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SRI International

COMMERCIAL POLICY MODEL APPLICATION:

SOUTHERN AFRICA

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SRI INTERNATIONAL

INTERNATIONAL POLICY CENTER

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COMMERCIAL POLICY ASSESSMENT OF THE SOUTHERN AFRICA REGION

A. SADC's Commercial Policies

A commercial policy model and database was prepared by SRI International under the Private Enterprise Development Support (PEDS) project managed by the Global Bureau of AID. This report examines the commercial policy climates of the eleven countries of the Southern Africa Region.[1] One objective of this exercise is to determine the extent to which policy reform initiatives can be undertaken on a regional basis. The Southern African nations' overall policy scores span a broad range, with Angola scoring only 41 and Zambia, Malawi, and Tanzania all earning 70 or higher. The stronger scores for these latter three countries reflect several recent commercial policy changes. Angola and Mozambique's interventionist and protectionist policies produced their low rankings.

Given the importance of a business-friendly commercial policy environment for private sector development, it is imperative for policymakers to identify feasible policy alternatives and to assess their effectiveness. Cross-country experiences and data can be useful for conducting policy benchmarking, which is an effective technique for assessing the comparative position of a country's commercial policy regime against its competitors in attracting international investment and trade. Under PEDS, SRI has developed an analytical framework within which commercial policies covering a broad range of policy areas (such as trade, investment, tax, foreign exchange, etc.) can be examined and compared across countries and regions in a systematic and objective manner.

[1]SRI utilized the commercial policy framework methodology which was previously developed under the USAID PEDS II Project. Under this methodology SRI ranks countries' commercial policies in nine different policy categories, and assesses how the policies affect performance variables such as income growth, exports, and investment. See Annex C for a brief description.

COUNTRY SCORES BY CATEGORY

Country	Import	Export	Tax	Investment	FDI	Start-up	Pricing	FX	Labor	Total
Zambia	12	6	8	8	4	4	12	16	2	72
Malawi	8	6	12	8	8	6	6	12	4	70
Tanzania	8	6	12	8	8	4	6	12	6	70
Namibia	4	8	4	8	8	6	9	12	8	67
Botswana	4	6	8	6	6	8	9	12	6	65
Lesotho	4	6	8	6	8	6	9	12	6	65
South Africa	4	6	4	6	6	8	12	12	6	64
Zimbabwe	16	6	4	6	4	4	6	8	6	60
Swaziland	4	6	4	8	6	4	9	12	4	57
Mozambique	4	6	4	8	6	0	9	12	4	53
Angola	8	2	8	4	4	0	3	8	4	41
Average	*6.9*	*5.8*	*6.9*	*6.9*	*6.2*	*4.5*	*8.2*	*11.6*	*5.1*	*62.2*

Closer examination of the scores in the different policy categories (import, export and tax policy, investment incentives, foreign direct investment rules, business start-up, pricing, foreign exchange and labor policy) reveals some interesting findings. SADC (Southern African Development Community) members' scores for export, investment and labor policy do not vary significantly. Most countries scored in the middle range in these categories. The policy categories with the largest differences in scores are import, tax, and pricing policies. Countries' scores in these policy areas heavily influenced their overall rankings. For example, Malawi's and Tanzania's high scores in import and tax policies helped to place them ahead of the more prosperous members of SADC in the overall rankings.

Import Policies

Most SADC members did not score highly in this category. The two exceptions, Zambia and Zimbabwe -- scoring 12 and 16 respectively -- have loosened their import controls and decreased duties on most goods.

The members of SACU (the Southern African Customs Union), which consists of South Africa, Botswana, Lesotho, Namibia and Swaziland, have a common external tariff against goods entering from non-SACU countries. South Africa, the most powerful member of SACU, sets and administers the external tariffs, collects the duties and distributes the revenues to other Union members. Despite South Africa's recent removal of an import surcharge, SACU import duties remain high (30-70 percent for most finished products), earning its members only a four out of a possible sixteen in this category. The smaller members of SACU, while remaining committed to the Union, have called upon South Africa to take greater steps toward trade reform. They want

South Africa to make further reductions in SACU's tariff rates. Such reductions seem inevitable, as South Africa has made a general commitment to reducing tariffs in order to meet WTO standards.

Export Policies

The increased awareness that exports raise economic growth rates has led most SADC members to loosen export controls, reduce or eliminate duties, and improve their overall export environment. Although very few provide export income tax exemptions, some allow duty-free imports for their exporters. The most notable exception to the relatively good scores in this category is Angola, which has kept strict export controls for the duration of its long civil war. Although the government has expressed its intention to ease the controls, the policies are still in existence, and therefore Angola scores only two points out of a possible eight for export policy.

Tax Policies

Scores for this category range from four for South Africa and several other countries to twelve for Malawi and Tanzania. Malawi has a flat corporate tax rate of 35 percent but allows its personal income taxes to range from two percent to up to thirty five percent. Its sales tax of three percent is low. Tanzania offers corporate tax rates as low as 17.5 percent with the highest rate at 35 percent. Personal income tax rates range from five to thirty percent.

Investment

Incentives. SADC nations scored well in the incentives category. At either six or eight points, most countries' scores reflect their general desire to attract foreign investment. The majority of SADC countries offer specific packages of incentives, particularly for investors in the manufacturing sector. Namibia has a new incentive regime designed to increase investment in certain industries. Its incentives offered to both foreign and domestic investors include: tax holidays, lower tax and import duty rates, accelerated depreciation, allowances for training, market research and capital investments. The government also provides concessional loans and cash grants. Botswana's Financial Assistance Policy (FAP) includes a number of foreign investment incentives. Under the policy, Botswana offers a wide range of incentives including: tax holidays, capital grants; and training grants.

Investment Restrictions. All of the Southern African countries reserve certain strategic industries for domestic investment, but most of the industries are open to foreign investment. Some countries also restrict foreign investment in sectors that they believe locals can master without the need for foreign capital and technology. For example, Botswana, which has moderate restrictions, limits investment in small grocery stores, dairies, filling stations and liquor stores.

Dispute Resolution. Most of SADC adheres to some type of international convention for dispute resolution. Angola provides one of the few exceptions. While its new foreign investment law allows for contract resolution via arbitration, it requires that the arbitration take place in Angola under Angolan law.

Business Start-up

The countries' scores for this category vary widely. South Africa, which has no approval procedure, obtained a perfect score. In that country, a company need only follow a simple registration process in order to become established and begin operations. Other nations which claim to have relatively streamlined approval processes actually have onerous business start-up policies. For example, Zambia uses an approval board for prompt screening of investment applications. Unfortunately, other start-up procedures are not as transparent or streamlined. Consequently, red tape and unwarranted delays often make the process extremely cumbersome.

Pricing

South Africa and Zambia lead the rest of SADC in this category. South Africa strictly adheres to a free market system, and Zambia has eliminated most of its controls. The majority of the other countries scored either 6 or 9 points out of a possible twelve. Angola has by far the lowest score. The country has a history of government intervention in prices and the government has extensive price controls on several commodities. These controls have led to the development of parallel markets for certain goods and have created a dependence on barter. Although the government recognizes the importance of removing controls on commodity prices and interest rates, it has not yet made significant policy changes in this area. As a result, Angola earned only three points for pricing policy.

Foreign Exchange

Most countries have solid scores in this category. Zambia was the first SADC member to go to a completely floating, liberal exchange rate system. In 1994, it eliminated its system which had pegged the exchange rate to a basket of currencies, and replaced it with a market-based floating system. Zambia also removed its regulation requiring the surrender of foreign exchange proceeds. These new foreign exchange arrangements give Zambia a perfect score of sixteen for foreign exchange policy. The other members of SADC have good scores for foreign exchange policy, most of them in the twelve point range. This reflects recent attempts in most of the countries at trade and exchange adjustment. The two exceptions, Zimbabwe and Angola, still retain strict controls on foreign exchange.

The CMA (Common Monetary Area), which consists of South Africa, Lesotho, Swaziland, and Namibia, uses South Africa's financial rand system. Until recently, this system had a dual exchange rate, with the discounted rate applicable to foreign investment. South Africa (and the entire CMA) moved to a free-floating system in March, 1995. However, the CMA has kept the rather strict exchange controls associated with the dual-rate system in place. These policies give the CMA countries twelve points instead of a perfect sixteen.

Labor

Wages. Most nations have some legislation in place providing for either a national, regional, or industry-wide minimum wage. The exception is Namibia, which to date, has no legislated minimum wage.

While very few SADC members have strict government legislated wage controls, some countries such as Swaziland and Angola have *de facto* wage controls. In Swaziland, the government, in conjunction with the private sector and unions, negotiates and fixes private sector wages. In Angola, the government sets public sector wages only but indirectly controls private sector wages. Workers in the private sector must receive a certain multiple of public sector wages.

Expatriate Employment. Most SADC members have some type of restriction on expatriate employment. For the majority, these restrictions are standard and similar to those found in other countries. Some, like Swaziland, strictly adhere to the requirement that expatriates can only be hired if no Swazis can be found to do the work. This leads to difficulties and delays in obtaining expatriate work permits.

B. SADC Groupings by Income

We also examined relationships between policy scores and growth rates by income bracket to see whether there was a correlation. For the years of growth examined (1980-1992), policy reforms do not appear to be closely associated with income level.

SCORES AND ECONOMIC PERFORMANCE BY INCOME GROUP

Group	Total Score	GDP Growth	Inv. Growth	GNP/Capita (US Dollars)
Higher Income				
Botswana	65	10.1	N/A	2,790
South Africa	64	1.1	-4.4	2,670
Namibia	67	1	-6.2	1,610
Average	65.3	4.1	-3.5	2,357
Middle Income				
Swaziland	57	N/A	N/A	1,090
Zambia	72	0.3	0.2	Est.[1]
Average	64.5	N/A	N/A	N/A
Lower Income				
Lesotho	65	5.4	9	590
Zimbabwe	60	2.8	1.8	570
Malawi	70	2.9	-0.9	210
Tanzania	70	3.1	5.6	110
Mozambique	53	0.4	3.1	60
Average	63.6	2.9	3.7	308

[1] Est. = Estimated at Between 670 and 2,695 US Dollars.
Growth rates are average annual rates calculated from 1980-1992.
Source: World Development Report, 1994

For example, lower income countries like Tanzania and Malawi had the highest commercial policy scores. High income countries like South Africa and Botswana had policy scores which were only average for the region. One policy category where the high income countries clearly were lagging is the import policy variable (see tables below). Most of the countries in the region had better import policy scores than the high income countries which only rated a four in this category.

C. SADC Compared to Other Regions

SADC countries' commercial policy scores demonstrate the need for further policy changes and coordination. While on average, the eleven members of SADC scored higher than other African nations, the region's average total policy score remains lower than the East/South East Asian, OECD and Latin American regions (see tables and figures below). Not surprisingly, the SADC performance variables (e.g., per capita GDP growth and investment growth) are well below performance indicators for South East Asia and the OECD countries.

SCORES BY REGION

Region	Import	Export	Tax	Investment	FDI	Start-Up	Pricing	FX	Labor	Total
E/SE Asia	14	7	11	6	7	7	10	11	6	79
OECD	14	7	5	3	8	8	12	16	4	78
Latin America	10	7	11	3	7	5	8	14	4	69
SADC	***7***	***6***	***7***	***7***	***6***	***5***	***8***	***12***	***5***	***62***
Middle East	12	6	8	5	6	2	6	8	6	59
Other African	8	8	5	6	8	4	6	9	3	57

SADC nations scored most notably lower in the areas of import policy, tax and pricing policies. For example, the average import policy score for SADC nations was a seven out of a possible sixteen, exactly half the average scores for East/South East Asian and the OECD countries in this important policy area. A concerted effort on the part of SADC and SACU members to alter their protective and interventionist policies in these area will lead to a marked improvement in overall policy scores, increased investment and long term growth.

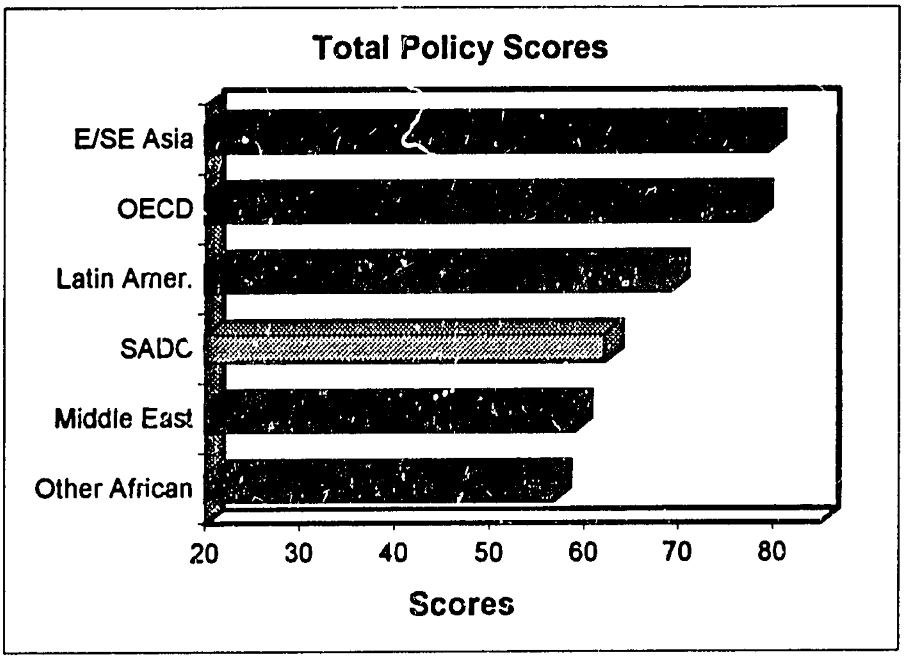
D. Status of Policy Harmonization for the Countries in the Region.

Most countries in the region have a convergent tendency towards trade and foreign exchange policy liberalization. Most of the SADC countries, except Zimbabwe and Angola, have corrected overvalued exchange rates and are allowing their exchange rates to be set by market-oriented criteria. Most are also moving away from import licensing and are shifting more imports into the open general import license category (OGIL). SADC countries have exerted efforts to reduce delays at customs and border checks.

Export taxes have been largely removed in the SADC region and as such most of the export policies are relatively harmonized and similar. On the import side, import duties are supposed to be dropping under PTA and SACU arrangements, but most countries are behind schedule. A few countries such as Zambia and Zimbabwe have taken bold trade liberalization steps. Others, most notably the five SACU members' still heavily protect their markets from outside competition under the high external tariff policy.

The majority of SADC member countries have improved their investment regimes in similar fashions in efforts to attract greater foreign investment. They all offer investment packages which include tax and duty exemptions. These countries have also eliminated many of the restrictions on foreign investment. With the exception of Angola, they all allow dispute resolutions according to international principles and procedures.

SADC Compared to Regions By Policy Score and Economic Performance



Economic Performance

Region	Total Score	GDP Growth	Inv. Growth	Per Capita GNP Growth
E/SE Asia	79	6.3	6.8	5.5
OECD	78	2.8	2.9	2.2
Latin Amer.	69	1.6	-1.1	-0.2
SADC	**62**	**3.1**	**1.0**	**0.2**
Middle East	59	2.3	-0.1	-0.8
Other African	57	3.0	1.9	-0.6

Growth rates re average annual rates calculated from 1980 to 1992.
Source: World Development Report, 1994.

Scores By Income Group

Group	Import	Export	Tax	Investment	FDI	Start-up	Pricing	FX	Labor	Total	GNP/Cap[1]
Higher Income											(US Dollars)
Botswana	4	6	8	6	6	8	9	12	6	65	2,790
South Africa	4	6	4	6	6	8	12	12	6	64	2,670
Namibia	4	8	4	8	8	6	9	12	8	67	1,610
Average	**4.0**	**6.7**	**5.3**	**6.7**	**6.7**	**7.3**	**10.0**	**12.0**	**6.7**	**65.3**	**2,357**
Middle Income											
Swaziland	4	6	4	8	6	4	9	12	4	57	1,090
Zambia	12	6	8	8	4	4	12	16	2	72	Est.[2]
Angola	8	2	8	4	4	0	3	8	4	41	Est.[2]
Average	**8.0**	**4.7**	**6.7**	**6.7**	**4.7**	**2.7**	**8.0**	**12.0**	**3.3**	**56.7**	**NA**
Lower Income											
Lesotho	4	6	8	6	8	6	9	12	6	65	590
Zimbabwe	16	6	4	6	4	4	6	8	6	60	570
Malawi	8	6	12	8	8	6	6	12	4	70	210
Tanzania	8	6	12	8	8	4	6	12	6	70	110
Mozambique	4	6	4	8	6	0	9	12	4	53	60
Average	**8.0**	**6.0**	**8.0**	**7.2**	**6.8**	**4.0**	**7.2**	**11.2**	**5.2**	**63.6**	**308**

[1] Per capita GNP per year. Source: World Development Report, 1994.
[2] Est. = Estimated at Between 670 and 2,695 US Dollars.

SACU and CMA represent models of relatively complete policy harmonization in the areas of exchange rate, customs procedures, and tariff policy. The recent move by South Africa and the rest of the CMA to a floating rand (elimination of the Financial Rand) demonstrates that the new South Africa and the rest of the CMA may be more flexible and reform minded than in the past. SACU members also remain committed to the principle of import policy harmonization. Thus a substantial number of the SADC countries already harmonize two important policy variables -- import and foreign exchange policies. This clearly supports a regional development strategy. These countries now need to spread this spirit of coordination to their other SADC partners, and combine the twin goals of harmonization and liberalization.

E. Policies Which Countries in the Southern Africa Region Will Need to Change to Promote Economic Growth

According to the commercial policy model, the principal policy areas that need to be adjusted in the SADC countries to promote economic growth on both the national and regional levels include:

- Import policies
- Taxation
- Pricing policy

Current external tariffs on finished products typically range from 30 to 70 percent in the region, while tariffs on intermediate goods and capital goods are lower. The high tariffs on imported goods raise costs for consumers and promote inefficiency in the industrial sector. Tariff rates will need to come down to competitive levels (0-20 percent range) in order to promote efficiency and domestic competitiveness.

Non-tariff barriers are more constraining than tariff barriers in many of the SADC countries. The most prominent NTBs in the region include: (1) foreign exchange shortages which impair the ability to pay for imports; (2) import licensing; (3) border controls; and (4) lack of trade financing facilities. Non-tariff barriers will need to be reduced as part of the trade development strategy for the region.

Taxation policy is another area where SADC policy scores are low. The high effective tax rates often stem from non-income tax forms of taxation such as value added taxes, excise taxes, and dividend taxes. The overall effective taxation rates will need to be lowered in these countries in order to encourage investment, reduce tax evasion, and stimulate economic development. A decrease in tax rates does not necessarily mean a reduction in government revenue: Experiences in Chile, Mexico, Colombia, and Indonesia suggest that government revenue can actually increase under lower, more broad-based tax systems.

Pricing policy is another area where SADC countries need reform. Some of the countries in the region, including Angola, have a legacy of government intervention in pricing policy. These controls have typically led to the shortages of supply, poor availability of critical inputs, and the encouragement of parallel market trade. Countries in the region should be encouraged to remove price controls on all but a very narrow set of strategic products and public utilities. Price de-control will encourage increased investment, greater competition, and an increase in the quantity and quality of products offered in the market.

F. Policies Which South Africa Will Need to Change to Promote Economic Growth in the Region

South Africa's commercial policies rank below most industrialized countries, and the newly industrializing countries, as well as the high scoring developing countries. Generally, South Africa's commercial policies are fairly beneficial to business. In particular, its business start-up policies, pricing, and exporting are all business-friendly and compare favorably with the best policy practices world wide in those categories. However, the policy areas which need the most adjustment are the following:

- Trade policy
- Tax regime
- Wage policy
- Competition/antitrust policy
- Credit availability for small business

Due to its long-standing import substitution strategy, South Africa still has in place a set of common external tariffs from the SACU agreement in the range of 30-115 percent for a number of finished products. These high tariffs allow local firms a substantial margin of protection and encourage high costs and inefficiency throughout the economy. In the World Competitiveness Report prepared by the Wold Economic Forum, South Africa's economy ranked 35 out of 41 countries rated in the report. Trade barriers will need to be reduced consistent with World Trade Organization standards in order for South Africa to become a competitive export-oriented economy. Trade policy liberalization is perhaps the most important action South Africa can take to improve the country's competitiveness.

A second aspect of trade policy which will need to be reviewed if regional growth is to be maximized is South Africa's export subsidy program. The government is re-assessing the need for its export subsidy program -- the General Export Incentive System (GEIS). The GEIS provides export bounties. As part of this review of the export policy, the impact on regional growth and free trade objectives should be considered. In addition, the export subsidy policy should examined with regard to its compatibility with the Uruguay Round Final Act, Agreement

13 on Subsidies and Countervailing Measures. Most South African officials acknowledge that the GEIS will eventually be eliminated.

In the corporate taxation area, South Africa's policies are in the middle to high range and are not conducive to private business development. Corporate income tax is 35 percent. The tax on net dividends is 25 percent. A transition tax of 5 percent on companies is also imposed. These taxes bring the nominal company tax rate to between 40 - 50 percent. In addition to these taxes, business must also pay value added taxes and high import duties on specific items. The net tax burden is onerous, serves as a drag on profits, and limits the inflow of foreign investment. Business tax rates will need to be lowered if the country wants to achieve a significant influx of new investment, which in turn should lead to a boost in output and income.

In the wage policy area, the presence of powerful trade unions has led to higher than market wage rates in some industries. Productivity is also seriously lacking. Zimbabwean labor costs about 33 percent lower than South Africa's, and productivity rates are higher in a number of industries. A Mexican car worker takes about a third as much time as a South African worker to build a car, and Mexican textile workers add four times as much value as their South African counterparts for only 20 percent more cost. Productivity based wages are one solution to South Africa's labor productivity problem. Other labor productivity solutions relate to general competitiveness enhancing policies such as tariff reductions and anti-monopoly policies. Skill training will also be vital to improving labor productivity.

Partly as a result of past foreign exchange controls which prevented South African companies from investing abroad, the South African industrial giants have been for years buying into each others' companies. The result is a formidable tangle of cross-holdings and oligopolies. Two suppliers control 75 percent of the sugar market; three jointly control 75 percent of the fertilizer market and three control 90 percent of the market in chemical fibers used to weave textiles. The four biggest companies control a staggering 76 percent of the Johannesburg stock market. Firms seldom compete on an open market basis. As a result, consumers pay more for goods, and it is harder for South African companies to be competitive in export markets. Newcomers, whether foreign or South African, find it hard to break into the protected and oligopolistic markets.

To overcome this problem, the government will need to introduce and enforce stronger antitrust legislation that would break up monopolies and oligopolies controlling large shares of markets. Other competition inducing policies include tariff reform, and privatization and deregulation of state owned companies.

The final policy area that needs adjustment is credit access for smaller and black-owned businesses. Accessing capital funds is a major constraint for small and medium-sized firms. While some small-scale lending facilities have been established to overcome this constraint, these efforts have not had a material impact on overcoming the credit constraint felt by these entrepreneurs. Further attention will need to be focussed on this issue and programs will need to be established to provide greater access, while minimizing loan default risks.

G. South Africa's Role as "Economic Engine" of the Southern Africa Region

By almost any measure the continent of Africa's performance over the past two decades has been disastrous. Real GDP per capita has declined, and investment growth has been negative. The share of global foreign direct investment in Sub-Saharan Africa (excluding South Africa) declined from 4.5 percent to 0.7 percent. One explanation of the poor performance is that Africa lacks a regional economic engine such as a Japan or a South Korea.

Now that South Africa's economy is opening, and other countries are now more open to South Africa, it is in a stronger position to revive the economic fortunes of the whole region. The Southern Africa region has a population of 130 million people. It has vast natural resource wealth including precious gems, metals and minerals, oil and natural gas, fisheries and rich farmland. However, South Africa alone accounts for 80 percent of the entire region's GDP. Most of its neighbors are much poorer; South Africans are on average 36 times richer than Mozambicans, for example.

While the region will prosper only if South Africa does, the converse is also true. One of the important economic linkages in the regional economy is labor. South African mining and industrial activities have long been built on cheap migrant labor from Mozambique, Swaziland, and Lesotho. The attractions are obvious: Minimum wages are five times higher in South Africa than in the labor source countries. In addition to having cheaper labor, some of the countries in the region have better educated work forces than South Africa. For example, 69 percent of Zimbabweans are literate compared with 54 percent of black South Africans, and average wages are about 35 percent lower in Zimbabwe.

The prospects for economic growth in the region are much more limited absent an improved trade policy environment between South Africa and its neighbors. The trend for economic growth in the region is very poor; between 1980 and 1992, the SADC average annual real per capita income growth was zero compared with 6 percent in South East Asia and 2 percent in OECD countries. Annual export growth was also zero for the SADC countries over the 1980-92 period, compared with 10 percent per year export growth in the South East Asia region.

These data suggest that without some major progress on regional policy improvements, including trade liberalization measures, the prospects for the region as a whole are not very positive. The only country in the Southern Africa region to be performing excellently during this time period was Botswana, where economic growth per capita was grew at 6 percent per year over the 1980-92 period. Botswana, with its large mineral wealth and solid macroeconomic policy framework, is the only individual country in the region for which prospects are now bright, even in the absence of harmonized policy reforms throughout the region.

H. Regional Trade Prospects

A key regional trade issue is the future of the two competitive regional groupings. South Africa, which recently joined SADC, reportedly is unlikely to follow its nine SADC partners (all except Botswana) in joining the Common Market of East and Central Africa (COMESA). The combination of the reluctance of South Africa and Botswana to join COMESA and donor pressure on African countries to end the duplication in and uncertainty over regional relationships is likely to bring this matter to a head sometime this year.

With North America, Latin America, Europe, and Asia all advancing with their regional trade groupings, Africa risks being left behind as the only major continent without a working free trade agreement. The SADC countries talk about moving towards a freer-trade area, but at present the group has no binding agreement to lower tariffs among members.

Currently, regional trade flows are minimal. For example, a recent World Bank study estimated the "trade complementarity index" between 20 sub-Saharan countries at a mere 0.09, meaning that a very small percentage of the region's imports come from within the region. Intra-SADC trade accounts for only 4 percent of its members' trade. Southern Africa's trade complementary patterns, while low, do at least offer the potential for expanding intra-regional trade. Currently, regional trade patterns are skewed heavily in South Africa's favor with only Zimbabwe and Swaziland significant exporters to South Africa, while South Africa is a substantial exporter to several countries in the region. South Africa's exports to the region are eight times higher than the traffic in the opposite direction.

The main strategic issue is whether to pursue the bilateral preferential trade agreement route or to create a regional freer trade bloc. The latter approach makes more economic sense, but the politics of getting all the countries on board will not be easy.

Recent trade frictions do not bode very well for the prospects of a regional trade agreement. In 1992, South Africa increased the import duty on Zimbabwean textiles to 50 percent and on clothing to 100 percent. The imposition of "punitive" protective duties by South Africa were surprising in that Zimbabwean exports only accounted for 1 percent of the South African market. For Zimbabwean textile exporters, however, the tariffs were painful as the South African market represented 25 percent of their export sales. In another trade dispute, South Africa banned Hyundai from exporting assembled cars from Botswana to South Africa. The ban was introduced based on the complaint that the cars were selling in the South African market at less than the home market selling price. Botswana and South Africa are each members of SACU, and trade is supposed to be free of tariff and non-tariff barriers between SACU countries.

Market access concerns are not all one-sided: Many of South Africa's neighbors are complaining about South African export subsidies which they say result in the "dumping" of South African products in their markets. Zambia and Zimbabwe have been the most vocal in their complaints on this matter. In April 1995, a company called Chloride CA, which manufactures automotive parts in Zimbabwe, complained that South African manufacturers were taking advantage of export subsidies of 40-50 percent to sell their batteries in Zimbabwe at half the South African market price.

I. Regional Options to Stimulate Rapid Economic Growth

Introduction

In this section we identify initiatives that offer the potential for rapid, economic growth and that can be addressed most effectively from a regional perspective. The concepts described below incorporate the strengths of regional approaches and take advantage of economies of scale in resource utilization, design, administration and evaluation. The activities build on the initial conclusions of the commercial policy model by further investigating, analyzing and addressing areas of regional significance.

Commercial Policy Enhancement and Regional Harmonization: Possible Next Steps

Commercial Policy Model Conclusions Supporting a Regional Approach. A regional approach to economic policy reform will be most efficient and effective in Southern Africa. First, the initial model results highlight a series of policies that need to be harmonized in order to spur regional growth. These policies include:

- Tariff reduction and harmonization;
- Reduction of non-tariff barriers including import licensing and border controls;
- Liberalization of prices; and
- Reduction in taxation while broadening the base.

Accelerated growth (or lack thereof) in Southern Africa is likely be a regional phenomenon. Accordingly, policy reform in any given country should be accomplished in concert with other Southern African nations to assure appropriate policy content and compatible timing and phasing of changes, and to monitor implementation so that changes are indeed put in place completely. As past experience in Africa and elsewhere has demonstrated, spotty policy enhancements may lead individual countries toward growth but such growth often stops at national borders.

Objectives. The proposed initiative would contribute measurably toward rapid, broad-based, sustainable economic growth on a regional basis, by means of enhancing the business climate to remove policy constraints and spur the development of the private sector, exports, investment, and efficient production.

Potential Activities. The initiative would involve identify needed economic policy changes, specified by the commercial policy model and confirmed through additional analysis, that will spur growth on a regional basis. The effort would provide government economic decision-makers and USAID officials with an overview of commercial policy stances and needs and offer a means to motivate economic policy change by depicting clearly the relative strengths and weaknesses of national policies, and by benchmarking national policies with the region as well as the best-performing economies in the world. A PEDS team would prepare a regional commercial policy assessment report, and would develop a computer-based presentation to be given to decisionmakers on either a regional or country-by-country basis.

This initial activity would lead to the establishment of a "top-down" strategy for economic policy enhancement to be provided to national and regional leaders. Past USAID experience has shown that the most effective way to bring about needed economic policy changes is to approach them from two directions simultaneously -- from above and from below. In the top-down element, the PEDS team would design a regional economic policy enhancement agenda, building on the conclusions of the commercial policy model, after confirming these results through additional analysis and interviews. This agenda would then be presented to appropriate national and regional leaderships.

The "bottom-up" activity would have the same objective -- policy climate enhancement -- but would complement the second by engaging local policy communities and constituencies. A version of the commercial policy analysis presentation would first be given to important constituencies (e.g., business associations, trade unions, academic groups, the media, etc.) which would be encouraged to express their views and suggestions for reform. Based on levels of interest expressed, individual assignments or tasks would be identified for further assessment, public outreach or other action. Where appropriate, these tasks could then be supported by USAID or other donors.

Over the course of this initial assessment, a number of other potential regional efforts came to light. These are presented briefly below.

Export Enhancement: Intra-Regional and Extra-Regional

Commercial Policy Model Conclusions Supporting a Regional Approach. The commercial policy model results highlight the need for export expansion efforts in Southern Africa. SADC recorded a zero percent increase in exports over the period studied, compared with a three percent increase in other African nations, four percent growth in Latin America, five percent growth in the OECD, and a dynamic ten percent annual increase in East/Southeast Asia. Clearly, exports -- a key economic engine -- are lagging in SADC.

Several factors argue for a regional approach to export enhancement rather than discrete nation-by-nation activities. The relatively small size of the economies, their geographic proximity, the small roles they currently play in world trade, and the tendency in world markets to consider African regions as a homogenous whole rather than as discrete nations due to a lack of information, all point toward a regional focus as a rational way to introduce more Southern African products into regional and world markets.

Objectives. International economic experience over the past several decades has highlighted the power of exports as a stimulus to domestic economic development. In most nations worldwide, export expansion is an essential component of sustained rapid growth and development. Exports finance needed imports and allow nations to service debt. Export markets encourage efficiency in local production, promoting the use of domestic factors in abundant supply and increasing demand for domestic inputs, leading to rising pay scales for residents. By bringing new money across the borders, exports provide multiplier stimulus to nearly all sectors of the economy. Corollary benefits include a strengthened private sector composed of stakeholders with a vested interest in assuring an open economic policy environment and policy continuity.

Potential Activities. A successful export enhancement would have two types of activities: (1) policy analysis and implementation assistance, and (2) export promotion information and assistance. Policy analysis would guide national policies into line with successful export enhancement stimuli learned from "best practices" worldwide, as well as work toward regional policy integration as appropriate. Based on the commercial policy model results, policy changes to be made as a group and/or individually should include the following:

- Streamline customs procedures and standardize documentation to facilitate both intra- and extra-regional trade;
- Loosen import controls and non-tariff barriers;
- Decrease import duties;
- Loosen strict export controls, particularly in Angola; and
- Determine an export incentives policy that is acceptable to the region and compatible with WTO standards.

The second activity is providing export information and assistance to assist current and prospective exporters, and to attract buyers to the region. A regional export enhancement effort would take advantage of enormous economies of scale as resources are shared among multiple nations. For example, market intelligence, export/import requirements, lists of potential buyers, trade missions, and advertising and trade show participation could all be conducted jointly, benefitting the region rather than being reinvented at great expense by individual nations.

Regional Commercial Training Modules

Commercial Policy Model Conclusions Supporting a Regional Approach. By design, the commercial policy model focuses only on those policy variables which directly affect a nation's business climate. The model does not include non-policy variables such as entrepreneur education and training systems, which facilitate the citizens' ability to take advantage of a positive business climate by starting and growing a small business.

A regional approach to training entrepreneurs offers significant cost savings. While all countries to be served must necessarily be surveyed to identify training gaps, savings are likely in the areas of financial management, feasibility study preparation (multi-country instead of individual initiatives), exporting, human resource development, and other business-related skills. Operational costs are kept down by offering several courses consecutively in each location, thus reducing travel costs, and by repeating courses throughout the region.

Objectives. The initiative would address identified gaps in business knowledge and skills of SADC businesspeople in areas such as financing options, business plan development, marketing, product development, production, packaging, personnel administration, and accounting/bookkeeping.

Potential Activities. The initiative could consist of a series of entrepreneurial training modules (each about one week in duration) which are offered in key cities, towns and regions throughout all SADC nations. Modules would be developed after a training needs survey identifies the key knowledge and skill gaps in area entrepreneurs. Modules may include financing options, business plan development, marketing, product development, production, packaging, personnel administration, and accounting/bookkeeping. Taken together, the modules might offer a "mini-MBA program" to meet the essential needs of entrepreneurs. However, they can be taken as needed to redress individual educational gaps. The modules would be individually tailored to SADC nations in order to inform entrepreneurs of national laws and regulations. Below, possible training module content is highlighted:

- Financing Options: Potential funding sources, application procedures, techniques for raising short-term and long-term capital.

- Business Plan Development: Market analysis, analysis of competition, proposed organizational structure, financial plan, milestones.

- Marketing: Overview of the costs and benefits of alternative techniques.

- Product Development: Determining customer needs (quality, delivery, service).

- Production: Organizing production, selecting appropriate equipment and technologies.

- Packaging: Importance in generating sales, costs and benefits of alternative packaging options.

- Personnel Administration: Hiring, benefits, training.

- Accounting/Bookkeeping: Basic principles, cash flow analysis, profit and loss statements, balance sheets.

The initiative would increase the success rate of new business start-ups as well as the profitability of small businesses already in operation. A focus would be placed on black entrepreneurs. Pre-training and post-training participant evaluations shall demonstrate an increase in business knowledge and skills.

ANNEX A

REGIONAL CLUSTER COMPARISONS

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Regional Cluster Comparisons

	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	Total	gGDP	gEX	gIND	gINV	gGNP/Cap
SADC Members Ranked by Total Score															
Zambia	12	6	8	8	4	4	12	16	2	72	0.8	-3.2	0.9	0.2	N/A
Malawi	8	6	12	8	8	6	6	12	4	70	2.9	5.8	3.5	-0.9	-0.1
Tanzania	8	6	12	8	8	4	6	12	6	70	3.1	-1.2	2.2	5.6	0
Namibia	4	8	4	8	8	6	9	12	8	67	1	N/A	-1.1	-6.2	-1
Botswana	4	6	8	6	6	8	9	12	6	65	10.1	N/A	10.1	N/A	8.1
Lesotho	4	6	8	6	8	6	9	12	6	65	5.4	N/A	8.5	9	-0.5
South Africa	4	6	4	6	6	8	12	12	6	64	1.1	0.7	-0.1	-4.4	0.1
Zimbabwe	16	6	4	6	4	4	6	8	6	60	2.8	-0.8	1.9	1.8	-0.9
Swaziland	4	6	4	8	6	4	9	12	4	57	N/A	N/A	N/A	N/A	1.6
Mozambique	4	6	4	8	6	0	9	12	4	53	0.4	N/A	-0.4	3.1	-3.6
Angola	8	2	8	4	4	0	3	8	4	41	N/A	N/A	N/A	N/A	N/A
Average	**6.9**	**5.8**	**6.9**	**6.9**	**6.2**	**4.5**	**8.2**	**11.6**	**5.1**	**62**	**3.0**	**0.9**	**2.7**	**1.0**	**0.2**
Selected Latin American Countries Ranked by Total Score															
	IM	**EX**	**TAX**	**INV**	**FDI**	**BUS**	**P/I**	**FX**	**LAB**	**Total**	**gGDP**	**gEX**	**gIND**	**gINV**	**gGNP/Cap**
Paraguay	16	6	16	4	8	4	6	16	2	78	2.7	12.2	0.2	0.3	-0.8
Costa Rica	12	8	12	6	8	6	9	12	4	77	3.1	4.6	2.9	4.4	0.7
El Salvador	12	8	12	4	8	4	6	16	6	76	1	-2.7	1.6	2.3	-0.3
Chile	12	8	4	2	8	8	12	12	6	72	2.2	5.2	3.6	5.1	1.6
Bolivia	16	8	12	0	4	2	9	16	2	69	0.3	4.5	-0.8	-8	-2
Argentina	8	8	8	2	8	6	9	16	2	67	-0.4	2.1	-1.4	-6.9	-1.5
Colombia	4	8	8	2	6	8	9	16	6	67	3.7	12	4.8	-0.2	1.2
Mexico	12	6	12	2	4	6	9	12	4	67	1.2	3.5	1.3	1.8	1.2
Uruguay	8	6	8	4	8	4	9	12	4	63	0.6	3.1	0	-5.9	-0.4
Venezuela	0	6	16	4	4	6	6	12	2	56	1.5	0.1	2.1	-3.9	-1.3
Average	**10.0**	**7.2**	**10.8**	**3.0**	**6.6**	**5.4**	**8.4**	**14.0**	**3.8**	**69.2**	**1.6**	**4.5**	**1.4**	**-1.1**	**-0.2**
Other African Nations Ranked by Total Score															
	IM	**EX**	**TAX**	**INV**	**FDI**	**BUS**	**P/I**	**FX**	**LAB**	**Total**	**gGDP**	**gEX**	**gIND**	**gINV**	**gGNP/Cap**
Morocco	8	8	0	6	8	8	9	12	6	65	4.2	5.9	3	2.5	1.6
Ghana	8	8	8	8	6	4	6	8	0	56	3.2	5.2	3.7	9	-0.3
Senegal	12	8	4	8	8	6	3	0	4	53	3.1	5.6	3.8	3.7	0.1
Uganda	12	4	8	4	8	4	3	8	2	53	2.5	2.3	4.6	11.8	-2.4
Kenya	0	8	4	6	8	4	9	8	4	51	4.2	2.9	4	0.6	0.3
Cote D'Ivoire	12	6	4	4	8	0	3	8	0	45	-0.5	4.5	-1.6	-1.7	-4.6
Bangladesh	0	6	4	4	6	0	3	8	0	31	4.3	7.2	4.9	-1	1.9
Zaire	4	6	0	4	4	0	3	8	2	31	1.8	-11.2	2.3	-4.5	-2.2
Average	**8.3**	**7.7**	**5.4**	**5.9**	**7.8**	**3.9**	**5.9**	**9.3**	**2.7**	**56.8**	**3.0**	**3.4**	**3.3**	**1.9**	**-0.6**

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Regional Cluster Comparisons

	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	Total	gGDP	gEX	gIND	gINV	gGNP/Cap
Selected Countries in East/Southeast Asia Ranked By Total Score															
Singapore	16	8	12	6	8	8	12	12	8	90	6.6	8.9	5.8	4.3	5.3
Hong Kong	16	8	16	2	6	8	12	12	8	88	6.9	4.4	N/A	4.4	5.6
Korea	16	8	12	8	8	8	9	8	4	81	9.6	12.2	12.1	13	8.7
Taiwan	16	8	12	6	4	8	12	8	6	80	8	13.4	N/A	5.5	6.5
Japan	12	6	8	6	8	8	12	16	2	78	4.2	3.9	4.9	6	3.6
Malaysia	12	6	8	8	6	4	9	12	8	73	5.7	10.9	7.7	4.4	2.9
Thailand	8	6	12	8	6	4	6	12	4	66	2.9	14.4	9.6	9.8	5.9
Average	**13.7**	**7.1**	**11.4**	**6.3**	**6.6**	**6.9**	**10.3**	**11.4**	**5.7**	**79.4**	**6.3**	**9.7**	**5.7**	**6.8**	**5.5**
Selected Countries in the Middle East															
	IM	**EX**	**TAX**	**INV**	**FDI**	**BUS**	**P/I**	**FX**	**LAB**	**Total**	**gGDP**	**gEX**	**gIND**	**gINV**	**gGNP/Cap**
Saudi Arabia	16	8	12	4	8	4	9	8	8	77	-0.2	-4.2	-2.9	N/A	-3.4
Egypt	8	4	4	6	4	0	3	8	4	41	4.8	2.8	4.2	-0.1	1.9
Average	**12.0**	**6.0**	**8.0**	**5.0**	**6.0**	**2.0**	**6.0**	**8.0**	**6.0**	**59.0**	**2.3**	**-0.7**	**0.7**	**-0.1**	**-0.8**
Selected OECD Countries Ranked by Total Score															
	IM	**EX**	**TAX**	**INV**	**FDI**	**BUS**	**P/I**	**FX**	**LAB**	**Total**	**gGDP**	**gEX**	**gIND**	**gINV**	**gGNP/Cap**
U.S.A.	16	6	12	4	8	8	12	16	6	88	2.6	4	2.9	3.3	1.7
U.K.	16	6	8	4	8	8	12	16	4	82	2.9	2.6	1.3	5.3	2.6
New Zealand	16	8	4	2	8	8	12	16	6	80	1.5	3.6	1.3	2.9	0.7
Japan	12	6	8	6	8	8	12	16	2	78	4.2	3.9	4.9	6	3.6
Australia	12	6	4	4	8	8	12	16	6	76	3.1	4.6	3	2.2	1.6
Germany	16	8	0	4	8	8	12	16	4	76	2.3	4.1	0.9	2.6	2.2
Ireland	16	8	0	4	8	8	12	16	4	76	3.5	7.1	N/A	0	3.3
Norway	16	8	4	0	8	8	12	16	4	76	2.7	7.4	5.2	-0.2	2.3
Canada	8	8	8	4	6	8	12	16	4	74	3.1	5.7	3	4.5	2
Netherlands	16	8	0	2	8	8	12	16	4	74	2.1	4.4	N/A	2.4	1.6
Average	**14.4**	**7.2**	**4.8**	**3.4**	**7.8**	**8.0**	**12.0**	**16.0**	**4.4**	**78.0**	**2.8**	**4.7**	**2.8**	**2.9**	**2.2**

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ANNEX B

COMMERCIAL POLICY SCORES FOR SELECTED COUNTRIES

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Commercial Policy Scores for Selected Countries

Country	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	Total	gGDP	gEX	gIND	gINV	gGNP/Cap
Singa ore	16	8	12	6	8	8	12	12	8	90	6.6	8.9	5.8	4.3	5.3
Hong Kong	16	8	16	2	6	8	12	12	8	88	6.9	4.4	N/A	4.4	5.6
U.S.A.	16	6	12	4	8	8	12	16	6	88	2.6	4	2.9	3.3	1.7
U.K.	16	6	8	4	8	8	12	16	4	82	2.9	2.6	1.3	5.3	2.6
Korea	16	8	12	8	8	8	9	8	4	81	9.6	12	12.1	13	8.7
New Zealand	16	8	4	2	8	8	12	16	6	80	1.5	3.6	1.3	2.9	0.7
Taiwan	16	8	12	6	4	8	12	8	6	80	8	13	N/A	5.5	6.5
Japan	12	6	8	6	8	8	12	16	2	78	4.2	3.9	4.9	6	3.6
Paraguay	16	6	16	4	8	4	6	16	2	78	2.7	12	0.2	0.3	-0.8
Costa Rica	12	8	12	6	8	6	9	12	4	77	3.1	4.6	2.9	4.4	0.7
Saudi Arabia	16	8	12	4	8	4	9	8	8	77	-0.2	-4.2	-2.9	N/A	-3.4
Australia	12	6	4	4	8	8	12	16	6	76	3.1	4.6	3	2.2	1.6
El Salvador	12	8	12	4	8	4	6	16	6	76	1	-2.7	1.6	2.3	-0.3
Germany	16	8	0	4	8	8	12	16	4	76	2.3	4.1	0.9	2.6	2.2
Ireland	16	8	0	4	8	8	12	16	4	76	3.5	7.1	N/A	0	3.3
Jamaica	12	8	12	4	8	6	6	16	4	76	1.6	0.8	2.6	3.6	0
Norway	16	8	4	0	8	8	12	16	4	76	2.7	7.4	5.2	-0.2	2.3
Canada	8	8	8	4	6	8	12	16	4	74	3.1	6.7	3	4.5	2
Haiti	**12**	**6**	**16**	**4**	**8**	**4**	**6**	**12**	**6**	**74**	**N/A**	**N/A**	**N/A**	**N/A**	**-2.4**
Netherlands	16	8	0	2	8	8	12	16	4	74	2.1	4.4	N/A	2.4	1.6
Malaysia	12	6	8	8	6	4	9	12	8	73	5.7	11	7.7	4.4	2.9
Chile	12	8	4	2	8	8	12	12	6	72	2.2	5.2	3.6	5.1	1.6
Zambia	**12**	**6**	**8**	**8**	**4**	**4**	**12**	**16**	**2**	**72**	**0.8**	**-3.2**	**0.9**	**0.2**	**N/A**
Malav	**8**	**6**	**12**	**8**	**8**	**6**	**6**	**12**	**4**	**70**	**2.9**	**5.8**	**3.5**	**-0.9**	**-0.1**
Tanzania	**8**	**6**	**12**	**8**	**8**	**4**	**6**	**12**	**6**	**70**	**3.1**	**-1.2**	**2.2**	**5.6**	**0**
Bolivia	16	8	12	0	4	2	9	16	2	69	0.3	4.5	-0.8	-8	-2
Argentina	8	8	8	2	8	6	9	16	2	67	-0.4	2.1	-1.4	-6.9	-1.5
Colombia	4	8	8	2	6	8	9	16	6	67	3.7	12	4.8	-0.2	1.2
Mexico	12	6	12	2	4	6	9	12	4	67	1.2	3.5	1.3	1.8	1.2
Namibia	**4**	**8**	**4**	**8**	**8**	**6**	**9**	**12**	**8**	**67**	**1**	**N/A**	**-1.1**	**-6.2**	**-1**
Thailand	8	6	12	8	6	4	6	12	4	66	2.9	14	9.6	9.8	5.9
Botswana	**4**	**6**	**8**	**6**	**6**	**8**	**9**	**12**	**6**	**65**	**10.1**	**N/A**	**10.1**	**N/A**	**6.1**
Lesotho	**4**	**6**	**8**	**6**	**8**	**6**	**9**	**12**	**6**	**65**	**5.4**	**N/A**	**8.5**	**9**	**-0.5**
Morocco	8	8	0	6	8	8	9	12	6	65	4.2	5.9	3	2.5	1.6
Cyprus	8	6	12	6	6	6	6	12	2	64	5.8	6.6	N/A	N/A	4.7
S. Africa	**4**	**6**	**4**	**6**	**6**	**8**	**12**	**12**	**6**	**64**	**1.1**	**0.7**	**-0.1**	**-4.4**	**0.1**
Uruguay	8	6	8	4	8	4	9	12	4	63	0.6	3.1	0	-5.9	-0.4
Barbados	16	8	4	8	8	8	6	0	4	62	N/A	N/A	N/A	N/A	N/A
Zimbabwe	**16**	**6**	**4**	**6**	**4**	**4**	**6**	**8**	**6**	**60**	**2.3**	**-0.8**	**1.9**	**1.8**	**-0.9**
Indonesia	4	6	12	2	6	4	9	12	4	59	5.6	4.5	5.9	6.9	3.9
Tunisia	4	8	8	4	8	4	9	12	2	59	3.7	5.6	2.9	-1.1	1.1
Philippines	4	6	12	2	4	2	9	12	6	57	1.1	3.3	-0.5	-1.8	-1.2
Swaziland	**4**	**6**	**4**	**8**	**6**	**4**	**9**	**12**	**4**	**57**	**N/A**	**N/A**	**N/A**	**N/A**	**1.6**
Turkey	4	8	0	6	8	6	9	12	4	57	5	7.2	6	2.8	2.9
Ghana	8	8	8	8	6	4	6	8	0	56	3.2	5.2	3.7	9	-0.3
Hungary	12	6	4	4	8	6	6	8	2	56	0.6	2.2	-1.6	-1.6	0.7
Venezuela	0	6	16	4	4	6	6	12	2	56	1.5	0.1	2.1	-3.9	-1.3
PNG	16	6	8	4	4	4	3	8	2	55	2	6.8	2.4	-0.9	-0.6
DR	4	6	12	0	8	4	6	8	6	54	1.7	-1.5	1.6	4.5	-0.2

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Commercial Policy Scores for Selected Countries

Country	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	Total	gGDP	gEX	gIND	gINV	gGNP/Cap
Guatemala	12	6	12	6	4	0	6	4	4	54	1.1	-0.7	-0.2	-0.7	-1.8
Mozambiq.	4	6	4	8	6	0	9	12	4	53	0.4	N/A	-0.4	3.1	-3.6
Senegal	12	8	4	8	8	6	3	0	4	53	3.1	5.6	3.8	3.7	0.1
Uganda	12	4	8	4	8	4	3	8	2	53	2.5	2.3	4.6	11.9	-2.4
Sri Lanka	8	6	4	8	8	4	6	4	4	52	4	6.3	4.7	1.2	2.5
Kenya	0	8	4	6	8	4	9	8	4	51	4.2	2.9	4	0.6	0.3
Cambodia	8	4	8	4	4	6	6	4	4	48	N/A	N/A	N/A	N/A	N/A
Cote D'Ivoire	12	6	4	4	8	0	3	8	0	45	-0.5	4.5	-1.6	-1.7	-4.6
Pakistan	0	8	4	6	8	4	3	8	4	45	6.1	9.9	7.5	5.6	3.2
India	0	8	4	4	6	0	6	12	4	44	5.4	7.4	6.3	5.1	3.2
Angola	8	2	8	4	4	0	3	8	4	41	N/A	N/A	N/A	N/A	N/A
Egypt	8	4	4	6	4	0	3	8	4	41	4.8	2.8	4.2	-0.1	1.9
Cameroon	12	8	4	4	4	4	3	0	0	39	1.4	-1.3	2.2	-5.4	-1
China (PRC)	8	4	12	4	4	2	3	0	0	37	9.4	12	11	12.4	7.8
Brazil	0	6	8	4	2	2	3	8	2	35	2.5	4.3	1.7	-0.1	0.5
Bangladesh	0	6	4	4	6	0	3	8	0	31	4.3	7.2	4.9	-1	1.9
Zaire	4	6	0	4	4	0	3	8	2	31	1.8	-11	2.3	-4.5	-2.2

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ANNEX C

COMMERCIAL POLICY SCORING SYSTEM

COMMERCIAL POLICY RESEARCH METHODOLOGY

SRI has developed a methodology to allow cross-country comparisons of overall commercial policy regimes through summary country policy scores, which describe the degree to which commercial policies are business-friendly as well as competition-based. One can easily assess the comparative position of a country's commercial policies vis a vis its global or regional competitors. SRI designed a rating system which assigns summary policy scores to each nation. These scores describe the degree to which the commercial policy regime of a country is business-friendly and competition based.

Under this system, both quantitative and qualitative information is converted into a set of policy scores. For each policy variable, a numerical value -- variable score (VS) -- is assigned to a specific policy condition. For variables that are not strictly quantifiable, other means of measurements are utilized. For example, duty exemptions for machinery, raw materials, and other production imported inputs are an important factor in attracting investment. The variable "Duty Exemptions" is assigned a VS of "1" if duty exemptions exist, and "0" if otherwise. The scoring system is describe in detail as an appendix to this report.

The scores of the policy variables within the same policy category were then summed and harmonized according to a conversion scale to yield Policy Category Scores (PCSs), which fall into a range of 1-4. This is to ensure that the scoring system will not be biased towards the policy categories in which more data and information are available. The PCSs are then given weights which reflect their relative importance in forming the overall commercial policy environment (see the appendix for the weights assigned to each policy category).

The Total Score (TS) for each country was obtained by summing the weighted scores from all the policy categories. The maximum achievable TS for a country is 100. TSs can be compared across countries as a summary description of the commercial policy environment. In addition, comparisons and benchmarking can be conducted in each policy category by comparing the Policy Category Scores across all countries or groups of countries. Perhaps more importantly, the correlation between the Total Scores, Policy Category Scores, and economic performance across countries can be observed and analyzed.

It should be noted that this scoring system is designed to indicate attractiveness to investors, and not necessarily policy mixes that would be recommended from a purely economic standpoint. For example, for certain policy variables, higher scores are assigned to countries that have adopted special incentives specifically to encourage investment or trade, such as income tax exemptions for exporters, or income tax holidays for investors. In many countries, such special incentives are often provided to investors and exporters to counteract the restrictive commercial policies in other areas. Thus, economies like Hong Kong whose laissez faire policy practices most closely resemble the textbook free market approach only achieved a score of 88.

COMMERCIAL POLICY SCORING SYSTEM

1. *IMPORT POLICIES*

	POLICY VARIABLE	RANGE	SCORE
A. Mean Tariff:	(TWTMEAN)	$0 \leq \% \leq 15$	4
		$15 < \% \leq 25$	3
		$25 < \% \leq 30$	2
		$30 < \% \leq 40$	1
		$40 < \%$	0

	POLICY VARIABLE	RANGE	SCORE
B. Tariff Variance:	(TWTMAX)	$0 \leq \% \leq 5$	2
	(TWTMIN)	$5 < \% \leq 10$	1
		$10 < \%$	0

	POLICY VARIABLE	RANGE	SCORE
C. Non-tariff Barriers:	(ALLNTBS)	$0 \leq \% \leq 15$	4
		$15 < \% \leq 25$	3
		$25 < \% \leq 35$	2
		$35 < \% \leq 50$	1
		$50 < \%$	0

TOTAL SCORE

(________)

Total Score	Raw Score	Grade
(9 - 10)	4	A
(7 - 8)	3	B
(5 - 6)	2	C
(3 - 4)	1	D
(0 - 2)	0	E

Weight for this category: 4

2. Export Policies

		POLICY VARIABLE	RANGE	SCORE
A.	Export Taxes:	(XTAXES)	No	1
			Yes	0

		POLICY VARIABLE	RANGE	SCORE
B.	Export Restrictions:	(XRESTR)	No	3
			Minimal	2
			Selective	1
			Extensive	0

		POLICY VARIABLE	RANGE	SCORE
C.	Export Income Tax Exemption:	(XYTAXX)	Yes	1
			No	0

		POLICY VARIABLE	RANGE	SCORE
D.	Duty free imports:	(DUTYFREEM)	Yes	1
			No	0

Total Score	Raw Score	Grade
(5 - 6)	4	A
(3 - 4)	3	B
(2)	2	C
(1)	1	D
(0)	0	E

Weight for this category: 2

3. Tax Policies

		POLICY VARIABLE	RANGE	SCORE
A.	Minimum Corporate Income Tax Rates:	(CORPTAXL)	$0 \leq \% \leq 20$	3
			$20 < \% \leq 30$	2
			$30 < \% \leq 40$	1
			$40 < \%$	0

		POLICY VARIABLE	RANGE	SCORE
B.	Top Corporate Income Tax Rates:	(CORPTAXH)	$0 \leq \% \leq 20$	3
			$20 < \% \leq 35$	2
			$35 < \% \leq 45$	1
			$45 < \%$	0

		POLICY VARIABLE	RANGE	SCORE
C.	Minimum Personal Income Tax Rates:	(PYTAXL)	$0 \leq \% \leq 10$	3
			$10 < \% \leq 20$	2
			$20 < \% \leq 30$	1
			$30 < \%$	0

		POLICY VARIABLE	RANGE	SCORE
D.	Top Personal Income Tax Rates:	(PYTAXH)	$0 \leq \% \leq 35$	3
			$35 < \% \leq 45$	2
			$45 < \% \leq 50$	1
			$50 < \%$	0

		POLICY VARIABLE	RANGE	SCORE
E.	Sales Tax + VAT Rates	(SALESTAX + VAT)	0%	3
			$0 < \% \leq 10$	2
			$10 < \% \leq 15$	1
			$15 < \%$	0

Total Score	Raw Score	Grade
(13 - 15)	4	A
(11 - 12)	3	B
(8 - 10)	2	C
(5 - 7)	1	D
(0 - 4)	0	E

Weight for this category: 4

4. Domestic Investment Incentives

		POLICY VARIABLE	RANGE	SCORE
A.	Income Tax Holidays:	(YTAXHOL)	Yes	1
			No	0

		POLICY VARIABLE	RANGE	SCORE
B.	Duty Exemptions:	(DUTYEXEMP)	Yes	1
			No	0

		POLICY VARIABLE	RANGE	SCORE
C.	Other Incentives: Accelerated Depreciation, Investment Allowance, and R&D Incentives:	(ACCDEP, IALLOW, RDINCENT)	Two or more	2
			One	1
			None	0

Total Score	Raw Score	Grade
4	4	A
3	3	B
2	2	C
1	1	D
0	0	E

Weight for this category: 2

5. Foreign Investment Restrictions

		POLICY VARIABLE	RANGE	SCORE
A.	**FDI Restriction:**	(FDIRESTR + EQURESTR)	Standard	2
			Moderate	1
			Restrictive	0

		POLICY VARIABLE	RANGE	SCORE
B.	**Expatriate Employment**	(EXPATRTR)	Standard	2
			Moderate	1
			Restrictive	0

		POLICY VARIABLE	RANGE	SCORE
C.	**Differential Treatment:**	(DIFFTREAT)	No	1
			Yes	0

		POLICY VARIABLE	RANGE	SCORE
D.	**Dispute Settlement:**	(DISPTRMT)	ICSID	2
			ICSIDNR	1
			-	0

Total Score	Raw Score	Grade
(6 - 7)	4	A
(5)	3	B
(3 - 4)	2	C
(1 - 2)	1	D
(0)	0	E

Weight for this category: 2

6. Business Start-up Procedures

		POLICY VARIABLE	RANGE	SCORE
A.	Business licensing, registration and approvals:	(LICENSING, APPROVALS)	Efficient	4
			Relative Problems	2
			Onerous	0

Weight for this category: 2

7. *Pricing and Interest Policies*

		POLICY VARIABLE	RANGE	SCORE
A.	Price Control:	(PRICECONT)	None	2
			Selective	1
			Extensive	0

		POLICY VARIABLE	RANGE	SCORE
B.	Price System:	(PRICESYST)	Market	2
			Mixed	1
			Administered	0

		POLICY VARIABLE	RANGE	SCORE
C.	Interest Control:	(INTCONTR)	No	1
			Yes	0

		POLICY VARIABLE	RANGE	SCORE
D.	Credit Allocation:	(CREDITALL)	Market	2
			Mixed	1
			Administered	0

Total Score	Raw Score	Grade
(7)	4	A
(5 - 6)	3	B
(3 - 4)	2	C
(1 - 2)	1	D
(0)	0	E

Weight for this category: 3

8. *Foreign Exchange Policies*

		POLICY VARIABLE	RANGE	SCORE
A.	Exchange rate System:	(FXSYST)	Free Float	3
			EMS	2
			Pegged to Basket of Indicators	2
			Pegged to Basket of Currencies	2
			Managed Float	1
			Pegged to US$, FF, or SDR	0

		POLICY VARIABLE	RANGE	SCORE
B.	Foreign Exchange level:	(FXLEVEL)	Market	1
			Overvalued	0

		POLICY VARIABLE	RANGE	SCORE
C.	Foreign Exchange Restriction:	(FXRESTR)	None	3
			Minimal	2
			Moderate	1
			Restrictive/Prohibitive	0

		POLICY VARIABLE	RANGE	SCORE
D.	Profit Repatriation Restriction:	(PROFRESTR)	None and Minimal	2
			Moderate	1
			Restrictive/Prohibitive	0

		POLICY VARIABLE	RANGE	SCORE
E.	Capital Repatriation Restriction:	(CAPRESTR)	None and Minimal	2
			Moderate	1
			Restrictive/Prohibitive	0

Total Score	Raw Score	Grade
(10 - 11)	4	A
(8 - 9)	3	B
(6 - 7)	2	C
(4 - 5)	1	D
(0 - 3))	0	E

Weight for this category: 4

10. Suggested Weighting for Policy Categories

	Score Range	Weight	Maximum Weighted Score
Import Policies	0 - 4	4	16
Export Policies	0 - 4	2	8
Tax Policies	0 - 4	4	16
Investment Incentives	0 - 4	2	8
FDI Restrictions	0 - 4	2	8
Business Start-Up Procedures	0 - 4	2	8
Pricing/Interest Policies	0 - 4	3	12
Foreign Exchange Policies	0 - 4	4	16
Labor	0 - 4	2	8
			100

9. Labor Policies

	POLICY VARIABLE	RANGE	SCORE
A. Hiring/Firing Flexibility:	(HIFIFLEX)	Flexible	2
		Moderate	1
		Inflexible	0

	POLICY VARIABLE	RANGE	SCORE
B. Minimum Wage:	(MINWAGE)	No	1
		Yes	0

	POLICY VARIABLE	RANGE	SCORE
C. Wage Controls:	(WAGECONTR)	No	1
		Yes	0

Total Score	Raw Score	Grade
4	4	A
3	3	B
2	2	C
1	1	D
0	0	E

Weight for this category: 2