SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

ECONOMIC IMPACT ASSESSMENT STUDY

BACKGROUND STUDY

The Manufacturing Sector in Southern Africa

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The Services Group

TSG

for

Regional Center for Southern Africa (RCSA)

January 8, 2004

Contract No. PCE-I-00-98-00017-00 TO823

Background Study

THE MANUFACTURING SECTOR IN SOUTHERN AFRICA

1 INTRODUCTION

South Africa remains the powerhouse of the region. It is the largest economy in SADC despite the fact that considerable economic growth is occurring in many regional economies, although off a low base. The evident concentration of industrial activity in only a small number of SADC countries, notably South Africa and Zimbabwe (at least prior to recent political and economic developments in the latter) is due to a number of factors. These include market size, effective demand, infrastructure and telecommunications, geographical location of important services, as well as the prevalent macroeconomic and political environment. Evidence from across the region suggests that manufacturing sector investment has flourished in countries with relative macroeconomic and political stability and with environments that are conducive to investment initiatives[1]. Furthermore, industrial momentum plays a huge role in directing further industrial activity. Indeed, SADC as a region faces the huge challenge of providing an environment that is conducive to boosting industrial activity in many of the peripheral SADC countries.

With the exception of Lesotho, Malawi, Mauritius and the Seychelles, the majority of the countries covered in this study remain heavily reliant on agricultural output and mining activity, often with only a modest industrial/manufacturing base. Furthermore, mining plays a crucial role in terms of not only its contribution to GDP, but also as a basis for local industrial activity in the SADC region. Besides mining and related activities, the processing of natural resources (e.g. wood products) and agricultural output (e.g. fish, livestock, tea, tobacco) dominates industrial activity in SADC[2]. In South Africa and Zimbabwe, and increasingly in surrounding countries such as Botswana, Lesotho and Mauritius, the industrial base is either already diversified or in the process of diversification. However, the existence of continued protection in certain subsectors, for example sugar milling, has moderated the emergence of downstream industrialization that could improve further government aims of economic diversification.

Most of the countries covered in this report have introduced a range of investment incentives aimed at boosting their manufacturing base, particularly with regards to export potential. This is particularly the case when considering the resource dependent economies as they try to develop a diversified industrial base to boost overall economic activity. Furthermore, the evidence implies that within the manufacturing sector, certain subsectors have dominated performance as producers have taken advantage of local investment incentives combined with international initiatives[3] (e.g. SADC Trade Protocol, EU trade agreements and AGOA

[1] IMF (2002b).
[2] SADC Annual Report (2002).
[3] Government-led incentives have not always been as successful as governments across the region had hoped (e.g. clothing and textile related incentives in South Africa). Some incentives however have pushed industries (e.g. textile industry in Namibia) well above government expectations.

amongst others). Mauritius is a good example of successful diversification. In 1970, agriculture (predominantly sugar) contributed 23% to GDP. By 1999, clothing exports accounted for 25% of GDP as government incentives (in particular the EPZ facility) fueled investment into the clothing and textile sectors[4].

2 MANUFACTURING SECTOR OVERVIEW

South Africa's industrial performance during the late 1980s and early 1990s was constrained by both external pressures towards the political and economic isolation of the country and continued internal structural inadequacies. In the sanctions era, manufacturing policies moved further towards import substitution and self-sufficiency in strategic products leading to huge government investments in, amongst others, oil-from-coal and weapons industries. High levels of protection remained largely in place until the early 1990s. Weak competition laws, powerful industrial interests and various constraints on entrepreneurial activities, combined with limited foreign investor interest, led to rising levels of concentration in the ownership and structure of the manufacturing sector. In addition, public investment in infrastructure began to fall. The government recognized the structural difficulties increasingly prevalent in the South African economy and introduced the General Export Incentive Scheme (GEIS) in 1990 to encourage processed and manufactured exports through a direct subsidy, as well as the Regional Industrial Development Programme (RIDP) aimed at decentralizing production. However the schemes were largely fragmented and continued to foster special interests in the economy.

By 1994 there was a general government consensus that the country needed a more externally focused and value adding strategy for economic transformation, growth and development. Trade liberalization gained momentum, with the South African government exceeding the speed required under its WTO obligations. Furthermore, the government introduced policy initiatives, some specifically focused on the manufacturing sector, in order to bolster South Africa's growth rate, employment numbers and overall international competitiveness. These included trade policy reform, changes to the Competition Policy, geographic incentives (SDIs, IDZs), and labor policy reform. The adoption of the Growth, Employment and Redistribution (GEAR) strategy in 1996 required government commitment to "trade and industrial policies [which] aim to promote an outward oriented industrial economy, integrated into the regional and global environment and fully responsive to market trends and opportunities"[5].

Despite these initiatives, the South African manufacturing sector has grown relatively slowly since 1994. Output grew by an average 1.8% per annum from 1994-1999. Three groups of sectors have experienced particularly slow growth: basic wage goods sectors (clothing, food and footwear), resource intensive sectors (metal products) and capital goods and equipment sectors. Other sectors have performed significantly better, including the automotive industry, chemicals and radio, television and communications equipment. Furthermore, the expansion

[4] See Flatters (2002b).
[5] GEAR, quoted in Jenkins (2002).

of the automotive sector has developed complementary local industries, such as leather, glass, rubber and platinum group metals[6].

Angola's manufacturing sector has been devastated by decades of civil war. By 2000, World Bank statistics suggested that the manufacturing sector accounted for less than 3% of the country's GDP. The oil industry remains the backbone of the economy, sourcing the majority of foreign exchange, with oil production and supporting activities accounting for around 45% of GDP. More recently, investment in manufacturing related projects has gained momentum, although significant investment is required to return the manufacturing sector to pre-conflict levels. Existing manufacturing includes the processing of local agricultural raw materials (including fish products, flour, bread, pasta, salt, beverages and tobacco), metalworking, cement, textiles, pharmaceutical production and electric products. Several new commercial investment developments have been announced recently, including the sale of 70% of the state owned sugar company, the rehabilitation of a disused brewery, and the development of a new drinks plant in the country[7].

Originally, **Botswana's** manufacturing sector consisted of the beef industry and a few import substituting industries. In an effort to broaden the production base and encourage labor market industries, the authorities introduced various incentive schemes in the 1980s aiming to promote export industries and labor intensive manufacturing activities. The result was an increase in investment in manufacturing with exports of non traditional goods gaining ground (e.g. textiles and motor vehicles, at least until the closure of the motor vehicle plant in 2000). Most of this growth in manufacturing was however a consequence of increased investment and not of productivity gains. Exports of manufactured products during the 1990s consisted mainly of vehicles, textiles and beef. Growth in the manufacturing sector slowed considerably during the early 1990s, although output recovered in the latter half of the decade. More recently, the manufacturing sector has suffered following a number of high profile collapses, most notably the closure of the country's main automobile assembly plant in 2000.

The **Democratic Republic of Congo's** manufacturing sector has suffered tremendously during the armed conflict of recent years. Significant investment and restructuring is required to rebuild manufacturing sector potential. Little data is available from the mid-1990s onwards, although SADC data suggests that the manufacturing sector's share of GDP had fallen from 14.6% in 1990 to 4.7% in 2000.

Lesotho's manufacturing sector has grown from strength to strength over recent years, with SADC data suggesting the manufacturing sector was the country's top performer during 2000 with a growth rate of 9%. Lesotho has obtained preferential treatment in the EU, the US and Japan, resulting in a significant increase in foreign firms investing in the country in order to take advantage of these preferential trade agreements. At present, almost one third of total value added in manufacturing originates in the clothing and textile industries[8]; with this mainly clothing production using imported cloth from the Far East. As a result, Lesotho's

[6] SADC, Annual Report (2002).
[7] EIU Country Report, May 2002.
[8] World Bank, 2002.

manufacturing sector looks set to continue to exhibit sustained positive growth over the coming years.

Malawi's manufacturing sector is largely resource based and focused on supplying domestic demand. Performance during the 1990s was largely static, despite government moves to attract foreign investment through a range of incentives, including industrial estates and EPZs. Data for 2000 suggest that these incentives are slowly beginning to pay off, with exports of manufactured goods rising by 10% in 2000. There were around 100 manufacturing and industrial companies in Malawi in 2000, although there is a highly concentrated ownership structure. Manufacturing production focuses on agricultural processing, textiles, clothing and footwear production, building and construction materials[9]. Furthermore, the textile industry has benefited from AGOA related investments, which have boosted output volumes and textile exports. Continued gains in the textile sector are anticipated as investors look to take further advantage of AGOA benefits.

The past decade has seen the manufacturing sector spearhead economic growth in **Mauritius**. Of significant importance has been the continued growth of the country's EPZ facility (see section 4.12 below), which currently employs around 30% of the country's workforce and averaged a growth rate of 5.7% between 1995 and 1999. By 2000, the manufacturing sector accounted for 25% of GDP, with the EPZ accounting for roughly half of this. In 2000, there were a total of 523 firms in the EPZ, 287 of these textile related[10]. While the clothing and textile industries dominate manufacturing in Mauritius, the current industrial strategy is looking towards diversification of the industrial base, with information technology, printing and publishing, electronics, precision engineering, jewelry, pharmaceuticals and health care, the agro-based industry, and high quality textiles and apparel having been identified as priority areas.

Mozambique's economy is essentially agriculture based, with official statistics quantifying agriculture's contribution to GDP considered to be significantly understating actual levels. Manufacturing sector production has increased significantly since 1995, largely due to the government's comprehensive privatization program. SADC data notes that manufacturing output increased by an annual average of 10.6% in the latter half of the 1990s, the most dynamic sectors being construction materials, agricultural processing, beverages, tobacco and consumer goods. A RPED/World Bank survey of the Mozambican manufacturing sector (1999) illustrated the changing structure of the manufacturing sector. The data show that during the 1990s, the food and minerals sectors experienced the largest change in their shares of manufacturing output. In 1997, food, drink and tobacco accounted for 61% of manufacturing output (44% in 1991), with chemicals and minerals coming in at 13% and 7% respectively in 1991. Clothing and textiles have seen a significant reduction in their share of manufacturing output to 6% in 1997 from 18% in 1991. Food processing continues to account for around one third of total industrial production. The EIU Country Report (July 2002) records manufacturing sector growth for 2001 at a solid 17%.

Namibia's manufacturing sector is relatively small in comparison to other sectors in the economy and contributes little to GDP. As a result, the government has looked towards

[9] EIU Country Profile, 2001.
[10] IMF (2002c).

investment programs aimed at achieving greater diversification in the manufacturing sector. These programs include the Industrial Development Program (establishment of industrial parks), the Namibian EPZ program (launched in Walvis Bay in 1995) and the Trade Promotion Program (looking to boost export growth internationally and more specifically, intra-regionally). Despite the range of initiatives introduced, the manufacturing industry failed to increase significantly during the latter half of the 1990s, although output in the sector grew by 4.5% in 2000, with current developments suggesting the likely continuation of improved growth over the coming years. OECD data suggests that the manufacturing sector's contribution to growth remains unstable given that almost 80% of the sector is engaged in food related industries (food processing, fish processing, and brewing). However, encouraging growth in the non food processing subsectors in 2000 (including metal fabrication, fish can production, furniture and wood products, chemicals, plastic packaging, clothing and leather products) improved the overall performance of the manufacturing sector significantly. The EIU Country Report for Namibia (May 2002) estimates manufacturing sector growth for 2001 at 12.3% as meat processing gained ground. More recently, the textile industry has received a further boost (as a result of government incentives), with the Ramatex Bhd. textile plant (due for completion end 2002, but operational from early 2002) and other related investments expected to significantly increase textile output and employment numbers in the subsector[11].

The 1990s saw an improvement in manufacturing activity in the **Seychelles**, although this was from an extremely low base. The country focuses on light and non polluting manufacturing, based on import substitution, exports and job creation. One company, Indian Ocean Tuna, has accounted for a significant portion of the country's improved performance (in 1999, production of canned tuna at Indian Ocean increased by 75%, while the total value of exports rose by 28%)[12]. Manufacturing activity is also evident in the jewelry, boat building, printing, furniture, cigarette, and beverages sectors, although foreign exchange shortages[13] have hampered developments in the manufacturing sector.

The manufacturing sector remains a major contributor to GDP in **Swaziland**. There are four major export industries specializing in the processing of agricultural and forestry products, with improved performance in manufacturing supported by export growth, particularly of zippers, canned fruit products, cotton yarn, wood and wood products, and wood pulp. Growth potential continues to improve, particularly in light of AGOA, with investments on the rise as producers look to take advantage of investment initiatives and preferential trade agreements. The manufacturing sector is a major employer, currently providing jobs for roughly 26% of the country's workforce.

Despite positive growth in the manufacturing sector during recent years, manufacturing accounts for a relatively small portion of **Tanzania's** GDP (8% in 2000). The early 1990s saw the introduction of an extensive restructuring and privatization program in the manufacturing sector, with the result that this sector is increasingly gaining importance in terms of overall economic activity. By the end of the 1990s, Tanzania's manufacturing sector had become the largest urban employer in the country, employing nearly half of the country's

[11] See Flatters (2002b).
[12] IMF (2000).
[13] Foreign exchange shortages are the result of a significantly overvalued fixed exchange rate.

monthly wage earners. In addition, the government has introduced the Sustainable Industrial Development Policy that aims to boost the contribution of the manufacturing sector to GDP to 40% by 2025. Manufacturing activities include food, beverages, tobacco processing, textiles and clothing, leather and footwear, wood and wood products, paper and paper products, chemicals, petroleum, rubber and plastics, machinery and equipment, metal products and non metallic mineral products.

The manufacturing sector accounts for less than 10% of GDP in **Uganda**, although this small percentage belies the growth rates recorded over recent years and its almost doubling in importance in a mere decade. According to OECD data, the manufacturing sector grew at 6% in 1999/2000 versus a stronger 9.5% growth in 1998/1999. Most manufacturing is based on the processing of agricultural commodities, including cotton, coffee, sugar and food crops. Large scale industries include textiles, tobacco, beverages, wood and paper products, construction materials and chemicals. The clothing industry, sugar and maize mills, furniture and general workshops dominate small scale manufacturing. The table below illustrates the growth in manufacturing since the mid-1990s.

Table 1 – Ugandan Manufacturing Production (1987 =100)

	% Weighting	1995	1996	1997	1998	1999
Food processing	20.7	361.8	450.4	449.5	479.7	523.2
Drinks & tobacco	26.1	308.5	370.7	398.5	540.9	469.1
Textiles & clothing	16.3	62.7	47.7	115.4	117.7	118.4
Leather & footwear	2.3	164.4	287.9	158.9	234.4	283.7
Timber, paper & printing	9.0	383.1	554.1	526.0	554.1	653.3
Chemicals, paint & soap	12.3	512.7	509.8	776.4	929.4	1,030.0
Bricks & cement	4.3	369.8	664.1	1,052.8	1,147.0	1,216.2
Steel & steel products	5.3	490.5	480.7	522.0	518.1	642.6
Miscellaneous	3.7	598.6	628.0	564.2	550.9	610.5
Total manufacturing	100.0	331.0	394.2	456.1	502.0	551.0
% change year on year	-	27.2	19.2	15.7	10.3	8.5

Source: EIU Country Profile, 2001

Zambia's poor overall economic performance over recent years has impacted negatively on the performance of the manufacturing sector. The result has been an evident lack of competitiveness, with weakening production levels. Manufacturing has suffered from increased foreign competition in light of the country's liberalization program, as well as the high cost of production, a narrow export base, low levels of industrial skills of employees and inadequate infrastructure[14]. In general, the country relies heavily on imports. Manufactured export products include engineering products, textiles, building materials, processed foods, animal products and leather products. The subsectors of food, beverages, tobacco, textiles, leather products, wood and wood products, chemicals, rubber and plastics account for over 90% of output in the manufacturing sector. The table below illustrates the performance of manufacturing subsectors since the mid-1990s.

[14] More recently, Zambia has suffered from the influx of cheap imports from Zimbabwe as a result of the dual exchange rate in Zimbabwe.

Table 2 – Zambian Manufacturing Production (1980 =100)

	% Weighting	1995	1996	1997	1998	1999	2000	2001 Est.
Food, beverages, tobacco	28.3	161.4	165.4	158.8	167.4	177.4	178.5	188.0
Textiles and clothing	20.2	79.9	98.2	142.0	153.9	162.4	166.0	169.8
Wood & wood products	3.5	83.4	81.2	87.8	86.4	86.7	86.4	91.3
Paper & paper products	5.7	94.7	101.8	150.7	153.1	160.7	158.6	164.7
Chemicals, rubber, & plastics	18.3	67.6	85.6	93.5	75.6	64.5	91.1	95.1
Non-metallic mineral products	5.2	75.6	80.6	70.4	77.6	76.6	80.1	82.9
Basic metal industries	2.5	54.0	95.1	102.0	39.9	41.6	43.4	35.6
Metal products & others	16.3	65.8	51.4	51.6	47.5	38.1	42.4	39.0
Total manufacturing	100.0	98.5	90.2	93.4	80.9	82.3	89.7	83.8

Source: IMF, Statistical Annex, 2002

According to SADC data for 2002, **Zimbabwe's** manufacturing sector posted a decline of 7.5% in 2001 as the country continued to suffer the effects of a damaging political and economic crisis. Prior to the crisis, Zimbabwe's manufacturing sector was well known for its diversity and its contribution to GDP (over 20% of GDP in the early 1990s and employing an almost similar amount of the labor force). Manufacturing sector exports have always been closely aligned with the dominance of agriculture and mining in the economy, with the principal manufactured exports including ferro-alloys, clothing, metal products, chemicals, plastics and cotton lint. As a result of the economic crisis, high inflation, rising production costs combined with foreign exchange shortages, many companies have been forced to scale down and even close their operations. The high levels of spare capacity in manufacturing during 1999 and 2000 were mainly the result of the gradual erosion of competitiveness. Around 400 firms are believed to have closed down in 2000 alone.

Kenya's economic growth rate has continued to decline since 1997, with the real GDP growth rate falling by -0.2% in 2000. The decline in economic activity has affected all major sectors of the economy, with the manufacturing sector no exception. This sector has been affected by the decline in agricultural performance as raw material supplies to agro-based industries fell. Output in the grain milling, sugar, tobacco and bakery industries declined by 22%, 17%, 14% and 13% respectively during 2000[15]. On a positive note, the plastic and petroleum products, beverages, and leather and footwear industries have all maintained positive growth in light of solid export performance in these industries despite the general weakness in the Kenyan economy. After peaking in 1996, manufacturing exports declined by an average of 10% per annum through to 2000, with certain subsectors suffering significantly, including iron and steel, cement, essential oils and perfumes[16].

The table below shows the average annual growth rate of manufacturing and other sectors in the economies discussed above.

[15] OECD African Economic Outlook, 2001/2002.
[16] IMF (2002d).

Table 3 – Average Annual Sectoral Growth Rates in SADC

	Average annual growth (%)					
	Manufacturing			Agriculture	Industry	Services
	1990-2000	1999	2000	1990-2000	1990-2000	1990-2000
Angola	-0.3	7.1	8.9	-1.4	3.7	0.1
Botswana	10.5	4.4	4.2	8.6	12.0	18.9
DRC	-	-14.3	3.0	-	-	-
Lesotho	6.5	-1.5	2.8	2.0	5.3	4.5
Malawi	-2.2	4.0	2.5	7.6	1.5	3.2
Mauritius	5.6	3.0	8.3	-0.9	5.5	6.4
Mozambique	17.6	14.0	14.9	5.5	14.0	1.8
Namibia	2.8	-3.1	6.7	4.1	2.5	4.4
Seychelles	7.4	2.0	3.5	-1.2	9.4	0.9
South Africa	1.2	-0.2	3.6	0.6	1.0	2.6
Swaziland	3.1	1.3	2.2	1.0	4.0	3.6
Tanzania	2.7	3.8	4.6	3.2	3.1	2.7
Zambia	1.2	2.8	13.5	3.9	-4.0	2.6
Zimbabwe	1.0	-2.3	8.0	4.8	1.0	2.7
Kenya*	2.1	1.0	-1.5	1.3	1.7	3.3
Madagascar*	0.6	-	-	1.4	2.4	2.5
Uganda*	13.6	11.7	1.9	3.7	12.3	7.9

* Non SADC countries

Source: World Bank country profiles (www.worldbank.org), 2002

3 ABSOLUTE AND RELATIVE SIZE OF THE MANUFACTURING SECTOR

The majority of SADC countries have seen the value of their manufacturing sector (in constant US dollars) grow moderately through the 1990s. Given the volatility and general weakness of the currencies in the region, this can certainly be viewed in a positive light. Those countries that have failed to improve manufacturing value added have suffered the ill effects of economic and political conflicts, i.e. Angola, the DRC, Zimbabwe.

In terms of contribution to regional manufacturing value added, South Africa continues to dominate performance with 2000 data showing only a marginal decrease to 84.2% of total regional manufacturing value added versus 87.2% in 1990. Of the other countries in the survey, Zimbabwe's share of total SADC manufacturing value added fell by roughly 16% to 3.5% during the course of the 1990s. Kenya's performance has grown only marginally to 2.2% from 2.0% in 1990. Uganda has shown solid growth in manufacturing value added and while off a low base, recorded growth of over 200% during the 1990s. Mozambique has shown significant growth (also off a low base), doubling its manufacturing value added over a five-year period, while Lesotho almost doubled its manufacturing value added through the decade. The other countries in the survey have either seen static growth throughout the 1990s or have exhibited modest growth to their share of total manufacturing value added.

Table 4 – Manufacturing Value Added (constant US$ million)

	1990	1995	2000	1990 % of total	1995 % of total	2000 % of total
Angola	288.66	201.97	277.11	0.87	0.59	0.75
Botswana	200.90	232.14	306.95	0.60	0.68	0.84
DR Congo	-	-	-	-	-	-
Lesotho	83.73	129.39	155.40	0.25	0.38	0.42
Malawi	239.29	211.93	214.95	0.72	0.62	0.59
Mauritius	639.78	827.27	1,111.42	1.92	2.43	3.03
Mozambique	-	245.90	536.54	-	0.72	1.46
Namibia	358.32	448.02	521.75	1.08	1.32	1.42
Seychelles	50.70	64.30	101.21	0.15	0.19	0.28
South Africa	29,060.49	29,274.16	30,933.34	87.20	85.97	84.21
Swaziland	309.21	352.51	381.55	0.93	1.04	1.04
Tanzania	349.73	348.88	450.39	1.05	1.02	1.23
Zambia	359.27	344.28	453.38	1.08	1.01	1.23
Zimbabwe	1,386.14	1,371.16	1,287.72	4.16	4.03	3.51
SADC TOTAL	33,242.48	33,922.52	36,576.31	100.00	100.00	100.00
Kenya	668.26	756.58	806.55	n/a	n/a	n/a
Madagascar	346.32	341.85	403.33	n/a	n/a	n/a
Uganda	199.81	358.55	634.18	n/a	n/a	n/a

Source: World Development Indicators, 2002; no data available for DRC

4 CHANGE IN THE RELATIVE IMPORTANCE OF MANUFACTURING OVER THE PAST 10 YEARS

Table 5 overleaf shows the sectoral contributions to GDP for the main countries covered in this study. The overall performance of the manufacturing sector across the countries reviewed showed positive real growth in some countries.

Table 5 – Key Industries and Their Contribution to GDP

	Main Industries (contribution to GDP)	Value Added Contribution to GDP (%)											
		Agriculture			Industry			Manufacturing			Services		
		1990	1995	2000	1990	1995	2000	1990	1995	2000	1990	1995	2000
Angola	petroleum, mining, fish processing	17.93	7.31	5.66	40.85	66.26	76.12	5.00	4.01	2.89	41.22	26.43	18.22
Botswana	mining, livestock processing	4.57	3.99	3.62	56.38	45.61	44.38	4.90	4.74	4.97	39.05	50.40	52.00
DRC	mining, marginal manufacturing	30.15	56.54	57.93❶	28.23	16.86❶	16.86	11.01	-	-	41.62	26.60	25.20❶
Lesotho	food, beverages, textiles, construction	23.76	17.81	16.91	32.77	39.28	43.78	13.92	15.94	16.02	43.47	42.91	39.31
Malawi	tobacco, tea, sugar	45.00	30.43	41.56	28.89	19.67	19.07	19.47	16.11	13.78	26.11	49.90	39.37
Mauritius	textiles, clothing, food processing (sugar)	12.10	9.65	5.99	32.17	33.05	32.14	23.57	23.70	24.47	55.73	57.30	61.87
Mozambique	food, beverages, chemicals, petroleum products	37.12	37.92	24.40	18.41	19.34	25.13	10.17	11.19	12.57	44.47	42.74	50.47
Namibia	mining, meat products, fish processing	10.96	12.20	10.74❷	35.28	28.11	28.32❷	12.57	13.09	11.37❷	53.76	59.69	60.96❷
Seychelles	fishing, tourism, modest food processing	4.81	4.17	2.99	16.26	22.66	21.61	10.10	12.65	12.53	78.93	73.17	75.40
South Africa	mining, automotive, metalworking, chemicals, clothing, textiles, food processing	4.63	3.86	3.20	40.08	34.81	30.93	23.63	21.22	18.75	55.29	61.33	65.87
Swaziland	mining, wood pulp, sugar, soft drink concentrates	13.66	15.73	16.80	42.77	43.60	44.31	35.40	32.09	33.08	43.57	40.67	38.89
Tanzania	agricultural processing, mining, oil refining, textiles	45.96	47.14	45.08	17.65	14.50	15.84	9.27	7.17	7.50	36.39	38.36	39.08
Zambia	copper mining/ processing, construction, foodstuffs, beverages	20.60	18.45	27.32	51.28	35.86	24.06	36.06	11.27	12.66	28.12	45.69	48.62
Zimbabwe	mining, steel, wood products, cement, chemicals, clothing, textiles, footwear, foodstuffs, beverages	16.48	15.24	18.50	33.11	29.08	24.98	22.76	21.80	15.80	50.41	55.68	56.52
Kenya	small scale manufactures, agricultural processing, oil, cement	29.14	31.13	19.94	19.14	16.02	18.72	11.79	9.88	13.09	51.72	52.85	61.34
Uganda	sugar, brewing, tobacco, cotton, cement	56.58	49.39	42.47	11.06	14.29	19.09	5.67	6.79	9.10	32.36	36.32	38.44

❶ 1997 data; ❷ 1999 data

Source: CIA World Factbook, 2001; World Development Indicators, 2002 (2000 data)

The manufacturing sector had the highest contribution to national GDP in Swaziland, Mauritius, South Africa and Lesotho between 1995 and 2000. In terms of the change in the relative importance of manufacturing to GDP during the 1990s, the table below illustrates the percentage change of manufacturing contribution to GDP.

Table 6 – Percentage Change in the Contribution of Manufacturing to GDP

	1990-1995	1995-2000	1990-2000
Angola	-19.80	-27.93	-42.20
Botswana	-3.27	4.85	1.43
DRC	-58.90	-21.67	-67.81
Lesotho	14.51	0.50	15.09
Malawi	-17.26	-14.46	-29.22
Mauritius	0.55	3.25	3.82
Mozambique	10.03	12.33	23.60
Namibia	4.14	-13.14	-9.55
Seychelles	25.25	-0.95	24.06
South Africa	-10.20	-11.64	-20.65
Swaziland	-9.35	3.09	-6.55
Tanzania	-22.65	4.60	-19.09
Zambia	-68.75	12.33	-64.89
Zimbabwe	-4.22	-27.52	-30.58
Kenya	-16.20	32.49	11.03
Uganda	19.75	34.02	60.49

Source: World Development Indicators, 2002; DRC data from SADC

The contribution of manufacturing to GDP during the 1990s gained ground in Uganda, Seychelles, Mozambique, Lesotho, Kenya, Mauritius and Botswana. On an aggregate level, SADC manufacturing value added grew by 10% from 1990 through to 2000. The majority of the growth (8%) took place in the latter half of the 1990s. Manufacturing value added declined in Angola, Malawi and Zimbabwe and has grown only marginally in South Africa. However, other regional economies (including Botswana, Lesotho, Seychelles, Uganda) have recorded impressive growth in manufacturing value added, although in many cases this growth occurred off a low base (see Tables 4.4 and 4.7).

General trends in the growth of value added throughout the **South African** economy have been modest at around 1.5% per annum during the 1990s. The transport sector exhibited the highest growth in value added during the 1990s at over 5.5%, while manufacturing came in at a mere 0.8%. Construction, agriculture and mining managed a negative growth in value added during the 1990s. The South African manufacturing sector has grown relatively slowly since 1994 (when liberalization gained momentum) with average output growing by a slow 1.8% per annum from 1994 to 1999.

Table 7 – Percentage Change in Manufacturing Value Added (constant 1995 US$)

	1990-1995	1995-2000	1990-2000
Angola	-30.03	37.20	-4.00
Botswana	15.55	32.22	52.79
DRC	-	-	-
Lesotho	54.53	20.1	85.60
Malawi	-11.44	1.43	-10.17
Mauritius	29.31	34.35	73.72
Mozambique	-	118.19	-
Namibia	25.03	16.46	45.61
Seychelles	26.84	57.41	99.65
South Africa	0.74	5.67	6.44
Swaziland	14.00	8.24	23.39
Tanzania	-0.24	29.10	28.78
Zambia	-4.17	31.69	26.20
Zimbabwe	-1.08	-6.08	-7.10
SADC TOTAL	2.18	7.87	10.22
Kenya	13.22	6.60	20.69
Uganda	79.44	76.87	217.39

DRC, Mozambique data unavailable
Source: World Development Indicators, 2002

A useful tool for examining the extent of higher value added industrialization is found in the importance of the services sector in an economy. There is a close relationship between services and manufacturing: services provide a strong impetus for manufacturing activity, while manufacturing provides a crucial market in terms of the demand for service sector products. In SADC, the service sector accounts for around 50% of GDP in Botswana, Kenya, Mauritius, Mozambique, Namibia, Seychelles, South Africa and Zimbabwe. See Table 5 for a breakdown of the relevant importance of the various sectors.

5 STRUCTURE OF THE MANUFACTURING SECTOR

On an aggregate level, a large proportion of SADC's manufacturing activity is concentrated in South Africa and Zimbabwe. Moreover, manufacturing activity within these two countries is centered round concentrations of capital and infrastructure development. Different levels of development, investment and trade regimes, as well as a range of different factor endowments have in effect led to the polarization of manufacturing activities. In general, higher value added manufacturing activities have developed in countries with the most stable economic environment combined with effective and reliable infrastructure.

The last few decades have seen a shift towards a more liberal trade policy in developing countries. This policy shift came about as governments looked to limit the anti export bias that had emerged through export expansion policies combined with a desire to reduce the

costs associated with decades of protectionist policies. However, many industries that thrived in protectionist environments realized that they were far from competitive in the new liberal market environments that emerged. This was evident in scale intensive industries where a small domestic market size had led to the establishment of plants operating at below minimum efficient scale. A good example of this can be seen in the South African automotive industry where high tariffs combined with local content requirements generally resulted in the creation of a number of small scale plants often producing a number of different models in low volume. Exports played a minimal role. The South African government looked towards increasing exports through liberalization in an attempt to improve efficiency in the local automotive industry – tariffs were reduced, while the fixed local content requirements were replaced with industry specific incentives aimed at encouraging the use of local inputs for export products.

Linkages Between Firms: Economic linkages are traditionally studied between different sectors of industry to understand existing patterns of industrial development in a given location. Backward linkages exist when an industry uses as inputs the outputs produced by another industry. Forward linkages exist when an industry's output is used by another industry as inputs. The evidence from **South Africa** (World Bank, 2001a) suggests that large firms take advantage of other large firms to source inputs and to sell output. In the Greater Metropolitan Johannesburg Area (GMJA) survey, between 60%-80% of the large firms reported purchasing material inputs from other large firms, although 20%-48% of large firms reported doing business with small and informal firms. With regards to foreign firms, the survey found that 44% of the large firms bought raw materials, 25% bought semi-processed inputs, while 1% bought shipping services from foreign firms. A similar trend is evident with forward linkages.

The above patterns were also prevalent on a subsectoral level. Large firms in the different manufacturing subsectors tended to do most business with other large firms in the same subsector. There are some exceptions to the rule, where small and informal firms play a significant role with large firms: electronic and electrical machinery, food and beverages, metal products, paper, furniture and textiles. Moreover, looking at future trends in linkages between firms, it is worth noting that in keeping with global trends, South African industry seems to be relying increasingly on outsourcing various functions, which in turn results in an increase in linkages between firms.

Indeed, across **SADC** there is mounting evidence of improved and improving linkages between firms as the SADC Trade Protocol encourages trade within the region. The trend towards corporate buyouts, combined with moves to take advantage of global markets through improvements in competitive advantage, have boosted the benefits of firm linkages locally, regionally and internationally. Moreover, the evidence[17] continues to support the view that linkages amongst firms develop as a result of efficient manufacturing where firms are looking to compete at an international level.

Types of Exports: Table 8 below, obtained from Cassim (2002), illustrates the share distribution of manufacturing exports according to factor usage. The table shows a

[17] See World Bank (2001a, 2001b).

paradoxically low percentage of unskilled labor intensive exports relative to technology intensive and human capital intensive exports. The former account for less than 20% of total exports, while the latter categories, on average, exceed 50% of total exports. Agriculture and mineral intensive exports accounted for around 30% of total exports in 1999 – reflective of the country's natural resource endowment. Furthermore, the table shows that the role of unskilled labor intensive and technology intensive exports have gained ground, while that of resource and human capital intensive exports have fallen.

Table 8 – Structure of South African Manufacturing Exports According to Factor Usage Classification[18] (%)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Agriculture intensive	19.3	19.3	18.9	17.0	17.0	18.3	19.2	18.1	16.1	17.2	15.9
Mineral intensive	17.9	15.2	14.9	13.1	12.1	10.2	10.3	14.6	13.7	12.5	12.9
Unskilled labor intensive	12.1	13.7	14.4	17.2	18.2	15.5	15.0	16.0	17.0	18.4	22.0
Technology intensive	15.7	16.8	17.9	22.1	21.8	24.4	26.7	25.0	26.0	24.9	25.3
Human capital intensive	35.0	34.9	33.8	30.6	30.9	31.5	28.8	26.5	27.3	27.0	23.9
TOTAL	100	100	100	100	100	100	100	100	100	100	100

Source: Cassim (2002)

In contrast, the structure of imports remained largely constant during the 1990s: biased towards high technology products. Unskilled labor imports are also high, although they have remained pretty static in terms of percentage of total imports.

Table 9 – Structure of South African Manufacturing Imports According to Factor Usage Classification (%)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Agriculture intensive	7.4	7.5	7.2	8.3	7.4	8.6	8.6	8.1	8.7	7.7	7.6
Mineral intensive	3.1	3.2	3.1	3.3	3.2	2.8	3.8	4.5	3.9	4.4	4.6
Unskilled labor intensive	28.0	27.0	26.9	25.9	27.9	27.1	27.5	27.6	25.5	24.3	27.1
Technology intensive	46.9	47.5	49.0	48.5	47.1	45.9	44.7	43.2	44.4	42.6	42.0
Human capital intensive	14.6	14.8	13.8	14.1	14.4	15.5	15.5	16.6	17.5	21.0	18.7
TOTAL	100	100	100	100	100	100	100	100	100	100	100

Source: Cassim (2002)

6 MARKET ORIENTATION

Despite attempts to forge regional integration in Africa at a political level for many decades, developments on the ground have been slow and remarkably undistinguished. There are many reasons for this unremarkable performance, notwithstanding the historical existence of export routes to developed countries, political fragmentations combined with industrial lethargy have limited developments on regional integration. Furthermore, the pariah status of

[18] The lack of sectoral deflators implies that nominal data is used to calculate the share structure of trade. As a result, it may overestimate the importance of natural resource-intensive products that have experienced rising prices in the late 1990s.

South Africa until 1994 effectively excluded the continent's largest economy from fostering regional integration.

However, with the advent of democracy in South Africa, there has been a marked increase in support for regional integration in Africa. Within Southern Africa, trade and investment flows have grown from strength to strength since the early 1990s. South African firms have played a major role in this growth process, boosting manufacturing exports into the region and investing heavily in neighboring countries, with large scale infrastructure projects visible throughout the subcontinent. However, significant growth in the manufacturing sectors of SADC countries (ex South Africa) has failed to materialize as can be seen from the fact that South Africa continues to run a large trade surplus with its Southern African neighbors. This trade imbalance stood at 9:1 in 2001[19] and is unlikely to change dramatically in the near future.

6.1 SOUTH AFRICA

The structure of the South African economy has historically been shaped by high levels of protection at a sectoral level, together with a broad spectrum of subsidies, tax breaks and other incentives. However, during the 1990s, the South African economy reflected growing export orientation. Given the past focus on protectionism, the extent to which the composition of manufacturing output has been influenced by the changing trade regime, especially during the 1990s, is of importance in terms of future government policy and manufacturing potential. Table 32 at the end of this chapter illustrates the shift in tariff rates during the 1990s. Tariffs have declined significantly in all manufacturing sectors except the tobacco, beverages, paper and paper products and the basic chemicals sectors. However, tariff reduction has slowed since 1999, with some sectors showing a rebound in tariff rates since 1999, e.g. tariffs in the machinery and equipments sector fell by 82% between 1993 and 1999, but subsequently rose by 86% between 1999 and 2001.

Much of the growth in the manufacturing sector has materialized from increased exports. Manufacturing's share of total exports has grown in importance while traditional exports have declined relatively. During the first half of the 1990s, manufacturing accounted for 39% of all exports. This had risen to 51% by 2000. This growing export orientation is evident in all manufacturing subsectors. Furthermore, while some subsectors have exhibited stagnant or falling output levels, their export levels have continued to rise. This is particularly the case for clothing and textiles and for fabricated metal products. This trend continued into 2001 as exporters took advantage of the weaker currency and improved market access to the developed world and the SADC region in order to expand export levels. However, despite rising manufactured exports and an increasingly open economy, South Africa's share of global trade has fallen in relative terms during the 1990s[20].

[19] South African Customs & Excise Data.
[20] www.wto.org.

According to export supply ratios[21], South African manufacturing exports grew at 6% during the period 1996-2000. This was far lower than the 12% recorded during the first half of the 1990s. However, the share of manufacturing in total exports gained momentum during the latter half of the 1990s. It should be noted that mining exports as a share of total exports have shrunk considerably since 1995. Table 10 illustrates the shares of total exports in the various sectors of the economy.

Table 10 – South Africa: Sectoral Share in Total Exports (1991-2000) (constant 1995 prices, ZAR million)

	1996-2000 % share	1991-1995 % share
Manufacturing	50.7	38.5
Mining	29.1	45.0
Transport	6.1	5.1
Trade	5.5	4.3
Agriculture	4.8	4.2
Business services	3.3	2.4
Community services	0.3	0.3
Electricity	0.1	0.1
Construction	0.0	0.0
All industries	100	100

Source: TIPS; Onyango & Cassim (2002)

In terms of export performance, it is worth disaggregating at the manufacturing level (see Table 11). From the data, the motor vehicles and parts subsector had the highest weighted average annual growth rate in exports at 31% from 1995 onwards. Television and communication equipment grew at 29%, while wood and wood products and machinery grew by 21% each. During the first half of the 1990s, these sectors grew at 13%, 24% and 7% respectively. Furniture (51%), leather products (29%), and plastic products (34%) exhibited the highest growth rates during the 1991-1995 period. These export gains can be attributed to improvements in competitiveness through structural adjustments, combined with rand weakness and consequent lowering foreign currency denominated costs of South African manufactured goods. As can be seen from South Africa's continued trade surplus more recently, producers have increasingly focused on export markets to take advantage of local currency weakness and compensate for weak domestic demand.

Table 11 illustrates this shift in the structure of South Africa's exports. Industries such as motor vehicles and parts, clothing, machinery, electrical machinery, television and communications equipment and some of the chemicals industries have all managed to reap the benefits of liberalization and selective export promotion, although these gains have in some instances been off a very low base.

[21] Export-supply ratios examine the rate at which resources have shifted towards industries producing more tradable goods.

Table 11 – Growth in Exports in the Manufacturing Sector (constant 1995 prices, ZAR million)

	Av Annual Change 96-00 (%)	Av share 96-00 (%)*	Av Annual Change 91-95 (%)	Av share 91-95 (%)
Motor vehicles, parts and accessories	31.4	3.8	13.2	1.9
Television, radio, and communication equipment	29.2	0.7	24.2	0.3
Wood and wood products	20.7	0.4	7.2	0.3
Machinery and equipment	16.4	4.7	26.5	2.4
Other transport equipment	15.9	1.4	21.7	0.6
Tobacco	15.3	0.2	-2.9	0.1
Wearing Apparel	11.3	0.6	0.1	0.6
Glass and glass products	10.8	0.2	1.8	0.2
Electrical machinery & apparatus	9.9	1.0	29.1	0.6
Plastic products	9.8	0.4	34.4	0.2
Other chemicals and man-made fibers	8.1	1.6	29.3	0.8
Rubber products	8.1	0.5	18.8	0.3
Professional and scientific equipment	5.9	0.6	12.4	0.3
Other manufacturing	4.9	0.1	4.6	0.1
Paper and paper products	4.7	2.6	20.6	2.7
Leather & leather products	4.1	0.6	29.6	0.4
Metal products excluding machinery	2.8	2.3	1.4	1.5
Beverages	2.4	1.2	24.4	0.7
Non-metallic minerals	2.0	0.5	14.9	0.4
Basic iron and steel	1.6	8.5	7.9	8.6
Basic non-ferrous metals	0.5	4.3	-3.1	3.2
Basic chemicals	-0.1	5.0	18.1	4.0
Coke and refined petroleum products	-1.0	2.4	-1.3	2.3
Furniture	-1.2	1.4	58.8	0.6
Textiles	-1.4	1.2	4.9	1.1
Food	-1.6	3.4	5.9	2.9
Printing, publishing and recorded media	-4.0	0.1	2.9	0.1
Footwear	-12.6	0.1	45.1	0.1

*Average share relates the categories to the industrial sector
Source: TIPS; Onyango & Cassim (2002)

Despite the process of tariff liberalization that has occurred in South Africa since the mid-1990s, the data indicates that manufacturing imports remained static during the half decade in question. Manufacturing imports grew at 12.2% in the first half of the 1990s but at a mere 0.1% from 1995 through to 2000. Of course, the unimpressive growth rate of imports in the latter half of the 1990s can be attributed to the slow economic growth exhibited by South Africa, combined with the significant fall in the real exchange rate and the East Asian contagion. Of all the subsectors in the manufacturing sector, metal products saw the highest growth in imports during the latter half of the 1990s (at 18.9%), with other transport equipment also growing at a solid 15.1%, television and communications equipment increasing by 9.5% and motor vehicles and parts imports gaining 7%. Furniture, clothing and rubber products also managed to gain some ground in terms of import growth. All other manufacturing sectors saw imports decline. The above trend fits in well with economic conditions prevalent in South Africa during the late 1990s (see Onyango and Cassim, 2002, for a complete breakdown).

In terms of import penetration ratios[22], the mining, manufacturing and transport sectors exhibited the highest ratios. The ratio for manufacturing gained momentum after 1995, probably as a result of the liberalization of trade policy that gained momentum at this point in the 1990s. More importantly though, there does not appear to have been a significant increase in import penetration in South Africa despite the fact that the economy opened up to international competition and liberalized its trade policy.

Table 12 – Import Penetration Ratios 1991-2000
(constant 1995 prices, ZAR million)

	Ratio 1996-2000 (%)	Ratio 1991-2000 (%)
Mining	38.6	41.2
Manufacturing	27.6	20.6
Transport	6.4	7.6
Trade	6.0	6.6
Agriculture	1.5	1.8
Business services	1.3	1.3
Community services	1.1	1.3
Electricity	0.3	0.1
Construction	0.0	0.0
All industries	100	100

Source: TIPS; Onyango & Cassim (2002)

According to a World Bank survey (2001b) conducted in 1999 in the GMJA, the majority of small, micro and medium enterprises (SMMEs) produce for and cater to the domestic rather than global market. The survey argues that this could be a consequence of location or simply because SMMEs are a relatively new phenomenon in the South African economy. Of the firms sampled, only 22% stated that they engaged in international trade. Of these, 14% were exporters with 8% reporting to be direct importers. SADC represents the largest market for SMME exports: 63.4% of exporters export an average of 76% of their exports to SADC countries. As regards the rest of Africa (and here it is mostly East African countries), 20.5% of exporters export 47% of their exports to this region.

In contrast, the World Bank (2001a) survey of large manufacturing firms (defined as firms with more than 50 employees) showed that as many as 70% engaged in international trade. The ability to trade internationally is positively related to the size of the firms (a case in point for the SMME survey as well). The sectors that export the most (in terms of survey results) are vehicles and parts (27%), iron and steel (23%), electronics and electrical machinery (19%). The proportion of inputs imported averaged at around 35%. SADC is once again the leading destination for 78% of large firms that export – SADC receives 66% of total large firm exports. The rest of Africa ranks second: 32% of firms that export send 26% of total exports to this region. Beyond Africa, the next most popular export destinations are Western Europe, Australasia and Asia.

[22] Import penetration ratio = imports/(total output + inputs – exports).

6.2 REST OF SADC

The table below illustrates the value and proportion of manufacturing exports in total exports across the region in 1990 and 2000.

Table 13 – Manufacturing Exports

	Total Exports(fob) US$ million		Manufacturing Exports			
	1990	2000	1990 US$ million	% total	2000 US$ million	% total
Angola	3,884	7,802	56	1.44	132	1.69
Botswana	1,795	2,751	-	-	-	-
DRC	-	760	-	-	-	-
Lesotho	59	1343	-	-	270	20.10
Malawi	411	431	28	6.81	59	13.69
Mauritius	1,201	1,751	410	34.14	1,076	61.45
Mozambique	126	364	27	21.43	14	3.85
Namibia	1,048	1,480	387	36.93	522	35.27
Seychelles	28	128	10	35.71	67	52.34
South Africa	23,488	35,766	7807	33.32	15,661	43.80
Swaziland	550	912	289	52.55	432	47.36
Tanzania	352	600	73	20.74	34	5.67
Zambia	1,264	789	67	5.30	175	22.18
Zimbabwe	1,753	1,801	966	55.11	977	54.25
Kenya	997	1765	140	14.04	252	14.28
Madagascar	345	681	146	42.32	486	71.37
Uganda	210	439	-	-	-	-

Source: World Bank 2002, preliminary data used for 2000

According to World Bank data, manufactured exports account for less than 2% of total exports for **Angola**. In 2000, crude oil accounted for roughly 88% of total exports, while diamonds made up the difference of 10%. Manufacturing exports from **Kenya** have remained static throughout the 1990s at around 14% of total exports. **Lesotho** has seen impressive growth in manufactured exports, with clothing and accessories accounting for almost 13% of manufactured exports in 2000. **Malawi** has seen a near doubling in the proportion of manufactures exported from 7% to almost 14%, although this growth developed off an extremely low base. Tobacco accounted for 62% of total exports in 2000. Manufactured exports from **Mauritius** have gown from strength to strength during the 1990s. Clothing and textiles remains the dominant manufacturing subsector, although sugar exports continue to gain momentum, increasing to 15% of total exports in 2000 (from 8% in 1990). Clothing and textile exports from the EPZ facility accounts for 85% of total EPZ exports. Manufactured exports from **Namibia** have remained static as a percentage of total exports at around 35%, although new investments should see future gains in manufactured exports.

Diamonds and other minerals continue to dominate, accounting for 48% and 13% of total exports in 2000. **Swaziland's** exports have remained constant at about 50%, with sugar totaling 30% of the total in 2000. **Zambia** has seen an improvement in manufactured exports, increasing to 22% of total exports respectively, with copper and cobalt dominating total exports in 2000. **Mozambique's** manufacturing sector is largely inward oriented, with RPED/World Bank data (1999) stating that very few firms export a substantial portion of their output.

Chauvin and Gaulier (2002) estimated that there has been an increase in intra-regional SADC trade in the 1990s, although trade remains focused on food, chemicals, basic manufactures and machines, and transport. In 1990, the share of exports from SADC countries sold within SADC amounted to 3%. This share increased to 10% in 1999. South Africa continues to dominate trade, supplying around 77% of intra-SADC exports in 1999, with Zimbabwe next in line at 14%. On the import side, 5.1% of total SADC imports were supplied from within the region in 1990, doubling to 10.2% in 1999. South Africa, Mauritius, Tanzania and the Seychelles appear to be the least dependent on SADC imports.

Chauvin and Gaulier offer that the fact that South Africa is a large exporter but marginal importer could suggest that complementarity is low between South Africa and the rest of SADC. This could also be the result of trade barriers specific to the South African market, at least for specific industries. Therefore, any improvement in intra regional trade will depend not only on the reduction of tariffs across the region, but also on improved access of non-SACU members of SADC to South Africa. However the authors, in analyzing the prospects for increased intra-regional trade, conclude that SADC countries have comparative advantages in products they are well endowed with and which are similar across the region. Moreover, they tend to have similar comparative disadvantages, particularly in manufacturing, suggesting that scope for intra-regional trade is limited, with the possible exception the development of vertically differentiated goods across the region. In contrast, Cassim (2001) suggests that there is potential for gains in intra-regional trade but that unnecessarily high transaction costs in the Southern African region act as a bias against trade in the region, instead encouraging firms to trade extra-regionally.

7 PROFITABILITY AND PERFORMANCE INDICATORS

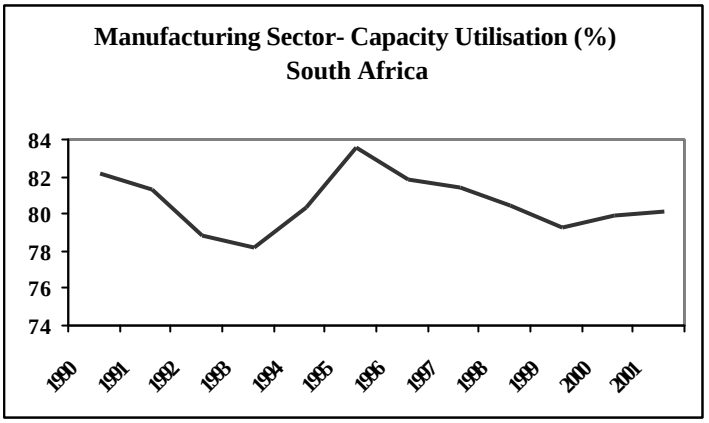
7.1 SOUTH AFRICA

Source: TIPS South African Standardized Industry Database

South Africa has shown a marked improvement in labor productivity over recent years. Average labor productivity levels have increased by 4.9% per annum, albeit off a low base, over the past five years. "Improvements in manufacturing productivity have mainly been achieved through labor productivity although other factors (business cycles and improved efficiency) also played a positive role" (Moodley et al, 2002). Furthermore, labor productivity increased in almost all sectors, with the exception of wood and wood products, footwear and leather and leather products. The DTI views this as an indication that South African firms are increasingly able to compete in global markets. However, despite these improvements in labor productivity, it is worth noting that South Africa remains a high cost economy. Consider for example labor costs associated with the textile industry in SADC countries. Unskilled labor costs for South Africa are considerably higher than in other SADC countries. Muradzikwa (2001) quoted figures for South Africa at US$2.35 an hour; Zambia and Mauritius came in second at US$0.95 per hour, while Malawi and Zimbabwe stood at around US$0.50 per hour. Multifactor productivity, which relates output to expenditure on factors of production, increased from 1993 and suggests overall efficiency improvements in the South Africa manufacturing sector during the 1990s.

For the South African economy, total factor productivity (TFP) numbers, defined as a measure of the growth in output not explained by the growth in inputs, saw a modest improvement of 0.3% during 1991-1995 and 1.4% during 1996-2000 for the manufacturing sector. For the economy as a whole, total factor productivity rose by 1.3% during 1991-1995 and 2.4% for 1996-2000, a better performance than in manufacturing. A number of manufacturing subsectors outperformed in terms of TFP growth during the latter half of the 1990s, however. These were glass and glass products (10.5%), rubber products (7.2%), television and communication equipment (6.2%), and electrical machinery (5.8%). Clothing saw TFP improve by 3.4% during this period, while motor vehicles and parts saw a 2.2%

increase in TFP. Scientific equipment came in strongly negative at -8.7%, while footwear saw TFP decline by an average 6.2%. In terms of capacity utilization, South African data suggest a peak in the mid-1990s followed by a return to below 1990 levels by 2001.



Source: TIPS South African Standardized Industry Database

7.2 REST OF SADC

A 1997 RPED/World Bank study on **Mozambique** showed capacity utilization in manufacturing averaging about 48%, up from 10-30% in 1989. **Kenya's** overall competitiveness in terms of manufactured exports suffered considerably in the 1990s. One reason has been the high cost of doing business in the country, including high labor costs. Unit labor costs saw a 25% increase during the 1990s (IMF (2002d)). In **Botswana**, IMF data (1999) show only a modest improvement in TPF during the period 1994/95 to 1996/97 when growth was recorded at 1.8% per annum. In contrast, labor productivity has been declining since the early 1980s, except for a temporary improvement in the mid-1990s. The table below presents labor productivity data for Botswana.

Table 14 – Botswana Labor Productivity Data

	1990/91–1994/95	**1995/96**	**1996/97**	**1997/98**
Average annual % change	-3.3	14.2	-3.7	-0.9

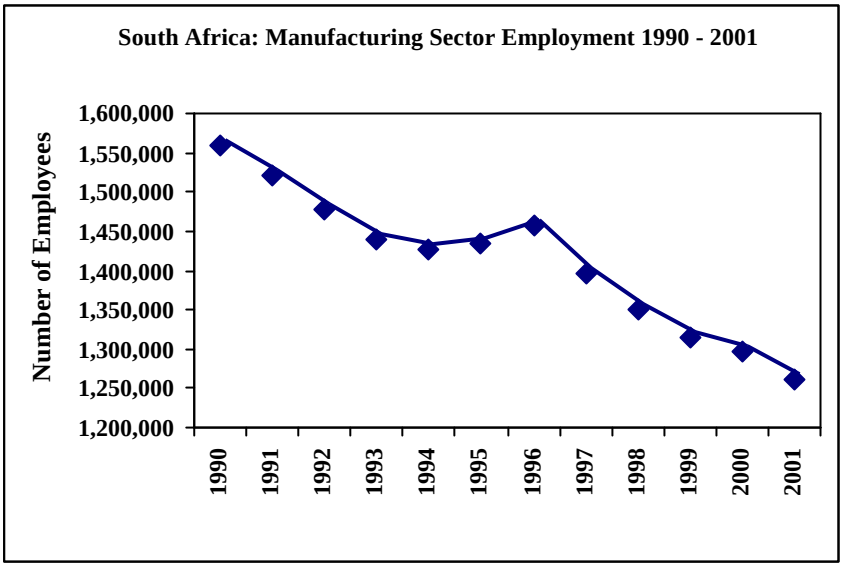
Source: IMF (1999)

8 EMPLOYMENT ISSUES

8.1 SOUTH AFRICA

Stagnant economic growth has moderated employment opportunities in the South African economy since the 1980s, with the manufacturing sector no exception. According to Jenkins (2002), "the capacity of economic growth to generate additional employment has declined

[since the 1970s]. The elasticity of employment with respect to GDP fell from 0.76 in the period 1973-80 to 0.55 between 1980-94 and -0.57 in 1994-2001".



Source: TIPS South African Standardized Industry Database

During the 1990s, South African manufacturing industries underwent significant structural change in response to economic reforms such as trade liberalization and closer integration with global and regional markets. At the firm level, two common responses to these changes were downsizing and adaptation to newer technologies. While labor productivity has improved, the manufacturing sector has consistently continued to shed jobs and for most sectors, at an accelerating pace. The above graph clearly shows manufacturing sector employment in South Africa declining since 1990 – the only exception to this declining trend occurring in the mid-1990s when employment gained some ground: 1995 saw a modest 0.5% year on year growth in manufacturing sector employment while 1996 growth came in at 1.6%. Since then however, the general declining trend has regained the upper hand, with manufacturing sector employment falling by 19% from 1990 through to 2001.

There are a few subsectors that have managed to exhibit an increase in the demand for labor: leather and leather products, plastic products, wood and related products, other chemicals, television, radio and communications equipment, printing, publishing and recorded media, and basic chemicals. A number of the most labor intensive sectors (e.g. clothing, wood and wood products, footwear and furniture) have all seen a significant decline in employment intensity (as measured by the employment/output ratio). Furthermore, the subsectors experiencing rapid growth in output levels (television, radio and communications equipment; motor vehicles; parts and accessories; and basic and other chemicals) tend to be less labor intensive that the manufacturing sector on aggregate.

Overall, the labor intensive sectors are growing less rapidly than the non labor intensive sectors. Moreover, there has been a specific tendency for labor intensity to decline in the more labor intensive sectors. Yet further, there has been a shift in the demand for semi- and unskilled labor towards skilled labor, which in some cases has led to a resultant shortage of

supply for a particular skill set (most visibly in science and technology), while some suggest that export growth goes hand in hand with improved skills. The graph below illustrates the shifting demand for employees in manufacturing across the skill levels. This has led to a tendency to shift to outsourcing and subcontracting in an attempt to minimize disruption in manufacturing. Table 4.15 below illustrates the extent to which employment levels have changed in the manufacturing sector since 1990. Of the 27 subsectors considered in the table, all but five have exhibited a fall in employment levels since 1990. It is worth noting that the larger firms dominate permanent employment in the South African manufacturing sector. In 1998, the World Bank survey on the GJMA (2001a) found that size 3 firms (200 to 10,000 employees) provided 73% of permanent jobs.

Source: TIPS South African Standardized Industry Database

In considering the table below, it is worth noting that the sectors that saw positive gains in employment numbers during the 1990s correlate with those sectors registering strong gains in export growth throughout the same period. This is evident across the region and has powerful implications for government policies in the SADC region where unemployment remains a major cause for concern. Sustainable jobs have and will continue to emerge from manufacturing subsectors that are capable of competing on a global scale – firms that regardless of size are efficient producers within a liberalized environment. Consequently, government policies are best geared towards promoting an environment that enables manufacturing subsectors to compete at an international level. Furthermore, the high cost nature of South African manufacturing (vs. other SADC and developing countries) suggests that there is little in the way of new firm development moderating overall manufacturing sector employment losses, particularly in the labor intensive subsectors.

Table 15 – South African Manufacturing Industry Employment Levels (1990-2001)

	1990 – 2001 (%)	1990	1995	2001	2001 % of total
Plastic products	28.7	44,350	48,704	57,070	4.76
Wood and wood products	14.8	64,515	68,231	74,078	6.18
Wearing apparel	5.5	125,950	133,989	132,864	11.08
Furniture	5.0	42,750	46,131	44,903	3.74
Television, radio and communication equipment	2.2	13,580	14,615	13,875	1.16
Other chemicals and man-made fibers	-3.4	69,586	66,140	67,241	5.61
Electrical machinery and apparatus	-8.4	87,050	94,635	79,780	6.65
Motor vehicles, parts and accessories	-11.4	87,475	80,045	77,538	6.46
Paper and paper products	-14.8	49,075	50,416	41,836	3.49
Machinery and equipment	-16.3	81,275	73,570	68,047	5.67
Basic chemicals	-16.6	33,252	29,793	27,737	2.31
Professional and scientific equipment	-20.8	7,150	7,545	5,663	0.47
Other manufacturing	-23.5	24,788	21,828	18,964	1.58
Metal products excluding machinery	-24.7	136,537	119,906	102,790	8.57
Food	-25.4	207,068	183,905	154,532	12.88
Beverages	-28.4	36,850	32,338	26,403	2.20
Rubber products	-30.4	18,275	17,368	12,721	1.06
Leather and leather products	-31.9	11,600	9,072	7,896	0.66
Glass and glass products	-32.8	10,214	9,887	6,862	0.57
Coke and refined petroleum products	-40.0	22,914	19,428	13,755	1.15
Textiles	-44.6	96,350	65,410	53,403	4.45
Other transport equipment	-45.5	20,003	13,327	10,902	0.91
Tobacco	-48.7	4,152	2,913	2,129	0.18
Basic iron and steel	-50.3	79,600	60,612	39,591	3.30
Basic non-ferrous metals	-52.2	24,693	18,088	11,808	0.98
Non-metallic minerals	-55.2	76,759	64,495	34,360	2.86
Footwear	-60.6	32,400	27,882	12,758	1.06
Total Manufacturing	-19.0	1,508,211	1,380,273	1,199,506	100

Source: TIPS

With regards to the availability of skills, the World Bank (2001b) SMME survey found that while firms (particularly SMMEs) are constrained by a lack of skilled and semi-skilled labor, there is insufficient training allocated to staff in order to improve skills levels. In the case of SMMEs there is a tendency to use temporary labor[23] and subcontractors to overcome labor shortages. Governments across the region have argued that SMMEs have vast potential in terms of labor absorption, suggesting that with continued government support in the promotion of SMMEs, there is vast potential for employment gains in the regions. However, a range of surveys has found that a primary factor constraining employment growth in manufacturing firms is the scarcity of skilled labor[24].

[23] Probably the result of high non-wage costs required of employers under South African Labor Legislation.
[24] See for example World Bank GMJA surveys (2001a, 2001b)

8.2 REST OF SADC

Botswana data from the IMF show that the manufacturing sector accounted for 10% of formal sector employment in 1998. During the 1993-1997 period, formal manufacturing sector employment grew by 1.6%, substantially higher than the 0.1% recorded for the economy as a whole. IMF Statistics for **Zambia**, in terms of formal sector employment, show that the manufacturing sector accounted for roughly 11% of total employment at the end of 2000. However, firm closures and reduced capacity utilization resulted in the loss of over 6,500 jobs in the manufacturing sector by 2000, from a total of 55,700 jobs in 1995. In **Kenya**, employment in the manufacturing sector as a percentage of total employment has remained unchanged at 13% during the second half of the 1990s. Data from **Mauritius** suggest that almost 40% of labor is employed in the large firms manufacturing sector, with 29% in the EPZ. In **Zimbabwe**, employment in the manufacturing sector stood at around 16% in the late 1990s; however, the current political and economic crisis in Zimbabwe will undoubtedly have had a negative impact on the manufacturing output and employment numbers in the sector. World Bank/RPED survey (1999) data on **Mozambique** reflect strongest growth in employment for the larger firms as well as those with an export orientation.

9 KEY MANUFACTURING SUBSECTORS

9.1 CLOTHING AND TEXTILE INDUSTRY[25]

The formal clothing and textile manufacturing industry is present in some form or other in virtually every SADC member state. The 11 member states of the SADC Trade Protocol have a wide variation in the size and structure of their clothing and textile industries. In nearly all countries, production capacity has been established in response to specific trade arrangements. Mauritius developed a highly successful garment industry based on its ability to sell duty and quota free to the EU while in South Africa, Zambia and Zimbabwe, the clothing and textile industries were developed as imports substitution industries when trade embargoes and protective duties/trade regimes were in place.

While the clothing and textile sectors play an important role in SADC in terms of both output and employment, they have added value in terms of their ability to provide a ready market for the output of complementary and upstream industries as well as supplying to the retail industry. As such, significant economic, political and spatial importance is attached to the clothing and textile industry in SADC, a fact reinforced by recent developments in SADC as well as trade agreements with the US and EU. This is illustrated by the DTI's Integrated Manufacturing Strategy (2002) which states: "The DTI will promote the growth of a globally

[25] The clothing and textile industry covers a wide range of manufacturing activities. The clothing sector includes the manufacture of wearing apparel (e.g. menswear, womanswear, workwear, underwear, hats, and fur and leather clothes). Not included is the manufacture of textiles or leather products such as footwear. Manufacturing activities in the textile sector include the spinning, weaving and finishing of textiles as well as other textile activities such as the manufacture of blankets, furnishings, automotive textiles, carpets etc.

competitive industry that provides sustainable employment opportunities and exports to the value of ZAR5bn. This will be facilitated through the aggressive promotion of South African exports, as well as inward investment in the industry, to take advantage of favourable market access conditions for locally manufactured clothing and textiles. Value addition will be promoted through the development of a National Indigenous Fashion Technology Institute"[26].

Table 16 illustrates 1998 employment data for the clothing and textile industry across SADC countries. The industry is extremely labor intensive, particularly the clothing sector, and as such is perceived to be highly sensitive by governments across the region. In South Africa for example, while clothing and textiles accounted for around 16% of manufacturing sector employment, they generated less than 2% of manufacturing exports (1995-2001 data).

Table 16 – SADC Clothing and Textile Industry Employment Data

	Employees
Angola	300
Botswana	2,100
Lesotho	9,368
Malawi	10,500
Mauritius	73,573
Mozambique	5,100
Namibia	1,000
South Africa	136,824
Tanzania	8,000
Zambia	7,800
Zimbabwe	18,200

Source: Muradzikwa (2001); 1998 data.

However, some SADC countries are reaping the rewards of higher employment as a result of preferential trade agreements. For example, the US government stated in its recent AGOA Annual Report that 15,000 new jobs have been created in Lesotho as a result of AGOA. Elsewhere, the development of the Ramatex Bhd. plant in Namibia is expected to result in the employment of between 8,000 to 10,000 workers by end 2002.

The clothing and textile industries in SADC are characterized by clear location and operational patterns. There are only four countries that can be defined as major producers of clothing and textiles – South Africa, Mauritius, Lesotho and Zimbabwe – although Malawi, Mozambique, Tanzania and Botswana have significant capacity in terms of their respective GDP levels. The two industries are intricately linked and largely interdependent – the clothing industry is both a ready market for the textile industry as well as dependent to a certain extent on the textile industry's production capacity and output. Textile production units tend to be located both close to their source of raw materials and close to the clothing and retail industries they trade with. However, there have been instances where this is not the case. Clothing production in Mauritius gained ground initially though the use of imported

[26] In terms of employment data, the clothing industry employs over 10% of manufacturing employment but accounts for only 2.9% of manufacturing production (TIPS).

cloth before managing to attract domestic textile firms, while Lesotho has increasingly taken advantage of imported cloth from the Far East to supply clothing production.

For the clothing sector, the more labor intensive the production, the more likely it is to be located in lower cost countries but with ready access to the dominant South African market or good port facilities. Meanwhile, the upper end of production takes place mostly in South Africa and Mauritius[27]. This has been illustrated in a recent DPRU study, which found clothing and textile production in the region to be highly polarized, with the industries drawn to the more developed markets and surrounding lower labor cost countries in close proximity to the South African market. There is a huge shortfall in fabric production in the region, necessitating significant imports. In 1999, the SADC region had to import 307 million m^2 of woven fabric – annual demand amounted to 652 million m^2. More recently, benefits accruing from AGOA have seen a substantive increase in investment across to region in both clothing and textile industries, including fabric production. In terms of future regional development, there appears to be substantial idle capacity in Malawi, Mozambique, Tanzania, and Zambia.

Table 17 – Firms in the Textile and Clothing Sector as at end 2000/early 2001

	Clothing/ CMT[1]	Textiles[2]
Angola	2	-
Botswana	63	24
DRC	-	6
Lesotho	29	1
Malawi	10	9
Mauritius	254	96
Mozambique	8	19
Namibia	8	8
Seychelles	-	-
South Africa	2,341	528
Swaziland	8	11
Tanzania	8	58
Zambia	25	10
Zimbabwe	275	73

Notes:

[1]Clothing/Cut Make Trim is defined as Garments (underwear to suits), Furnishing (Bedsheets to Pillowcases to Curtains), Industrial (Tents/Tarps to Backpacks), Embroidery,

[2]Textiles cover the following manufacturing processes: Fibers, Non wovens, Spinning, Weaving, Fabric Knitting, Dyehouses, Knitwear, Hosiery, Tufting, Coating/Laminating, Narrows, Ropes and Twines, Woven and Knit packages

Source: Naumann, DPRU (2002)

In that the clothing sector is far less capital intensive than the textile sector, it has become increasingly mobile, with companies taking advantage of attractive government incentives for

[27] South Africa and Mauritius are characterized by available marketing facilities and opportunities, market access and greater availability of design facilities and professional capacity.

new investment opportunities, improved market access conditions and ready access to factor inputs including labor. Examples of this have been seen in Lesotho, Malawi, Mozambique and Namibia, amongst others. With the US and the EU the main destination for SADC exports, investors are keen to take advantage of EU and US (AGOA) preferential trade agreements with SADC and other African states. The table below notes the increasing importance of the US as an export market for South Africa, a trend that is evident throughout the SADC region in light of AGOA developments[28].

Table 18 – Regional Breakdown of South Africa's Clothing Exports (%)

	1990	1995	2001
EU	58.4	49.7	19.1
US	9.3	35.0	64.9
Africa	16.1	9.3	8.0
Other	16.1	5.9	7.1

Source: TIPS database

Table 19 illustrates import penetration and export ratios for clothing and textiles in SACU. The data show that there has been a gradual rise in export orientation in textile and clothing since the mid-1990s. Firm level data suggests that clothing and textile companies are increasingly looking towards export markets given the slow growth in domestic demand and the weakness of the local currency (propping international competitiveness). In addition, there appears to have been increased import competition in both the clothing and textile markets as foreign producers took advantage of an increasingly liberalized market.

Table 19 – SACU Import Penetration and Export Ratios in Clothing and Textiles

	Import Penetration Ratio		Exports/Production	
	Textiles	Clothing	Textiles	Clothing
1990	0.27	0.16	0.16	0.04
1995	0.30	0.13	0.13	0.06
2001	0.37	0.23	0.23	0.21

Note:

Production is for RSA only, implying that export/production ratios are likely to be lower than those shown in the table above since the rest of the data is for SACU as a whole

Source: TIPS database

According to Naumann (2002), "the sustainability of clothing and textile production, especially in SADC (where no single country enjoys overwhelming comparative advantage in the entire clothing-textile production pipeline) depends on the development of supply chain linkages through market access". However, significant barriers remain: uncertainties and restrictions relating to market access, tariffs and quotas, one- and two-stage transformation processes and other rules of origin continue to impact negatively on locational decisions of

[28] However, the benefits from AGOA have been disappointing, with duty-free exports to the US under the scheme coming in at US$35.4m in 2001 (49% of total exports), with only US$11million textile exports in Malawi (EIU Country Report, 2002).

firms. Essentially, firms continue to favor South Africa and its neighboring states (SACU members) for investment purposes.

Most textile and clothing manufacturing in the region is privately owned – only Malawi[29], Mozambique, Tanzania and Zambia have any significant public ownership and this is likely to end as privatization programs progress.

In terms of importance in the economy, the clothing and textile industry in Mauritius dominates the economy. It accounts for over a quarter of GDP and employs approximately 70% of manufacturing employment (1999 data). Clothing and textile exports account for 65% of total exports in value added terms (Muradzikwa, 2001). The only other country that compares is Lesotho where according to 1998 data, clothing and textile exports accounted for almost 60% of total exports. In other SADC countries, the clothing and textile industries play a more modest role, although significant growth has been recorded in particular in Namibia and Swaziland as producers look to take advantage of AGOA benefits[30]. In Kenya, UNIDO data shows that there was a surge in the number of clothing manufacturers in the 1990s, increasing from 232 in 1990 to 605 in 1998. In comparison, textile manufacturers underwent a process of rationalization, with the number of firms falling from 92 to 52 over a similar time period. Despite this increase in production capacity, value added has remained remarkably static during the period under review.

According to Coughlin et al (2001), there is substantial idle capacity for clothing and textile export production in the SADC region. An important point to note is that clothing and textile firms in South Africa tend to operate only one shift a day; Asian firms in contrast operate three shifts a day. In terms of capacity utilization data, existing levels of production can be expanded, without additional machinery, by 30% in the clothing industry and by 52% in the textile industry.

[29] The sole textile producer in Malawi is effectively bankrupt with efforts to find a strategic partner having been unsuccessful. The government has consequently moved to provide funding for the company's restructuring in order to avoid the job losses associated with closure of the plant (EIU Country Report, July 2002).

[30] There are increasing concerns regarding the long-tern benefits of AGOA once the scheme's fixed period has run its course. For example, Swaziland government officials have expressed concern as to the possibility that investors will simply relocate production to other countries post-2008 (EIU Country Report, May 2002).

Table 20 – Southern African Capacity Utilization Data for Clothing and Textiles

	Clothing Manufacturing Capacity Utilization (%)	Textile Manufacturing Capacity Utilization (%)
Botswana	60	-
Lesotho	68	-
Malawi	63	59
Mauritius	83	93
Mozambique	67	32
Namibia	41	-
South Africa	77	64
Swaziland	73	-
Tanzania	84	68
Zambia	22	62
Zimbabwe	36	87

Source: Coughlin et al (2001); 1999 data (Swaziland 1998 data)

In South Africa, data suggest that multifactor productivity has improved in the clothing sector during the 1990s – with the majority of these gains evident in the latter half of the 1990s – suggesting that the factors of production have been reorganized efficiently. Capital productivity fluctuated considerably from 1996 onwards, while labor productivity failed to improve, with figures for 2000 below 1993 levels.

9.2 THE MOTOR INDUSTRY IN SOUTH AFRICA[31]

A range of government policies have significantly affected the South African motor industry. Earlier policies of heavy protection have been replaced by a system that encourages export orientation. These policies of import substitution imposed high costs on consumers and also led to an inefficient industry structure. More recent export subsidy policies have encouraged export expansion and a degree of specialization. However, outcomes will depend on the extent to which new export activity is sustainable at lower levels of assistance.

Phase IV of the local content program, introduced in 1989, saw the government move away from import substitution toward export promotion policies. One reason for this shift was the realization that foreign exchange shortages of recent decades could be alleviated through increased exports. Government policies had previously looked to local content requirement to minimize forex demand. While Phase IV was intended to rationalize production, the actual result was a proliferation of new domestic models. "Under Phase IV the effective rate of protection increased as high nominal tariff rates on built up vehicles were maintained, while protection on the component sector fell sharply as the local content requirement was relaxed and assemblers were increasingly able to rebate import duties on components" (Black and Mitchell, 2002).

[31] Data obtained from NAAMSA, DTI and articles by Anthony Black (see references).

In 1995, the government introduced the Motor Industry Development Program (MIDP). Key features of the MIDP were:

- reduced tariffs on light vehicles and components, with tariffs being phased down even faster than required by WTO obligations;
- removal of local content requirements;
- duty free import of components up to 27% of the wholesale value of the vehicle;
- duty rebate credits to be earned on exports of vehicles and components and used for duty free import of vehicles and components.

The current policy, which runs to 2007, aims to phase down assistance to the automotive industry in two main ways. Tariffs are set to continue to fall, while exporters are set to obtain reduced assistance as credits earned per unit of export are phased down.

There have been dramatic changes to the motor industry in South Africa since the introduction of the MIDP. There was an impressive increase in imports of vehicles, many brought in using duty free credits, with imported components also taking advantage of duty free savings. In 2000, 95% of the value of imported components came in duty free. In addition, exports of both vehicles and component parts have increased. However, the existence of significant export subsidies in the motor industry suggests that the subsector operates with a high rate of effective protection, adding to concerns as regards the sustainability of export expansion as complementation arrangements are phased out over time. However, at present, the automotive sector continues to expand.

Table 21 – South African Vehicle Production and Sales Data, 1995-2001

	1995	1996	1997	1998	1999	2000	2001
Sale of domestically produced vehicles	373,712	374,758	342,535	286,159	266,349	289,333	299,035
Exports	15,764	11,553	19,569	25,896	59,716	68,031	108,001
Total domestic production	389,476	386,311	362,104	312,055	326,065	357,364	407,036
Exports as % of domestic production	4.00%	3.00%	5.40%	8.30%	18.30%	19.00%	26.50%
Imports	22,081	46,318	56,740	65,351	59,426	66,749	85,064
Total local market (incl. Imports)	395,793	421,076	399,275	351,510	325,775	356,082	384,099
Imports as % of local market	5.50%	11.00%	14.20%	18.60%	18.20%	18.70%	22.1%

Source: NAAMSA (2002)

Vehicle exports remained modest for the first few years after the introduction of the MIDP, however more recent figures show strong growth. The domestic new vehicle market has shown a strong revival since the end of 1999. Falling interest rates, increasing consumer confidence and the surge in vehicle export volumes gave impetus to new vehicle sales, which

increased by 9.3% in 2000 compared to 1999. Light vehicle exports have increased from 19,500 units in 1997 to 68,000 units in 2000, providing added boost to investment in the components industry. Furthermore, the weakness in the rand against international currencies over recent years has further improved the competitiveness of South African exports, with vehicle manufacturers continuing to increase export volumes into 2001. Exports rose by almost 60% in 2001 from 2000, with exports accounting for over one quarter of total domestic production in 2001.

With regards the components industry, export expansion has been rapid. From negligible levels in the mid-1980s, components grew to approximately ZAR1,200 million in 1992 and ZAR3,300 million by 1995 (by taking advantage of Phase IV). Under the MIDP, component exports have continued to increase, with DTI figures for 2000 at ZAR12,600 million. However, while government policy had been hoping to boost the export potential of domestic component manufacturers – and while this has been achieved to a certain extent – there is a rapidly growing new group of foreign-owned firms, often linked to existing vehicle manufacturers, that have taken advantage of government policy and are pushing export volumes. Thus far, much of this export expansion has occurred in a small range of products (e.g. 52% of total component exports for 2000 were made up of stitched leather covers and catalytic converters), although these industries have grown into large scale industries capable of competing in the international arena. However, there is increasing evidence that a wider range of component industries is looking to export markets for expansion purposes.

Table 22 – Industry Export Revenue Figures (ZAR million)

Year	Value of Components Exports	Value of Built-up Vehicle Exports	Total
1990	287	381	668
1991	523	392	915
1992	832	419	1,251
1993	1,307	581	1,888
1994	1,550	695	2,245
1995	3,318	900	4,216
1996	4,051	750	4,801
1997	5,115	1,600	6,715
1998	7,895	2,100	9,995
1999	9,600	5,200	14,800
2000	12,640	7,400	20,040
2001	18,585	11,400	29,985
2002*	24,500	15,500	40,000

* Projected figures
Source: NAAMSA (2002), Motor Industry Development Council

According to National Association of Automotive Component and Allied Manufacturers (Business Day, 12 August 2002), the motor manufacturing industry contributed 5.5% to GDP in 2001. This places the motoring and related components industry behind the mining and agricultural sectors in terms of their contribution to the South African economy. "South

Africa's capabilities as a manufacturer and supplier of components, after market parts, and vehicles, has been firmly established and currently major automotive component exports comprise catalytic converters, leather seat covers and parts, engines and engine parts, road wheels, automotive tooling, safety glass, tyres and tubes, batteries, radiators. Germany remains the largest export market for South African automotive components, whilst Europe as a whole accounts for over 70% of industry component exports. Current exports of built-up vehicles are supplied to Europe, the Far East, the US, Australia and Africa"[32]. Still according to NAAMSA, vehicles and components make up 9.3% of all of South Africa's exports.

Table 23 – Destination of Vehicle Export by Value

	Passenger cars and light commercial vehicles					Medium and heavy commercial vehicles				
	1997 (%)	1998 (%)	1999 (%)	2000 (%)	2001 (%)	1997 (%)	1998 (%)	1999 (%)	2000 (%)	2001 (%)
Angola	-	-	-	-	-	4	1	2	2	2
Australia	19	15	10	12	10	-	-	1	2	1
Belgium	-	-	-	-	-	-	1	3	6	3
Germany	5	25	57	37	19	-	-	-	4	5
Hong Kong	-	-	-	1	2	-	-	-	-	-
Japan	-	-	-	11	13	-	-	-	-	-
Kenya	-	-	-	-	-	3	7	1	2	-
Malawi	7	4	2	2	1	19	12	16	13	10
Mauritius	1	1	1	1	-	-	-	-	-	-
Mozambique	9	7	4	4	2	19	23	28	17	21
Nigeria	-	-	-	-	-	-	-	-	-	1
Portugal	-	-	-	-	-	-	-	-	2	-
Singapore	-	-	1	2	3	-	-	-	-	-
Taiwan	5	4	3	4	2	-	-	-	1	-
Tanzania	-	-	-	-	-	3	4	2	3	2
UK	2	15	13	12	18	3	-	4	8	3
USA	-	-	-	7	18	-	4	27	15	16
Zambia	6	6	2	3	2	12	7	6	13	13
Zimbabwe	18	8	2	1	3	25	17	4	7	7
EU	7.2	41.2	69.9	52.8	37.6	2.7	1.5	8.2	28.2	9.4
NAFTA	-	-	1.0	7.3	17.9	0.5	7.8	26.9	14.7	16.2
SADC	46.3	27.0	11.3	11.9	9.2	81.8	65.7	59.5	55.9	56.5
Other	28	15	5	6	6	12	24	6	5	7

Source: TISA

It is anticipated that SADC should regain some of its lost momentum over coming years (particularly should current global and regional economic difficulties ease) as regional demand and commercial traffic (e.g. through the Maputo Corridor) from South Africa increases. Furthermore, AGOA has added to South Africa's potential export market by allowing South African vehicles, under certain conditions, to qualify for duty free and quota free access to the US market for an eight-year period from 1 January, 2001. This 25% duty saving should provide more export potential into the US.

[32] NAAMSA, 2001 Annual Report.

The South African government sees the automotive industry as a key growth area as far as the future of the RSA economy is concerned. According to DTI reports, it is committed to stimulating export and investment promotion, via a host of supply side support mechanisms and skills support programs, while also actively pursuing ways to address logistics and raw material costs.

According to NAAMSA, employment in the South African auto industry fell from around 310,000 to 280,000 over the last seven years, while the monthly average of employees in the vehicle manufacturing sector has fallen from 37,845 in 1990 to 32,700 in 2000, although this has also involved a move from low skilled to high skilled employment.

Table 24 – Average Monthly Employment Figures for the RSA Automotive Industry

	1995	1996	1997	1998	1999	2000	2001
Total	308,600	317,600	304,600	282,800	276,000	275,400	279,700

Source: NAAMSA (2002)

South Africa's vehicle manufacturing capacity utilization remains below the global average capacity utilization rate, which currently stands at 75%, although improvements were recorded in 2001. Table 4.25 compares capacity utilization rates between 1995 and 2001.

Table 25 – Industry Average Capacity Utilization Levels

	1995	1997	2000	2001
Cars	84.3%	77.3%	66.1%	72.2%
Light Commercials	81.7%	70.6%	60.2%	62.6%
Medium Commercials	81.3%	77.6%	64.2%	69.8%
Heavy Commercial	81.9%	74.2%	74.8%	78.1%

Source: NAAMSA (2002)

One of the measures used by the DTI to analyze the performance of the automotive industry relates to industry net profit before tax. The data seems to indicate that the introduction of the MIDP resulted in far more competitive market conditions and severe pressure on manufacturer's margins from 1995 through to 2000.

Table 26 – Aggregate Industry Profitability Trends

	1995	1996	1997	1998	1999	2000	2001
ZAR million	2,038	520	(547)	109	79	1,285	3,717

Source : NAAMSA (2002)

During 2000, better domestic and export sales saw an improvement in industry profitability and it is expected that this trend has continued through to 2002. More importantly, NAAMSA estimates that RSA productivity has increased from 7.5 vehicles per employee per year in 1996 to 12.6 in 2001. Compare this to Australia where productivity improved from 16.1 in 1996 to 17.7 in 2000, while Japan's productivity stood at 42.2 in 2000. As a further

boost to profitability, NAAMSA estimates that direct labor costs in the vehicle assembly industry have fallen by 30% over the past five years.

9.3 THE REST OF SADC AND THE AUTOMOTIVE INDUSTRY

The automotive industry is small in the region, with non South African countries adding little to the overall market (see Table 27). Trade in vehicles and components are mainly from South Africa to other SADC members. Furthermore, inter-linkages between automotive industries across the region remain modest. These factors have and continue to constrain potential with regards to regional integration in the automotive industry within SADC. As a result, while regional and continental initiatives exist, the goal of a sustainable automotive industry in South Africa has seen the development of trade and investment ties with major automotive producing regions. In particular, South Africa's central location with respect to the markets of the Pacific Rim and Latin America are being emphasized. This route is considered central to establishing reasonable production volumes and the long-term survival of the automotive industry.

Table 27 – Car Production in Africa

Country	Units Produced 2000	% of African Total	Units Produced 2001	% of African Total
South Africa	357,364	79.3%	407,036	80.3%
Egypt	59,765	13.3%	61,549	12.1%
Morocco	19,432	4.3%	21,545	4.3%
Nigeria	7,384	1.5%	8,090	1.6%
Libya	2,040	0.5%	6,840	1.3%
Djibouti	1,680	0.4%	-	-
Botswana	1,608	0.4%	-	-
Zimbabwe	792	0.2%	1,481	0.3%
Kenya	288	0.1%	288	0.1%
Total	450,353	100%	506,829	100%

Source : NAAMSA

NAAMSA figures for global motor vehicle production show that South Africa produced 317,367 units in 1999, rising to 357,364 in 2000 (an annual increase of 12%) and 407,036 in 2001 (an annual increase of almost 14%). This accounted for 0.72% of total world production in 2001, placing South Africa at 18th on the ranking of top vehicle producing countries, a list dominated by the US and Japan that produce 20.32% and 17.35% of world production respectively. However, South Africa produces nearly 80% of passenger cars produced in Africa and approximately 70% of commercial vehicles. According to manufacturing data, Botswana produced 4,560 units in 1999 before falling to 1,608 in 2000 and zero in 2001 following the closure of the Hyundai plant due to financial difficulties. Zimbabwe is thought to have produced 577 units in 1999, increasing to 792 units in 2000 and 1,481 units in 2001. More recent data is unavailable although the current economic and political crisis that has manifested in Zimbabwe is likely to have impacted negatively on manufacturing in general, with the automotive industry no exception. Recent reports suggest

that motor industry firms in Zimbabwe have substantially cut down or even ceased operations[33]. Kenya is estimated to produce a small amount of units, at a mere 288 in 2000 and 2001, a 22% fall from 1999 levels. With regards other African countries, Nigerian figures indicate strong growth of 27% in 2000 and 10% in 2001, with manufacturers producing 7,834 units in 2000 and 8,090 units in 2001. Other SADC member states produce mostly small-scale component products, catering for the aftermarket, although many struggle to compete against South African firms[34]. For example, Mozambique produces exhausts, batteries, tyres, radiators, brake shoes and springs. Zambia's light vehicle assembly failed to survive structural adjustment.

9.4 THE SUGAR INDUSTRY

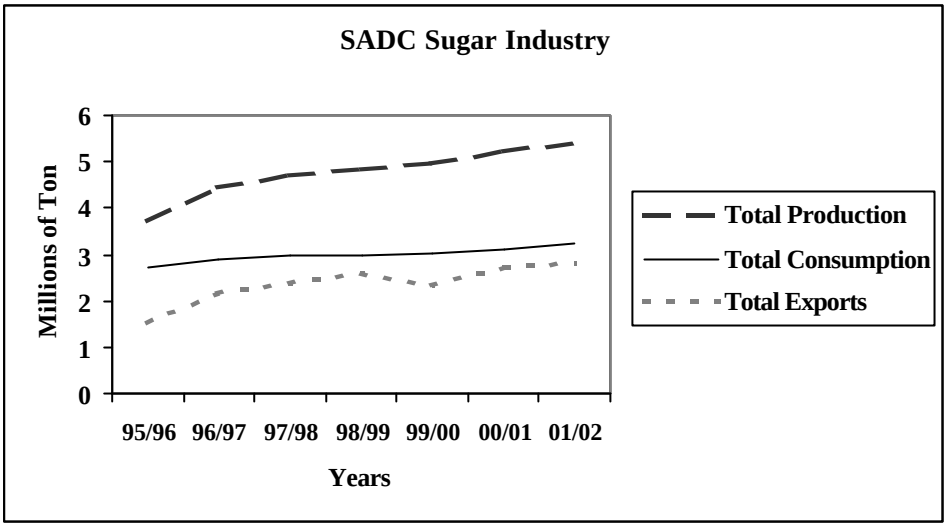
Most sugar produced worldwide is either consumed domestically or traded under preferential agreements, or both. Only 9% of total world sugar production is traded on non-preferential (i.e. MFN) terms on the world market, thus allowing for temporary surpluses and deficits to be traded in this residual market. As a result, long run average world raw and white sugar prices are below the cost of production in the vast majority of sugar producing countries.

Excellent growing conditions, high yielding cane varieties and relatively low milling costs combine to position SADC as one of the world's largest sugar producing regions with an average annual production of 3.8 million tons. In addition, sugar is an ideal development crop: it is relatively easy to grow, easy to market through arrangements with nearby mills, gives a return within 12 to 14 months on average and needs replanting only after eight to 10 years. There are eight main sugar-producing countries in the region: Malawi, Mauritius, Mozambique, Swaziland, South Africa, Tanzania, Zambia and Zimbabwe. Angola and the DRC also have modest sugar industries.

SADC, as a low cost production area, is a net exporter of sugar. Like all sugar-producing countries, SADC member states have import tariffs to protect domestic markets as well as non tariff barriers to trade, although there is little in the way of farmer support programs as is evident in Europe and elsewhere. According to various data, a number of SADC countries are ranked in the top 16 lowest cost producers of sugar. Malawi was the lowest cost producer, with Zambia, Zimbabwe, Swaziland, and Kenya all below 9th position. South Africa was ranked at number 24. Obviously currency issues, combined with macroeconomic difficulties are likely to have altered these ranking, but the essential fact remains that SADC producers are amongst the cheapest in the world.

[33] The country's largest motor vehicle assembly plant closed indefinitely in June 2001 as a result of foreign exchange shortages (EIU Country Report, 2002).

[34] Component production and the after-sales market play an increasingly important role in SADC economies.



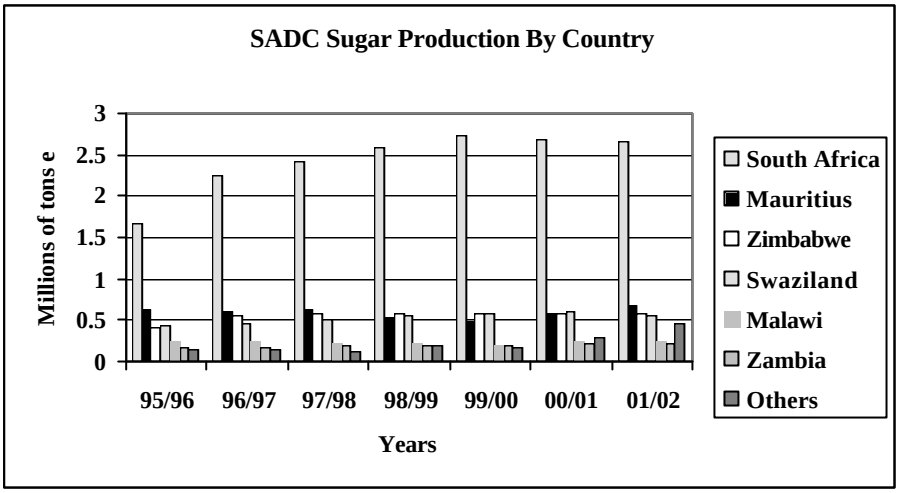
Source: South African Sugar Association (SASA)

SADC countries enjoy preferential access to one or more of the major markets in the North. The two main agreements that have benefited SADC countries are the Sugar Protocol (Annex to the Lomé Convention, but a separate legal entity) and the US Quota System. Currently negotiations are underway to determine the way forward for the liberalization of the sugar industry, although given the highly protectionist attitude to this industry the world over, liberalization is likely will be phased in only slowly over time (10-15 years).

Total consumption has increased by less than 20% since the mid-1990s. However, both production figures and exports have shown more substantive growth. Production increased by roughly 46% from the 1995/96 sugar season to the 2001/02 season. Exports have almost doubled over the same timeframe, growing by over 86%. Within this boom in sugar exports, it is worth noting that intra-SADC trade remains modest. SADC countries are for the most part single desk[35] sellers with South Africa, Malawi and Mauritius having a similar pattern but with some refined sugar sales being conducted by individual producers. Most are single channel exporters and all have equal export obligation agreements in place within their individual countries.

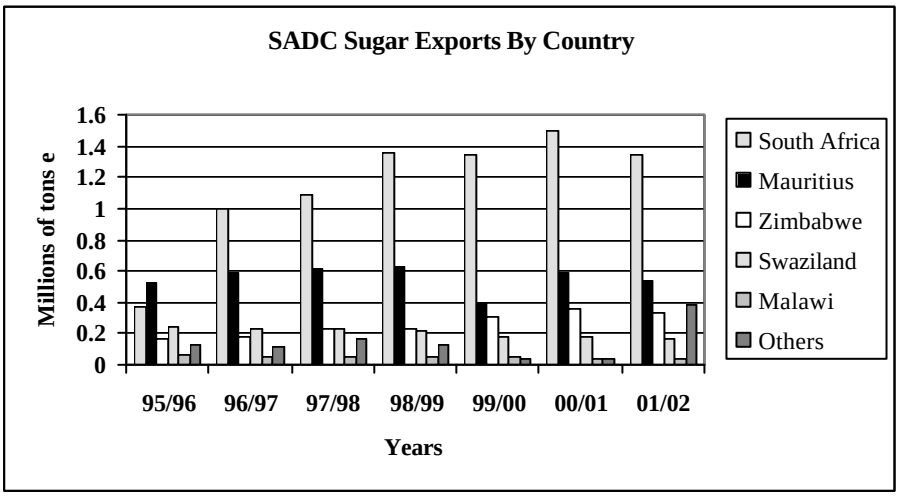
Producers and governments continue to protect their local sugar industry amidst fears of cheaper imports marginalizing domestic production. South Africa remains the largest sugar producer in the region, accounting for almost half of the region's sugar production in 2001/02. The South African sugar industry is a proceeds-sharing partnership between millers and growers that was formalized by the Sugar Act in 1935. Similar partnerships exist in all other sugarcane growing countries in the world. In South Africa, there are around 47,000 growers, 45,000 of these can be classified as small scale growers that in the 1997/98 sugar year produced 19% of total South African production.

[35] A single desk system is operated where a single body or organization is responsible for all marketing and selling of a product within the domestic or export market or both.



Source: SASA

The second largest producer is Mauritius where sugarcane production expanded by 52.5% in 2000 and continued to recover from 1999 drought conditions. Following the sector's boom during the 1970s, the sugar sector has expanded steadily over the last two decades mainly due to the Sugar Protocol and Special Preferential Sugar (SPS) Agreement with the EU, which allowed exports at a guaranteed price that has averaged around three times the world price since the late 1990s. As a result, almost the entire production is sold to the EU. Any changes to this guaranteed EU sugar price as well as the erosion of preferential access to the EU could well hinder future developments in this sector, as Mauritius loses out to more competitive producers elsewhere.



Source: SASA

There are plans for the reintroduction of the sugar industry in Mozambique and Angola – both countries continue to produce well below potential levels of the sugar industry as they continue with their rehabilitation programs following decades of armed conflict[36].

[36] The Angolan government is planning to sell a 70% stake in the country's largest sugar mill (EIU Country Report, 2002).

Overall, according to South African government documents, sugar production in the region, with the exception of Mauritius, has further potential to expand (see DTI 1999). As some of the cheapest sugar producers in the world, government policies across the region remain focused on ensuring the survival of this sector as international plans towards liberalization gain momentum, so that the SADC sugar industry can remain a global competitor well into the future.

Table 4.28 – Number of Mills in SADC

	Number of Mills
Angola	2
Malawi	2
Mauritius	16
Mozambique	3
South Africa	16
Swaziland	3
Tanzania	5
Zimbabwe	2
Zambia	1

Source: DTI (1999)

There are a total of 50 mills throughout the SADC region. The highest proportion are found in Mauritius and South Africa, with Tanzania the next highest with five mills. South Africa has six refineries. The South African mills are all privately owned. The mills in the other SADC countries are largely public/private partnerships, with some form of government ownership (government control is evident only in Swaziland and Tanzania, with Tanzanian mills scheduled for privatization).

In terms of employment in the sugar industry, the following are recent estimates obtained from DTI (1999). It is worth noting that there are also large numbers employed in related downstream industries, e.g. high test molasses byproduct industry; sugar containing product industry.

Table 4.29 – SADC Sugar Industry Employment Levels (Direct and Indirect Employment)

	Numbers
South Africa	182,000
Swaziland	17,300
Botswana/Lesotho/ Namibia*	2,000
SACU	301,300
SADC (incl. SACU)	601,300
SADC (estimated potential)	707,000

* Indirect employment only – transport, packaging, warehousing and distribution
Source: DTI (1999)

9.5 THE WHEAT INDUSTRY

SADC is not self-sufficient in wheat production, with flour production essentially an import substitution industry in the region and with little cross-border trade. Outside of South Africa and Zimbabwe, only modest volumes of wheat are produced in Lesotho, Tanzania and Zambia. Almost 50% of SADC wheat consumption is imported, while South Africa and Zimbabwe, the two largest producers, must import wheat to meet the requirements of flour millers. South Africa, Zambia and Zimbabwe produce 60% of their domestic wheat requirements, while Tanzania produces 36%. The remaining SADC countries all produce less than 10% of their requirements with Mauritius, Mozambique and Swaziland producing less that one percent.

Table 30 – Wheat Consumption, Production, Imports and Exports in SADC

	Consumption ('000 tons)	Production ('000 tons)	Imports ('000 tons)	Exports ('000 tons)
Botswana	78	1	81	3
Lesotho	70	5	74	9
Malawi	60	2	58	0
Mauritius	103	0	133	30
Mozambique	108	0	180	0
Namibia	60	6	57	3
South Africa	2,500	1,800	830	130
Swaziland	40	0	40	0
Tanzania	250	90	190	30
Zambia	115	70	45	0
Zimbabwe	420	300	190	70
Total	3,876	2,274	1,878	275

Source: Flatters (2002a)

In line with increasing demand across the region and static production levels, imports of wheat in the SADC region have exhibited an increasing trend during the 1990s. There are however, limited prospects for growth of internationally competitive wheat production in the region, particularly given plans to lower/eliminate protection levels over the coming years amongst SADC member states. At present, except for Malawi and Mauritius (both at 0%), all SADC member states provide very high levels of effective protection to their local milling industries, with Tanzania at 25%, Zambia at 75% and the other SADC countries all above 98% (Flatters 2002a). Most flour milling industries in the region have developed behind protective barriers: tariffs (SACU, Mozambique, Tanzania, Zambia, Zimbabwe), import licensing (Botswana, Namibia, Swaziland, Zimbabwe), and other controls (e.g. the Mauritius State Trading Corporation).

Given the high rates of tariffs and other import barriers, the bulk of flour protection in most Member States is sold in their domestic markets, there is very little intra-SADC trade. Malawi generally accounts for the bulk of intra-SADC imports of flour and Mauritius for its exports. Zimbabwe is both an importer and exporter of flour within SADC. Trade also occurs

between Zimbabwe and Zambia while South Africa has exported small amounts to a number of SADC member states.

10 ROLE OF PUBLIC ENTERPRISES

The privatization of publicly owned enterprises gained momentum throughout the SADC region during the 1990s. Substantial privatization has taken place in countries such as Mozambique and Zambia, with both foreign and domestic investors taking advantage of government policies. The result has been the emergence of privately owned/controlled enterprises across a gamut of sectors, including manufacturing (for example, sugar milling operations across the region).

Public investment as a percentage of gross capital formation in SADC economies, while declining in some countries, accounts for a relatively large proportion of total investment. Moreover, public enterprises continue to play a role in manufacturing through their control of non traded costs in most countries (i.e. electricity, transport, telecommunications). Another key government influence exists with regards to port facilities, which are still government owned – transport efficiency remains a key concern in terms of export potential (a fact that has been recognized by governments across the region). In addition, EPZs and SDIs continue to be largely owned and managed by government affiliated agencies, for example, the Eastern Cape Development Corporation will run the Coega IDZ.

11 INVESTMENT FLOWS[37]

According to a recent IMF report on FDI flows in Africa, sustained efforts to promote political and macroeconomic stability and implement essential structural reforms have been the key elements contributing to the success of certain countries in the region in attracting significantly higher volumes of FDI. Strong leadership, sound monetary and fiscal policies, an appropriate exchange rate policy, the desire to remove structural impediments to private sector activity and the adoption of investor friendly policies have all contributed to attracting FDI. In general though, substantial FDI flows in the region have occurred in countries with abundant natural resources, i.e. the mining of high value minerals and petroleum, and in countries with privatization programs. Indeed, privatization has been a major source of FDI inflows into Africa through the 1990s.

The evidence from across the region seems to suggest that while investment in manufacturing has been modest as best, domestic and foreign investment has taken place where government restrictions are non existent or limited. Furthermore, foreign investment has tended to result in deeper and more beneficial firm linkages, with the domestic operations often integrated into the firm's worldwide operations. These firms also tend to be more technically advanced, with skills levels higher than in similar domestic operations. A further tendency has been investment in SACU countries, spurred on by easier access to the substantial South African

[37] This section based on IMF (2002b) and World Investment Report , UNCTAD 2001.

market. Overall though, there has been substantial commitment from governments across the region to attracting increasing volumes of FDI across the major sectors of the economy, including manufacturing.

Investment rates have generally been low in the South African manufacturing sector. In fact, the evidence seems to suggest that investment rates have tended to decline, with manufacturing investment growing more slowly than most other sectors. However, despite the overall trend, there are certain subsectors that are experiencing robust investment growth – these include plastics products, leather, television, radio and communications equipment, motor vehicles and parts, paper and paper products, and basic chemicals, although these sectors unfortunately make up only a small share of total manufacturing. On a positive note, 2001 saw a modest improvement in overall investment rates, with many sectors showing moderate increases.

The evidence[38] seems to indicate that there is a high correlation between export oriented industries and high rates of investment. Furthermore, it appears most investment across the region is focused on capital equipment and capital- and skills-intensive technologies as firms look to build export capabilities.

The table below illustrates the fact that FDI into the SADC region has gained momentum during the 1990s. **South Africa** and **Angola** dominate FDI inflows (South Africa largely through privatization related inflows, while Angolan FDI is concentrated in the oil industry). Overall though, FDI inflows into Africa make up an extremely small percentage of global FDI flows, with data for 2000 and 2001 showing Africa's share of global FDI at a mere 2.3% (marginally lower than the 2.6% recorded in 1990). SADC accounted for only 1.2% of global FDI flows in 2001. In addition to South Africa and Angola, other countries have seen improvements in their FDI flows through the decade, with **Mozambique** one of the star performers. FDI has played a central part in economic growth in Mozambique since the mid-1990s. Privatization of firms in the tourism, industry and banking sectors dominated FDI until 1996, while inflows directed towards the exploitation of natural resources gained momentum in the latter half of the 1990s. Annual FDI inflows averaged US$156 million from 1995-2000. In **Botswana**, FDI in manufacturing accounts for less than 10% of the total stock of FDI inflows despite the fact that evidence suggests that there has been substantial diversification of FDI across the sectors of the economy in both Botswana and **Namibia**. FDI into Namibia averaged 4% of GDP per annum in the second half of the 1990s. **Mauritius** has attracted significant amounts of FDI, largely export oriented through the creation of the EPZ facility and the provision of tax incentives combined with an investment enabling framework. **Uganda** has also seen an improvement in FDI flows in the latter half of the 1990s. FDI averaged US$184 million annually from 1995-2000, a vast improvement on US$23 million per annum during 1989-1994.

According to results from a joint UNCTAD/ICC survey in 1999/2000, Mozambique, South Africa, Uganda and Tanzania were considered to be the most attractive FDI destinations of the region. More recently, FDI has gained momentum in countries such as Lesotho, Namibia,

[38] See for example World Bank GMJA surveys (2001a, 2001b).

and Swaziland as investors look to take advantage of AGOA related benefits in these countries.

Table 31 – FDI Inflows 1987-2000, US$ million

	1987-92 annual ave.	1993	1994	1995	1996	1997	1998	1999	2000	2001
Angola	178	302	170	472	181	412	1114	2471	879	1119
Botswana	47	-287	-14	70	71	100	96	37	57	57
DRC**	-11	7	-2	-22	25	-44	61	11	23	32
Lesotho	85	254	273	275	286	269	262	163	119	118
Malawi	12e	11	9	25	44	22	70	60e	45e	58e
Mauritius	26	15	20	19	37	55	12	49	277	12
Mozambique	12	32	35	45	73	64	235	382	139	255
Namibia	44e	55	98	153	129	84	77	111	153	99
Seychelles	19	19	30	40	30	54	55	60	56	34
South Africa	-10	10	380	1241	818	3817	561	1502	888	6653
Swaziland	62	72	63	44	22	-15	152	100	-19	69
Tanzania	4	20	50	150	149	158	172	183	193	224
Zambia	102e	314e	40	97	117	207	198	163	122	72
Zimbabwe	-8	38	41	118	81	135	444	59	23	5
SADC TOTAL	562	862	1193	2727	2063	5318	3509	5351	2955	8807
Kenya	31	2	4	33	13	40	42	42	127	50
Madagascar	13e	15	6	10	10	14	16	58	70	108
Uganda	0.2e	55	88	121	121	175	210	222	254	229

e – estimate
Source: World Investment Report, UNCTAD, 2001

12 EXPORT PROCESSING ZONES (EPZs)

EPZs provide duty free access to imported inputs along with other fiscal incentives or infrastructural support. Countries in East Asia, Central America and the Caribbean basin have successfully used EPZs to kick-start economic development. Africa, with the exception of Mauritius, has been far less successful. "While investment incentives provided are often generous, restrictive provisions and bureaucratic procedures erode their effectiveness. The cornerstone of a successful free zone program is the transparency and comprehensiveness of the incentives offered and the quick response to their application, without the need for elaborate qualifying criteria. Other weaknesses include weak government bodies established to develop and operate zones, and regulate free zone activity."[39]

Mauritius is often cited as the exception to the rule of the lack of EPZ success in Africa, despite the fact that almost all SADC members have introduced EPZs in some form or

[39] World Bank (2001d).

another. The Mauritian EPZ, which was established in 1970, provided concessions and incentives to export oriented enterprises. Legislation is such that in addition to industrial estates, individual firms with an approved status are also eligible for EPZ status. This effectively makes the whole country an EPZ. Combined with preferential access to the EU (Lomé Convention, Cotonou Agreement), Mauritius has been able to attract substantial FDI, particularly into the labor intensive clothing and textile sector[40]. By December 1997, there were 480 EPZ enterprises in Mauritius, employing 82,083 people. Over two thirds of these enterprises were in the wearing and apparel industry, with 11% producing textiles. In the 1980s over 80% of exports originated from foreign firms. This has shifted considerably, with the majority of goods now exported by domestically owned firms. Of particular interest is the fact that while most EPZs look to foreign investors, Mauritius saw substantial investment by local entrepreneurs.

In South Africa, the government has initiated a program to foster the development of Industrial Development Zones (IDZs)[41]. According to the DTI, IDZs are "purpose-built industrial estates linked to an international port or airport in which quality infrastructure and expedited customs procedures are coupled with unique duty free operating environments suited to export-oriented production"[42]. Their aim is to boost the international competitiveness of the South African manufacturing sector. IDZs are part of the broader Spatial Development Initiative (SDI) program, which aims to encourage private sector participation in providing infrastructure in areas with abundant unutilized potential. However, all existing legislation will apply equally to domestic and foreign investors; EPZ/IDZ legislation elsewhere tends to focus on reducing the obligations of foreign investors.

Given the South African government's increasing attention to the objectives of NEPAD and an "African Renaissance", SDIs have increasingly focused on the Southern African region. A number of SDIs are currently underway in Southern African countries. Their aim is to unlock inherent economic potential in specific Southern African locations by enhancing their attractiveness for investment. This is done through the identification of existing constraints to economic development. Twelve SDIs have been identified in South Africa alone, all at varying stages of development. Seven of these have identified nearly 800 investment opportunities worth US$32.4 billion and with the capacity to create 85,000 jobs. Meanwhile, other Southern African countries have a number of SDI initiatives in preparation, including Malawi, Mozambique and Namibia. Significantly, in some instances the SDIs require cooperation between Southern African governments: the Maputo Development Corridor is a cooperative venture between South Africa and Mozambique that has already attracted over ZAR3 billion worth of investment into its area of operations[42].

The IDZs will consist of two zones of operations. The first is a Customs Secured Area (CSA), a delineated area with entrance and exit points controlled by Customs personnel providing

[40] There is an argument that suggests that Mauritius has been able to take advantage of preferential trade agreements to make EPZs the success story that they are today and that, with the exception of the EPZs, the country remains highly protectionist.

[41] Examples of IDZs can be found in a number of countries including China and Korea.

[42] www.dti.gov.za.

rapid inspection and clearance services and a one-stop administrative centre to facilitate approval and permitting processes. Each CSA based enterprise will be eligible for:

- Duty free import of production related raw materials and inputs;
- Zero rate on VAT for supplies procured from South Africa; and
- Right to sell into South Africa by paying normal import duties on finished goods. Minimum export quotas will not apply.

The second zone of operation is the Industries and Services Area which is defined as a leading industrial and office park environment adjacent to a CSA, typically occupied by service providers to CSA enterprises or industries beneficiating local raw materials.

Twelve potential IDZ locations, all strategically located close to an international port/airport, have been identified. Coega[43], Richards Bay, East London and Johannesburg International Airport are at varying stages of development. The IDZ at Coega is the most advanced; designation occurred in late 2001, with a Provisional Operators License already in existence. Twelve months after issuing the Provisional License, the Operators License will be granted and the IDZ will then become fully operational.

In mid-August 2002, Transnet and the South African government approved three major contracts worth over ZAR2 billion. The contracts, which will have a major effect on the Eastern Cape economy, provide for the construction of the Ngqura port, the control of sand erosion around the harbor and the dredging of the harbor to accommodate ships of up to 80,000 tons. It is anticipated that ZAR600 million will be spent with Black Empowerment companies; that the contracts will create around 900 jobs over a three-year period and that the first ships should enter the harbor in late 2004. The other three IDZs still have some way to go before reaching the current developmental stage of the Coega IDZ.

EPZs increasingly have a central role to play in terms of government incentives aimed at promoting exports. For example, the **Seychelles** has recently introduced Seychelles International Trade Zones in an attempt to attract investment in manufacturing activities. These trade zones offer attractive investment incentives, including corporate tax exemption, no customs duty on capital equipment or consumables used in the zone, no social security contributions, no capital gains tax, no withholding tax and no tax on dividends. There are also no restrictions on foreign ownership of companies. In **Lesotho**, construction began in mid-2002 on a new industrial park, Botha-Bothe, funded by the Chinese government. It is expect that the park will be completed by early next year, with facilities anticipated for wood and metalworking and garment processing businesses.

A potentially significant anomaly should be pointed out, that has emerged with regards EPZs, given the tightly controlled access to the domestic market of firms located in EPZs or with

[43] Coega is to consist of a deepwater port (Port of Ngqurha) to act as a natural transshipment hub in Southern Africa, which will enable vessels greater than 6000 TEUs to call at more than one South African port. The IDZ will cover an area of 12,000 hectares and will include various industrial parks or clusters where different types of manufacturing industries and parks will be located including metallurgical, electronic, automotive and textile factories. The development will occur over a 50 year period. (See www.coega.co.za).

EPZ status. This anomaly has generated incentives that were likely not intended. Specifically, firms in a Namibian EPZ generally do not have access to the South African market under existing SACU rules (even if they meet SADC rules of origin regulations). However, an identical firm in a non-SACU country within SADC would have access to the South African market. This anomaly could have important investment repercussions.

13 MAJOR CONSTRAINTS

While a range of issues are considered by investors to be a hindrance to investment potential in a region, the key criterion that emerges time and again in terms of facilitating investment flows, particularly foreign investment, remains a stable macroeconomic and political environment. A number of other issues considered to be important are covered below.

While macroeconomic developments are improving across the region (bar a few exceptions), political issues are a concern. One consequence of the Zimbabwean crisis has been the negative impact on regional foreign investment in light of the increase in perception of political risk associated with African investment.

Non traded costs are also perceived to be a significant constraint to investment flows across the region. Non traded costs, such as telecommunications, electricity and transport, are substantially higher in many countries of the region as a result of the existing regulatory environment. An example of this is found in Malawi, where government regulations have ensured that transport costs remain a hindrance to producers despite cheap labor costs and other incentives. Similar examples are found across the region and have been cited as a cause for the modest levels of investment that prevail despite government incentives aimed at the opposite.

It has persistently been pointed out that one of the greatest difficulties in measuring intra-regional trade in developing regions, such as the SADC region, is the paucity of reliable trade data. Moreover, the larger the size of the informal market, the less convincing the data. This can and does limit the usefulness of official trade data in terms of policy prescriptions geared towards improving export potential in many countries.

The World Bank survey of GMJA already cited attempted to ascertain the leading constraints to increased growth for large firms. In descending order, the leading constraints were ranked as follows: 1) crime and theft; 2) labor regulations, interest rates and exchange rate volatility (equal ranks); 3) corruption in government; and 4) availability of skills.

Across the region, financial difficulties are an issue. Foreign exchange controls hinder access to cheap capital, while forex shortages limit a firm's ability to purchase capital goods and other key inputs (e.g. Seychelles, Zimbabwe). High interest rates moderate a firm's ability to undertake investment and expand (and this is evident across micro, small, medium and large firms).

AGOA has been cited as a key driver in terms of further developing the region's clothing and textile sectors. However, Zimbabwe's failure to qualify for AGOA status is bound to

negatively affect this sector's regional growth potential given the regional previous reliance on Zimbabwean textile imports.

14 CONCLUSION

In many SADC countries, the manufacturing sector, save a few exceptions, remains of marginal economic importance. However, the existence of sectors that have and continue to show good growth potential, particularly export oriented growth, suggests that there is scope for further growth across a range of manufacturing subsectors. Indeed, the importance of inter- and intra-regional trade in raw materials, most notably within the mining industry, begs the question as to the possible benefits from downstream beneficiation activities relating to not only mining but other output as well.

Patterns of intra-industry trade reveal that in the clothing and textile sector, for example, the potential exists for the development of robust regional supply chain linkages. A very recent development related to this sector is the impact of AGOA. AGOA presents US market access opportunities for African countries in a range of products subject to strict rules of origin. This opportunity to gain access to the US market has initiated a series of relocations to lesser developed countries for which the rules of origin are less stringent (until 2004) than for countries such as South Africa. As a result, new investment across the region has been attracted by AGOA opportunities.

According to the DTI, boosting South Africa's manufacturing sector requires amongst other things the creation of strong downstream value addition in agro-processing, beneficiation of metals and minerals and targeted investment in crucial subsectors that promote economic growth and employment levels. However, targeted investment opportunities in South Africa, with the exception of the automotive industry, have not been as successful as the government had hoped. Moreover, the success of the automotive industry is premised on large export subsidies that contravene WTO regulations, implying some concern as to the potential longer term success and international competitiveness of this industry. Instead, government policy throughout the region should focus on creating an environment that facilitates investment flows and fosters political and macroeconomic stability. Evidence from across the region suggests that a stable, investor friendly environment has resulted in substantially improved investment inflows that continue to boost manufacturing sector performance in a number of SADC countries. For SADC governments looking to bolster their manufacturing sector, this course of action seems the most appropriate and beneficial to the economic wellbeing of the region.

Table 32 – South African Manufacturing Sector Tariff Rates Evolution

	1993 Tariff (%)	1996 Tariff (%)	1999 Tariff (%)	2000 Tariff (%)	2001 Tariff (%)	% Change 1993-2001 (%)
Food	13.4	14.6	14.5	8.4	8.2	-39.0
Beverages	14.3	10.0	10.0	17.7	18.1	26.2
Tobacco	27.8	32.0	31.3	42.8	42.0	51.3
Textiles	49.1	33.0	25.7	16.0	15.7	-68.0
Wearing Apparel	81.0	67.3	50.2	20.1	20.2	-75.1
Leather & leather products	24.0	28.3	28.3	15.2	15.4	-36.0
Footwear	38.0	38.7	28.9	27.6	27.5	-27.7
Wood and wood products	10.9	3.8	3.3	3.1	3.3	-69.6
Paper and paper products	5.6	5.0	5.9	7.1	7.4	32.6
Printing, publishing and recorded media	9.8	2.5	2.1	0.9	1.0	-90.0
Coke and refined petroleum products	9.3	8.6	7.2	2.8	3.7	-59.6
Basic chemicals	1.9	1.5	1.4	2.2	2.2	12.4
Other chemicals and man-made fibers	17.1	8.1	6.9	2.8	2.9	-83.3
Rubber products	20.0	14.8	12.4	16.9	16.2	-18.6
Plastic products	17.9	14.2	12.4	9.7	9.5	-46.8
Glass and glass products	11.2	7.5	6.2	8.2	8.1	-27.6
Non-metallic minerals	10.9	8.2	6.8	5.2	5.2	-52.8
Basic iron and steel	7.2	2.7	2.6	4.1	4.4	-39.8
Basic non-ferrous metals	7.6	3.6	1.8	0.9	0.8	-89.1
Metal products excluding machinery	14.0	8.3	7.2	7.7	7.3	-47.6
Machinery and equipment	6.3	1.5	1.1	2.0	2.1	-67.4
Electrical machinery & apparatus	13.7	4.7	4.3	6.1	6.1	-55.6
Television, radio, and communication equipment	14.3	1.7	3.6	2.8	2.9	-80.0
Professional and scientific equipment	14.2	1.2	0.4	0.5	0.5	-96.2
Motor vehicles, parts and accessories	37.0	39.7	32.9	9.4	10.1	-72.7
Other transport equipment	11.6	2.7	1.9	0.1	0.1	-99.1
Furniture	22.5	22.1	19.5	15.7	15.7	-30.3
Other manufacturing	14.2	1.2	0.4	4.7	4.7	-66.7

Source: TIPS, IDC