REGIONAL ECONOMIC INTEGRATION IN SADC

The Current Status of the Business-Enabling Environment

Objectives and background

The Southern African region (the Southern African Development Community, or SADC) as a whole, has significant economic potential. The governments of the region play a key role in achieving this potential through regional economic integration, ie through enabling the opening of borders for goods and services, as well as through an improved business-enabling environment. These kinds of activities are crucial to achieve this potential, and in order to achieve this goal of improved and sustainable economic development, all stakeholders (including citizens of the region) have to be aware of its enormous potential. On balance, it has been shown that governments which have implemented regional agreements have improved their economies' overall business environment. The result is usually higher economic growth due to more economic activities *within* and more trade *between* countries. More and better jobs will invariably be created. This leads to citizens enjoying a higher purchasing power with access to higher quality goods at better prices. Most importantly, the private sector has to take up the opportunities arising. Companies will be able to produce goods and provide services at better prices – presuming the associated decrease in transaction costs with the elimination of unnecessary barriers. These companies will be able to integrate deeper into (regional and international) value chains and sell more of their produce.

While many political statements on regional economic integration are made in support of regional integration, current and past performance shows relatively slow progress. Significant barriers to doing business within countries and trading between countries continue to exist. Although tariffs have been reduced, transport costs remain high and non-tariff barriers persist. Other barriers include the cost of accessing finance, finding skilled labour and (regulatory) policy uncertainty – to name a few. These factors are still inhibiting companies from trading and achieving the potential associated with greater regional economic integration.

The agenda of growing trade ties and trade volume in SADC has not met expectations. Similarly, the aim of promoting the industrial base and innovation in the region – as laid out in the SADC Regional Indicative Strategic Development Plan (RISDP) – has not been achieved yet. An environment that is more conducive to doing business leading to growth and development needs to be strengthened. Only then will SADC member states experience the growth rates and employment creation goals which they have long been anticipating.

Through this collection of case studies, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and the South African Institute of International Affairs (SAIIA) provide concrete examples of constraints to doing business in the region, as well as potential solutions. The overall objective of the research is to reduce these business constraints by facilitating a dialogue in the SADC region on how to remove these barriers. This will allow the private sector to take advantage of the opportunities offered by regional integration.

The case studies, which range from broad infrastructure constraints to very specific non-tariff barriers, illustrate that the 'solutions' to reducing business constraints are diverse. In some instances, they do not necessarily need a significant *financial* investment. While hard infrastructure investment comes with a need for significant upfront financial investment, other changes do not cost money but might mean that political capital needs to be spent. Political capital refers to trust and confidence in policy makers, which they can use to mobilise support and follow through with necessary reforms – some of which might not enjoy popular support. These reforms include necessary regulatory changes, getting rid of burdensome administrative procedures (eg, at border crossings) and creating an environment of certainty with regard to both key macroeconomic variables and regulations governing business practices. The vast majority of businesses will only invest in a stable and predictable (regulatory) environment where decisions are made in a transparent manner.

When changing policies and regulations, the views of all stakeholders have to be heard. The decision-making process has to be transparent. Today, some businesses and individuals which profit from the lack of transparency in decision making or inefficient administrative procedures. Knowing how to 'work around the system' gives them an economic advantage over their competitors. Some of them depend on this system since it allows them to charge higher prices due to the lack of competition, and they could pay a high price if this 'competitive advantage' is taken away from them. These companies and individuals are likely to go out of business under normal market conditions and thus have a vested interest in the status quo.

There are further reasons why companies might not be able to compete on regional or international markets. These include the economic environment in SADC and economies of scale in production for companies that are too small or have inefficient internal processes. They might not thus be able to sell their products and services at competitive prices. Some companies have powerful labour unions with strong connections to political parties. Both unions and the political parties to which they may be affiliated might have an (at least perceived) interest in the status quo because they fear job losses. They will most likely be very vocal about defending their own interests and will influence government policy with protectionist views. This raises the (real or perceived) cost of political capital that needs to be spent by political leaders if they argue for open markets.

On the other hand, the majority of consumers and companies would undoubtedly profit from more competition leading to lower prices and eventually better quality goods. However, they are much less likely to be as vocal about it. There are only a few groups representing the interests of consumers in the region and they are not very powerful. The potential benefits need to be divided between many individuals each profiting *a bit*. Additionally, a case for liberalising trade (even when carefully managed and phased) is a hard sell to the public as it invokes the fear of being unable to compete internationally, leading to job losses and economic decline. The ability of regulatory entities (such as competition authorities) to act against uncompetitive market behaviour also remains constrained in the region.

The case studies presented in this publication aim to point out the necessary changes to overcome specific constraints to doing business. They provide an insight into the political economy of change processes and present options on what can and should be done. Regional business organisations representing a wide range of sectors – from agriculture, mining, transport and trucking to financial services, pharmaceuticals and tourism – were consulted in order to capture very concrete business constraints. While many constraints are important in all sectors, some are more sector-specific. A public–private dialogue with the main stakeholders and regional associations was initiated in some instances in order to discuss the interests involved and suggest practical solutions.

The studies build on the interaction with regional business membership organizations, interviews with representatives from individual businesses, and on earlier work. In the first part of the project (in 2012) 90 interviews were conducted with firms located in the SADC countries and 45 firm-level case studies were vetted and published. Similar to the nine in-depth case studies presented, the 45 firm-level case studies are publicly available for use in policy dialogue in SADC. The aim is to enable participants from both the public and the private sector to identify policy areas with the most urgent need for change and provide suggestions for concrete solutions.

Summary of the business issues

The trends described above clearly point to the need for an increased dialogue between public and private stakeholders on how to enhance the environment of doing business in SADC. Significant steps, ie tangible implementation, need to be taken to achieve the goals SADC has set for itself. A thriving private sector is paramount to unlocking barriers to economic growth in the region.

Only if necessary reforms are implemented – sometimes against vested interests – will the region be able to fulfil the goals that are laid out in the RISDP. Specific agreements have been made in various protocols, amongst them the SADC Protocol on Trade, the Finance and Investment Protocol and the Protocol on Trade in Services, which is currently being negotiated. All of them could significantly contribute to economic growth and employment creation if implemented. These opportunities are lost if regional agreements are not implemented or if the private sector is not aware of the potential these agreements could unlock.

In the nine cases, the importance of economic growth and trade in SADC is described in detail. The main focus is on the way in which obstacles inhibit the ability to do business. Possible solutions are presented that take account of the political economy of each case. This includes stakeholders who could assist in eliminating or reducing the impact of the business obstacle. Efforts have been made to present practical solutions including how the media can be utilised in highlighting the importance of an improved business environment in the region.

In the following, an overview of the issues for the different case studies is presented. With regard to the issue of access to and cost of finance in agriculture the involvement of several development finance institutions and international co-operating partners was critical. A groundbreaking public–private sector dialogue was organised in Malawi with two business sectors – agricultural producers and traders, and financial services providers – to bring the differing perspectives on financing for agriculture into closer alignment. This workshop was organised in Malawi but there are important lessons for most SADC countries.

Also in agriculture, focusing on the sugar industry, the research looked at the regulatory framework for the development of biofuels, such as ethanol in the region. This case study considers the political economy of the petroleum industry, and how the entrenched control of the industry becomes an inhibiting factor for competing fuels. Nonetheless, the sugar cane industry holds enormous promise in South Africa, if there is strong and consistent advocacy for this development.

The case study on alternative energy for mining shows great opportunities for using solar/diesel hybrid energy. While the uptake is still small in South African mines – especially given the difficulty with electricity generation outside of the Eskom grid – there is reason to expect that these hybrid energy solutions will be taken up in mining operations in SADC – outside South Africa in the medium term.

The pharmaceutical industry is one of the key sectors for the industrialisation of the SADC region. However, regulation in SADC faces a number of challenges. There is limited scope for the growth of a local pharmaceutical production sector, especially in light of India's dominance of generic manufacturing. Local industries are challenged by the presence of imported generics and by big brands' control of the sector. Nonetheless, there is a call for renewed regional and national commitment to pro-poor policy, particularly in health care that will benefit those communities and citizens which need it most. As a first step, co-ordinated regional responses and regional organisations can assist in providing access to healthcare and medicines to poorer populations, starting with pharmaceutical regulatory measures.

As shown in the analysis of the region, the services sector accounts for more than 50% of its economic activities, and in some countries up to 80% (eg, Seychelles). One reason is the importance of tourism which is mostly accounted for in the services sector, apart from its contribution to other sectors that supply goods and services to tourism businesses. The development of policies and procedures on market access and movement of people will have a great impact on the development of tourism. In particular, visa policies are among the most important governmental formalities that influence international tourism. With the swift growth of international tourism in the last six decades, the quality, reliability, and functionality of visa and other travel documents have evolved. However, the UN World Tourism Organisation also points out that Southern Africa is lagging in terms of opening its visa procedures and scores only 29/100 in an 'openness to tourism' scale. Research and exposure to data on the benefits of visas upon arrival and e-visas could encourage SADC officials to learn from SADC's Transfrontier Conservation Areas.

Another service sector that enables and facilitates trade within the region is transportation and logistics. Transporters involved in transit operations (where goods are brought into a country for the sole purpose of transporting to another country) are being required to purchase a customs bond at least equal to the duty payable on the cargo, for each border crossed. This case considers the work done by various regional economic communities, including SADC and the Common Market of East and Southern Africa (COMESA), on the development of a regional transit bond that allows multiple entries into intended countries. However there is a need to take into account the various stakeholders currently involved in operating and receiving revenue from the current model.

With regard to trade and transportation the effort and inefficiency of border crossings currently represent an obstacle in many cases. One example is the South Africa–Zambia corridor via Beit Bridge. It is estimated that over 400 trucks cross the Beit Bridge border post every day. These trucks experience a delay of approximately three days crossing the border, although the delays can extend beyond a week. The costs of each delay are estimated to be $400 per truck per day. The Road Freight Association of South Africa has estimated the annual cost of delays to be about $100 million. The research indicates the obstacles that should be addressed and solved by the governments. It is expected that more attention from the government, public and media and awareness of the high costs and significant delays could lead to a more active approach in findings solutions for Beit Bridge and other border crossings in the region.

Non-tariff barriers (NTBs) such as regulations, standards and rules are still among the main barriers to trade in SADC. In order to address and overcome these barriers the NTB Monitoring Mechanism has been established. It allows private sector actors in SADC (and further throughout the Tripartite area) to lodge NTB complaints on an online database, which are then forwarded to the country involved to be resolved. NTBs in the SADC region reported on via the Monitoring Mechanism affected products that jointly account for \$3.3 billion or one-fifth of regional trade. While the online database has been relatively successful at allowing private sector actors to register complaints, the resolution process of identified NTBs has been far less effective. NTBs registered on the database either take too long to be resolved, or are not resolved at all. Where perverse incentives or a lack of political buy-in exists, the demonstrable effects of gains from NTB elimination can contribute to building positive political momentum for reforms. The research highlights a particular example which has already been brought to the attention of SADC. Zambia requires foreign tankers delivering products to or transiting the country to comply with its standards for tanker dimensions – which are different from the requirements in the rest of the region. This advocacy process is on-going and Zambia has been invited to submit its recommendations to the SADC Working Groups addressing this matter through the SADC Secretariat.

Improved transport and logistics infrastructure can lead to greater trade facilitation which means that private sector companies conducting cross-border trade can achieve economies of scale and become increasingly competitive in the global economy. While the development of roads, railways, seaports and airports are a longer-term endeavour, ensuring sufficient storage capacity for goods in transit; network linkages between sea- or airports and corridors; management oversight and professionalism at ports; and efficiency in operating existing infrastructure assets may go a long way towards benefiting trade across all sectors. Recent infrastructure developments in Namibia spearheaded by the Namibian national ports authority (Namport) and the public–private partnership of the Walvis Bay Corridor Group are examined with a view to establishing what level of commitment from both the public and private sector is required to push through trade-facilitating infrastructure development.

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