Regional Activity to Promote Integration Through Dialogue and Policy Implementation (RAPID)

RAPID

Recommendations for the RCSA Trade Sub Strategy

Task Order No. 1.3

Special Technical Report Prepared for RCSA Strategic Objective Team 2

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1. Introduction

The region of southern Africa, encompassed in the Southern African Development Community (SADC), contains 14 member states, approximately 194 million persons, and has GDP per capita ranging from a low of US$99 (Congo DR) to US$5,999 (Seychelles). Within the region, there are extremes of poverty and wealth, but the majority of individuals live well below the poverty line. The past chairman of SADC, President Chissano of Mozambique, viewed with concern the failure of the SADC economies to reduce poverty. The aggregate growth rates of 4.1% in 1996, 2.2% in 1997, 1.7% in 1998, and something less than 3% in 1999 fall far short of what he considered necessary to begin to reduce poverty – an annual growth rate of 6%.

In order to achieve acceptable levels of growth, the SADC countries have undertaken a variety of measures which may lead to some improvement. The early steps for joining the international, or global, economy included joining the World Trade Organization's plan for reducing tariffs, the establishment of a Free Trade Area within the region, the proliferation of other bilateral and multilateral trade agreements, and some attempts to attract international investment. These efforts are commendable, but will take some time.

The private sector, which has been charged by the respective governments with becoming the "engine of growth", is fragmented, dispirited, and protectionist. They are fighting for, in many instances, survival. Capital flight is the norm in many of the countries, and the region has only limited appeal for a few international investors. This dismal state of affairs might change, however, and is well within the ability of the Member States to influence. Simple improvements in business conditions, legal systems, tax and tariff regimes, and fiscal responsibility could change the perception of both indigenous and foreign entrepreneurs dramatically, and open up the great potential that is southern Africa.

The United States is committed to assisting in this effort. The Congress, in passing the African Growth and Opportunity Act, found that "trade and investment…can represent powerful tools both for economic development and for encouraging broader participation in a political process in which political freedom can flourish." Congress also noted that "sustained economic growth in sub-Saharan Africa depends in large measure upon development of a receptive environment for trade and investment, and that to achieve this objective, USAID should continue to support programs which help to create this environment."

The Agency for International Development has confirmed its commitment to economic development in the Administrator's testimony before the Senate on May 8, 2001. "With appropriate and timely assistance, the spread of information and technology can foster increased productivity, economic prosperity and political stability in developing countries – and ultimately lead to secure markets for U.S. exports and investments." In his statement on Economic Growth and Agriculture, the Administrator noted that USAID "will increase support for economic growth and agriculture programs that reduce poverty and hunger, while finding better ways to mobilize and partner with the private sector." In his testimony to the Senate, the Administrator announced a new initiative "to fundamentally change the way we do business." This new pillar, the "Global Development Alliance", positions USAID to "serve as a catalyst to mobilize the ideas, efforts, and resources of the public sector, corporate America, the higher education community and non-governmental organizations in support of shared objectives." With regard to Africa, the Administrator encourages "participation in the global trading system," which supports U.S. national interests in Africa.

The following report will investigate the extent of the problem, especially as it pertains to regional and international trade, and suggest areas in which USAID/RCSA may be ideally suited to serve as a positive agent for change.

2. DESCRIPTION OF SADC TRADE EXPERIENCE TO DATE

In 1995, the Vice President of the United States visited Botswana and the SADC Secretariat, at a time when the RCSA had just been established. To mark the occasion of the visit, USAID drafted a Memorandum of Understanding, which after careful preparation by the Embassy was signed by the Vice President, pledging support to the SADC Secretariat in their efforts to develop and institute a Trade Protocol. Since then, the Trade Protocol has become a reality, and the member countries are engaged in making it work, with continued and necessary assistance from USAID/RCSA and other donors..

The Trade Protocol has been signed and ratified by Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. All but Mozambique have deposited their Instruments for the implementation of the Trade Protocol, which incorporates the establishment of the SADC Free Trade Area within a period of 8 years starting 16 September 2000. The four objectives of the Trade Protocol are:

To further liberalize intra-regional trade in goods and services

To ensure efficient production within SADC

To contribute towards the improvement of the climate for domestic, cross-border and foreign investment, and enhance economic development, diversification and industrialization of the region, and

To establish a Free Trade Area in the SADC region.

The new executive secretary for SADC, Dr. Prega Ramsamy, has recently been reported as aiming for a growth rate of seven percent per annum for the aggregate GDPs of the member countries, which he feels can be achieved in seven or eight years, and that this level of growth is the minimum necessary to make headway against the region's poverty. Looking further into the future, he forsees a full free trade area by 2012, leading eventually to a common market with free movement of facilities for production and labor. To achieve this, he has identified three areas of concentration: agriculture, tourism, and intraregional trade. Currently, he is reported to have estimated intraregional trade at between 20-25% of total trade, which should increase with the successful implementation of the Trade Protocol to between 35-40% of total trade.

In order to understand this regional aspiration, it might be useful to look briefly at the countries involved. The table below gives a quick over-view of the economies and populations of the member states (Angola has been left out, as accurate figures are not available). The countries are listed in order of the size of their economies, and it becomes awesomely apparent that South Africa represents fully three quarters of the economic muscle of SADC. From an economic point of view, South Africa doesn't appear to depend very heavily on the other members – in 1998, less than ten percent of her imports came from all the other SADC countries, and just under a third of her exports went to SADC members. And within this pattern of trade, most of the SADC trade was with the BNLS countries (Botswana, Namibia, Lesotho, and Swaziland), who with South Africa already make up a relatively free trade zone, the Southern African Customs Union (SACU). However, from a political perspective, South Africa will benefit from the prosperity and stability of her neighbors, and in time it is well within the realm of possibility that one or more SADC members will achieve sufficient economic development to allow for more equal partnerships, advantageous joint ventures, and sharing of the many natural resources in the region.

TABLE 1. SADC Countries - GDP and Population

Population (Millions)	**Country**	**GDP** (US$ millions)		
		1997 (World Bank)	1997 (USITC)	1998 (USITC)
41.3	South Africa	126.3	147.6	133.4
11.6	Zimbabwe	7.5	8.2	6.5
1.2	Mauritius	4.3	4.2	4.2
1.6	Botswana	4.4	5.5	5.5
32.1	Tanzania	4.4	7.1	7.9
9.7	Zambia	4.2	3.9	3.4
1.7	Namibia	3.0	3.3	3.1
16.9	Mozambique		3.4	3.9
10.5	Malawi		2.5	1.7
.99	Swaziland		1.3	1.1
2.1	Lesotho		1.02	0.87

Turning now to growth in the region, Table 2 is based on recent figures and projections by the Economist Intelligence Unit, whose Quarterly Reports address the pressing issues of the moment, and project two years of GDP growth. These are clearly order of magnitude projections, based on the assumption that the U.S. and other major economies don't deteriorate much further, and begin to recover within the two year time period. Unfortunately, even with a fairly positive set of assumptions, the growth rate of almost all SADC countries will be well below the target of 6-7%. From the previous table, it also is obvious that until South Africa gets up to the target figure, there is no likelihood that in the short to medium term the aggregate SADC growth rate will be anywhere near enough. From a regional perspective, it will necessary to adopt what the SADC Secretariat calls "the principle of variable geometry," and deal with each country's own speed of development. Thus, for the next two years it will be unlikely that Zimbabwe will show marked improvement, but there is always the prospect that rapid economic recovery could be achieved. As for Mozambique, there are clear signs of strong growth, though from a very low base, and if there are no major disasters like the recent floods, they can power ahead. And so through the individual circumstances of the member states. The point for RCSA strategists to keep in mind is that there will be areas of potential which become apparent, and if the regional mission can work closely with the appropriate bi-lateral mission or missions in a timely fashion, significant resources can be brought to bear where and when needed.

TABLE 2. SADC Real GDP Growth Rates – Actual and Projected[1]

COUNTRY	1999	2000	2001	2002
South Africa	1.9%	3.1%	3.2%	3.5%
Zimbabwe	-0.4%	-6.1%	-5.6%	1.3%
Mauritius	Not	Available	To This	Report
Botswana	7.7%	6.0%	4.8%	5.0%
Tanzania	4.7%	4.9%	5.2%	5.4%
Zambia	2.4%	2.8%	5.6%	5.0%
Namibia	4.3%	3.9%	4.5%	6.0%
Mozambique	7.3%	3.8%	7.5%	7.0%
Malawi	4.7%	2.5%	3.8%	4.2%
Swaziland	3.1%	2.5%	3.0%	3.5%
Lesotho	2.8%	2.5%	2.8%	3.0%

Regional trade has been relatively modest as a percent of total trade, and estimates vary from 20% (Filmer and Mushiri, March 2001) to 25% (SADC, July 2001). A useful set of tables, prepared by Filmer and Mushiri, are reproduced in Appendix 1, and show best estimates of trade between member states and with the rest of the world, both export and import, for the year 1998. In addition, projections of overall trade levels, based on presumed rates of overall income growth in each country, have been made and developed into companion tables for 2004 and 2008. The patterns vary wildly. South Africa imported $2 billion from SADC countries and $27 billion from the rest of the world in 1998. She exported $7 billion to SADC and $22 billion to the rest of the world that same year. Using the tables, one can quickly arrive at the various levels of trade within the region, and between countries, which can at times throw light on the dynamics of the trade negotiations. Thus, the very modest amount of trade experienced by Tanzania (13% imports from, 5% exports to SADC) may help to explain the lack of urgency which seemed to hinder her participation in earlier SADC trade matters. Obviously, a much better understanding can be achieved by a detailed breakdown of trade figures into specific commodities and products, but for a general appreciation of SADC dynamics, the tables in Appendix 1 are useful.

The relationship between trade and growth of GDP is not an exact correlation, but a significant number of empirical studies has shown that there is a strong relationship between trade and growth (Dollar, 1992; Sachs and Warner, 1995; Edwards, 1998; Frankel and Roman, 1995, as cited by the OECD in October,2000, "Capacity Development for Trade"). In the same article, the OECD also notes that sound macroeconomic and structural policies and openness to the global economy are necessary, but insufficient on their own for the successful development of trade. For the purposes of a successful strategy, the enabling environment must be dealt with, at least to the point where it will permit trade to take place. And, obviously, the more conducive it is to the flow of goods and services, the better. But the vital element is the relationship between buyer and seller, and all the intermediaries required to conclude the transfer. In

[1] Economist Intelligence Unit, Country Reports, April, May and June, 2001

order to achieve anywhere near the growth rates needed, it is the thesis of this sub-strategy that care and attention needs to be paid to the rules, regulations, and practices of the various governments, ministries and departments involved, but that a substantial shift in emphasis and resources needs to made, not just by USAID/RCSA but by all the players, to opening the flow of knowledge and contacts between buyer and seller, between producer and market, and between potential and opportunity.

3. Requirements For Economic Growth

According to the World Economic Forum, national competitive advantage is characterized by a number of factors, which include:

- The openness of the economy to international trade and finance – the assumption being that open economies outperform closed ones.
- The role of the government budget and level of public spending – it is assumed that countries with lower levels of state intervention, public spending and taxation will perform better than those with large public sectors.
- Financial market development – the more highly developed banking and capital markets, the faster the economy will grow.
- Infrastructure – a well developed, well maintained physical infrastructure is crucial to sustained growth
- Technology – a country's capacity in basic and applied sciences. An enhanced scientific capability adds immeasurably to future output growth.
- Management – the capacity of business to respond to market opportunity in a creative and flexible manner
- Labor markets, and in particular the extent of government restrictions on labour flexibility, the quality of industrial relations, and the impact of taxes on work incentives.
- Judicial and political institutions – the extent to which legal and political systems yield low transaction costs in terms of property rights and legal contracts.

Professor Tony Hawkins, in his "Rethinking Business Strategies for Africa" (EIU, 1999) notes that Africa performs poorly when measured against many of these criteria. Investors must therefore be extra careful, and only contemplate transactions in markets which at their most basic

- have sufficiently large or fast growing demand to justify a factory or marketing outlet,
- or have opportunities in the production and export of raw materials or processed goods,
- or provide a location for value-added facilities of a footloose nature.

Given the disparity between these factors of comparative advantage and the reality of most SADC economies, most entrepreneurs will approach the region, either from within or from abroad, with an initial interest in trade, which would provide access to the region and to international markets without committing the level of exposure that an investment would entail.

From a trade perspective, the above elements are important, but trade can take place without the same level of enabling environment needed for investment, and in many instances with quite a few of the above criteria either missing or in disarray.

4. Progress of the Trade Protocol

The Record of the 15th meeting of the SADC Industry and Trade Committee of Ministers, held in Maputo on the 2nd of July, 2001, notes that the main objective was to review progress on the implementation of the sector programs and to decide on several outstanding issues. They also considered a report by the sub-committees on Customs Cooperation and Trade Facilitation, a report by the 20th Trade Negotiating Forum (TNF), and a report by the High Level Committee on Market Access and Rules of Origin (HLC-MARO). The Committee also considered proposals for the amendment of the Trade Protocol, preparation for the 4th WTO Ministerial Conference, negotiations on trade in services, and implementation of support services programs. The plethora of interests and concerns has, in the minds of some observers, gone beyond the ability of the Ministers and their support staff to absorb all the relevant information and even in some instances to reach conclusions.

The procedures for addressing issues arising from the Trade Protocol and its implementation have been evolving over the last year or more, and now the beginning point of debate has been determined to be the National Working Group (NWG). These have been or are being established in most member countries, and in essence represent the "stakeholders". These include the appropriate ministries and departments, and associations representing the private productive sector, usually chambers of commerce and industry and other trade associations. In some countries such bodies already exist (some, like Malawi, transformed groups used in the Protocol approval process to deal with implementation issues), while others are in various stages of formation. RCSA, through its Regional Activity to Promote Integration Through Dialogue and Policy Implementation (RAPID), has actively supported the identification and development of these NWGs. In those countries with a bi-lateral USAID program, it might in some instances be more effective to involve the in-country Mission so that the USAID program becomes more aware of the regional issues. That would mean the USAIDs in South Africa, Zimbabwe, Zambia, Mozambique, Malawi, Namibia, Tanzania and eventually Angola might assist in the organization and support of their NWGs, which is essentially a bilateral activity addressing regional concerns. RCSA, through RAPID, would coordinate these efforts, supply resources including specialists, market access mechanisms, and product specific information and opportunities. RCSA would also have the in-country responsibilities for Mauritius, Botswana, Lesotho, and Swaziland. In many cases this division of labor has already occurred. The current emphasis on the NWGs provides an opportunity to build a regional network that might more closely involve USAID bi-lateral missions**. Recommendation**: **That RCSA approach each SADC bilateral USAID, to determine their level of interest in participating in the organization and support of their respective NWGs, and their requirements and recommendations, if any.**

The next step in addressing trade issues is the Round Table meetings, again recently introduced by SADC in an effort to bring stakeholders from all member states together to examine an issue from various perspectives, to attempt to define the issues and opportunities, and hopefully reach some consensus, but not "negotiate." The first (and so far only) Round Table was held in Gaborone during 18-20 June, 2001. Despite some teething problems which are inevitable, the three day event was at times most informative and had several noteworthy successes. The program was apportioned among three sets of issues; two groups of products which had specific difficulties with quotas, rules of origin, and levels of tariff protection, and the question of market access in general The product groupings were wheat and wheat flour, and textiles and garments. RAPID provided a range of support and organization, including analyses of some of the trade flows in these product groups. Other donors (UNCTAD and GTZ) contributed to the effort, which was moderated by Mr. Pamacheche of SADC. Various entrenched positions were vigorously presented, and most national groups were forthcoming in addressing their interests. Two individuals, in the mind of this observer, stood out as seeing the opportunities which might be afforded the SADC members. The first was Mr. Mahmood Cheeroo, Secretary General of the Mauritius Chamber of Commerce and Industry (and also a prominent member of the Association of SADC Chambers of Commerce and Industry – ASCCI). He spoke from the Mauritius experience of opening up their markets, and developing a thriving internationally competitive garment industry, which in turn is stimulating other areas of production, including joint ventures with companies in other SADC countries. Rather than looking at the closed environment of a strictly regional trade zone, he brought the perspective of international markets, with products designed to meet international standards. The second individual was a South African consultant, Mr. Joop de Voest, who is intimately familiar with the garment and textile trade, including productive capacities, in most of the SADC countries. Again, he was able to raise the sights of the assembly to see the opportunities outside the region, but attainable in some cases only by cooperation among the various components of manufacturing within the region. These two injections of reality into the debate seemed to be appreciated by most attendees, and in the week following, at the Trade Negotiating Forum in Maputo, several delegates stated to the assembly that such knowledge was much appreciated, and could have been used to advantage at the TNF. In summary, the Round Table experiment seemed to have proven useful, and it is planned to hold more of them. The next one is scheduled for late September 2001, and will address the rules of origin for plastics, electrical and optical goods, and market access and rules of origin for SADC motor vehicles industry. This focus on specific products might well provide an opening for the introduction of market information not only to the trade negotiators, but also to prospective producers. This will be revisited later in the paper. **Recommendation: Continue supporting the technical input, with emphasis on specific products, for another two or three meetings, to see if this additional step leads to any issue resolution.**

The third step in the consideration of trade issues, after the National Working Groups and the Round Tables, is the Trade Negotiating Forum. As noted, there have been 20 of these meetings, which in the last instance (Maputo, June 2001) spanned two days. USAID, through RAPID, funded the costs of 16 attendees, two from each of eight countries. Some of the delegates had been at the Round Table the week before, but many had not, and they appeared to be the more senior representatives of the various ministries. There was no private sector participation at this TNF, though private sector participation had been allowed at previous meetings. The issues were the ones discussed the week before, in the main. On balance, the attitudes of the various country groups seemed if anything to have hardened, and what seemed to be bordering on consensus the week before no longer showed much likelihood of resolution. It was this observer's impression that little had been gained. In future it might be preferable to have the Round Table some time before the TNF, to allow the information generated to work through the various ministries so that those representatives at the TNF could have time to learn about various factors in the manufacturing and marketing of a given product before being placed in a negotiating posture. It might also be no longer necessary or appropriate to fund attendees to the TNFs. .**Recommendation: Discontinue support to the TNFs.**

Following the TNF, the newly formed SADC High Level Committee on Market Access and Rules of Origin (HLC-MARO) met for two days, where they addressed issues which had been raised in the previous TNF. Again, outside observers were excluded.

And, penultimately, the 15th meeting of the SADC Industry and Trade Committee of Ministers met for one day, in which the issues of the TNF and HLC-MARO were resolved where possible. The final meeting in this progression is when the SADC Heads of State meet to discuss a wide range of topics, and agree to specifics within the industry and trade ambit. Such agreements must then go back and be ratified by the individual countries before being gazetted, at which time they become law.

This process is necessarily cumbersome, as there are wide disparities between the member countries, and there are many member countries. The value of the exercise is likely to be greater than the measure of increased trade, in that it will pave the way to a more closely integrated region which if they work together will bring greater stability and prosperity to SADC's individual members. Strategically, then, it is clearly in the interest of USAID to support the process. However, there are a number of other donors who are providing much needed and valuable assistance. The Record of the Meeting of Ministers on 2 July 2001 lists the following:

- UNCTAD - TNF Negotiations, Trade in goods and services, Technical support, Database
- World Bank – SPS
- EU – SQAM, Trade Facilitation
- COMMONWEALTH SECRETARIAT – Trade in services, Industrial Policy
- UNIDO – SQAM
- WTO Secretariat – Experts in regional meetings, workshops, seminars
- USAID – consultancy services, sponsorships to meetings, organization and funding of workshops. Some of the activities include modernization of customs and trade facilitation, tariff rationalization, national working groups, SPS/TBT/AGOA/WTO workshops and studies.

- Germany – TNF negotiations, studies, technical assistance, chambers of commerce
- Belgium – Technical studies and capacity building
- Japan – SME development, workshops

5. DONOR SUPPORT TO TRADE

As evident in the preceding paragraph, donor support to the SADC Secretariat only in the area of trade is impressive. However, the record of the Ministers of Industry and Trade meeting in July 2001 noted that there were 16 presumably new projects identified for the sector, with an estimated cost of $21.8 million, of which only $0.157 had been found. The individual nominally in charge of coordinating donor support to the SADC Secretariat is Mr. Fudzai Pamacheche, Principle Economist, who also organizes and conducts the trade negotiating fora. The following incomplete list of interventions gives some notion of the magnitude of the task of coordination:

The European Union has a delegation of the European Commission in South Africa, with an office in Gaborone devoted largely to SADC support. The EU budget for southern Africa is $110 million (Euro 122 million) per year, confirmed through 2006. Of this, 10% has been allocated to SADC support for the next three years, or $11 million per year. Some of these funds are being used to support an Investment Protocol between SADC and the EU, which is scheduled to start next year, and provide a framework to link EU and SADC enterprises. Funds are also used for assistance to transport, fisheries, and agriculture research through SADC.

GTZ (Germany) has been active over the years in support of the SADC Secretariat, and has among other things funded Dr. Michael Stahl, Technical Advisor, for the last seven years. GTZ also supports advisory services for private businesses, both through the Secretariat, and to Chambers in Malawi, Zambia, and Zimbabwe, and to the Association of SADC Chambers of Commerce and Industry (ASCCI). In addition, they are planning to fund a private sector advisor to the Secretariat.

DFID (Dept. for International Development, UK) has been assisting SADC for some time, in what has until lately been a minor role. However, with the announcement of their emphasis on globalization last year, and making globalization work for the world's poorest, they are showing renewed interest in the SADC countries and the potential for trade as a useful tool for development. Their budget for the SACU countries is $ 65 million (LStg45 million) per year, and they are moving to a regional approach, with a central office in Pretoria. Regional cooperation and integration is one of their six goals, and includes SADC, and moving towards a shared agenda with southern African states and other donors. In interviews with DFID representatives, an interest in collaboration with USAID was voiced more than once, and might provide the opportunity for useful shared initiatives. Their Africa Trade and Poverty Programme, starting in 2001 ($11 million over three years for phase 1) will provide technical assistance to develop capacity in trade policy formulation and implementation both inside and outside government to "make globalization work for the poor." Phase one will concentrate on the East African Community, but will have implementation activities in Tanzania, Zambia, Mozambique and Botswana which may be of interest to RCSA.

World Bank initiatives are more country specific, but with emphasis on need for regional integration. The World Bank regional office in Pretoria is focusing on Malawi, Mauritius, Zambia and Zimbabwe at the present, and hopes to introduce a more thorough understanding of the concept of comparative advantage into their respective trade negotiations. The WB funded national payments system, now under way for the last 2-3 years, has reached a stage where the WB would welcome other donors to continue part of the effort, especially as it will relate to the new coordinating group on Trade, Industry, Investment, and Finance within the SADC Secretariat. The World Bank office in Pretoria, under the auspices of their lead economist, is preparing a discussion paper on regional integration, which should be ready for circulation in late September, early October 2001, and may prove quite valuable in assessing the value of regional integration and how it might be achieved.

USAID/RCSA has one of the largest programs of support to the SADC Trade Protocol, which has been in place for the last five years. During that time, the following activities have been or are being undertaken:

1. Organization of Awareness workshops on the SADC Trade Protocol, (STP) and provision of local consultants to facilitate the preparations for the workshops. (All SADC countries signatory to the STP)
2. Provision of consultants to assist Member States in their negotiations including the preparation of the Countries offers to SADC.
   (Malawi, Tanzania and Zambia)
3. Familiarization workshops for Customs officials on the STP and the management of the Specific Rules of Origin as elaborated in the SADC Negotiating Text (Botswana, Namibia, Malawi, Zambia and Tanzania, and Swaziland)
4. Undertaking the Needs assessment studies for the establishment of the National Working Groups (NWGs) in collaboration with GTZ. (Botswana, Namibia, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe)
5. Provision of technical assistant, a Trade Policy advisor to the SADC Secretariat.
6. Provision of technical assistance to SADC for the organization of Round table meetings on Textiles and garments and Market access.
   (All SADC Countries), including funding of participation by delegates
7. Support to Member States to allow them to attend SADC Trade sector meetings (e.g. Sub-committees on Customs and Trade Facilitation, TNFs, SOS, HLM and CMT) by meeting their hotel costs and per-diems.
8. Support to SADC member States for the compilation of SPS inventory (Zambia, Zimbabwe and South Africa)
9. Assisting Member states in "cleaning their offers" to conform to the parameters agreed by TNF during their 6th meeting in Windhoek, Namibia, in 1996. (Only Zimbabwe)
10. Provision of an expert to undertake the impact assessment studies on Motor vehicles and parts (Mozambique)
11. Assistance to ASCCI (Association of SADC chambers of commerce and Industry) and the Tariff commission to organize different meetings and workshops for their respective organizations.
12. Preparation of reports on Economic Impact assessment studies (Frank Flatters and company)

13. Preparation of a report and a model on Electronic Validation of Certificates of origin for SADC (Peter Steele).
14. Support to Heads of Customs and Customs Advisory Working Groups
15. Engagement of CSS to assist in the establishment of websites to be used by member states

From the above, it can readily be seen that there is a high risk of duplication, conflict, overload, and inappropriateness. Other donors, whose programs were unavailable to this report, include UNCTAD, the Commonwealth Secretariat, UNIDO, the WTO Secretariat, Belgium and Japan. There is an immediate need for the donor community to meet and determine the best way to rationalize their support, and to avoid overloading the absorptive capacity of the Secretariat. **Recommendation: That USAID/RCSA, together with one or two other major donors (perhaps DFID, EU, and/or GTZ) co-chair a meeting of all interested donors to develop a plan of coordinated support.**

6. Proposed Trade Strategy for RCSA

The problem of poverty facing southern Africa is very great indeed. The World Bank said that though the growth prospects for Africa as a whole were good, this masked substantial differences in regions. During the period 1992-2020, estimates for sub-Saharan Africa annual growth rates were 4.2%; within that broad aggregate, however, the Franc zone was expected to achieve 6%, while SADC was thought unlikely to make even 2%. (From Hawkins, "Rethinking Business Strategies for Africa") To begin to close the gap between this grim projection and the generally agreed 6-7% growth rate required for the reduction of poverty, extraordinary measures will be required. Those measures will have to be taken by the citizens of the SADC countries themselves, but the donor community can assist by providing exposure to best practices in wealth creation world-wide.

USAID has much in common with many of the other donors in its access to the knowledge and practices which are seen to work in fully developed economies. What USAID has that is different is access to the world's largest economy, and in some instances direct access to the productive sectors in that economy. The Administrator has used the phrase "global development alliance" to refer to the use of U.S. "resources of the public sector, corporate America, the higher education community and non-governmental organizations". RCSA's near-term strategy could take that directive as authorization to explore ways of introducing U.S. technologies and markets to the SADC region.

Sub-Strategy - Regional

Much has already been done to improve the enabling environment which is necessary for any substantial growth of the SADC economies. This is and should remain a principal goal, with resources devoted to seeing the implementation of the Trade Protocol through to a successful conclusion, together with the ancillary support to infrastructure (transport and telecommunications), procedures (customs, finance, and accounting), and trade negotiations (national working groups, Round Tables, etc). Mechanisms are already in place to continue this effort, and with some additional coordination with USAID bilateral programs and perhaps some activities of other donors, the effectiveness of RCSA's initiatives can be enhanced. But the actual additional trade within the region which can be achieved through SADC is modest – by the Secretariat's own estimate another 15-20% at the end of eight years. In order to move towards a greater area of regional trade, a system of support could be arranged, either through RCSA or the bi-lateral USAID programs, to COMESA in Zambia, SACU in South Africa, and EAC through Tanzania. Coordination between the four regional groups would bring additional size and diversity of production as well as markets. The multiplicity of trade regimes is confusing to the private sector and difficult to manage for the public sector, and the ideal resolution would be for two or more of these groups to accelerate the opening of their economies to trade well in advance of the WTO plan for the elimination of trade barriers, to which most of the relevant African countries have subscribed**. Recommendation: To investigate at the earliest opportunity the options for hastening the creation of an accelerated free trade area which would include SADC, COMESA, and EAC.**

To address the various elements of the regional trade initiative, the following have been selected:

1. Secretariat – At present, RCSA provides a long term senior trade policy advisor, who is vital to the trade negotiating process. With the advent of the new technical unit charged with the responsibility for industry, trade, finance and investment (which will combine SITCD and FISCU, and bring those functions into the Secretariat), there will be the real need for additional support. This is especially critical as the Secretariat transitions from the old SITCD based in Dar through the present Trade Implementation Unit staffed by four member states who have provided staff from their own ministries to fully staffed specialists engaged by the Secretariat. Though there are a host of other donors, RCSA may be well positioned to provide some level of assistance, and this should be actively pursued. Another function which appears to need enhancement is the role of donor coordination. A full time person or persons to strengthen the liaison between SADC and the donor community might be appropriate, but the individual/s would have to be seen to be politically neutral (not representing one or another donor or group of donors). This should be explored in the very near term as well**.(See previous recommendation for donors to meet and formulate a plan for coordination, rationalization, and simplification**.)

2. National Working Groups – A needs assessment has been made by the RAPID team of NWGs in Swaziland, Tanzania, Zambia, Zimbabwe, Botswana, Malawi, Mozambique and Namibia. Further work to develop these groups to be effective in reflecting the views and positions of the government and private sector stakeholders in trade negotiations is contemplated. This may be an opportunity to broaden the remit of these groups, to encompass all trade negotiations (Tanzania has advised its initial NWG members that they will concern themselves with COMESA, ECA, and bilateral trade matters as well as those pertaining to SADC.) Additionally, by providing the NWGs with information on specific trade activities and opportunities (hopefully generated in part by the proposed global part of RCSA's trade strategy), a more informed and enlightened position can be developed in country. However, care will need to be exercised on the extent of support, and the functions of the NWGs, in order to speed up the process of trade negotiations and not duplicate or impede the work being done in the Round Table meetings, the TNFs, the HLC-MARO, and the Committee of Ministers. The risks of attenuation and proliferation are high, especially as yet one more tier is added to the decision making and conflict resolution processes. **Recommendation: in addition to the previous recommendation, which suggests that where possible bilateral USAIDs determine the validity and usefulness of their respective NWGs, RCSA should verify the utility of each group, and restrict further involvement to only those which can present a compelling case.**

3. Round Table meetings – This area of trade policy formulation is in its infancy, having recently had its first meeting. The signs are promising, and the Round Table might well replace some of the functions of the TNFs, if the preparation can be done sufficiently early to allow dissemination and absorption of relevant

information. The issues should be highly focused, and information should come from the productive sector as much as possible. The preparation for the next Round Table includes several case studies of actual enterprises in the areas under consideration (vehicles and parts, textiles and garments, electrical goods, optical goods, and wood and wood products), which is likely to be much more effective than a rather theoretical approach. This seems to be the right direction, and may provide sufficient information to the participants to allow ministry officials to brief their ministers for final negotiations. The only worry about the plans for the next Round Table is the short time frame, with the date set for late September 2001**.(See previous recommendation)**

4. Trade Negotiating Fora – These meetings may have reached the end of their usefulness, to judge by the last one held in Maputo in June, 2001. Issues that had been debated and analyzed in the Round Table meeting held the previous week were revisited, positions which seemed to have reached some level of consensus appeared to have retrenched, and many of the participants at the Round Table were replaced by more senior officials who had not had the benefit of the previous three day meeting. Further, it seemed to this observer that the participants at the TNF had little room to maneuver, and simply reiterated a position that they held at the beginning of the TNF, and it was left to the next tier to make any headway on concluding an arrangement. Perhaps this is being unduly harsh, but it would be appropriate at this time for RCSA to look more carefully at the utility of supporting this stage in the negotiating process. **Recommendation: Discontinue**

5. Special Requests from the Secretariat – From time to time, issues arise that require a nimble response, and can contribute to the answer to a specific trade related question. RCSA has over time developed the ability to respond quickly to such occasions, and is often able to do so where other donors cannot. **Recommendation: This valuable resource should be preserved, if at all possible.**

The regional sub-strategy is almost entirely a government-to-government initiative, and for the most part is necessarily so. However, efforts now being made by the organizers of the Round Tables are beginning to move towards a greater knowledge of and concern for the private productive sector. The addition of a private sector officer within the Secretariat, funded by GTZ, will occur shortly, and will further the effort to involve and inform the private productive sector. This shift in emphasis should be encouraged, and can benefit by cross fertilization with the next proposed initiative, the global trade sub-strategy.

Sub-Strategy - Global

A second, collateral goal is proposed to meet the extreme urgency of the economic situation facing the SADC region. That goal should be to introduce the U.S. business community to economic opportunities within SADC, and conversely to facilitate SADC entrepreneurs to access opportunities within the U.S. In the near term, these opportunities will more likely be trade related, rather than investment orientated, due to the uncertain economic climate. And the SADC parties involved will have to be of a size and sophistication sufficient to manage production to international standards. This second strategic goal should not be limited to manufactured goods, but should include agricultural products as well.

How this second part of the strategy can be accomplished is a challenge. On the positive side, there are several elements already in place. On markets, there is the Africa Growth and Opportunity Act (AGOA), which for certain products provides duty-free access to the U.S. There is also the lowering of tariffs world-wide under the agreements of the WTO. Then there are the links with markets and technology in the U.S., through NGO's which include the International Executive Service Corp, Winrock International, and many others. Further, through trade associations in the U.S., industry specific contacts can be made through the use of consultants. On the negative side, in addition to the shortage of entrepreneurs with experience and resources sufficient to take on a large and sophisticated market, there are currency instabilities, infrastructural deficiencies, labor unrest, extra transport costs, and in some instances uncooperative governments.

However, there are examples of how the negatives have been overcome, and a brief description of one such may be informative if not inspirational. In 1997, Delphi Corporation (80% owned by General Motors) came to Botswana looking for a place to manufacture wiring harnesses for automobiles. They were impressed by the stable government, the stable currency, good labor relations and lower labor costs. On the negative side, they were faced with a lack of an industrial environment, a completely unskilled labor force, high logistical costs, and poor infrastructure. After two years of planning and negotiating with the Botswana Development Corporation, Delphi and a local partner opened operations, at first in a temporary building, then in a purpose built factory which was exactly like several other Delphi plants in Tunesia and Portugal. Initially 9 expatriats were brought in to introduce the standards and techniques of the industry. After two years, there are now only three, and they will be replaced by locally trained managers in another two years. The plant employs 850 workers, imports its fittings from Europe and its wire from South Africa, and exports the finished harnesses to Europe. They are able to produce to the highest international standards, on time and within budget, and are looking to expand their sales to include the South African motor industry. It is this scale of operation which the global component of the Sub-strategy for Trade should target, not the automobile manufacturing plant (Hyundai), or the mining operation (Debswana), or other capital intensive investment. Those large enterprises will have their own resources. But the intermediate sized operations which can bring the techniques and standards that are acceptable anywhere would provide in some select countries a major step towards the eradication of poverty. And by their success they may serve as an example to other neighboring countries.

The global part of the trade strategy will take some time to mature, and will involve more than the usual trial and error. However, it could be started soon on a pilot basis, and if it proved worth further effort, that could be planned for the period following this near-term strategy. To quote the old adage, "Inspire by example; Inform with experience." A short, interim plan might include the selection of a few products that seem to offer potential.

They might be auto parts, as seen in the example above, or taken from the list of TNF products of concern (electrical goods, fibre optic products, syringes, and textiles and garments). Or they might include agricultural products (e.g. tropical fruit juices) which are intuitively attractive, and may well have some AGOA tariff preference. To find appropriate entrepreneurs who might be able to take advantage of this market information will be somewhat more difficult. In the first instance, various regional private sector entities might be used. With existing contract mechanisms, a support program for a few private sector organizations could be developed, which would include in addition to some start-up assistance a product specific focus. These regional organizations might include ASCCI(already or soon to receive support from GTZ) SAEN, SADC-US Council, and perhaps one or more others. Developing information and contacts with appropriate U.S. organizations could be handled through the contractor. As an example, this might entail the identification of interested parties in auto parts through the American Auto Parts Association or whatever they are called, or the appropriate trade association representing other selected products. With both the U.S. and the SADC individuals or companies identified, it would be up to the parties concerned as to how they should proceed. Modest support should be offered where appropriate, using the rationale that this exploration might not take place without some assistance, and if it succeeds, it will have an influence within that particular industry, and serve as an example for others. This process should also be used to inform the stake holders in the trade negotiations, so that ministers and their staff see what really happens within the environment which the governments are creating. But the global initiative itself should be kept within the private sector as much as possible, with perhaps RCSA as the only government player.

This new sub-strategy should take advantage of the work already done at the national level by various bilateral USAID programs. A case in point is the South African International Business Linkages project (SAIBL), which has as its goal the generation of business transactions between U.S. companies and historically disadvantaged South African owned small and medium sized enterprises. Their success rate to date is remarkable ($118 million in business transactions generated in their three year history), and their methodology could readily be adopted on a regional basis. The SAIBL project provides introductions to U.S. markets and partners, assists in the preparation of business plans and training, and defrays a portion of the costs of business trips, outside consultancies, and trade presentations. With very little modification, this model could be introduced to most of the other SADC member states, either through a USAID bilateral program or by RCSA**. Recommendation: That a pilot project be introduced immediately, to attempt to forge business links between SADC region entrepreneurs and U.S. businesses. Either using existing contract mechanisms, or executing a cooperative agreement with the Corporate Council on Africa, have a rolling design which would be based on actual experience.**

At the same time that this pilot project is being developed, immediate assistance needs to be provided to those SADC countries which have not yet concluded their Visa arrangements under the AGOA initiative. Precious time is being wasted by those countries which could most benefit by the provisions of AGOA (Namibia, Zambia, Tanzania, and Mozambique). **Recommendation: That a six months to one year AGOA**

advisor be assigned to SADC, to work with all member states not already in possession of approved visa systems, and to provide AGOA focus to SADC deliberations. Additional resources should be made available on an as and when needed basis to help individual countries with specific AGOA issues.

"Trade not only breeds intercourse and exchange of merchandise…but also engenders love and friendship betwixt all men." Queen Elizabeth to Sultan Ala-uddin of Achin, Sumatra, 1601

7. Appendices

APPENDIX 1 - Trade Patterns and Projections – SADC, 1998, 2004, and 2008

Table A-1, Trade Matrix 1998
(US$ thousands)

	Angola	Botswana	Lesotho	Malawi	Mauritius	Moz.	Namibia	S. Africa	Swaziland	Tanzania	Zambia	Zimbabwe	ROW	All Imports
Angola	0	0	0	3	0	502	0	0	26	563	613	4508	2113791	2120006
Botswana	0	0	491	2387	300	0	4774	1780702	0	1800	4000	73354	519192	2387000
Lesotho	0	202	0	148	805	0	0	772556	494	0	0	553	88242	863000
Malawi	0	1274	1315	0	1911	9555	538	249067	5096	6370	8918	59960	292996	637000
Mauritius	0	42	0	430	0	4620	1302	240240	69300	220	1	4942	1988902	2310000
Mozambique	0	11	13	12686	0	0	420	318500	12118	64	245	29293	536652	910000
Namibia	1600	2496	3	0	0	26	0	1249920	2	2	1800	20232	403918	1680000
South Africa	0	566274	110494	87726	11710	58484	248210	0	519600	8287	116968	219087	27295162	29242002
Swaziland	0	14	172	4	431	6377	47	745955	0	1	0	1375	134724	889100
Tanzania	0	499	0	1453	795	4359	1	119146	10171	0	14530	12488	1289561	1453004
Zambia	0	4200	60	2100	700	265	700	264600	4200	4200	0	116620	302355	700000
Zimbabwe	378	41399	13	12425	7997	21212	6132	943079	13323	11142	18384	0	1696516	2772000
Rest of World	3454022	1487429	96959	461439	1789751	125600	1314676	21787194	218290	710950	648541	1737468	0	33832321
Total	3456000	2103840	209520	580800	1814400	231000	1576800	28470960	852621	743600	814000	2279880	36662012	
less ins., freight														
Exports fob	2880000	1948000	194000	528000	1680000	210000	1460000	26362000	789464	676000	740000	2111000	33946307	

Note: Imports in rows, exports in columns

Table A-2: Trade Matrix 2004

($US thousands)

	Angola	Botswana	Lesotho	Malawi	Mauritius	Moz.	Namibia	S. Africa	Swaziland	Tanzania	Zambia	Zimbabwe	ROW	All Imports
Angola	0	0	0	5	0	826	0	0	30	1013	898	5718	2257909	2266398
Botswana	0	0	495	2954	403	0	5309	2448141	0	2458	4445	70550	420561	2955317
Lesotho	0	213	0	174	1027	0	0	1009514	410	0	0	505	67938	1079782
Malawi	0	1726	1622	0	3138	14565	732	418837	5446	10642	12122	70537	290300	829668
Mauritius	0	67	0	773	0	8351	2100	479070	87829	437	2	6894	2336808	2922331
Mozambique	0	16	18	21111	0	0	627	588786	14238	117	366	37883	584516	1247677
Namibia	1663	2615	3	0	0	31	0	1624992	2	3	1892	18401	309399	1958999
South Africa	0	1008353	179096	174547	25275	117171	443748	0	729890	18196	208971	338752	35544967	38788966
Swaziland	0	15	164	4	549	7537	50	972683	0	2	0	1254	103505	1085764
Tanzania	0	817	0	2657	1577	8027	2	242033	13131	0	23859	17746	1543452	1853302
Zambia	0	5204	67	2908	1051	369	871	406970	4106	6417	0	125480	273998	827442
Zimbabwe	403	44500	13	14923	10419	25654	6617	1258247	11298	14767	19827	0	1333620	2740286
Rest of World	3616664	1569553	93130	544065	2289147	149117	1392803	28535847	181709	925046	686609	1591971	0	41575662
Total	3618730	2633079	274608	764121	2332586	331647	1852859	37985120	1048089	979099	958989	2285692	45066973	
less ins., freight														
Exports fob	3015608	2438036	254267	694656	2159802	301497	1715611	35171407	970453	890090	871809	2116381	41728679	

Note: Imports in rows, exports in columns

Table A-3: Trade Matrix 2008

($US thousands)

	Angola	Botswana	Lesotho	Malawi	Mauritius	Moz.	Namibia	S. Africa	Swaziland	Tanzania	Zambia	Zimbabwe	ROW
Angola	0	0	0	6	0	993	0	0	35	1146	1023	6633	2624785
Botswana	0	0	571	3365	464	0	6048	2778552	0	2783	5068	81891	489162
Lesotho	0	238	0	194	1160	0	0	1121752	465	0	0	574	77364
Malawi	0	1961	1858	0	3593	17396	828	471908	6260	11957	13721	81280	335198
Mauritius	0	77	0	880	0	10042	2391	543450	101630	494	2	7998	2716599
Mozambique	0	18	21	24438	0	0	726	679115	16752	135	424	44687	690914
Namibia	1884	2998	3	0	0	37	0	1847928	2	3	2161	21400	360574
South Africa	0	1135241	203323	195615	28678	138698	497341	0	831376	20264	234413	386857	40675845
Swaziland	0	17	191	5	635	9105	57	1108381	0	2	0	1462	120870
Tanzania	0	907	0	2935	1763	9364	3	266362	14741	0	26377	19974	1740728
Zambia	0	5963	78	3316	1214	444	993	462512	4759	7273	0	145844	319116
Zimbabwe	459	51350	15	17141	12116	31125	7602	1440103	13190	16856	22796	0	1564233
Rest of World	4150233	1822748	109060	628951	2679172	182076	1610210	32868735	213497	1062624	794478	1875337	0
Total	4152576	3021518	315119	876847	2728796	399280	2126199	43588799	1202707	1123539	1100462	2673936	51715388
less ins., freight													
Exports fob	3460480	2797702	291777	797133	2526663	362982	1968703	40359999	1113617	1021399	1000420	2475867	47884619

Note: Imports in rows, exports in columns

APPENDIX 2 - Case Study of HMB

HARNESS MANUFACTURING BOTSWANA

In May 1999, Delphi Corporation (which is 80% owned by General Motors, and listed on the New York Stock Exchange) was looking for a place to build another harness manufacturing plant, in order to expand their production. Known in the UK as wiring looms, harnesses are the collection of wires which connect all the electrical components and their switches in an automobile, and each model car has its own characteristic configuration. The advance team arrived in Botswana, and began their investigations. They were impressed by some features of Gaborone as a possible site, among which were:

Social and political stability
Government support for investment
Competitive labor costs
Good labor climate

But they also realized that any new venture would have to overcome the following:

Non-existence of an industrial environment
Unskilled work force
High logistics costs

The advance team was sufficiently impressed to make an initial feasibility study, and received preliminary approval from head office in January 1998. Further studies were undertaken, a local partner located, and the equipment ordered. In January 1999, the new company, Harness Manufacturing Botswana, opened its doors in a temporary building, and began production a month later. Initial production was for VW, followed in March by orders for Opel, and in July orders for Bosch. In November 1999 HMB moved into their new purpose built plant, and production started there in January, 2000.

Mr. Luis Figueiredo, plant manager, said that when Delphi was starting their feasibility work, they approached the Botswana Development Corporation for assistance with a plant site and building. The negotiations concluded with BDC providing a purpose built plant on a suitable site, built to Delphi's specifications and exactly like their other five plants (4 in Portugal and one in Tunisia), which Delphi leases on commercial terms. Further supporting their investment decision was the undertaking by the Government of Botswana to defray the cost of labor. A payment of P1,000 was made for each unskilled worker, and 50% of the cost of training, up to a maximum of P1,000 per worker was also available. Further, for unskilled workers (approximately 600 of the 850 employees), 80% of their wage was met by the GOB for the first two years, then 60% for the third year, 40% for the forth year, and 20% for the fifth year.

Problems of communication were met with Delphi's installation of their own satellite system, which maintains an on-line connection with their headquarters in Portugal. Transportation has been solved, in part, by using Walvis Bay as their port of entry. All components from Europe come through the Kalahari corridor, and usually take 48 hours from time of ship docking to plant in Gaborone. This has cut substantial time from their shipments through Durban, saving a week and a half's sailing time, plus six to eight days delay in Durban. This more than makes up for the inconvenience of having to take six containers every two weeks, with the additional storage and inventory problems, as opposed to one container at a time at shorter intervals to match production and reduce storage requirements at the factory. Exports to Europe still go through Durban, but will be changed as soon as there are sufficient north-bound sailings from Walvis Bay, Mr. Figueiredo said.

At present, all connectors and other parts are imported from Europe, and the wire is sourced in South Africa. Production is going smoothly, and internal targets are being met. There was a downturn in automobile production, and HMB was able to scale back, with the loss of 20% of orders, matched by a decline in the labor force, without any difficulty. When the market strengthens, those workers who were retrenched will be offered their jobs back if they are available, as they have had quite a bit of training. Presently, exports are around \$20 million per annum, targeted to increase to \$25 million within the next year or two, depending on their market penetration. BDC has provided a sufficiently large site to allow for a 66% increase in size, should market conditions warrant.

HMB's markets are now in Europe, with Bosch, Opel, VW, and Peugeot. Their medium range plans are to penetrate the automobile manufacturing industry in Port Elizabeth, and they have been bidding on supplying a number of manufacturers there. It appears that HMB is well positioned for market expansion in the region, and well able to service the Europoean market from their Gaborone facility.

APPENDIX 3 - List of Contacts

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