problems of unequal sharing of costs and benefits arising from industrial imbalances between the smaller countries of BLNS and the RSA. The duty free entry of RSA goods into the BLNS prohibits the development of new industries in those countries. It is in this respect that the Margo Commission (1978) of the RSA recommended that the SACU compensation and stabilization funds should be paid into a development fund to assist the BLNS countries industrialize and diversify their economies.

Over the decades, SACU had functioned without an independent Secretariat. In the current negotiations, it is imperative that the SACU institutional machinery is formalized. Such a Secretariat would not only initiate projects for the development of the BLNS countries but also playthe role of catalyst and move the organization beyond the confines of a customs union into an economic union. It would also play the role of interlocutor between WTO and its member States and redefine its future relations with SADC and COMESA.

5. The Experience of SADC Integration

The experience of regional cooperation and integration among SADC countries and the changing domestic, regional and global circumstances have compelled SADC countries to put a premium on integration with a view to increasing intra-regional trade, however modest. But more importantly, SADC intends to spur new types of investment in productive and competitive industries.

Established in April 1980 by the Lusaka Declaration, the then Southern African Development Coordinating Council (SADCC's) principal aim was to reduce economic dependence and ensure equitable regional integration. Between 1980 and 1989 alone SADCC lost more than US $60 billion due to a hostile international economic environment and the massive military destabilization by South Africa. However, SADC with a small Secretariat was able to establish coordinating sectors in agricultural research, food security, mining, transport and communications, energy, industry, environment, forestry and fisheries.

As the organization forged into the 1990s, it transformed itself into a Community - the Southern African Development Community (SADC) established by the Windhoek Treaty (1992). As a Community, SADC has since been addressing issues of trade and investment, shared water resources, skills development, labour and employment, entrepreneurship and diplomacy and security as a basis for growth and development.

The organizations growth in membership from nine to fourteen[9/] is a manifestation of its dynamism.

The framework for economic integration in SADC provides for deep economic cooperation and integration on the basis of balance, equity and mutual benefit, providing for cross-border investment and trade and free movement of factors of production across borders. SADC has also aspired to establish common systems - common economic, political and social values, free elections, respect for the rule of law and human rights.

Considerable progress has been attained in various sectors and eleven protocols including the Trade Protocol have been signed by SADC member States. But despite these achievements, progress towards the reduction of the region's economic dependence and towards deeper economic integration has been modest. Regional cooperation and integration is yet to become an effective factor in the strategies of member states for national development. Regional economic plans have yet to be incorporated into national development plans, and there is no synergy between national and regional programmes and often conflict of interest between national and regional programmes does exist.

SADC integration has been donor driven. The international community has been generous with funding SADC programmes and projects. Unfortunately SADC member States have done little to capitalize on the international good will and little has been attained in mobilizing the regional massive resources to establish a basis for economic integration. SADC has also demonstrated major weaknesses in project initiation, preparation and implementation.

Although article 21 of the Windhoek Treaty envisages deeper integration among SADC members, the organizational and legal structure of SADC stands in the way of achieving that goal. SADC has a small secretariat based in Gaborone in Botswana - too overstretched to be effective in the implementation of agreed upon decisions. It has no powers to coordinate and harmonize policies and strategies of members. More administrative functions of SADC are carried out within member States whose bureaucracies are wrought with increasing inefficiency and lack of commitment. Often civil servants in member countries are demoralized due to poor conditions of service particularly low salaries in the wake of high cost of living. Owing to a high rate of movement of skilled manpower within SADC, regional project implementation is affected adversely.

9/ Angola, Botswana, Congo (Kinshasa), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe

According Peter Holmes at al (1997) there are three gaps that SADC would have to cross before its market actors in the formal and informal sectors can be sure that the commitments undertaken in the Windhoek Treaty and the SADC Trade Protocol will really be put into effect and irreversibly so, *these essential gaps are:

- lack of supra-national institutions for preparing and making collective decisions;
- lack of precision in the nature of commitments made by the members; and
- lack of enforcement mechanism.

The Trade Protocol of 1994 has yet to be ratified. Many countries have expressed scepticism accusing South Africa of unfair trade practices whereby South Africa floods the regional market with its subsidized goods while heavily protecting its industries. There has also been concern that "powerful enterprises in South Africa might use their profits in that market to engage in predatory or exclusionary behaviour to restrict new entrants from other markets. This would be tantamount to unfair competition. Article 25 of the SADC Trade Protocol acknowledges the importance of competition policy and states that "Member States shall implement measures within the Community that prohibit unfair business practices and promote competition".

As Holmes states, the SADC Trade Protocol thus needs to be made unambiguous and credible as soon as possible in order to secure the direct gains. But more importantly, SADC requires further institutional development to secure advantages in terms of additional policy harmonization and ensuring enforcement mechanisms.

5.1 SADC Integration and the Distribution of Benefits

The current trend in integration theory is that there is an increasing tendency to turn away from an examination of the relationship of gains to the integration process and towards the elaboration of models which obscure the salience of gains. This emanates from the presumption that freer trade, benefits all parties. But even if this were to be valid, the distribution of gains could be uneven and indeed lead to polarization. This is a key issue in integration processes particularly in the developing countries.

Reference has already been made to the Windhoek Treaty Article 21 (1) which states that "member States shall cooperate in all areas necessary to foster regional development and integration on the basis on balance, equity and mutual benefit." But the SADC Treaty provides no financial redistribution and regional development instruments to help the economically disadvantaged countries. This is in contrast to the Treaty of the defunct East African Community which set up the East African

Development Bank and established a revenue redistribution mechanism which favoured the least developed countries of Tanzania and Uganda. Similarly, the Treaty of Rome establishing the EU has had six major financial instruments designed to assist the least developed regions and countries. These are:

- the Social Fund;
- the Regional Development Fund
- the Cohesion Fund
- the European Agricultural Guidance Fund
- the Fisheries Guidance Instrument; and
- the Fund for the European Investment Bank (EIB).

Article 22 of the Windhoek Treaty States that "member States shall conclude such protocols as may be necessary" for the realization of the objectives of development and integration on the basis of "balance equity and mutual benefit". In fulfilment of this objective SADC has drawn up several protocols of cooperation. Some of these are:

- Protocol on Trade;
- Protocol on the Free Movement of People;
- Protocol on Education and Training;
- Charter of the Regional Tourism Organization of Southern Africa;
- Protocol on Transport, Communications and Meteorology;
- Protocol on Shared Watercourse Systems;
- Protocol on Energy; and
- Protocol on Mining.

Co-operation on the sectors covered by the various protocols is aimed at spreading the mutual benefits of SADC integration.

SADC integration is only six years as a community and has therefore not attained sufficient depth of integration. Furthermore, ratification of the 1994 SADC Trade Protocol has become a contentious issue and could either make or break the integration process. Krugman and Venables (1990)[10] contend that deep integration (that is "regional cooperation and liberalization that go beyond GATT/WTO in breadth and depth of the area, covered and in the mechanisms for reaching and enforcing common decisions," is likely to benefit the less prosperous regions in an integrated

[10] Krugman, P. and Venables, AJ, 1990 "Integration and the competitiveness of peripheral industry" in Bliss and Braga de Mecedo J, Unity with Diversity, Cambridge, UP.

area. In other words the first steps in an integration process may lead to polarization but the next steps reverse this and lead to convergence with benefits accruing to all partners.

The argument is that where there are substantial economies of scale but very high trade barriers, we see the scale economies being sacrificed through dispersion of production behind high trade barriers. When trade barriers start coming down, the initial impact is likely to be a polarizing one, that is, production will tend to concentrate where the market is strongest and the small inefficient plants in peripheral areas will close down and the outlying markets will be supplied from the centre. But when deep integration is attained and transport and tariff costs are negligible then it becomes economical to supply the centre from the periphery and wages in the periphery then do rise thereby benefiting the poorer regions.

This scenario is currently manifesting itself in the SADC region where small industries are closing down in countries such as Zambia, Malawi and Zimbabwe and are being replaced by production from South Africa. But once SADC integration deepens and the region becomes a single market, it will be easy to take advantage of lower wages in the neighbouring countries to supply back to South Africa. At that point integration will benefit all the countries.

5.2. Non-Traditional Gains in the SADC Integration

While the intellectual case for linking trade liberalization to economic growth is respectable (Grossmen and Helpman 1991), there does seem to be a preception among SADC policy makers and some academics, that there is more to the formation of a regional economic groupings such as SADC than the traditional gains of trade. In other words, a country would join an integration scheme for reasons that go beyond the obvious quantifiable gains that arise from trade. de Melo and Panagariya (1993) state that "it is increasingly recognized that regional integration goes beyond trade in goods, services and factors".[11]/

Non-traditional gains capture increasing relevance because they could trigger a propensity for further investment in integration schemes. As Fernandez (1997) points out, the incentive to invest for both domestic and foreign investors, "depends crucially not only on current trade policies but on future trade policies, on the nature and level of uncertainty, and on the general macroeconomic and political environment." Fernandez further suggests that one way in which a country could reap non traditional gains by joining an integration scheme is by pursuing policies which improve the

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[11]/ de Melo, J. and A Panagariya (1993) "New Dimensions in Regional Integration", Cambridge, Great Britain: Cambridge University Press.

standard of living of its people but time-inconsistent in the absence of an integration grouping. Pursuance of non transparency and policy discretion encourages governments from time to time to surprise the private sector. Such a policy tends to undermine the credibility of optimal government policies. The presumption is therefore that being a party to a regional scheme with common rules leads to enhanced credibility and higher returns from investors.

Also implicit in the concept of time-inconsistency in the absence of a regional grouping, is the view that during the process of trade liberalization governments will be more inclined to take recourse to policy reversals. In other words, if a country's optimal policy is to attract investment and at the same time has no discipline to refrain from confiscating/nationalizing foreign investment, investors perceiving this time-inconsistency problem will refrain from investing in such a country. Within the framework of a regional grouping which has agreed to liberalize trade, member States would tend to abide by the rules and refrain from backtracking to protect particular sectors for fear of sanctions from the rest of the grouping. It is therefore clear that regional schemes tend to instill discipline in the behaviour of member countries and promote adherence to common rules.

Furthermore, regional integration schemes are pointers to investors that any of its members are likely to be liberal democracies. This may also be a signal that even future governments are likely to be liberal, thereby attracting potential investors. Regional economic integration groupings are perceived as requisites for economic stability. They provide that policy commitments of member governments must be credible, they must not be subject to unanticipated changes that could drastically change the calculus of profit and loss.

There are also political benefits arising out of regional integration. An important consideration why SADC countries pulled together was an active sense of forming a larger community to counter the might of South Africa. The SADC countries had felt needs of interdependence and the anticipation of advantages flowing from a more inclusive union. Karl Deutsch (1966) in a widely read study of "community building" on a regional level made a fundamental distinction between "security communities" and those that were not. A security community being characterized as "one in which there is real assurance that the members of the community will not fight each other physically but will settle their disputes in some other way. Regional schemes therefore help to deepen ties and promote exchange of information among democratic neighbouring members and to avoid conflicts among members (Botswana and Namibia).

The benefits particularly to weaker countries will also stem from the rate of supranational group formation and from the "we" feeling of a larger community and increased bargaining power. The regional integration scheme is an important instrument for coordinating member countries positions as it reduces the transaction costs involved on reaching an optimal negotiating position.

6. Conclusions and Recommendations

Although the Widhoek Treaty in Article 21 (1) states that the member states *shall cooperate in all areas necessary to foster regional development and integration on the basis of balance, equity and mutual benefit+, there are no specific and clear instruments that commit member states to the equalization of benefits. The Windhoek Treaty is strong on broad principles but leaves details to be implemented by the protocols. But even the protocols including the Trade Protocol are clouded with ambiguities. It is therefore clear that in the event of conflict between member states and SADC legal instruments, member states will have superior trump cards.

Peter Holmes et al op.cit, note that if businessmen and citizens in the region are to have guarantees of the implementation of the SADC commitments, totally unambiguous rules will have to be laid down and an independent tribunal will have to be set up that commands the respect of the entire region. Rules are necessary to prevent predation, unfair subsidies and unreasonable countervailing duties. SADC has a unique opportunity to establish credibility by committing itself to a firm programme of trade liberalization that goes beyond bilateral agreements. The SADC/COMESA issue of trade liberalization will also have to be resolved particularly where there are conflicts.

SADC as an integrative system can generate economic benefits. But traditional gains from trade can be supplemented by dynamic non-traditional gains which are difficult to quantify and are long term. However, one of the challenges that SADC legal and institutional structure faces is the provision of appropriate measures such as anti-dumping, safeguards and trade restrictions needed to protect infant industries and balance of payments.

Furthermore, since asymmetries in SADC economies are quite marked, equal and balanced growth within the integrative system will not be automatic. The situation is exacerbated by the fact that the SADC Treaty makes no provision for intergovernmental fiscal transfers and there is neither a development bank to assist poorer countries. The philosophy of free market forces has practically eliminated the possibility of any deliberate policy to allocate industries to the less disadvantaged countries as was the case in the Adean Group of countries in the 1970s. Free market forces emphasises that industrial production, commerce, banking, insurance etc would

cluster in certain regions leaving the poorer countries in backwater. Unless deep integration was attained, uncertainty would persist causing risk-averse firms to concentrate on South Africa.

In consequence some countries in SADC might fail to secure an equitable share in the industrial development of the enlarged market. Then the notion of economic integration as a paradigm for industrialization and the anticipation of quick and dramatic gains will not be realized. Irrespective of the level of development, all member countries will have to participate in the dynamism that may be generated by integration.SADC needs to face up to these challenges and the sooner the better before the process stagnates and reaches a plateau.

It is therefore recommended that SADC devise some form of compensatory mechanism such as the SACU one so that some benefits accrue to all SADC partners. It is also vital that SADC develops an institutional framework that is credible with a clear-cut mechanism for enforcing common agreed-upon decisions. Finally, SADC needs to devise operational yardsticks to measure and monitor progress towards deeper integration; this entails defining the rules of the game, the scope of various mechanisms and the means by which programmes must be prepared and policies harmonized.

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