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THE EXPERIENCE OF INDUSTRIAL INTEGRATION IN THE EASTERN AND SOUTHERN AFRICAN REGION

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SUMMARY

One of the principal constraining factors to African industrialisation is the small size of the markets. Most African countries are small in population and poor in economic resources and their balanced development and industrialisation can only be grounded on access to larger markets. While participation in the international economy is unquestionably important for the development of these economies, regional economic cooperation and integration is indispensable for most. This fact has been long recognised and regional integration is a declared element of African development strategies. It was the central element of the 1980 Lagos Plan of Action. However, its contribution to the industrialisation and development of African economies has so far been limited and in some cases negligible.

Despite the unquestionably poor record of the past, a favourable conjecture for reinvigorating the African integration process appears at last to be in the process of emergence. Firstly, the economic adjustment reforms that are beginning to show results should make integration easier by reducing unnecessary constraints on the workings of the market and by increasing efficiency. As a result, market-driven integration should increasingly be capable of serving the interests of participating countries. This had not been the case in the past. The difficulties that existing economic adjustment programmes are creating for some integration schemes may seem to believe this proposition, but in so far as the difficulties are purely short term, they are bound up with the failure of adjustment programmes to address the regional dimension. Secondly, it would appear that there is a significantly favourable shift on the part of international agencies, particularly the Bretton Woods Institutions - on the role of regional integration. This offers some prospects of additional resources being channelled into conditional support for integration.

The combination of these two factors offer the prospect that economic integration in Africa may proceed more rapidly in the 1990s and beyond, primarily because the political will and momentum to integrate and the economic interest are likely to be more in accord. There are however, enormous difficulties that lie in the path of progress. Different sub-regional groupings would have to confront them as they chart their route to integrate their economies.

This study examines some of the problems of industrial integration in the Eastern and Southern African region. It assesses the successes and the failures of the integration groupings and draws some lessons from their experience for the future of industrial integration in Africa in the context of the Treaty forming the African Economic Community. It also explores the potential and prospects which a future post apartheid South Africa is likely to bring to industrial integration in the region.

The signing of the Treaty for the establishment of an African Economic Community by the OAU summit in Abuja in 1991 marked a significant landmark in the African integration process. The treaty has been signed after three decades of independence in Africa which were paradoxical as far as economic cooperation and integration is concerned. On the one hand, there was a great enthusiasm for economic cooperation and integration; on the other, there has been obvious failure in many integration groupings of implementing agreed programmes.

In the Eastern and Southern African sub-region, following the disintegration in 1977 of the East African Community (EAC) after ten years of unsuccessful attempt to integrate their economies on an equitable basis, two large regional groupings have been formed. The Southern Africa Development Coordination Conference (SADCC) was formed in 1980 by nine Southern African countries - Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe (Namibia joined as a tenth member in 1990). The Preferential Trade Area for Eastern and Southern Africa (PTA) was formed in 1981 comprising 18 countries - Angola, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Seychelles, Somalia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe (Namibia is expected to join in the near future). There are also two other groupings in the region which are important for industrial integration. The Indian Ocean Commission (IOC), formed in 1982 by the South West Indian Ocean countries - the Comoros, Madagascar, Mauritius, Seychelles and France (representing the overseas department of Re-union). The South African Customs Union (SACU) comprising South Africa, Botswana, Lesotho, Swaziland and Namibia is likely to become an important grouping as South Africa ends apartheid and begin to integrate with the other countries in the sub-region.

In considering experience, possible lessons from 'failed' integration schemes should not be neglected. The defunct East African Community (1967-1977) is perhaps one of the most comprehensive cooperation arrangements that has existed in post-independent Africa. It was established by the three East African countries - Kenya; Uganda and Tanzania - out of a colonial cooperation arrangement that dated back to the 1920s when a customs union between the countries was formed by the colonial administration. The EAC had the most integrative arrangements and institutions, with a common market and a treaty that aimed at developing joint industrial planning and development policies.

The EAC had the challenge to adapt an arrangement of long standing that had been developed unequally between the partner states to the needs of independence. Its comprehensive provisions included common external tariff, tax procedures aimed at offsetting the disequalising effects of the common market (which replaced pre-existing fiscal compensation arrangements and an ineffective industry allocation agreement) and the establishment of a regional industrial development bank. A wide range of important, well established and successful common services conducted on East African basis was also to continue, with some provision for decentralisation in such fields as railways and harbours, air transport and research. In the face of the regional and other effects of increasingly evident disparities in economic management and development of the economies of the partner states, the mechanisms of the Treaty proved to be inadequate to promote a more balanced development and to deal with the equity issue. Serious political difficulties between the partner states further exacerbated the problems of integration. The combined effect of political and economic factors led to the collapse of the Community in 1977. The East African Development Bank which was charged with the responsibility of promoting equal industrial development, however, survived but it has no longer performs the integration functions.

The disintegration of the EAC in 1977 is a classical illustration of the problems that could be faced by countries with unequal economic development that attempt to integrate their economies. In the short period which the EAC existed, it grappled with the problems of entrenched economic inequality between its members. Although the treaty establishing the community contained very elaborate and comprehensive mechanisms to rectify the inequality, these proved to be illusive and after ten years it crumbled as a result of growing competitive national economic development.

The integration schemes established after the EAC have been less ambitious. SADCC has avoided the development of powerful supra-national institutions to steer its integration process. Rather it carries out sectoral coordination programmes. The SADCC industrial and trade coordination programme is coordinated by Tanzania. For the last decade SADCC has concentrated on mobilisation of resources to rehabilitate existing industries and to meet national and regional demands of basic needs.

The industrial and trade coordination programme has had limited success in promoting regional industries. A large part of investments which the programme has attracted have been for projects that require the national markets. Most regional industrial projects failed to attract investment. This has been largely because of lack of regional trade policy, at least until 1986 when SADCC began in earnest the development of a regional trade policy.

Since 1986 a number of financial instruments have been developed to promote both industrial investment and SADCC trade. A comprehensive export financing scheme, involving export pre-financing revolving funds and export credit guarantee facility has been established; a Norsad fund, to promote joint venture industrial investment activities between Nordic countries and SADCC investors is in operation; and a study for cross-border investment facility is being undertaken. These are expected to boost up intra-SADCC trade which has remained almost constant, at about 5 percent of international trade, throughout the last decade.

A number of other initiatives to promote trade have also been undertaken. A study on Trade Facilitation directed at the removal of non-tariff barriers has been undertaken. It concludes that apart from the application of tariff preferences, there should be other supportive practical measures, including the removal of non-tariff barriers to trade. Other studies have shown the need for SADCC firms to be involved in the execution of donor-assisted projects as one of the ways of enhancing regional trade. SADCC's Committee of Industry and Trade has also approved guideline in the form of a prototype agreement aimed at improving bilateral trade agreements.

A trade framework for industrial integration has been established by the PTA. A PTA clearing house was established in 1984 and a Development Bank in 1986. Wide ranging preferences have been established and a timetable to eliminate all tariff barriers for PTA products by the year 2000 is under implementation. But intra-PTA trade at about 4 percent of international trade, has remained small throughout the last decade of its existence.

This low performance in trade is attributed to non-availability of foreign currency by most member states throughout the 1980s. The impact of the PTA clearing arrangements on trade in the region remains limited because of non-availability of regional trade credits.

As most countries are at the first stage of import substitution industrialisation, manufacturing value added (MVA) remains low, making it imperative for most countries to import most of the inputs for manufacturing production. This situation has constrained growth of trade because most countries, including those who are industrially more advanced than others are unable to provide longterm trade credits.

Many countries in the PTA are undertaking structural adjustment programmes sponsored by the IMF and the World Bank. They attach great importance to stabilising balance of payments. This has in the short term constrained countries expanding regional trade in order to avoid settlement of deficits in convertible currency. The adjustment programmes however are putting the countries in the road to development of market economies. If the multilateral agencies supporting the programmes will be willing in future to support regional integration projects this could open the way to expansion of regional trade.

The PTA has initiated other policy measures and established instruments to promote industrial cooperation and integration. It intends to develop the harmonisation of various policies in order to develop Multinational Enterprises (MNE) and to promote specific sectoral integration programmes. As these programmes get underway, it is expected that intra-regional trade will increase in the years ahead and a regional common market to emerge at the beginning of the 21st century.

The study notes the potential for integration in the context of the PTA. It emphasises that viable industrial cooperation and integration would only take place if there is a consistent increase in regional MVA. This would first promote the backward and forward linkages in the industrial structures of the region. Secondly, it would provide the region with adequate surplus resources to facilitate a redistribution of wealth among member states and enable "equitable growth and development of industry" to take place. But if the industrialisation which takes place does not adequately increase the regional MVA, the PTA would not have the necessary resources to initiate policies which would lead to equitable regional development and it could be saddled with similar problems of competitive industrial development which have weakened the process of integration elsewhere in Africa.

The other smaller integration grouping, the IOC, intends to promote industrial cooperation and integration to optimise the use of the national resources of its member countries for industrial development. Its priority sectors of industrial development are therefore in fish, wood, coconut products, textiles, leather and aromatic and medical plants. Industrial policies emphasise on the promotion of small and medium scale industry, foreign investment, exports, the privatisation of the industrial sector and the rehabilitation of existing production units. The Commission intends to cooperate to extend the success of the export processing zones industries of Mauritius. It aims to promote cooperation in restructuring the industries of its member states to allow for competitive development of export processing zone industries. The Commission also intends to develop a free trade area among its members through the elimination of tariff and non-tariff barriers.

There are areas of duplication between the Commission's activities and those of the PTA which would need rationalisation. Apart from Madagascar, the other members of the Commission are small states. Participation in the wider Eastern and Southern African arrangements would prove beneficial in the longterm, particularly for Mauritius the more industrially developed of the states.

There are growing concerns that the two organisations, SADCC and PTA are increasingly moving in the direction of duplicating activities and efforts in the process of integration. If this trend continues it will inevitably lead to misuse of scarce resources, both human and financial. Experts are therefore advocating the need for rationalisation of the integration process of these two organisations. The PTA and SADCC broadly have similar objectives of creating an equitable regionally integrated economy. The PTA membership however is larger than that of SADCC. The majority of SADCC members are members of the PTA except Botswana. Until now, there has been emphasis that the organisations were striving to complement each other's activities in the region and always avoided duplication. They argue that they are guided by the practical reality of maximising opportunity. They share documents and attend each others meetings. This had happened at a period when only PTA had formalised its organisation through a treaty. Since SADCC was formed, it has operated as an association of countries committed to cooperating in organising production and the trade that arose out of it through a loose memorandum of understanding. This has made it possible for the two organisations to work together to some degree.

There are, however, arrangements arising from the SADCC summit held in Arusha in August 1991, to formalise SADCC. The arrangements also envisage the deepening of the integration process in the SADCC area. These arrangements might take some time but it is inevitable that in formalising SADCC some problems are likely to arise in its relation with the PTA. If the existing trading arrangements are formalised in the form of a treaty, it will have to take account of the existence of PTA. Fresh thinking on how SADCC moves forward, particularly in the context of the treaty for the establishment of the African Economic Community therefore is absolutely essential.

The prospects for the end of apartheid has made it imperative for SADCC and PTA to rethink their policies on South Africa. In a post-apartheid environment, SADCC has to change or modify its stated objective of reduction of dependence on South Africa and establish a framework in which it can cooperate with South Africa to promote industrial development on an equitable basis.

However, the relative strength of the South African economy compared to the economies of either SADCC countries or the PTA countries is likely to pose some problems in the efforts to develop equitable regional industrialisation in the years ahead. When apartheid ends in South Africa, there would be need to reformulate the integration process in the region to enable the countries, who collectively are potentially prosperous, to cooperate and integrate their industries with the more advanced South Africa, without loosing the benefits that come with the process to the more powerful new partner.

THE EXPERIENCE OF INDUSTRIAL INTEGRATION IN EASTERN AND SOUTHERN AFRICA

1. Introduction

This study examines problems of industrial integration in the Eastern and the Southern African region, and the prospects for successful implementation of integration in line with the set objectives of the OAU Treaty for creation of an African Economic Community. Three integration groupings have existed in the region from the 1960s. The now defunct East African Community (EAC), 1967-1977, comprising Tanzania, Kenya and Uganda; the Southern African Development Co-ordination Conference (SADCC), formed in 1980 by Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe (Namibia joined in 1990); and the Preferential Trade Area for Eastern and Southern Africa (PTA), formed in 1981 and comprising 18 countries including Angola, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Seychelles, Somalia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe, (Namibia is expected to join the organisation in the near future). Apart from these three integration groupings, there are also two other smaller ones. The Southern African Customs Union (SACU), dating back to 1910, and comprising South Africa and Botswana, Lesotho and Swaziland (the BLS states) and Namibia. The SACU has been dominated by South Africa since its creation. It is likely to become a significant grouping to be included in the matrix of integration when apartheid ends in South Africa. The second is the Indian Ocean Commission, formed in 1982 and comprising five countries in the South West Indian Ocean - The Comoros, Madagascar, Mauritius, Seychelles and France (representing the overseas department of Re-union.

The study analyses the economic problems which the groups have encountered in promoting industrial integration, assesses the successes and failures of the groupings and draws some lessons from their experience for the future of industrial integration in Africa in the context of the Treaty forming the African Economic Community. It also explores the potential and prospects which a possible post-apartheid South Africa is likely to bring to industrial integration in the sub-region.

2. The Economic Context of Industrial Integration in the Eastern and Southern African Sub-region

The PTA and SADCC form the predominant contending regional grouping that are set to mould the process of integration in the sub-region in the 1990s. Their contending approaches to industrial integration, with the PTA emphasising on the liberal approach to integration through trade liberalisation, and the SADCC emphasising on the consolidation of production structures are likely to lead into conflicts and possible duplication of efforts. The PTA membership is almost double that of the SADCC. This section examines the economic context of integration in the region. It explores the economic problems that industrial integration faces and the limitations of integration, as it is currently implemented, in realising the ultimate objective of bringing about regionally integrated industrial development.

The success of regional integration, particularly in developing countries is, by and large, dependent on the degree to which the economies forming the regional grouping are complementary to one another. The higher the degree of complementarity that exists at the formation of the regional grouping, the greater are the chances that such a grouping would begin operating without friction between member countries. Such countries would also be more likely to negotiate and reach agreement on modalities of trade at a faster rate. Existence of complementarity would enable members to promote industrial development and negotiate ways and means of extending its scope. This is a process which is much easier to negotiate and come to agreement on, than an attempt to create complementarity from where it does not exist.

Among developing countries, however, and in particular those which are least developed like most countries in the Eastern and Southern African sub-region, we do not find a high degree of complementarity between their economies and industry. The economies are largely competitive. This competitiveness is explained by the nature in which developing countries' economies are integrated to the international economy. These economies are invariably dependent on the industrial economies of the developed countries and their structure is individually and collectively conditioned by this dependence. Following the political independence of these countries, they undertook import-substitution industrialisation which has developed a number of import-substitution industries that are highly dependent on the international market for the supply of inputs (raw materials, intermediate inputs, spares and capital goods). The range of import substitution industries developed under the first stage of import substitution strategy include those which cover the production of the basic consumer goods, which until then used to be imported. The development of this range of industries in the different developing countries have led to competitive rather than complementary industrial structures.

Regional co-operation and integration in these countries has always aimed at developing complementarity among their economies in the process of development. The development of these competitive industries varies from one country to another in the region. The PTA treaty for example, is committed to developing from such economies, a highly integrated common market and ultimately an Economic Community of Eastern African states. For this commitment to be successful, it would involve processes of fundamentally transforming the existing industrial structure of the member states.

The countries in the region have diverse economic characteristics varying from population, resource endowment, rates of growth, levels of industrialisation and manufacturing Value Added (MVA), dependence and degree of vulnerability to the international economy. About half of the countries are classified as least developed according to the UN classification (table 1). According to the World Bank classification, nine of the states are low income countries and the rest are lower middle income. The states classified as least developed or low income include Ethiopia with the highest population in the grouping of 46.1 million (1988) and the lowest GNP per capita of US$125 (Table 2). Five of the countries have populations of less than 1.5 million people; and only four countries, in addition to Ethiopia, have a population of more than 10 million. These are Kenya, with a population of 23.0 million, Uganda with 16.2 million, Tanzania with 26 million and Mozambique with 15.0 million (table 2).

As regards their levels of industrial development, there are enormous discrepancies between them. Measured in terms of Manufacturing Value Added (MVA), in 1981 when the PTA was formed. the MVA per capita of the top three states fell within the range of US$150 - US$170 while corresponding range for the four bottom countries were US$10-US$20. MVA per capita is positively correlated with GDP per capita, but does not seem to bear any relation with population size. Thus, two small countries, Mauritius and Swaziland belong to the top group of three, while two mini-states and Ethiopia belong to the bottom group of four.

Industrial development in the region is generally very low (table 3). As a percentage of share in the GDP of the larger countries, apart from Zimbabwe, Zambia and Kenya, many of the other countries have a percentage share of less than 15 per cent with a lot of them below 10 per cent. Intra-regional trade in manufactures is very limited. On the whole, it on average, accounted for only about 4 per cent of the export trade of the countries in the region at the beginning of the 1980s. This remained more or less unchanged throughout the 1980s. Fuels, minerals, metals (including non-ferrous metals, but excluding iron and steel) and other primary commodities (including all food products) accounted, at the beginning of the 1980s for between 96 and 99 per cent of total exports in seven countries with populations of more than 3.5 million. The corresponding figures for the two "large" countries, Kenya and Zimbabwe, which have significant potential for trade in the region were 87 and 84 per cent respectively. These figures point to the limited level at which the economies of this region are integrated to each other. It is not easy for this structure to be changed fast.

The bulk of the foreign trade of each of the countries would, for some time, continue to be carried out with countries outside the region, particularly the industrial countries from where most of the technology and investment for industrial development will be obtained. It is evident that the only way of trading more with each other is through increased trade with the industrial countries to raise the foreign exchange necessary for industrial investment, or through foreign investment by the industrial countries. Either of these alternatives, make the relations with industrial countries the key determining the direction which industrialisation and the process of forming a regional internal market takes.

Because of the low level of industrial development, the economies of the region have been increasingly operating in a fragile international environment, particularly from the mid-1970s. This has further debilitated them. Throughout the 1970s and the 1980s, without exception, they all experienced radical deterioration in balance of payments and gross international reserves. There is no single country which did not register deficits in millions of dollars in their current account balances (Table 4). The more industrially developed had the highest deficits because of their over-dependence on external inputs. The fragility of the external payments of the economies is exemplified by the fact that the level of gross international reserves, valued in terms of months of imports did not exceed two months of imports in 1982 in any country except Ethiopia and Botswana, which had reserves valued at 3.6 and 3.1 months of imports respectively. All the countries in the region also witnessed phenomenal rises in external public debt and the levels of servicing throughout the 1980s (table 5). For many countries, the rise in external public debt was between 5-10 times between 1970 and 1982. External public debt continued to grow and the levels of servicing were much higher for most of the countries in the 1980s.

This economic fragility would inevitably influence state attitudes towards the integration process. At least all countries would be involved in the PTA and indeed in any other regional scheme with the expectation that its involvement would enhance development of their national economy. Indeed, the spirit and desire to co-operate and integrate has been kept up by the expected benefits in terms of higher growth rates in GDP and industrial development accruing to participating countries. While it has not been possible, either in the context of the defunct EAC or any the regional grouping in Sub-Saharan Africa, to tangibly calculate the growth rates in the economy as a whole or in specific sectors like industry that have come about solely due to participation in the regional grouping, and which would have otherwise not have occurred, there is nothing to ascertain that the PTA, SADCC or any of the other groupings would not face similar problems like the ones experienced by integration schemes between unequally developed states in other developing countries. The diversity in the basic economic characteristic of these countries, coupled with the fact that they also follow diverse economic development policies creates potential problems for the countries as they strive to implement treaties like the PTA to bring about a regionally integrated economy.

Much of the success in the PTA for example, would depend on how it is capable of satisfying the desires of the more developed members to continue with the same rate of economic growth and development and even increase it in the process of co-operation and integration, and that of the lesser developed members of ensuring that their rates of development is increased and equality in economic opportunity is obtained for all in the regional scheme.

Related to this point, there is also the pending problem of how development on equal basis emphasised in the regional schemes is to be achieved between the member states. There is no operational definition of what this means and it is subject to different interpretations by different countries. Equal development needs to be defined in dynamic terms. It should not mean that those countries which are now more developed than the others in industry and other sectors should simply slow down their rate of economic growth and development in order to equalise their opportunities with others or while waiting for others to catch up. It is now evident in various regional integration schemes that such a conception is not easily accepted by those countries which are already more developed. The case of Kenya in the defunct EAC as shown below, is a good lesson for the PTA and SADCC in particular. More developed and lesser developed countries, all join regional co-operation groupings with the expectation of realising higher and/or better opportunities for advancing their own national economies. It is difficult for them to compromise the momentum of their own development in the interests of overall regional development. This is even the case with regard to regional schemes of developed countries like the European Economic Community. Benefits are always ultimately redistributed and consumed within the national framework and each of the member countries continue to negotiate for the best deals for its country.

In order for regional integration to succeed within the framework set out in the Treaty for establishment of African Economic Community, it would have to be based on the conception of equal regional development based on dynamic development of all the constituent national economies. This dynamism would be enhanced at the regional level through the spill-over effects or benefits which member countries would gain out of participation in a regional scheme. Member states therefore, would have to judge their benefits from the overall spill-over effects that participation in co-operation provides for all the sectors of the economy. A country might not get a balanced or equal opportunity with others in the industrial sector, but could benefit much through co-operation in the other sectors. Industrial co-operation and integration therefore has to be undertaken taking into account all the other sectors of the economy.

3. The Experience and Lessons of Industrial Integration in the Defunct East African Community

3.1 Introduction

In considering experience, possible lessons from 'failed' integration schemes should not be neglected. The defunct East African Community (1967-1977) is perhaps one of the most comprehensive cooperation arrangements that has existed in post-independent Africa. It was established by the three East African countries - Kenya, Uganda and Tanzania - out of a colonial cooperation arrangement that dated back to the 1920s when a customs union between the countries was formed by the colonial administration. The EAC had the most integrative arrangements and institutions, with a common market and a treaty that aimed at developing joint industrial planning and development policies.

The EAC had the challenge to adapt an arrangement of long standing that had been developed unequally between the partner states to the needs of independence. Its comprehensive provisions included a common external tariff, tax procedures aimed at offsetting the disequalising effects of the common market (which replaced pre-existing fiscal compensation arrangements and an ineffective industry allocation agreement), and the establishment of a regional industrial development bank. A wide range of important, well established and successful common services conducted on East African basis was also to continue, with some provision for decentralisation, in such fields as railways and harbours, air transport and research. In the face of the regional and other effects of increasingly evident disparities in economic management and development of the economies of the partner states, the mechanisms of the Treaty proved to be inadequate to promote a more balanced development and to deal with the equity issue. Serious political difficulties between the partner states further exacerbated the problems of integration. The combined effect of political and economic factors led to the collapse of the Community in 1977. The East African Development Bank however, survived but it no longer carries its integration functions.

The disintegration of the EAC in 1977 is a classical illustration of the problems that could be faced by countries with unequal economic development that attempt to integrate their economies. In the short period which the EAC existed, it grappled with the problems of entrenched economic inequality between its members. Although the treaty establishing the community contained very elaborate and comprehensive mechanisms to rectify the inequality, these proved to be illusive and after ten years it crumbled as a result of growing competitive national economic development. This section analyses the experience of industrial cooperation and integration in the defunct EAC and draws some lessons which could be of relevance to the other integration groupings in the region and elsewhere in Africa where similar difficulties are faced. it concentrates on the evaluation of the strengths and weaknesses of the instruments that were used by the EAC to bring about equal industrial development.

3.2 Industrial and Trade Imbalances in the EAC

Continued industrial and trade imbalances formed the principal source of conflict in the cooperation between the three partner states in the post independence period. The importance of the industrial sector to the economies of the three partners differed profoundly as some few statistics for the years preceding the treaty shows. In the East African common market in 1967, manufactured products accounted for 5.8% of the total value of Kenya's overseas exports, 8.9 per cent of Uganda's and 7 per cent of Tanzania's. In the same year, trade in manufactured products accounted for 50% of the total value of Kenya's inter-state exports, 46% of Uganda's and 35% of Tanzania's. In relation to the total domestic exports, both overseas and regional, the manufactured products accounted for 23% of the value of Kenya's exports, 18% of Tanzania's and 15% of Uganda's. But there was a large imbalance between the partner states on the manufactured exports sold in the East African market. In 1964, out of the total value of manufactured exports from Kenya,80.2% were to the partner states. The percentages from Uganda and Tanzania were 32.9% 19.2% respectively. By 1967 these proportions had been changed, mainly as a result of trade restrictions, to 75.1% for Kenya, 47.3% for Uganda and 37.3% for Tanzania.

The importance of regional trade therefore differed profoundly between the partner states with Kenya depending most on the regional market in its international trade. Despite the corrective measures that had been applied prior to the EAC treaty, the dominance of Kenya in the regional industry and trade continued to grow unabated. This was largely due to the relatively large Kenyan internal market, more developed infrastructure and external economies that continued to attract industrial investments to Kenya. The 1967 treaty addressed this growing problem and aimed to change the situation. The major objective of the treaty was to regulate the arrangements for economic cooperation so as to achieve an equitable distribution of benefits.

From an economic point of view the main interest of the treaty centred on the extent to which its provisions were likely to enable the region to continue to enjoy the benefits of integration while at the same time facilitating an equitable distribution of those benefits. These two aspects were clearly connected and had been of concern to the partner states. The major benefits of integration would have been secured only if the cohesion of the market could be depended upon. This required that all partners be satisfied that their longterm interests were best served by remaining within the new Community. At the same time, measures to influence the distribution of benefits in a common market may easily result in their reduction. From the standpoint of the continued enjoyment of the benefits of integration, the most important aspects of the treaty were those dealing with the reorganisation of the common services and the common market.

The gains from the common market itself derived largely from free trade and the stimulating effect this had on economic activity and development. The treaty provided that all trade between the three East African countries in goods of East African origin (Goods of East African origin were manufactured products with 30% or more regional MVA) was to be free of restrictions. The main exception was that quantitative restrictions could, as in the past, be imposed on basic staple foods or major export crops which were subject to special marketing arrangements, but the long term objective was stated to be the extension the common market to agriculture and to trade in agricultural products. The bulk of the regional trade - 85% was in manufactured products, however, and it was in manufacturing that the major opportunities for future gains from integration presented themselves. The treaty therefore provided for the institutions of corrective measures that were expected to set in motion processes that would bring about equal industrial development between the partners and eliminate the existing imbalances.

Four principal measures were instituted, namely:

(i) a system of transfer taxes on manufactured goods entering inter-state trade imposable by a partner state which sustained a deficit in its trade with the other partner states;

(ii) the East African Development Bank (EADB) with a differential investment formula (22 1/2% of the funds to be invested in Kenya and 38 3/4% in each of the other two partner states);

(iii) the continuation of the industrial licensing system which provided for scheduling industries until 1973 when it was to be replaced by a new community law;

(iv) harmonisation of fiscal and monetary incentives.

We examine the provisions of these measures in some greater detail below.

3.3 The System of Transfer Tax

The transfer tax system (article 20 of the treaty) provided that an industrially less developed partner state could impose a transfer tax on products from an industrially more developed partner state in order to protect its own industry that either was in existence or was likely to come into existence within three months of the imposition of such a tax. This tax could however, be imposed only by country which at the same time was in deficit in intra-regional trade in manufactured products and on imports from the country with which it had a deficit. Furthermore, the tax could only be applied to those products which the tax-imposing country had the capacity to produce on a significant scale (15% of the domestic consumption of products in the year before the imposition of the tax or a value of output of £100,000). The tax was not to exceed the deficit recorded. Also, the rate of tax was not to exceed 50% of the external tariff on the product. The tax was seen as a temporary device which was to be reviewed after five years.

The products that were subject to the transfer tax were spelt out in annex VI of the treaty. In this way it was argued that the less developed partner states would become more attractive for industrial investment in the same products. However, the interstate trade balance in manufactures was used as a 'proxy' measure for such industrial development. It was argued that the rationale behind the system was that the tax would help the import-substitution of certain products which were "viable" within the national markets, while ruling out the establishment of the larger industries which could only be viable on an East African basis. This would therefore also permit such 'East African industries' to be established in any of the three territories on the basis of industrial licensing, thus establishing industrial complementarity in the regional market. This assumption had a major weakness which opened up possibilities for competitive industrial development and was taken advantage of by the many subsidiaries of transnational corporations (TNCs) that were competing for the territorial markets.

The competing foreign firms took advantage of this weakness and went ahead to establish competitive industrial firms which required the whole of the East African market to be economic. The foreign firms were also not adversely affected by the high costs of producing in a small market because these were often offset by the provision of favourable terms by the states as they competed to attract foreign investments.

3.4 The East African Development Bank

The East African Development Bank (EADB) was the second instrument established to remove the imbalance in the industrial development of the region. The Bank's charter empowered it to provide financial and technical assistance to promote the industrial development of the partner states. It was to give priority to industrial development, according to stipulated principles to the lesser developed partner states and to finance, where possible, projects that would make the economies of the partner states more complementary in the industrial field. Furthermore, it was required to supplement the activities of the national development agencies by jointly financing projects and to cooperate with other private or public institutions and organisations, national or international, which were 'interested' in the industrial development of the partner states.

The initial capital of the Bank was Shs. 600 million of which Shs. 120 million was the paid up capital and the remainder was made up of loans. To reduce industrial imbalances, the Bank's charter prescribed the territorial distribution of its investment in given percentages. As pointed out above, it required the Bank to invest 38 3/4% of its funds in both Tanzania and Uganda and 22 1/2% in Kenya, over the first five years of its operation. Since the partner states contributed equal shares of capital to the Bank, these investment ratios were supposed to have the effect of redistributing investments away from Kenya to Uganda and Tanzania. Industrial investment mobilised through the Bank however formed a very small percentage of the overall investment in the industrial sectors of the partner states. The states were able to attract a lot of investment directly. Kenya, the more developed partner in particular, was the centre of attraction of some direct foreign investment. This situation undermined the ability of the Bank to bring about a balanced industrial development as envisaged in its charter.

One of the major weaknesses of the Bank was its inability to develop industrial complementarities. This could have provided an opportunity to move away from the narrow industrial integration which the Treaty had set the partner states in a much wide and far reaching industrial development programme. The Bank's charter did not provide any guidelines on how it could achieve complementarity in its operations. This left the discretion to the Bank, although it did not amount to very much. Any such complementarity that the Bank could have helped create was militated against by the fact that there were other major sources of industrial investment funds as shown above. Thus, even if the investment distribution formula had been applied rigorously, the imbalance could, and indeed did, remain because of Kenya's advantages over the other partner states. And since the Bank's investments were being made in an atmosphere dominated by this type of competition, it was very easy for the Bank's strategy to be thrown out of gear. The Bank itself moreover was also a competitor with each of the partner states in the world money markets for some of its projects.

The forces against complementarity were also inherent in the stipulations as to what types of investment activities the Bank should get involved in. The charter stipulated that the Bank should only invest in manufacturing, assembly and processing industries. It could not, therefore, invest in agriculture, buildings, transport, tourism or commerce. This limited the scope in which it could have enhanced complementarity enormously. At the time of the formation of the EAC, East African industry was only in the first stages of import substitution industrialisation that was heavily dependent on external inputs. By the bank limiting its activities to narrowly defined manufacturing it prevented any possibilities for the creation of any complementarity.

This happened in two ways. First most of the existing import-substitution industries imported most of their raw materials. Secondly, most of the agricultural plantations exported their agricultural products in semi-processed or unprocessed conditions; so that even in sectors such as vegetable and fruit canning, meat packing, poultry processing, vegetable oil extraction and oil seed processing, expansion was hampered by non-availability of raw materials and agricultural products since these were being produced for export, to earn foreign currency. Therefore the Bank in its prescribed investment policy could not finance the production of raw materials necessary to enable their processing to be undertaken, particularly in those industries based on local natural resources. The Bank's solution was also extremely inadequate in removing uneven industrial development in the region. Its performance in the ten years of the EAC life was, to some extent, limited by the nature of its conception.

3.5 Industrial Licensing

The treaty in Article 23 provided for the continuation of the industrial licensing system until 1973. It was agreed that no additions were to be made to the allocation schedules of industrial products in the Acts. There was to be a replacement of these laws by a new community law when it was agreed by the partners. An Industrial Licensing Board was to continue and an Appeal Tribunal on matters of law only was to be set up. This meant that until the new law was passed, no new industries could be established enjoying protection over the whole of the East African market. This encouraged competitive import substitution between the territories that undermined any possibilities for complementarity.

Perhaps the greatest weakness of the Treaty, as far as promoting complementary industrial development is concerned, related to cooperation in agriculture, which remain the backbone of the economies of the three states and which would have formed the foundation for industrial development of the region. The treaty restricted the major agricultural exports and basic food staples from intra-regional trade. Article 13 provided that with the exception of a few products, the partner states will 'have the right' to introduce quantitative restrictions against the importation of other partner states agricultural products when these were basic staple foods or major export crops. It was further declared that it was to be the long-term aim of the partner states to establish and maintain a common market in agricultural products accompanied by cooperation and consultation in the field of agricultural policy, particularly in trade arrangements between national agencies and marketing boards, with a single system of prices and marketing services and facilities. Annex III listed the products to which the article applied. They included all the major staple foods like maize and maize flour, wheat, rice, beans, meat, milk, eggs, fruits, groundnuts, millet and simsim. The major staple cash crops for export were coffee, pyrethrum flowers, cotton, cotton seed, sisal etc. Thus the three countries guaranteed products to the industrialised countries for their resource based industrial development, which would have formed a strong basis for the development of complementary industrial structure for the region. Throughout the life of the community the partner states did not implement the common agricultural policy they had indicated they will. This made the basis of industrial cooperation and integration a very narrow one, and essentially forms part of the reasons why it failed.

3.6 Harmonisation of Fiscal and Monetary Incentives

The other provisions in the treaty that directly concerned the implementation of industrial cooperation and integration addressed currency and banking matters. It was agreed that the three currencies would be exchanged at par without paying exchange commission. Payments for current transactions were to be guaranteed but transfers on capital account could be restricted to the extent necessary to further the economic development of the restricting countries. Inter-state settlements were to be made by the central banks in open accounts. The partner states also agreed to pursue an economic policy aimed at ensuring an equilibrium in balance of payments and a harmonisation of fiscal and monetary policies to the extent required for the 'proper functioning of the

Common Market' and the fulfilment of the aims of the Community. For this reason, the governors of the central banks were to meet four times a year to consult and coordinate policies. Article 28 provided for reciprocal credits in case of balance of payments difficulties. The support was to come from the surplus state towards the one in deficit.

3.7 Findings and Lessons

The treaty had several weaknesses. The main one were:

(i) It did not guarantee the free movement of labour among the partner states. In this sense it was more of a customs union than a common market;

(ii) Despite the transfer tax and the EADB, the treaty did not provide for any central means of industrial allocation or a common scheme of fiscal incentives. This was probably due to the fact that the Kampala Agreement which had attempted industrial allocation, had failed due to opposition by Kenya, the more advanced partner. This failure to provide central means of industrial allocation left the opportunities for TNCs and other foreign investments in industry to freely apply commercial criteria in determining investment priorities in the regional market. As a result of this, even the strength of the other corrective measures were to be undermined, leading to further polarisation in industrial growth.

(iii) The treaty made little progress towards achieving a common agricultural policy. This deprived the community the chance to develop resource based industries which would have provided for a wider scope of redistribution of costs and benefits.

(iv) While tax coordination means were established, there was nothing in the treaty to prevent the three countries from having different tax systems with the exception of external tariffs and excise taxes. Differences in the tax systems developed during the life time of the EAC, particularly the differences in tax incentives to business, with Kenya having a more liberal tax structure with greater incentives to investors. This led to greater concentration of foreign investment in Kenya.

(v) The coordination of some vital matters of the Community were left to the various Councils established in the treaty, often without specific guidelines. For example, the Economic Consultative and Planning Council was charged with the task of assisting the national planning efforts of the partner states through consultations. But it was not given the specific task of coordinating these efforts, let alone focusing, as would be expected, on an East African Development Plan. The Council's work was therefore very limited throughout the life of the EAC.

The industrial integration in the EAC was based on the narrow extension of the import substitution industrialisation strategy. This did not provide the scope for expansion of industry through forward and backward linkages that is crucial for sustainable development. The competitive industries that were developed in the years of the community continued to be heavily depended on external inputs and the level of required MVA did not change significantly. This strained the balance of payment of the partner states simultaneously making them less able to participate effectively in the integration arrangement as they strived to resolve their external problems.

Cooperation in the EAC, therefore, faced typical problems that are face by other developing countries' attempts not committed to fundamental structural change of their economies and industries. The common market was characterised by a narrow based for intra-regional trade because of the gorwing asymmetrical relatinship between the structure of production and the structure of demand. As a result, intra-regional trade was a small fraction of total frican trade (ecportsd adn imports) throughout the life of the EAC. The three countries produced the same agricultural products for export and manufactured, under protection, the same products for trade within the common market. The scope for trade within the common market was therefore narrowed as each of the countries industrialised. The external dependency of the industries that were developed further strained the trade relations between the partner states. Convertible currency became a principal scarce commodity among the states as their ability to generate foreign exchange from the international market was fundamentally affected from the 1970s. The instruments for cooperation established under the Treaty were inadequate to deal with this fundamental crisis. Inevitably, the common market crumbled under these forces. It is in the context of these broader external forces that affected the EAC in the 1970s that its failure can best be understood.

4. Industrial Cooperation and Integration in the Preferential Trade Area for Eastern and Southern Africa

4.1 The Industrial Integration Framework

The enormous discrepancies and disparities in levels of overall economic and more specifically industrial development among the PTA members are observed by the treaty forming the PTA and the states are committeo to establishing regional co-operation free of unequal industrial and other developments. The PTA's framework for cooperation and integration in the field of industry is spelt out in the Protocol on cooperation in the Field of Industrial Development (Annex vii of the Treaty) it declares that such co-operation "can only be achieved on the basis of full recognition and understanding of the prevailing situation and overall economic development in each member state". It also emphasise that meaningful preferential trade area arrangements between countries at different levels of economic developments and pursuing different economic and political policies cannot be realised without the restructuring of their economies through co-operation in industrial development. Taken together, these two statements can be interpreted as expressing awareness of the tendency of trade liberalization towards polarization and recognizing industrial co-operation as a major means of offsetting that tendency. The task of developing regional industrialisation on an equitable basis which the PTA has set out to do is a difficult one. This examines the framework for that cooperation and integration and assesses the strengths and weaknesses of conceptual framework and the instruments for implementing integration.

Although the protocol on industrial co-operation has called for wide-ranging aspects of co-operation in industrial development, it is evident that much of the policy guiding industrial development would continue to be that of the member states, influenced by the various interests which those in power wants fulfilled in the process of industrial development. The industries, as noted, are heavily dependent on external supplies and none of the states is committed to fundamental policies of restructuring this. There are various ways in which the industries are tied to the international economy. Part of this, and a growing trend, is through loans and aid programmes which are tied to supplies from the donor countries. We discussed earlier the enormous external indebtedness the states in the region entered into in the 1970s and the 1980s (see table 5). A large part of this was for financing industrial development. This situation is certain to continue through the 1990s and might considerably hinder rapid evolution of integration in the field of industry.

Although there is awareness of the tendency of trade liberalisation towards polarisation and the recognition of industrial integration as a major means of offsetting this tendency, the realisation is far from providing any mechanism through which the problem of unequal industrial structures could be resolved. The treaty has created a very united supra-national framework. It emphasises the respect of sovereign power and only provides negotiations as a basis through which the structure can be changed. But this is a very weak institutional setting for going about restructuring regional industry. Closer examination of the commitments made in specific articles in the protocol on co-operation in the field of industrial development shows this weakness of generality and failure to reach agreement on evolving a process towards regional authority.

Articles two, three, four and five set out the most important objectives and the framework for co-operation in industrial development. Article two points out that the general aim is to promote self-sustained industrialisation within the PTA designed to effect structural transformation of industry and expand trade in industrial products. More specific objectives include:

(i) The development of large-scale capital and intermediate goods industries;

(ii) Food and agricultural industries; and

(iii) Consumer industries - all designed to obtain economies of scale, reduce external dependence and achieve greater complementarity of economies of the member states.

The article also refers to the promotion of rational and efficient use of existing and new industrial capacities, raw materials and other local resources through rationalisation and specialisation.

From the protocol, it follows that the attainment of the objectives mentioned above would require the conclusion of complementary agreements and the establishment of sub-regional plants. Both types of agreements would be concluded by interested countries.

Article four places particular importance in the creation of Multinational industrial Enterprises (MNE). These are to include industrial corporations, enterprises and joint ventures in industrial projects or other industrial production units wholly owned either by two or more member states or by nationals of two or more members states.

Article four provides the products of the MNE shall enjoy preferential treatment in accordance with the provisions of the treaty, i.e., be included in the common list. The members concerned shall determine:

(i) The members and priorities that shall govern MNE;

(ii) The guidelines relating to their establishment and operation. Priority would be given to MNE which would require the combined markets of more than one member state to be profitable, make use of large quantities of the natural resources of raw materials of member states, which were either exported to third countries or unused; lead to substantial earnings or savings of foreign exchange, promote the development or acquisition of modern technology, managerial and marketing experience; and provide substantial employment. The guidelines on the other hand, would cover such matters as the location of the MNE, their minimum size and capacity, and standards of their products and regulations regarding ownership and management.

The implementation of this requires a high degree of harmonisation of industrial development and foreign investment policies of the concerned countries. The PTAs has began the process of harmonisation of these policies. In the context of implementation of adjustment programmes, however, member states are at present more concerned with restructuring their national economic selling in order to satisfy the requirements of the multilateral financiers. It would appear that until the IMF and the World Bank who are financing the adjustment programmes in most countries begin to a regional approach in their policies, the regional harmonisation process is likely to take secondary priority among the PTA members in implementing adjustment. Successful implementation of the harmonisation of policies in the short term, will continue to be constrained by this situation.

Throughout the treaty, priority is given for decisions to be made by the individual member states. The treaty, as a result, has not transferred authority of any significant nature to the regional institutions that would serve the PTA. This points to some of the difficulties the PTA is likely to continue to face while implementing industrial integration activities. Because its institutions do not have any direct mandate to initiate and implement policies on behalf of the member states, any policy initiation and implementation suffers from delays due to long negotiations seeking consensus agreement. By emphasising the importance of respect of sovereign decision most of the consensus reached run the danger of failing to bring about fundamental regional transformation.

The protocol establishes the link between industrial integration and the other sectors of the regional economy. It notes that self-reliant industrialisation needs to be supported and promoted by policies and measures regarding. i) industrial manpower development, training, management and consultancy services; ii) industrial research, acquisition and development of modern technology; and iii) exchange of industrial information among the members (articles 6, 7 and 9). Links between industry and agriculture and transport and communications are also considered in the protocols on these two sectors.

As regards the first two, the members undertook, inter alia, to take appropriate measures to establish joint training institutions and programmes to use, as much as practicable, the services of any appropriate African institution for management and consultancy; to share and make the best use of existing and future industrial and scientific research institutions, facilities and technical knowhow, and to endeavour to adopt a common approach to and determine the terms and conditions governing the transfer, adaptation and development of technology.

In the last five years, the PTA has developed a wide ranging framework for cooperation in these areas to promote regional industrial development. One fundamental weakness, however, remained the lack of the evolution of powerful regional institutions to steer through the integration process. Although targets for implementation of various activities are being set, there are yet no regional mechanisms of enforcing the decisions reached by member states.

Again, all these matters are left to the discretion of the sovereign states to determine and make ruling on how they are to implement them within the national framework. There are obvious dangers that, where the regional policies conflict with the national policies, the national ones are likely to prevail over the regional ones. There are obvious dangers that, where the regional policies conflict with the national policies, the national ones are likely to prevail over the regional ones. The fact that most investments for wide-ranging industrial projects in the region would continue to come from outside the region, leaves the prospects of regional integration substantially conditioned by external demands on the region's economy. As the external demands conflict with aspirations for regional integration, the latter would be implemented with greater constraints.

The provision regarding exchange of information mainly serves the purposes of promoting co-operation among the member states, including, as far as possible, the co-ordination of their industrial activities in the broad sense. This also involves exchange of information on legislation on patents, trade marks and design and on legislation and regulations concerning investments from third countries and related incentives. As regards the latter, no reference is made to the possibility of developing a common approach, let alone the elaboration of a code. This leaves a lot to the discretion for individual states, and it is a great weakness that can easily be taken advantage of by external investors.

The institutional machinery for the promotion of industrial development comprising of a centre for the promotion of industrial development and a committee on industrial co-operation are set out in articles 5 and 10 of the Protocol. The functions of the Centre include the organisation and maintenance of a data bank for industrial information, the provision of advisory services, with particular reference to MNE and the undertaking of industrial surveys, projects identification, pre-feasibility and feasibility studies. The committee is to supervise the operations and activities of the Centre, promote the creation and strengthening of national industrial development institutions and foster co-operation between such institutions and itself. As noted above, the committee may also make recommendations regarding MNE. The nature of the work of this committee shows that there is no power or authority left to the regional institutions to initiate any policies that would be binding to the members. The institutions are safely left merely as service and advisory, and the discretion to take the service or advise they provide is left to the members.

On the whole therefore, the treaty touches on a wide-ranging number of issues related to industrial integration but has not established viable authoritative supra-national institutions for implementing the desired policies. On the contrary, most of these decisions have been left to intergovernmental committees which have to operate and make decisions on the basis of consensus. The regional institutions primarily service the intergovernmental communities and hardly make any policy initiatives of their own.

It is probably too early to assess the PTA's performance in co-operation in the field of industrial development. In the last four years the organisation has identified several sectors to initiate the process of industrial co-operation and integration. Preliminary sectoral studies have been completed for three sectors - iron and steel, chemicals and fertilisers, and pharmaceuticals. Several projects for development have also been identified. These are only the first stages of the co-operation and integration in this area and member states have not yet entered the stage where they have to bargain for benefits. Before examining the instruments which the PTA has developed to promote industrial integration, we briefly review the priority area which the PTA has identified for sectoral integration.

4.2 Sectoral Industrial Integration in the PTA

The ideas of sectoral integration approach are not only confined to the PTA experience but goes as far back as the beginnings of the EEC. The EEC began with different communities like the coal and steel community and the Atomic Energy Community. Member states initiated common policies for the development of these sectors. There is a great potential for such approach in the PTA. The PTA has selected priority areas for sectoral integration in the 1990s. These are included in the integration Programme of the second IDDA from where most of the review is drawn. These priority sectors are expected to enhance the self-reliance of the region as a whole in some strategic field.

4.2.1 Metals

The iron and steel sector is the most important under this heading, both at present and in terms of expressed concerns at the PTA level. Other metals of importance include copper, tin, aluminium, led, nickel and chromium. Copper products are converted into semi-finished products almost entirely outside the region, while at the same time the demand from PTA countries for such products is met by imports. Primary aluminium is not produced at all in the region. In general, there appears to be a need for the PTA to undertake further examination of these metals. At present, the liquid steel installed capacity in the region is 1.2 million tonnes. The major problem is the considerable degree of underutilisation of capacity, caused by shortages of raw materials, inefficient plant, shortages of skilled staff, lack of foreign exchange to buy spare parts, etc. which has meant that a major part of the region's requirements are met from outside the subregion. Globally, the iron and steel sector continues to undergo rapid technological change, and increasingly the availability of mini-steel plants has altered the traditional equations with respect to investment costs and location of capacities. There is thus an urgent need to review requirements and introduce product rationalisation and upgrading in the iron and steel mills and rolling mills, especially with respect to the production of flat steel. The proposal for programme for sponge iron production further reflects the need for decisions at a subregional level for the development of the iron and steel industry in the PTA countries.

4.2.2 Engineering

Some of the PTA countries already have an engineering industry of relatively considerable size, namely Kenya, Zambia and Zimbabwe. Most of these plants, however, are underutilised or need rehabilitation, due to lack of foreign exchange for purchasing raw materials and spare parts and to lack of skilled personnel. The role of such industries in developing industrial interlinkages, skilled employment, small-scale entrepreneurship and sub-contracting is significant, and the development of these industries is thus an essential basis for further industrial development in the subregion., Some of the specific areas where coordination among the national industries and sub-regional cooperation should be pursued are: the production of machine tools, the production of spare parts for industries that are important in several countries of the subregion and where the machinery used in those countries are similar, e.g. cement, sugar refining. The growth of subcontracting relationships should be encouraged, and various types of inter-firm cooperation promoted so as to facilitate the exchange of information and expertise, and the provision of equipment, component parts etc. between firms and countries. Another fruitful area for cooperation is design, with modern techniques such as computer-aided design and manufacturing (CAD/CAM) potentially playing a vital role.

4.2.3 Chemicals

The chemicals sector is one of the most diverse and important in the region, and given the fact that chemicals are used as inputs to practically all branches of the economy, an effective strategy for the development of the sector is essential. This strategy should cover in particular fertilisers and pesticides, including promoting the production of those of biological origin, which can help to reduce imports as well as have important environmental advantages; pharmaceuticals, for which the industry in the subregion is quite developed and should be capable of meeting most of the requirements, while in practice these are largely imported from outside the subregion; as well as industrial surfactants and inorganic salts, which are important inputs into other key branches of PTA industry.

4.2.4 Agro-industries

In the field of agro and agro-allied industries, the PTA subregion is highly endowed with all necessary resources. Apart from the cash crops (tea, coffee, tobacco, etc.), which are cultivated for export, all the food processing industries can be installed within the subregion relying only on local resources: grain-processing, sugar, meat and diary products, fishery products, fruits and vegetable processing. There is in the region all the potential for attaining a total self-sufficiency in food production and moreover for exporting food industry products to other countries not so well endowed. Like other industries, however, and especially to the extent that it is becoming export-oriented, the food-processing industry will have to take account of changes at the international level. Textiles, wearing apparel, leather and footwear constitute another important group of agro-industries which have been the subject of rapid and dramatic structural change, especially in developed countries. Two major trends in these branches with potentially significant impact on the subregion are: one towards complete integration of design, production, distribution and sales to the final consumer; and one of international sub-contracting, where the wholesaler or retailer in a developed country specifies the product in terms of design and quality, and the actual production is carried out elsewhere, often in a developing country. With respect to pulp and paper, for which the subregion is well supplied with raw materials, the need for technology and expertise from outside acts as a serious constraint to development of this important industry. Thus, all these branches offer fruitful areas for subregional cooperation and coordination of national efforts.

4.2.5 Building Materials

Cement is of primary interest for the subregion. The actual total installed capacity of 8 million tonnes per year in 20 plants would be large enough for meeting the needs of the subregion, but the production amounts only to 3.5 million tonnes per year. The first PTA objective is therefore the rehabilitation of the existing plants, as well as improving the supply situation. Another important area in this sector is that of glass, which provides not only building materials but also packaging materials. In this context it should be noted that there is a considerable number of proposals to institute or expand small production in the member states of the PTA. Local availability of raw materials access to appropriate transport facilities for distribution, and the need to achieve import substitution are some of the considerations. The production of sheet and plate glass, as well as container glass, is an important question which would benefit from being explored at subregional level.

It is expected that the above activities involving the horizontal and vertical integration of production units in industry (as well as in agriculture) will contribute substantially to the development of inter-State and inter-sectoral linkages as well as foster inter-dependence in production enterprises and sectors among the PTA member states. This, in turn, is expected to generate an increase in the volume of intra-PTA trade and improve the economic viability of inter-State multimodal transportation system.

4.3 Cooperation in the Development of Small Scale Industries

The success in the development of large scale regional industries is very much dependent on the existence of viable small scale industries. Many large scale reginal industries would ned a wide range of their inputs - intermediate and spare parts - from smaller and medium scale industries, either located within the country where they are or in other countries within the PTA. A growing small scale industrial sector therefore is of enormous importance for the success of regional integratin in teh region. Small scale industries are also of regional importance from another perspective. As regional integratin progresses, cross-border investment in this sector will develop. Investors will be attracted to invest within a context of a viable regional policyt for the development of the sector.

For the smaller economies of the PTA, small scale industries are one fo themechanisms through which they are likely to participate in the regional economuy by supplying to larger regional industries located in the larger countries. Small states with relatively higher technological skill for formation like Mauritius could specialise in small sector electronics and high technology industries.

The implementation of cooperation in the development of the small scale sector in the PTA is largely left to member states. The coordination at regional level is loosed and institutional framework for the development of the small scale sector and integrating it in the regional industrial sector needs further articulation. The importance of this sector to the large regional industrial enterprises will become more significant with the need for increasing regional MVA.

4.4 The Mobilisation of Regional Financial Resources for Industrial Integration

Ideas about the mobilisation of regional financial resources for industrial integration are only in their formative stages. The PTA aims to mobilise regional financial resources which will constitute the bulk of investment in industrial development in the longterm. The longterm strategy is that external resources will only become supplementary to the regional resources. To realise this objective, the PTA is committed to a regional monetary and financial harmonisation. The macro-economic disparities that impede intra-PTA trade liberalisation and integration can only be removed through a process of monetary and financial harmonisation. A harmonised and integrated monetary system is an indispensable infrastructure for liberated and integrated market for goods, services and capital and labour within the region which are crucial to industrial integration. The PTA has started the promotion of monetary and financial harmonisation within the sub-region to facilitate market integration with a view to eventual establishment of a monetary union. There are already regular consultations between the governors of the Central Banks of the member states.

As far as development of regional institutions, the PTA's current immediate objective is to strengthen the capital or equity base on the Trade and Development Bank for Eastern and Southern African States (The PTA Bank) to operate more efficiently and to meet its objectives. More members are being encouraged to join the Bank and to lend resources to it for project financing. its lending policy is being further streamlined and aligned with the overall PTA strategy of developing a regional market. More operational linkages are being established between the PTA Bank and the national industrial development banks and other credit financing institutions to serve as important outlets for programme and project lending by the PTA bank.

Another strategy of mobilising regional financial resources that is being pursued by the PTA is the establishment of a PTA stock exchange. This will allow and promote cross-border investment as well as the free movement of capital within the sub-region. Such free movement of capital will only be made possible if the financial structures of the member states are integrated. The idea is to promote the establishment of national stock exchanges and to link the national stock exchanges to a regional PTA stock exchange to facilitate information flow on the demand for and sale of shares in the various member states. A regional stock exchange is expected to assist member states in their privatisation of industry and in debt equity swap exercises.

Like the SADCC, the PTA is also promoting cross-border investment among its member states. Cross-border investment will necessitate the creation of a common investment code to encourage the cross-border movement of capital and dividends. When such a code is in place, nationals of one member country will be able to buy and hold stocks and shares in other PTA countries. The cross-border facility is expected to contribute to effective resource mobilisation and investment within the sub-region while at the same time economising on the sue of foreign exchange, prevent capital outflow from the region and reduce the need for external borrowing.

As pointed out earlier, the increasing burden of external debt is one of the main obstacles to rapid regional industrialisation. The PTA strategy for mobilisation of regional financial resources intends to tackle the debt problem through the creation of regional mechanisms which will reduce debt. Two such mechanisms are the establishment of credit mechanisms in the PTA clearing house and the establishment of a PTA insurance company.

For the credit mechanism in the clearing house the idea is that it will make member states that are in surplus at the clearing house to grant the percentage of their cumulative surplus in foreign exchange as credit to the clearing house to settle the trade arrears of countries in deficit. The PTA envisages that this would induce the countries that are always in surplus to increase their imports from the PTA countries, in order to reduce their levels of credit to the clearing house. On the other hand, since an increasing amount of the cumulative net debtor position would be paid in foreign exchange, there would be growing pressure on the debtor countries to adopt adjustment measures for increasing their exports to the region and reduce their risk of building up unsustainable deficits in the clearing house.

The prospects for successful development of such a credit facility would in the longterm depend on rapid development of complementarities within the PTA industries which would enable countries with large surpluses to increase their purchases within the regional market. Also a significant increase in the level of regional MVA would be necessary.

The second external debt reduction mechanism - the establishment of a PTA insurance company - is expected to reduce the deficit in the current accounts of the PTA members that is accounted for by foreign exchange payments for reinsurance services that are purchased from international reinsurance companies. The borrowing forced on many PTA countries in order to offset these balances will therefore be reduced with the establishment of the PTA insurance.

The company's business is expected to cover several sectors including marine, road transport, civil aviation, industry and real estate among others. In addition to transacting reinsurance business, the company is expected to handle insurance business related to international trade and provide training to insurance personnel within the PTA to improve the underwriting practice.

4.5 Instruments for Implementing Industrial Integration

4.5.1 Trade Liberalisation and Infant Industry Protection

Trade liberalisation is one of the principal instrument which the PTA is using to promote industrial integration. The main objectives of the PTA in the field of trade are gradual reduction and eventual elimination of tariffs and non-tariff barriers to intra-state trade, and the gradual evolution of a common external tariff with the view to the eventual establishment of a common market. The reduction and elimination of tariffs and non-tariff barriers is to be carried out over a long period, up to 15 years.

The gradual process of trade liberalisation in the PTA is explained by obvious reasons of history. The member states of the PTA were not in any significant trade interaction for many years. As pointed out earlier, the level of intra-regional trade in the PTA is only about 4 per cent of the total external trade of the member states. With some of the states, there literally existed no trade contacts at all when the PTA was established.

Intra-state trade liberalisation has proceed from first establishing a common list of selected commodities of both export and import interest to the member states and then reducing the barriers to trade in such commodities. The treaty provides that negotiations concerning the common list and related trade liberalisation measures should take place every two years, commencing from the date of entry into force of the treaty. Negotiations for the first common list took place hand in hand with the negotiations for the treaty and the list was ready at the time when the treaty came into effect in January 1983.

The protocol on the reduction and elimination of trade barriers on selected commodities traded within the PTA stipulates the basis for, and methods to be applied to the reduction of barriers of trade. (Annex 1 of the Treaty). According to the protocol, the prevailing preferential tariffs for commodities already included in the common list will be the basic rates for further reduction. The implication of this is that preferential tariffs may approach but not reach zero. In the case of non-tariff barriers, the Protocol simply calls for their relaxation over time. This provision applies to non-tariff barriers appearing in a list which by no means includes all conceivable barriers of this kind (see the lists in tables 6 and 7).

The treaty recognises the special difficulties which some countries could face by attempting to implement the treaty straight away. The treaty therefore has provided at various stages exceptions to some members through "escape clauses". The escape clause of particular interest to the less industrially advanced countries concerns the use of quantitative restrictions and such other measures for the protection of an infant industry, the products of which are contained in the common list, for a specific period of time to be determined by the Council. Another escape clause relates to the rules of origin. As regards the rules of origin, preferential treatment was initially granted to goods which had been produced by enterprises subject to management by a majority of nationals and to at least 51 per cent equity holdings by nationals. Six small states and Zimbabwe benefited from concessions with respect to the limit on equity holdings. Thus, in case of Zimbabwe, the Protocol provided for an initial equity capital requirement of 30 per cent and for the gradual attainment of the 51 per cent limit in the course of five years.

The initial limitation by the rules of origin of PTA products to a 51 per cent equity holding by regional institutions, however, proved restrictive to rapid expansion of regional trade almost immediately. Despite the concessions given to some of the small states and Zimbabwe, high levels of external ownership also restricted them from benefiting from the PTA market. A compromise formula to enable more countries to participate in tariff reduction process had to be found. A three-tier system to be applied for a grace period of five years was agreed at the first extraordinary meeting of the PTA Authority in May 1986. Under this system, goods produced by enterprises with regional equity holding of 51 per cent or above are granted 100 per cent preferential treatment; those produced by enterprises with 40 per cent regional equity but less than 51 per cent - 60 per cent; and those produced by enterprises with 40 per cent equity but less than 40 per cent - 30 per cent. This formula is applied on a pro-rata basis in the case of those PTA member states already regranted a derogation. It was anticipated that this formula would enable all PTA member states "to move in consonance with each other particularly as regards to process of progressive elimination of tariff and non-tariff barriers".

The sixth summit of the PTA Authority held in 1987 made further progress in the elimination of trade barriers. It agreed on a timetable for complete elimination of tariff and non-tariff barriers to trade among members by the year 2000. The timetable consists of a progressive reduction of tariffs by 10 per cent every two years from 1988 to 1996 and, subject to a review in 1996, by further 20 per cent in 1998 and 30 - per cent in the year 2000. The Authority also approved a proposal to introduce a mechanism for fiscal compensation to small member states, such as Comoros and Djibouti, for loss of revenue as a result of tariff cuts.

The major weakness of the criteria for defining a PTA product is that it does not necessarily guarantee that much of the generated surplus is left within the region for further development if the enterprises are heavily dependent on imported technologies. Suppliers of these technologies would continue to retain and expropriate a "lion's share" of the generated surplus. Moreover, foreign investors increasingly prefer this kind of equity holdings by local investors in order to secure government guarantees in their investments as well as preference in foreign exchange allocations, where the practice is prevalent. Also, the percentage equity rule does not say anything in relation to manufacturing value added (MVA) which is crucial in determining the extent an industry is contributing to the development of the regional or national economy on the whole.

But even with the reduction of percentage of regional ownership to 30 per cent equity for products to qualify for preferential treatment, it might prove difficult for nay industries to meet this criteria. Problems of sustaining this relatively high local equity criteria might therefore arise in the short-term. It could prove difficult for countries to meet this criteria in their short and medium-term investments in industrial development. For example, it is likely, given the weaknesses of the economies, some major industries which need regional markets could be established in some of the member states on investment terms which do not satisfy this criterion and yet acceptable to the concerned state. The international pressure that already exists on the Eastern and Southern countries, particularly in the context of structural adjustment programmes, to open up their economies to private sector development, both local and foreign, is likely to be on the increase in the next few years. It is evident from the local capital accumulation, particularly the foreign financing aspects, that it would be difficult in the immediate future for local capital to effectively compete with foreign capital. Equally, the period of five years can prove to be too short for anything to be done by the concerned countries. It is tempting to speculate that the next five to ten years might be difficult to implement the fundamental restructuring of ownership of industry as stipulated in the treaty. Regional MVA therefore might be a better criteria for defining regional industries or products.

In trade liberalisation, there is one special feature that needs mention. This is related to the Most Favoured Nation clause (MFN). In the case of the PTA, it only applies to commodities included in the common list. This means that two or more member states "shall not be prevented from maintaining or entering into new bilateral or multilateral trade arrangements among themselves in respect of commodities not included in the common list". Member states may also maintain, or enter into new preferential arrangements with third countries, in respect of such commodities, provided that the preferences granted under these arrangements are extended to the members on a reciprocal basis and do not frustrate the objectives of the treaty.

The MFN clause could be one of the more difficult clauses to implement. It is more likely for member states to violate the treaty through this clause because of better opportunities offered by third countries and accepted because of constraints in, for example, balance of payments. A possibility of chain reaction is quite likely. Violation of the treaty due to constraints in balance of payments of member states is more likely due to the volatile and potentially debilitating external circumstances in which the economies are operating. As discussed earlier, most member states are in deep balance of payments crisis, are becoming more externally indebted, and are finding it more difficult to service their external debts. Unlike the East African Treaty for Co-operation, the PTA treaty does not provide for any framework within which members would provide each other reciprocal credits in case a member faces balance of payments crisis. Although given the present economic situation nothing much would have happened with a clause of that type, with its non-existence, the states are only left with the choice of accepting further external offers which would further integrate the economies to the international economy and in particular the financial institutions. The exposure of the economies to this world integration process in such a weak fashion creates more difficulties in the process of industrial integration.

4.5.2 PTA's Approach to Trade Liberalisation

There are obvious problems that would be associated with the "common list" approach. One implication of the approach is that importing countries may resist and indeed, veto the liberalisation of particular products or groups of products by reference to their development plans and, notwithstanding the escape clauses discussed above, to their needs for protection for a considerable period ahead against imports, also from other member countries. Since liberalisation based on a common list may prove to be a time-consuming process, the treaty provides for an additional or supplementary approach involving the elaboration by the Commission, of a trade liberalisation programme for consideration and approval by the Council. The objectives to be attained not later than ten years after the entry into force of the treaty, are the elimination of tariffs, taking into account the effect on customs revenue, and the relaxation and eventual elimination of all existing quotas, quantitative or similar restrictions or prohibition.

In relation to customs unions, there are differences in the way in which customs revenue affect the economies of the member countries and this could emerge as one of the areas where differences on policy might lead to conflicts. This danger is exacerbated by the limited time span which the member states have given themselves to reduce or eliminate the tariffs between them. but more important than this is the difficult economic environment under which these policies would have to be carried out. For member countries that are heavily dependent on customs collections for government revenue might find ten years or even fifteen too short to effectively restructure their government revenue sources. But added to this is the fact that the difficult economic circumstances under which the treaty has been reached, makes it difficult for the hopes to reduce tariffs to be achieved early enough. The member states spent the whole of the 1980s attempting to resolve the economic difficulties and issues of co-operation appeared to have been given lesser attention due to the fact that their benefits to the economies of individual states are more long term as opposed to short and medium term benefits needed by the present governments.

Apart from the reduction of tariffs, similar scepticism could be advanced in relation to elimination of quantitative and quota restrictions within a short period of fifteen years. Multilateral organisations like the World Bank and the IMF are currently advising sub-Saharan African countries to liberalise more of their trade and exchange rates. These actions, it is argued, would allow for the expansion and growth of the economies. But the same financial institutions are equally advocating that sub-Saharan African countries should continue their traditional specialisation as exporters of primary commodities. Industrialisation is only emphasised on a selective basis. Due to fluctuations in the world prices paid to primary commodity producers, it is increasingly proving difficult for sub-Saharan African countries, particularly the least developed among them, to sustain a liberal international trading system.

There is one basic characteristic which is outstanding in the treaty. This is related to the mode which has been set out for implementing the treaty. It is extremely cautious and places great importance on step-by-step negotiations towards the ultimate goal of a common market. The treaty does not give any indication as to the features of the additional programme, presumably because of the need to take into account the experience gained by the application of the "common list approach" and, in particular, the extent to which, if any, trade liberalisation has assisted in bringing about structural change to the benefit of all member states. Only one article (Article 14) deals specifically with the establishment of a common external tariff. The article calls upon the Commission "to submit from time to time to the Council for its approval, a programme for the gradual establishment of a common external tariff". There is no time limit set for the attainment of this objective, nor is any reference made to another feature of the common market, viz., the free movement of national factors of production within the area. However, according to Article 29, which is more general, the Commission "shall propose measures which in addition to the present provisions of the treaty, would be required in order to assist in the development of the PTA into a common market and eventually in to an Economic Community for Eastern and Southern African states". These proposals are to be submitted eight years after the entry into force of the treaty to the Commission for its consideration and recommendation to the Authority for approval. The implementation of the approved measures will commence 10 years after entry into force of the treaty.

It has been argued that due to the negative experience of a number of co-operation arrangements in developing countries, a step-by-step approach which limits any proliferation of regional supra-national organs and decision-making is a better method or approach that is likely to give rise to more successful regional co-operation and integration in the long run. A step-by-step approach would effect more learning by doing and would facilitate more negotiated agreements between equal sovereign states. However, a step-by-step approach does not necessarily consolidate any regional grouping. On the contrary, it could have, in the short and medium term, negative effects on regional integration. By emphasising sovereign action and respect for it, there is a likelihood that this could consolidate the forces of economic nationalism, particularly where the regional arrangement is in difficulties. In the circumstances, obtaining in sub-Saharan Africa and Eastern and Southern Africa in particular, there is a likelihood that in the short and medium term, international integration as opposed to regional integration will be more prominent. The only likelihood of this being different is if the multilateral financial institutions supporting the adjustment process take greater interest in regional integration. Regional industries in particular would need the resources from these institutions if they are to succeed.

4.5.3 **Methods of Trade Liberalisation**

As pointed out above, intra-regional trade in the PTA is to be liberalised either through tariff reductions or elimination of non-tariff trade barriers of a common list of agreed products. The negotiations for the products to be included in the common list, are done through wide consultations of the member states by the PTA secretariat.

The common list of the products is reached through the following steps:

(i) Each member state submits to the Secretariat a list of products of export and import interest to that member.

(ii) The Secretariat, taking into account its own proposals, compiles a comprehensive list for submission to that Committee on customs and trade.

(iii) The Committee recommends a common list for approval by the Council of Ministers.

An exception to this procedure concerns the production of Multinational Enterprises, the trading arrangements of which are discussed in detail in section 4.1.

Tariff reductions on the products agreed on the common list are classified by groups and sub-groups in respect of which tariffs are reduced by common percentage. The reduction of the tariffs as table 6 (derived from article 4 of the "Protocol on a Reduction and Elimination of Trade Barriers on selected commodities to be traded within the Preferential Trade Area - Annex 1 to the Treaty), indicates, places importance to increased intra-state trade in intermediate and capital goods. The reduction of tariffs for these ranges from 40 per cent - 70 per cent. Then basic consumer goods have a second preference in tariff reductions ranging from 40 per cent - 30 per cent. Luxury goods have the lower tariff reductions of only 10 per cent.

The percentages of reductions quoted above and in the table were applicable on the occasion of their first inclusion in the common list. Products are subject to the percentage tariff reductions as shown in table 6 For products already in the common list, the common percentage will be determined in the subsequent rounds of negotiations.

The protocol also stipulates the basic rates for purposes of tariff reductions as follows:

(i) Products appearing on the first common list, the national rates applying on the date of the entry into force of the treaty.

(ii) The prevailing preferential tariff rates for commodities already on the common list.

(iii) For products added from time to time to the common list the rates applied by member countries on the date on which their inclusion in the common list is approved by the Council.

Similar rules apply for the basis of the relaxation and elimination of non-tariff barriers in respect of products included in the common list.

The protocol, however, reckoned with the fact that circumstances could arise whereby a member is incapable of implementing all these tariff reductions or non-tariff reductions, as the case may be. In these circumstances, there are escape clauses which are provided allowing members with special problems exemption from implementation of various aspects of the trade liberalisation for the time when they are in those difficulties. For example, in the case of percentage reductions it was agreed that they will be applied by all members subject to specific exceptions concerning, Djibouti and the BLS states (Botswana, Lesotho and Swaziland) which still belong to the Southern African Customs Union (SACU). An escape clause was also included, according to which the Council may exempt for a specified period of time any member states from the application of the agreed reductions or elimination of both tariff and non-tariff barriers in respect of any product.

The different percentages of tariff reductions given to the various categories of products as shown in table 6, reflects purposes for which trade is to be promoted in the PTA. Broadly, groups II, III, IV(d) and V reductions aim at promoting intra-state trade in essential goods, sub-group IV(e) aims at promoting the need for protection of some "easy" import substitution goods and group VI aims at generating customs revenue from this category of products. However, in view of the fact that we do not have reliable knowledge of the structure of effective tariff rates of the various countries and the impact of the non-tariff barriers applied by them, it is not possible to appraise the percentages more precisely.

Thus, import substitution on a sub-regional basis usually depends to some extent on the preferential margins which are determined both by prevailing tariff rates and their percentage reductions in favour of member countries. It is also true that the impact of tariff reductions on luxury goods on customs revenue is negligible whenever the imports of such goods are allowed in exceptional cases only.

4.5.4 Reduction and Elimination of Non-tariff Barriers

Eight non-tariff barriers are identified by article 5 of the protocol on "The Reduction and Elimination of Trade Barriers" mentioned above. The article also indicates the concessions to be granted in respect of each of them (table 7). The list of non-tariff barriers is, however, not exhaustive. Such things as subsidies and similar forms of enterprise support do not appear in the list. In other cases, trading practices of state trading corporations are discriminatory in favour of national products and therefore may constitute non-tariff barriers. There is, however, no reference made to the practice of these organisations. The lack of exhaustiveness in the list of non-tariff barriers is, by an large, explained by the definition of them which has been agreed by all its member states and which is far from the traditional concept of "free trade".

Table 7 shows the non-tariff barriers prevalent in the PTA states and proposed concessions that are to be applied in the process of reducing and ultimately eliminating them. The table demonstrates the fact that it is hardly possible to define concessions on non-tariff barriers in favour of group of countries in precise terms. Thus, in the case of quantitative restrictions, concessions are likely to take the form of an increase in the share of member states in each other's global quotas rather than that of any absolute increase in those quotas themselves. This reflects the general purposes of most non-tariff barriers, namely, to match payments for imports with the amount of foreign exchange available and distribute that amount among imports according to development criteria. Both foreign exchange availabilities and import priorities are inevitably subject to change.

In addition to the exceptions and escape clauses already mentioned, the relaxation of non-tariff barriers is also subject to some exceptions and escape clauses to allow specific implementation of government policies. The treaty also includes a general escape clause allowing countries encountering balance of payments difficulties arising from the application of trade liberalisation measures envisaged by it to impose quantitative or other restrictions or prohibitions on goods originating from other member states.

In view of the fragile nature of the balance of payments situation of the PTA states, there is a danger that this escape clause can easily be over-used or often resorted to by member states with the consequence of reducing intra-regional trade. In the short and medium term (at least up to the mid 1990s), it is likely that the balance of payments situation of the member states would continue to be fragile, adversely affecting the existing industrial structures which are highly dependent on external inputs. States are likely to apply any measures that would generate and save foreign currency that is needed by all of them, if they are to develop trade among themselves. The member states would continue to be fragile, adversely affecting the existing industrial structures which are highly dependent on external inputs. States are likely to apply any measures that would generate and save foreign currency that is needed by all of them, if they are to develop trade among themselves. The member states therefore are likely to be cautious to ensure that they do not engage in any unbalanced regional trade that would subject them to pay balances of debits in convertible currency unless the products involved are extremely crucial to their economies. In the initial period of the PTA (at least to late 1990s), a lot of the trade in manufacture likely to take place would be that of basic consumer products. significant import substitution has already taken place which can use the economies of scale provided by the regional market. Intermediate and capital goods industries have to be developed except for very few that already exist in the more industrially advanced members. In the light of the existing quantitative and other restrictions, it is likely that the member sates will continue to apply them, particularly where imbalances arise in the regional trade. This situation can only be avoided if there is a dramatic increase in levels of MVA. This will reduce the pressure for foreign exchange financing for industrial enterprises.

The treaty has not committed the members to immediately develop joint policies on foreign investment and aid apart from merely urging on the necessity of doing this. Most of the PTA members, as we have pointed out, are among the least developed countries. They are currently receiving numerous forms of aid, most of it coming in very soft terms, but in many respects tied to supplies from the donor countries. A lot of public development programmes or projects in various fields, e.g. education, agriculture, health etc, are dependent on these aid programmes for their implementation. It is proving increasingly evident that significant demand of industrial products, particularly those of intermediate inputs and durable consumer goods are procured from the programmes. Most of the aid programmes are tied to donor supplies. This limits possibilities of regional demand for industrial goods arising from this important factor. So if the region continues to receive aid tied to donor supplies, in the long run it would prove difficult for industries in PTA to work on regional basis while their important source of demand is being undercut. The member states of the PTA have no joint aid or investment programmes. A programme of this nature needs to be developed between the member states which would enhance greater demand of the regional products as they are developed.

How does trade under this reduced tariff and non-tariff regional arrangement then operate? The treaty provided for the development of trading arrangements and the establishment of a mechanism to promote regional trade. It is this that we examined briefly.

4.5.5 The PTA Clearing and Payments Arrangements

We pointed out earlier that literally all the members of the PTA are in deep balance of payments crisis which has had devastating effects on their economies, particularly the industrial sector. Since the sharp rise of the prices of oil and, in particular, the 1978-79 rise, in the 1980s many of these countries were forced to negotiate structural adjustment programmes with the IMF to deal with the crisis of external payments. Where the IMF has reached agreements for these structural adjustment programmes, they have been accompanied by devaluation of the national currencies as well as austerity measures aimed at rationalising the economies to adjust and enable them to sustain a particular level of growth that is in line with their ability to finance. But even in those countries where the IMF conditionality has been accepted and applied by the states, serious balance of payments crisis have persisted and tariffs and other wide ranging non-tariff mechanisms have been applied to hold down demand of imports. The consequences of these restrictions have been lower imports of industrial inputs leading to low utilisation of industrial capacities and low output.

It has been argued that one of the ways of overcoming this over-dependence on foreign currency by the sub-Saharan African countries is to promote trade among themselves which does not necessarily have to use convertible or third country currency. It is contended that it is possible to save significant amount of foreign currency through more efficient utilisation of capacity by taking advantage of economies of scale that are provided by the regional market as opposed to a narrow national market. On the whole, it is observed that on aggregate basis, a country would stand to gain from the efficiency in the utilisation of resources derived from regional economies of scale if it involves its economy in a regional trading system which uses its own national currency.

Intra-state trade in the PTA has been negotiated with this view. The PTA therefore has developed a trading system in which, as far as possible, payments would take place using the national currencies of the member state. To do this, the PTA has established the clearing and payments arrangement operated from the Reserve Bank of Zimbabwe. According to the treaty the member states are to promote trade in goods and services by encouraging the use of national currencies in the settlement of current and eligible transactions among themselves, providing machinery for multilateral settlement and undertaking regular consultations on monetary and financial matters. The arrangements required to give effect to these provisions are set out in the Protocol on Clearing and Payments Arrangements which, inter alia, defines the functions of a committee consisting of the governors of the monetary authorities of member states and a clearing house for multilateral clearing and settlements.

After consultations with the Council, the Committee established a unit of account for the PTA known as the Unit of Account of the Preferential Trade Area (UAPTA). When UAPTA was created with the establishment of the clearing house, its value was made equivalent to one IMF Special Drawing Right. A brief discussion on trade under these follows below. The Clearing House has the responsibility of determining from time to time the value of each national currency in terms of UAPTA on the basis of the official exchange rate applied by each monetary authority against its intervention or reference currency.

The clearing house undertakes clearing operations and regulates transfers of payments expressed in UAPTA and made in pursuance of eligible transactions. Maximum limits of net debit and net credit positions are determined by the committee on the basis of the volume of trade of each member state. The debit balances exceeding the agreed limits at the end of a transaction period are settled in convertible currencies within a settlement period. The length of both periods are determined by the committee.

In view of the present condition of the economies, the balance of payments and receipts on account of eligible transactions will vary substantially from one state to another and the amount of net credit, which may be made available to a member is small and short-term in nature. At any rate, provisions are also made to allow member states which are unable to enter into multilateral arrangements to maintain bilateral arrangements with other states during a transition period, to be determined by the council, but not exceeding five years from the entry into force of the treaty. Because many members are among the least developed, they are likely to continue getting a lot of industrial goods and services through bilateral and multilateral aid agencies, tied to specific supplies from outside the PTA area. This might take up a relatively large consumer market which would have otherwise been utilised by the PTA. The only way of overcoming this tendency and create the potential for increasing demand of PTA products is for the PTA members to have joint aid and investment policies that would aim at committing donors to purchase inputs for development projects from the regional market, where they are available. The possibilities of reaching agreement on this matter is limited indeed. For apart from currently having competitive aid and foreign investment policies, the likelihood of a reduced volume of aid in the 1990s is unlikely to consolidate and even further intensify competitive policies.

4.5.6 Trade Under the Multilateral Clearing House

The Multilateral Clearing House was established with the Reserve Bank of Zimbabwe in early 1984 and began functioning from February 1984. The creation of the clearing house means it no longer necessary for exporters of industrial products within the PTA to comply with certain exchange control regulations such as establishment of letters of credit where settlement specifically takes place through the PTA. The clearing house also enables members to use their national currencies in the settlement of payments for goods and services through swing credits.

When in full operation, no importer is allowed to obtain an import license for goods which can be bought from within the PTA have unless there is a shortfall in PTA supplies. All imports within the PTA will have the organisation's (PTA) stamp so as to assist national central banks to check if required imports on the license could either be bought from abroad or within the PTA. Intra-regional settlements of all trade transactions are expressed in terms of the PTA unit of account - UAPTA. Invoices, however, may be expressed in either the currency of the exporting and/or importing country or in the UAPTA.

The facilities provided by the clearing house are widespread. Its facilities ensures that replenishment of authorised dealers' correspondents accounts takes place through the clearing house via the respective central bank and this is expected to minimise the use of denominated currencies because importers will settle their commitments within the PTA. The settled amounts are then converted to UAPTA and the central bank of each member is credited at the clearing house for its exports and other receipts and debited for its imports and other payments. Members maintain accounts with the clearing house which are supposed to be sufficiently funded for trading transactions.

The adoption of the PTA clearing house does not interfere with, or change existing permissions, consents and authorities relating to foreign trade and services, but export incentives in the region are still offered whenever exports are successfully executed. There are no letters of credit that are opened for goods traded within the PTA, as pointed out above, but payments mature after a period of two months. Each member's monetary authority advises the clearing house of each funding operation and final debit settlements between the authorities are concluded through international banks like the Bank for International Settlements or the Federal Reserve Bank of New York.

This new system was expected to improve the balance of payments position of most members by concentrating trade within the PTA grouping. The PTA therefore may be regarded as a test case for the practical intra-African trade in the interest of the African economies.

However, the economic circumstances of the PTA members makes it difficult for a lot of its objectives to be realised in the short or medium term period. The industries need and will continue to need supplies of inputs - (raw materials, intermediate and capital goods) as well as other services which are largely not available in the PTA region and which can only be imported from the third countries with convertible currency. Declining terms of trade for most PTA countries has compounded the difficulties of their economies. For examples, some PTA members were spending up to 60 per cent of their external earnings for importing oil in 1985 which only met part of their overall demand. In the early 1970s, the same states were spending only about 10 per cent of their foreign exchange earnings to import enough oil to meet local demand. The overall recurrent demand for foreign currency by established industries has also increased enormously in the last ten years and the crisis that exists is that of increased inability of the economies to generate enough foreign currency to purchase inputs for the over-dependent industrial structures. As a result, many states have been forced to enter into exchange control regimes, as well as import restricting measures which have contracted imports of basic consumers to levels which are already intolerable. This has constrained trade within the PTA as it is predominantly in basic consumer goods.

Therefore, although most PTA members have increased the use of the clearing house, the volume of transactions remain relatively low. This has been largely because most PTA countries strive to maintain favourable trade balance.

In view of this, and because within the PTA there are insignificant prospects of large trade in intermediate and capital goods in the short and medium term, the possibilities of expanded trade through this liberalisation are limited. It is significant to also note that when the lists of import and export interests were made, and in particular that of export, there was consideration of the volume of output and the level at which these could be maintained. The calculations and figures were merely based on the existing capacities to produce and the demand for the products. Since the signing of the treaty, problems in production have increased, leading to reduced levels of output and export performance.

Success in the expansion of trade, therefore, can only be viewed as feasible in the long run. In the medium term (up to 2000) there will be enormous difficulties in getting much done due to the vicious cycle surrounding the balance of payments situation, viz., in order for the economies to improve their balance of payments, they need convertible currency to import the necessary foreign inputs in both agriculture and industry. Availability of this foreign financing in quantities large enough to meet their demands is becoming increasingly difficult and it is likely to be so throughout the 1990s. This will limit the possibilities of utilising the advantages of co-operation and trade provided by the PTA.

The clearing house can only operate smoothly if trade constantly balances in the process of multilateral clearance. Otherwise, trade can be expanded only through generous credit arrangements, which will be hard to establish because of the fact that all the economies without exception are striving to get foreign currency. Also, problems of delayed payments in those cases where balances have to be settled in convertible currency are bound to arise. Those are likely to form the nucleus of conflicts and misunderstandings between the members for the next few years.

Theoretically, the PTA could have started immediately with arrangements where balances could be settled by local currency of the country in deficit in regional trade or the provision of credits by surplus countries through the clearing house. But this kind of arrangement was difficult to implement immediately given the overdependence of the industrial enterprises on the external inputs, making the demand for foreign currency financing very high. In fact, those which are more industrially developed, and therefore capable of providing more products and credits to the lesser developed are in more desperate need of convertible currency to keep industries producing. The ultimate success of the PTA will depend on the ability of its members to radically restructure the economies away from external supplies of inputs and towards regional supplies. This would inevitably involve a dramatic increase in local manufacturing valued added particularly for those range of industries producing intermediate inputs. If this happens, it would enable the PTA to be flexible in its trading arrangements and provision of credit facilities, as proposed.

4.6 Distribution of Costs and Benefits of Industrial Integration in the PTA

The PTA treaty came into effect at the beginning of 1983 and the progressive liberalisation of intra-PTA trade commenced from mid 1984. It has therefore hardly been put into practice. For the past six years, the organisation has been concerned with beginning to operate the PTA machinery, particularly establishing the facilities for operation of trade viz., the clearing house and the PTA unit of account. In effect, trade has begun to flow between the member states, based on the first negotiated common list. Some of the institutions proposed in the Treaty like the Eastern and Southern African Development Bank have recently been established and gone into operation. In view of this, it could be argued that it is premature to evaluate the treaty and its protocols.

However, it would be appropriate at this point to comment on the distribution of costs and benefits among members and the likely problems this process might face. This is an issue which has been of great controversy and is bound to affect the future of industrial integration. One of the effects of liberalisation of trade in regional groupings is polarisation of industrial activities. In the case of an integration scheme like the PTA, the distribution issue is mainly concerned with the extent to which the polarisation tendency of trade liberalisation may be offset by policies pursued and measures taken in fa.our of the less advanced countries in respect of economic co-operaticn in general and industrial integration in particular. This is the test which the EAC failed to go through. Probably the EAC failed to make a breakthrough because its membership was too small and only one of the members, Kenya, had to make all the concessions. The circumstances under the PTA are different. The grouping has about six times the membership of the EAC and there are more states that will be asked to make concessions and redistribute resources. But the degree of concessions resource redistribution which is acceptable to all states is difficult to ascertain.

The preamble to the protocol displays a keen awareness of the big differences in levels of industrial development within the area. However, this awareness is not reflected in any specific provisions regarding possible forms of assistance to, and support of, the less advanced countries. On the other hand, the provisions related to trade liberalisation based on the "common list" approach may, as noted earlier, make it possible for a less advanced country to retain a significant measure of protection against imports of sensitive products. It remains to be seen how the relevant provision will be applied. Experience in the EAC with the transfer tax system shows that it was bitterly opposed by Kenya, the more advanced partner, although there was no evidence to prove that it hindered the rate of growth of industry in Kenya.

It would be futile to express any view as to whether the members would go ahead with additional approaches to trade liberalisation, and if they do, on the possible features of the new programme. As already noted, much would depend on the experience gained during the first years of the PTA. However, it appears **a priority**, that the less advanced countries have reason to be concerned about the objectives of the eliminating or at least substantially reducing all barriers to intra-trade too rapidly. Even if these countries were to drive large benefits from economic co-operation, it would not be possible to significantly reduce the present differences in levels of industrial development over a period of ten years. The question still remains, however, whether it is necessary to concentrate on reducing differences in levels of industrial development as an immediate objective.

The main objective of the grouping is to promote the creation of new, complementary industrial structures. Preferential margins favouring intra-state trade at the expense of third countries would be particularly helpful to the more advanced countries. On the other hand, the further industrialisation of the latter countries would hardly depend on easy, preferential access to the markets of the less advanced countries in respect of traditional import substitution products. These are products which the lesser advanced countries could easily develop and would naturally wish to develop first in their own economies as they industrialise. In view of this, the more advanced countries could find themselves with the choice of taking the challenge of supplying inputs to the industries of the lesser developed countries. In order for them to get these markets and for their more advanced industrial development to be of benefit to the lesser advanced members, they would have to supply these inputs - intermediate or capital at internationally competitive prices. This challenge might not be fulfilled in the short term and might be constrained by fierce international competition which might be cushioned by aid tied to donor supplies or other more lucrative financial resources enabling the international suppliers to provide generous trading credits which regional suppliers might fail to compete with.

But apart from this, it is also becoming increasingly evident that new industries in the developing world are unable, in their formative years, to effectively compete with international suppliers in their markets due to the difficulties the young industries have to endure. They therefore need significant protection in these formative years.

Whether the lesser developed members in the PTA would take this long-term view of development and adopt a strategy of regional co-operation and integration which recognises and accepts these short- and medium-term problems and costs is dependent on political choice. Given the diversity of the states, the chances are limited.

There is therefore no easy solution to the major problem of the distribution of costs and benefits in the short- and medium-term. However, it should at least be possible to alleviate the problem through the conclusion of industrial co-operation agreements in production and investment and the translation of these agreements in to trade by means of contractual arrangements over a considerable period of time. The PTA protocol provides for complementary agreements as well as for the establishment of MNE by two or more countries. It is to be hoped that special arrangements would be made for the participants of the less advanced countries in the conclusion and implementation of such agreements.

4.7 Findings and Recommendations

The economies of the PTA member states have enormous disparities and discrepancies that will make the process of industrial integration a difficult one to implement. Most industrials are first stage import substitution industries with very limited linkage to the rich regional resources of agriculture and mining.

In its ten years of existence, the PTA has created a framework to promote industrial integration on regional basis based on the principle of equal and balanced development. Although it is committed to the principle of equal development, the various instruments it has created or proposed to create to promote industrial integration has not adequately addressed the problem of equity which is likely to be a central issue in the future development of regional industries.

The successful future of the PTA lies in its ability to resolve the issues of equity, compensation and balanced development which are at the root of any regional integration scheme involving countries with unequally developed economies.

Some of the difficulties of promoting intra-regional trade which the PTA has faced in recent years might appear, for some, as only "teething problems" which will be overcome with time. This study, however, argues that for enduring intra-regional trade to be developed in the PTA region, more formidable structural constraints would need to be overcome. Regional manufacturing value added would need to be substantially increased to provide for greater surplus generation within the region and to enable the member countries overcome their balance of payments constraints which form the most important obstacle to regional trade.

In the field of industrial development, the treaty and the specific protocol on industrial co-operation committed the PTA to developing industry on equal basis, but has not gone beyond this to specifically show the modalities in which this equal industrial development is going to be attained. Other cooperation schemes like the EAC resorted to industrial allocation programmes of regional banks or fiscal mechanisms of ensuring equal development. None of these methods has worked to the satisfaction of all in the various schemes. These mechanisms have been faced with different problems of economic and political nature as discussed earlier. The PTA has not gone into elaborate regional authoritative mechanisms. Rather, it has committed members to ensuring the opportunities for consultations through the Council of Ministers, the Commission and the Committee on industry is done in order to constantly exchange ideas on industrial development in the different member countries, as well as establishing MNE where it is feasible and acceptable to two or more members. It has also adopted a quasi-free market strategy in its approach towards tariff reductions.

This approach is on the whole cautious and seeks to establish integration on the basis of consensus of the constituent states. But given the nature of the economies and the states in the region, it is likely that in the next few years the PTA might face formidable difficulties in bringing about the radical transformation, at least within the period anticipated.

5. Industrial Cooperation and Integration in the Southern African Development Co-ordination Conference

This section examines the evolution of the Southern African Development Coordination Conference's (SADCC) industrial coordination strategy and the prospects for its effective implementation. Until the formation of SADCC in 1980, two broad sets of strategies to regional integration could be identified in Africa. They involved attempts to create larger political and economic units with common services and the creation of free trade areas behind a common external tariff. While some practical advances have been made by existing integration groups, neither of these strategies has worked well in a developing country context. SADCC has opted for a different approach - the co-ordination of national efforts through decentralised institutions and procedures.

Established in 1980 by nine Southern African states - Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe (Namibia joined as a tenth member in March 1990) SADCC is committed to the economic liberation and integrated development of the national economies of its member states through coordinated regional planning. Its development objectives include: the reduction of economic dependence especially, but not only, on South Africa; the creation of regional interlinkages geared to substantive and equitable integration; the mobilisation of resources for development; and concerted action to secure international cooperation towards economic liberation. These objectives are to be attained through coordination of development programmes of different sectors of SADCC economies.

Since its creation, SADCC's unique approach to regional cooperation and integration has attracted increasing interest among experts of integration. By its radical departure from both the common market and the integrated community approach, it has made a contribution to the rethinking on regional integration movements among developing countries:

- the initial emphasis was not on trade as such but on the transport and communications links needed to make trade feasible and beneficial;

- the approach to trade arrangements has been selective and targeted, not based on regional liberalisation;

- co-ordination based on national planning rather than market determination or supranational planning bodies has been seen as the central institutional mechanism;

- and the basic conceptual approach has been indigenous and pragmatic and not based on traditional integration theory.

The central question which this section seeks to address is whether this new approach provides a viable and sustainable framework for industrial integration in the subregion. It examines SADCC's experience of cooperation and integration in industry under this approach; points to some of the constraints that have emerged; and makes some suggestions for possible improvement in performance.

5.1 The SADCC Industrial Structure

SADCC as a whole is a major market with a population of approximately 75 million, a GDP of around $27 billion and an abundant range of natural resources - notably agricultural, water, mineral and energy resources. Potentially, these provide a sound basis for self-sustained industrialisation. But, at present, the level of industrial development is relatively low. In individual countries, the industrialisation process encompasses a broad range of economic activities, comprising mainly agro-related manufacturing, mining and construction, as well as infrastructural development. It is characterised by light industries with emphasis on consumer goods, little value added, major dependence on imported capital and technical know-how, and relatively small production capacities. The share of light industries in manufacturing output varies approximately 56 percent in Zimbabwe and 100 per cent in Swaziland.

Despite wide national contrasts, SADCC countries may be divided into four broad categories: (i) Angola and Mozambique, countries in which many industrial plants have closed down or are barely functioning and the restructuring towards "basic needs" goods and intermediates has made limited headway; (ii) Botswana, Lesotho, and Swaziland, countries with small fragmented manufacturing sectors geared mainly to exports of either processed raw materials or light assembly products; (iii) Malawi and Tanzania in which, although manufacturing value added (MVA) per capita is low, the much larger domestic market allows a greater spread of industrial capacities, more especially in Tanzania where basic needs industries, such as textiles, as well as a number of intermediate and capital goods industries have been established; and (v) Zambia and Zimbabwe, with more diversified and integrated industrial structures, supported by a sizable concentration of urban demand.

Manufactured exports are small, the principal exceptions being food products, textiles, wood pulp, fertiliser, refined petroleum, copper and steel. Excluding refined petroleum and non-ferrous metals, exports were 17% of gross output in 1980 when SADCC was formed. In contrast, the SADCC region depends heavily on imported manufactured goods. Imports supplied 46% of regional consumption in 1980; in only 6 branches of industry (foodstuffs, beverages tobacco, leather, wood products, and printing and publishing) did local production supply more than 80% of domestic consumption. The shortage of foreign exchange generated high levels of suppressed demand for many types of goods in many member states in the 1980s.

The region's present industrial structure is largely a reflection of past industrialisation strategies and policies, which had historically placed great emphasis on import-substitution. In conformity with these strategies and given the relatively small size of domestic markets, the tendency has been for countries to protect their young industries through a number of mechanisms, including tariff barriers, import licences and quotas.

In many cases, industries have not been structurally linked with local resources, especially primary agricultural inputs, and have tended to depend heavily on imported raw materials and semi-processed inputs. With declining foreign exchange earning in real terms and little market growth in the last ten years, most industries in the region have suffered setbacks. As a result, many SADCC countries adopted a number of restrictive measures, which in turn have tended to reduce the flow of capital and technology to the industrial sector.

In the 1980s, capacity utilisation in most industries were adversely affected by the deterioration in the foreign exchange earning capacities of the countries. Except for Botswana, and to a considerable extent Swaziland, most of the other countries were unable in varying degrees, to finance the importation of necessary intermediate imports and spares to enable industries to operate at optimal capacity. As a result, capacity utilisation dropped to an average of 25 percent and for some countries, even less.

Since the middle of the 1980, following implementation of structural adjustment programmes, many of the countries have embarked on wide ranging rationalisation and rehabilitation of industry and capacity utilisation has increased significantly in recent years. The process of industrial rehabilitation is a continuing one in most countries, and it is also one of the major programmes of SADCC into the 1990s.

Another serious consequence of past industrialisation policies has been their adverse effect on the level of intra-SADCC trade and industrial cooperation. In many cases, projects have duplicated each other and the markets in individual countries have generally remained too small to sustain the initially expected rate of growth and project expansion. As a result, the role of industry in the development of the subregion has remained relatively insignificant and, in some cases, has even decreased.

5.2 The Industrial Coordination Programme

In September 1980. Tanzania, the coordinating country for SADCC's industry and trade programme submitted a memorandum on industrial co-operation for consideration by the members. The memorandum outlined the main objectives of SADCC's industrial programme. These are: to reduce external dependence (nationally and regionally) on imports of industrial products and inputs from outside the region; to increase the size (absolutely and relative to total national production) of the industrial sector; to expand and diversify the industrial sectors of member states and the region as a whole, especially for the production of intermediate and capital goods in which scale economies are important; and to increase the linkages within the national and regional industrial sectors, with a view to making them self-reliant and less dependent on raw materials and intermediate inputs form outside the region.

SADCC aims to attain these objectives through regional industrial coordination of the different national plans and policies. The co-ordination activities involve the identification of the scope for regional cooperation as far as demand for certain goods and services and the capacity for their production in the SADCC region is concerned; the preparation of pre-feasibility studies and project proposals; the allocation of projects to different member states; and the mobilisation of international support for projects.

The objectives outlined in the first memorandum were further elaborated in a second memorandum, issued in 1981 and also prepared by Tanzania, which took into account the statistical data and information on national industrial strategies and plans. This memorandum focussed on a medium-term action programme, including proposals for studies and for projects for implementation. The programme, which has been under implementation since the Maseru Donors Conference of 1983, is primarily centred at the national level. It aims at developing national and regional industries to satisfy the basic needs of the populations of the member states in food, housing, clothing, water and power supply, health care, transport and communications and education; and the production of raw materials, intermediate and capital goods required for the production of final products and services in those areas.

Conceptionally, the programme takes into account the needs, priorities, plans and resources of the nine member states, as well as the industrial products currently exported and imported by each state. It identifies various basic needs industries that depend on regional supplies of either raw materials or intermediate goods for their development. its main objective is to establish linkages on a sub-regional basis for raw materials and intermediate inputs to industry. As a consequence, it initially includes projects which are essentially national, in that they would not export to other SADCC states, but partly depend on supplies of inputs from other SADCC states.

In order to emphasise the complementarity of industrial development among member states and to harmonise development, specific criteria have been laid down for the identification of SADCC projects. These are: the ability of the project to meet internal consumption and have surplus for export, particularly to the SADCC region; the need for such a project to obtain raw materials within SADCC; realistic conditions of transporting raw materials and products within the SADCC region; a funding gap in foreign exchange; and a reasonable implementation period.

Project promotion is carried out by the coordinating country, Tanzania, through the SADCC Industry and Trade Coordination Division (SITCD). The following means for raising foreign funds for projects are used: SADCC donor conferences which are held annually (The first one was held in Maseru, Lesotho, in 1983); specific investment-promotion conferences; and direct negotiations with potential investors. Once a project has been approved and a foreign donor or partner identified, the role of the Industrial Coordination Division is fulfilled and, thereafter, the member state concerned and its implementing agency take over. Although SADCC exercises very little influence over the overall implementation process, the process of consultation has achieved considerable success in convincing member states to drop, adapt or accept certain projects in accordance with the overall strategy of SADCC. But this process is potentially saddled with national bargaining processes which, in many respects could stifle rapid progress towards the development of regionally integrated industry.

Industrial co-ordination in SADCC is being implemented in the context of different time horizons - the short-term, the medium-term, and the long-term. In the **short-term** the principal aim has been to save foreign exchange through maximum use of existing industrial capacities. Much effort has concentrated on the rehabilitation of existing industries which have potential for exporting to the region. Actual regional coordination has therefore been limited to existing plants. The main objective has been to exploit the possibilities of matching certain unutilised production capacities in a member state with import needs of other member states. Contact points were established in each member state in the early stages of the programme for exchanging the data needed for that purpose. While there is great potential for matching idle production capacities with import needs in the SADCC region, actual improvements in capacity utilisation depend largely on imports of raw material and other inputs from third countries. In practice, therefore, "matching" has been constrained by the acute shortage of foreign currency in varying degrees by virtually all member states throughout the 1980s.

Medium-term coordination is mainly concerned with industrial plants actually under construction or with projects in which firm investment decisions have been taken. Regional co-ordination involves the application of the same concept of "matching" to plants under construction. While, in practice, no country is expected to abandon the implementation of any advanced national project, where possible, adaptations are made in plant development and operation to take account of regional requirements.

The proposals put forward in the 1981 memorandum provided a basis for the preparation of a SADCC medium term plan. Taking into account actual trade flows, existing industrial capacities and national plans and priorities, the plan indicated that a considerable part of SADCC regional imports from the Republic of South Africa, including a substantial share of manufactured goods, could potentially be met by increased intra-SADCC trade, if only a determined effort was made to match the import requirements and the production capabilities of SADCC countries. Actual link between the goods produced and increased regional trade would need to be developed on the basis of negotiations among SADCC member countries. A programme of action to expedite the promotion of regional trade is currently under implementation.

Long-term co-ordination was seen as providing the possibilities for complex forms of industrial co-operation, which would exploit opportunities for economies of scale in particular lines of production. However, short-term, medium-term and long-term co-ordination would conceivably take place simultaneously and the need for the first two stages of coordination would be reduced over time as a result of successful implementation of long-term coordination. The 1980 memorandum notes that only the actual realisation of gains from short and medium-term coordination "will convince states that it is worthwhile committing scarce resources to larger, longer-term proposals". Since SADCC is still in the process of implementing the first stages of comprehensive medium-term regional industrial projects, it is difficult to make any meaningful assessment of the prospects for long-term coordination. Much will depend on the progress made in the implementation of the medium-term plan.

5.3 Implementation of the Industrial Coordination Programme

The Maseru Conference was the first donor forum to consider the financing requirements of SADCC industrial projects. In effect, it was the first forum used by SADCC to launch its regional medium-term industrial plan. All together 33 studies and 55 projects were submitted to the conference. They involved different industrial sub-sectors ranging from salt, textiles, wool and mohair, textile chemicals, insecticides and pesticides, tractor and farm implements, fertilisers, pulp and paper and electrical transmission and distribution equipment (see table 8). The estimated total cost of the projects for implementation was about $1,519 million of which $1,236 million, about 80 per cent of the total, was in foreign exchange. Since 1983, the programme has been modified and improved upon. The cost of the programme has also been revised in the light of inflation and project modifications. By the end of 1989, the sector programme comprised 103 project including 86 for industrial investment, 7 for trade development and 10 for industry and trade support services. The estimated cost of the projects was US$1,484.92 million, out of which US$1,222.62 million or 82 per cent of the cost was in foreign currency. Out of 103 projects, 18 had been completed and 29 were under implementation. Of the total funding for the programme, 21.28 per cent had been secured and 36.44 per cent was under negotiation, leaving a funding gap of about 42 per cent.

Most of the industrial projects that had secured adequate funding were those that essentially needed national markets for optimal operation. Mobilisation of resources for the large regional projects was poor throughout the 1980s. The relatively slow rate of resource mobilisation for large-scale industrial projects that would have a significant regional impact may partly be attributed to the uncertainty that existed among potential foreign investors about SADCC as a regional market because of the lack of a clear regional trade policy prior to 1986, and their dissatisfaction with the incentives offered in the investment codes of member countries. As shown in table 9, assessed in terms of their contribution to regional industrial production, (apart from two sectors, pulp and paper and cement, where SADCC projects under implementation would increase the excess capacity in the region according to projected demand and in one sector, wool and mohair, where the projected supply and projected demand is the same), most of the projects fall short of meeting the projected demand in 1990. Only in two sectors, salt and fertilisers, do SADCC projects under implementation reduce the projected demand gap by 50%.

The total estimated cost for the projects amounts to about 5% of the combined GDP of SADCC member countries. But even in favourable circumstances, the implementation of many projects would spread over several years, depending on the speed with which the countries are able to recover from their present economic constraints and begin to build the capacity for undertaking new projects. This process is bound to take place at different rates in the ten countries. While some countries will be able to implement their projects on schedule, others are likely to face implementation problems.

The projects included in the medium-term programme were not evenly distributed among member states. It would seem that, because the SADCC programme was based on existing national plans, implementation of which was in many cases far advanced, it was easy for each member country to come up with enough projects that could easily satisfy the SADCC criteria. In future, the process of selecting regional projects will probably face the problem of balancing costs and benefits arising from industrial co-operation and integration between member countries. With the launching of the trade programme in 1986 and with wide-ranging preferences to SADCC firms, the question of distribution of costs and benefits is likely to be a major issue in the course of further expansion of the SADCC industrial integration programme in the 1990s. The next comprehensive round of project selection and allocation, therefore, might not be as easy as the first and as SADCC moves to the middle of the implementation of the medium-term plan, it could face tougher selection choices and might need to apply more strict selection criteria.

The impact of the medium-term plan projects to various aspects of the national economies would be diverse. With respect to foreign currency impacts, for example, the diversity is quite obvious and the consequences quite sensitive. Although the emphasis is on reducing external dependence, the share of the foreign costs in the total cost of projects is very high. On average, it is about 87% for fertiliser and pulp and p..per projects respectively and about 50% - 70-% for other sub-sectors. Apart from the initia! costs, most of which are being financed by donors and direct foreign investment, there would also be differences in recurrent foreign exchange financing when the projects are in operation which would have to be met by the country in which the project is located. In the event that a country where a project is located faces major foreign exchange constraints which affect the implementation of the project, countries depending on the project for supply of either consumer goods or inputs to other industries would be adversely affected. SADCC does not have any established procedures or mechanisms to deal with such eventualities.

This diversity in the impact in terms of the initial foreign exchange capital outlay and the recurrent foreign exchange financing, also applies to other aspects like employment creation, skill formation, capital formation, etc. for the nine countries. This presents structural complexities which SADCC will have to address more directly with increased industrial cooperation and integration.

Since the launching of the medium term plan, further studies have been undertaken by SADCC on long term industrial co-ordination programme. An indicative Industrial Development Plan was prepared for SADCC in 1987. The indicative plan contains subsectoral profiles for industrial sub-sectors by ISIC industry branch. For each of the subsectors, the plan gives an overview, supply and demand analysis, projections, priorities criteria, regional planning and specific recommendations for further action and implementation. Also, programme profiles are given for rehabilitation, industry support services, small scale industries and some key recommendations are made for strengthening the institutional framework and modalities for implementation.

In its current industrial development strategy, SADCC aims:

- to raise manufacturing's share of regional GDP to between 15% and 17% by the year 2000 from 12% at present. This is based on the assumption that the SADCC GDP is forecast to increase from US$30 billion in 1988 by 4.5% per year to US$50 billion (at constant 1980 prices) by 2000;

- to generate at least 500,000 new manufacturing jobs by 2000, from approximately 520,000 in 1985;

- to increase savings and investment ratio to achieve self-sustained growth (i.e to 20% and 25% of GDP respectively, from 11.3% and 16% of GDP in 1986);

- to reduce dependence on imported manufactures from outside the region from 46% to 35% by 2000;

- to increase intra-regional trade from 5% to 12% of total trade by year 2000;

- to reduce imports and export dependence on South Africa;

- to develop the indigenous capital and producer goods sector;

- to raise levels of capacity utilisation and rehabilitate viable industrial establishments;

- to diversify the region's export base, with manufactures increasing from 10% (1980) to 15% of total export revenue, and exported industrial output increasing from 10% (1980) to 20% of total regional industrial output by year 2000;

- to foster labour-intensive small scale enterprises throughout the region;

- to adopt appropriate technology regionally

- to maximise utilisation of domestic resources, including managerial technical and entrepreneurial human talents

5.4 Sectoral Industrial Integration

SADCC has placed importance to sectoral industrial integration from the time it was established. The principal objective of the industrial coordination programme in the 1980s was to meet the basic needs of the SADCC region. Although the programme is based at the national level, it emphasises the need for development of complementarities at the regional level in the areas of:

- education of expatriate dependence through regional human resource development;

- industrial support services;

- regional cooperation to exploit economies of scale, equitable distribution of industrial capacity and increased intra-regional trade.

In promoting sectoral industrial integration, the SADCC countries aim at achieving a programme thrust on investment in production, placing emphasis on regional projects which have forward and backward linkages with other productive sectors. The programme is to give priority to intermediate and capital goods industries, without necessarily neglecting viable investment opportunities in consumer goods and export-oriented industries.

An analysis of the present structure of the SADCC's regional economy (Integrated Industrial Promotion Programme: proposals for the sub-regional programme for the second IDDA) suggests that the following industry branches offer the best opportunities for integrated and self-sustained industrial development.

5.4.1 Agro-Industries

Given the strategic emphasis on resource-based industrialisation, and the crucial importance of linkages with the agricultural sector, high priority should be accorded to all agro-allied industries. Not only are they less reliant on imported inputs, but they also have a high labour to capital ratio, provide opportunities for import replacement and utilise technologies that are appropriate to SADCC's resource endowments. Besides, these industries, especially food-processing ones, are of strategic importance for meeting the basic needs of the people in any country.

5.4.2 Textiles, Clothing, Leather and Footwear Industries

In this sub-sector, while certain projects can be supported by national markets (eg. garments), there is scope for coordination at the regional level, especially of projects producing inputs such as primary processing, chemicals and dyes, spare parts etc., which would need markets beyond national boundaries for viability.

5.4.3 Forestry-based Industries

Projects in this sector normally provide good linkages with other sectors such as mining, railways, building and furniture, for the domestic market. There is scope for regional import substitution in the pulp, paper, printing and publishing branches.

5.4.4 Chemical Industries

Chemical products are used as intermediate inputs by many industries, and the SADCC region is well endowed with raw materials for these products. There is, therefore ample opportunity to coordinate the development of these industries at regional level, to expand capacities and develop new plants in branches such as fertilisers, paints, pesticides, petro-chemicals, pharmaceuticals, household chemicals, etc.

5.4.5 Non-metallic Minerals Industries

Several industries in this sub-sector (eg. cement, lime, clay bricks, sheet glass, porcelain, electrical insulators, etc.) produce basic inputs for construction and housing needs, using locally available raw materials. There is, therefore. scope to produce some of these products for the regional market, for which coordination will be required.

5.4.6 Metallurgical Industries

Metallurgical industries, based on aluminium, copper, ferro-chrome, iron and steel, nickel, etc., normally require substantial investments and high-volume production to be commercially viable. These industries have many close linkages with the mining sector, and other branches of manufacturing industry; and form the basis for the capital goods industrial sector of the region, with substantial potential for import substitution. In addition, modern technologies offer some scope for the establishment of mini steel mills and other small scale metallurgical investment. This area offers both excellent opportunities, and the greatest challenges for coordination at regional level.

5.4.7 Engineering Industries

Development of mechanical, electrical and electronic industries, to produce basic equipment and machine tools would provide the necessary intermediate and capital inputs for key economic sectors such as agriculture, construction, energy generation and transmission, mining, transport and communications. Because of the critical role that engineering industries play in overall development, creating likages with other sectors, their demand for high capital investments, and technological and technical costs, coordination at the reginal level offers the only meaningful prospects for progress in this area.

From an analysis of the above industry branches, the following priority sub-sectors have been identified from which regional programmes/projects will be developed: Food products, glass and glass products, pulp and paper, iron and steel basic industries, non-ferrous metal basic industries, industrial chemicals, fertilisers and pesticides, synthetic resins, plastic materials and man-made fibres, drugs and medicines, petroleum and coal by-products, engines and turbines, agricultural, electrical and non-electrical, machinery, equipment and appliances, motor vehicles and motor cycles, transport equipment, including railway rquipment, materials handling equipment and spares and components.

The above sub-sectors offer great potential for forward and backward linkages with other sectors at both national and regional levels, and if effectively coordinated at regional level, would make a significant contribution towards self-sustained industrial development. In addition, the need for coordination arises from the fact that most of them share the following common economic characteristics:

- requirement of heavy investment, and therefore, amenable to joint ventures and appropriate financing arrangements;

- involvement of sophisticated and advanced technology, which requires foreign participation and other support services; and

- sensitivity to economies of scale, hence the need for guaranteed access to regional markets.

5.5 Industrial Co-operation and Trade

The development and promotion of trade is crucial both as an instrument for regional industrialisation and the creation of market accessibility. Since SADCC was formed, intra-regional trade has remained relatively insignificant, representing about 5% of its member exports and 3.3% of their imports. Trade with South Africa is much higher. South Africa takes about 8.5% of total SADCC's exports and provides 30 per cent of total imports. With the exception of Tanzania, which has no trade relations with South Africa, the degree of trade dependence on South Africa varies considerably between SADCC countries. Apart from food and oil, South Africa is the major supplier of machinery, spare parts and other manufactured goods to the region. One consequence of the enforced diversion of regional trade to South Africa's transport system in recent years has been an increase in SADCC imports from South Africa. In particular, the countries of Botswana, Lesotho and Swaziland (the BLS states) are heavily reliant on South Africa, through the South African customs Union (SACU) which provides an average of 87 per cent of their total imports. On the export side, South Africa is an important market for Lesotho, Swaziland and Zimbabwe.

The 1980 memorandum envisaged the promotion of intra-SADCC trade linked with industrial co-operation by means of bilateral arrangements organised at government level (planned trade). These arrangements were to take the form of annual trade protocols with data setting out the quantities of goods required for imports. The protocols would also include data on longer-term supply and purchase contracts concluded by the countries concerned. Actual trade transactions had to make use of existing channels, ie. private as well as state enterprises, but agreement on prices quantities and qualities would be concluded at government level. The memorandum did not consider tariff preferences as essential, although they were to be taken into account in concluding trade agreements. It also provided that in the negotiation of actual purchase contracts, account would be taken of international market prices. With respect to payments, the memorandum placed emphasis on the development of regional as well as bilateral clearing arrangements, which would minimise the use of foreign exchange in intra-SADCC trade.

Between 1980-1986, when agreement on the SADCC trade programme was reached, trade between the SADCC member states took place within the framework outlined in the 1980 and 1981 memoranda and was largely based on bilateral agreements. The experience of trading within this framework exposed some of the entrenched short term problems that are likely to be encountered more broadly as trade expands between SADCC members. The 1980 and 1981 memoranda only pointed to the potential for increased trade between SADCC states and left the realisation of this potential to bilateral negotiation. The annual trade agreements that had been concluded by Tanzania and Mozambique between 1979 and 1981 provided an example of the form which trade arrangements between SADCC states could take. These agreements established quantitative targets for products to be traded and called for considerable government participation.

Planned trade between Mozambique and Tanzania started in 1979 and was consolidated through a treaty signed in 1981. The arrangement involved identification of products and quantities to be included in bilateral trade protocols on an annual basis. Exports from Tanzania have included coffee, textiles and clothing while Mozambique has supplied Tanzania with cement, refrigerators and ball pens. Tyres have been exchanged in both directions in accordance with agreed product specialisation. A revolving credit for a maximum amount of 10 million Tanzanian shilling shillings (about $500,000 at the 1983 exchange rate) was also established through the central banks of the two countries.

Despite these elaborate institutional arrangements, some difficulties were experienced in the first three years of implementation. A trade surplus of about Tsh. 230 million was accumulated by Tanzania in 1979 and 1980, mainly due to shortfalls in Mozambican exports to Tanzania. In 1981, Tanzania incurred a small trade deficit of Tsh. 15.6 million, followed by a larger one in 1982 amounting to more than 5 times the 1981 deficit. These deficits reflected a drastic decline in the exports of that country as a result of shortages of imported inputs and the failure of textile exports to conform to agreed quality specifications and prices. The trade protocols for 1982 and subsequent years incorporated the outstanding balances from the protocols of the three preceding years. These balances had to be settled first before the implementation of new trade protocols. From the available data, it appears that Mozambique managed to increase its exports substantially in 1982, thereby reducing its accumulated deficit. However, overall trade flows between the two countries declined considerably in the 1980s because of the difficulties of financing imported industrial inputs. Similar problems could occur in other countries that embark on bilateral trade arrangements of this kind, mainly because of the import dependence of most industries in the region.

The structural constraints that led to the trade imbalance between Mozambique and Tanzania remain entrenched in most SADCC economies and, with the severe balance of payments difficulties experienced in the 1980s there has been no significant improvement in the availability of foreign exchange to finance imports of industrial raw materials and other inputs. Moreover, more import-dependent industries have come into production since 1980 and many SADCC countries' industries are likely to remain import dependent for sometime before enough restructuring is done to allow for regional supply of inputs of raw materials, intermediate and capital goods.

Measures to expand intra-SADCC trade have mainly been based on bilateral trade arrangements among member countries. These provide for lists of products to be exchanged and for terms of payment. The SADCC trade programme, which was adopted in 1986, was based on this experience. It predominantly advocates the creation of this type of trade arrangements as building blocks to a regional trade system. The programme involves a system of direct trade measures and bilateral trade agreements. It envisages the use of multi-year trade purchase contracts; counter purchases; preferential import licensing; product specific tariff reductions or other financial support mechanisms. In developing these activities, and taking into account the existing joint commissions of co-operation or other bilateral trade mechanisms among member states, studies were being undertaken to identify the potential products for such co-operation. Under the programme, a set of trade preferences would be extended between SADCC member states, taking into account the existing obligations.

5.6 Industrial and Trade Financing

In almost all the SADCC countries, capital markets to finance industry and trade are either inadequate, undeveloped or are completely absent. With the exception of Zimbabwe, there is no Stock Exchange in any of the other SADCC nine. Further, there is a dearth of domestic savings and foreign exchange. Consequently, entrepreneurs in the region have advocated for the creation of capital markets to finance industrial investments and export trade.

In order to ease the constraints to regional industrial investment and intra-regional trade arising from the foreign exchange and other financial difficulties, SADCC is pursuing a number of financing mechanisms:

5.6.1 Cross Border Investment Facility

A study on Cross-Border Investment Facility has been approved in principle by SADCC. It is intended to overcome financing constraints to joint venture investment across national boundaries. it is reported (SADCC Annual Consultative Document on Industry, Maputo, 29-31 January 1992) that SADCC is consulting with the relevant institutions before the remaining technical issues are finalised.

5.6.2 Comprehensive Export Financing Scheme

In January 1991, SADCC approved in principle to set up a Comprehensive Export Financing Scheme. When finally established the scheme would, inter alia, offer the following facilities at national and regional levels. At national level the scheme will provide credit financing in both local and foreign currencies, including credit guarantees and insurance. At regional level a financing facility will provide the following services: (i) pre-shipment credit in both local and convertible currency, to enable the producer of exports to purchase required inputs; (ii) post-shipment credit in both local and convertible currency, to enable the exporters to offer their customers competitive trade terms. The effective operation of the Comprehensive Export Financing Scheme would be predicated on the establishment of strong national schemes. In this regard, Export Pre-financing Revolving Schemes (EPRFS) and Export Credit and Guarantee Facility (ECGF) are to be implemented within the wider context of Comprehensive Export Financing Scheme.

5.6.3 Export Pre-financing Revolving Funds (EPRFs)

These funds provide, on a revolving basis, foreign exchange to designated companies, especially those producing for export. SADCC has conducted a study on the needs for EPRFs in member countries. The study concluded that they will require an initial $200 million capital to set up, including the funding required to replenish existing EPRFs in Tanzania and Zimbabwe. It has been proposed that similar arrangements should be considered for import-substituting firms, which are savers of foreign exchange.

5.6.4 Export Credit and Guarantee Facility (ECGF)

A feasibility study for the establishment of an ECGF has been completed. The main purpose of the facility would be to provide greater credit and insurance cover to SADCC exporters to enable them to offer competitive terms.

The operation of the comprehensive Export Financing Scheme is already under way in some countries. Lesotho has been operating it since 1988. Swaziland's similar scheme was expected to become operational from the second half of 1991 and Malawi is in the process of embarking on the scheme.

5.6.5 The NORSAD Fund

The NORSAD Fund, similar to the EPRFs, is intended to provide a foreign exchange revolving facility. However, the NORSAD Fund is limited to joint venture exporting firms drawn from SADCC and Nordic countries. The Fund and its Agency have been legally established since January 1990, when SADCC and Nordic member states signed the necessary instruments.

It is too early to assess the impact of these financial instruments in the promotion of regional industrial and trade integration. Such measures are undoubtedly useful means to bring about a substantial increase in trade in manufactured goods between SADCC member states. To achieve this objective, they would have to be provided with adequate funds to enable the countries to extend export credit to one another in larger amounts and longer periods than has been provided in the past. To reduce dependence on South African supplies in particular, the facilities, especially the export credit facility, will have to have funds enough to match or even surpass the credit facilities that the South African suppliers are capable of providing. This is so because in an environment of acute shortage of foreign currency, the matching of unutilised capacities with import requirements depends largely on the availability in one of the partner states of inputs usually imported from developed countries against payment in foreign exchange. Moreover, bilateral trade and payments arrangements of the type discussed here are as a rule associated with efforts on the part of individual countries, to balance not only total trade, but also, trade in foreign currency earning products, ie. on the export side, products which may earn foreign currency in third markets and, on the import side, products which otherwise would have to be imported with foreign currency. States should also attempt to obtain essential products in exchange for products which can not be sold in third markets but have a high import content in terms of foreign currency.

It should be understood that moves in the direction of a regional trade system covering a wider scope than the discussion above has pointed out are the only viable means that would facilitate the conclusion of industrial co-operation and integration designed to create linkages between the industrial sectors of SADCC through the rehabilitation of existing plants, as well as the construction of new ones. In case of new projects, requiring relatively large new flows of trade between SADCC countries, contractual arrangements would, as a rule, be required for the countries sharing the markets of the specific industry. Such arrangements have already been called for by investors before they can commit resources to the large industrial projects that have been put forward for funding in the medium term plan. With a SADCC Indicative Industrial Development Plan in place, the greatest challenge for SADCC industrial coordination programme in the next few years would be to create a sustainable regional trade system that would attract the investments to large-scale regional industrial projects.

5.7 SADCC and Post Apartheid South Africa

The prospects of the end of apartheid has made it imperative for SADCC to rethink its policy on South Africa. SADCC views the end of apartheid as an opportunity for promotion of co-operation and integration in the region as a whole. In principle therefore, the thinking in SADCC is that it would welcome the formal entry of South Africa in the Southern African economic interaction. Some in SADCC are arguing that the end of apartheid does not necessarily make SADCC's aim of reducing dependence on South Africa irrelevant. The reduction of dependency was not only motivated by political factors, but it also has economic sense. The dependency is economically inefficient in a number of ways. For example, Malawi uses South African ports which are about 5000 kms away as opposed to using the Nacalar port in Mozambique which is only 800 kms away, and if improved could be most cost-effective and make its industries more competitive.

There are two possible ways in which post apartheid South Africa could be involved with SADCC. It could join SADCC as the eleventh member. However, the dominance of its economy presents a difficult problem for any future regional integration in which it is involved. South Africa's GDP is about $80 billion compared with $27 billion for the SADCC countries. Its GDP per capita of $2300, (compared with SADCC average of $363) although very unevenly distributed, puts it far ahead of the other Southern African countries. With a population of about 35 million, its internal market is also potentially large compared with most of the other countries in the region. Given its massive economic power in the region therefore, strategies that would ensure that an equitable regional development emerges would need to be worked out carefully. Alternatively, SADCC could conclude a cooperation agreement with South Africa which would provide a framework through which the region could promote trade with post-apartheid South Africa.

South Africa stands to benefit a great deal from such arrangements in view of its already deep involvement in the region, particularly in trade and the transport sector. South Africa has a massive overall trade surplus with SADCC (total trade with SADCC in 1987 was US$2,988 million and South Africa had a trade surplus of US$1,308 million). A lot of SADCC's trade still continues to use South African routes.

The SADCC countries collectively are potentially prosperous. Given a favourable political and economic climate, they would be able to export coal, electricity and oil, and produce all the minerals required for industrialisation. Although individually poor, they together form a sufficiently large market to justify manufacturing such goods as textiles, chemicals, and a range of consumer items. Post apartheid South Africa stands to benefit through the development of this potential. Due to its relatively advanced industrial development it has the capacity to provide some of the capital and intermediate goods that would be needed to develop the SADCC industrial infrastructure. Since 1986, SADCC has turned its attention more into the production sectors: manufacturing, mining and farming. A new openness to foreign investment and stress on what SADCC calls the "enterprise sector" - private and parastatal business - form the background to the shift of focus and mean that the coming years should see new opportunities for investment. In the last decade official donors pledged more than $4 billion to SADCC projects. One way in which donor support to SADCC could help in the reconstruction of post apartheid South Africa is to allow buying from South Africa and using contractors and consultants from that country.

However, one danger which stands in the way of development of the SADCC potential for regional industrialisation in a post apartheid environment is the possibility that investment, particularly foreign investment, could drift to South Africa itself which has, in relative terms, by far a more advanced infrastructure for industrial investment - in terms of skills, services and communications etc. The other possibility is that post-apartheid South Africa itself might not necessarily be content in the development of SADCC as it is at present. They might want to involve themselves in a larger setting and with the South African Customs Union (SACU) type of arrangements. Also, South African's economic cooperation within Africa might need to extend beyond the Southern African region. In such circumstances, new arrangements of cooperation with post apartheid South Africa that would take account of South African's potential and needs in the Southern African region as well as the rest of Africa would need to be worked out.

5.8 The SADCC and PTA

There are growing concerns that the two organisations, SADCC and PTA are increasingly moving in the direction of duplicating activities and efforts in the process of integration. If this trend continues it will inevitably lead to misuse of scarce resources, both human and financial. Experts are therefore advocating the need for rationalisation of the integration process of these two organisations. The PTA and SADCC broadly have similar objectives of creating an equitable regionally integrated economy. The PTA membership however is larger than that of SADCC. The majority of the members in SADCC are members of the PTA except Botswana. Until now, there has been emphasis that the organisations were striving to complement each others activities in the region and always avoided duplication. They argue that they are guided by the practical reality of maximising opportunity. They share documents and attend each others meetings. This had happened at a period when only PTA had formalised its organisation through a treaty. Since SADCC was formed, it has operated as an association of countries committed to cooperating in organising production and the trade that arose out of it through a loose memorandum of understanding. This has made it possible for the two organisations to work together to some degree.

There are however, arrangements arising from the SADCC Arusha Summit (August 1991) to formalise SADCC. The arrangements also envisage the deepening of the integration process in the SADCC area. These arrangements might take some time but it is inevitable that in formalising SADCC some problems are likely to arise in its relations with the PTA. If the existing trading arrangements are formalised in the form of a treaty, it will have to take account of the existence of PTA. Fresh thinking on how SADCC moves forward, particularly in the context of the treaty for the establishment of the African Economic Community therefore is absolutely essential.

6. Industrial Cooperation and Integration Among the Indian Ocean Commission Countries

The Indian Ocean Commission (IOC) is the third regional integration grouping in the region. It was established in December 1982 by five countries in the South West Indian Ocean - the Comoros, Madagascar, Mauritius, the Seychelles and France (representing the overseas department of Réunion).

Apart from Madagascar, with a population of about 12 million, the rest are small states. Of the small states, only Mauritius has a population of one million. The other's populations are much smaller. Mauritius is by far the most industrially advanced. From the 1970s it has successfully developed Export Process Zones (EPZ) specialising particularly in textiles, leather, footwea[illegible]al goods, watches, jewellry and recently electronics. Apart from Mauritius, al[illegible]her countries are predominantly primary commodity exporters. The most significant exports are coffee, vanilla, cloves, copra, cinnamon and bark. Seychelles depends on tourism for most of its foreign exchange earnings.

The IOC promotes cooperation particularly in economic development between the countries of the South-West Indian Ocean. Apart from Reunion, all the other members of IOC also belong to the PTA. The Commission is committed to trade promotion and the elimination of tariffs among member states. It has a permanent liaison organisational structure in each member state. Apart from promoting industrial cooperation, the Commission also has priority in commerce, fishing, air and sea links and telecommunications, petroleum prospecting, scientific training and research. Its industrial integration programme is based on the development of these priority sectors.

The Commission's current programme for industrial cooperation in the context of the second IDDA has several projects. In addition to a tuna-fishing development scheme and the formation of a regional shipping line, in 1991 consideration was also being given to: the establishment of a petroleum refinery in Madagascar; the publication of an import-export guide; the launching of a training scheme for marketing; the organisation of annual trade fairs in different member countries; the establishment of a clearing house comparable to the system drawn up by the PTA; and the promotion of exports of spices and essential oils. This section assesses the potential and the prospects of the IOC in the promotion of industrial integration in the context of the treaty for the establishment of the African Economic Community. It also evaluates IOC industrial integration efforts in the context of the wider Eastern and Southern African region.

6.1 IOC's Industrial Development Policies and Strategies

The IOC's Plan of Action for regional integration (as proposed for the second IDDA), is based on two main areas of emphasis, three support areas and two complementary areas. The two main areas of emphasis are the development of trade and the promotion of industrial cooperation within the IOC. These are determined by objective considerations such as factor endowments and the demand for industrial products of the population, as well as by the interest expressed by Governments and other economic actors especially private foreign and domestic investors. The Commission's three support areas for cooperation and integration are: transport and telecommunications; education and training; and information and expertise.

The Commission is currently involved in the initial stages of creating an enabling environment for industrial and trade integration of its member countries. In the recent years it has concentrated on development of a policy framework for cooperation and integration. It has also created various institutions and instruments to implement its programmes. The Commission has proposed a programme of action for each area or sector in the context of the second IDDA. This programme of action is intended to strengthen the framework for industrial integration of the member countries.

6.1.1 Development of Trade

In this area the Commission's programme aims at:

- Strengthening institutions for coordination, focusing on the role of the Regional Commercial Trade Committee and creation of a federation structure for Chambers of Commerce;

- coordinated implementation of quality control testing for imports;

- strengthening cooperation and coordination among exports of agricultural and non-agricultural products;

- joint venture cooperation to promote trade;

- reduction of tariff and non-tariff trade barriers.

6.1.2 Promotion of Industrial Cooperation

The Commission's programme aims at:

- Creation and accreditation to the IOC of a union for industrial cooperation and development;

- creation within the IOC of a committee for the promotion of industrial cooperation;

- inventory of obstacles to the free movement of persons;

- inventory of obstacles to the free movement of capital;

- study on import duties;

- comparative study of investment codes and regulations;

- studies leading to the selection of industrial branches and studies of the selected branches;

- study on testing and quality control laboratories, standardisation and quality control: inventory, harmonisation and possible specialisation.

These core programmes of action in the development of trade and industrial cooperation among the IOC members will be supplemented by programmes of action in three support areas: transport and telecommunications; education and training, concentrating on inventories of training needs, the establishment of a net work of training institutions, programmes of cooperation and exchange and the implementation of regional training projects; and information and expertise, covering cooperation in communications and the exchange and dissemination of scientific and technical information and publications.

6.2 Development of Complementarities

The higher the level of complementarity between economies of cooperative countries, the greater the speed and degree of integration that can be attained. The IOC emphasise that industrial cooperation in the region has to be based on the identification of complementarities, in order that benefit from the different comparative advantages of the countries in the region could be realised. There are two types of complementarity that the region could take advantage of. First, the establishment of "self contained" industries in the various countries; and secondly, the distribution of different parts of the production process of a single industry among the different member countries of the sub-region (transversal industries). The Commission's action programme aims at developing complementarities within the economies of member countries. To this end, further programmes of action are planned for the complementary areas: marine resource and environment, covering an inventory and evaluation of resources, and the harmonisation of legislation with a view towards effective surveillance and management of marine resources, as well as various environmental protection measures; and regional and international tourism, covering cooperation in training, management, and tourist protection etc.

Specifically, the promotion of industrial cooperation and integration is considered by the Commission to be important in order to make optimum use of natural resources, create employment, diversify economies that were too long based on monoculture or agriculture, and increase foreign exchange earnings. Regional cooperation should permit a coordinated approach to development that will maximise the chances for success of national development strategies, and should be directed towards, on the one hand, an economic distribution of activities among countries (based on resource endowments and regional division of labour), and, on the other hand, if not a common strategy, at least coordinated strategies for entering foreign markets and cooperating with foreign partners.

The industrial cooperation policy of the IOC countries is based on two specific requirements: the necessity for export industries of the free zone type to be located in countries with a sufficient supply of labour, and the necessity for import-substitution industries to have access to a larger regional market in order to benefit from economies of scale. With respect to free zone type industries, Mauritius has reached a saturation point. Owing to a scarcity of labour and rising labour costs, the country is moving out of first generation textile industries and into more complex industries with greater value added. The IOC intends to put in place policies that will encourage the industries leaving Mauritius to move to another country within the region. This offers potential prospects for cooperation in particular in the area of technology, where Mauritius could offer to its partner states wide ranging technical assistance accumulated as a result of its successful development of export processing zones.

The policy of the IOC on import-substitution industries is to promote them on a regional rather than national basis. In particular this means the promotion of joint ventures for manufacturing industries that would not be viable for limited national markets, but would be economic for a regional market. These industries, once established, could also aim at expansion into markets outside the sub-region. In this context, the IOC policy does not envisage in the short term, the rationalisation on a regional level of existing industries which owe their survival to protective tariffs, which would inevitably lead to shutdowns, in order not to damage national interests. The IOC policy foresees that regional industrial development will necessarily favour the development of different countries of the sub-region, including those with higher labour costs through regional specialisation. For example, if the labour costs in Réunion are too high for textile manufacturing industries, it could specialise in providing services, such as computers, data [illegible]s, testing and quality control laboratories, etc.

The industrial policies which will underpin the development of regionally integrated industries include the promotion of small and medium scale industry; the promotion of foreign investment; the promotion of exports; the privatisation of the industrial sector; and the rehabilitation of existing production units.

In order to support existing industrial policies in each of its member states which cover similar areas and priorities, IOC aims at developing programmes and projects in the sectors/areas that are identified in the respective national development plans. Emphasis is given to bilateral projects, rather than to projects of relatively a short duration. The elaboration, implementation and follow-up of sub-regional programmes covering these areas are coordinated by the IOC Secretariat.

For the second IDDA, the Commission has identified priority industrial sub-sectors/products for regional cooperation and integration in line with the policies and programmes of action described above. The priority areas are: fishing industry; wood industry; coconut products; textile industry; leather industry; aromatic and medical plants.

6.3 Findings and Recommendations

- The IOC is currently involved with the development of a framework for industrial integration of the island states

- It has created a loose mechanism of coordination of policies of member states.

- Its approach to industrial integration is a comprehensive one which takes account of the development of natural resource endowments of the member countries.

- The region Commission plans to extend the success of the EPZ in Mauritius to the other member states. In this context it plans to develop complementarities and strengthen specialisation in the regional industries.

- Th industrial cooperation programme places enormous importance to environmental protection.

- There is a strong component of technological cooperation in the IOC industrial integration programme. Mauritius is expected to offer technical assistance to other member states to develop some of the EPZ industries that would be shifted from that country.

The countries forming the IOC are all members of the PTA, except for Réunion, represented by France. This creates potential areas of duplication of the activities that are already being undertaken by the PTA. It would be necessary for fundamental rationalisation to take place. As PTA develops its trade liberalisation policies, countries like Mauritius which are already in a relatively advanced stage of industrialisation would find it more advantageous to operate in a wider regional market than the one provided by the IOC countries.

There is nevertheless a strong economic case for the small Island countries in the West Indian Ocean to forge the cooperation and the integration of their industries in the earlier years of the implementation of the Treaty for the establishment of the African Economic Community. They are all island economies, with similar economic resources that would benefit from economies of scale which would arise from the integration process. The success of the integration process would enable them to participate more effectively in a wider African economy.

7. The End of Apartheid and the Potential for Integration in the Context of Eastern and Southern Africa

Many economic studies on economic integration argue that integration is more likely to succeed where countries are at similar levels of economic development, and where they have competitive industrial sectors with the potential to become complementary industries. Also prior to the establishment of integration the potential partners must have conducted a significant proportion of their trade with one another; each country's extra-regional trade as a percentage of GNP must be relatively low, and the individual country tariff rates prior to the formation of customs union are high in comparison to the common external tariff they would impose. Lastly, the larger the size of the potential integration grouping the greater the likelihood of obtaining beneficial results.

These characteristics do not exist in the Southern African sub-region as it is the case for most developing countries. Among developing countries it is abundantly evident that the main stumbling blocks in the way of regional integration are the polarisation effect - the tendency for the more advanced member or members of a regional grouping to enjoy disproportionate gains - and the loss of sovereignty. As a result many countries continue to be reluctant to concede to the principle of regional integration involving the creation of powerful supra-national institutions.

The discussion of industrial integration in the Eastern and Southern African region is complicated by existing overlapping and competitive institutions. The SADCC then started as a loose coordinating organisation, designed to co-ordinate production and transport activities at project and sectoral levels. The PTA is an evolutionary organisation moving towards a free trade area for its 18 member states, who stretch from Lesotho in the South to the Horn of Africa. There are also two institutions dominated by South Africa. The South African Customs Union (SACU) - a customs area allowing duty-free movement of goods in the region comprising South Africa, the BLS states (Botswana, Lesotho and Swaziland) and Namibia, which formalised its participation since its independence. The Common Monetary Area (CMA) has the same membership as SACU, except for Botswana, which opted out in 1976.

The integration environment in the years ahead is further complicated by the emergence of South Africa in the picture as a future potential partner, as and when apartheid is eradicated in that country. The South African economy is by far the most dominant. The 1989, for example, the aggregate regional GDP for the SADCC countries and South Africa was $130 billion - of which South Africa accounted for close to 80 per cent. The fundamental issue which confronts the region as South Africa is liberated from the apartheid system is whether it is likely to economically swamp or crowd out the rest of the region.

The key to regional economic development in the 1990s will be investment, industrialisation and trade. As the pattern of regional co-operation evolves, it is clear that investment decisions will increasingly be regionalised. Virtually all the countries in the sub-region have established investment codes to attract investment. South Africa which had been out of the market for some years due to sanctions against its apartheid policy is also likely to join the others in this competition for foreign investment. It has far more advantages than its prospective competitors. It has a superior infrastructure in the broadest sense of the word, including professional and banking services; it has a large domestic market and Africa's most efficient and sophisticated capital market infrastructure. While there is an acute shortage of skills in South Africa itself - one which is likely to get worse before it improves - it has a very marked regional comparative advantage in this regard. Perhaps most important of all, it has a vibrant private enterprise sector. This gives South Africa an added advantage in terms of attracting investment.

There are those who argue that South Africa has relatively high labour cost, low productivity. While this is true, it is equally important to note that the importance of direct labour costs in investment decision has declined substantially in recent years, while the importance of other factors - such as access to high-tech skills and back-up services has increased. This would make South Africa have a competitive edge over most other countries in the region.

The future of industrial integration in the region will largely be influenced by issues of equitable distribution of costs and benefits. Investments and the potential for attracting investment is central to the success of industrial integration. It is possible to develop scenarios for meaningful and mutually beneficial co-operation in many fields such as transport, energy, agricultural research, food security, etc. without any great difficulty. There will always be a zero-sum element in many of these activities, but so long as cooperation is confined to co-ordination and co-operation rather than the creation of free trade areas or common markets, the worst zero-sum conflicts can be avoided.

In the area of trade, the region is likely to confront two main problems: First, the fear that the more developed partners - Zimbabwe, Kenya and Mauritius, if South Africa does not participate in SADCC and the PTA - will benefit disproportionately at the expense of the less advanced participants. Secondly, the concern that not only will existing businesses in the more advanced partners benefit disproportionately from increased trade opportunities but new investment would flow to Kenya, Mauritius and Zimbabwe leaving the other states to fall even further behind.

This is directly related to the issues of investment and industrialisation. Every country in the region needs both to industrialise and broaden its exports base by developing non-traditional exports, primarily of manufacturers. They have found this enormously difficult given existing trade barriers and the acute shortage of foreign currency within the region. Botswana is probably the only country in the region which does not have acute foreign payment problems. The possibilities of restructuring this situation are complicated by the fact that significant demand of the for industrial products is created by development assistance but the trade flows that arise from this are always made to favour the donor country exporters. For any meaningful regional industrialisation to take place this situation would need to be tackled.

The regional integration schemes in the region, particularly the PTA and SADCC have not addressed the problems of equity in the distribution of costs and benefits in a fundamental way. To avoid the polarisation in the growth of regional industry, it is important that effective fiscal or other mechanisms are evolved.

The inclusion of South Africa in this scenario would compound the problem significantly because of its relatively high level of industrialisation and as a consequence, dominance in trade; for example, in 1988, 15 per cent of South Africa's non-gold exports went to its SACU partners, another 5 per cent to SADCC and a further 3.5 per cent to the rest of Africa totalling 23.5 per cent in all. This level of exports which took place under sanctioning and while the SADCC states were involved in a concerted strategy to reduce the level of dependence on South Africa, highlights the extent of South Africa's comparative advantage in the region.

In 1990, South African exports to Africa - excluding the BLS states - totalled R4,070 million ($1.6 billion) which was 9.6 per cent of non-gold exports. Almost 60 per cent of these exports went to SADCC states (again excluding the BLS states). On the import side, Africa supplied less than 2 per cent of the total with Zimbabwe accounting for 62 per cent of the 1.6 per cent, or 1 per cent of South Africa's imports. SADCC on the whole, accounts for almost 21 per cent of South Africa's non-gold exports and approximately 40 per cent of exports of manufactures. It is a crucial market for South Africa, one that any government will want to maintain and expand and one that a future government would be prepared to accommodate in terms of market entry. South Africa is well placed in a post apartheid environment to sustain this level of exports. While productivity and efficiency in South African manufacturing industry are not particularly high, the industry, nevertheless, have very considerable logistical advantages (transport costs, better infrastructure) over its competitors in the region.

The prospects for increased industrial exports from the Southern African states to South Africa itself are complicated by several factors in the short-term. While, as discussed earlier, the region has potentials for exporting to South Africa market, existing patterns in South Africa reflect high degree of quality consciousness even on the part of low income purchasers, which disadvantages regional exporters whose product quality might be relatively poor. Also if as a result of the end of apartheid South Africa expands its internal industry of mass consumer goods to meet demand, regional industries might be put at a disadvantage position because of the relatively higher skills in South Africa. On the positive side, however, there is the segmentation argument - that as income is redistributed in South Africa, so the low income market segment will expand rapidly, thereby opening possible market for relatively low quality imports from the region.

Therefore, the inclusion of South Africa in any regional integration grouping is likely to raise new and very substantial obstacles to industrialisation in several countries in the region. Probably, for SADCC states, the least affected would be Tanzania, whose industrialisation difficulties, on the foreign trade side, have more to do with competition from Kenya and Mauritius. The impact on the BLS states would not be great either, since they are already part of SACU with South Africa. Mozambique's immediate growth will be primary-oriented, supplemented by foreign receipts from transport and energy. Considering that the less developed the industrial sector, the less danger there is of dislocation, and bearing in mind the fact that both Angola and Mozambique need to more or less start afresh on the industrial side, there is need in both cases for earlier rather than later integration.

In the context of institutional frameworks, the prospective end of apartheid in South Africa is changing the attitudes and strategy of regional associations and their member states. The two existing large groupings - PTA and SADCC, are likely to content for the integration role in the region in a post- apartheid environment. The SACU would also be a major framework for integration in a post-apartheid environment.

As pointed out earlier, SADCC was essentially created as an economic grouping to counterweight the dominance of South Africa in the region. Its predominant mandate was to forge required co-operation and integration to reduce the dependence of the Southern African economies, particularly on South Africa.

As the end of apartheid comes to reality in South Africa, SADCC has the challenge of finding a new role in Southern Africa. The PTA as a free trade area, has a rationale that SADCC as it intensifies integration, will increasingly duplicate. While the PTA is formalised with a treaty, the SADCC is yet to formalise the organisation in the form of a treaty. There are also other forms of sectoral cooperation and integration that are evolving in the region involving South Africa, e.g. the cooperation in electricity generation between Mozambique, South Africa and Zimbabwe that are shaping the new form of cooperation and integration that might increase in a post apartheid environment.

The suggestion that SADCC should be enlarged to incorporate South Africa is credible only if an enlarged SADCC also becomes a deepened SADCC - if its functions are deepened to include trade. While this might be an optimal outcome, it is one that would make it impossible to achieve anything approaching an equitable pattern of regional growth. Potential polarisation is likely to arise which could endanger the future of even already existing industries in SADCC, particularly in Zimbabwe, where a threat of de-industrialisation could occur as competition with South Africa deepens, unless the free trade area were so hedged around with protective arrangements which could dilute the process of free trade.

The next few years are likely to be an opportunity for restructuring economic relations in South Africa. While the structure of future regional integration remains in the making, there is need for strengthening and focusing the existing regional schemes. One possible and practicable way forward for integration in the region is to start with limited approach and build on the success instead of grandiose initiatives, and overlapping and competitive organisations. This approach proved successful in the context of the EC which started with various community, e.g. the European Coal and Steel Community and built its integration process on these. The countries in the region or the schemes that exist could begin to structure future integration along those lines. It has, however, to be noted that regional industrial integration can only achieve its full potential with the removal of trade barriers, which is why SADCC need to take the decision in that direction soon. Once that decision is taken there would be need for rationalisation of the activities of the regional schemes.

7.1 Summary of Findings and Recommendations

7.1.1 Institutional Framework for Integration

The Eastern/Southern African sub-regional has competing institutions promoting integration - the PTA, SADCC, ICO and SACU. The importance of SACU will increase as the liberation of South Africa comes to an end. This will necessitate changing of attitudes and strategy of regional associations and their member states. SADCC was created essentially as a counterweight to South Africa and one of its principal objectives was to reduce dependence, particularly on South Africa. In a post-apartheid environment, SADCC has to change or modify its stated objective of reduction of dependence on South Africa and establish a framework in which it can co-operate with South Africa on an equitable basis.

SADCC therefore will need to find a new role. The PTA as a free trade area with long-term objectives of creating an Eastern and Southern African Common Market and ultimately an Economic Community has a rationale that SADCC does not have. The argument that the two organisations are complementary rather than competitive applies only so long as SADCC remains a shallow coordinating body rather than an effective vehicle for economic integration. Once SADCC moves to deepen its operations, it runs into competition with the PTA.

There are already areas where PTA and SADCC are in competition and duplicating efforts. For example, SADCC has recently completed a study for the establishment of a cross-border investment facility to promote industrial and other investments between SADCC countries. The PTA is also currently working on the idea of establishing a cross-border investment facility. The PTA, however, intends to go further and establish PTA stock exchange.

7.2 The Definition and Interpretation of Criteria for Regional Product

The current definition of a regional product within the PTA in terms of percentage of ownership of industry by regional institutions or nationals from the region has limitations in terms of the degree to which regional industrialisation can be deepened. It is quite possible that an industry can be owned by more than 51 per cent by regional institutions but have a very low level of MVA taking place within the region. It is the level of MVA which determines the degree to which regional industrialisation has taken place. It is necessary that if the region is to move in the direction of deepening regional industrialisation that the MVA criteria is adopted to determine regional products.

It will be necessary to establish appropriate ground rules while adopting this criteria which takes into account that different levels of MVA might be required for different products. Studies to determining appropriate and realistic MVA for each of the products that would attract preferential treatment in the region will need to be constantly undertaken.

7.3 Allocation of Industries on Sub-regional Basis: Issues of Rehabilitation and Establishing New Industries

The study has indicated that states involved in the different sub-regional groupings, in efforts aimed at equal distribution of industries practice industrial allocation at sub-regional level. This practice has raised severe issues relating to criteria for implementation time-table, industrial licensing at regional level, registration and monitoring of implementation. There are no clear guidelines on these issues. This situation is likely to bring about conflict between participating countries in future. The following recommendations are intended to provide guidelines on how member states could deal with this.

The study has established that most countries in the region today find themselves at different and even levels of industrialisation. The momentum of industrial development is also very different among the countries.

Some countries will require the rest of this decade to rehabilitate r renovate their existing rundown industrial structures. Only after then can they devote large resources to expand into major new projects. Other countries might be able to complete the necessary industrial rehabilitation process in a much shorter time. Therefore, once the members have identified certain regional projects and agreed on a geographic allocation, questions of timing of implementation becomes important.

If a project or a product has been allocated to a member state which suffers from resource scarcity because it is mobilising all its funds for rehabilitation, other members might become impatient and inclined to pre-empt the issue by launching an alternative version of their own. Such pre-emption is likely to take place in market-oriented economies, where entrepreneurs will seize opportunities to branch to profitable lines of production. It could very easily happen when existing firms are able to take over the agreed regional project by adding a new wing or a new production line to their existing one, while the designated country might have to start from scratch with a new factory.

It is therefore recommended that a system of industrial licensing should be introduced which would enable members to give effect to their previous decisions. When regional members or a group of countries within the region have agreed that a certain industry or product line should be allocated to one of them, it becomes necessary to ensure that the regional market for that project will not be pre-empted other rival regional enterprises. The first of these objectives could be met y industrial licensing which should not be more restrictive than absolutely necessary for functional reasons. It is emphasised that agreements on protection of allocated industries against external competition and preferential access of the products of allocated industries to the markets of all member countries have to be part and parcel of agreements of allocation of industries. Member states would have to ensure that, in that particular project or product line, no rival production is set up without due consideration of its necessity and its impact on the agreed regional project. A consultative process will be necessary to resolve potential conflicts of intems. At the national level, such consultation will be necessary with industry and with users. Proposals of licensing of projects and products will have to be public so that all interested parties are informed of the event. In particular, entrepreneurs have to know exactly where they stand with respect to intended production. At the same time, it is essential that the licence requirement is as narrow as possible, so that entrepreneurial initiative is not stifled by unnecessary licensing requirements, bureaucracy or ambiguities.

Very different commodities can become substitutes for each other (like aluminum for copper or synthetics for natural fibre). Questions of licensing might, therefore, have to include consideration of near substitutes, if the purpose is to be functional rather than formalistic.

The necessity for a public licensing process arises from the likelihood that members will sooner or later, agree to allocate a project to a member, when something similar already exists in one or more of the other member states. Industrial statistics do not have perfect coverage, and statistical classifications are not very effective as a means of identifying industrial products.

In an integrated industrial complex, which the region will eventually become, it is not only rival producers who present problems in the context of industrial licensing. There are also the interests of users who might have to change inputs, qualities, standards, etc. if a new project result in the scheduling out of existing supply. In particular, it can be expected that enterprises which are using imported inputs will be worried at the prospects of having to use (perhaps exclusively) a new regional product differing from what they are accustomed to. Almost by definition new regional products will enjoy certain restrictions in competition. The licensing arrangements will have to provide against abuse of the licence.

It might be necessary to include terms and conditions for licence such as to ensure that supplies shall not be disrupted or other needs of users be set aside. The licence might specify that production shall commence within a certain time. The licensee might have to undertake to maintain certain standards of output and quality or price, etc.

Any exclusivity in project allocation will most likely call for establishment of a licensing body. Such a licensing body will require expert advice of an impartial nature regarding definitions of products and projects. The body will also need to conduct hearings with all interested parties, both with those who request a licence as an incentive to promote a project and with those who object against a licence because it will interfere with the existing activity.

Industrial licensing on a regional basis often cuts across previous arrangements along national lines. For example, patents,knowhow, copyrights agreements, etc. are often entered into on the basis of exclusive rights in a particular country. Such arrangements will have to be re-negotiated, often with enterprises in donor countries. Donor governments should be brought into this process since they could exercise influence in favour of regional projects.

7.4 Industrial Integration and Donor Support

The study indicates that much of the regional demand for industrial products in recent years, particularly the intermediate inputs and capital goods have been realised through development assistance programmes. But most assistance programmes havre procurement policies that favour the OECD donor country exporters. To increase the prospects of industrial integratin int he region, it is proposed that donors be encouraged to procure more from regional suppliers. This would not only increase the demand for regional products, but it will also significantly alleviate the foreign exchange problems that has limited the growth of regional trade.

7.5 Expansion of Regional Trade Credits

Limited trade credit facilities is one of the principal obstacles to the expansion of trade. The PTA has made significant proposals for the expansion of the credit facility within the clearing house mechanism. Under this arrangement members in surplus extend credit to the clearing house which could be used by members in deficit. However, it is important to note that this arrangement can only succeed in the long-term if it is accompanied by increase in the level of MVA for regional products discussed above.

7.5.1 Technology

The integration groupings in the Eastern Africa sub-region have not developed explicit and action oriented technology policy in industrial integration. Although the PTA, for example, indicates in its treaty that member states would co-operate in the development of technology with various sectors of production, there is need for this commitment to be spelt out in a more explicit action plan which indicates clearly the responsibilities of the co-operating states. As the states move towards the industrial integration in the 1990s, it would be necessary to begin to develop supra-national institutions to monitor and steer the development of technology. Existing national industrial research institutions would need to move rapidly towards integration of research institutions. The process of developing regional specialised research institutions, like the leather technology institutions, and the metallurgical institute etc. would need to be speeded up in order to enable a rapid development of skills in the various sectors.

Of paramount importance in the area of technology, however, would be the need for development of a regional technology system and an awareness of technological implications of the various aspects of investment. SADCC and PTA would need to work very closely in this area, particularly because every investment and technology imported has longterm and far reaching implications.

7.5.2 Environment

Environmental implications of investment in industrial development is becoming increasingly important in any decisions on industrial investment. Industrial pollution which has caused many problems with the ozone layer, etc. in the industrial countries are becoming issues which many developing countries are being encouraged to take account of as they invest in new industries. New technologies that provide environmentally sensitive production systems are being developed. But developing countries have also become dumping grounds for industrial and toxic wastes from industrial countries. Existing co-operation and integration arrangements in the region, apart from explicit commitments by members to cooperate, have very limited and unclear mechanisms to deal with environmental implications of industrial integration. There is need for the region to quickly develop an environment policy which would guide the regional programme for industrial development.

7.5.3 Energy

The region has enormous resources for development of energy-ranging from hydro-carbons to hydro-electricity. The various river basins have the potential for development of cheap energy that could make industrial production in the region internationally competitive. A number of activities/projects of developing the energy sector are already taking place through co-operation between different countries. The utilisation of the Zambezi valley and the Cabora Bassa Hydro-electric are among the examples that illustrate the benefits of integration in energy development. The region has already undertaken a number of studies to determine the potentials of co-operation in the energy sector. Despite the regional work undertaken, there are still dangers that competitive energy development projects could arise in the region which are likely to destroy the competitiveness of production of energy that would arise from regional integration of the sector.

It is recommended that the region moves swiftly towards the development of a regional policy and instruments for the regional development of the energy sector. It is imperative that an agency (energy commission) be established. The agency would be charged with the responsibility for the initiation of a regional energy policy, planning the long-term energy development of the region and establish the sequence of regional energy development projects. This is one of the sectors where viable regional sectoral integration could evolve. The role of SADCC and PTA in this important area would need immediate rationalisation to avoid duplication.

Table 1

Population and gross national product of the Eastern/Southern African states (1988)

	Population		Gross National Product	
	Millions	As a % of the Region	In Billions of US $	GNP per capita US $
Total of which least developed	182.0		40.1c	234c
countries a	119.8	66	18.8	159
Others b	62.2	34	21.3	403

Notes: a Botswana, Comoros, Djibouti, Ethiopia, Lesotho, Malawi, Somalia, Tanzania, Uganda (in accordance with UN classification).
b Kenya, Mauritius, Swaziland, Zambia, Zimbabwe.
c Excluding Angola, Botswana, Djibouti.

Sources: UNCTAD, Handbook of International Trade and Development Statistics, 1988.
The World Bank, World Bank Atlas, 1989.

Table 2

Eastern/Southern Africa - Basic indicators: Population, area, GNP per capita and inflation

	Population (millions)	Area thousands of sq. kilometres	GNP per capita dollars	Average annual growth rate (per cent)		Average annual rate of inflation (per cent)	
	1988		1988	1980-88 b	1965-87	1965-80	1980-87
Angola	9.4	1,247	1,140a	..	..	..	..
Botswana	1.2	600	1,040a	6.7	8.9	8.1	8.4
Comoros	0.4	1,862	452	..	0.6	..	6.6
Djibouti	0.4	22,000	1,210a	..	..	..	..
Ethiopia	46.1	1,222	125	-1.4	0.1	3.4	2.6
Kenya	23.0	583	361	-0.2	1.9	7.3	10.3
Lesotho	1.7	30	412	-0.7	4.7	8.0	12.3
Madagascar	11.3	587	185	-3.4	-1.8	7.9	17.4
Malawi	8.2	118	162	-0.6	1.4	7.0	12.4
Mauritius	1.0	2	1,803	5.1	3.2	11.4	8.1
Mozambique	15.0	802	104	-7.5	..	..	26.9
Seychelles	68.0(000)	453	3,824	1.6	3.1	12.9	3.7
Somalia	5.9	638	165	-2.2	0.3	10.5	37.8
Swaziland	0.7	17	787	1.0	2.4	9.1	10.2
Tanzania	24.7	945	153	-1.3	-0.4	9.9	24.9
Uganda	16.2	236	277	-2.5	-2.7	21.2	95.2
Zambia	7.5	753	289	-4.9	-2.1	6.4	28.7
Zimbabwe	9.3	391	656	-1.0	0.9	6.4	12.4

Note: a 1987. b Real growth rate.

Source: The World Bank, Towards Sustained Development in Sub-Saharan Africa: A Joint Programme of Action, Washington D.C., World Bank, 1984, p. 57.
The World Bank, World Bank Atlas, 1989.
OECD, Geographical Distribution of Financial Flows to Developing Countries, 1990.
The World Bank, World Development Report 1989.

Table 3

Eastern/Southern Africa - Industrial manufacturing's share in the GDP of PTA countries and its average annual growth rates 1960-1987

	Average annual growth rate (percentage)								Manufacturing's share of the GDP (percentage)					
	GDP				Manufacturing				GDP			Manufacturing (%)		
	1965-80	1960-70	1970-82	1980-87	1965-80	1960-70	1970-82	1980-87	1960	1982	1987	1960	1982	1987
Angola	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Botswana	14.2	5.7	12.6	13.0	13.5	..	..	4.5	35	949	1,520	..	..	6
Comoros	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Djibouti	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ethiopia	2.7	4.4	2.2	0.9	5.1	8.0	2.9	3.8	900	4,010	4,800	6	11	12
Kenya	6.4	5.9	5.5	3.8	10.5	..	9.0	4.3	730	5,340	6,930	9	13	11
Lesotho	5.9	5.2	6.6	2.3	..	..	13.4	0.4	30	300	270	..	6	15
Madagascar	1.6	2.9	0.2	0.3	..	..	..	..	540	2,900	2,070	4	..	..
Malawi	5.8	4.9	5.1	2.6	..	..	5.4	..	160	1,320	1,110	5	..	..
Mauritius	5.6	1.7	5.8	5.5	..	..	..	10.9	134	929	1,480	..	..	24
Mozambique	..	..	..	-2.6	..	..	..	..	..	..	1,490	..	..	..
Seychelles	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Somalia	3.3	1.0	3.8	2.2	..	4.0	..	-0.5	160	..	1,890	3	..	5
Swaziland	..	7.7	4.4	..	..	..	..	..	34	522	..	..	..	..
Tanzania	3.7	6.0	4.0	1.7	5.6	..	0.5	-3.5	550	4,530	3,080	5	9	5
Uganda	0.8	5.6	-1.5	0.4	-3.7	..	-8.9	-0.9	540	8,640	3,560	9	4	5
Zambia	1.9	5.0	0.9	-0.1	5.3	..	1.4	0.8	680	3,830	2,030	4	19	23
Zimbabwe	4.4	4.5	2.2	2.4	..	..	-4.1	1.8	780	5,900	5,240	17	25	31

Source: The World Bank, World Development Report, 1984, 1989.

Table 4

Eastern/Southern Africa - Balance of payments, debt service and international reserves

	Current account balance (US $ millions)			Interest payment on external public debt (US $ millions)			Debt Service: As a percentage of GNP			Debt Service: As a percentage of export of goods and services			Gross International Reserves: Amount (US $ millions)			Gross International Reserves: In months of imports coverage	
	1970	1982	1988	1970	1982	1988	1970	1982	1988	1970	1982	1988	1970	1982	1988	1982	1988
Angola	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	.
Botswana	-31	-61	491	0.4	10	34	0.8	6.1	1.8	1.1	4.0	2.1	..	2,258	293	4.3	17.
Comoros	..	-11	-15	0.0	1	0.3	0.3	0.2	0.8	..	1.2	3.6	..	20	11	2.5	2.
Djibouti	..	..	..	0.0	1	4	..	..	..	..	..	..	..	..	..	..	.
Ethiopia	-32	-276	-199	6	21	78	1.2	4.3	1.2	11.4	35.0	10.1	72	171	277	3.6	1.
Kenya	-49	-302	-454	13	153	149	3.0	5.8	7.3	9.1	25.3	27.2	220	297	248	1.4	1.
Lesotho	19	-39	-73	0.2	5	7	0.5	3.0	1.4	1.3	3.0	2.2	..	56	48	1.1	1.
Madagascar	10	-299	127	2	45	81	0.9	9.3	2.8	3.8	39.0	20.0	37	224	20	0.3	3.
Malawi	-35	-125	-120	4	33	28	2.3	4.6	5.7	7.8	19.0	23.1	29	141	16	0.5	3.
Mauritius	8	-42	-45	2	34	41	1.4	7.7	6.6	3.2	10.4	13.3	46	463	55	1.1	3.
Mozambique	..	-497	-410	..	..	12	..	2.7	..	..	15.1	..	..	..	..	..	.
Seychelles	0.4	-40	-23	0.0	1	5	0.0	4.6	0.7	0.0	6.9	1.2	..	9	13	1.2	0.
Somalia	-6	-177	-90	0.0	6	3	0.3	0.4	1.4	2.1	5.0	4.2	21	23	15	0.3	0.
Swaziland	..	-121	71	2	9	14	3.1	5.6	4.0	..	5.2	5.1	..	140	76	1.6	3.
Tanzania	-36	-380	-258	7	34	40	1.6	3.1	1.3	6.3	17.6	15.7	65	78	5	0.1	0.
Uganda	20	-70	-194	5	10	20	0.5	1.0	2.9	2.9	15.7	15.8	57	49	78	1.8	0.
Zambia	108	-565	-175	29	84	61	4.1	4.9	5.2	7.2	14.1	17.4	515	139	157	1.2	1.
Zimbabwe	-14	-762	-56	5	92	139	0.6	7.8	2.1	2.3	26.3	8.8	59	257	224	1.2	1.

Source: The World Bank, World Debt Tables, 1989-90.

Table 5

Eastern/Southern Africa - External public debt and debt service

External public and publicly guaranteed debt outstanding and disbursed
(US $ millions)

	Official Sources			Private Sources			Total			Debt Service		
	1970	1982	1988	1970	1982	1988	1970	1982	1988	1970	1982	1988
Angola	..	80.0	..	..	478.0	..	..	558.0	..	..	141.0	..
Botswana	14.2	176.5	466.1	3.2	34.2	27.8	17.4	210.7	493.9	0.6	13.4	73.7
Comoros	1.2	66.9	187.3	0.0	0.8	0.2	1.2	67.7	187.5	0.1	0.9	0.3
Djibouti	2.6	17.8	155.7	0.0	6.7	1.3	2.6	24.5	157.0	0.1	3.3	13.4
Ethiopia	140.0	909.0	2,328.0	29.0	101.0	461.0	169.0	1,010.0	2,789.0	21.0	54.0	238.0
Kenya	234.0	1,678.0	3,574.0	85.0	724.0	667.0	319.0	2,402.0	4,241.0	30.0	338.0	365.0
Lesotho	7.6	94.5	248.2	0.5	17.7	22.0	8.1	112.2	270.2	0.5	9.3	22.4
Madagascar	85.0	1,197.0	3,006.0	5.0	453.0	312.0	90.0	1,650.0	3,38.0	7.0	77.0	161.0
Malawi	103.0	509.0	1,141.0	20.0	164.0	49.0	123.0	673.0	1,190.0	6.0	63.0	58.0
Mauritius	21.0	210.0	533.0	10.0	149.0	119.0	31.0	359.0	652.0	3.0	63.0	142.0
Mozambique	..	356.0	3,801.0	..	229.0	746.0	..	585.0	4,547.0	..	94.4	20.0
Seychelles	0.0	32.7	92.6	0.0	6.0	30.0	0.0	38.7	122.6	0.0	1.1	12.8
Somalia	75.0	879.0	1,719.0	2.0	211.0	34.0	77.0	1,090.0	1,753.0	1.0	11.0	4.0
Swaziland	37.0	179.8	255.4	16.1	12.3	10.1	53.1	192.1	265.5	3.4	20.9	34.8
Tanzania	153.0	1,854.0	3,824.0	97.0	509.0	267.0	250.0	2,363.0	4,091.0	17.0	63.0	85.0
Uganda	109.0	476.0	1,330.0	30.0	113.0	107.0	139.0	589.0	1,437.0	9.0	55.0	43.0
Zambia	120.0	1,686.0	3,671.0	503.0	650.0	523.0	623.0	2,336.0	4,194.0	64.0	175.0	176.0
Zimbabwe	85.0	301.0	1,220.0	145.0	883.0	1,010.0	230.0	1,184.0	2,230.0	9.0	139.0	447.0

Sources: The World Bank, 1984, *op. cit.*, p. 70.
The World Bank, World Debt Tables, 1989-90, Vol. 2.

Table 6

PTA common percentages by group and sub-group for the reduction of tariffs on commodities included in the common list (a)

Group	Description	Percentage
I	Food excluding luxury items	30
II	Raw materials	
(a)	Agriculture	50
(b)	Non-agricultural	60
III	Intermediate goods	65
IV	Manufacturing goods excluding luxury items	
(a)	Durable consumer goods excluding (c) and (d) below	40
(b)	Non-durable consumer goods excluding (c) and (d) below	35
(c)	Highly competing consumer goods (b)	30
(d)	Consumer goods of particular importance to economic development (c)	70
V	Capital goods, including transport equipment	70
VI	Luxury goods	10

Source: ECA, Treaty for the Establishment of The Preferential Trade Area for Eastern and Southern African States, Article 4 of Annex 1, 'Protocol on the Reduction and Elimination of Trade Barriers on Selected Commodities to be traded within the Preferential Trade Area', pp. 44-45.

(a) The percentages shown in the table apply to particular products within the groups and sub-groups only when they are included in the Common list for the first time.

(b) According to an indicative list prepared prior to the conclusion of the treaty, this sub-group includes textiles, clothing and footwear.

(c) According to the same indicative list, this sub-group includes both final and intermediate goods. Examples of the latter are cement, petroleum products and chemical fertilisers.

Table 7
PTA - Non-tariff barriers and concessions

Non-tariff barriers	Concessions
(a) Quantitative restrictions	Preferential treatment in the allocation of quotas
(b) Export and import licensing	Preferential treatment in issuing licences
(c) Foreign exchange licensing	Preferential treatment in issuing licences
(d) Stipulation of import sources	Preferential treatment
(e) Prohibition or temporary prohibition of imports	Exempted when possible
(f) Advance import deposits	Preferential treatment
(g) Conditional permission for imports	Exempted
(h) Special charges for acquiring foreign exchange licences	Preferential treatment

Source: The PTA Treaty, Annex 1, op. cit., Article 5, pp. 45-46.

TABLE 8

Total number and cost of projects for study and implementation presented at the Maseru Conference

Industrial sub-sectors	For study		For implementation				
	No.	Cost in US$ millions[a]	No.	Cost in millions US$			
				Local	Foreign	Total	Foreign % o[f] total cost
Salt	4	0.6	8	11.5	18.1	29.6	61.0
Textiles	2	1.5	16	34.9	81.7	116.6	70.0
Wool and Mohair	1	0.1	3	2.7	6.9	9.6	71.8
Textile chemicals, insecticides and pesticides	15	6.9	2	4.0	3.5	7.5	46.[illegible]
Tractors and farm implements	3	0.8	15	22.5	38.7	61.2	63.2
Fertilizers	1	0.1	4	128.9	603.2	732.1	82.4
Pulp and paper	4	0.5	5	67.9	457.2	525.1	87.0
Cement	2	0.2	2	10.3	26.3	37.0	71.0
Electrical transmission and distribution equipment							
Total	33	11.0	55	282.7	1236.1	1518.8	81.4

Notes: a Foreign cost only

Source: SADCC, SADCC Industrial Projects, Maseru, 1983, Summaries of Vol. 1-111

Table 9

Contribution of SADCC Industrial Projects under Implementation and Negotiation to Regional Industrial Production

Industry	Unit	Projected demand in 1990	Present capacity	Supply-demand gap	Production under proposed projects in implementation or negotiation
1. Salt	000 t	560	165	395	210
2. Polyester-based textiles	m m^2	182 [b]	106	76	9
3. Textile chemicals:	t				
basic		33000	-	33000	7000
formulatory		12000	-	12000	-
4. Pesticides:	t				
technical		73400	52,000	21400	3000
formulations[c]		36200	13,700	22500	-
5. Wool & mohair	t	3000	-	3000	3000
6. Fertilisers	000 t				
N		307 [d]	129	178	38
P		154	71	83	45
K		83	-	83	-
7. Tractors[e]	No.	21940	10000	11940	3000
8. Farm implements[f]	000 t	83	50 (72)	33 (11)	-33
9. Pulp & paper	000 t	153	245	-92	150
10. Cement	000 t	2800	4000	-1200	700

Source: Commonwealth Secretariat, SADCC: Indicative Industrial Plan, September 1987

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